Research & Strategy

The Royal Bank of Scotland

5 November 2009

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

ECB Governing Council Meetings

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

US Federal Open Market Committee Meetings

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

Bank of Japan Monetary Policy Meetings

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

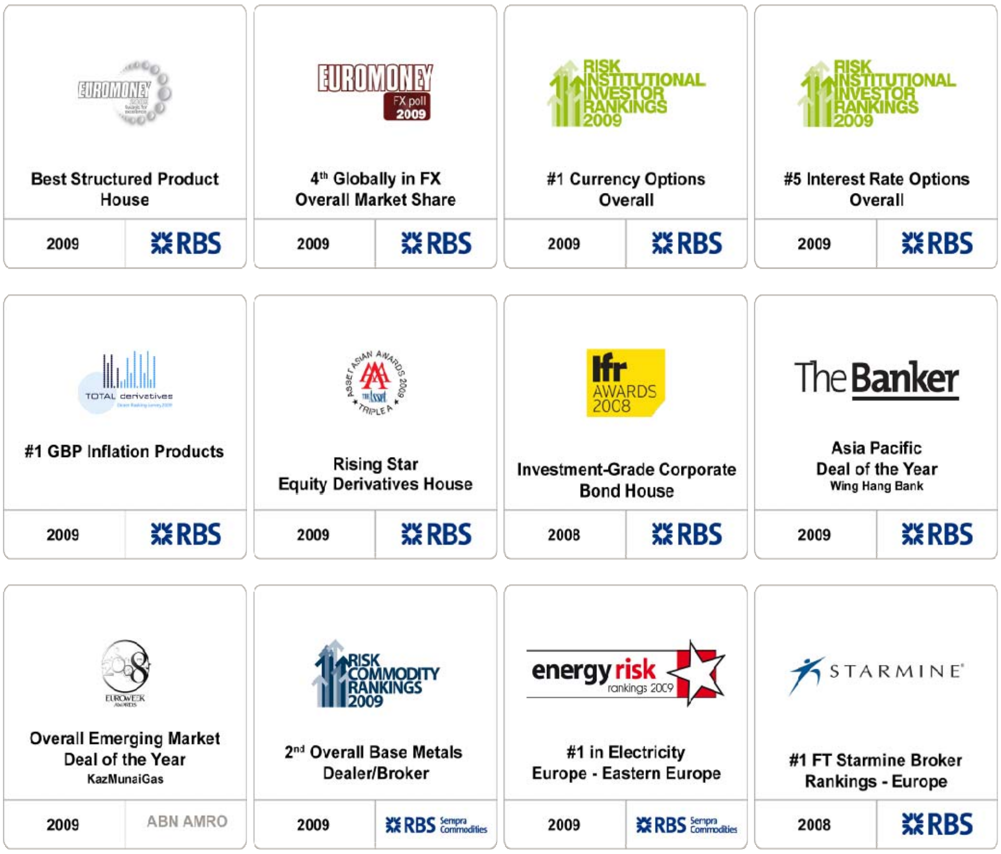
Reserve Bank of Australia's Policy Meetings

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

Bank of Canada's Policy Meetings

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

* denotes inter-meeting rate cut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2008
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