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Fed leaves open possibility of December hike

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- **Fed leaves door open for December rate hike...**
- **...which will likely depend on US data, financial conditions and EM risks**
- **Our base case remains for a 2016 rate hike, but chances of an earlier move have increased**

Less concerned about global developments...

The FOMC statement showed that policymakers will continue to monitor the economy and developments abroad. They, however, appear to be less concerned about global developments. Indeed, the phrase which was used to explain why the FOMC refrained from hiking in September was dropped. This phrase pointed to uncertainty surrounding global economic and financial market developments and the potential implications for economic activity and inflation. This suggests that the stabilisation in sentiment towards China and emerging markets more generally may have reassured FOMC members.

...leaves door open for December rate hike

The FOMC statement explicitly made reference to the December meeting as a decision moment. It asserted that in determining whether it will be appropriate to raise the target rate 'at its next meeting', whereas previously the statement referred to in determining "how long to maintain this target range", more generally. The FOMC will assess progress - both realized and expected - towards its maximum employment goal and 2% inflation. This suggests that it leaves the door open for a December rate hike.

FOMC statement more hawkish than expected

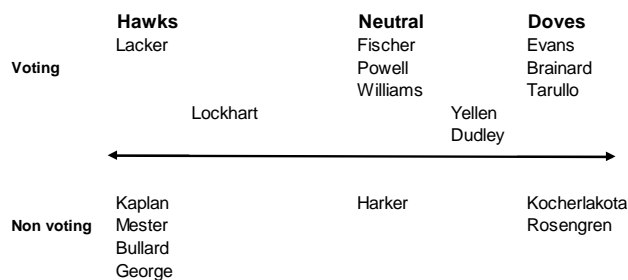
The above two elements imply that the FOMC statement was more hawkish than expected. Financial markets priced in a higher probability of a December hike, taking the implied odds close to 50-50. This was also reflected in a stronger dollar.

Our base case is 2016, but chances of an earlier move have risen

Our base scenario is that the Fed will wait until next year before raising interest rates, but the statement raises the chances of a December move. Our 2016 view is based on a number of elements. The FOMC is divided. At this meeting Lacker continued to vote against keeping rates unchanged, while recent speeches from a number of FOMC members suggested that they had doubts about the inflation outlook, arguing for a cautious approach in raising rates. The incoming data will have to be quite strong to convince those members that have taken a more neutral position up until now.

Yet there has been some softening in recent data. There will be two job reports before the December 15-16 FOMC meeting and it's likely that both reports would have to show a significant improvement compared to the latest two labour market reports. Recently released data has been at best mixed. Consumption growth has also lost some momentum. Third quarter GDP growth to be released on Friday will likely show some slowdown. Finally, it remains to be seen whether the pricing in of earlier Fed rate hikes negatively impacts sentiment, which could lead to a renewed tightening of financial conditions.

A divided FOMC



Source: ABN AMRO Group Economics

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Monday	26/10/2015	09:00:00	CH	Total Sight Deposits bn		467b		
Monday	26/10/2015	06:30:00	NL	Producer confidence manufacturing - index	Oct	2.4		
Monday	26/10/2015	09:00:00	CH	Total Sight Deposits bn				
Monday	26/10/2015	10:00:00	DE	Ifo - business climate - index	Oct	108.2	107.9	108.1
Monday	26/10/2015	15:00:00	US	New homes sold - % mom	Sep	-11.5	-0.6	0.1
Monday	26/10/2015	15:45:00	EC	ECB announces weekly QE details				
Tuesday	27/10/2015	10:00:00	EC	M3 growth - % yoy	Sep	4.9	5.0	
Tuesday	27/10/2015	10:30:00	GB	GDP - % qoq	3Q A	0.5	0.6	
Tuesday	27/10/2015	13:30:00	US	New durable goods orders - % mom	Sep	-1.2	-1.4	-1.5
Tuesday	27/10/2015	14:00:00	US	S&P/Case Shiller house price index	Aug	0.1	0.2	
Tuesday	27/10/2015	15:00:00	US	Conference Board cons. confidence - index	Oct	97.6	102.5	103.0
Wednesday	28/10/2015	09:30:00	SE	Policy rate - %	Oct 28	-0.35		-0.35
Wednesday	28/10/2015	19:00:00	US	Policy rate - % (lower bound)	Oct 28	0.00	0.00	0.00
Wednesday	28/10/2015	19:00:00	US	Policy rate - % (upper bound)	Oct 28	0.25	0.25	0.25
Wednesday	28/10/2015	21:00:00	NZ	Policy rate - %	Oct 29	2.75	2.68	2.75
Thursday	29/10/2015	00:50:00	JP	Industrial production - % mom	Sep P	1.0	-0.7	
Thursday	29/10/2015	09:55:00	DE	Unemployment - %	Oct	6.4	6.4	
Thursday	29/10/2015	09:55:00	DE	Unemployment change - thousands	Oct	2	-4.1	
Thursday	29/10/2015	11:00:00	EC	Economic sentiment monitor - index	Oct	105.6	105.0	105.1
Thursday	29/10/2015	13:30:00	US	GDP - % qoq annualised	3Q A	3.9	1.8	2.1
Thursday	29/10/2015	14:00:00	DE	CPI - % yoy	Oct P	0.0	0.2	0.1
Thursday	29/10/2015	15:00:00	US	Pending home sales - % mom	Sep	-1.4	0.5	0.5
Thursday	29/10/2015	20:00:00	MX	Policy rate - %	Oct 29	3.0	3.0	
Friday	30/10/2015		JP	Policy rate - %	Oct 30	80.0		
Friday	30/10/2015	00:30:00	JP	Unemployment - %	Sep	3.40	3.40	
Friday	30/10/2015	00:30:00	JP	CPI - % yoy	Sep	0.2	0.0	
Friday	30/10/2015	11:00:00	EC	Core inflation - % yoy	Oct A	0.9	1.0	
Friday	30/10/2015	11:00:00	EC	CPI - % yoy	Oct	-0.1	0.0	
Friday	30/10/2015	11:00:00	EC	Unemployment - %	Sep	11.0	11.0	10.9
Friday	30/10/2015	11:30:00	RU	Key rate %	Oct 30	11.0	10.8	10.5
Friday	30/10/2015	13:30:00	US	PCE deflator core - % mom	Sep	0.11	0.17	
Friday	30/10/2015	13:30:00	US	PCE deflator core - % yoy	Sep	1.3	1.4	
Friday	30/10/2015	14:45:00	US	Chicago Fed - business confidence - index	Oct	48.7	49.6	
Friday	30/10/2015	15:00:00	US	Univ. of Michigan cons. confidence - index	Oct F	92.1	92.7	93.0

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

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