

Tuesday 30th January 2018 – 10:25am

International

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Economic Alert: The Federal Reserve Interest Rate Decision

- Janet L. Yellen, the Federal Reserve's departing chairwoman, will preside over her final policymaking meeting today and tomorrow, where the Fed is expected to leave its benchmark interest rate unchanged as the economy continues to gain strength.
- Bloomberg's probability of a hike tomorrow is at 3.3%, with a more probable hike coming in March 2018 (91.6%).

Future Implied Probability of a rate hike

Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2
01/31/2018	3.3%	0.0%	96.7%	3.3%	0.0%
03/21/2018	91.6%	0.0%	8.4%	88.5%	3.1%
05/02/2018	91.9%	0.0%	8.1%	85.4%	6.4%
06/13/2018	97.1%	0.0%	2.9%	35.6%	57.3%
08/01/2018	97.5%	0.0%	2.5%	31.7%	54.7%
09/26/2018	98.7%	0.0%	1.3%	17.1%	43.2%
11/08/2018	98.9%	0.0%	1.1%	14.9%	39.6%
12/19/2018	99.3%	0.0%	0.7%	10.0%	30.8%
01/30/2019	99.3%	0.0%	0.7%	9.5%	29.7%

Source: Bloomberg

U.S. Economic Performance

- The unemployment rate was 4.1% in December, and the Fed does not expect it to fall much further. Instead, as economic growth continues, it expects faster inflation.
- Real GDP growth (2.6% in the final quarter of 2017) fell short of consensus expectations (3.0%).
- Hurricanes Harvey, Irma and Maria significantly disrupted port activity and jammed supply chains in the third quarter, thereby resulting in both a smaller trade deficit and a temporary rise in inventory levels
- As a result, inventories and net exports contributed roughly 115 bps to the third-quarter GDP growth rate of 3.2%.
- Consumer spending rose 3.8% following a 2.2% pace in the prior period. Both goods and services consumption contributed to growth in the quarter. Implying consumer activity remains the dominant engine of U.S. economic growth going into 2018, as durables (14.2% vs. 8.6% prior), non-durables (5.2% vs. 2.3%) and services (1.8% vs. 1.1%) all saw a sizable acceleration in the quarter.
- Business investment rose 6.8% in the fourth quarter compared to 4.7% prior. A key driver is improving conditions in the petroleum sector in particular, due to a price rebound for crude oil.
- Residential investment posted a strong reading (11.6% vs. -4.7% prior). The strength was driven by rebuilding efforts in the aftermath of the last year's hurricanes.
- Government spending and investment rose 3.0%, thereby contributing 50 bps to growth.

Bloomberg Economics U.S. Forecast Table

INDICATOR	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	2017	2018
GDP, SAAR QoQ%	1.4	3.1	3.2	2.6	2.5	2.5	2.7	2.7	2.5	2.6
Unemployment Rate	4.7	4.4	4.3	4.1	4.0	3.9	3.9	3.8	4.4	3.9
Headline CPI, YoY%	2.5	1.9	1.9	2.1	1.8	1.9	2.1	2.3	2.1	2.0
Core CPI, YoY%	2.2	1.8	1.7	1.8	1.7	1.8	1.9	2.2	1.9	1.9
Fed Funds Rate	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00	1.50	2.00

Source: Bloomberg

Here are the main moves in markets today:

- Futures on the S&P 500 Index fell 0.4% to the lowest in a week.
- The yield on 10-year Treasuries climbed less than one basis point to 2.71%, the highest in almost four years.
- West Texas Intermediate crude dipped 1% to USD64.93 a barrel, the largest decrease in almost seven weeks.
- Gold advanced 0.3% to \$1,344.35 an ounce.

	Current	Year-to-date
Dow Jones	26439.48	6.96%
S&P 500 (US)	2853.53	6.73%
Nasdaq	7466.51	8.16%
Russell 3000	1682.74	6.32%
US 10 year yield (%)	2.71	0.31%
US 30-year yield (%)	2.96	0.22%
WTI Oil Price (US\$/bbl)	64.93	4.51%
Gold	1344.35	3.19%

Source: Bloomberg



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