



Basis Points – June 16, 2022

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Above the Fold

A Milestone for the Federal Reserve ... and Rates

In what seemed like the blink of an eye, the Fed (Federal Reserve) has gone from a hyper-accommodative policy to one designed to halt inflation (and a fair amount of consumer activity) right in its tracks. The Federal Open Market Committee decided to hike rates a surprising 75 basis points, compared with the majority expectation for just a 50-basis-point increase. The huge jump was not only a departure from their typically precise “dot-plot” guidance, but the largest single bump in rates since 1994, when the Fed was under the leadership of Alan Greenspan. The

decision also wasn't made by a small majority. The final vote was 10-1 in favor of the larger rate jolt, with Kansas City Fed President Esther George the sole member in favor of a half-percentage increase.

New projections now point to a median federal funds rate target of 3.375% by the end of 2022, which would mean another 1.75% in total hikes before the year is done. Mortgage rates had already priced in this bigger-than-expected increase as average rates for a 30-year note went from around 5.5% last week to 6.3% just ahead of today's decision. The Fed's new statement made it clear that they are now "committed" to returning inflation to its 2% objective and officials acknowledged that unemployment is likely to rise, while economic growth is now expected to slow more than previously expected. It seems that policy makers are now hinting at the likelihood of a recession, an unfortunate occurrence that may be needed (in the eyes of some) to get prices to moderate.

Three Things

Gaseous Irony — LNG Plant Goes Offline, Prices Dive

One of the largest LNG shipping facilities in the U.S. caught fire last week amid prices that were already triple the cost of the year before. Yet futures for natural gas show a sharp drop in prices Tuesday, down 25% since the fire. The fire is expected to keep the facility at limited capabilities until late 2022, with a partial reopening slated in 90 days. LNG companies have been in overdrive ever since Russia cut off supply following Western sanctions that came down in response to the war in Ukraine. With exports at record highs this year, U.S. natural gas reserves are down 15% from last year. But, with the fire, the gas that was getting exported will have to stay stateside to prepare for the winter months. With natural gas being one of the main drivers of inflation, this could spell good news for the U.S. economy as the Fed actively works to bring those rates back down.

If Electric Shared Scooters Weren't Enough, Get Ready for Shared EV Motorbikes

Just as urban areas around the country were getting used to electric scooters on every corner, Lime has begun testing their next shared electric transportation: the Citra motorbike. The bikes have been deployed in Long Beach, California, as a trial for Lime to track ridership and public sentiment. The bikes themselves can reach speeds up to 20 mph and are designed to make use of bike lanes. As gas prices continue to climb, the company is hoping these new bikes will give people a different option for their daily transportation needs.

Time to Cut Back on Tofu?

Soybean prices have just hit a record high of \$17.69 per bushel. This tops the previous record of \$17.68 per bushel set during the droughts in 2012. Soy is often overshadowed by other major crops, like wheat and corn, but soy has long been used to feed salmon, pigs and other livestock, as well as crushed to make cooking oils and biofuel. This price could continue to rise as a La Niña weather pattern is set to bring hot and dry conditions to the corn belt starting next week. As oilseed exports around the world — specifically in Ukraine — are struggling, soy prices could continue to skyrocket. Buyers are looking to fill the oilseed void with soybean oil, and they want it now. It's likely that soybean prices will continue to rise as the summer continues.

In the Know

One Fishy Index

Weather futures (yes, that's a real thing) are one thing, but they may not be the strangest future that exists. Salmon futures were launched in 2007 on the Fish Pool Exchange in Norway. These are underlined by fresh, gutted North Atlantic salmon and traded in one tonnes priced in Norwegian Krone per Kilogram. The contracts allow producers, smokeries and other market participants to hedge against price volatility that comes from the two- to three-year production cycle. As of now, the salmon index shows a 32.20% price increase over the last 12 weeks, marking a consistent increase over the last 12 months. If this trend continues, salmon might be taking a bigger toll on our wallets. So, if you love seafood, save up your Kroner.

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