



FEDERAL RESERVE

Not ready yet...

ACCORDING TO THE FEDERAL RESERVE (Fed)

- The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term.
- Information received since the Federal Open Market Committee met in July suggests that economic activity is expanding at a moderate pace. Household spending and business fixed investment have been increasing moderately, and the housing sector has improved further; however, net exports have been soft. The labor market continued to improve, with solid job gains and declining unemployment. On balance, labor market indicators show that underutilization of labor resources has diminished since early this year.
- Inflation has continued to run below the Committee's longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation moved lower; survey-based measures of longer-term inflation expectations have remained stable.
- Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.

COMMENTS

For the first time in many years, expectations surrounding this Fed meeting were deeply divided. Of the forecasters that were surveyed by Bloomberg, half were looking for an interest rate hike, while the other half were counting on a status quo. In the end, the majority of the members of the Fed's Monetary Policy Committee chose the latter option. Therefore, interest rates will remain where they have been sitting since the end of 2008. Of the ten voting members, just one, Jeffrey Lacker of the Richmond Fed, publicly objected to this inaction; he would have preferred an immediate hike of 25 points.

It appears to be mainly overseas developments that led Janet Yellen and the other committee members to hold off. The main change between today's press release and that of July is a sentence that stresses the recent global economic and financial developments that may hold economic activity in check. Naturally, the weakness of the emerging countries comes to mind, in particular concerns about China, along with slumps in the stock market and in commodity prices.

Notwithstanding these concerns, the Fed appears to be less worried about the U.S. economy. Chair Janet Yellen even mentioned that the recovery was sufficiently advanced and that domestic demand seemed to be robust enough to justify an interest rate hike. Yet, the Fed downgraded its forecasts for growth in the years ahead. While the median forecast for the annual change in real GDP in the fourth quarter of 2015 was raised from 1.9% to 2.1%, it was lowered from 2.5% to 2.3% for 2016 and from 2.3% to 2.2% for 2017. In the same breath, the Fed downgraded its median forecasts for inflation and unemployment.

The Fed's concerns about the global situation mean that interest rates will remain at floor level for a bit longer. The fact remains that 13 of the attendees at today's meeting are anticipating an initial interest rate hike this year (versus 3 for 2016, and just 1 for 2017). But future rate developments have been revised downwards: the median forecast for the centre of the target range for the federal funds rate by the end of 2015 has dropped from 0.625% to 0.375%; this implies that there will be only one rate hike during the next two meetings. The median forecasts for interest rates at the end of 2016 and 2017, and the long-term projection, have also been downgraded by 25 basis points.

Implications: Today's inaction and the latest forecasts by the Fed leaders suggest that interest rates will be raised just once this year, probably in December. After that, rate hikes will be very gradual.

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Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
8	Bank of England	s.q.	0.50	2	Bank of Sweden	-10 b.p.	-0.35
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia	s.q.	2.00
15	Swiss National Bank	-50 b.p.	-0.75	8	Bank of Korea	s.q.	1.50
20-21	Bank of Japan	---	---	9	Bank of England	s.q.	0.50
21	Bank of Brazil	+50 b.p.	12.25	14-15	Bank of Japan	---	---
21	Bank of Canada	-25 b.p.	0.75	15	Bank of Canada	-25 b.p.	0.50
22	European Central Bank	s.q.	0.05	16	European Central Bank	s.q.	0.05
28	Reserve Bank of New Zealand	s.q.	3.50	22	Reserve Bank of New Zealand	-25 b.p.	3.00
28	Federal Reserve	s.q.	0.25	29	Bank of Brazil	+50 b.p.	14.25
29	Bank of Mexico	s.q.	3.00	29	Federal Reserve	s.q.	0.25
				30	Bank of Mexico	s.q.	3.00
FEBRUARY			AUGUST				
2	Reserve Bank of Australia	-25 b.p.	2.25	4	Reserve Bank of Australia	s.q.	2.00
5	Bank of England	s.q.	0.50	6	Bank of England	s.q.	0.50
12	Bank of Sweden	-10 b.p.	-0.10	6-7	Bank of Japan	---	---
16	Bank of Korea	s.q.	2.00	12	Bank of Korea	s.q.	1.50
17-18	Bank of Japan	---	---				
MARCH			SEPTEMBER				
2	Reserve Bank of Australia	s.q.	2.25	1	Reserve Bank of Australia	s.q.	2.00
4	Bank of Brazil	+50 b.p.	12.75	2	Bank of Brazil	s.q.	14.25
4	Bank of Canada	s.q.	0.75	3	European Central Bank	s.q.	0.05
5	European Central Bank	s.q.	0.05	3	Bank of Sweden	s.q.	-0.35
5	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	-25 b.p.	2.75
11	Bank of Korea	-25 b.p.	1.75	9	Bank of Canada	s.q.	0.50
11	Reserve Bank of New Zealand	s.q.	3.50	10	Bank of England	s.q.	0.50
16-17	Bank of Japan	---	---	10	Bank of Korea	s.q.	1.50
18	Bank of Sweden	-15 b.p.	-0.25	14-15	Bank of Japan	---	---
18	Federal Reserve	s.q.	0.25	17	Swiss National Bank	s.q.	-0.75
19	Bank of Norway	s.q.	1.25	17	Federal Reserve	s.q.	0.25
19	Swiss National Bank	s.q.	-0.75	21	Bank of Mexico	s.q.	3.00
26	Bank of Mexico	s.q.	3.00	24	Bank of Norway	s.q.	2.00
APRIL			OCTOBER				
7	Reserve Bank of Australia	s.q.	2.25	5	Reserve Bank of Australia	s.q.	2.00
7-8	Bank of Japan	---	---	6-7	Bank of Japan	---	---
9	Bank of England	s.q.	0.50	8	Bank of England	s.q.	0.50
9	Bank of Korea	s.q.	1.75	14	Bank of Korea	s.q.	1.50
15	European Central Bank	s.q.	0.05	21	Bank of Brazil	s.q.	14.25
15	Bank of Canada	s.q.	0.75	21	Bank of Canada	s.q.	0.50
29	Reserve Bank of New Zealand	s.q.	3.50	22	European Central Bank	s.q.	0.05
29	Bank of Sweden	s.q.	-0.25	28	Reserve Bank of New Zealand	s.q.	3.00
29	Bank of Brazil	+50 b.p.	13.25	28	Bank of Sweden	s.q.	-0.35
29	Federal Reserve	s.q.	0.25	28	Federal Reserve	s.q.	0.25
30	Bank of Japan	---	---	29	Bank of Mexico	s.q.	3.00
30	Bank of Mexico	s.q.	3.00	30	Bank of Japan	s.q.	2.00
MAY			NOVEMBER				
5	Reserve Bank of Australia	-25 b.p.	2.00	2	Reserve Bank of Australia	s.q.	2.00
7	Bank of Norway	s.q.	1.25	5	Bank of England	s.q.	0.50
11	Bank of England	s.q.	0.50	5	Bank of Norway	s.q.	1.25
15	Bank of Korea	s.q.	1.75	11	Bank of Korea	s.q.	1.50
21-22	Bank of Japan	---	---	18-19	Bank of Japan	---	---
27	Bank of Canada	s.q.	0.75	25	Bank of Brazil	s.q.	14.25
JUNE			DECEMBER				
2	Reserve Bank of Australia	s.q.	2.00	2	Bank of Canada	s.q.	0.75
3	European Central Bank	s.q.	0.05	3	European Central Bank	s.q.	0.05
3	Bank of Brazil	+50 b.p.	13.75	9	Bank of Korea	s.q.	1.50
4	Bank of England	s.q.	0.50	9	Reserve Bank of New Zealand	s.q.	3.50
4	Bank of Mexico	s.q.	3.00	10	Bank of England	s.q.	0.50
10	Bank of Korea	-25 b.p.	1.50	10	Swiss National Bank	s.q.	-0.75
10	Reserve Bank of New Zealand	-25 b.p.	3.25	15	Bank of Sweden	s.q.	-0.35
17	Federal Reserve	s.q.	0.25	16	Federal Reserve	s.q.	0.25
18	Bank of Norway	-25 b.p.	1.00	17	Bank of Norway	s.q.	1.25
18	Swiss National Bank	s.q.	-0.75	17	Bank of Mexico	s.q.	3.00
18-19	Bank of Japan	---	---	17-18	Bank of Japan	s.q.	2.00

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * To be determined.