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What to expect from the Fed

Fed view: No change in official rates – Today, the US Fed's FOMC started its two-day meeting to discuss monetary policy. Tomorrow, the rate decision will be communicated at 19.00 CET. The meeting will not be accompanied by a summary of economic projections, nor a press conference by Fed Chair Yellen. Instead, there will be only a written statement. The market consensus is for no rate hike tomorrow, while a rate hike in December is widely expected (an 83% probability according to financial market participants). Our base case scenario is for two rate hikes of 25bp between now and the end of 2018. However, the risk has risen that the Fed will hike more than this.

In regard of the potential successor of the current Fed Chair Janet Yellen, the odds seem to have changed in recent days. A few weeks ago financial markets were anticipating that John Taylor would be the next Fed Chair. Recently the odds have changed in favour of Jerome Powell, who is currently a member of the Governing Board of the Fed. The choice of Mr. Powell would signal continuity of the current direction of monetary policy. Briefings suggest President Trump will announce his choice for Fed Chair nominee this week. (Georgette Boele).

Euro macro: Eurozone economy powering ahead, inflation still subdued – The eurozone economy continued to grow at a rate well above the trend rate in Q3. GDP expanded by 0.6% qoq in Q3 according to the preliminary estimate. This is around twice the trend rate. Meanwhile, growth in Q2 was revised higher from 0.6% to 0.7%. The upward revision of past quarterly growth numbers seems to have become a regular feature of the Eurostat data. Details of Q3 growth have not yet been published, but we think that it was broad-based, with domestic demand and exports growing robustly. Looking forward, financial conditions are still favourable and the ECB's recent policy changes are consistent with a prolonged period of monetary stimulus. Combined with strong growth in the global economy, this should keep GDP growth in the eurozone close to the level of Q3 in the coming quarters.

The flash estimate for eurozone HICP inflation in October showed that the headline rate declined to 1.4% yoy, down from 1.5% in September. Core inflation declined from 1.1% in September to 0.9% in October. Within core inflation, the inflation rate of non-energy industrial goods fell from 0.5% yoy in September to 0.4% in October. We think that this mainly reflects the rise in the trade weighted exchange rate of the euro in recent months and we expect this component of inflation to continue to edge somewhat lower in the coming months. The other main part of core inflation, services sector price inflation, declined from 1.5% to 1.2%. Detailed data from Germany suggest that the notoriously volatile package holidays had a small downward impact, which is probably temporary in nature. More importantly, services sector prices also continue to be depressed by the still sluggish level of wage growth. We expect core inflation to pick up convincingly from around mid-2018 onwards. As the economic recovery continues and unemployment falls, wage growth should eventually start to rise. On the other hand, the stronger euro will dampen the rise in core inflation. (Aline Schuiling)