

# Daily Insight

## Fed preview: Yellen tiptoes to rate hike

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- **FOMC statement set to adopt more positive tone on economy...**
- **... paving the way for a rate hike in September**
- **Economic sentiment in Germany hit by Greece and higher bond yields**

### More positive tone FOMC statement

The FOMC statement on Wednesday will likely adopt a more positive tone, reflecting the improvement in the economy, particularly the labour market and consumption in recent reports. Meanwhile, PCE inflation, which is the preferred measure of the Fed has been soft lately. Nonetheless, other inflation measures, including core CPI inflation, have been slowly picking up. The references to inflation should remain broadly unchanged. Chair Yellen has said that the Fed can hike rates even if inflation is not rising.

### FOMC forecasts: some downward adjustments

As for the FOMC forecasts, GDP growth could be lowered as a result of the weaker first quarter growth. However, forward looking data on the labour market suggest that unemployment could also be adjusted downwards somewhat, while we expect inflation forecasts to be broadly unchanged. The long-term GDP growth forecasts will likely be lowered in line with the ongoing weak productivity. We don't expect major changes in employment and inflation forecasts in the long term.

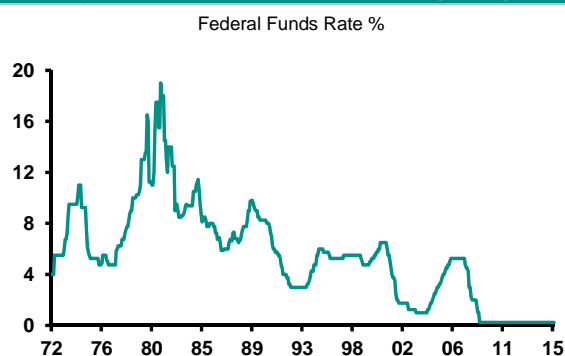
### Dots will continue to reflect different views

The discussions on the timing of a rate hike within the Fed, however, remain complex. On the one hand, we perceive that Board members (such as Chair Yellen, Vice Chairman Fischer) are in favour of a lift-off this year, but some Committee participants have taken a more dovish tone after the weak first quarter economic data, asking more time for data to confirm the improvement in the economy. This suggests that the broad dispersion in the dots will remain broadly unchanged. Nevertheless, we think that most participants will continue to support at least one rate hike this year.

### Economists expect September, but markets sceptical

The FOMC has said that its decision to hike rates is data dependent. As a result, the positive data has made economists more confident about a September rate hike. On the other hand, futures markets are still not fully pricing in such a move. In any case, the Fed has recurrently communicated that it is mindful of the possibility of volatility as markets adjust to a change in policy stance.

### After 10 years near zero rates rate hike getting closer



Source: Thomson Reuters Datastream

### Economic sentiment in Germany hit by Greece and higher bond yields

Germany's ZEW economic sentiment fell from 41.9 in May to 31.5 in June. The outcome was well below the consensus forecast of 37. The decline in June followed a 11.4 point drop in May, and it is probably related to rising worries about Greece, which also has hit financial markets. That said, the rise in bond yields in recent weeks has also had a downward impact on sentiment. On balance, a larger share of the respondents of the ZEW survey expect German 10y government bond yields to rise further.

### ZEW still consistent with ongoing recovery, but emphasised risks

At its current level ZEW sentiment still is above its long-term average of around 25 and consistent with ongoing growth of the German economy. Still, the drop in sentiment illustrates that the eurozone economy as a whole is feeling the negative effects of the tensions surrounding Greece. Consequently, the ZEW survey emphasises the risks to our scenario of a marked pick-up in economic growth in the coming quarters.

Financial markets	Close	Change 1 day	Change 5 days	Change YTD
<b>Currency markets</b>				
EUR/USD	1.1288	0.0532	0.1597	-6.7107
USD/JPY	123.41	-0.0243	-0.7080	2.9790
AUD/USD	0.7769	-0.0129	1.2511	-4.8500
USD/CHF	0.9313	-0.2570	0.0215	-6.2984
NZD/USD	0.7001	-0.0714	-1.8506	-10.1860
GBP/USD	1.5604	0.1412	1.5224	0.1476
USD/SGD	1.3457	0.0074	-0.4513	1.5929
USD/CAD	1.2314	0.0650	-0.1298	6.0181
<b>Bond markets</b>	<b>Close</b>	<b>Change 1 day</b>	<b>Change 5 days</b>	<b>Change YTD</b>
2-year German Govt Bond yield	-0.1850	-0.0010	-0.0170	-0.0870
10-year German Govt Bond yield	0.8250	-0.0090	-0.0540	0.2840
Yield curve Germany	1.0100	-0.0080	-0.0370	0.3710
2-year US Treasury Bond yield	0.6975	-0.0281	0.0167	0.0330
10-year US Treasury Bond yield	2.3577	-0.0341	-0.0247	0.1865
Yield curve US	1.6602	-0.0060	-0.0414	0.1535
US 2-year sw ap rate	0.9676	-0.0009	0.0020	0.0733
US 10-year sw ap rate	2.4370	0.0045	-0.0620	0.1509
US sw ap curve	1.4694	0.0054	-0.0640	0.0776
EU 2-year sw ap rate	0.1700	-0.0005	0.0180	-0.0050
EU 10-year sw ap rate	1.1770	-0.0010	-0.0900	0.3650
EU sw ap curve	1.0070	-0.0005	-0.1080	0.3700
Euribor 3 Month ACT/360	-0.0140	0.0000	-0.0010	-0.0920
ICE LIBOR USD 3 Month	0.2861	0.0002	0.0049	0.0305
JPMorgan EMBI Plus Sovereign S	389.5800	-3.0200	10.9900	2.1400
<b>Equity markets</b>	<b>Close</b>	<b>Change 1 day %</b>	<b>Change 5 days %</b>	<b>Change YTD %</b>
Nikkei 225	20,388	-0.09	-0.34	16.83
Hang Seng Index	26,862	-1.53	-1.66	13.80
Hang Seng China Enterprises Index	13,623	-2.58	-3.48	13.67
Australian Stock Exchange S&P/ASX 200 Index	5,539	-0.12	0.73	2.36
Singapore Straits Times Index	3,323	-0.92	0.08	-1.25
Euro Stoxx 50 Index	3,438	-1.85	-0.87	9.27
S&P 500 Index	2,086	-0.41	0.30	1.29
MSCI World Daily Total Return Gross USD	804	-0.43	0.52	4.76
AEX Index	473	-1.02	-0.47	11.41
Chicago Board Options Exchange Volatility Index	15	10.23	-0.65	-20.89
<b>Commodity markets</b>	<b>Close</b>	<b>Change 1 day %</b>	<b>Change 5 days %</b>	<b>Change YTD %</b>
Reuters/Jefferies CRB Total Return	224	-0.79	0.22	-2.79
Gold spot USD/Oz	1,188	0.52	1.17	0.25
Generic first NYMEX Crude Light future	60	-0.67	2.44	11.81
Generic first Brent Crude Oil future	63	-1.97	-0.13	9.21
LME Copper 3 Months Rolling Forward	5,815	-1.64	-2.24	-7.70
Generic first Wheat future Chicago Board of Trade	489	-2.88	-7.34	-17.04

Source Bloomberg

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Monday	15/06/2015	08:30:00	IN	Wholesale price index - % yoy	May	-2.7	-2.5	
Monday	15/06/2015	11:30:00	RU	Key rate %	Jun 15	12.5	11.5	<b>11.5</b>
Monday	15/06/2015	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Jun	3.1	4.9	
Monday	15/06/2015	15:15:00	US	Industrial production - % mom	May	-0.3	0.2	
Monday	15/06/2015	15:45:00	EC	ECB publishes weekly QE details				
Monday	15/06/2015	16:00:00	US	NAHB home builders' confidence index	Jun	54.0	55.0	<b>56.0</b>
Monday	15/06/2015		RU	GDP - % yoy	1Q P	-2	-2	
Tuesday	16/06/2015	08:00:00	DE	CPI - % yoy	May F	0.7	0.7	
Tuesday	16/06/2015	10:30:00	GB	CPI - % yoy	May	-0.1		
Tuesday	16/06/2015	11:00:00	DE	ZEW index (expectation economic growth)	Jun	42	39	<b>37</b>
Tuesday	16/06/2015	14:30:00	US	Housing starts - % mom	May	20.2	-3.4	<b>-2.5</b>
Wednesday	17/06/2015	01:50:00	JP	Merchandise trade exports - % yoy	May	8.0	2.6	
Wednesday	17/06/2015	10:30:00	GB	Claimant count unemployment rate - %	May	2.30		
Wednesday	17/06/2015	10:30:00	GB	Change in claimant count - thousands	May	-12.6		
Wednesday	17/06/2015	11:00:00	EC	Core inflation - % yoy	May F	0.9	0.9	
Wednesday	17/06/2015	20:00:00	US	Policy rate - %	Jun 17	0.25	0.25	<b>0.25</b>
Thursday	18/06/2015		EZ	Eurogroup meeting about Greece				
Thursday	18/06/2015	09:30:00	NL	Consumer confidence - index	Jun	2.0		
Thursday	18/06/2015	09:30:00	CH	SNB 3-month ibor lower target	Jun 18	-1.25	-1.25	<b>-1.25</b>
Thursday	18/06/2015	09:30:00	CH	SNB 3-month ibor upper target	Jun 18	-0.25	-0.25	<b>-0.25</b>
Thursday	18/06/2015	09:30:00	CH	SNB Sight Deposit Interest rate	Jun 18	-0.75	-0.75	<b>-0.75</b>
Thursday	18/06/2015	10:00:00	NO	Policy rate - %	Jun 18	1.3	1.0	
Thursday	18/06/2015	10:30:00	GB	Retail sales - % mom	May	1.2		
Thursday	18/06/2015	14:30:00	US	Inflation excl food and energy - % mom	May	0.3	0.2	<b>0.2</b>
Thursday	18/06/2015	14:30:00	US	Inflation excl food and energy - % yoy	May	1.8	1.8	<b>1.8</b>
Thursday	18/06/2015	14:30:00	US	Inflation (CPI) - % mom	May	0.1	0.4	<b>0.4</b>
Thursday	18/06/2015	14:30:00	US	Inflation (CPI) - % yoy	May	-0.2	0.0	<b>0.0</b>
Thursday	18/06/2015	16:00:00	US	Philadelphia Fed - business confidence - index	Jun	6.7	7.5	
Thursday	18/06/2015	14:30:00	US	Initial jobless claims		279k		
Friday	19/06/2015		JP	Policy rate - %	Jun 19	80.0	80.0	<b>80.0</b>

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)

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