

View from the bridge: the Fed meets January 27, 2016

Nobody expects America's central bank to change interest rates at the two-day meeting that started yesterday. But analysts will scrutinise this afternoon's statement for the Federal Reserve's reading of the turmoil that has struck financial markets since it raised rates in December. Some are already calling that decision a mistake. Since then the oil price has fallen by 20%, the dollar has risen by 2.4% (trade-weighted) and economists have marked down their estimates of growth in the fourth quarter of 2015.

These trends will weigh on prices: inflation expectations as implied by the price of interest-rate swaps have fallen to a new low of close to 1.5%, well below the Fed's 2% target. But do not expect rate-setters to change course unless the labour market wobbles. And with luck, by the time of their next meeting, in March, this month's market tantrums may be a distant memory.



Source: Federal Reserve Bank of St Louis