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Simon Ballard
Macro Strategist

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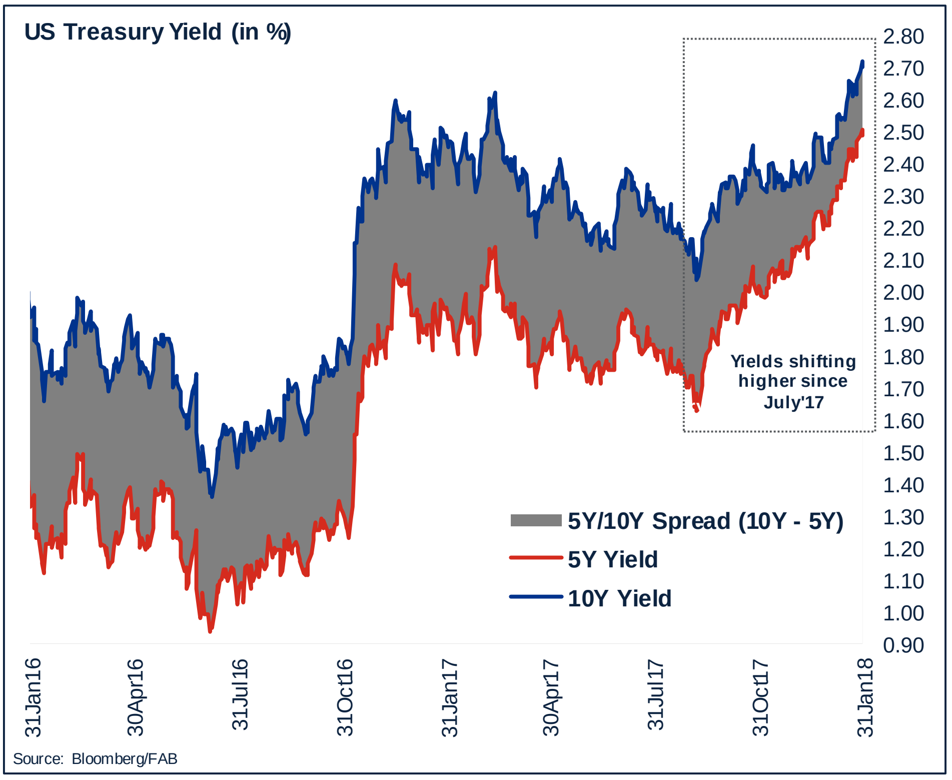
FAB
First Abu Dhabi Bank

FOMC Preview

When words do speak louder than actions

Ahead of this evening's FOMC rate announcement in the U.S. – at the end of the last Federal Reserve meeting over which Janet Yellen will preside as Chair – financial markets remain convinced that is safe to look beyond the event and base strategies on Trump tax cuts and longer-term U.S. treasury supply expectations. There is certainly no anticipation of a change in the Fed Funds interest rate. While the Futures market currently prices a 90% probability of a 25bp hike at the March 21 FOMC meeting, any move in the underlying rate today would be a huge shock for the market. Yellen will certainly not want market disruption to be her parting gift to Washington. Nevertheless, the medium-term bias to the U.S. yield curve remains higher and steeper, as US treasury debt issuance is used to fund the Trump administration's fiscal stimulus and subsequent deficit expansion.

Back to today's rate announcement, all focus will be on the accompanying rhetoric. Investors and traders alike will scrutinize the Fed's statement for hints of the likely next rate rise, especially in the context of Jerome Powell now taking over as Fed chair. But the fact that Powell has worked closely with Yellen and is expected to maintain the status quo – keeping rates on their slow upward path allowing the U.S. economy to continue to expand and job gains to remain solid – should help to further minimize any renewed volatility or uncertainty over the coming days.



Simon Ballard
Executive Director & Macro Strategist
Market Insight & Strategy
FAB Global Markets
Tel: +971-2-6110157
Mobile: +971-50-9332806
Email: Simon.Ballard@bankfab.com

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