

**ECONOMIC REVIEW | January 2018 US FOMC Meeting****Fed Leaves Rates Unchanged But Prepped Market for Normalization**

- *Janet Yellen's final meeting as Fed's Chair. In her last FOMC meeting, the committee decided to maintain interest rate at 1.50%. Amid gradual pick up in the US economy, the Fed remains hawkish on its monetary stance. We anticipate the Fed will follow through with its three rate hikes in 2018 as guided, with the first one in March.*
- *Inflation rate averaged at 2.1% in 2017. The US headline inflation up by 2.1%yoy in the final month of 2017, recording four consecutive months hovering above 2% level.*
- *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, build up inflationary pressure and tightening labour market.*


**Janet Yellen's final meeting as Fed's Chair.** In her last FOMC meeting, the committee decided to maintain interest rate at 1.50%. Amid gradual pick up in the US economy, the Fed remains hawkish on its monetary stance. We anticipate the Fed will follow through with its three rate hikes in 2018 as guided, with the first one in March.

**Inflation rate averaged at 2.1% in 2017.** The US headline inflation up by 2.1%yoy in the final month of 2017, recording four consecutive months hovering above 2% level. The rise in inflation is mainly due to rising global commodity prices and economic recovery from the impacts of hurricane Harvey and Irma. However, core inflation cool down to 1.9% last year, down 0.3% from 2016's average. 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 1.5% in December 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 December 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 2.6%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 November and December by 242K and 148K 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 and capital investment are likely to follow suit in regards to their monetary stance

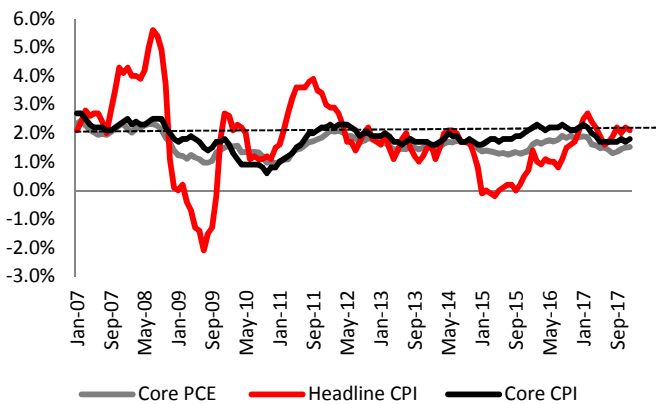
**We expect three rate hikes in 2018.** In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market. We predict the Fed will raise its interest rate three times in 2018. 

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

| Economies      | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Malaysia       | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.00   | 3.25   |
| Indonesia      | 4.75   | 4.75   | 4.75   | 4.50   | 4.25   | 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   | 6.25   | 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   | 1.50   | 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   | 0.50   | 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   | 1.25   | 1.25   | 1.25   | 1.25   | 1.25   | 1.25   | 1.50   | 1.50   |

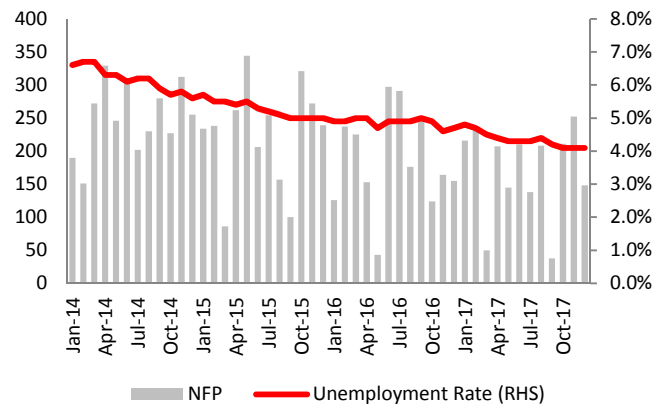
Source: CEIC; MIDFR

**Chart 1: Headline vs Core PCE Inflation (%)**



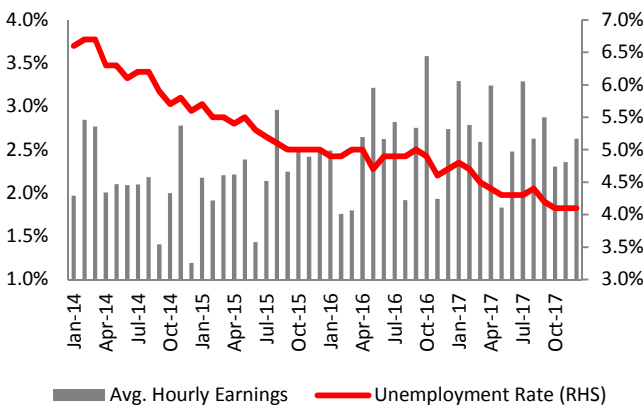
Source: CEIC; MIDFR

**Chart 2: Unemployment Rate vs Non-Farm Payroll**



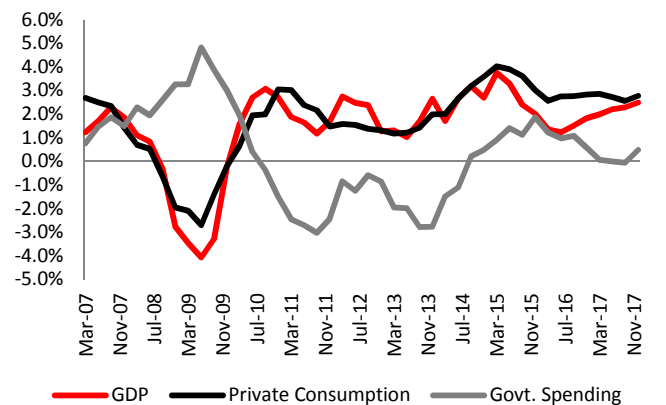
Source: CEIC; MIDFR

**Chart 3: Wage Growth vs Unemployment Rate**



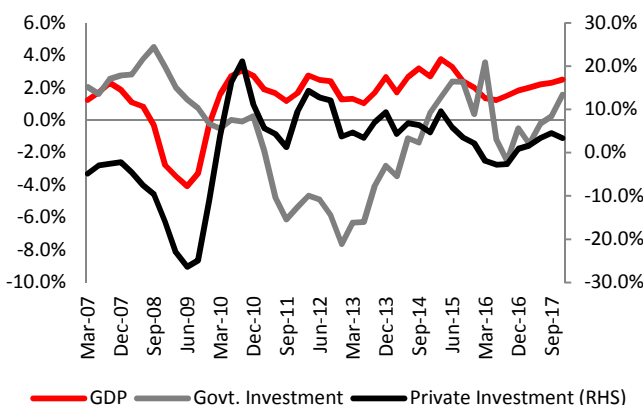
Source: CEIC; MIDFR

**Chart 4: GDP vs Consumption Expenditures (YoY%)**



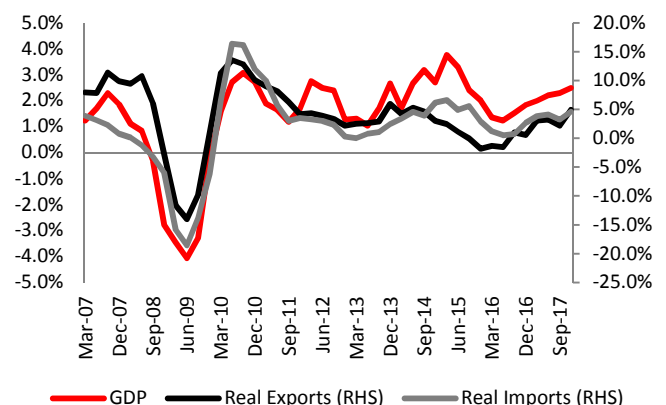
Source: CEIC; MIDFR

**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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