

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed) A Third Key Rate Increase!

ACCORDING TO THE FED

- ▶ The Committee decided to raise the target range for the federal funds rate to 0.75% to 1.00%.
- ▶ The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.
- ▶ Information received since the Federal Open Market Committee met in February indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate was little changed in recent months. Household spending has continued to rise moderately while business fixed investment appears to have firmed somewhat.
- ▶ Inflation has increased in recent quarters, moving close to the Committee's 2% longer-run objective; excluding energy and food prices, inflation was little changed and continued to run somewhat below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

COMMENTS

We had to wait a year between the Fed's first and second key rate hikes, but the wait between the second and third increase was shorter. As it stands, Janet Yellen and her colleagues decided to bump up the target for the federal funds rate by 25 basis points for the second quarter in a row.

The statement released at the meeting in January did not necessarily point to such a swift increase. Improvements in several indicators, especially confidence and the job market, prompted the Fed to make a move. Will rate normalization continue at this pace? The Fed is still being cautious. The forecast from each Fed leader showed a median that is in line with two

additional rate increases before the end of the year, a situation that is unchanged from December 2016, based on the increase announced today. If we exclude the meetings where no press conference will be held and no forecasts will be updated, a quarterly meeting will have to be "skipped" in 2017. This could mean the meeting in June, September or December.

The Fed's new economic forecasts do not provide us with any additional clues. The median scenario on economic growth shows few changes. The forecast for the annual change in real GDP in the fourth quarter of 2017 stays at 2.1%. The forecast for 2018 is upgraded slightly—from 2.0% to 2.1%. The forecast for 2019 has not changed and stays at 1.9%. The forecast for unemployment is stable with a rate of 4.5% by the end of 2017. The forecasts for inflation stayed the same. As it had stated in December, the Fed expects to order three key rate increases in 2018.

IMPLICATIONS

Two other key rate hikes are expected in 2017. Since an increase was ordered at the last two quarterly meetings, a pause can be expected at the meeting in June, unless the job market far exceeds expectations before then. What's more, despite the upticks in confidence and solid hiring, the real data point to disappointing economic growth for the first quarter. The Fed will therefore want to make sure a rebound in the spring takes shape before it restarts normalizing its rates. As such, we expect the Fed to order key rate increases at its meetings in September and December. That said, the implementation of Donald Trump's budget and tax promises and political events in Europe could be a game changer.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2017 of Central Bank meetings

Date	Central banks	Decision	Rate
January			
11	Bank of Brazil	-75 b.p.	13.00
12	Bank of Korea	s.q.	1.25
18	Bank of Canada	s.q.	0.50
19	European Central Bank	s.q.	0.00
30	Bank of Japan	s.q.	-0.10
February			
1	Federal Reserve	s.q.	0.75
2	Bank of England	s.q.	0.25
6	Reserve Bank of Australia	s.q.	1.50
8	Reserve Bank of New Zealand	s.q.	1.75
9	Bank of Mexico	+50 b.p.	6.25
15	Bank of Sweden	s.q.	-0.50
22	Bank of Korea	s.q.	1.25
22	Bank of Brazil	-75 b.p.	12.25
March			
1	Bank of Canada	s.q.	0.50
6	Reserve Bank of Australia	s.q.	1.50
9	European Central Bank	s.q.	0.00
15	Federal Reserve	+25 b.p.	1.00
15	Bank of Japan		
16	Bank of England		
16	Bank of Norway		
16	Swiss National Bank		
22	Reserve Bank of New Zealand		
30	Bank of Mexico		
April			
4	Reserve Bank of Australia		
12	Bank of Korea		
12	Bank of Brazil		
12	Bank of Canada		
26	Bank of Japan		
27	European Central Bank		
27	Bank of Sweden		
May			
2	Reserve Bank of Australia		
3	Federal Reserve		
4	Bank of Norway		
10	Reserve Bank of New Zealand		
11	Bank of England		
18	Bank of Mexico		
24	Bank of Korea		
24	Bank of Canada		
31	Bank of Brazil		
June			
6	Reserve Bank of Australia		
8	European Central Bank		
14	Federal Reserve		
15	Bank of England		
15	Bank of Japan		
15	Swiss National Bank		
21	Reserve Bank of New Zealand		
22	Bank of Norway		
22	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
4	Reserve Bank of Australia		
4	Bank of Sweden		
12	Bank of Korea		
12	Bank of Canada		
19	Bank of Japan		
20	European Central Bank		
26	Bank of Brazil		
26	Federal Reserve		
August			
1	Reserve Bank of Australia		
3	Bank of England		
9	Reserve Bank of New Zealand		
10	Bank of Mexico		
30	Bank of Korea		
September			
5	Reserve Bank of Australia		
6	Bank of Brazil		
6	Bank of Canada		
7	European Central Bank		
7	Bank of Sweden		
14	Bank of England		
14	Swiss National Bank		
20	Bank of Japan		
20	Federal Reserve		
21	Bank of Norway		
27	Reserve Bank of New Zealand		
28	Bank of Mexico		
October			
3	Reserve Bank of Australia		
18	Bank of Korea		
25	Bank of Brazil		
25	Bank of Canada		
26	European Central Bank		
26	Bank of Norway		
26	Bank of Sweden		
30	Bank of Japan		
November			
1	Federal Reserve		
2	Bank of England		
7	Reserve Bank of Australia		
8	Reserve Bank of New Zealand		
9	Bank of Mexico		
29	Bank of Korea		
December			
5	Reserve Bank of Australia		
6	Bank of Brazil		
6	Bank of Canada		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
20	Bank of Sweden		
20	Bank of Japan		

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.