

ECONOMIC REVIEW | December 2017 US FOMC Meeting**Fed Raise Rates and Signals 3 Rate Hikes in 2018**

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- *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.*
- *We expect three rate hikes in 2018. In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices and tightening labour market. We predict the Fed will raise its interest rate to 2.00-2.25% by year-end of 2018.*

Fed raises rate as expected. The Fed decision to increase interest rates from 1.00-1.25% to 1.25-1.50% is well anticipated. The third rate hike in December meeting is expected due to strengthening labour market, steady pace in inflation and strong economic growth. For instance, GDP growth for 3Q17 recorded at 3.3%yoy, highest in 3 years.

Inflation rate up 2.2%. The US headline inflation stays on upward trending from 1.6% low in June 2017 to November's 2.2%. The rise in inflation is mainly due to hike in gasoline prices caused by the hurricane Harvey and Irma. Core inflation however cool down to 1.7% in November, down 0.1% from six month high recorded in October. Based on the Fed's preferred inflation indicator, core PCE inflation remains below the Fed's 2% target and in fact, has been on declining trend since early of this year, 1.9% in January to 1.7% in November 2017. Core inflation has consistently undershoot Fed's 2% target for the last 5 ½ years.

Unemployment rate at 16-year low. Unemployment rate in November recorded at 4.1%, lowest since February 2001. As labour market strengthens, we notice there is a slight improvement in consumer spending given that average hourly earnings grew by 2.4%yoy during the month and indirectly provide extra support on the US's domestic spending. Underpin by recovery from hurricane impacts, non-farm payrolls recorded strong figures in October and November by 244K and 228K respectively.

Balance sheet reduction proceeds as per plan. As announced before, The Fed will winding down its USD4.5tn crisis-era balance sheet next, by phasing out the reinvestment of principal from maturing securities, starting since October 2017. In truth, however, the move has been so well telegraphed and, at just USD10bn per month initially, the pace of run-down will be so gradual that it is unlikely to have a major impact on the economy or financial markets.

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 currency and capital investment are likely to follow suit in regards to their monetary stance


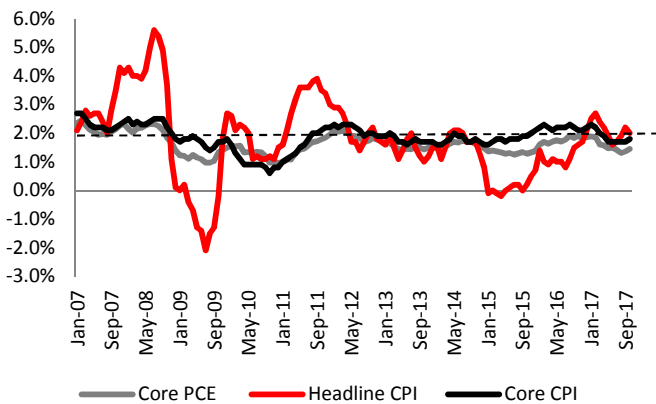
We expect three rate hikes in 2018. In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices and tightening labour market. We predict the Fed will raise its interest rate to 2.00-2.25% by year-end of 2018. 

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

Economies	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.50

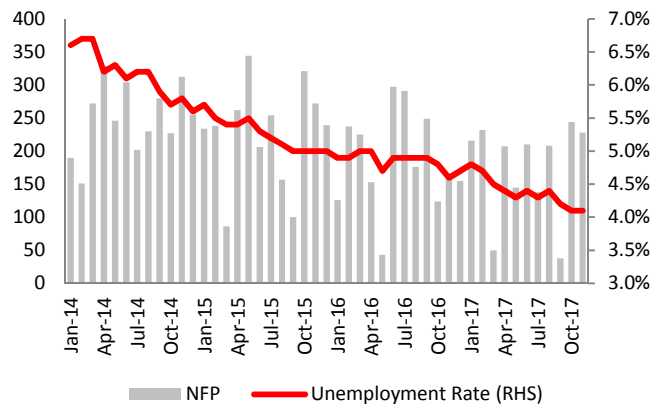
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



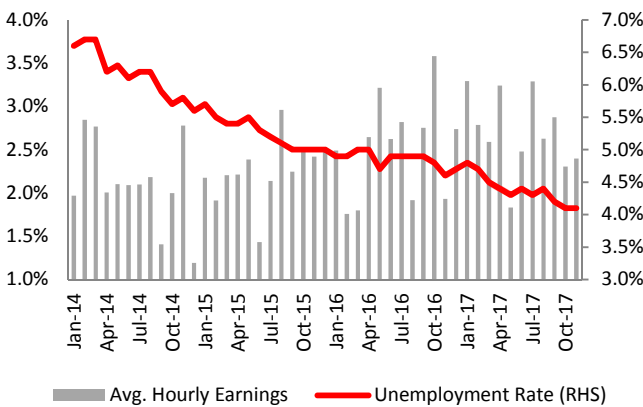
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



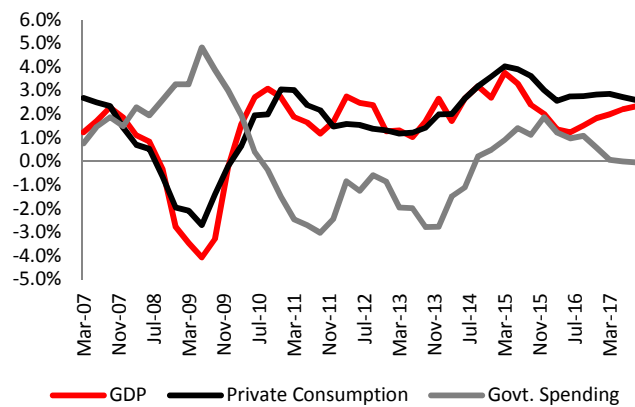
Source: CEIC; MIDFR

Chart 3: Wage Growth vs Unemployment Rate



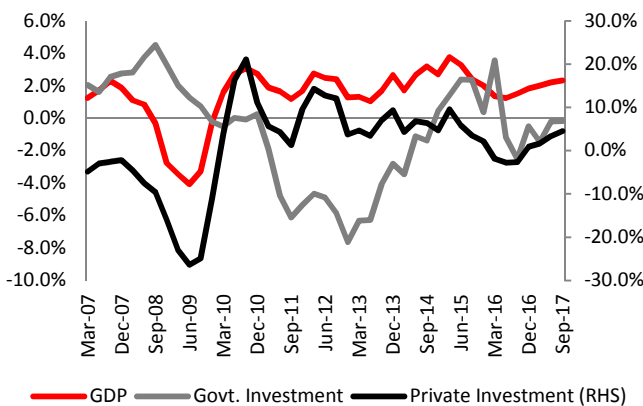
Source: CEIC; MIDFR

Chart 4: GDP vs Consumption Expenditures (YoY%)



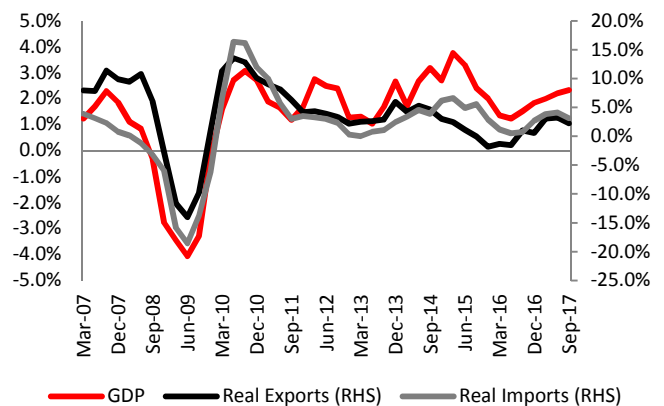
Source: CEIC; MIDFR

Chart 5: GDP vs Investment Expenditures (YoY%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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