



# US FOMC Meeting

## Here comes the hike...?

- Target fed funds rate (FFR) unchanged at 0%-0.25%.
- FOMC statement suggests Dec hike is being considered
- Consistent with our view of a 25bps hike by end-2015, although outcome remains fluid due to “data dependency”

**No change in FFR.** The Fed kept its target FFR at 0-0.25% at its 27-28 Oct FOMC meeting.

**Three material changes in latest FOMC statement vs previously.** First, although Fed maintains view the economy is expanding at moderate pace and net export is still soft, household spending and business fixed investment are “increasing at solid rates” vs “moderate increases”. Secondly, Fed removed reference on the impact to US growth and inflation from global economic and financial developments. Thirdly and significantly, the line “*In determining how long to maintain this target range...*” was replaced by “*In determining whether it will be appropriate to raise the target range at its next meeting...*”.

**Implies Fed is mulling a hike at the 15-16 Dec 2015 FOMC, consistent with our view of a 25bp hike by year-end.** In response to this signal from Fed that a rate hike before this year is over is still possible, the probability of the FFR lift-off at the next FOMC meeting jumped to 44.5% yesterday vs 33.4% the day before (Figure 1).

**Still, the outcome remains fluid due to the “data-dependent” nature of the call to start normalising interest rate.** This is reflected by the equally high probability that the hike could happen in any of the first three FOMC meetings in 2016 as well i.e. 45.8% at 26-27 Jan; 45.9% at 15-16 Mar and 44.1% at 26-27 Apr (Figure 1). The risk of delaying hike is in view of the index of leading economic indicators (Figure 4) and the manufacturing ISM index (Figure 5) pointing to some slippage in US growth momentum, as well as inflation that is well off the implicit 2% target (Figure 6) despite sustained improvement in the job market (Figures 7-10).

**Divergence between Fed’s guidance and market expectations on quantum of FFR hikes persists.** Based on Fed’s guidance, FFR is expected to increase by an average of +100bps p.a. over the next three years (Figure 1). Market however is more sanguine about FFR hike, with the market-implied forward rate indicating an average of just +50bps p.a. in 2016-2017 (Figure 2). Either way, the next FFR hike cycle will be the slowest compared with the last five FFR hike cycles which averaged +238bps p.a. The smallest total quantum was +175bps (June 1999 - May 2000) and the biggest cumulative increase was +325bps (Mar 1988- Feb 1989).

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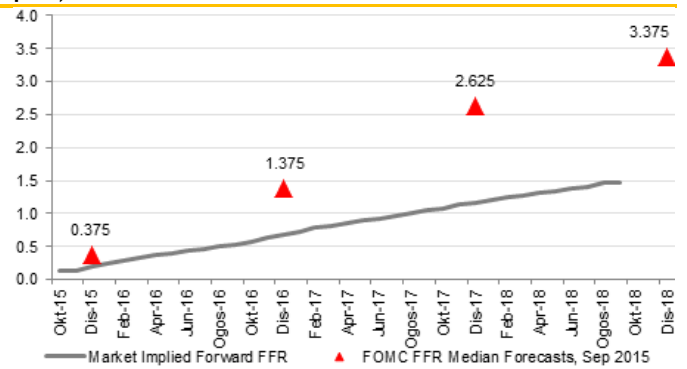
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Figure 1: Probability of FFR “lift-off” (%)

Dates of FOMC Meetings	Probability of first 25bps hike (%)			
	28-Oct-2015	27-Oct-2015	3 mths ago	6 mths ago
15-16 Dec 2015	44.5%	33.4%	45.9%	43.6%
26-27 Jan 2016	45.8%	36.6%	43.1%	40.5%
15-16 Mar 2016	45.9%	42.8%	35.9%	33.0%
26-27 Apr 2016	44.1%	42.8%	31.3%	27.8%
14-15 June 2016	39.3%	41.7%	22.3%	20.2%
26-27 July 2016	35.3%	40.1%	18.2%	16.1%
20-21 Sep 2016	30.1%	35.7%	12.2%	11.0%
1-2 Nov 2016	25.5%	32.4%	9.1%	8.7%
13-14 Dec 2016	20.2%	26.8%	5.8%	5.8%

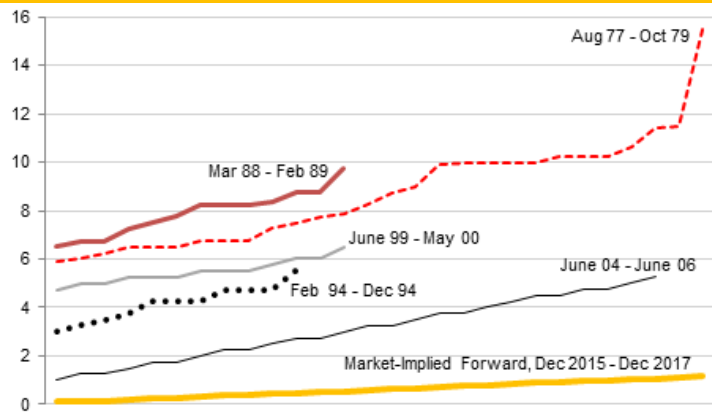
Sources: US Federal Reserve, Bloomberg

Figure 2: FOMC’s guidance vs market-implied forward (% p.a.)



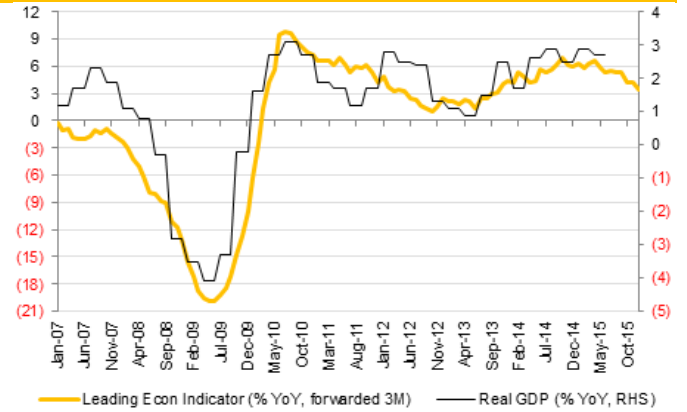
Sources: US Federal Reserve, Bloomberg

Figure 3: FFR hikes - Previous vs market-implied forward (% p.a.)



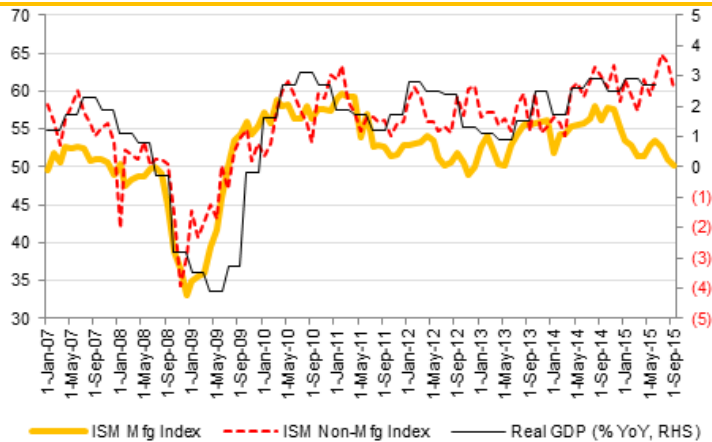
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Figure 4: Real GDP vs Index of Leading Economic Indicators



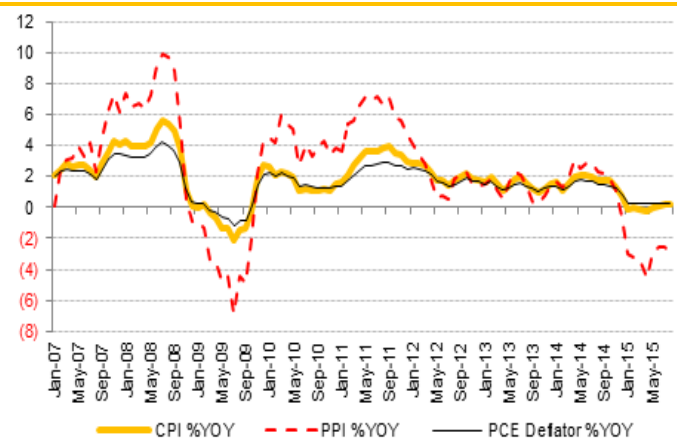
Source: Bloomberg

Figure 5: Real GDP vs Manufacturing & Non-Manufacturing ISM Indices



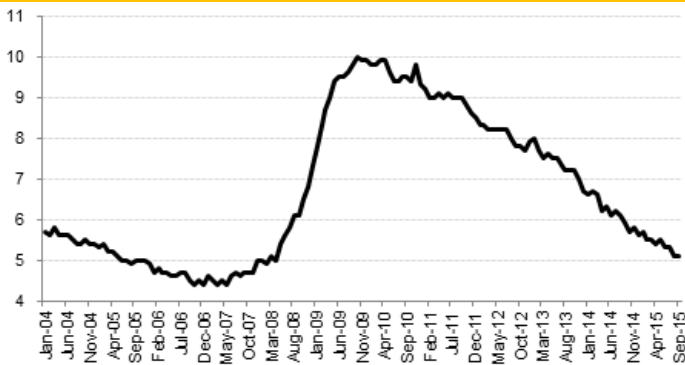
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Figure 6: Inflation Rates



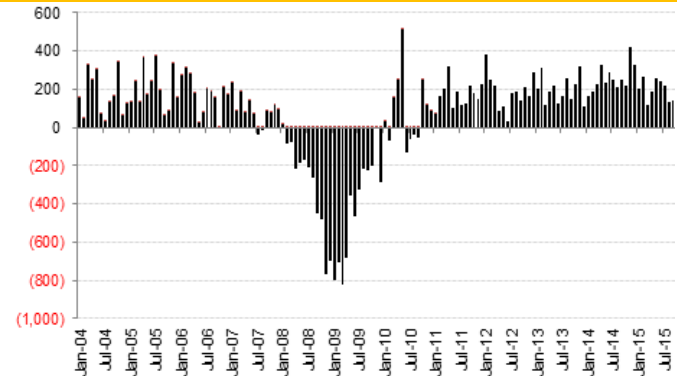
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Figure 7: Unemployment Rate (%)



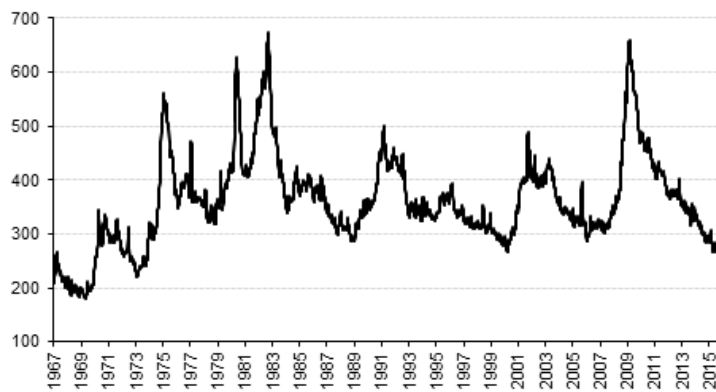
Source: Bloomberg

Figure 8: Non-Farm Payrolls (chg in '000)



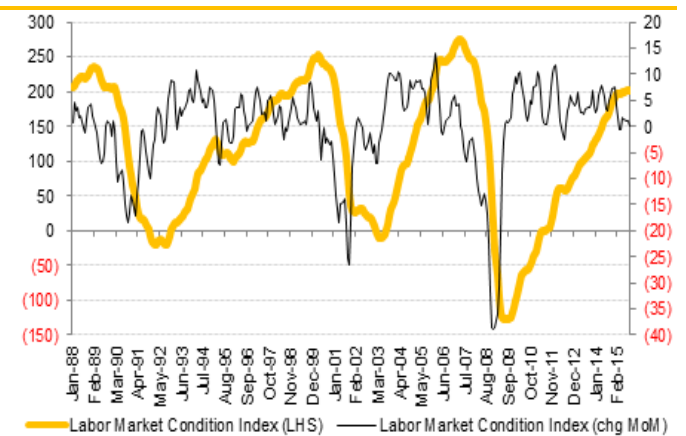
Source: Bloomberg

Figure 9: Initial Jobless Claims (4-week moving average, '000)



Source: Bloomberg

Figure 10: Fed's Labour Market Conditions Index



Source: Bloomberg

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