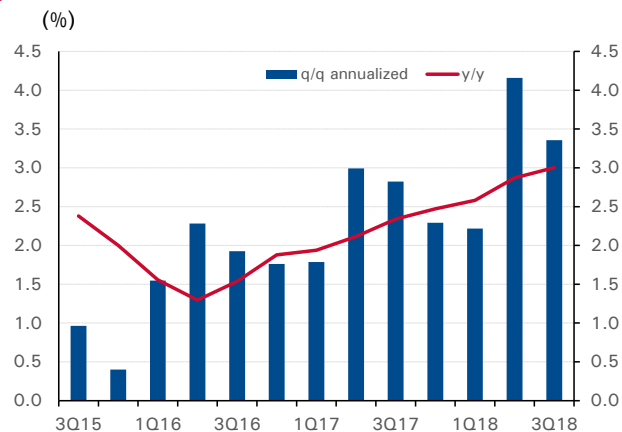


## Markets continued to rally in February; slim chance of Fed rate hike in 2019

- January saw robust jobs growth, though unemployment also edged up partly due to higher labor participation.
- Wage growth dropped slightly to 3.2% in January despite solid labor market conditions.
- Retail sales in December fell by 1.2% m/m, the steepest drop since 2009.
- The ISM manufacturing activity index rose in January amid easing trade tensions and higher demand.
- Rate hike expectations are currently skewed towards no rate hikes or even one rate cut in 2019.
- After January's bounce, stocks continued to gain in February on Fed dovishness and reduced trade concerns.

▶ **Chart 1: Real GDP growth**



GDP figures for 4Q18 due January have been delayed because of the shutdown. Growth may have slowed to 2.5%.

Source: U.S. Bureau of Economic Analysis

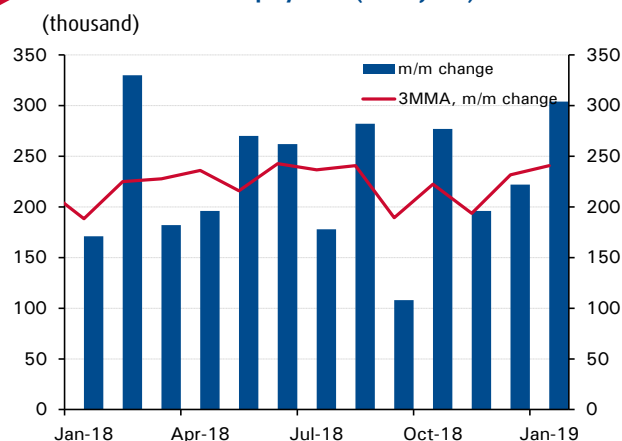
▶ **Chart 2: Unemployment rate**



Unemployment unexpectedly rose for the second consecutive month to 4% in January, partly due to higher labor participation.

Source: U.S. Bureau of Labor Statistics

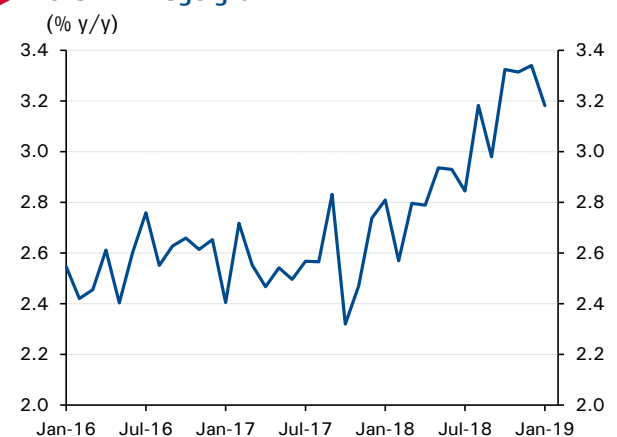
▶ **Chart 3: Non-farm payrolls (new jobs)**



Non-farm payrolls surged 304,000 in January, the highest in 11 months and above expectations on gains in several industries.

Source: U.S. Bureau of Labor Statistics

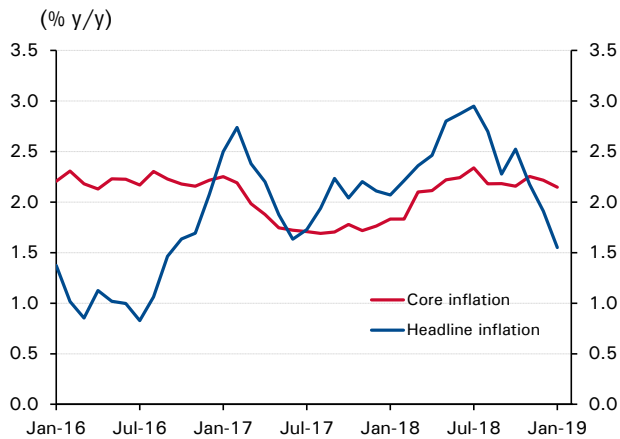
▶ **Chart 4: Wage growth**



Private sector wage growth dropped slightly to 3.2% in January from 3.3% in December, despite solid labor market conditions.

Source: U.S. Bureau of Labor Statistics

▶ **Chart 5: Consumer price index inflation**



Core inflation was unchanged at 2.2% in January. Headline inflation dropped to 1.6% on lower energy costs.

Source: U.S. Bureau of Labor Statistics

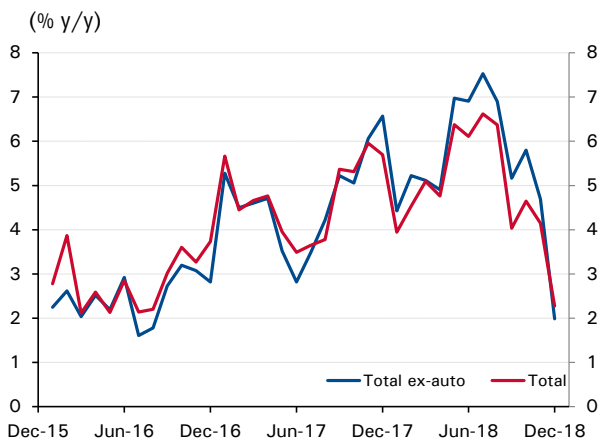
▶ **Chart 6: Commercial and industrial loans**



C&I loan growth accelerated to 10.6% in January, amid looser corporate lending requirements over the past year.

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

▶ **Chart 7: Retail sales**



Retail sales growth declined to a 28-month low of 2.3% y/y in December in the steepest monthly decline (-1.2%) since 2009.

Source: U.S. Census Bureau

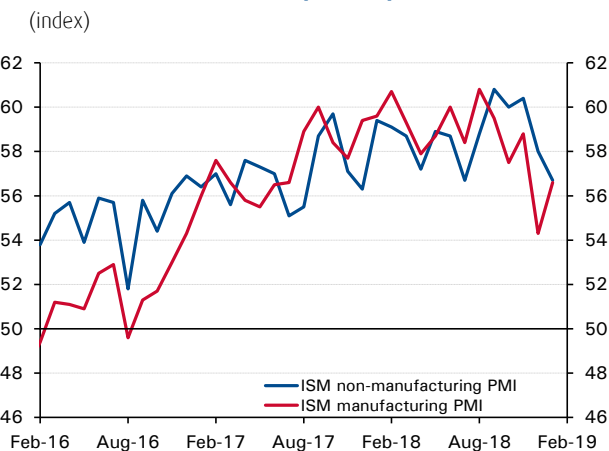
▶ **Chart 8: Existing home sales and housing starts**



Home sales declined sharply in December to just under 5 million units; housing starts data was delayed due to govt. shutdown.

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

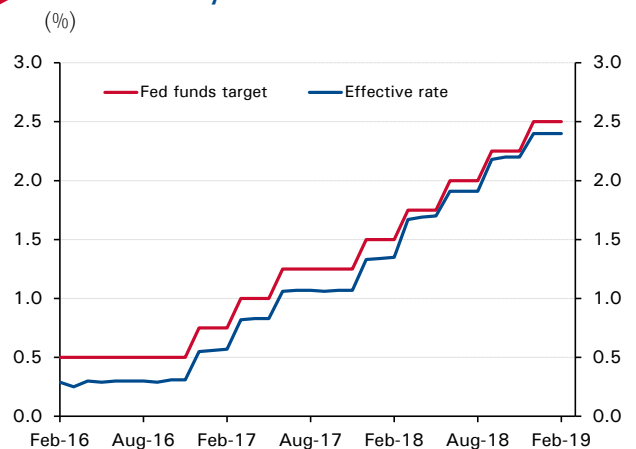
▶ **Chart 9: Business activity surveys**



The manufacturing ISM index picked up to 56.6 in January, above expectations, on reduced trade fears and higher exports.

Source: Institute for Supply Management

▶ **Chart 10: Policy interest rates**

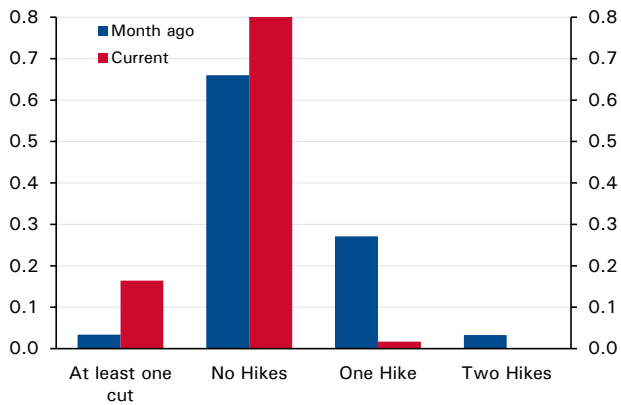


The Federal Reserve target rate currently stands at 2.25-2.50%, and may remain unchanged through 2019.

Source: Thomson Reuters Eikon

### Chart 11: Fed rate hike outlook for 2019

(futures market probability, as of 20 February 2019)

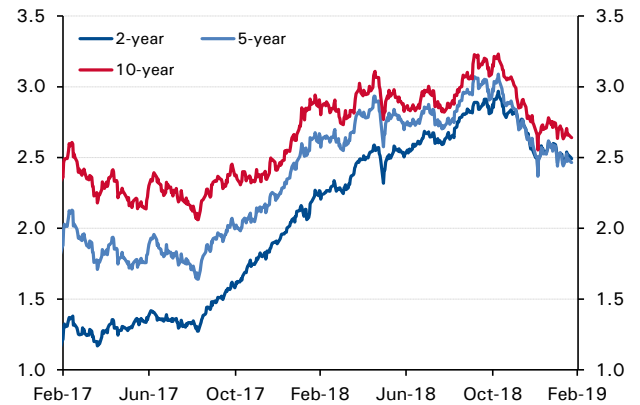


Expectations for future rate hikes have declined sharply, while expectations of no hikes or at least one cut have risen.

Source: CME Group

### Chart 12: Government bond yields

(%)



Bond yields were broadly steady in February amid ongoing uncertainty surrounding global trade and growth.

Source: Thomson Reuters Eikon

### Chart 13: Stock market

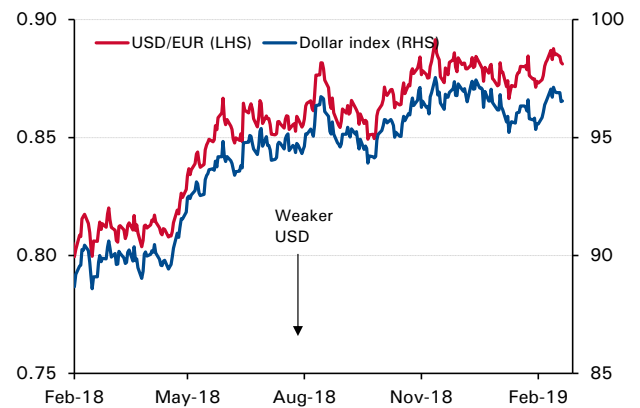
(S&P 500)



After January's bounce, stocks continued to gain in February on Fed dovishness and reduced trade concerns.

Source: Thomson Reuters Eikon

### Chart 14: Exchange rates



The US dollar index gained modestly in February following the end of the govt. shutdown, after dipping slightly in January.

Source: Thomson Reuters Eikon

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