

FOMC review

Overshadowed by Fed chair announcement tomorrow

- As expected, the Fed decided to maintain the target range at 1.00%-1.25% at this meeting.
- Also as expected, there were no major changes to the statement. As expected, **the Fed still says that it is monitoring inflation closely**. The Fed says that the dip in employment in September was due to hurricanes and, as it has previously said, it will not put too much weight on negative economic data caused by hurricanes. The reason is that it thinks it is temporary – a view we share.
- It remains our base case that the Fed hikes again in December** (in line with market pricing and consensus) and twice next year. However, it is difficult to forecast what the Fed is going to do next year, as we still do not know the new ‘team’ yet.
- The meeting is overshadowed by the fact that **President Trump is likely to announce the next Fed chair tomorrow “afternoon” (US time, so likely tomorrow night CET). It remains our base case that current Fed governor Powell is going to succeed Yellen**. Powell is a ‘status quo’ candidate in the sense that he is considered to be a centrist like Yellen and he will most likely continue the current monetary policy strategy of gradual Fed hikes. Still, we could see a slightly dovish reaction to a Powell nomination, as we cannot rule out that Trump is going to nominate John Taylor instead, who has said he thinks US monetary policy is too easy at the moment.
- Note that the Republicans are now expected to unveil the long-awaited tax plan tomorrow (likely around 14:00 CET)**. Originally, it was planned to be unveiled today but it was postponed due to internal disagreement between Republicans. US tax reform has become more likely after House Republicans have accepted that tax reform will be deficit-financed. That said, one problem is that the current proposal is likely too expensive given that the Republicans have only made room for a total of USD1,500bn tax cuts over 10 years.

Recent US research

FOMC preview

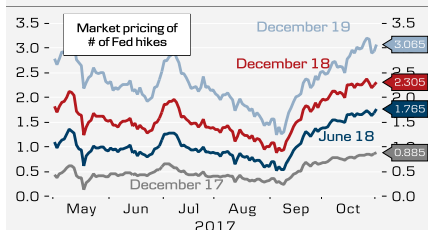
Flash Comment US: Still a long way to go for tax reform

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Fed's quantitative tightening details

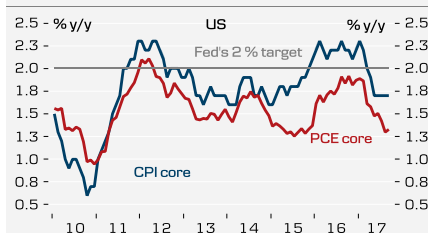
Research US: Fed's regulatory hurdle for starting quantitative tightening

Markets expect a December hike



Source: Federal Reserve, Bloomberg, Danske Bank, Macrobond Financial

Low inflation is Fed's main concern



Source: BEA, BLS, Macrobond

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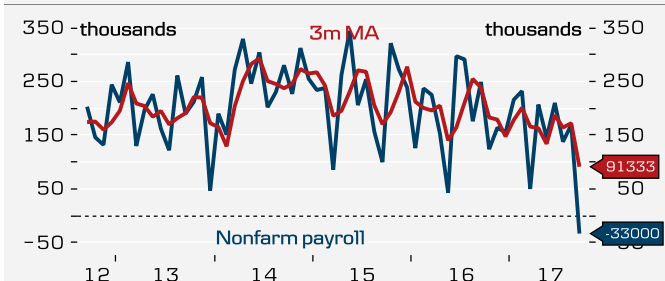
Charts

Views on Fed chair candidates

Probability ranking	Candidate	Policy stance	Market interpretation
Most likely	Powell	Continuation of gradual tightening (status quo)	Dovishly
Likely	Taylor	Follow Taylor-rule (tighter monetary policy)	Hawkishly
Maybe	Yellen	Continuation of gradual tightening (status quo)	Dovishly
Maybe	Powell & Taylor chairmanship	Difficult to say but likely slightly hawkish given Taylor's views. However, it also depends on other Fed nominations.	Slightly hawkish
Less likely	Warsh	Rule-based and more forward-looking	Hawkishly
Very unlikely	Cohn	Not much information on his views on monetary policy	?

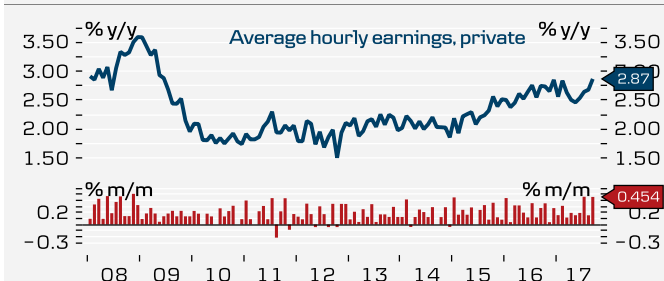
Source: Danske Bank

Fall in employment due to hurricanes, driven mainly by a large fall in 'leisure & hospitality' employment



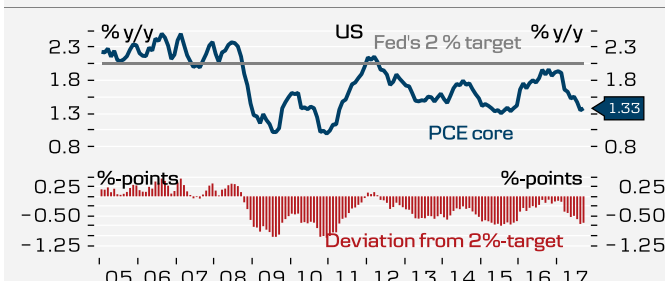
Source: BLS, Macrobond Financial

Wage growth in September surprised on the upside, may partly reflect that mainly low-paid workers were laid off (compositional effects)



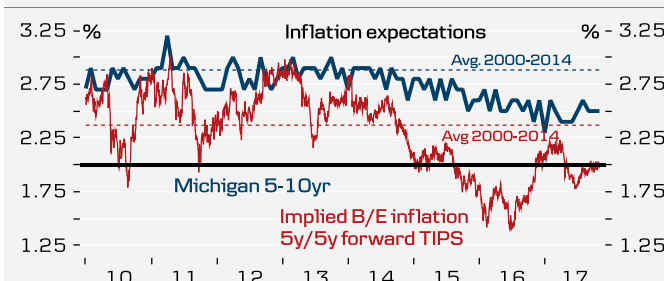
Source: BLS, Macrobond Financial

Core inflation still below 2% target



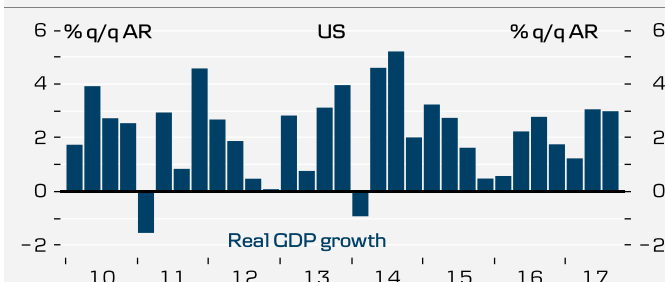
Source: BEA, Macrobond Financial

Inflation expectations are low



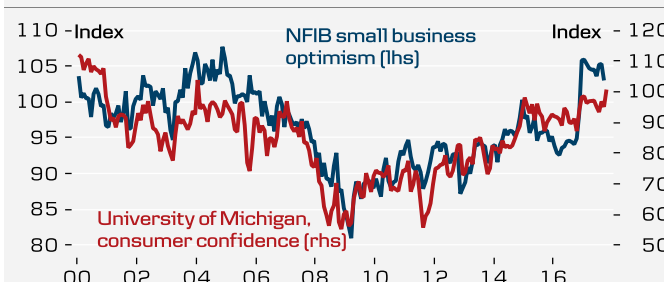
Source: Michigan, Bloomberg, Macrobond Financial

Strong GDP growth in Q3 despite hurricanes



Source: BEA, Macrobond Financial

Still very widespread optimism



Source: NFIB, University of Michigan, Macrobond Financial

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Mikael Olai Milhøj, Senior Analyst and Mark Thybo Naur, Assistant Analyst.

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Ad hoc.

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Report completed: 1 November 2017, 19:45 CET

Report first disseminated: 1 November 2017, 20:20 CET