

Student Strategy

Rocky road to recovery

Welcome to Student Strategy. This document aims to give a snapshot of RBS research around a particular topic, and will be produced every fortnight during term time. This second edition focuses on Central Banks rates decision. We hope you find the document useful. If you have any economic/markets questions then please send them in to the email address on the bottom left. The most interesting 2-3 will be answered in the following document.

- After a rocky week for risky assets, the news that the US has now emerged from its worst recession since the 1930s has given risk a much needed boost. However this may be short-lived given that while the pace of US growth was stronger than expected, it was driven mainly by the Government's significant monetary and fiscal stimulus packages. This raises questions marks over the strength of Q4 data and this week's October ISM surveys and payrolls data will be important. The USD clearly benefitted last week from a mix of squaring of large USD shorts and equity slippage allied to some US and European banking sector worries.
- While the US GDP data showed reasonable growth it was not strong enough to bring forward Fed rate hike expectations. The Fed will want to ensure that the recovery is sustainable before they exit monetary policy stimulus. So while there may be a tweaking of the statement this week to raise the possibility, albeit small, that it may tighten policy in H1:10, policy rates are likely to be low for some time yet. This suggests that the USD recovery seen last week was just a temporary correction. Nevertheless, risk appetite is likely to be fragile heading through into year end as speculators take on less risk. While EUR/USD has scope to grind higher, the path will be choppy.
- GBP has been surprisingly resilient considering the shockingly weak Q3 GDP data. However moving out of the most owned trades, notably short GBP, has been a theme. This can continue heading into year-end, restricting GBP losses despite weak fundamentals. The coming week sees monetary policy decisions from both the BoE and ECB. For the UK the decision is whether or not to extend purchases of gilts for their quantitative easing programme. QE is widely expected to be extended by £25bn, with the risk of a larger £50bn. In contrast, ECB's Weber has raised the possibility that the ECB may announce QE exit strategy details 'soon'. If true, this further widens the divergence between BoE and ECB monetary policies, giving EUR/GBP scope to reverse recent losses. November looks too soon for such an announcement but an exit strategy may come as soon as December. This supports the view for EUR/GBP to move higher over coming months.
- The CAD had another disappointing week, not helped by Bank of Canada Governor Carney saying that the central bank holds several options to stem the CAD's rise. The risks this week, other than wider market sentiment, will be from the IVEY PMI data on Thursday and the labour market report on Friday. Recent Canadian data has been on the stronger side of expectations but after the

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Change in policy rate

	Current	Past month	Ytd	Last 12m	Last move
Fed	0.25	Unchg	Unchg	-0.75	16/12/2008
ECB	1.00	Unchg	-1.50	-2.75	07/05/2009
BoE	0.50	Unchg	-1.50	-4.00	05/03/2009
BoJ	0.10	Unchg	Unchg	-0.40	19/12/2008
SNB	0.25	Unchg	-0.25	-2.25	12/03/2009
Norges Bank	1.50	0.25	-1.50	-3.25	29/10/2009
Riksbank	0.25	Unchg	-1.75	-3.50	02/07/2009
RBA	3.25	0.25	-1.00	-3.75	06/10/2009
RBNZ	2.50	Unchg	-2.50	-4.00	30/04/2009
BoC	0.25	Unchg	-1.25	-2.00	21/04/2009

Source: RBS Global Banking & Markets

impressive rise in the number of people employed in previous two months, a correction this week is a risk.

Policy views summary

ECB: Unchanged view: On hold for rest of this year and throughout 2010.

BoE: Unchanged view: On hold for rest of the year and into 2010. First rate hike will be in Q3:10.

Fed: Unchanged view: Rates will remain in the target range of between 0.00% and 0.25% through 2009. First rate hike will be in Q2:10.

BoJ: Unchanged view: On hold for rest of this year and throughout 2010.

RBA: View changed: Policy rate will be raised from 3.25 to 3.75% by year-end followed by further hikes in H1:10 to take rates to 4.50% by mid-year.

BoC: Unchanged view: On hold for rest of the year. First rate hike in Q2:10.

SNB: Unchanged view: On hold at 0.25% through the rest of 2009 and 2010.

Policy Rate forecasts

	Current	+1m	+3m	+6m	+9m	+12m
BoE	0.50	0.50	0.50	0.50	0.50	1.00
Fed	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	1.00	2.00
ECB	1.00	1.00	1.00	1.00	1.00	1.00
RBA	3.25	3.50	3.75	4.25	4.50	4.50
RBNZ	2.50	2.50	2.50	2.50	2.50	3.00
BoC	0.25	0.25	0.25	0.25	0.50	1.25
BoJ	0.10	0.10	0.10	0.10	0.10	0.10
Riksbank	0.25	0.25	0.25	0.75	1.25	2.00
Norgesbank	1.50	1.50	1.75	2.25	2.75	3.25
SNB	0.25	0.25	0.25	0.25	0.25	0.25

Source: RBS Global Banking & Markets

2009 Central Bank Meetings Schedule

Bank of England Monetary Policy Committee

Jan 8: -50bp to 1.50%	Jul 9: No change
Feb 5: -50bp to 1.00%	Aug 6: No change
Mar 5: -50bp to 0.50%	Sep 10: No change
Apr 9: No change	Oct 8: No change
May 7: No change	Nov 5:
Jun 4: No change	Dec 10:

ECB Governing Council Meetings

Nov 6: -50bp to 3.25%	Jun 4: No change
Dec 4: -75bp to 2.50%	Jul 2: No change
Jan 15: -50bp to 2.00%	Aug 6: No change
Feb 5: No change	Sep 3: No change
Mar 5: -50bp to 1.50%	Oct 8: No change
Apr 2: -25bp to 1.25%	Nov 5:
May 7: -25bp to 1.00%	Dec 3:

US Federal Open Market Committee Meetings

Oct 28/29: -50bp to 1.00%	Jun 24: No change
Dec 16: -75bp to 0.0-0.25%	Aug 12: No change
Jan 28: No change	Sep 23: No change
Mar 17: No change	Nov 4:
Apr 29: No change	Dec 16:

Bank of Japan Monetary Policy Meetings

Jan 22: No change	Jul 15: No change
Feb 19: No change	Aug 11: No change
Mar 17: No change	Sep 17: No change
Apr 7: No change	Oct 14: No change
Apr 28: No change	Oct 30: No change
May 22: No change	Nov 20:
Jun 16: No change	Dec 18:

























Reserve Bank of Australia's Policy Meetings

Dec 2: -100bp to 4.25%	Jul 7: No change
Feb 3: -100bp to 3.25%	Aug 4: No change
Mar 3: No change	Sep 1: No change
Apr 7: -25bp to 3.00%	Oct 6: +25bp to 3.25%
May 5: No change	Nov 3:
Jun 2: No change	Dec 1:

Bank of Canada's Policy Meetings

Jan 20: -50bp to 1.00%	Jul 21: No Change
Mar 3: -50bp to 0.5%	Sep 10: No change
Apr 21: -25bp to 0.25%	Oct 20: No change
Jun 4: No Change	Dec 8:

* denotes inter-meeting rate cut

 Best Structured Product House 2009 	 4th Globally in FX Overall Market Share 2009 	 #1 Currency Options Overall 2009 	 #5 Interest Rate Options Overall 2009 
 #1 GBP Inflation Products 2009 	 Rising Star Equity Derivatives House 2009 	 Investment-Grade Corporate Bond House 2008 	 Asia Pacific Deal of the Year Wing Hang Bank 2009 
 Overall Emerging Market Deal of the Year KazMunaiGas 2009 	 2nd Overall Base Metals Dealer/Broker 2009  <small>Sempra Commodities</small>	 #1 in Electricity Europe - Eastern Europe 2009  <small>Sempra Commodities</small>	 #1 FT Starmine Broker Rankings - Europe 2008 

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