

**ECONOMIC REVIEW | May 2018 US FOMC Meeting****Fed Keeps Rate on Hold but Signal Gradual Adjustment**

- *Unchanged interest rate as expected. The latest FOMC meeting decided to maintain its interest rate at the range of 1.50-1.75%. Amid gradual pick up in the US economy, the Fed remains hawkish on its monetary stance.*
- *Headline inflation rose to 1-year high. The US headline inflation up by 2.4%yoy in Mar-18, recording 7-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.*
- *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.*


**Unchanged interest rate as expected.** The latest FOMC meeting decided to maintain its interest rate at the range of 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 in each meeting.

**Headline inflation rose to 1-year high.** The US headline inflation up by 2.4%yoy in Mar-18, recording 7-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. On top of that, core inflation returned to 2.1% during the month after 11-consecutive months hovering below the 2% level. Based on the Fed's preferred inflation indicator, core PCE inflation remains below the Fed's 2% target. However, the core PCE inflation increases to 1.9%yoy in Mar-18, highest since Feb-17. The steady uptrend in the inflation data would provide strong cue for the Fed to raise its monetary wall in the upcoming meetings.

**Unemployment rate maintains at 17-year low.** Unemployment rate in Mar-18 recorded at 4.1% for 6-consecutive months. The tightening labour market is highlighted among others by increase in non-farm payrolls by 103K during the month. Plus, industrial production growth averaged at 4.1%yoy in 1Q18, outpace previous year's average of 1.6%yoy amid of rosy business confidences and effects of expansionary fiscal policy in the economy. As labour market strengthens, we noticed there is a slight improvement in consumer spending given that average hourly earnings grew by 2.8%yoy during the month, fastest in since Sep-17 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.

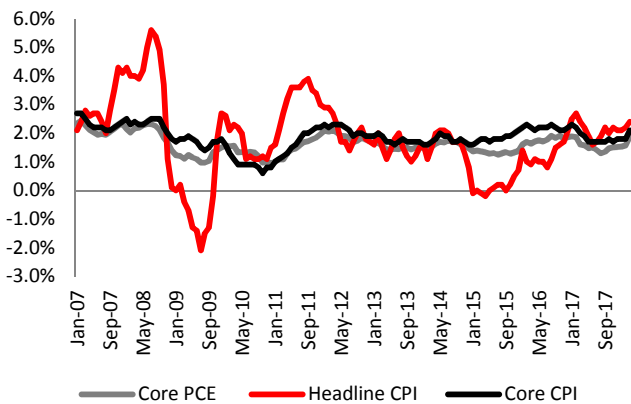
**We expect another two rate hikes in 2018.** In tandem with the normalisation plan by the Fed, we foresee continuous upbeat momentum in the US economy amid of expansionary fiscal policy, optimistic business environment, gradual rise in global commodity prices, build up inflationary pressure and tightening 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 (%)**

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.25	3.25
Indonesia	4.50	4.25	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	1.50	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	0.50	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	1.50	1.50	1.50	1.75	1.75

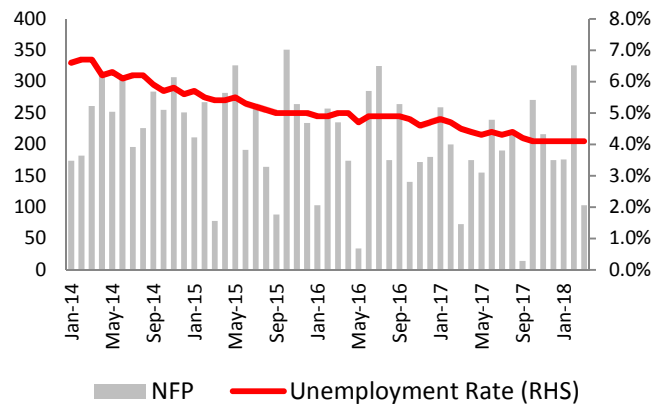
Source: CEIC; MIDFR

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



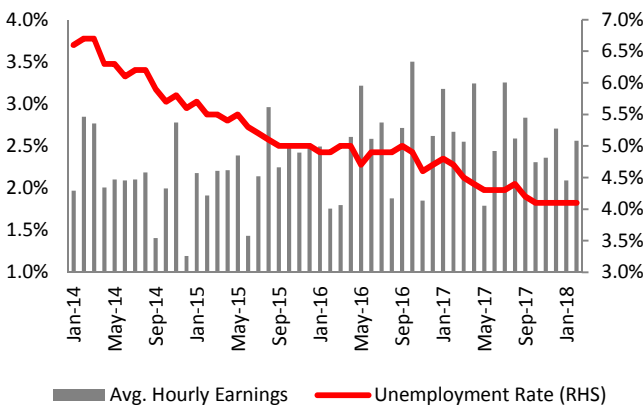
Source: CEIC; MIDFR

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



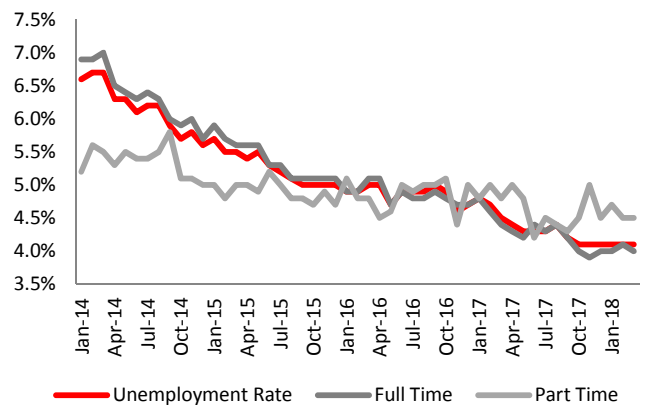
Source: CEIC; MIDFR

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



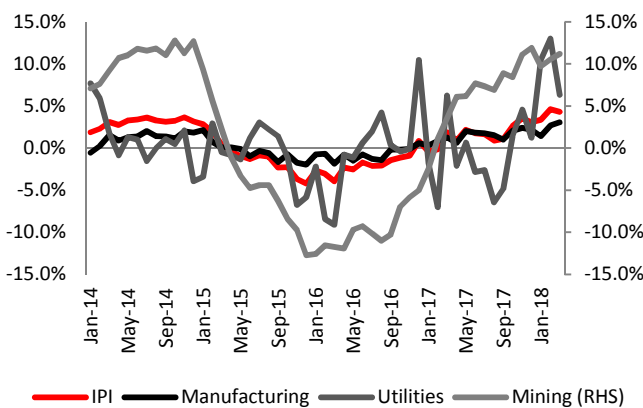
Source: CEIC; MIDFR

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



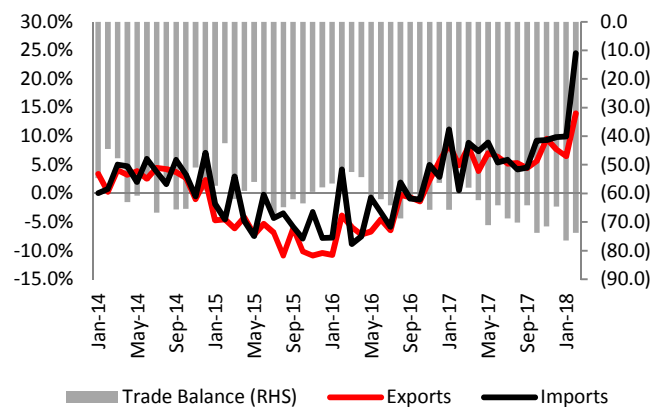
Source: CEIC; MIDFR

**Chart 5: Industrial Activities (YoY%)**



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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