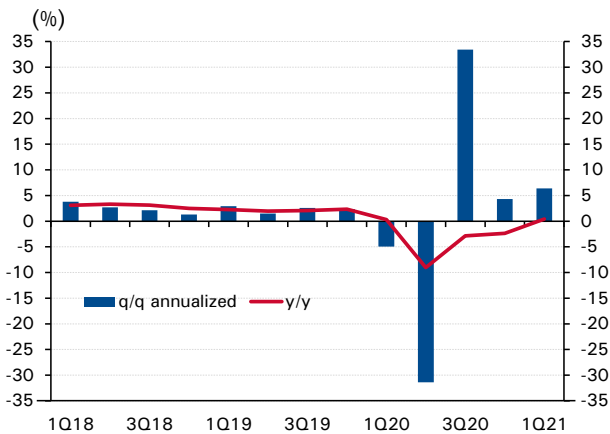


Federal Reserve signals tighter policy ahead amid strong growth and higher inflation

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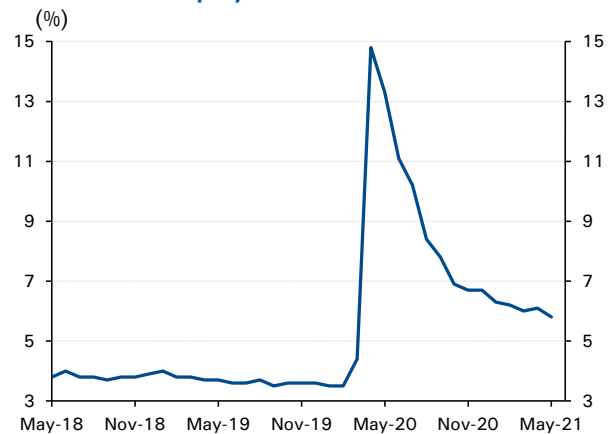
- Unemployment fell to 5.8% in May, the lowest since March 2020 amid easing restrictions and a pickup in hiring.
- The US economy added 559K jobs in May, from an upwardly revised 278K in April, slightly below expectations.
- Wage growth surged to 2% in May due to the base effect from the dip in May 2020 and a tighter labor market.
- Inflation rose to 5% in May, the highest since 2008 on higher commodity prices, supply constraints.
- The Fed kept the policy rate at a range of 0-0.25% but signaled the possibility of two rate hikes by end-2023.
- The USD index rose in June, following the Fed's hawkish shift, and confirming recovery expectations.

▶ Chart 1: Real GDP growth



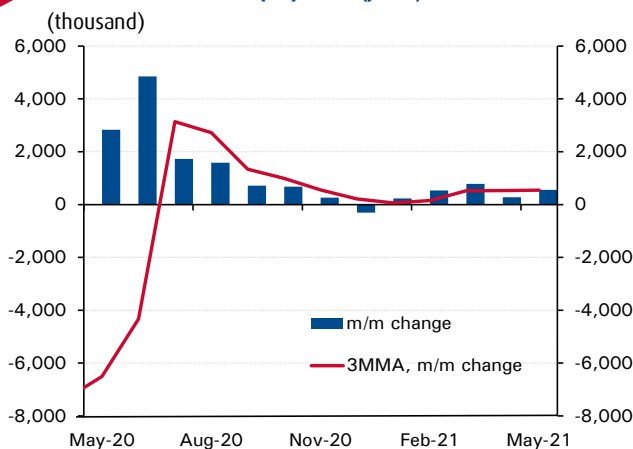
GDP grew by an annualized 6.4% in 1Q21, in line with expectations following a 4.3% expansion in 4Q20.
Source: Refinitiv

▶ Chart 2: Unemployment rate (%)



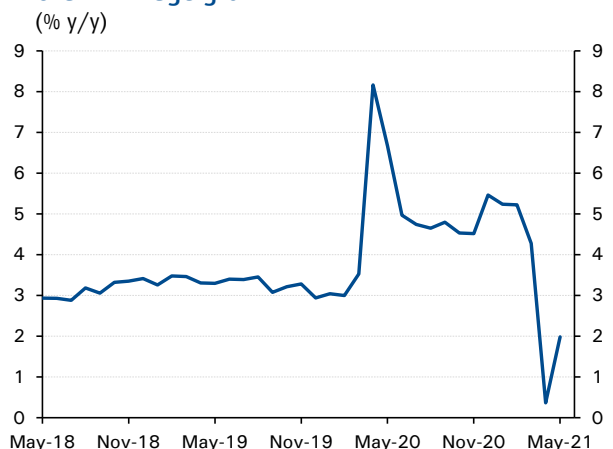
Unemployment fell to 5.8% in May, the lowest since March 2020 (from 6.1% in Apr.) amid easing restrictions and a pickup in hiring.
Source: Refinitiv

▶ Chart 3: Non-farm payrolls (jobs)



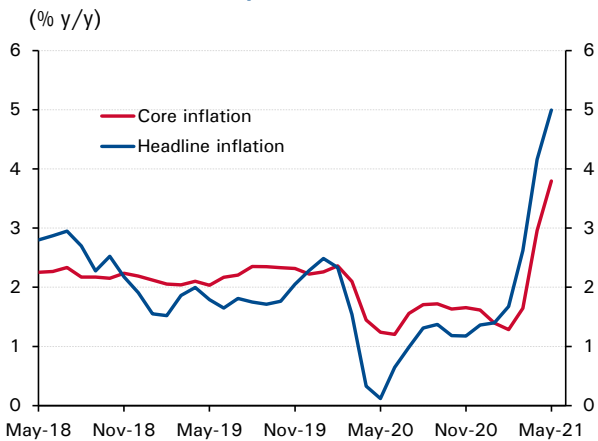
The economy added 559K jobs in May, from an upwardly revised 278K in April but below market expectations of 650K.
Source: Refinitiv

▶ Chart 4: Wage growth



Wage growth surged to 2% in May due to the base effect from the dip in May 2020 and a tighter labor market.
Source: Refinitiv

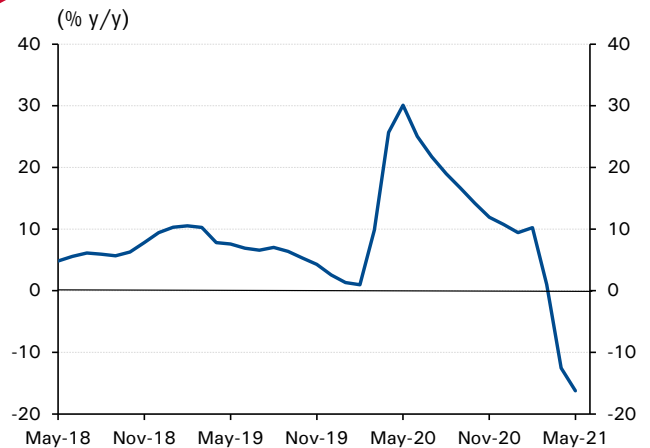
Chart 5: Consumer price inflation



Inflation continued to rise, reaching 5% in May, the highest since 2008 on reopening pressures and year-on-year base effects.

Source: Refinitiv

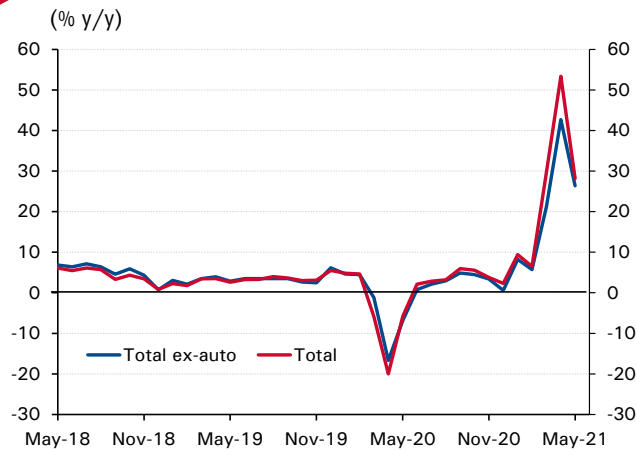
Chart 6: Commercial and industrial loans



C&I loan growth fell sharply into negative territory at -16% in May, a historical low, due to the exceptionally high base levels of 2020.

Source: Refinitiv

Chart 7: Retail sales



Retail sales growth ex-autos fell to 26% in May from a historical high of 43% in April, and should ease further in coming months.

Source: Refinitiv

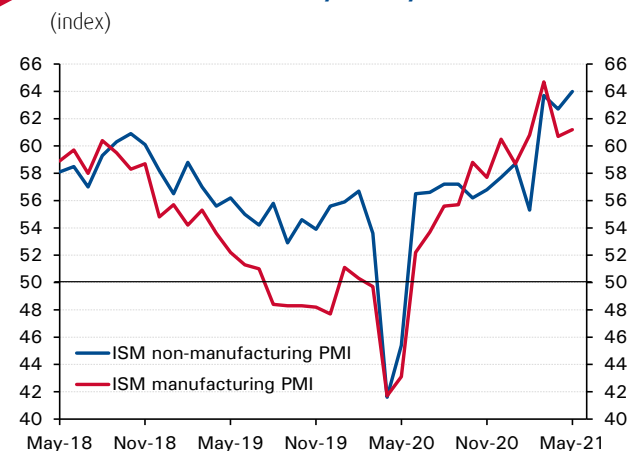
Chart 8: Existing home sales and housing starts



Housing starts rose 3.6% m/m to 1.57 million as low interest rates, recovery optimism continued to fuel real estate demand.

Source: Refinitiv

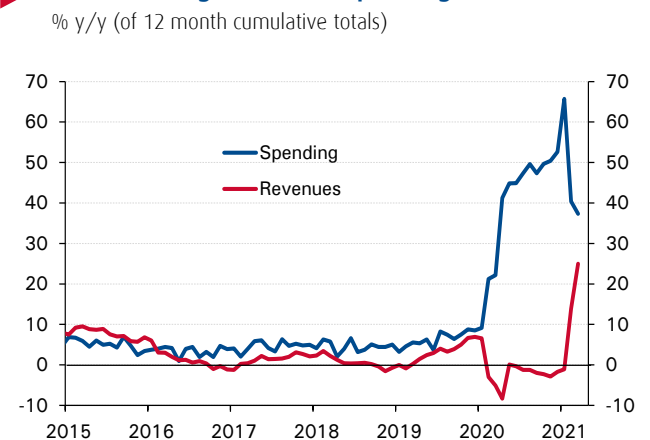
Chart 9: Business activity surveys



The ISM manufacturing index edged up to 61.2 in May, from 60.7 in April as new orders rose in line with higher demand.

Source: Refinitiv

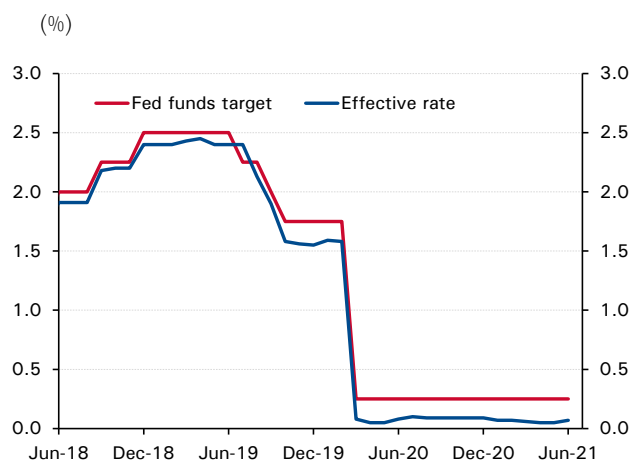
Chart 10: US government spending and revenues



The 12-month fiscal deficit narrowed to \$3.3 trillion in May as receipts rose on higher employment and an earlier tax deadline.

Source: Refinitiv

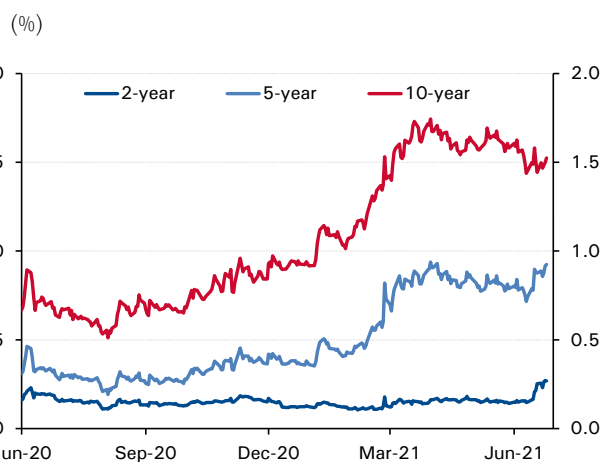
Chart 11: Policy interest rates



The Fed kept the policy rate unchanged at a range of 0-0.25% but signaled the possibility of two rate hikes by end-2023.

Source: Refinitiv

Chart 12: Government bond yields

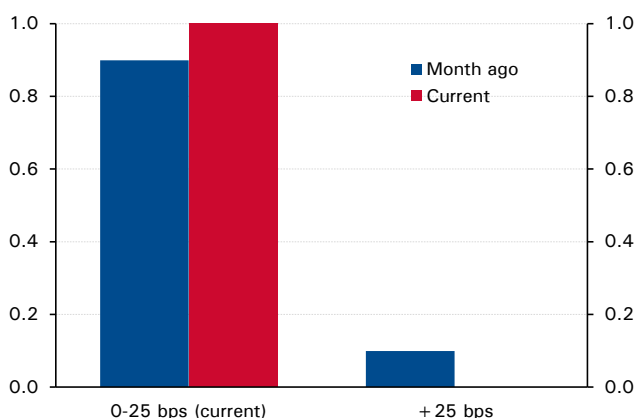


The US 10-year treasury yield remained low at 1.52% as of June 27, down 8 bps m/m, on continued government purchasing.

Source: Refinitiv

Chart 13: Fed policy action outlook for 2021

(futures market probability, as of 27 June 2021)

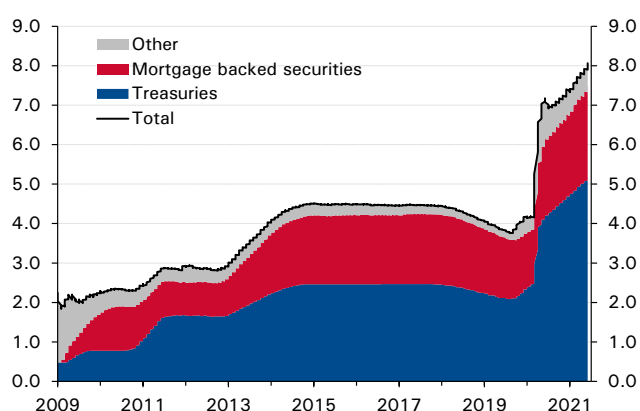


Futures markets probabilities of a rate hike in 2021 have fallen to zero as the Fed asserted that no hike is expected until 2023.

Source: Refinitiv

Chart 14: Fed balance sheet size and composition

(total assets, \$trn)



Federal reserve assets expanded to \$8.1 trillion in June, but may begin to flatten off once QE tapering starts (maybe late 2021).

Source: Refinitiv

Chart 15: Stock market

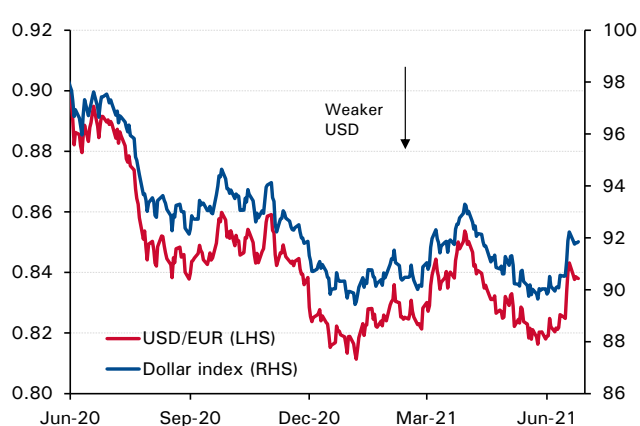
(S&P 500)



The S&P500 set a new record high, as vaccine progress and recovery prospects supported bullish sentiment.

Source: Refinitiv

Chart 16: Exchange rates



The USD index rose in June, as the Fed shifted its stance, easing inflation concerns and confirming recovery expectations.

Source: Refinitiv

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