

South Dakota Banking Commission Meeting



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United Bankers' Bank*

December 15, 2022

Agenda

- The Volatility Vortex and Bond Price Destruction
- Trust Me: It Will Be Enough
 - Federal Reserve Monetary Policy
- A Shifting Liquidity Landscape

The Volatility Vortex and Bond Price Destruction. The MOVE Index



How it Started a Year Ago!

- Rates will remain lower for longer
- Unlikely to raise rates until 2024
- We believe a recession is unlikely
- Inflation is transitory and not a problem
- Inflation should fall back to 2% in 2022

Traditional Fed Dual Mandate

- Stable Prices
- Full Employment

Current Fed Mandate

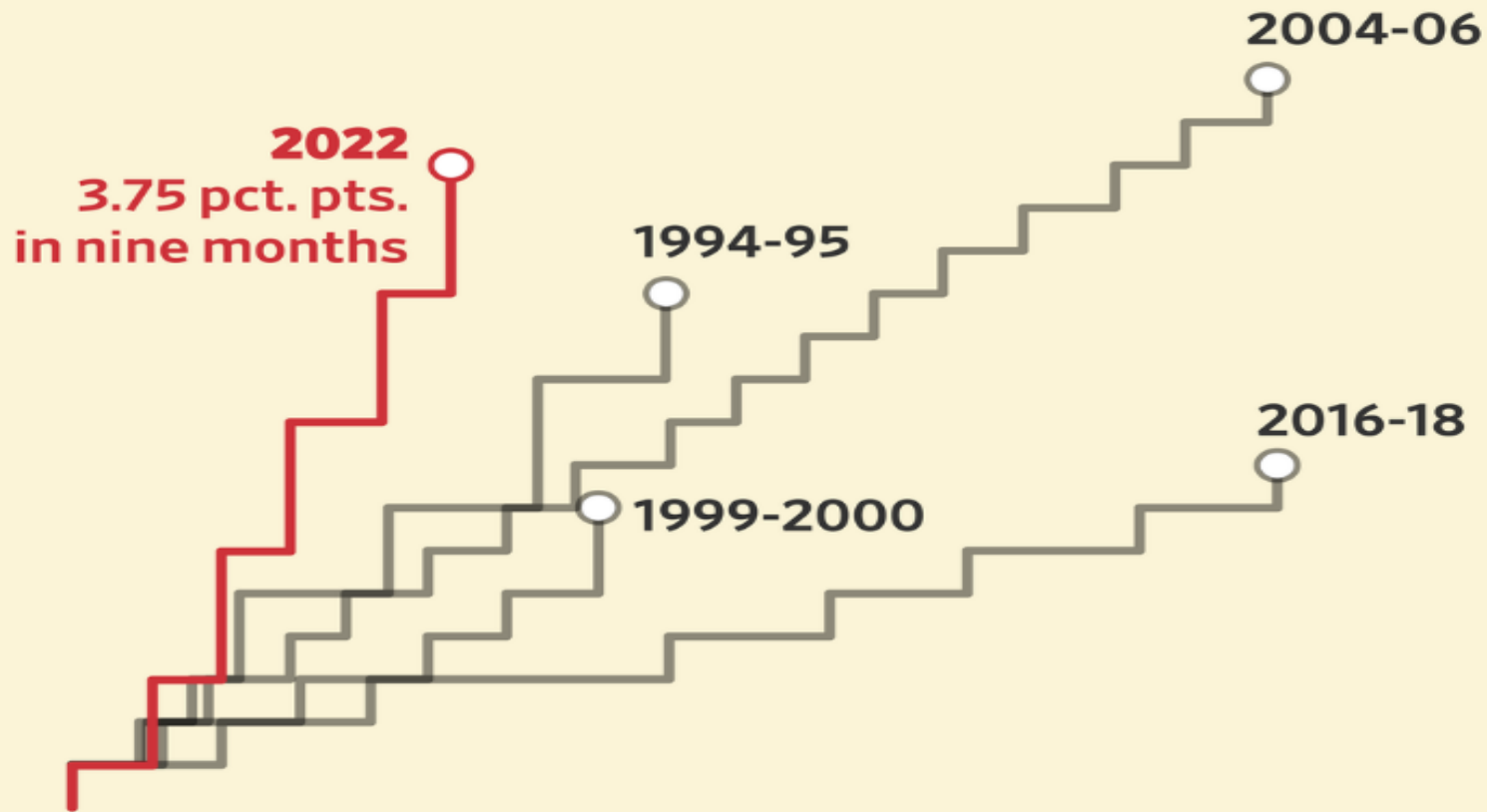
- Kill Inflation!
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The Chairman Says: Trust Me, It Will Be Enough!

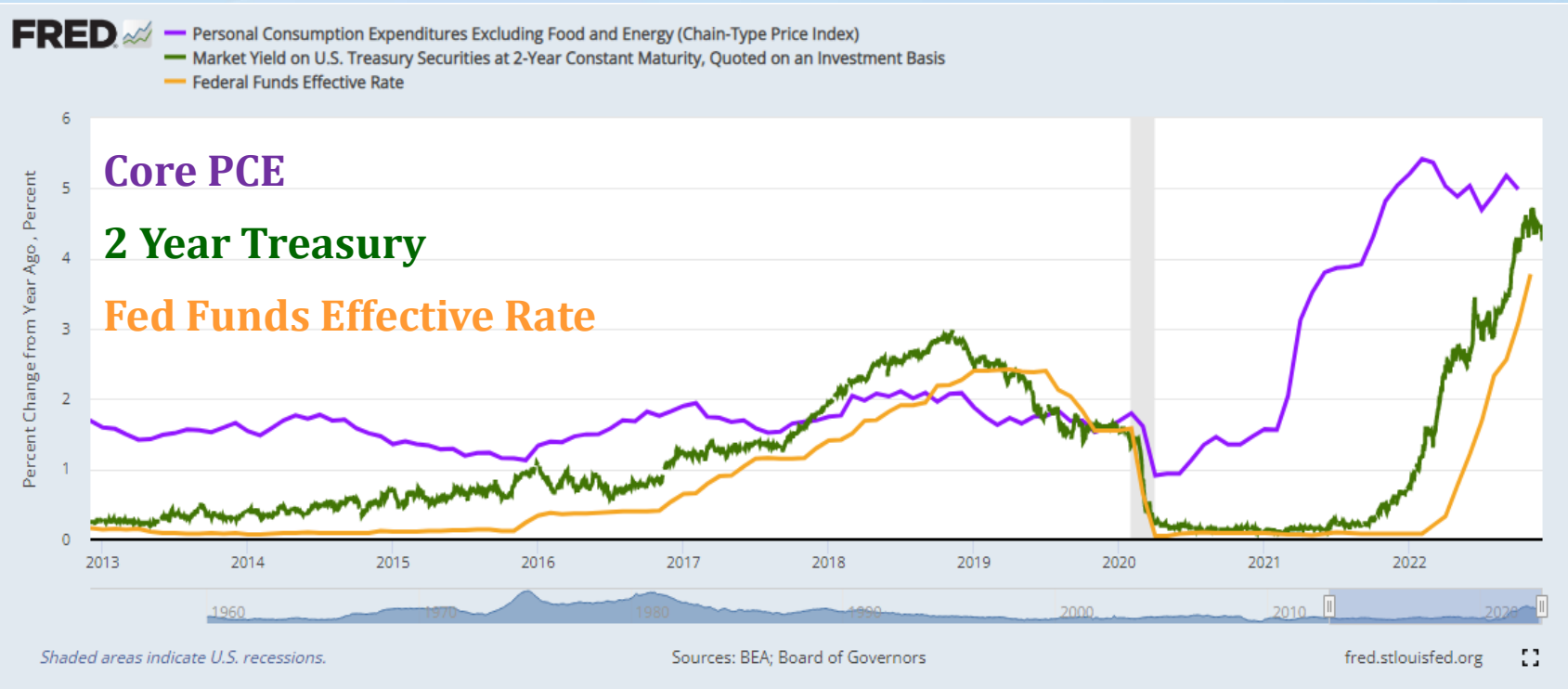
PAIN IS COMING



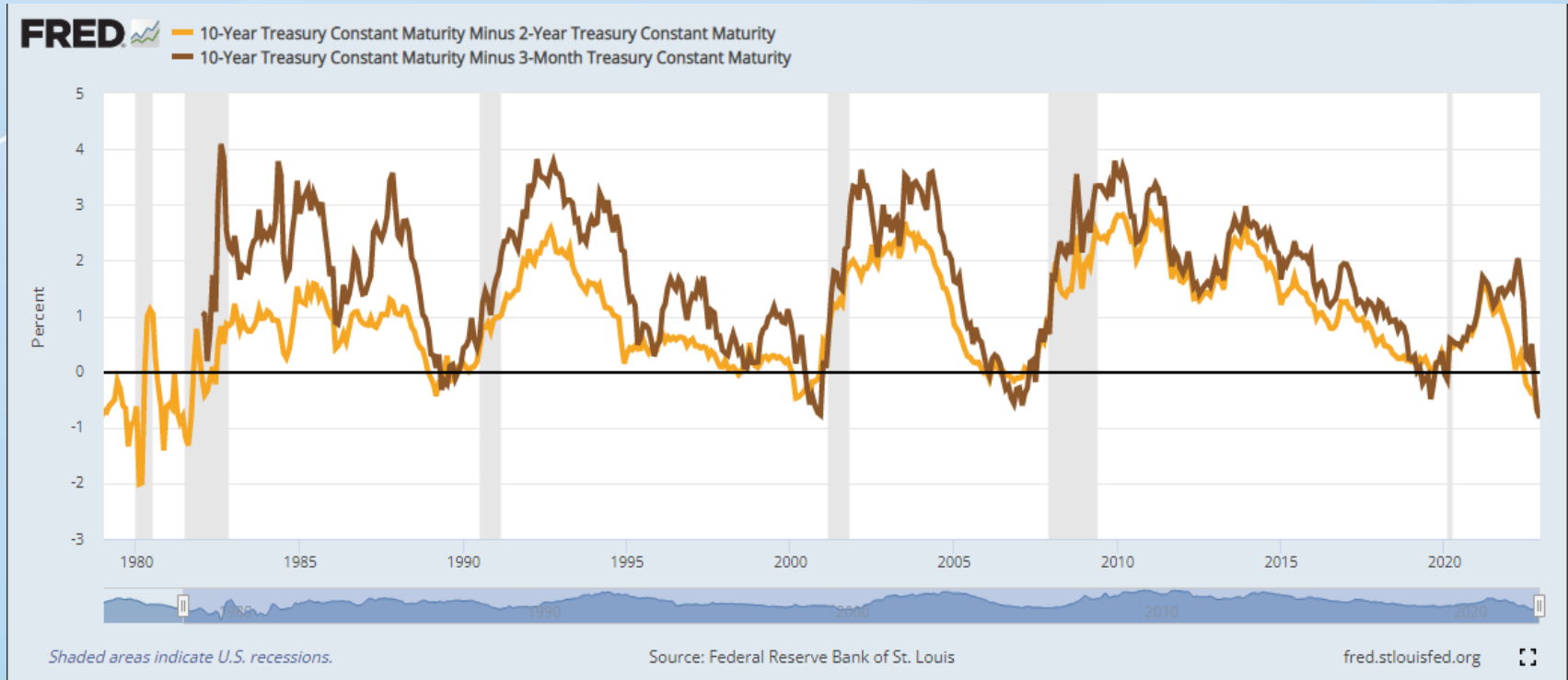
Fed tightening cycles



Positive Real Yields Needed



Yield Curve Inversions



Current Monetary Policy in a Nutshell



Fed Funds Futures

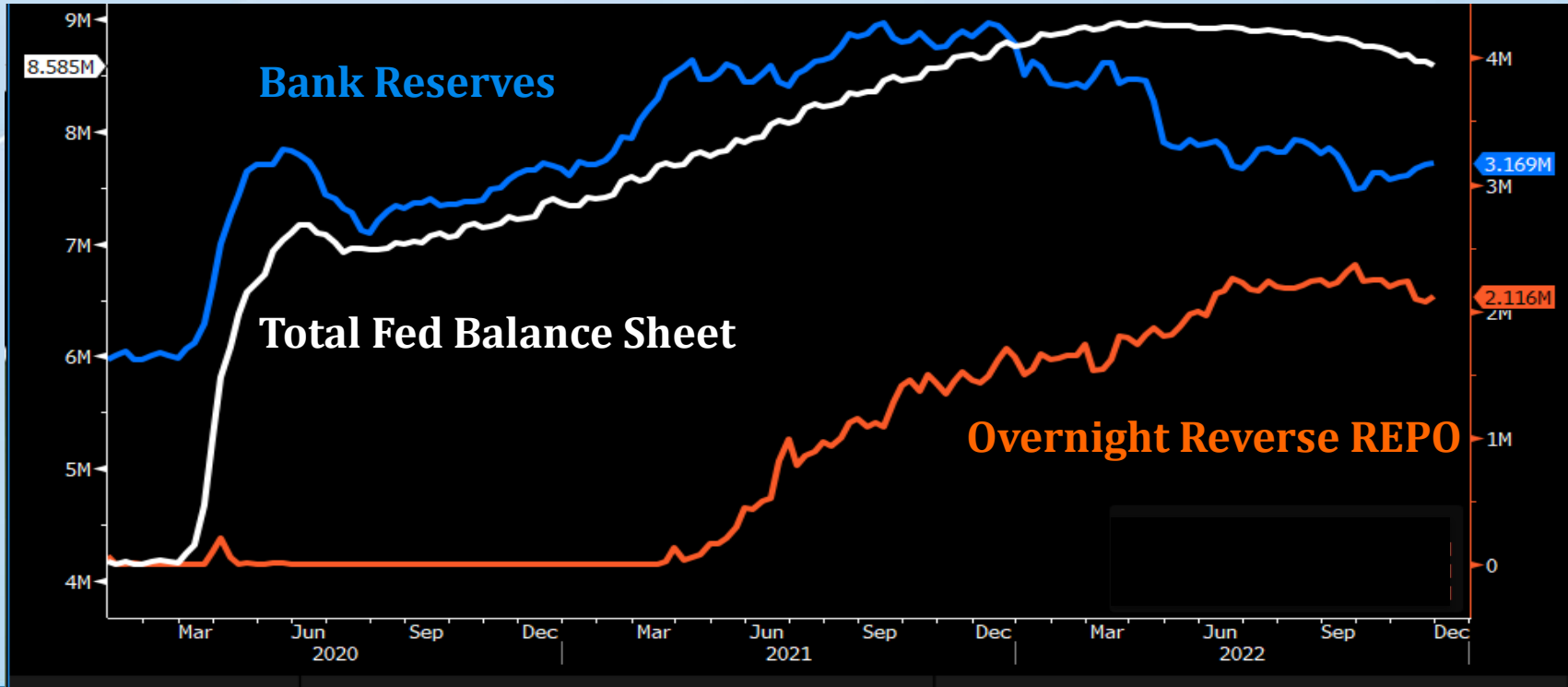
Pricing Date	12/02/22			
United States	Fed Funds Futures			
Target Rate	4			
Effective Rate	3.83			
Cur. Imp. O/N Rate	3.835			
Meeting	#Hikes/Cuts	%Hike/Cut	Implied Rate	
12/14/2022	2.07	207	4.353	
02/01/2023	3.51	144	4.712	
03/22/2023	4.11	60	4.862	
05/03/2023	4.332	22.1	4.918	
06/14/2023	4.233	-9.9	4.893	
07/26/2023	4.01	-22.2	4.838	
09/20/2023	3.655	-35.5	4.749	
11/01/2023	3.06	-59.5	4.6	
12/13/2023	2.367	-69.3	4.427	
01/31/2024	1.64	-72.7	4.245	

A Shifting Liquidity Landscape

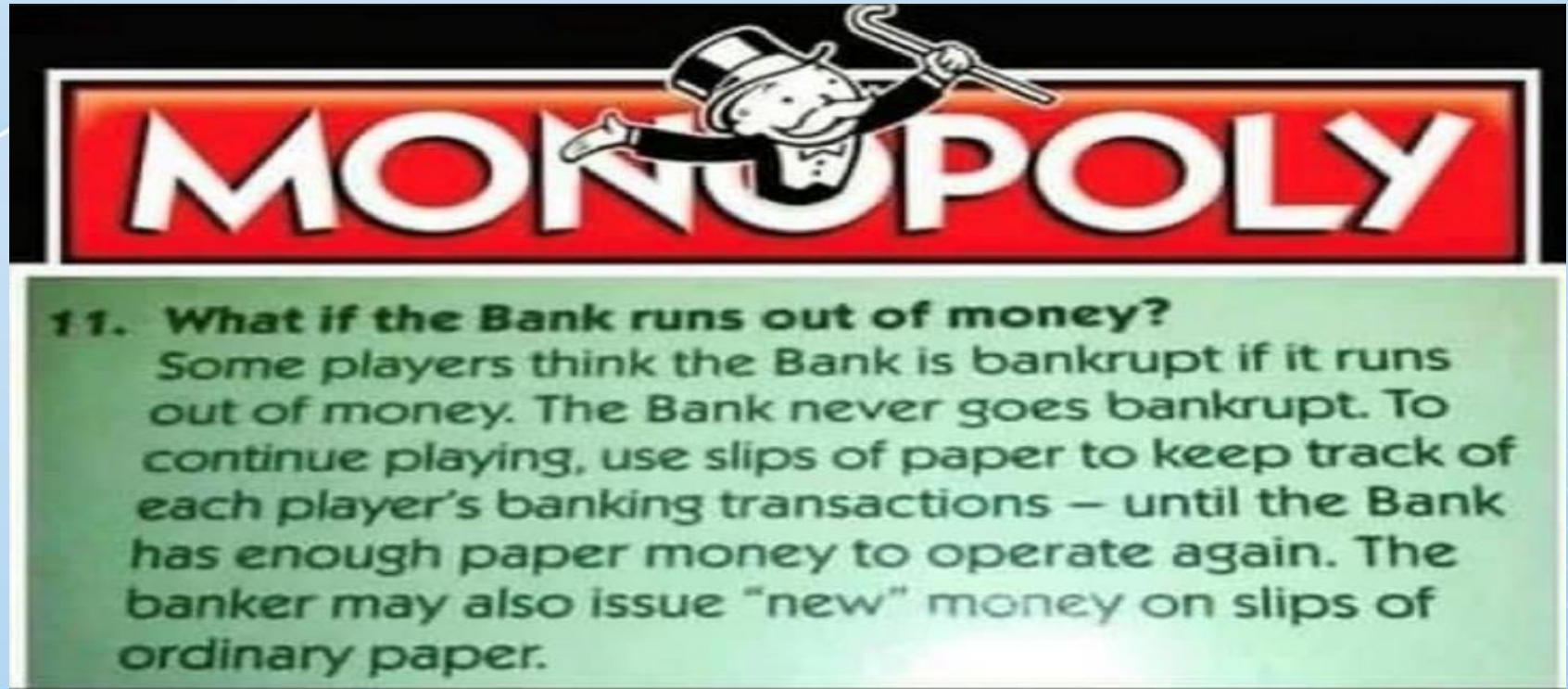
- Tangible Capital Ratio
- Cash/Total Assets
- Unrealized Loss %
- Banks purchasing Fed Funds
- Banks with Brokered CD's

	9/21			9/22		
	High	Low	Med.	High	Low	Med.
Tangible Capital Ratio	20.7%	8.0%	10.7%	21.0%	2.3%	8.5%
Cash/Total Assets	67.3%	1.3%	12.7%	47.6%	1.3%	7.2%
Unrealized Loss %	-1.0%	2.9%	.4%	-15.8%	0.0%	-9.2%
Banks purchasing Fed Funds	3			7		
Banks with Brokered CD's	19			19		

QT Begins



MMT Wasn't So Far Fetched



Questions??

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