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## Fed keeps its powder dry

**Fed view: No changes to monetary policy** – The Fed left the target range for the federal funds rate at 1.0% to 1.25% as widely expected. In the statement it said that “the labour market has continued to strengthen and that economic activity has been rising at a solid rate despite hurricane-related disruptions. However, inflation for items other than food and energy has remained soft. The Committee continues to expect that economic activity will expand at a moderate pace, and labour market conditions will strengthen somewhat further. Inflation on a 12-month basis is expected to remain somewhat below 2% in the near-term but to stabilise around the 2% over the medium term. Near-term risks to the economic outlook appear roughly balanced. The stance of monetary policy remains accommodative. Economic conditions will probably evolve in a manner that will warrant gradual increases in the Federal funds rate. The balance sheet normalization program initiated in October 2017 is proceeding”. Financial markets have priced in a 25bp rate hike in December and another one somewhere next year. We also expect gradual rate increases in the federal funds rate (two 25bp rate hikes) between now and the end of 2018. Taking into account the strength of the US economy the odds for more than two rate hikes have increased. As there were no major surprises in the FOMC statement, financial markets have reacted muted. US Treasury yields have risen by a few basis points and this has supported the US dollar (Georgette Boele).

**Bank of England view: Expectations are high** - On Thursday 2 November, the Bank of England will decide on monetary policy. Market consensus is for a rate hike of 25bp. The monetary policy summary and the inflation report will also be released on 2 November. The latter provides an analysis of the UK economy and the factors influencing the BoE’s policy decisions. Financial markets have not only priced in a 25bp rate hike tomorrow but also close to two more 25bp rate hikes next year. We think this is too aggressive. We expect inflation to decline once the effect of sterling weakness dissipates. Moreover, we expect that Brexit uncertainty will weigh on the economy. Therefore, the rate hike tomorrow will probably not be followed by a series of rate hikes in our view. If the monetary policy summary and the inflation report are less hawkish than expected, sterling will probably suffer. It is likely that EUR/GBP will again rise towards 0.90 in the coming weeks. Moreover, sterling will probably weaken versus the US dollar as well. GBP/USD could drop towards 1.30 in the near-term (Georgette Boele).

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