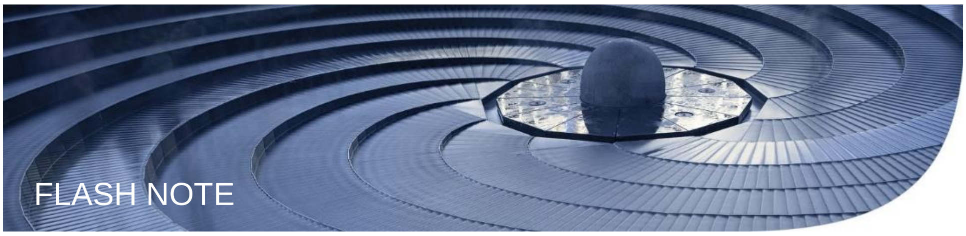

The Fed is converging further towards a scenario of normalisation

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> The FOMC, the Fed's monetary policy committee, has released its latest minutes, with generally more optimistic forward guidance, including possible upward revisions in the economic outlook on 21 March.

> The Fed expects three more rate hikes this year, but the financial markets continue to underestimate this number, with hikes expected in March (88% probability) and prior to September (55%).

> We nonetheless reiterate our expectation of four rate hikes in 2018, which is the consensus of major investors, a consensus that looks even safer, now that wage hikes will lead to a greater increase in inflation in 2018.

The FOMC's latest (January) minutes confirm that all members now agree that US economic momentum is gathering strength, along with views more optimistic than in December on an acceleration in activity.

In particular, the short-term impact of tax reform, which was approved in December, "could be greater than initially expected". When combined with continued favourable financial conditions for households and companies, US economic activity could expand more in 2018 than suggested in recent forecasts (2.5% economic growth, 1.9% core inflation, and 3.9% U3 unemployment) strengthening the labour market and contributing to an upturn in inflationary pressures.

Accordingly, and as it announced in January, the Fed expects potentially "more" interest-rate hikes. The latest dot plots – i.e., the median number of rate hikes expected by FOMC members – suggest three 25bp hikes in 2018.

Even so, the strengthening in the labour market and the upward acceleration in both consumer and producer prices (driven by healthcare spending) reinforces our view that inflationary pressures are currently accelerating in the US. **Our baseline scenario assumes an upward, but gradual trend in US inflation.**

The minutes of the FOMC's January meeting did not take into account the recent increase in job creations, the acceleration in hourly wages from 2.7% to 2.9%, or the budget agreement allowing the use of Fed funds to reduce the US deficit. Once these latest figures are factored in, the FOMC could express greater optimism on economic activity at its next meeting, on 21 March.

Accordingly, we believe that four key rate hikes in 2018 is the most likely scenario.

On the financial markets, US sovereign bond yields rose by 6bp Wednesday evening before levelling off at 2.92%, bringing the year-to-date increase to 50bp. The US dollar at first gave up ground to the euro before recovering to EUR/USD 1.228. And, lastly, expectations of monetary tightening triggered a correction on US equity markets (down 0.7% at the close), with the exception of the banking sector.