



Will the U.S. Raise Interest Rates This Year?

Description

The Bank of Canada's key lending rate stands at 0.5% after it cut the figure twice earlier this year. Meanwhile, the U.S. raised rates to 0.5% last December.

That's bad news for the loonie.

Typically, currencies with higher interest rates tend to have stronger values versus those with lower borrowing rates. If the current situation continues, it will be nearly impossible for the Canadian dollar to maintain any semblance of strength.

But will current conditions actually continue?

Over the summer **Goldman Sachs Group Inc.** ([NYSE:GS](#)) analyst Jan Hatzius said that "The chance of a rate hike by year-end is 80%." His new report believed that the latest payroll report was "just enough" for the U.S. Federal Reserve to raise rates in September.

Still, North American stock markets were up on September 20, even as the U.S. Federal Reserve started a two-day meeting. *CTV News* reported that "Investors don't expect the Fed to raise interest rates, but they will be keeping an eye on its plans for the rest of the year."

Avery Shenfeld, chief economist at **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)), also does not think the Fed will hike interest rates or even imply that it might given "the recent string of soft data." GDP growth averaged just 1% in the first half of the year with the manufacturing and service sectors showing contractions in August.

"We had a weak first half, then a month or two of better data and now a month of softer data. Have we put the soft data from the start of the year clearly behind us? I would have to say no," Shenfeld said. "Having so many swings and misses, it behooves you to stay silent now."

“The conditions for a rate hike are simply not there yet,” agrees Douglas Porter, chief economist at **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)). “The August data have nearly run the table to the disappointing side.”

It seems that it’s becoming less and less likely that the U.S. Federal Reserve will hike interest rates this month. That’s likely the reason behind the loonie approaching US\$0.80 versus the U.S. dollar.

But a surprise hike can’t be ruled out.

Economists at both **Barclays PLC** ([NYSE:BCS](#)) and **BNP Paribas SA**, for example, believe the Fed will lift rates.

“While market-implied probabilities say a rate hike is completely off the table, our reading of the situation suggests a much closer call,” said Michael Gapen, the chief U.S. economist at Barclays. “We are not crazy. At least we don’t think we are. We believe the outlook, on balance, has evolved in a manner that clears the Fed’s stated threshold for action.”

The loonie will surely sway in one direction after a U.S. Fed decision is made. What that decision will be is highly uncertain—even the experts don’t know.

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