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International

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## FOMC Rate Decision Tomorrow

### No rate increase expected:

- No increase in interest rates is expected when the FOMC gathers on Tuesday and Wednesday in Washington, according to pricing in federal funds futures and all but one of the 57 economists polled by Bloomberg.
- Furthermore, there's no press conference scheduled after this meeting and historically the Fed has never acted at a gathering that was not followed by a quarterly media briefing.
- Chairman Jerome Powell, who will hold a press conference after every meeting starting in January, will next address the media after the Federal Open Market Committee's Sept. 25-26 gathering.
- Investors see a more than 92.1% likelihood of a third 2018 rate increase then, versus around 17.6% this week.

### Current Implied Probabilities of a Fed Fund Rate Hike

Meeting	Hike Prob	Cut Prob	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	Fwd Rate
08/01/2018	17.6%	0.0%	0.0%	82.4%	17.6%	0.0%	0.0%	0.0%	0.0%	1.92
09/26/2018	92.1%	0.0%	0.0%	7.9%	76.2%	15.9%	0.0%	0.0%	0.0%	2.15
11/08/2018	92.8%	0.0%	0.0%	7.2%	70.6%	20.8%	1.3%	0.0%	0.0%	2.17
12/19/2018	97.7%	0.0%	0.0%	2.3%	27.6%	54.6%	14.5%	0.9%	0.0%	2.33
01/30/2019	97.9%	0.0%	0.0%	2.1%	25.6%	52.4%	17.7%	2.0%	0.1%	2.35
03/20/2019	99.1%	0.0%	0.0%	0.9%	12.0%	36.9%	37.9%	11.1%	1.2%	2.50
05/01/2019	99.2%	0.0%	0.0%	0.8%	10.4%	33.3%	37.7%	15.0%	2.6%	2.54
06/19/2019	99.5%	0.0%	0.0%	0.5%	6.8%	24.7%	36.1%	23.5%	7.3%	2.63
07/31/2019	99.6%	0.0%	0.0%	0.4%	6.3%	23.3%	35.2%	24.5%	8.6%	2.65

Source: Bloomberg

#### Economic data marginally below target:

- Recent economic data have not urgently flagged the need for a rate hike following Fed moves in March and June.
- Unemployment was 4% in June, a half percentage point below what officials regard as the longer-run sustainable rate that keeps supply and demand in balance without causing too-fast inflation.
- Powell indicated that he still sees a little room for labor markets to tighten further, and recognized the social benefits of rising workforce participation.
- The Fed's preferred inflation indicator rose 2.3 % in the 12 months through May, partly reflecting a jump in energy prices over that period. The underlying measure, minus food and energy, rose 1.96%, effectively below the central bank's 2% inflation goal.

#### The new "normal":

- In delivering the Fed's semi-annual report to Congress earlier this month, Powell used a new word to describe the risks to financial stability: "normal."
- Powell went on to say; "Corporate leverage is a "little bit" high but banks are well-capitalized and household finances aren't stretched. And while many financial asset prices are elevated, "I wouldn't use the bubble word."

**IMF's warning:**

- The International Monetary Fund warned in April that an extended period of low interest rates had led to a build-up of “medium-term vulnerabilities” in the world’s financial system that could come to the fore as central banks normalize monetary policy.
- “The road ahead may well turn out to be bumpy,” according to Tobias Adrian, director of the IMF’s monetary and capital markets department.

**Economic Outlook:**

- Core PCE, the Fed’s preferred measure of inflation, grew at a similar pace as in April and May, indicating that the FOMC will likely keep its post-meeting statement language that the measure has “moved close to 2%” on Wednesday.
- Health-care inflation was steady for the third straight month despite the recent turmoil around prescription drug prices.
- The strength in services spending supports the view that consumer spending will continue to propel above trend growth through the end of the year, albeit at a slower pace than during the first half.
- Rising incomes and wages will increase inflationary pressures, but the Fed’s talk of a symmetric inflation target indicates that the pace of rate increases will remain gradual, even as core PCE inflation moves somewhat above the 2% target.

### Bloomberg Economics U.S. Forecast Table

INDICATOR	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2018	2019
<b>GDP, SAAR QoQ%</b>	2.9	2.0	4.1	2.8	2.8	3.0	2.9	2.5	2.6	2.9	2.7
<b>Unemployment Rate</b>	4.1	4.1	3.9	3.7	3.6	3.6	3.6	3.5	3.5	3.7	3.5
<b>Headline CPI, YoY%</b>	2.1	2.2	2.7	2.4	2.3	2.2	2.2	2.2	2.2	2.3	2.2
<b>Core CPI, YoY%</b>	1.8	1.9	2.2	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
<b>Fed Funds Rate</b>	1.50	1.75	2.00	2.25	2.25	2.50	2.75	2.75	3.00	2.25	3.00

Source: Bloomberg



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