

ECONOMIC REVIEW | March 2018 US FOMC Meeting**Fed Raises Rate & Anticipates Two More Hikes in 2018**

- *Jerome Powell's first meeting as Fed's Chair. In his first FOMC meeting, the committee decided to raise interest rate from 1.25-1.50% to 1.50-1.75%. Amid gradual pick up in the US economy, the Fed remains hawkish on its monetary stance.*
- *Inflation rate at above 2% for 6-consecutive months. The US headline inflation up by 2.2%yoy in Feb-18, recording 6-consecutive months hovering above 2% level.*
- *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 of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market.*

Jerome Powell's first meeting as Fed's Chair. In his first FOMC meeting, the committee decided to raise interest rate from 1.25-1.50% to 1.50-1.75%. Amid gradual pick up in the US economy, the Fed remains hawkish on its monetary stance. The first rate hike in 2018 is in line with our expectations and we maintain our forecast of another two more rate hikes this year. We anticipate the next FOMC meeting in June and December will see the Fed increasing the rate by 25 basis points each meeting.

Inflation rate at above 2% for 6-consecutive months. The US headline inflation up by 2.2%yoy in Feb-18, recording 6-consecutive months hovering above 2% level. The rise in inflation is mainly due to rising global commodity prices, stable rise in domestic demand and weakening Dollar. However, core inflation maintains at 1.8%yoy since Dec-17. 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 Jan-17 to 1.5% in Feb-18. Core inflation has consistently undershoot Fed's 2% target for the last 5 ½ years.

Unemployment rate maintains at 17-year low. Unemployment rate in Feb-18 recorded at 4.1% for 5-consecutive months. The tightening labour market is assisted among others by increase in non-farm payrolls by 313K during the month. Plus, industrial production growth touched 6-year high at 4.2%yoy in Jan-18 amid of rosy business confidences and effects of expansionary fiscal policy in the economy. 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.

Balance sheet reduction proceeds smoothly. The Fed will continue its balance sheet reduction program, which started since October 2017 unless there is a very significant and unexpected weakening outlook. The pace of run-down will be 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.


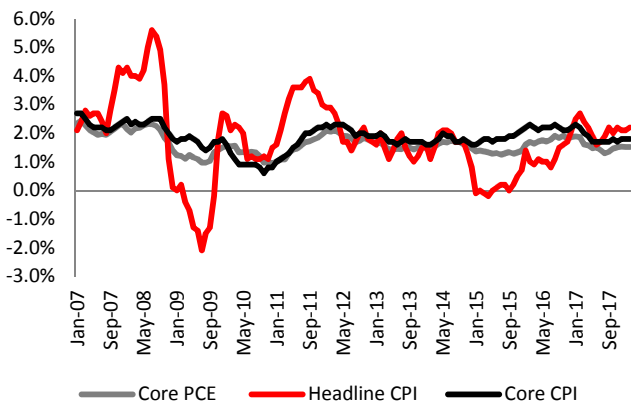
We expect another two rate hikes in 2018. In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices, build up inflationary pressure and tightening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

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

Economies	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25
Indonesia	4.75	4.50	4.25	4.25	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	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.50	1.50	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	0.50	0.50	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	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.75

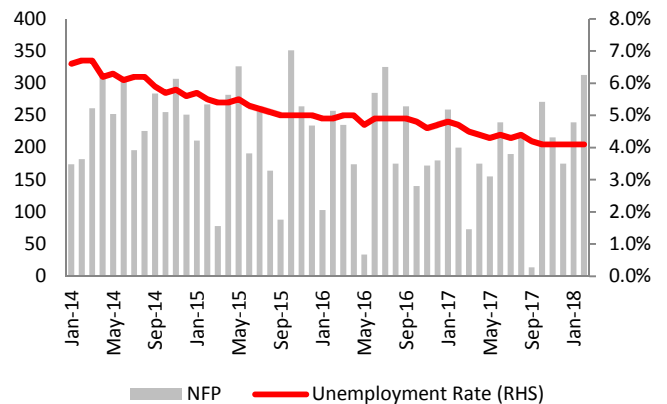
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



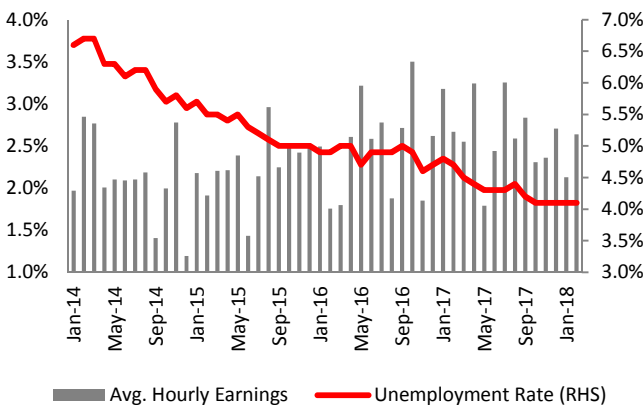
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



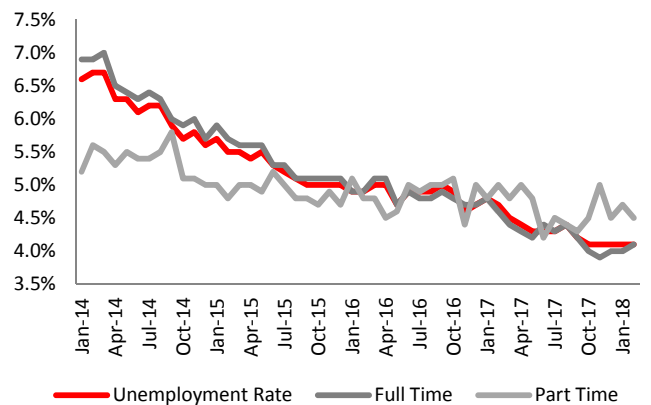
Source: CEIC; MIDFR

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



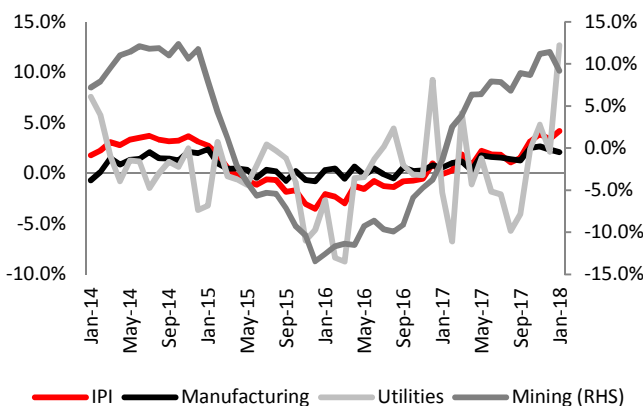
Source: CEIC; MIDFR

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



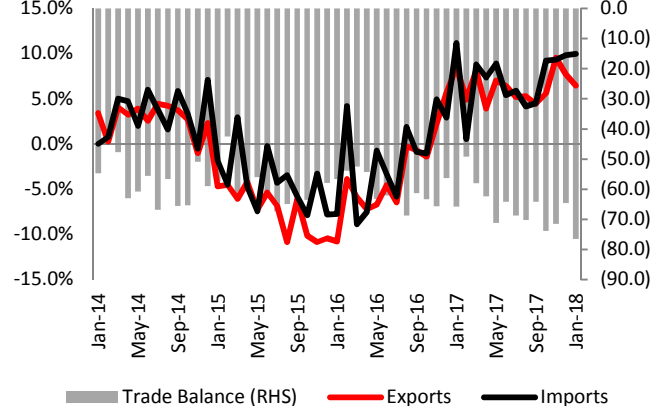
Source: CEIC; MIDFR

Chart 5: Industrial Activities (YoY%)



Source: CEIC; MIDFR

Chart 6: External Trade Activities (YoY% & USDbn)



Source: CEIC; MIDFR

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