

8 March 2017

---

**Macro & Financial Markets Research****Team****Nick.kounis@nl.abnamro.com**

Tel: +31 20 343 5616

nick.kounis@nl.abnamro.com

---

## Trump to face a new debt ceiling

**US Macro: Trump to face a new debt ceiling** - The Bipartisan Budget Act of 2015 suspended the debt limit until 16 March 2017, allowing unlimited borrowing for the past 17 months. This means that on 16 March, the debt limit be reset and it will reflect the cumulative borrowing in this period. The debt limit, which is commonly referred to as the debt ceiling, is the total amount of money that the US is authorised to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt (securities issued by the government) and other payments. The debt limit is authorised by law and in the past it has been recurrently lifted. When the debt limit was suspended in 2015, it amounted to USD 18.1 trillion. Since then an additional USD 1.8 trillion has been borrowed and further borrowing will need to be included. According to the Congress Budget Office, if the debt limit remains unchanged the Treasury will probably run out of cash in the fall of 2017. At such time, the government would be unable to fully pay its upcoming obligations. However, there are extraordinary measures that can be taken to provide additional borrowing room after the resetting of the debt limit. These include the suspension of certain investments which are rolled over (for instance the Exchange Stabilisation Fund), as well as suspending issuance of new State and Local Government Debt. Given that Republicans are controlling Congress, we don't think that a stalemate of the debt ceiling is likely, but it may take some days for a new agreement to be reached. (Maritza Cabezas)

**US Macro: Labour market to continue improving** - February's ADP report showed the labour market continuing to improve. Private employment increased by 298K down from 246K in January. Job gains in activities that previously showed a difficult recovery have been picking up strongly. Goods-producing employment improved, mainly in construction and manufacturing. Stronger hiring is likely driven by increasing business confidence, particularly among small and medium-sized business. On Friday, we will have the labour market report. We expect an increase of 180K in private payrolls, but the risks are to the upside. Unemployment should edge up to 4.7%. February's ISM manufacturing survey recently published showed a slight slowdown in the employment component. Meanwhile, February's services ISM showed that job creation edged up slightly compared to the previous month. Chair Yellen has signalled that if employment and inflation are continuing to evolve in line with expectations that a rate hike in March is likely. We expect a rate hike in March and two more rate hikes, in June and September, but the risks are tilted towards a fourth rate hike. (Maritza Cabezas)

**Global Markets: US real yields drive gold and the US dollar** - There has been a lot of focus recently on the sell-off in precious metal prices including gold prices. Gold prices have fallen by around 3.5%, following the strong start to the year. Despite the recent sell-off we think that gold prices have been very resilient, given the circumstances. Financial markets have now fully priced in a rate hike by the Fed in March. As a result the 2y US Treasury yields have risen beyond the peak in December 2016 of 1.30% and currently are just below 1.34%. In December, gold prices reached a low of USD 1,121 per ounce. Despite the higher 2y US Treasury yields, gold prices currently are about USD 90 higher than in December 2016. The relative resilience in gold prices can be fully explained by two crucial drivers. First, the behaviour of US real yields and, second, the US dollar (which is also affected by US real yields). US real yields are the dominant driver for gold prices and the US dollar. In January and February, US real yields declined, pushing the US dollar lower and gold prices higher. However, over the recent days these real yields have edged higher, supporting the US dollar and weighing on gold prices. This modest pickup in real yields may continue in the coming weeks but we expect them to peak later in the year, which will probably result in a rebound in gold prices. Having said that, it will be interesting to see the reaction of the US dollar to important US data releases this week, such as the US employment report on Friday. If hourly earnings come in around expectations and the rest of the US employment report is strong, the US dollar will probably profit. However, if hourly earnings are much higher than expected and the rest of the report is also strong investors may start to worry that the Fed is behind the curve. It is likely that this will weigh on the dollar and support gold prices. For more, please see [Precious Metals Watch – Pullback in gold prices](#) (Georgette Boele)

### DISCLAIMER

ABN AMRO Bank  
Gustav Mahlerlaan 10 (visiting address)  
P.O. Box 283  
1000 EA Amsterdam  
The Netherlands

*This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.*

*No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof. Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved– is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.*

© Copyright 2017 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO").