



Central Bank Watch

G3

US

The Fed has made it clear that following its decision to delay in September, it still expects to lift off this year. We expect this to occur in December assuming the labor market continues to improve and financial market turbulence eases somewhat. We see rates rising slowly further next year, with reinvestment taper occurring by midyear.

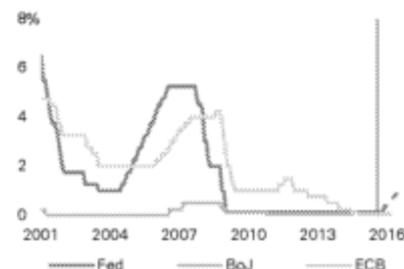
Japan

Rising wages and a tightening labor market appear to give the BoJ confidence that inflation will eventually head higher, although the renewed commodity price decline and contraction in Q2 GDP likely will delay the rise. As long as the labor market continues to tighten, we expect the current policy stance to be maintained – but the risk remains biased in the direction of the BoJ deciding to augment asset purchases again. We don't expect any tapering off of asset purchases until well after the April 2017 consumption tax increase.

Euroland

Mario Draghi's message has remained consistent: the ECB is fully committed to its QE programme through to September 2016, and the risks are tilted to more QE, not less, with the ECB willing to respond to an unwarranted tightening of financial conditions.

Figure 1: G3 policy rates



%	Current	Sep-15	Dec-15	Mar-16	Jun-16
Fed	0.13	0.13	0.38	0.63	0.88
BoJ	0.10	0.10	0.10	0.10	0.10
ECB	0.05	0.05	0.05	0.05	0.05

Source: Deutsche Bank Research

Other European countries

UK

Recent market moves have called into question the speed with which both the Fed and BoE will begin to raise interest rates. However, our view remains for lift-off in Bank of England policy rates from May next year.

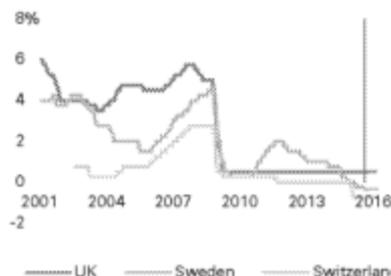
Sweden

The Riksbank loosened policy in July, cutting the repo rate 10bp to -0.35% and extending modestly its QE program.

Switzerland

The SNB abandoned the CHF peg earlier this year. With EUR/CHF now at our year-end 1.10 target, we see further gradual depreciation going forward.

Figure 2: Key European policy rates



%	Current	Sep-15	Dec-15	Mar-16	Jun-16
BoE	0.50	0.50	0.50	0.50	0.75
SRB	-0.35	-0.35	-0.35	-0.35	-0.35
SNB	-0.75	-0.75	-0.75	-0.75	-0.75

Source: Deutsche Bank Research