

Will the US Federal Reserve raise rates in December?



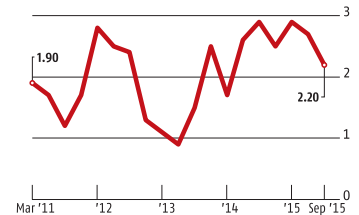
ALL EYES are fixed on whether the US Federal Reserve will follow through on its hints and begin to tighten monetary policy in December. The US economy, as shown in Table 1, has been growing comfortably around 2% for several quarters. Even more to the point, unemployment is down to 5 per cent and the job openings rate has been steadily climbing, as Table 2 makes clear.

Extraordinarily low interest rates have lasted very long indeed by historical standards – as Table 3 demonstrates – and the pressure to tighten is considerable. However, yields on 10-year US Treasury Bills – shown in Table 4 – have not moved notably in anticipation, suggesting the market does not believe that the Fed will be capable of following up a December hike with sustained tightening. Similar mechanisms, a pricing in of a December hike, seem to be visible in US equities, as shown in Table 5, which have recovered from their brief stutter following events in the China markets.

The dollar, too, may have priced in a December hike, as Table 6 suggests – gold prices, which move inversely with the dollar index, have fallen. Finally, Table 7 shows that other developed-world central banks have kept the money taps flowing – while several closely watched rates in the emerging-market world have also declined of late.

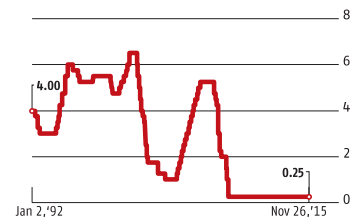
1: US ECONOMY GROWING AROUND 2% FOR PAST QUARTERS

Quarterly US real GDP growth (y-o-y in %)



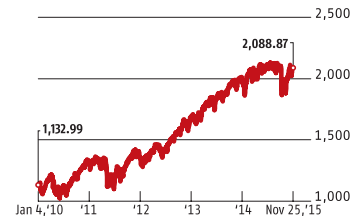
3: LOW INTEREST RATES HAVE LASTED VERY LONG

US Federal Reserve funds target rate (%)



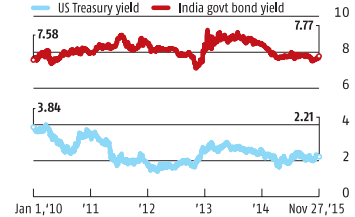
5: EQUITIES SEEM TO HAVE PRICED IN A DEC RATE HIKE

S&P 500 Index (index)



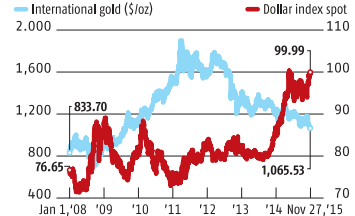
4: US YIELDS HAVEN'T RECOVERED IN ANTICIPATION OF HIKE

Bond yields (%)



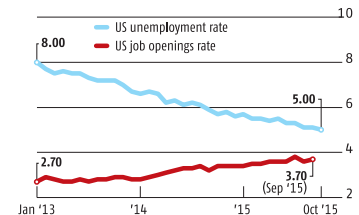
6: THE DOLLAR, TOO, HAS PRICED IN A RATE HIKE IN DEC

International gold and dollar indices (indices)



2: UNEMPLOYMENT HAS DROPPED TO 5%

US unemployment and job openings rate (%)



7: SOME EM CENTRAL BANKS HAVE CUT RATES

Repo and lending rates (%)

