



Basis Points – October 13, 2022

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Above the Fold

Everyone Seems to Want Dollars...

Back in March of 2020, the COVID-19 pandemic quickly began to take hold of headlines around the world, stoking global fear as many countries sprang into action to stave off disaster. At the same time, demand for the safe-haven U.S. dollar began to surge as bankers across the globe sought to reduce risk. This demand also increases the cost to borrow or “swap” the dollar for foreign currency.

As the Federal Reserve continues its unprecedented rate hike trajectory and continues to reduce its balance sheet, costs to borrow the greenback are once again soaring to pandemic levels. It's important to note that dollar demand does tend to be a seasonal occurrence as the Basel Committee on Banking Supervision, a group of global central bankers and regulators, determines how much risk a bank has (along with potential systematic risks) via its year-end balance sheet. But the current rates on what are called cross-currency basis swaps are signaling an increased chance of global market stress as demand for dollars jumps. There's also been a marked increase in the use of the Federal Reserve's "dollar swap line," a sort of last-resort liquidity credit line created in 2013 to help deliver dollar-based funding to foreign central banks and keep money markets healthy.

Three Things

Producer Prices Are Still High

The Producer Price Index (PPI), which measures the wholesale prices that suppliers are charging businesses, rose another (seasonally adjusted) 0.4% last month after a 0.2% decline in August. The increase was largely due to food and energy prices, which remain stubbornly high due to several factors. The PPI was up 8.5% year-over-year for September, but the rate of annual increases is slowing as June was over 11%. It's important to remember that the PPI is a lagging indicator and is certainly not the only metric that the Federal Reserve uses to determine and predict inflation. That said, we'd like to see the increases slow to low, single digits.

Microsoft and Meta Decide to Link Up

In 2021, it seemed as if the two digital giants were set to face off in the metaverse as both pushed their tech to capture social and work-related interactions in the virtual world. But just yesterday, the pair made a surprising collaboration announcement that will bring Microsoft's biggest services such as Teams, Office, Windows and Xbox Cloud Gaming to Meta's Quest VR headsets. Microsoft will also add Windows 365 to the Quest universe, which will allow users to stream their entire Windows experience, including 2D versions of its popular Office apps.

Have You Bought an I-Bond Yet?

The U.S. Treasury created the I-Bond back in 1998 as a means to offer inflation protection for investors as the interest rate offered will vary based on the current rate of inflation. I-Bonds rose to popularity early this year as inflation soared, sending the current yield of an I-Bond to 9.62%. But before you sell your stocks and shift into this high rate of guaranteed return, there are a few drawbacks. For one, individuals can only purchase up to \$10,000 worth in total — although there are some ways to increase that cap, such as buying bonds through your business or via a living

trust. Also, the bonds reset their interest rates twice a year and are likely to see an interest rate decrease come Nov. 1. The good news is that if you purchase an I-Bond before then, you can still lock in 9.62% for six months.

In the Know

Constructing the White House

It was on this day back in 1792 that the cornerstone was laid for a new presidential residence in Washington, D.C. Washington itself was just created to replace Philadelphia as the nation's capital because it was more centrally located. Designed by French architect Charles L'Enfant, the "White House" (a moniker that was bestowed after completion) took many years to construct, and the construction team was made up of both free and enslaved African Americans and European immigrants. In 1800, John Adams became the first president to reside in the mansion, which would be set ablaze by British soldiers less than 14 years later.

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