

ECONOMIC REVIEW | June 2017 US FOMC Meeting

Fed Raises Rate and Outlines Balance Sheet Reduction Plan

- *Hike in the Fed rate as expected. Fed decided to increase the federal funds rate (FFR) target in a range of 1.00% to 1.25% in the latest June meeting. Positive developments in the US's economic indicator especially strengthening labour market indicates stable and steady growth momentum in the US economy. Households spending and business fixed investment remain on upward trajectory.*
- *Fed may start balance sheet shrinking sooner than expected. In this meeting, the Fed maintains its policy of reinvesting principal payments of its assets and rolling over maturing Treasuries until normalisation of FFR takes place. The Fed highlighted that it may begin balance sheet reduction this year given the economy keeps growing as projected.*
- *We are maintaining our expectation of one more rate hike in the US this year. At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e by December.*

Hike in the Fed rate as expected. Fed decided to increase the federal funds rate (FFR) target in a range of 1.00% to 1.25% in the latest June meeting. Positive developments in the US's economic indicator especially strengthening labour market indicates stable and steady growth momentum in the US economy. Households spending and business fixed investment remain on upward trajectory. Plus, confidence levels among consumers and businesses for the past five months continue to record higher than previous year.

Inflation slowdowns in May while jobless rate nears 16-year low. Headline inflation hit 1.9% in May, slightly lower than April's inflation rate of 2.2%. Meanwhile, core PCE – the Fed preferred inflation measure continues to undershoot below its long-term target after falling to 1.5% in April from 1.6% in the previous month. We opine the risk to downside is high for inflation given the reflation steam in commodities is waning. Brent and WTI crude oil prices have been on down trend amid reports of supply glut globally.

Unemployment rate was down to 4.3% in May, the lowest in almost 16 years. Non-farm jobs grew by 138,000 in May, higher than long-term average of 126,000. Other indicators on domestic economy are showing upbeat momentum as such US retail sales continues to expand above 2016's average for fifth consecutive months. US retail sales rose by 3.8%yoy in May. On the other hand, consumer sentiment increases to 97.1 in May, highest in four months while the US ISM PMI registered at 54.9 point last month, staying above 50-point level for nine consecutive months.

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We are maintaining our expectation of one more rate hike in the US this year. At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e by December. Strengthening labour market and core PCE inflation hovering within or slightly above the long-term 2% target as well as firming up of domestic consumption should allow Fed to be on track with its normalisation plan for the year. 

Chart 1: Headline vs PCE Inflation (%)

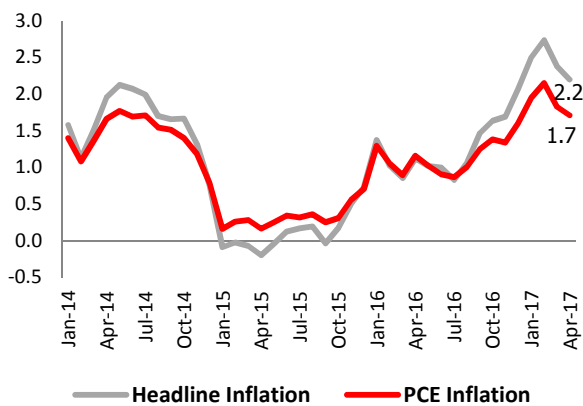
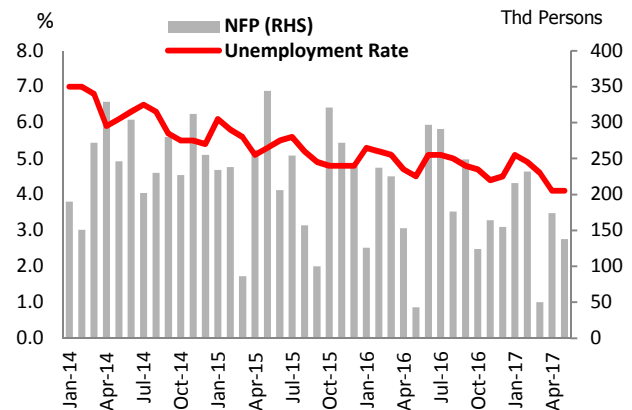


Chart 2: Payroll data supports Rate Hike



Source: CEIC; MIDFR

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

Economies	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Malaysia	3.00	3.00	3.00	3.00	3.00	
Indonesia	4.75	4.75	4.75	4.75	4.75	
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	
Philippines	3.00	3.00	3.00	3.00	3.00	
Thailand	1.50	1.50	1.50	1.50	1.50	
Vietnam	6.50	6.50	6.50	6.50	6.50	
Korea	1.25	1.25	1.25	1.25	1.25	
China	4.35	4.35	4.35			
Japan	-0.1	-0.1	-0.1	-0.1		
United Kingdom	0.25	0.25	0.25	0.25	0.25	
EU	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.75	0.75	1.00	1.00	1.00	1.25

Source: CEIC, MIDFR

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