Economic Alert
iQ

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Research & Analytics

Wednesday 20th September 2017 – 3:20pm
International
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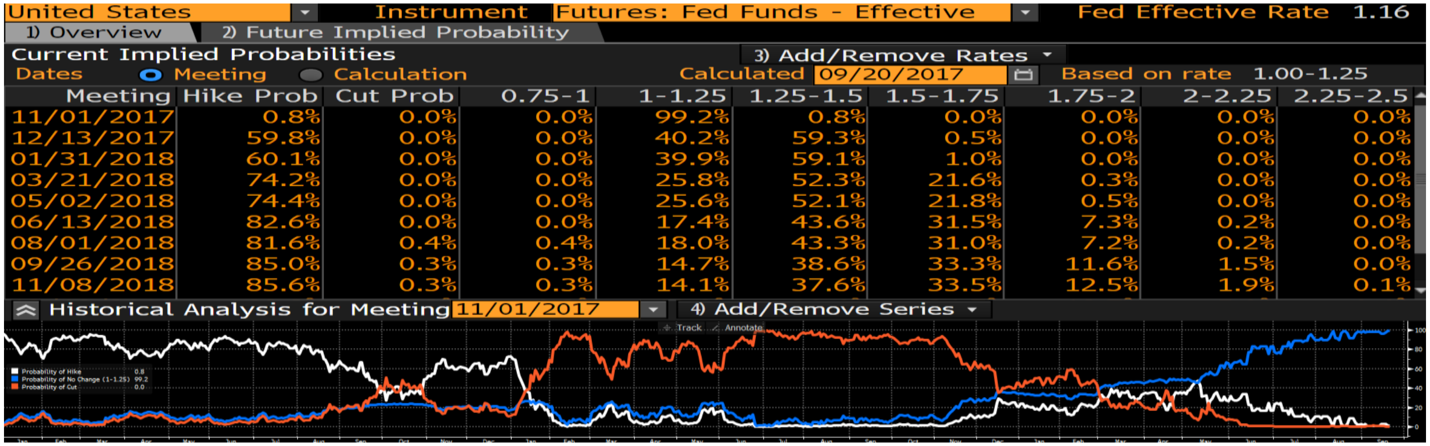
Economic Alert: Fed rate remains unchanged

- Information received since the Federal Open Market Committee (FOMC) met in July indicates that the labor market has continued to strengthen and economic activity has been rising moderately so far in 2017.
- Job gains have remained strong in the recent months and the unemployment rate has stayed relatively low. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters.
- The Fed took a dovish stance leaving the benchmark interest rate unchanged in a range of 1% to 1.25%.
- The decision to leave the target range for the federal funds rate unchanged and begin the balance-sheet runoff in October was unanimous. The Fed reiterated that interest rates are likely to rise at a "gradual" pace, though updated forecasts indicated that officials see the path as less steep than before.
- U.S. central bankers are counting on steady growth and low unemployment to raise inflation closer to their goal, which would support their policy of gradual tightening through interest-rate increases and a reversal of quantitative easing.
- While the storms will temporarily boost inflation due to higher prices for gasoline and other items, inflation on a 12-month basis is expected to remain somewhat below 2% in the near term but to stabilize around the committee's 2% objective over the medium term," the Fed said.



United States | Instrument | Futures: Fed Funds - Effective | Fed Effective Rate 1.16

1) Overview | 2) Future Implied Probability

Current Implied Probabilities | 3) Add/Remove Rates

Dates: Meeting | Calculation | Calculated 09/20/2017 | Based on rate 1.00-1.25

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5
11/01/2017	0.8%	0.0%	0.0%	99.2%	0.8%	0.0%	0.0%	0.0%	0.0%
12/13/2017	59.8%	0.0%	0.0%	40.2%	59.3%	0.5%	0.0%	0.0%	0.0%
01/31/2018	60.1%	0.0%	0.0%	39.9%	59.1%	1.0%	0.0%	0.0%	0.0%
03/21/2018	74.2%	0.0%	0.0%	25.8%	52.3%	21.6%	0.3%	0.0%	0.0%
05/02/2018	74.4%	0.0%	0.0%	25.6%	52.1%	21.8%	0.5%	0.0%	0.0%
06/13/2018	82.6%	0.0%	0.0%	17.4%	43.6%	31.5%	7.3%	0.2%	0.0%
08/01/2018	81.6%	0.4%	0.4%	18.0%	43.3%	31.0%	7.2%	0.2%	0.0%
09/26/2018	85.0%	0.3%	0.3%	14.7%	38.6%	33.3%	11.6%	1.5%	0.0%
11/08/2018	85.6%	0.3%	0.3%	14.1%	37.6%	33.5%	12.5%	1.9%	0.1%

Historical Analysis for Meeting 11/01/2017 | 4) Add/Remove Series

Source: Bloomberg

Source: Bloomberg

- The Fed's plan to shrink its US$4 trillion portfolio has been well choreographed for months, with the central bank outlining in June its plans to slowly reduce its balance sheet by decreasing reinvestment of the principal payments it receives on its bond holdings.
- The central bank, which began its bond-buying program to drive down borrowing costs in the wake of the financial crisis, is now convinced that the economy is strong enough to operate without that level of government support.
- There is an overwhelming 99.2% probability that the federal funds rate will remain unchanged at 1% to 1.25% in the next FOMC meeting to be held in November.

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