

ECONOMIC REVIEW | August 2018 US FOMC Meeting**Fed Holds Rate, Signals Increases to Come**

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- *Headline inflation rose to 6-year high. The US headline inflation up by 2.9%yoy in Jun-18, highest since Feb-12. The rise in inflation is mainly due to rising global commodity prices, stable rise in domestic demand and weakening Dollar. Transport price increases by 6.4%yoy, fastest in 16-month. On top of that, core inflation reaches 2.3%yoy, highest since Jan-17.*
- *We expect another two rate hikes in 2018. We anticipate Fed will raise its interest rate four times in 2018. On top of that, we also foresee a gradual path of rate hikes in 2019 and 2020.*

No change as expected. The latest FOMC meeting decided to maintain its interest rate to the range of 1.75-2.00%, in line with market expectations. Amid solid pick up in the US economy, the Fed remains hawkish on its monetary stance. We align our forecast for another two more rate hikes this year in line with Fed's new quarterly dot plot which shows that the median member predicts rates will be between 2.25-2.5% by the end of 2018. We anticipate the next FOMC meeting in Sep-18 and Dec-18 will see the Fed increasing the rate by another 25 basis points on each occasion.

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The labour markets remain steadfast. Steady labour market in Jun-18 which non-farm payroll (NFP) added 213K jobs, higher than market expectations of 195K. Comparatively, average monthly jobs added for 1H18 is 215K against 2017's 182K. Among others, the solid increase in job market is partly due to upbeat business activity, consumer confidence and effects of expansionary fiscal policy. In addition, unemployment rate in the US recorded at 4% in Jun-18, slightly higher than 18-year low of 3.8% in May-18. Consequently, wage growth as reflected by private average hourly earnings rose steadily by 2.8%yoy in Jun-18, fastest in 11-month. Moving forward, we foresee the steady labour market in the US will persist until the end of the year and thus supporting the Fed's moves to raise interest rate as guided in 2018.

Growing pressure on other central banks. Normalisation in the US's monetary policy would put pressure on other central banks to follow the same step. Economies such as South Korea and Taiwan which are highly dependent on the greenback and capital investment are likely to follow suit in regards to their monetary stance.


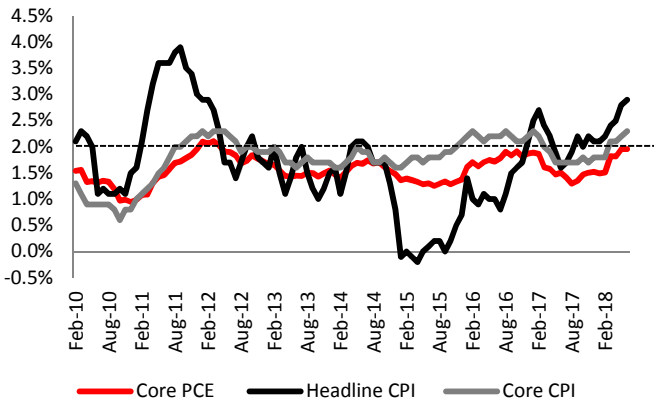
We expect another two rate hikes in 2018. In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid expansionary fiscal policy, optimistic business environment, pick up in household spending, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market. We anticipate Fed will raise its interest rate four times in 2018. On top of that, we also foresee a gradual path of rate hikes in 2019 and 2020. 

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.75	5.25
Philippines	3.50	3.50	3.50	3.50	3.75	4.00
Vietnam	4.25	4.25	4.25	4.25	4.25	4.25
Thailand	1.50	1.50	1.50	1.50	1.50	1.50
Korea	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	1.75	1.75	2.00	2.00	2.00	2.25
China	2.25	2.25	2.25	2.25	2.25	2.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.50	0.50	0.50	0.50	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.25	1.25	1.75	1.75	1.75	2.00

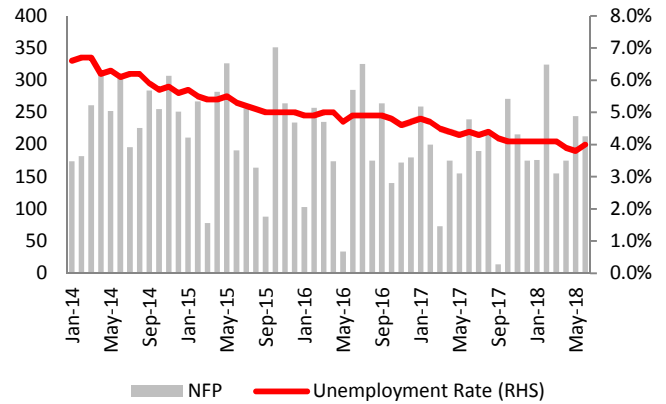
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



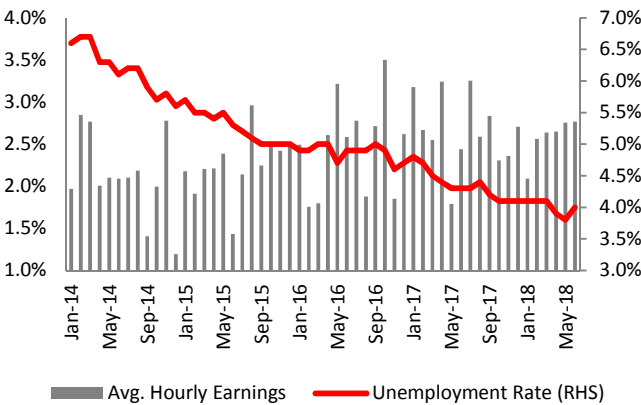
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



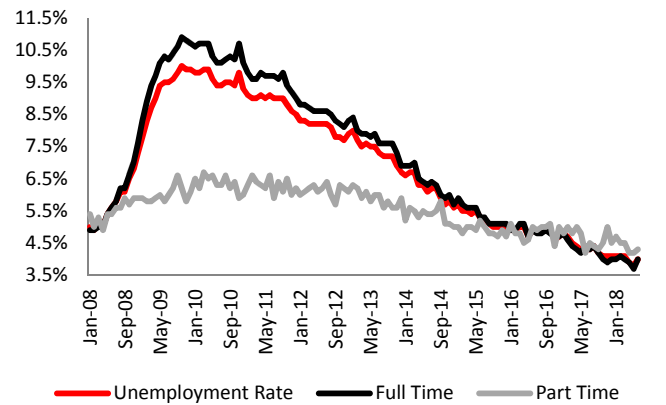
Source: CEIC; MIDFR

Chart 3: Wage Growth (YoY%) vs Unemployment Rate



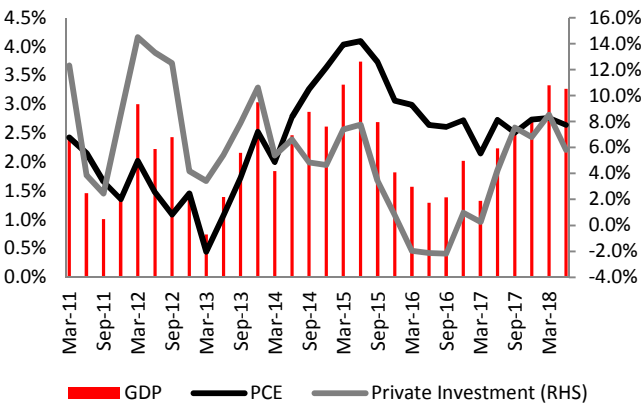
Source: CEIC; MIDFR

Chart 4: Unemployment Rate by Full vs Part Time (%)



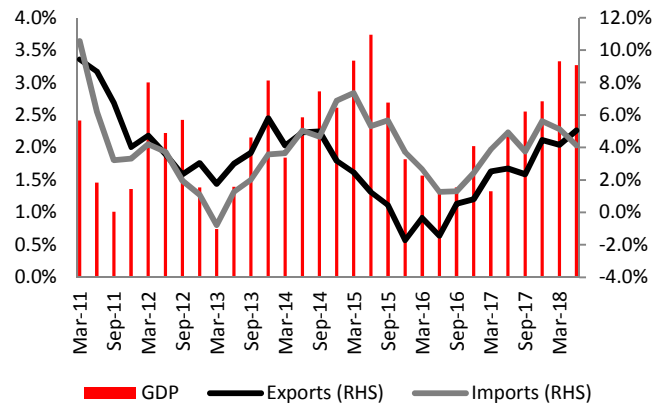
Source: CEIC; MIDFR

Chart 5: GDP Performances (YoY%)



Source: CEIC; MIDFR

Chart 6: GDP vs External Trade Performances (YoY%)



Source: CEIC; MIDFR

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