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First hike after almost 10 years

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- **The almost certain rate hike by the US Fed will be the first one in almost 10 years. Some anxiety is to be expected.**
- **Expect Yellen to stress that the tightening process will be slow**
- **French and Italian industrial production growth is accelerating**
- **There are tentative signs that Chinese imports are stabilising. This is good news for world trade growth in 2016.**

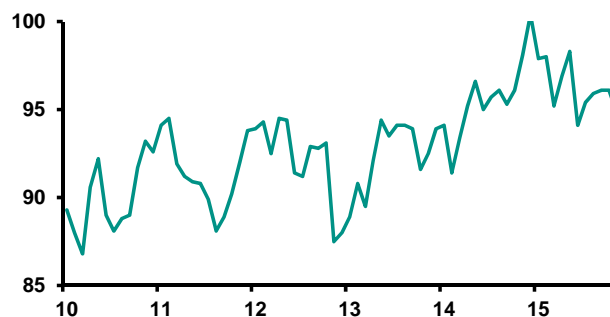
Guidance

The US Federal Reserve is very likely to raise rates shortly. This will be the first change of rates since the end of 2008 and the first increase in official rates since mid 2006. Many market participants have never experienced a US rate hike before and some anxiety is understandable. This will undoubtedly be one of the best flagged rate increases ever, so it is hard to see how people can be caught off guard, but you never know.

More important than the actual rate decision are the comments that Fed chair Yellen will make. We expect her to stress that the pace of the further tightening process will be slow. I guess that is what most others are also expecting. Any deviation from that message can lead to a strong market reaction. At this stage, though, the best thing for the Fed to do is to get it over and done with.

US NFIB small business optimism index

index



Source: Bloomberg

The economy, meanwhile, continues to grow at a moderate pace, enough to push unemployment down, but with a couple of weak spots. Recent economic indicators

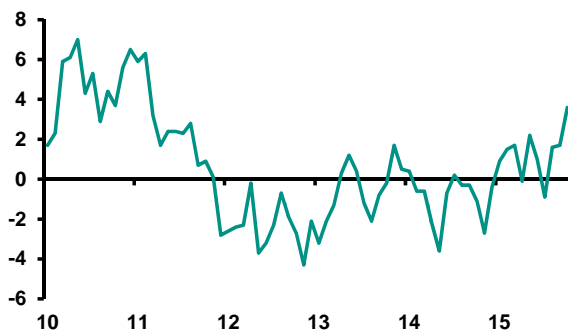
show the labour market is continuing to make progress, but confidence of small businesses softened somewhat in November. Small business confidence is strong, but has weakened throughout the year. Perhaps this is related to the drop in the growth rate of industrial production. It seems to me that the strong dollar and somewhat weaker industrial activity globally are the main culprit. As final demand remains firm, I would expect output growth to strengthen in the period ahead.

0.3% growth

The Japanese and the eurozone economies both grew at a moderate 0.3% qoq pace in the third quarter. That represented an improvement for Japan, following a contraction in the previous quarter. For the eurozone it meant a mild slowdown from a growth rate of 0.4% in the second quarter. I don't think we should read too much in these small variations of the growth rate in the eurozone. On the side of positive surprises, French and Italian industrial production growth is accelerating. Who would have thought it!

French industrial production

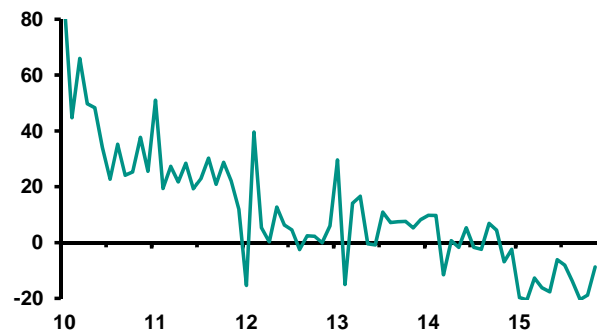
% yoy



Source: Bloomberg

China import growth

% yoy



Source: Bloomberg

Our call on China

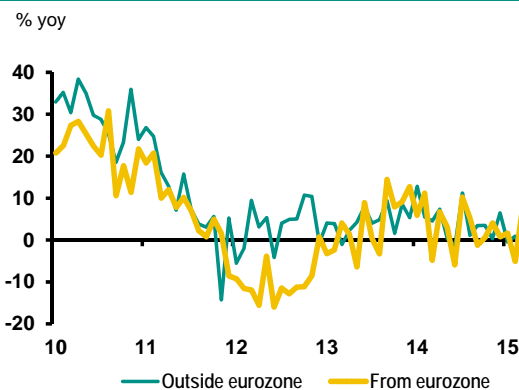
Our 2016 outlook for the global economy depends partly on what will happen in the Chinese economy, more specifically, what will happen to Chinese imports. What other countries can export to China is really more important to them than the question by how much the overall economy in China is slowing. While China's import growth has slowed in recent years, they have actually contracted in 2015. We reckon the drop in imports was not only due to price movements, but also to a fall in volumes. Our cautious optimism for 2016 is based on the forecast that a contraction of imports is inconsistent with developments in the rest of the economy and is most likely temporary.

For our cautiously positive view to come through, we need to see an improvement in Chinese import numbers. Recent data provide some ground for optimism. Chinese imports were down 8.7% yoy in (dollar) value terms in November. While that does not sound great, it was a lot better than the -18.8% registered in October and the -14.8% average for the first 11 months of the year.

As it is hard to interpret Chinese statistics, one should look for other evidence supporting one's tentative conclusion. Trade data in other Asian countries provide mixed signals. Korean exports appear to be improving and business confidence in several Asian economies has been picking up somewhat since the late summer. On the other hand, Taiwanese export data are showing no sign of improvement.

German industrial orders data may also be interesting. This year has seen a significant divergence of industrial orders from within the eurozone and orders from outside of the eurozone with the latter being particularly weak. However, a modest improvement has occurred in the last two months. Perhaps that is a sign that Chinese imports and world trade are at least stabilising.

German industrial orders



Source: Bloomberg

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Main economic/financial forecasts

GDP growth (%)	2014	2015e	2016e	2017e	3M interbank rate	03/12/2015	10/12/2015	+3M	+12M	2016e	2017e
United States	2.4	2.5	2.5	2.3	United States	0.45	0.49	0.8	1.3	1.3	1.7
Eurozone	0.9	1.5	1.9	2.2	Eurozone	-0.12	-0.12	-0.15	-0.15	-0.15	-0.15
Japan	-0.1	0.7	1.0	0.6	Japan	0.17	0.17	0.2	0.2	0.2	0.2
United Kingdom	2.9	2.4	2.2	2.6	United Kingdom	0.57	0.58	0.6	0.9	0.9	2.0
China	7.3	7.0	6.5	6.0							
World	3.1	2.9	3.3	3.4							
Inflation (%)	2014	2015e	2016e	2017e	10Y interest rate	03/12/2015	10/12/2015	+3M	+12M	2016e	2017e
United States	1.6	0.1	1.8	1.9	US Treasury	2.32	2.24	2.7	3.0	3.0	3.1
Eurozone	0.4	0.0	1.2	1.9	German Bund	0.66	0.57	0.6	1.0	1.0	1.5
Japan	2.8	0.6	1.0	1.9	Euro sw ap rate	1.02	0.93	0.9	1.2	1.2	1.7
United Kingdom	1.5	0.1	1.0	2.0	Japanese gov. bonds	0.30	0.29	0.7	0.7	0.7	0.9
China	2.0	1.5	2.0	2.5	UK gilts	1.89	1.87	2.0	2.2	2.2	3.0
World	3.7	3.6	3.9	3.7							
Key policy rate	10/12/2015	+3M	2016e	2017e	Currencies	03/12/2015	10/12/2015	+3M	+12M	2016e	2017e
Federal Reserve	0.25	0.50	1.25	2.25	EUR/USD	1.09	1.09	1.00	0.95	0.95	1.10
European Central Bank	0.05	0.05	0.05	0.05	USD/JPY	122.6	121.6	126	135	135	120
Bank of Japan	0.10	0.10	0.10	0.10	GBP/USD	1.50	1.52	1.41	1.27	1.27	1.57
Bank of England	0.50	0.50	0.75	1.75	EUR/GBP	0.72	0.72	0.71	0.75	0.75	0.70
People's Bank of China	4.35	4.10	3.85	3.85	USD/CNY	6.40	6.44	6.45	6.55	6.55	6.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

Key Global Macro Events

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Saturday	12/12/2015	06:30:00	CN	Retail sales - % yoy	Nov	11.0	11.1	
Saturday	12/12/2015	06:30:00	CN	Industrial production - % yoy	Nov	5.6	5.7	
Saturday	12/12/2015	06:30:00	CN	Fixed asset investment - % yoy	Nov	10.2	10.1	
Monday	14/12/2015	00:50:00	JP	Tankan business conditions large enterprises	4Q	12.0	11.0	
Monday	14/12/2015	05:30:00	JP	Industrial production - % mom	Oct F	1.4		
Monday	14/12/2015	07:30:00	IN	Wholesale price index - % yoy	Nov	-3.8	-2.6	
Monday	14/12/2015	11:00:00	EC	Industrial production - % mom	Oct	-0.3	0.2	0.1
Monday	14/12/2015	13:00:00	IN	CPI - % yoy	Nov	5.0	5.3	
Monday	14/12/2015	15:45:00	EC	ECB announces weekly QE details				
Tuesday	15/12/2015	09:30:00	SE	Policy rate - %	Dec 15	0	0	
Tuesday	15/12/2015	10:30:00	GB	CPI - % yoy	Nov	-0.1	0.1	0.1
Tuesday	15/12/2015	11:00:00	DE	ZEW index (expectation economic growth)	Dec	10.4	15.4	10.0
Tuesday	15/12/2015	14:00:00	HU	Base rate - %	Dec 15	1.4	1.4	
Tuesday	15/12/2015	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Dec	-10.74	-6.68	
Tuesday	15/12/2015	14:30:00	US	Inflation excl food and energy - % mom	Nov	0.2	0.2	0.2
Tuesday	15/12/2015	14:30:00	US	Inflation excl food and energy - % yoy	Nov	1.9	2.0	1.9
Tuesday	15/12/2015	14:30:00	US	Inflation (CPI) - % mom	Nov	0.2	0.0	0.0
Tuesday	15/12/2015	14:30:00	US	Inflation (CPI) - % yoy	Nov	0.2	0.5	0.5
Tuesday	15/12/2015	16:00:00	US	NAHB home builders' confidence index	Dec	62	63	63
Wednesday	16/12/2015	10:00:00	EC	PMI manufacturing - index	Dec P	52.8	52.7	52.1
Wednesday	16/12/2015	10:00:00	EC	PMI services - index	Dec P	54.2	54.1	53.9
Wednesday	16/12/2015	10:00:00	EC	Composite PMI output	Dec P	54.2	54.1	53.8
Wednesday	16/12/2015	10:30:00	GB	Claimant count unemployment rate - %	Nov	2.3	2.3	
Wednesday	16/12/2015	10:30:00	GB	Change in claimant count - thousands	Nov	3.3	2.5	
Wednesday	16/12/2015	11:00:00	EC	Core inflation - % yoy	Nov F	0.9	0.9	
Wednesday	16/12/2015	13:00:00	CZ	Repo rate - %	Dec 16	0.05	0.05	0.05
Wednesday	16/12/2015	14:30:00	US	Housing starts - % mom	Nov	-11.0	8.0	9.0
Wednesday	16/12/2015	15:15:00	US	Industrial production - % mom	Nov	-0.2	-0.2	-0.2
Wednesday	16/12/2015	15:45:00	US	Markit - Flash PMI	Dec P	52.8		
Wednesday	16/12/2015	20:00:00	US	Policy rate - %	Dec 16	0.25	0.5	0.5
Wednesday	16/12/2015	20:00:00	US	FOMC statement and press conference (20:30)	Dec 16			
Thursday	17/12/2015	00:50:00	JP	Merchandise trade exports - % yoy	Nov	-2.20	-1.60	
Thursday	17/12/2015	07:30:00	NL	Unemployment rate	Noc	6.9		6.9
Thursday	17/12/2015	10:00:00	DE	Ifo - business climate - index	Dec	109.0	108.9	108.4
Thursday	17/12/2015	10:00:00	NO	Policy rate - %	Dec 17	0.75	0.58	0.75
Thursday	17/12/2015	10:30:00	GB	Retail sales - % mom	Nov	-0.6	0.7	
Thursday	17/12/2015	14:30:00	US	Initial jobless claims - thousands	Dec 12	282		
Thursday	17/12/2015	14:30:00	US	Philadelphia Fed - business confidence - index	Dec	1.9	1.0	
Thursday	17/12/2015	20:00:00	MX	Policy rate - %	Dec 17	3.0	3.1	
Friday	18/12/2015	06:30:00	NL	Consumer confidence - index	Dec	9		9
Friday	18/12/2015		JP	Policy rate - %	Dec 18	80.0		

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