

Weekly — March 18, 2022

Weekly Economic & Financial Commentary

United States: Significant Monetary Policy Tightening Ahead

- In a full week of economic data, Wednesday's FOMC meeting took center stage. FOMC officials lifted the target range for the federal funds rate by 25 bps. Meanwhile, data on retail sales, industrial production and housing underscored a similar backdrop across the economy—price pressure remains hot and supply is still hard to come by.
- Next week: New Home Sales (Tues), Durable Goods (Wed)

International: G10 and EM Central Banks Continue Hiking

- International central banks were quite active this week. In the G10, the Bank of England (BoE) opted to lift interest rates another 25 bps and take its main policy rate to 0.75%. While the decision to raise rates was largely expected, the details surrounding the decision were a bit of a surprise and were interpreted as relatively dovish. In the emerging markets, the Brazilian Central Bank opted to lift the Selic Rate 100 bps and take the main policy rate to 11.75%.
- Next week: South Africa CPI (Wed), Eurozone PMIs (Thurs), Central Bank of Mexico (Thurs)

Interest Rate Watch: FOMC Sends a Hawkish Signal

- As was widely expected, the Federal Open Market Committee (FOMC) decided to raise rates by 25 bps at its meeting on March 16. But the marked upward shift in the so-called "dot plot" indicates that most committee members now believe that a more aggressive pace of monetary tightening will be appropriate this year than they did just a few months ago.

Topic of the Week: Russia's Invasion of Ukraine Highlights Lagging Domestic Oil Production

- One of the economic consequences of Russia's invasion of Ukraine has been higher oil prices. Domestic crude oil production in 2021 was roughly 1.0% below the 11.3 million barrels per day averaged in 2020 and 9.0% below the 12.3 million barrels per day average registered in 2019 before the worldwide dropoff in global energy demand.

Wells Fargo U.S. Economic Forecast

	Actual 2021				Forecast 2022				Actual 2020 2021		Forecast 2022 2023	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	6.3	6.7	2.3	7.0	0.8	1.5	2.9	2.7	-3.4	5.7	3.0	2.4
Personal Consumption	11.4	12.0	2.0	3.1	2.5	0.8	1.7	1.7	-3.8	7.9	2.6	1.7
Consumer Price Index ²	1.9	4.8	5.3	6.7	8.0	8.2	7.5	6.3	1.2	4.7	7.5	2.6
"Core" Consumer Price Index ²	1.4	3.7	4.1	5.0	6.3	5.8	5.7	5.2	1.7	3.6	5.8	3.2
Quarter-End Interest Rates ³												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.00	1.50	1.75	0.50	0.25	1.19	2.31
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.80	3.95	4.00	4.05	3.12	2.95	3.95	4.18
10 Year Note	1.74	1.45	1.52	1.52	1.95	2.10	2.20	2.25	0.89	1.45	2.13	2.38

Forecast as of: March 11, 2022

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Annual Numbers Represent Average

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Please see our full [U.S. Economic Forecast](#) and our updated [Consumer Dashboard](#) and [Pressure Gauge](#).

U.S. Review

Significant Monetary Policy Tightening Ahead

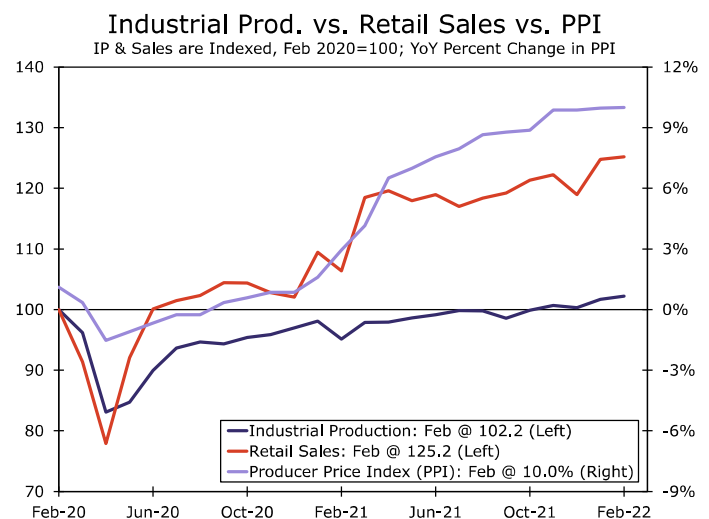
In a full week of economic data, Wednesday's FOMC meeting took center stage. FOMC officials voted to lift interest rates for the first time since 2018, raising the target range for the federal funds rate by 25 bps. Updated Federal Reserve forecasts also suggest that we are in store for an aggressive pace of monetary policy tightening this year and next. For a deeper dive on the Fed meeting, please see [Interest Rate Watch](#). With an exceptionally tight labor market, inflation at a 40-year-high and Russia's invasion of Ukraine adding further pressure to supply chains and price growth, Fed officials are signaling greater concern about price stability. Rising inflation has chipped away at consumers' purchasing power, weighing on consumer sentiment and forcing tougher spending decisions.

That said, retail sales have had a resilient start to the year, at least at first glance. Sales increased 0.3% in February on the heels of a sharp upward revision to January's already-solid gain. Gasoline stations saw the highest monthly increase, while bars and restaurants followed with a 2.5% rise. On the flip side, consumers cut back on online spending and other discretionary goods such as electronics and furniture. Since retail sales are reported nominally, meaning they are not adjusted for inflation, recent headline gains should be taken with a grain of salt. For example, while gasoline station sales rose 5.3% in February, consumer gasoline prices rose 6.6% over the same period, suggesting that higher prices drove much of the increase in nominal sales. To get a cleaner read on spending, we broke out real retail sales in a recent [special report](#). Using our outlined methods, we estimate real retail sales actually declined 1.0% in February.

In the industrial sector, production notched to a higher gear last month. Industrial production increased 0.5% in February, as incremental improvements in supply chains provided some room for manufacturers to work on backlogged orders. Manufacturing output rose 1.2%, the largest monthly increase since October 2021. Durable goods industries, such as primary & fabricated metals and nonmetallic mineral & wood products, posted gains of 2% or higher over the month, while every category within non-durable industries was either flat or increased. In a separate release, the Producer Price Index (PPI) rose 0.8% in February, a moderation from the blazing-hot 1.2% monthly gain in January. The ever-so-slight cooldown in price growth may have provided some relief to producers who have faced sky-high input prices over the past year.

Higher material prices and input shortages have weighed on home builder confidence as well. The NAHB Housing Market Index (HMI) fell two points to 79 in March, the third consecutive monthly drop. A ten-point slide in the future sales sub-component drove the overall decline. Assessments of prospective buyers, however, strengthened two points as home builders are optimistic about their ability to sell the homes they can complete. The confidence survey's mixed themes mirrored trends in Thursday's new residential construction report. Housing starts jumped 6.8% to a 1.77 million-unit pace in February, the strongest pace since late 2006. The gain was broad-based, with single-family and multifamily starts picking up over the month. On the other hand, housing permits, which lead starts by a few months, dipped 1.9%, squaring with builders' wariness about input pricing and availability.

Residential construction has seen robust buyer demand, at least in part, due to low inventories in the existing home market. Existing home sales slid 7.2% in February, falling to a 6.02 million-unit pace. Eroding housing affordability amid lean inventories has sent many prospective buyers to the sidelines. The median home price rose 1.5% year-over-year to \$357,300, marking 120 consecutive months of annual price gains. Inventory totaled 870,000 units at the end of the month, down 15.5% over the year. Higher prices and interest rates, plus the conventional 30-year mortgage rate cresting 4% for the first time since May 2019 this week, will certainly be a test for home sales in the coming months. In sum, data released this week underscore a similar backdrop across the economy—price pressure remains hot and supply is still hard to come by. ([Return to Summary](#))



Source: Federal Reserve Board, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
23-Mar	New Home Sales (SAAR)	Feb	815K	821K	801K
24-Mar	Durable Goods Orders (MoM)	Feb	-0.5%	-1.4%	1.6%
24-Mar	Durables ex. Transportation (MoM)	Feb	0.5%	0.5%	0.7%

Forecast as of March 18, 2022

Source: Bloomberg Finance L.P. and Wells Fargo Economics

New Home Sales • Tuesday

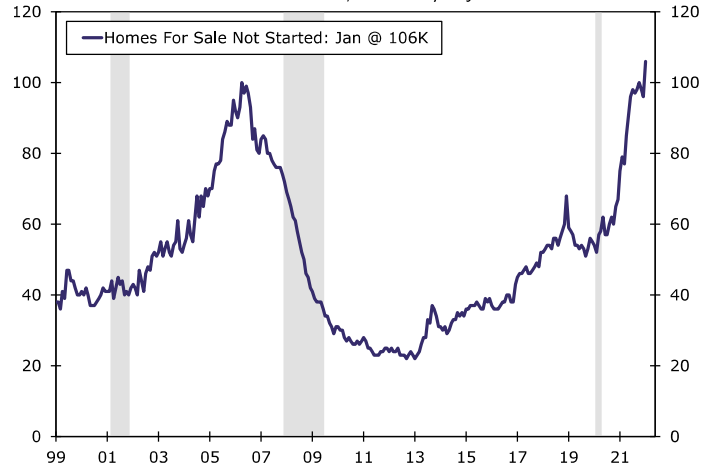
We expect new home sales rose a comfortable 2.5% to a 821K-unit pace in February after slipping slightly in January due to supply chain struggles. Much of the recent moderation can be traced back to slim inventories and a consistent uphill battle against material and labor shortages. Besides delays, these obstacles have also pushed new home prices up, making getting one's hands on a home even more of an ordeal. The median price of a new home rose 13.4% year-over-year in January to \$423,000, and fewer than 10% of homes sold over the month were \$300,000 or below. In the past few months, there has been an uptick in homes where construction has not yet started, which reached a new record high at 106K after jumping over 10% in January ([chart](#)). Rising mortgages also threaten to lessen demand in the coming months as interest rates rise, particularly given the Federal Reserve began tightening monetary policy this week with a 25-bp rate hike to set the new upper target at 0.50%. However, mortgage rates are still low relative to historical norms, and we believe there is some pent-up demand among homeowners who were not able to participate in the market in the earlier days of the pandemic. For 2022 as a whole, and in February, we expect this strong demand will outweigh some of these headwinds to lift sales.

Durable Goods • Wednesday

While the consensus is calling for a slight, 0.5% decline in durable goods orders in February, we expect orders slipped a more stark 1.4% last month. Such a decline would be the first since September and the largest since April 2020 ([chart](#)). Most of the reason for the decline comes from the transportation sector, as Boeing reported there were only 37 new gross orders in February, which is around 10 orders less than typical for the month. Disregarding transportation, we expect durable goods orders rose 0.5% last month. This is a turnaround from January, where a 15.6% rise in nondefense aircraft helped propel the monthly gain to 1.6%, which was more than double the ex-transportation increase of 0.7%. Supply chain issues continue to present challenges for manufacturing, and while not likely visible in February's report, Russia's invasion of Ukraine is likely to present further complications to getting needed materials. Demand remains strong, and a 1.2% rise in shipments in January indicated that manufacturers are working hard to deliver on the orders they have received. That said, it is clear manufacturers have their work cut out for them. January and February's ISM manufacturing index showed the largest increase in backlog of orders since early 2011, pushing the inventory-to-shipments ratio to its lowest point since last July. However, improvement in manufacturing nonfarm payrolls in February (+36K) as well as some preliminary signs of port blockages starting to improve could offer some reprieve in the meantime. ([Return to Summary](#))

Homes For Sale Not Started

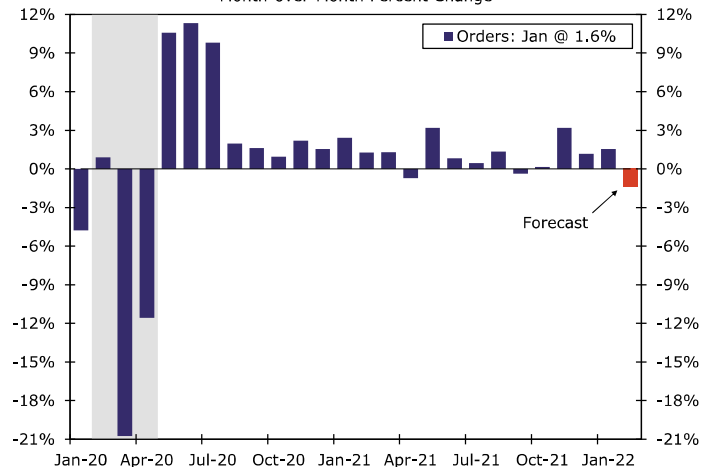
Thousands of Units, Seasonally Adjusted



Source: U.S. Department of Commerce and Wells Fargo Economics

Durable Goods New Orders

Month-over-Month Percent Change



Source: U.S. Department of Commerce and Wells Fargo Economics

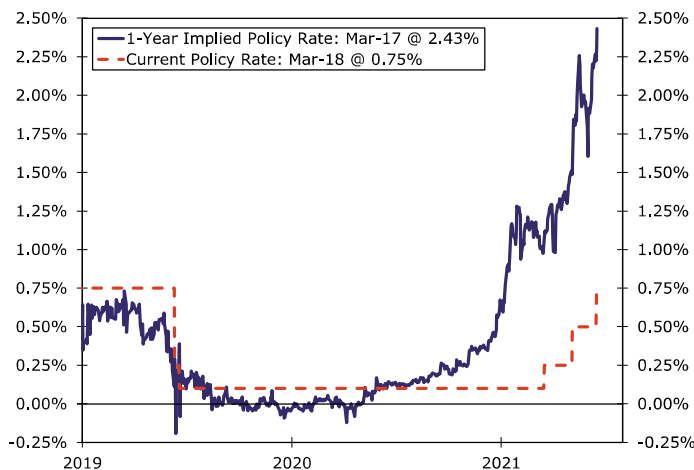
International Review

G10 and EM Central Banks Continue Hiking

In addition to the Fed, international central banks were quite active this week. In the G10, the Bank of England (BoE) opted to lift interest rates another 25 bps and take its main policy rate to 0.75%. While the decision to raise rates was largely expected, the details surrounding the decision were a bit of a surprise. The BoE's accompanying statement was interpreted as relatively dovish as policymakers did not seem as committed to raising interest rates much further. Evidence included many BoE members not voting for a 50-bp rate hike, a change from prior meetings where 50-bp hikes were strongly considered. In our view, the U.K. central bank is still likely to raise interest rates another 25 bps at its next meeting in May; however, beyond May, the path for monetary policy is less certain after this week's meeting. The BoE's less-hawkish tone seems to suggest U.K. policymakers may be more concerned about growth prospects rather than elevated inflation. Should growth be top of mind rather than containing inflation, BoE voting members could maintain this less-hawkish stance. Financial markets are still priced for policy rates to rise around 150 bps in the next 12 months. Should the BoE continue with less-hawkish actions, financial markets could reprice interest rates, which could place depreciation pressure on the British pound.

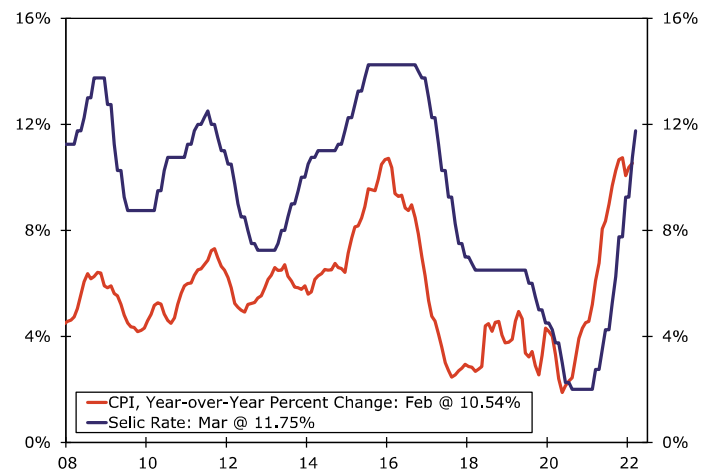
In the emerging markets, the Brazilian Central Bank (BCB) was front and center. BCB policymakers have been some of the most hawkish in the world, not just in the emerging markets, and this week's decision reinforced that hawkish stance. BCB policymakers opted to lift the Selic Rate 100 bps and take the main policy rate to 11.75%. The 100-bp hike was a slowdown from prior meetings; however, the BCB committed to raising interest rates another 100 bps at the next meeting in May. In addition, the accompanying statement referenced inflationary pressures as a result of elevated commodity prices, and indicated that it stands ready to adjust policy settings more aggressively should inflation rise more than expected. In our view, we believe the BCB will indeed raise the Selic Rate another 100 bps in May; however, we are less convinced policy rates will move higher than 12.75%. In the coming months, inflation could plateau as the cumulative effects of rate hikes take hold and as a stronger currency helps contain inflationary pressures. We believe the BCB tightening cycle will end in May, which for the time being, is an out-of-consensus view.

U.K. Market Implied vs. Current Policy Rate



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Brazil IPCA Inflation and Interest Rates



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Did Russia Default This Week? Maybe.

The Russia-Ukraine conflict continues to capture headlines. As a quick update, military confrontation continues to intensify particularly from the Russian side as the Ukrainians mount a valiant defense. Kyiv, the capital of Ukraine, remains under Ukraine control, although the Russian offensive to take control of the city continues. "Peace talks" persist; however, takeaways or even perceivable progress toward a resolution remains elusive. What is more perceptible is that sanctions imposed on Russia are having an impact. Russian financial markets remain closed to avoid large capital outflows and the Russian economy is already showing signs of deteriorating. More importantly though, Russia seems to be on the brink of defaulting on its sovereign debt obligations as a result of sanctions. Due to

sanctions, Russia cannot access its foreign exchange reserves denominated in U.S. dollars and other forms of hard currency. Without access to hard currency, the probability of Russia defaulting has skyrocketed. To that point, credit rating agencies have downgraded Russia's sovereign credit rating to reflect the high likelihood of default. Just this week, S&P lowered its rating and suggested additional downgrades could be imminent.

Russia owed \$117M in dollar-denominated interest payments this week; however, the status of that payment is unclear. According to Russia's finance ministry, the dollar payment was initiated and corresponding financial institutions have said they processed these payments. However, creditors of Russia have yet to receive payment, which could be an indication that sanctions are preventing Russia from repaying its dollar-denominated obligations. According to Russian authorities, should dollar payments not be permitted, debts will be repaid in rubles. However, rating agencies suggest ruble payments would constitute a default and Russia would enter a 30-day grace period. As you can see, the process for Russia repaying bond obligations under sanctions is complex and difficult to navigate. Should Russia be declared in default, it would be the first Russian foreign currency default in over a century. A Russian default would likely not have a major impact on banks, as Russia exposure is limited. However, Russia's local currency default in 1998 extended to hedge funds and asset management firms, an exposure broader financial markets and regulators did not realize, and one that had a sizable impact on financial markets. Time will tell if Russia will avoid default and what the extent of the impact will be. For now, we will continue to monitor repayment status and how sanctions are playing a role in Russia's ability to service its sovereign obligations. ([Return to Summary](#))

International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
23-Mar	South Africa CPI YoY	Feb	5.8%	--	5.7%
24-Mar	Eurozone Manufacturing PMI	Mar P	56.0	--	58.2
24-Mar	Eurozone Services PMI	Mar P	54.3	--	55.5
24-Mar	Central Bank of Mexico Rate Decision	24-Mar	6.50%	6.50%	6.00%

Forecast as of March 18, 2022

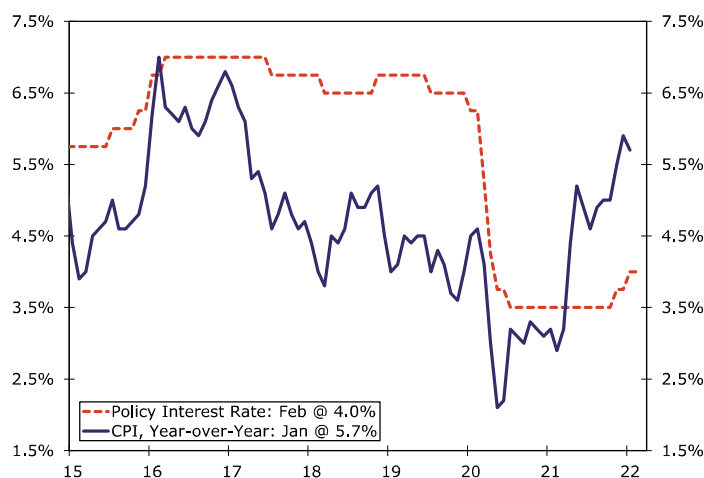
Source: Bloomberg Finance L.P. and Wells Fargo Economics

South Africa Inflation • Wednesday

The global inflation shock, even before the Russia-Ukraine crisis, had not been felt all that much in South Africa. For an emerging market economy heavily linked to commodity prices, South Africa's CPI has been relatively contained over the past 12 months. To that point, CPI remains within the South African Reserve Bank (SARB) target range, a stark difference relative to peer emerging market countries. One rationale to explain subdued inflation is that overall economic activity in South Africa remains sluggish. A lack of economic momentum has kept price growth in check for the time being, and according to consensus forecasts, February CPI should remain in the SARB's target range, although trending higher.

Even with inflation in range, we expect SARB policymakers to also lift policy rates next week. Granted, we expect only a 25-bp hike, which compared to the likes of Brazil's 100-bp rate hike this week, is comparatively small. SARB policymakers have been cautious as it relates to monetary policy. As mentioned, little economic momentum and contained inflation is certainly a combination for lower policy rates. However, in our view, a cautious central bank against an aggressive Federal Reserve tightening schedule could place sharp pressure on South Africa's currency. We will be interested to see how SARB policymakers address elevated commodity prices next week and whether they plan on turning more active now that the Fed has begun lifting interest rates.

South Africa Inflation and Interest Rate



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Eurozone PMIs • Thursday

The Russia-Ukraine conflict is likely to weigh on activity across Europe the most, and next week, March PMI data could give us a preview of just how much. With energy prices rising sharply and manufacturing slowing as a result, we would expect the manufacturing PMI to move lower in March. At the same time, higher energy costs could reduce overall consumption, including services on spending. In that sense, we would also expect the services PMI to reverse course and move lower as well.

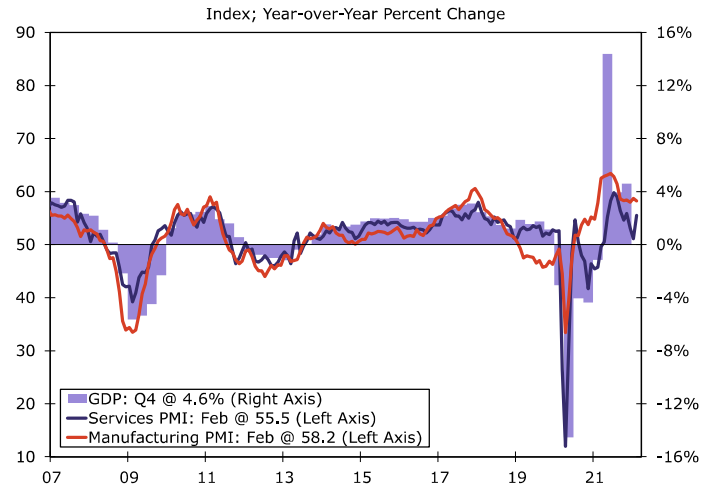
We recently revised our 2022 GDP forecast lower to reflect the impact of the conflict on the Eurozone. We now expect the Eurozone to grow 3.3% this year, down from closer to 4% before the conflict broke out. Given the uncertainties associated with the conflict and energy prices could evolve, risks around our Eurozone GDP forecast are tilted toward slower growth than we currently anticipate. We do, however, expect the majority of the shock to hit inflation, and we made more significant adjustments to our CPI forecast. We brought our CPI forecast significantly higher and now expect price growth in the Eurozone to hit 5.2%. The PMI readings next week will also provide insight into how inflation is evolving, and how quickly the impact on prices is being felt.

Central Bank of Mexico • Thursday

Next week, the Central Bank of Mexico will meet to assess monetary policy settings. In our view, policymakers are likely to lift the Overnight Rate 50 bps next week as inflation remains elevated and could move higher as a result of the sharp rise in commodity prices. Mexico's CPI basket is heavily weighted toward energy and food prices, both which have risen noticeably as a result of the Russia-Ukraine conflict. In addition, we believe the new Banxico governor, Victoria Rodriguez Ceja, will not look to alter Banxico's policy path, given she is still new to financial market participants.

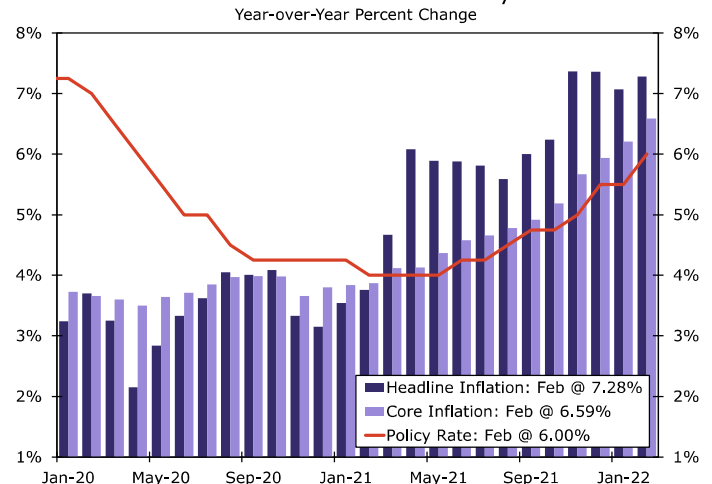
A 50-bp hike would take the Overnight rate to 6.50%. With the Fed now hiking rates, we expect Banxico tightening cycle to persist going forward. However, we would not be surprised if the central bank signaled it would look to slow the pace of tightening and keep pace with the Fed over the remaining meetings of this year. In our view, the Fed is likely to lift policy rates at 25-bp clips. Banxico policymakers could chose to also move 25 bps per meeting over the course of the year, especially if inflation does not rise too dramatically as a result of higher commodity prices. ([Return to Summary](#))

Eurozone PMI Indices vs. GDP Growth



Source: Datastream, Bloomberg Finance L.P. and Wells Fargo Economics

Mexico CPI Inflation vs. Policy Rate



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Interest Rate Watch

FOMC Sends a Hawkish Signal

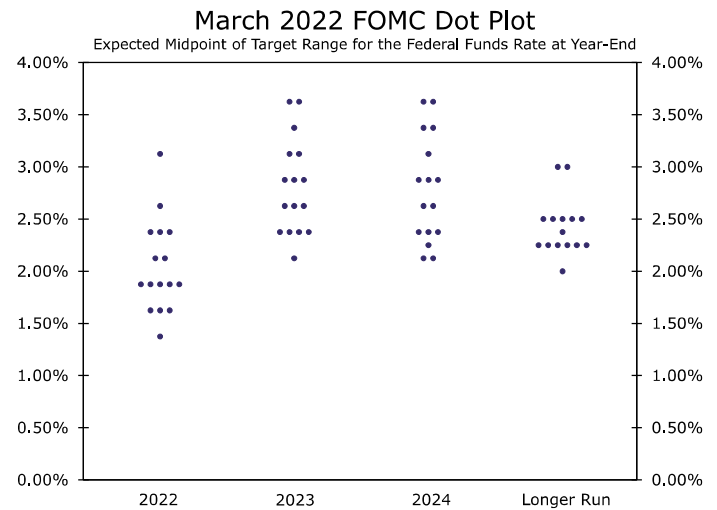
As was widely expected, the Federal Open Market Committee (FOMC) decided to raise rates by 25 bps at its meeting on March 16. But it was the materials that were released at the conclusion of the meeting that really grabbed the attention of market participants. Specifically, the FOMC released its quarterly Summary of Economic Projections (SEP), in which all 16 current committee members submit their individual forecasts, including their expectations of future monetary policy moves. The marked upward shift in the so-called "dot plot" indicates that most committee members believe that a more aggressive pace of monetary tightening will be appropriate this year than they did just a few months ago.

The last time the dot plot was released in December 2021, the median FOMC forecaster thought that 75 bps of rate hikes would be appropriate in 2022. The dot plot that was published this week showed that the median forecaster now thinks that 175 bps of rate hikes will be appropriate over the course of the year. Although there are many combinations that could produce that amount of tightening, the committee would need to hike rates at each of the remaining six meetings of 2022 if it continues to proceed in 25-bp increments.

But the tightening would not be finished this year. The median forecast looks for 75 bps of further tightening in 2023. If this forecast comes true, then short-term interest rates will have risen by 250 bps by the end of 2023. Furthermore, the statement that was released at the conclusion of the meeting said "the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting," which will also act as a form of monetary tightening. We recently wrote that we expect the FOMC to decide at its June meeting to commence balance sheet reduction in July. The statement that was released this week indicates that the next meeting on May 3-4 could very much be "in play."

In sum, the FOMC appears to have teed up a fair amount of further monetary tightening in coming months. In our recent [U.S. Monthly Economic Outlook](#), we forecasted that the FOMC would hike rates by 150 bps this year, but the doubling-down by the FOMC on its hawkish pivot suggests that the risks to our forecast are tilted to the upside. That said, we would also point out that the outlook is unusually uncertain with higher energy prices and tighter financial market conditions exerting headwinds on the economy. Although rate hikes at the next few meetings seem more or less like "sure bets," the committee may become much more data dependent thereafter. Stay tuned.

For further reading on this week's FOMC meeting, see the [report](#) that we published at the conclusion of the meeting. ([Return to Summary](#))



Source: Federal Reserve Board and Wells Fargo Economics

Topic of the Week

Russia's Invasion of Ukraine Highlights Lagging Domestic Oil Production

One of the economic consequences of Russia's invasion of Ukraine has been higher oil prices. Russia, which is the world's third-largest oil producer behind the United States and Saudi Arabia, accounts for about 11% of the world's crude oil production, producing an average of 10.1 million barrels per day of crude oil in 2021 through November. A large proportion of Russia's oil production is exported, and the International Energy Agency ranks Russia as the largest oil exporter to global markets. Roughly 60% of Russia's oil exports go to Europe, and another 20% goes to China.

Russia is a relatively small energy provider to the United States. In 2021, the U.S. imported 6.1 million barrels of crude oil per day from around the world, about 199,000 (3.3%) of which originated in Russia. Still, with many countries now substantially paring back their imports of Russian oil, the long-term reduction in supply is likely to bring increased volatility to global oil markets. What role can the United States play in boosting crude oil production to make up for the gap left by Russian exports? For starters, the United States has access to an abundance of oil. There were an estimated 35.8 billion barrels of proven reserves of crude oil in the United States at the end of 2020, which is the latest data available. This vast ocean of oil as well as efficiency improvements in horizontal drilling and hydraulic fracturing technologies has allowed crude production to ramp up considerably over the past two decades. In 2021, the United States as a whole produced an average of 11.2 million barrels of crude oil per day, which translates to 14.5% of global crude production—the most of any country in the world.

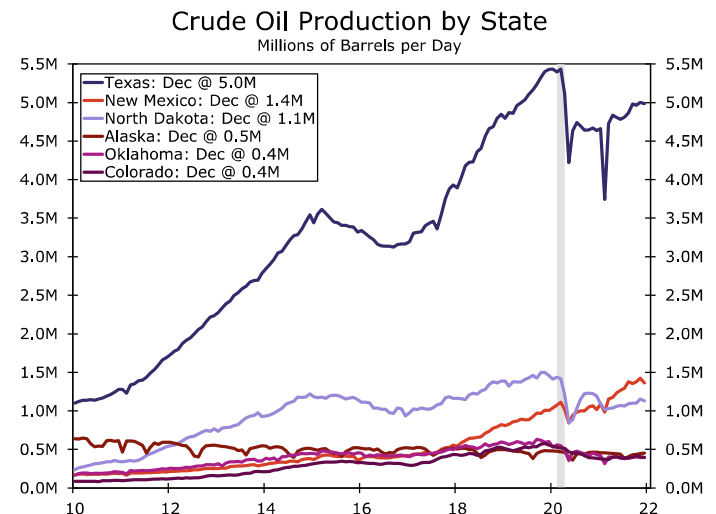
Domestic oil production is currently running well below pre-pandemic levels. Crude oil production in 2021 was roughly 1.0% below the 11.3 million barrels per day averaged in 2020 and 9.0% below the 12.3 million barrels per day averages in 2019 before the worldwide dropoff in global energy demand. While production has improved modestly over the past year alongside stronger economic conditions and higher oil prices, overall production is still 1.1 million barrels per day short of 2019 levels. This shortfall suggests domestic producers could ramp up production by at least that amount with only fairly modest increases in capital spending.

Production is lagging in nearly every major energy state. Production in Texas, which is by far the largest oil-producing state in the country, has been sluggish to return to its pre-pandemic form. In 2021, production in the state averaged 4.7 million barrels per day, 6.6% below the 5.1 million averaged in 2019. The slow rebound has mostly occurred from sluggish activity in the Anadarko, Haynesville and Eagle Ford shale plays.

By contrast, crude production in the Permian Basin is booming again. Permian production averaged 4.6 million barrels a day in 2021, which is 5.8% higher than 2019. The Permian Basin, which is located in West Texas and eastern New Mexico, is the largest and most prolific shale play in the entire country. Production is up a remarkable 146% above 2015 average levels. The Permian's outperformance is due to its relatively low breakeven costs, high rates of productivity and extensive proven reserves. Proven reserves in the Permian Basin are estimated to be 11.9 billion barrels, over 33% of total reserves in the U.S.

The prolificacy of the Permian also explains why New Mexico is the only state to see crude oil production completely rebound and exceed pre-COVID levels. Crude production rose to an average 1.3 million barrels per day in the state in 2021, 38% above 2019 levels. Outside the Permian region, energy producers appear reluctant to significantly ramp up operations. In 2021, North Dakota's energy industry produced 1.1 million barrels of oil per day in 2021, down from 1.4 million in 2019. While production has waned recently, the Bakken's proven reserves are estimated to be 3.9 billion barrels, more than any other onshore shale play aside from the Permian.

Crude production in Oklahoma amounted to 391,000 barrels per day in 2021, a 34% drop compared to 2019. Meanwhile, production has languished in the Niobrara shale region, with output falling to



Source: U.S. Energy Information Administration and Wells Fargo Economics

590,000 barrels per day in 2021, almost 20% below 2019 levels. The Niobrara formation covers northeastern Colorado and parts of Wyoming, Nebraska and Kansas. Of course, oil production is not just limited to the lower 48 states. Alaskan crude production is running 6.0% below 2019 levels. While proven reserves in the state were estimated to be 2.4 billion barrels, actual crude production averaged just 438,000 barrels per day in 2021. The Gulf of Mexico is another area with substantial off-shore reserves, where production would again be viable at today's prices. Production averaged 1.7 million barrels per day last year, down 10.3% from 2019.

Based on recent history, the United States appears to have ample capacity to ramp up crude production. So what is holding back producers? For one, despite relatively high wages, the energy industry has not been immune to the rampant labor shortages afflicting most industries in the economy. Material input shortages are also holding back production. The oil and gas industry is facing a higher cost of capital, which is thinning the stream of new investment into the sector. Environmental and sustainability concerns have made financing new projects more challenging, and lenders are under pressure to reduce or eliminate fossil-fuel financing. Increased regulatory hurdles have also made it more difficult for energy producers to secure viable leases and clear legal hurdles to drill new wells. After more than a decade of tight profit margins and heavy lending, oil companies appear steadfast in returning cash to shareholders, which means controlling costs and limiting new capital investment.

For more information on this, please see our [special report](#) on oil production. ([Return to Summary](#))

Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 3/18/2022	1 Week Ago	1 Year Ago
SOFR	0.30	0.05	0.01
3-Month LIBOR	0.95	0.75	0.19
3-Month T-Bill	0.37	0.36	0.00
1-Year Treasury	1.37	1.23	0.03
2-Year Treasury	1.95	1.75	0.15
5-Year Treasury	2.14	1.95	0.86
10-Year Treasury	2.15	1.99	1.71
30-Year Treasury	2.42	2.35	2.45
Bond Buyer Index	2.53	2.33	2.40

Foreign Exchange Rates			
	Friday 3/18/2022	1 Week Ago	1 Year Ago
Euro (\$/€)	1.105	1.091	1.192
British Pound (\$/£)	1.317	1.304	1.393
British Pound (£/€)	0.838	0.837	0.856
Japanese Yen (¥/\$)	119.170	117.290	108.890
Canadian Dollar (C\$/ \$)	1.263	1.274	1.249
Swiss Franc (CHF/\$)	0.934	0.934	0.927
Australian Dollar (US\$/A\$)	0.741	0.729	0.776
Mexican Peso (MXN/\$)	20.414	20.914	20.486
Chinese Yuan (CNY/\$)	6.361	6.339	6.507
Indian Rupee (INR/\$)	75.805	76.308	72.545
Brazilian Real (BRL/\$)	5.020	5.075	5.561
U.S. Dollar Index	98.388	99.124	91.862

Foreign Interest Rates			
	Friday 3/18/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	1.04	1.00	0.08
3-Month Canada Banker's Acceptance	1.09	1.04	0.44
3-Month Yen LIBOR	-0.01	-0.01	-0.08
2-Year German	-0.35	-0.41	-0.69
2-Year U.K.	1.21	1.32	0.11
2-Year Canadian	1.89	1.66	0.27
2-Year Japanese	-0.02	-0.03	-0.14
10-Year German	0.37	0.25	-0.26
10-Year U.K.	1.50	1.49	0.88
10-Year Canadian	2.19	1.99	1.61
10-Year Japanese	0.21	0.19	0.11

Commodity Prices			
	Friday 3/18/2022	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	103.37	109.33	60.00
Brent Crude (\$/Barrel)	106.45	112.67	63.28
Gold (\$/Ounce)	1931.78	1988.46	1736.42
Hot-Rolled Steel (\$/S.Ton)	1475.00	1510.00	1325.00
Copper (¢/Pound)	475.00	461.90	411.25
Soybeans (\$/Bushel)	16.66	16.81	14.25
Natural Gas (\$/MMBTU)	4.87	4.73	2.48
Nickel (\$/Metric Ton)	42,150	#N/A	N/A 16,027
CRB Spot Inds.	669.32	670.82	565.56

Source: Bloomberg Finance L.P. and Wells Fargo Economics

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