BBVA Research

Central Banks

FOMC raises rate for third time this year, poised for fourth in December

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As we expected, the FOMC raised its benchmark rate for the third time this year. Markets reacted little to the widely anticipated 25bp increase, with 10-year treasury yields down a bit and equity prices up slightly. It is no surprise that there was little changed in the statement given the stable economic and financial conditions present over the inter-meeting period. In fact, the only significant adjustment, other than the change in the benchmark rate, was the removal of the Fed's explicit level of accommodation, reflecting that the Fed funds rate is closer to neutral. The upbeat sentiment carried through to the forecasts with GDP expected to grow close to the high end of the June projections range. The Fed's recent revisions put their economic outlook for 2018 and 2019 broadly in line with ours, which assumes growth of around 2.8% and inflation slightly above the target of 2.0%. With this in mind, we continue to believe that the Fed will raise rates one more time in December and three more times in 2019, a scenario markets are beginning to warm up to—probability of 3+ rates in 2019 is now above 40%.

Chart 1. Median Projected Policy Path (SEP), %

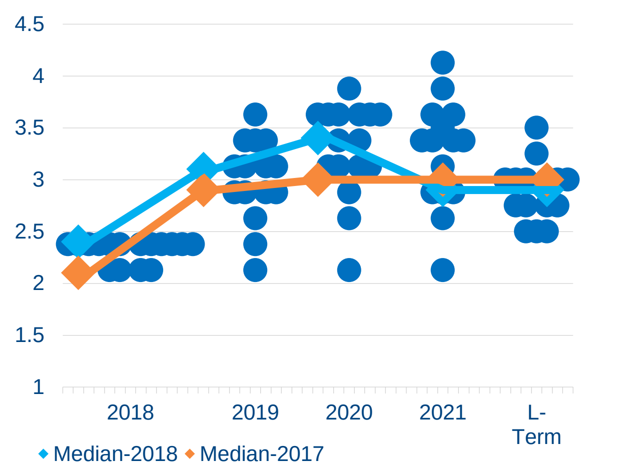


Chart 2. Market Rate Expectations, Implied Probability %

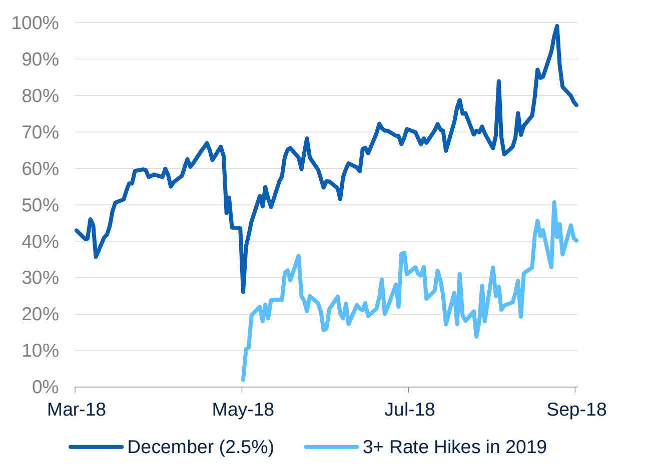


Chart 3. SEP Real GDP Forecasts, year-over-year %

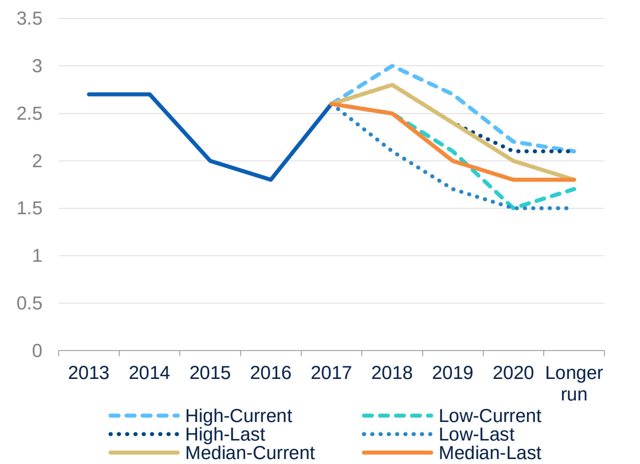
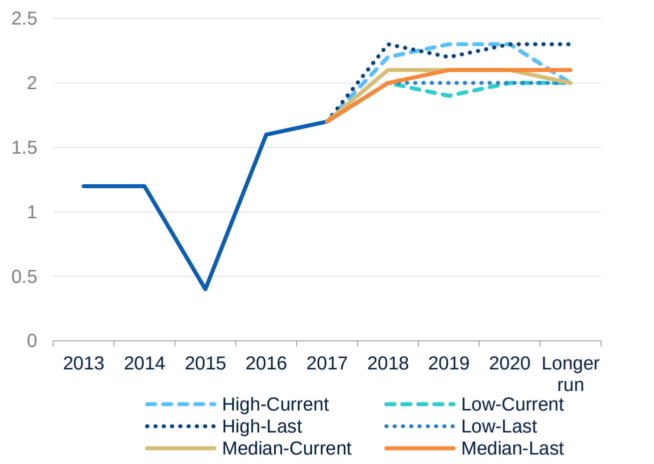


Chart 4 SEP PCE Forecasts, year-over-year %



Source: BBVA Research, Bloomberg & Federal Reserve

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