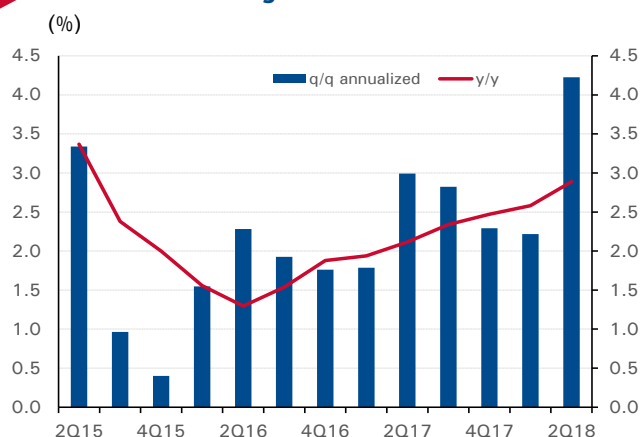


Strong growth points to two further Fed rate hikes in 2018

- Annualized q/q growth in 2Q18 was revised higher from 4.1% to 4.2%, the highest since 3Q14.
- The unemployment rate was steady at 3.9% in August, against expectations of a drop to 3.8%.
- August's wage growth increased to 2.9% y/y, its highest in eight years.
- Both headline (2.7%) and core (2.2%) inflation eased in August on one-off price declines in apparels.
- The ISM manufacturing index reached a multi-year high, while the non-manufacturing index also saw gains.
- The Federal Reserve is expected to hike the policy rate twice more this year, with 80% certainty.
- The S&P 500 maintained strong momentum, breaching the 2900 point mark for the first time.
- Trade restrictions weighed on the dollar index, but it still edged up in August on higher bond yields.

▶ **Chart 1: Real GDP growth**



Annualized q/q growth was revised higher to 4.2% in 2Q, the fastest since 3Q14, and pushing GDP growth to 2.9% y/y.

Source: U.S. Bureau of Economic Analysis

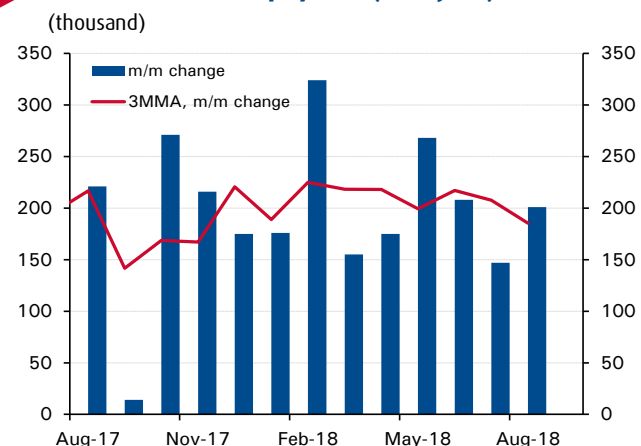
▶ **Chart 2: Unemployment rate**



The unemployment rate was steady at 3.9% in August, against expectations of a drop to 3.8%.

Source: U.S. Bureau of Labor Statistics

▶ **Chart 3: Non-farm payrolls (new jobs)**



August's Non-farm payrolls surprised in excess of 200,000, while the previous two months were revised down.

Source: U.S. Bureau of Labor Statistics

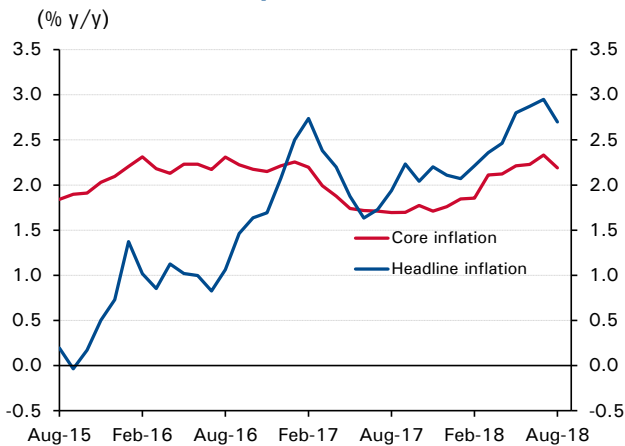
▶ **Chart 4: Wage growth**



August's wage growth increased to 2.9% y/y, its highest in 8-years, supporting the Fed's case for two more hikes this year.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price inflation



Both headline (2.7%) and core (2.2%) inflation eased in August on one-off price declines in apparels.

Source: U.S. Bureau of Labor Statistics

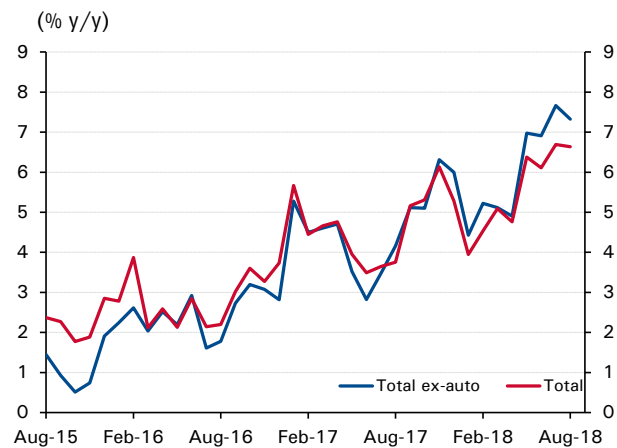
Chart 6: Commercial and industrial loans



Commercial and industrial loan growth eased in August but remains robust at 5.3% y/y.

Source: U.S. Board of Governors of the Federal Reserve System

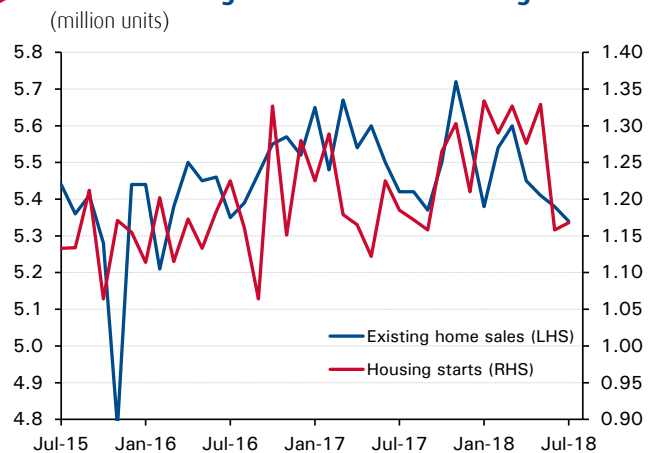
Chart 7: Retail sales



Retail sales growth disappointed in August (flat m/m) with growth at a still-strong 6.5% y/y.

Source: U.S. Census Bureau

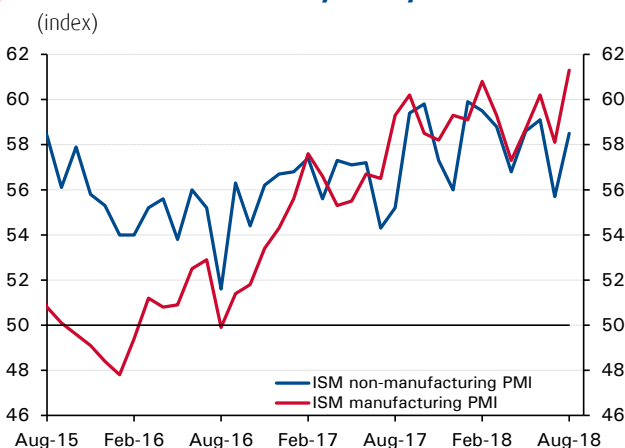
Chart 8: Existing home sales and housing starts



Housing starts picked up in August to 1.16 million units, while home sales continued to decline in line with rising prices.

Source: National Association of Realtors, U.S. Census Bureau

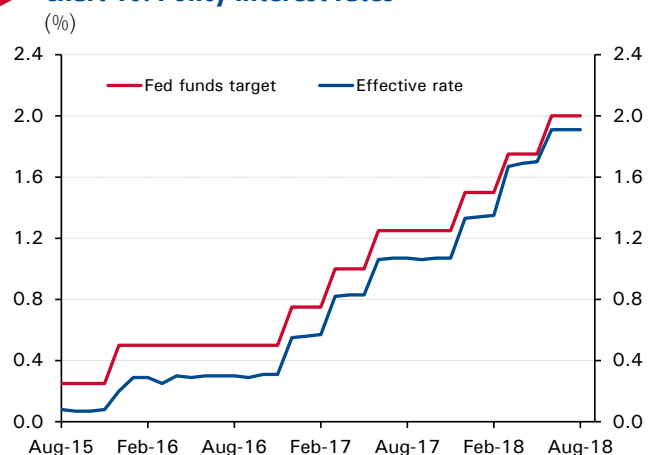
Chart 9: Business activity surveys



The ISM manufacturing index reached a multi-year high, while the non-manufacturing index also registered gains.

Source: Institute for Supply Management

Chart 10: Policy interest rates

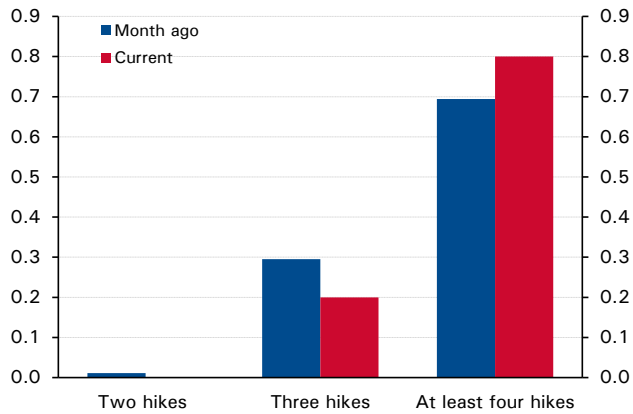


Despite the mixed August data, the Fed is expected to hike its benchmark rate in September with near certainty.

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2018

(probability, as of 16 Sept 2018)

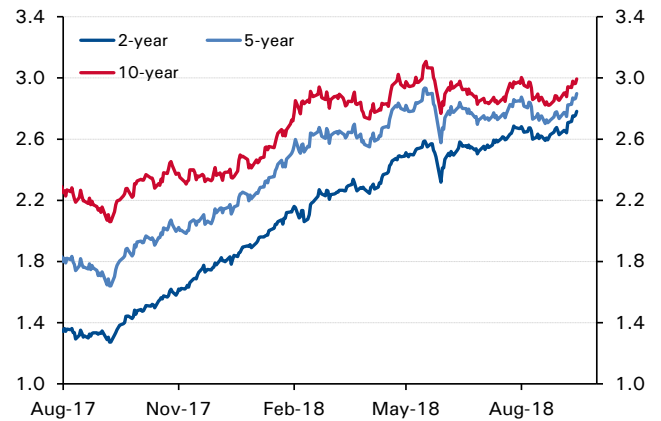


Strong growth and higher public and private spending raised expectations of at least two more rate hikes in 2018.

Source: CME Group

Chart 12: Government bond yields

(%)



US monetary normalization and improving global sentiment helped push yields back to close to 3%.

Source: Thomson Reuters Eikon

Chart 13: Stock market

(S&P 500)

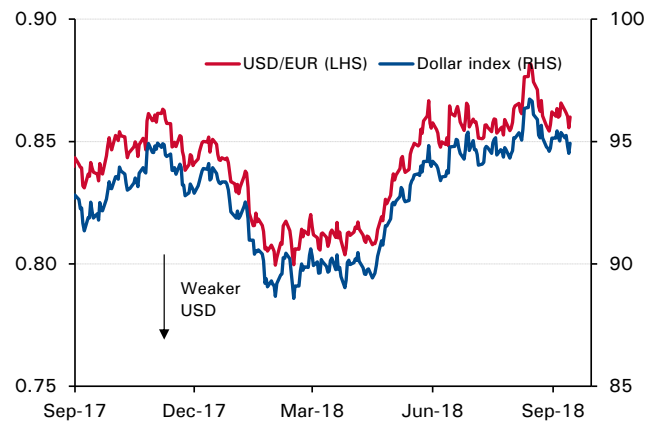


The S&P 500 maintained strong momentum, unaffected by emerging markets and trade, to breach 2900 for the 1st time.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates

(probability, as of 16 Sept 2018)



Trade restrictions weighed on the dollar index, but rebounded slightly in August by 0.43% on higher bond yields.

Source: Thomson Reuters Eikon

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