



# Central Bank Watch

## G3

### US

We expect the pace of rate hikes to proceed initially at a gradual pace, with the Fed raising rates three times in 2016. The pace of hikes should pick up in 2017 as inflation pressures begin to build. We expect the Fed to maintain its reinvestment policy through this year, keeping their balance sheet stable.

### Japan

The tightening labor market appears to be feeding into rising "core core" inflation, which has risen to a near 25-year high in recent months (adjusted for consumption tax increases) despite weak economic growth. As the base effect on oil prices drops off, year-on-year headline and core inflation rates will likely rise in the coming months. While the risk remains biased in the direction of the BoJ deciding to augment asset purchases, we don't expect any change in policy either way before the April 2017 consumption tax increase.

### Euroland

Our baseline view is that the ECB will not ease policy any further. There are only risks that the policy stance becomes more accommodative. The further decline in oil prices in recent weeks combined with the global shocks at the start of the year are increasing those risks.

## Other European countries

### UK

The Bank of England's latest Inflation Report showed inflation rising back to target based on a somewhat lower profile for market interest rates. While we expect the first hike in May 2016, the risks are skewed towards delay.

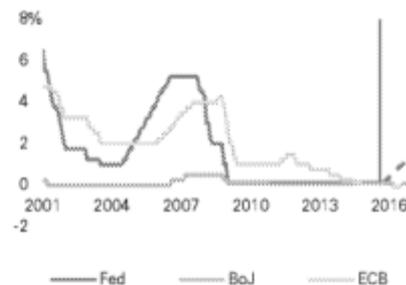
### Sweden

In December the Riksbank left its rates profile broadly unchanged, suggesting rates will remain sub-zero until end-2017.

### 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 1: G3 policy rates



%	Current	Mar-16	Jun-16	Sep-16	Dec-16
Fed	0.38	0.63	0.88	1.13	1.13
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

Figure 2: Key European policy rates



%	Current	Mar-16	Jun-16	Sep-16	Dec-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