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## Bonds News

### Fed could hike rates for another year-SF Fed study

Tue May 24, 2005 11:59 AM ET

CHICAGO, May 24 (Reuters) - If a "rule of thumb" about Federal Reserve monetary policy cycles holds true, the U.S. central bank could keep increasing interest rates for another year, a report from the San Francisco Federal Reserve said.

From 1984 to 2005, once the Fed embarked on a new policy direction it typically raised or lowered the key federal funds rate by some 3.75 percentage points over two years, said Oscar Jorda, visiting scholar at the bank and an associate professor of economics at University of California-Davis.

"Suppose we take the 3.75 percent rule of thumb and apply it to the latest round of Fed increases," Jorda wrote in the bank's economic letter.

"It would mean that the FOMC would continue to increase the funds rate up to 4.75 percent by June 2006."

Jorda's study showed the Fed typically shifts rates by about 0.165 percent per month, or about 25 basis points per Federal Open Market Committee meeting, over 15 consecutive meetings.

In the current tightening cycle the FOMC has raised rates by a quarter percentage point eight times, starting in June 2004. That has taken the fed funds rate to 3.0 percent from a highly accommodative 1.0 percent.

The funds rate is at the bottom rung of what is often termed a "neutral" range of 3 percent to 5 percent, that neither promotes nor stymies U.S. economic growth.

Fed officials typically avoid being tied down on what constitutes a neutral rate. Last week, Fed Chairman Alan Greenspan said of neutrality, "we'll know it when we see it."

However, the year-end fed funds rate of 3.70 percent implied by Eurodollar futures (EDZ5: [Quote](#), [Profile](#), [Research](#)) suggests the Fed will skip a rate hike at two of its remaining five meetings in 2005.

The implied funds rate (EDM6: [Quote](#), [Profile](#), [Research](#)) by June 2006, Jorda's theoretical end-point of the current tightening cycle, is currently near 3.86 percent.

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EDZ5	3-MTH EURO\$ DEC5	96.08	-0.00	-0.01%	

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