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Fed sees diminished risks

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Central banks: Fed more positive but no rate hike signal - The FOMC gave a more positive assessment of the US economy in the July FOMC statement, but did not provide any clear signal on the timing of the next rate hike. The Committee judged that 'the labor market strengthened and that economic activity has been expanding at a moderate rate' and that 'payrolls and other labor market indicators point to some increase in labor utilization in recent months'. In addition, 'near-term risks to the economic outlook have diminished'. At the same time, the FOMC did not feel confident enough to signal a hike at the next meeting in September. It continued to remain non-committal saying the timing and size of future hikes would depend on 'realized and expected economic conditions relative to its objectives'. We think the Fed's continued wait-and-see attitude reflects uncertainties about the US data, as well as global risks. Even though the US economy looks set to have expanded at a strong pace in Q2, this follows two extremely weak quarters. Similarly, strong job growth in June followed hardly any gains in May. Indeed, the trend in employment growth has slowed significantly since the start of the year, consistent with weak demand and shrinking profits. In addition, the rest of the global economy looks to be in bad shape, with growth weak, financial vulnerabilities in emerging markets and political risks in Europe. Our base case is that the Fed will remain on hold until early 2017. (Nick Kounis)

Global markets: FOMC statement seen as only slightly hawkish - Financial markets interpreted the FOMC statement as having a hawkish tilt, but not sufficiently to alter expectations about the outlook for Fed rate hikes significantly. Initially, the FOMC statement provided modest support to the US dollar. EUR/USD recorded a low of 1.0961, but afterwards the dollar gave back all of its gains and EUR/USD moved above 1.10 again. US bond markets behaved in a similar fashion. The 2y, 5y and 10y US Treasury yields spiked a few basis points higher right after the release, but reversed the gains soon after. Meanwhile, the Fed funds futures barely moved. US equity markets more than recovered the losses after the release and so did gold prices. All-in-all financial markets seem pretty confident in the view that there is a roughly 50% chance of a rate increase in December of this year and that the trajectory for future rate hikes is likely to be extremely shallow, with the policy rate likely to hiked only slowly. (Georgette Boele)

Euro macro: eurozone bank lending modest; UK GDP accelerated - Eurozone bank lending growth continued to expand at a modest pace in June. Adjusted monthly lending flows suggest growth in lending for households is gradually accelerating, but the pace of loans to companies has levelled off. In both cases the lending flows remain well below levels seen during the previous cyclical upswing. For instance total loans to households and companies rose at a rate of around EUR 16bn per month on average in Q2, compared to a monthly average of around EUR 50bn in 2004-2006. The ECB's bank lending survey suggests that demand for loans continues to rise and that banks are easing their lending conditions. Overall, we expect that bank lending growth will remain only modest given sluggish underlying economic growth and regulatory pressure on banks to raise capital. Meanwhile, UK GDP rose by 0.6% qoq in Q2 up from 0.4% in Q1. This is stronger than suggested by business surveys for the period and the monthly hard data (especially for services) and we would not be surprised to see a downward revision. More importantly, the post-Brexit survey indicators for July suggest the economy has taken a sharp turn for the worse since, and is heading for recession. (Nick Kounis)

US macro: corporate caution - Another weak durable goods orders report in June signalled ongoing corporate caution. The series most related to current business investment – core capital goods shipments – shrank 0.4% in June and 1.2% annualised in Q2 as a whole. This was less that the 11.6% fall seen in Q1. However, core capital goods orders, which lead shipments, have deteriorated in recent months. They were up 0.2% mom last month, but were still down 6.6% annualised last quarter. It looks as if the weakness in investment is set to continue. This is consistent with shrinking profits and lacklustre demand more generally. The idea of corporate caution may not on the surface sit well with the jump in employment in June. However, strength in job growth last month followed extreme weakness in May. The 3-month moving average for nonfarm payrolls slowed to around 150K in June, compared to levels in excess of 250K earlier in the year. This suggests the labour market is also cooling, though the pull-back in investment spending looks more aggressive. (Nick Kounis)