

The NewsLine

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} MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

USA

Fed remains on hold

Although in recent months the Federal Reserve had been preparing markets for a rate hike, it has decided to remain on hold. The zero interest rate policy in force since the end of 2008 thus remains in place for the time being.

The Fed is evidently still not sufficiently convinced that inflation is heading back to the objective of 2% over the medium term. The gyrations on the markets in recent weeks also played a role. To this extent, the Fed appears to have taken on board the concerns expressed by the IMF and the World Bank about a rate hike at this point in time. By postponing the interest rate move the Fed doubtless gains more time to assess the impact of less favorable financial conditions on the US real economy. However, the problems in China and other emerging markets are largely of a structural nature and won't look any different in a few weeks' time. The day on which the economic environment is so balanced and stable that a rate hike would involve no risks whatsoever might never come.

By remaining on hold, while keeping a rate rise on the table, the Fed itself remains a source of market volatility. The release of every economic indicator will be scrutinized closely to gauge the implications for US interest rate policy. The Fed's wait-and-see stance is unlikely to contribute to more market stability.

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This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

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