

## US: SEPTEMBER FOMC MINUTES SHOW DIVIDE BUT HIKE LIKELY SOON

The minutes to the 20-21 September FOMC meeting highlight the tension between participants preferring a slow wait-and-see approach to policy and those wanting a quick resumption of policy normalization.

Participants in favor of a hike at the September meeting, where there were three official dissents, argued that:

- 1) **The economy was very close to the Fed's dual mandate**
- 2) **The Fed's recent policy incorporated too much discretion**
- 3) Waiting too long to normalize policy could lead to a sharp steepening of the interest rate path and cause a recession
- 4) Further delays could **hurt the Fed's credibility**
- 5) Extended period of low policy rates could be leading to risky financial practices
- 6) Low rates are probably causing some institutions to save as opposed to spend/invest more
- 7) Lower natural rate of interest means that monetary policy cannot alleviate structural issues

Those in favor of leaving policy unchanged believed that there was remaining labor market slack and thus a low chance of easy policy leading to a spike in inflation, and preferred to wait for additional evidence of the Fed making progress towards its goal. Data received since the September meeting reflects continued progress - the September jobs report was solid and the core PCE deflator increased to 1.7% in August, moving closer to the Fed's 2% target (core CPI is already above 2%).

With the growing concerns both inside and outside the Fed about the limited effect of monetary policy, several participants who preferred to delay a hike saying the decision was **"a close call", and evidence of continued progress towards the Fed's dual mandate**, the dovish Fed will finally increase rates at the December meeting. A hike at the **November meeting is unlikely due to the FOMC's unstated wish to avoid any financial market disturbance** just days before the US elections.

The economy is being held down by supply side issues which are out of the Fed's control. The sluggish pace of business investment despite the low real cost of capital illuminates this problem with excessive regulatory burdens and uncertainty about future tax and regulatory policy adversely impacting business decisions. (See paper **discussing the limited effects of the Fed's policy on the economy here: "[Resetting Fed Policy](#)"** - 7 October 2016).

The Fed's prolonged low interest rate policy has distorted financial market behavior and other unknown consequences likely exist. It is best for the FOMC to continue normalizing policy in order to boost the **public's confidence about the economic outlook** and encourage a return to more normal financial market functioning. Moreover a 25bp increase in rates should not hinder economic growth. The Fed has stressed normalizing policy at a gradual pace – if its policy rate is just over 1% next year, as it projects, policy will still be very accommodative.

*The next key Fed event is Chair Yellen's speech at the Boston Fed's annual economics conference on Friday, 14 October.*

13 October 2016

---

## Disclaimer

This document was compiled by the above mentioned authors of the economics department of Berenberg Capital Markets LLC (hereinafter also referred to as “BCM”). **BCM has made any effort to carefully research and process all information.** The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute a financial analysis, investment advice or recommendation to **buy financial instruments. It does not replace the recipient’s procurement of independent legal, tax or financial advice.**

This document has been classified as fair and balanced for the purposes of FINRA rules. Please contact Berenberg Capital Markets LLC (+1 617.292.8200), if you require additional information.

### Remarks regarding foreign investors

The preparation of this document is subject to regulation by US law. The distribution of this document in other jurisdictions may be restricted by law, and persons, into whose possession this document comes, should inform themselves about, and observe, any such restrictions.

### United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

### Copyright

**BCM is a wholly owned subsidiary of Joh. Berenberg, Gossler & Co. KG (“Berenberg Bank”). BCM reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the BCM’s prior written consent. Berenberg Bank may distribute this commentary on a third party basis to its customers.**

© July 2015 Berenberg Capital Markets, LLC, Member FINRA and SPIC.

# Contacts: BCM

www.berenberg.com  
e-mail US: firstname.lastname@berenberg-us.com



JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

## EQUITY RESEARCH

### AEROSPACE & DEFENCE

Andrew Gollan +44 20 3207 7891  
Charlotte Keyworth +44 20 3753 3013  
Ross Law +44 20 3465 2692

### AUTOMOTIVES

Adam Hull +44 20 3465 2749  
Paul Kratz +44 20 3465 2678

### BANKS

Adam Barrass +44 20 3207 7923  
James Chappell +44 20 3207 7844  
Andrew Lowe +44 20 3465 2743  
Andreas Markou (EM) +44 20 3753 3022  
Eoin Mullany +44 20 3207 7854  
Peter Richardson +44 20 3465 2681  
Jonathan Sharpe +44 20 3753 3031

### BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719  
Batuhan Karabekir (EM) +44 20 3465 2631  
Adam Mizrahi +44 20 3465 2653

### BUSINESS SERVICES, LEISURE & TRANSPORT

Roberta Claccia +44 20 3207 7805  
Najet El Kassir +44 20 3207 7836  
Stuart Gordon +44 20 3207 7858  
Josh Puddle +44 20 3207 7881  
Julia Winarso +44 20 3465 2627

### CAPITAL GOODS

Sebastian Kuene +44 20 3207 7856  
Philippe Lorrain +44 20 3207 7823  
Rizk Maldi +44 20 3207 7806  
Horace Tam +44 20 3465 2726  
Simon Toennesen +44 20 3207 7819

## EQUITY SALES

### SPECIALIST SALES

#### AEROSPACE & DEFENCE

Bruna Zugliani +44 20 3207 7818

#### AUTOMOTIVE & THEMATICS

Chris Armstrong +44 20 3207 7809

#### BANKS & DIVERSIFIED FINANCIALS

Iro Papadopoulou +44 20 3207 7924

#### BUSINESS SERVICES, LEISURE & TRANSPORT

Rebecca Langley +44 20 3207 7930

#### CONSTRUCTION, CHEMICALS, METALS & MINING

James Williamson +44 20 3207 7842

#### CONSUMER STAPLES

Rupert Trotter +44 20 3207 7815

#### CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

#### HEALTHCARE

Frazer Hall +44 20 3207 7875

#### MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

#### SPECIAL SITUATIONS

Jeremy Grant +44 20 3207 7890

### SALES

#### BENELUX

Miel Bakker +44 20 3207 7808  
Martin de Laet +44 20 3207 7804  
Alexander Wace +44 20 3465 2670

#### GERMANY

Michael Brauburger +49 69 91 30 90 741  
Nina Buechs +49 69 91 30 90 735  
André Grosskurth +49 69 91 30 90 734

### CHEMICALS

Sebastian Bray +44 20 3753 3011  
Andrew Heap +44 20 3207 7918

### CONSTRUCTION

Lush Mahendrarajah +44 20 3207 7896  
Robert Muir +44 20 3207 7860  
Olivia Peters +44 20 3465 2646

### ENERGY

Yuriy Kukhtanych (EM) +44 20 3465 2675

### FOOD MANUFACTURING AND H&PC

Rosie Edwards +44 20 3207 7880  
Yordana Mavrodieva +44 20 3207 7817  
Fintan Ryan +44 20 3465 2748  
James Targett +44 20 3207 7873

### FOOD RETAIL

Batuhan Karabekir (EM) +44 20 3465 2631

### GENERAL MID CAP - EU

Gunnar Cohrs +44 20 3207 7894  
Martin Comtesse +44 20 3207 7878  
Flavien Hias +44 20 3465 2693  
Aymeric Lang +44 20 3753 3037  
Anna Patrice +44 20 3207 7863  
Benjamin Pfannes-Varrow +44 20 3465 2620  
Simona Sarli +44 20 3207 7834  
Julia Scheufler +44 20 3753 3016

### GENERAL MID CAP - UK

Robert Chantry +44 20 3207 7861  
Sam England +44 20 3465 2687  
Ned Hammond +44 20 3753 3017  
Benjamin May +44 20 3465 2667  
Owen Shirley +44 20 3465 2731

### GERMANY (cont'd)

Florian Peter +49 69 91 30 90 740  
Joerg Wenzel +49 69 91 30 90 743

### UK

Alexandra Clément +44 20 3753 3018  
Fabian De Smet +44 20 3207 7810  
Karl Hancock +44 20 3207 7803  
Sean Heath +44 20 3465 2742  
David Hogg +44 20 3465 2628  
Peter Kaineder +44 20 3753 3062  
James Matthews +44 20 3207 7807  
David Mortlock +44 20 3207 7850  
Eleni Papoula +44 20 3465 2741  
Bhavin Patel +44 20 3207 7926  
Richard Payman +44 20 3207 7825  
Joanna Sanders +44 20 3207 7925  
Mark Sheridan +44 20 3207 7802  
George Smbert +44 20 3207 7911  
Anita Surana +44 20 3207 7855  
Paul Walker +44 20 3465 2632

### FRANCE

Thibault Bourgeat +33 1 5844 9505  
Alexandre Chevassus +33 1 5844 9512  
Dailia Farigoule +33 1 5844 9510  
Clémence Peyraud +33 1 5844 9521  
Benjamin Voisin +33 1 5844 9507

### SCANDINAVIA

Frederik Angel +44 20 3753 3055  
Marco Weiss +49 40 350 60 719

### GENERAL RETAIL

Conrad Bartos +44 20 3753 3053  
Michelle Wilson +44 20 3465 2663

### HEALTHCARE

Scott Bardo +44 20 3207 7869  
Jakob Berry +44 20 3465 2724  
Alistair Campbell +44 20 3207 7876  
Graham Doyle +44 20 3465 2634  
Klara Fernandes +44 20 3465 2718  
Tom Jones +44 20 3207 7877  
Joseph Lockey +44 20 3465 2730  
Louise Pearson +44 20 3465 2747  
Laura Sutcliffe +44 20 3465 2669

### INSURANCE

Trevor Moss +44 20 3207 7893  
Emanuele Musio +44 20 3207 7916  
Iain Pearce +44 20 3465 2665  
Sami Taipalus +44 20 3207 7866

### LUXURY GOODS

Zuzanna Pusz +44 20 3207 7812

### MEDIA

Robert Berg +44 20 3465 2680  
Laura Janssens +44 20 3465 2639  
Alastair Reid +44 20 3207 7841  
Sarah Simon +44 20 3207 7830

### METALS & MINING

Alessandro Abate +44 20 3753 3029  
Fawzi Hanano +44 20 3207 7910  
Yuriy Vlasov +44 20 3465 2674

### SWITZERLAND, AUSTRIA & ITALY

Andrea Ferrari +41 44 283 2020  
Carsten Kinder +41 44 283 2024  
Gianni Lavigna +41 44 283 2038  
Jamie Nettleton +41 44 283 2026  
Benjamin Stillfried +41 44 283 2033

### CRM

Louise Hughes +44 20 3753 3066  
Jessica Jarmyn +44 20 3465 2696  
Edwina Lucas +44 20 3207 7908  
Greg Swallow +44 20 3207 7833

### CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821  
Jennie Jiriny +44 20 3207 7886  
Stella Siggins +44 20 3465 2630

### EVENTS

Laura Hawes +44 20 3753 3008  
Suzy Khan +44 20 3207 7915  
Charlotte Kilby +44 20 3207 7832  
Natalie Meech +44 20 3207 7831  
Ellen Parker +44 20 3465 2684  
Sarah Weyman +44 20 3207 7801

### SALES TRADING

HAMBURG  
Tim Storm +49 40 350 60 415

### PARIS

Vincent Klein +33 1 58 44 95 09  
Antonio Scutto +33 1 58 44 95 03

### REAL ESTATE

Kai Klose +44 20 3207 7888  
Tina Munda +44 20 3465 2716

### TECHNOLOGY

Jean Beaubois +44 20 3207 7835  
Georgios Kertsos +44 20 3465 2715  
Gal Munda +44 20 3465 2746  
Tammy Qiu +44 20 3465 2673

### TELECOMMUNICATIONS

Ondrej Cabejssek (EM) +44 20 3753 3071  
Usman Ghazi +44 20 3207 7824  
Siyi He +44 20 3465 2697  
Laura Janssens +44 20 3465 2639  
Paul Marsch +44 20 3207 7857  
Michael Summerville +44 20 3207 7914

### THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838  
Asad Farid +44 20 3207 7932

### TOBACCO

Jonathan Leinster +44 20 3465 2645

### UTILITIES

Robin Abrams +44 20 3465 2635  
Andrew Fisher +44 20 3207 7937  
Lawson Steele +44 20 3207 7887

### ECONOMICS

Florian Hense +44 20 3207 7859  
Carsten Hesse (EM) +44 20 3753 3001  
Kallum Pickering +44 20 3465 2672  
Holger Schmieding +44 20 3207 7889

### LONDON

Mike Berry +44 20 3465 2755  
Stewart Cook +44 20 3465 2752  
Mark Edwards +44 20 3753 3004  
Tristan Hedley +44 20 3753 3006  
Peter King +44 20 3753 3139  
Christoph Kleinasser +44 20 3753 3063  
Chris McKeand +44 20 3207 7938  
Simon Messman +44 20 3465 2754  
AJ Pulley +44 20 3465 2756  
Michael Schumacher +44 20 3753 3006  
Paul Somers +44 20 3465 2753

### EQUITY TRADING

#### HAMBURG

David Hohn +49 40 350 60 761  
Gregor Labahn +49 40 350 60 571  
Lennart Pleus +49 40 350 60 596  
Marvin Schweden +49 40 350 60 576  
Linus Weidner +49 40 350 60 798  
Philipp Wiechmann +49 40 350 60 346  
Christoffer Winter +49 40 350 60 559

#### LONDON

Edward Burlison-Rush +44 20 3753 3055  
Richard Kenny +44 20 3753 3083

### ELECTRONIC TRADING

Daniel Eichhorn +49 40 350 60 391  
Matthias Führer +49 40 350 60 597

BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

E-mail: firstname.lastname@berenberg-us.com

## EQUITY SALES

### SALES

Kelleigh Faldi +1 617 292 8288  
Isabella Fantini +1 646 445 4861  
Shawna Giust +1 646 445 7216  
Rich Harb +1 617 292 8228  
Zubin Hubner +1 646 445 5572  
Jessica London +1 646 445 7218  
Ryan McDonnell +1 646 445 7214

### SALES (cont'd)

Emily Mouret +1 415 802 2525  
Peter Nichols +1 646 445 7204  
Kieran O'Sullivan +1 617 292 8292

### CRM

Laura Cooper +1 646 445 7201

### CORPORATE ACCESS

Olivia Lee +1 646 445 7212  
Tiffany Smith +1 646 445 4874

### EVENTS

Patricia Ehrhart +1 646 445 4863

## SALES TRADING

Christopher Kanian +1 646 445 5576  
Lars Schwartz +1 646 445 5571  
Brett Smith +1 646 445 4873  
Bob Spillane +1 646 445 5574

### ECONOMICS

Mickey Levy +1 646 445 4842  
Roiana Reid +1 646 445 4865