

FOMC. Current Expectations For Fed Funds Rate Evolution 2016.

FOMC: Current expectations Dec 21, 2015.

The Fed raised rates last week Dec 16 by 0.25%. Currently, the market expects 4 rate hikes in 2016.

There are 4 FOMC meetings in 2016 in which a press conference follows and it is at these that interest rates are expected to be raised. Interest rates are not expected to be announced at FOMC meetings in which press conferences do not follow.

Thus, it is expected (96%) that at the Jan 27 FOMC, the Fed will not adjust rates. There is a 4% probability of a cut and 0% probability of a rise.

At the March 16 FOMC, there is a 53.7% chance the Fed holds, a 44.2% chance the Fed raises by 0.25% and a 2.2% chance of a cut.

At the April 27 FOMC, there is a 48.5% chance that Fed Funds will be 0.25-0.50, and a 45.1% chance that it is between 0.50-0.75.

At the June 15 FOMC, there is a 30.8% chance of Fed Funds being between 0.25-0.50, a 46.4% chance that it is between 0.50 and 0.75 and a 19.9% chance that it is between 0.75 and 1.00.

The next significant change in probabilities is Sep 21 where the probabilities are 17.6% for 25-50, 37.9% for 50-75, 30.9% for 75-100 and 11.2% for 100-125.

For the Dec 14 FOMC the probabilities become 7.0% (25-50), 22.2% (50-75), 31.2% (75-100), 24.3% (100-125).

The Dot Plot suggests a terminal Fed Funds Rate of 1.375% after 4 rate hikes.

No doubt these probabilities will evolve with economic data and signals from the Fed not to mention market volatility. However, it is interesting that if you calculate the expected Fed Funds Rate for year end 2016 you get 0.97%, not 1.375% as the Dot Plot suggests. They cannot

both be right.