

**Fed officials say they have more work to do** - Numerous US Federal Reserve officials addressed the economic outlook last week, and a strong consensus appears to have developed that the central bank has more work to do before it can declare victory in its battle with inflation. Chair Jerome Powell, speaking to the Economic Club of Washington, D.C. did not go out of his way to protest looser financial conditions but warned that if tight labour market conditions persist, a higher peak in the Fed's policy rate may be needed. Powell noted that the Fed has a "significant road ahead" before it can achieve its 2% inflation target. Since the FOMC meeting the week before last, markets have priced in an additional rate and priced out a rate cut before the end of 2023, bringing market expectations more closely in line with the central bank's "higher for longer" messaging.

**It was a sparse week in terms of data releases** - US weekly jobless claims edged up slightly to 196,000 on Thursday but remain at a historically low level as Goldman Sachs cut its odds of a US recession in the next 12 months to 25% from 35% last week. After a delay in the data, Germany reported that preliminary inflation for January eased to 9.2% from 9.6% in December. Bundesbank President Joachim Nagel fears inflation will become entrenched if the ECB lets up on the inflation fight too soon. More rate increases will be needed, he said.

**Central bank roundup** - The Reserve Bank of Australia raised rates 0.25% to 3.35%, signalling the potential for additional hikes in the coming months.

**Markets wise** - The yield on the US 2-year note rose about 0.35% to 4.50% last week as investors priced in more hawkish Fed bets. The jump in short-term yields pushed the 2s-10s yield curve last Thursday to -0.86%, its most inverted level in 42 years. Global equities were slightly lower on the week as rising yields offered investors an alternative to stocks. The yield on the US 10-year Treasury note rose 0.19% to 3.72% from a week ago while the price of a barrel of West Texas Intermediate crude oil added \$1 to reach \$78.50.



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