

## Macro Focus

### Fed preview: Continued on hold

- ▶ Annual rotation of regional president not causing a shift in monetary policy
- ▶ We do not expect any further rate cuts, but downside risks dominate

At the next meeting in January we expect the Federal Open Market Committee (FOMC) to leave the federal funds rate unchanged. Since the last meeting in December data have been somewhat mixed. The manufacturing sector still struggles and the downward slope in the ISM manufacturing have continued. Market manufacturing PMI have, however, improved. This is probably due to the fact that ISM consists of fewer and larger companies making it more influenced by the weak global development.

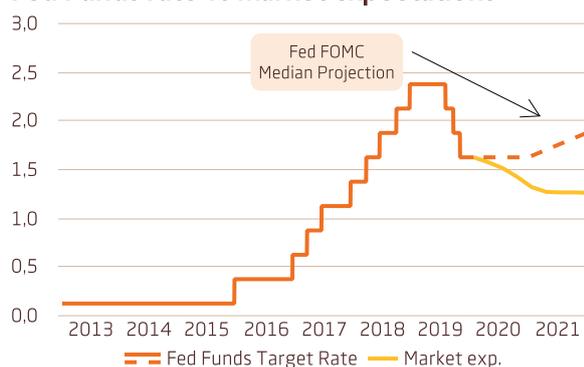
The domestic economy remains robust and ISM non-manufacturing have risen lately. The housing market continues to improve supported by the lower rates and the labour market. Employment growth slowed in December, but the overall labour market development remains solid. On average 176,000 new jobs were created each month in 2019. Looking ahead we believe GDP-growth to slow slightly as well as hiring. Job openings have decreased but on the other hand employment indicators have improved. Overall, we expect the unemployment rate to stay relatively stable going forward. Despite the strong labour market wage growth have continued to weaken underpinning the overall muted inflation pressures. In the near-term base effects should help push up the core PCE but not much suggests inflation will overshoot the target. Market based inflation expectations have risen since autumn but remains subdued.

The policy statement will probably be little changed, and the January meeting is not associated with any new economic projections. Current dot plot suggests no rate change in 2020, but a rate hike in 2021 as well as in 2022. Markets are, however, expecting a rate cut at the end of the year. **We expect the Federal Reserve to leave the federal funds rate unchanged throughout 2021** as we expect the development to be good enough to not warrant another cut. We do, however, believe that **risks are tilted to the downside** if for e.g. the trade conflict would reignite or some external shock triggering the stock market to drop substantially, potentially causing damage to the real the economy. There are also some speculations of a technical 5 bps rate hike in the interest rate on excess reserves (IOER) as the EFR now have stabilized close to the IOER. A new year means the annual rotation of the voting regional presidents. James Bullard (dove), Charles Evans (dovish), Esther George (hawk) and Eric Rosengren (hawk) are replaced with Patrick Harker (Hawkish), Robert Kaplan (Neutral), Neel Kashkari (Dove) and Loretta Mester (Hawkish). Overall, slightly less dovish but the rotation should not lead to a change of the current monetary policy stance.

#### Analyst:

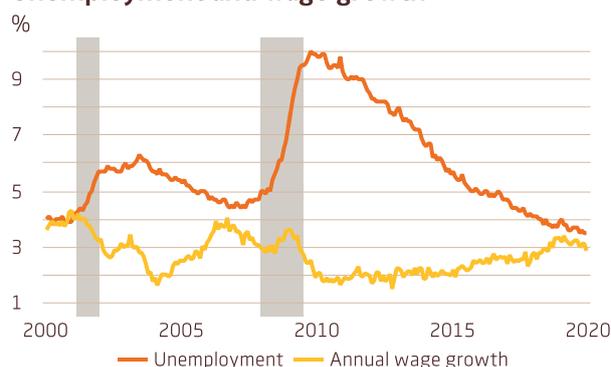
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#### Fed Funds rate vs Market expectations



Sources: Swedbank Research & Macrobond

#### Unemployment and wage growth



Sources: Swedbank Research & Macrobond

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