



Asian Shares Rally As Fed Keeps Rates Unchanged

Arturo Norris

October 03, 2016

Yellen suggested then that given the job market's solid gains and the Fed's outlook for the economy and inflation, "the case for an increase in the federal funds rate has strengthened in recent months".

Fed Chair Janet Yellen is scheduled to hold her quarterly press conference half an hour later.

"This seems to have been one of the most divisive FOMC meetings in recent memory", Capital Economics Chief Economist Paul Ashworth said. It expects the economy to expand just 1.8 percent this year and by an nearly equally sluggish 2 percent in both 2017 and 2018. Yellen even said the case for a rate increase has "strengthened". A slight majority expected a hike at the December meeting, with 45.6% foreseeing a 0.5-0.75% target rate and 12.4% expecting something higher.

Federal Reserve Bank of Kansas City President Esther George, Federal Reserve Bank of Cleveland President Loretta Mester and Federal Reserve Bank of Boston President Eric Rosengren voted no on holding rates steady.

She says: "A decision whether to hike rates or not this year has now become a question of the Fed's credibility".

Not only did the Fed put off a rate increase, it also scaled back the number of hikes it expects next year, to two from three, according to the median forecast of FOMC participants released after the conclusion of the two-day meeting.

The Fed initially signaled four rate hikes in 2016 after raising the range for the federal funds rate to 0.25 percent to 0.5 percent last December, the first increase since the financial crisis. Donald Trump accused the Janet Yellen of keeping interest rates low due to White House pressure.

The independent bank regulatory agency, which is operated by the major banks with some federal input, said Wednesday the USA job market has continued to strengthen and economic activity has picked up.

"The better decision would be to wait", says William Poole, senior fellow at the Cato Institute and former St. Louis Fed President.

"But if it sees the presidential election as leading to intense uncertainty in the market, that could be a factor that will lead to delay rate increases until after the election in December", he said.

The economy expanded sluggishly in the second quarter and added fewer jobs than expected in August.

The uncertainty swirling around the Fed isn't just about when it will next raise its benchmark interest rate. Several analysts suggest that the Fed is also waiting on the U.S. presidential elections of 2016 held in November, to implement a rate hike. The central bank set a cap on 10-year bond yields and vowed to overshoot its 2 per cent inflation target as it seeks to escape from its low-inflation rut.

Slow and slowing growth is a global problem-especially in the world's third largest economy, Japan.

Still, the Fed's statement noted that measures of inflation compensation have remained low, something that has concerned those policymakers who want to see strong evidence that inflation is on track to hit the 2 per cent target.