

COSUMNES CONNECTION

US Fed flags probable rate hike at year-end

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It characterized the near-term risks to the economic outlook as "roughly balanced". Seven FOMC members, including Fed chairwoman Janet Yellen, voted to keep rates on hold, while three voted to raise rates.

Losses were limited by the Fed statement suggesting it was still open to a December rate increase, noted Ian Gordon, FX strategist at Bank of America Merrill Lynch in NY.

The statement added that "the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run".

Shares of FedEx jumped, up 6.8 percent as of 3.08pm in NY, after the shipping company upgraded its full-year earnings forecast, and offered an upbeat outlook on the impact of its acquisition of TNT Express. Potentially, analysts said, the rate increase may come during committee's December 13-14 meeting, since the one in November comes just ahead of the USA presidential elections.

It was a solid session for most of the major European markets, with European shares hitting a one week high led by banking stocks, but the share market in London under-performed with gains of just 0.1 per cent.

Household spending was growing strongly but this was offset by continued softness in business fixed investment. The S&P 500 Index gained 1.1 percent to 2,163.12, the most on a Fed day since December, when it raised rates for the first time in a decade and the market ended 1.5 percent higher.

"The better decision would be to wait", says William Poole, senior fellow at the Cato Institute and former St. Louis Fed President. However, the statement made only passing mention of global developments.

For export-dependent economies like Singapore, it's not great news if the U.S. central bank is divided on the overall strength of the United States recovery.

Markets across Asia rallied as risk assets won favour again in light of the gradual approach to raising interest rates, and the prospect of only modest rises in the future.

As expected the Fed chose to hold the target range for the federal funds rate unchanged at the policy meeting that concluded today.

Two more meetings will be held in 2016 - in early November and mid-December.

The "dots", or median FOMC member projections for the fed funds rate, were lowered for the next three years and the long term "terminal" fed funds rate was lowered from 3% to 2.9%.

Coincidentally, the Fed projections now have retreated nearly exactly to market expectations in the CNBC Fed Survey.

Some economists had pointed to the minutes of the Fed's July meeting and comments from officials since then to suggest that the central bank's "hawks" - those who think it should be acting faster to raise rates - are gathering adherents from the dove camp.