Economic Alert
iQ

First Citizens
Research & Analytics

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International
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Fed rate expectations

Recap:

- At the last FOMC meeting on 16 March, 2016 the Fed made it clear that global economic and financial disturbances of the past few months could threaten the U.S. economy.
- Those uncertainties spiked in January when the Chinese economy showed signed of instability and a renewed fall in the oil price drove investors into safer assets and hampered global recovery.
- Even though the economic environment is relatively calmer today, global and financial developments still pose a threat to growth.

What to expect

- Today's FOMC statement at 2pm should not provide anything new from policy standpoint, with markets implying the chances of a rate hike stand at 0% probability and a 2% probability of a cut with a 21.6% probability of a rate hike at the next FOMC meeting on 15 June

2016.

- The most likely reason the FOMC would hold off on raising the fed fund rate is low inflation.
- Inflation has undershot the Fed's 2% target for more than three years with March 2016 inflation numbers up only 0.9% over the previous year as seen in the chart below.
- However, in the FOMC statement can indicate how important recent inflation numbers are since Chairwoman Janet Yellen stated in a 16 March press conference that she was wary of relying too much on first quarter data, which could be distorted by seasonal trends.
- Chances of inflation picking up in 2016 are better with oil prices gaining some traction and the US dollar becoming a bit weaker.

Effect on markets

- U.S. stock futures were lower this morning as investors awaited the Federal Reserve's decision on interest rates.

A look at index futures:

- Dow Jones: - 0.18%
- S&P 500: - 0.16%
- Nasdaq: - 0.17%
- Benchmark U.S. crude oil rose 48 cents to USD44.52 a barrel on the New York Mercantile Exchange while Brent crude, the international standard, added 58 cents to USD46.32.

WTI Crude (R1) 38.34
Inflation rate Y-o-y (L1) 0.9
Brent Crude (R1) 39.60
Volatility Index (R2) 13.95
1.4
1.2
1.0
0.9
0.8
0.6
0.4
0.2
0.0
-0.2
65
60
55
50
45
35
39.60
38.34
28.00
26.00
24.00
22.00
20.00
18.00
16.00
13.95
12.00
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