



ECONOMIC RESEARCH DEPARTMENT

Summary

United States

A bird in the hand is worth two in the bush
Promise made, promise kept: the Fed took a second step towards the normalization of monetary policy with a 25pb rate hike. In a time of uncertainties, the Fed chose to reassure, not to surprise.

► Page 2

Netherlands

Government faces disgruntled voters
Despite the economic recovery, the ruling coalition is in for a drubbing at the general election in March 2017. Arduous negotiations are likely to form the next government.

► Page 3

Market overview

► Page 5

Summary of forecasts

► Page 6

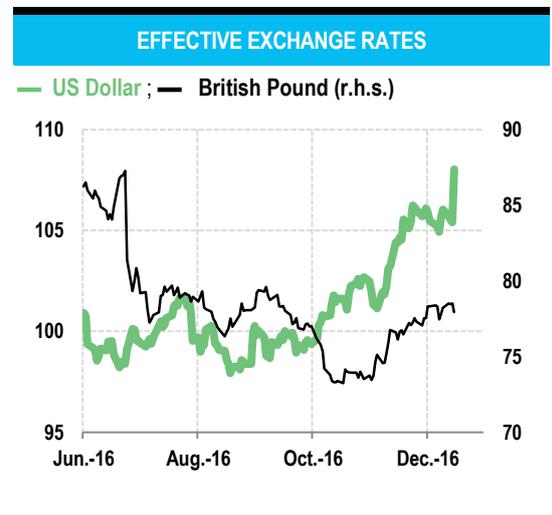
Also in :



Smooth operations

■ The Fed raises rates, with caution ■ The Bank of England goes for the status quo, with caution ■ Next moves will be taken... with caution

Last week, asked about what central banks could do in the face of political uncertainties, Mario Draghi declared “*what [they] can do is to keep a steady hand, namely to continue with the monetary accommodation that is necessary to achieve their objective*”. This week, both the Bank of England and the Fed just did that, in their respective ways. For the Fed, this meant a hike, limited enough to leave rates below the estimated neutral level (see “*US: A bird in the hand is worth two in the bush*”). For the Bank of England, this meant the *status quo*. While the Fed had to publish an updated set of economic projections, it chose to just amend them. The Bank of England did not have to make a choice about how to factor uncertainty in forecast as its Inflation Report will not be released before early February. Still, it appears that the rebound in the pound could end up helping the Bank providing additional support were it be needed. Indeed, it currently foresees that its 2% inflation target will be overshoot marginally and for a limited period of time. In a way, we are back in uncharted waters, as communication is back on being the very first tool of central banks. The Bank of England, should it be willing to ease policy, would have to do so without adding additional downward pressures on the pound. As for the Fed, it has to appear confident about the economy, while limiting the enthusiasm of financial markets for undetailed fiscal push that FOMC members appear to question the opportunity. Maestros are in need...



Source: Bank of England

THE WEEK ON THE MARKETS

Week 9-12 16 > 15-12-16

↗ CAC 40	4 764	▶ 4 819	+1.2 %
↗ S&P 500	2 260	▶ 2 262	+0.1 %
↗ Volatility (VIX)	11.8	▶ 12.8	+1.0 %
↗ Euribor 3M (%)	-0.32	▶ -0.32	+0.0 bp
↗ Libor \$ 3M (%)	0.96	▶ 0.97	+1.4 bp
↘ OAT 10y (%)	0.81	▶ 0.80	-1.0 bp
↘ Bund 10y (%)	0.26	▶ 0.26	-0.5 bp
↗ US Tr. 10y (%)	2.47	▶ 2.58	+11.4 bp
↘ Euro vs dollar	1.05	▶ 1.04	-1.2 %
↘ Gold (ounce, \$)	1 163	▶ 1 127	-3.1 %
↘ Oil (Brent, \$)	54.2	▶ 53.5	-1.3 %

Source: Thomson Reuters