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ECONOMY

The Fed tells markets, see you in December



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Rate hike in December? Odds in favour of a 2015 Fed hike jumped today.

Bloomberg

The U.S. Federal Reserve left its key interest rate unchanged today, but economists and analysts parsing the statement say the more hawkish tone puts a December rate hike back on the radar.

“This is more of a hawkish statement,” said Gary Pollack, who manages \$12 billion as head of fixed-income trading at Deutsche Bank AG’s Private Wealth Management unit in New York.

“It’s not as dovish as the Street was expecting. It leaves December wide open for the Fed to move if it wants to.”

Traders see a 45 per cent chance that the Fed will raise its benchmark rate from near zero at its next meeting, up from a 37 per cent probability before the central bank said Wednesday that it kept its target unchanged, according to data compiled by Bloomberg.

“What people are paying attention to is that December is very much on the table,” said Subadra Rajappa, head of U.S. rates strategy at Societe Generale SA in New York.

Markets apparently had trouble deciding whether that was a good thing or not, judging by the massive whipsaw in stocks after the statement.



Bloomberg

Here’s what the economists are saying:

Scotiabank Economics

“Although rates were left on hold as expected, markets have taken today’s FOMC statement somewhat hawkishly ... The main purpose of today’s statement is to keep December in play but there is nothing in it that pre-commits the Fed.

Is the Fed serious about raising the rate in 2015? Today’s statement said overtly that the Fed will discuss changing the Fed Funds rate at its next meeting.”

Andrew Grantham, CIBC Economics

“As expected there was no change in interest rates this month, but the Fed did take a step back towards possibly hiking at the December meeting by removing one of the additional barriers it inserted in September. Slightly more hawkish than may have been expected, so positive for the US\$ and negative for fixed income.”

