

ECONOMIC REVIEW | November 2018 US FOMC Meeting

The Fed Remains Hawkish, December Hike is Likely Underpin by Robust Macroeconomic Performance

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- *Sound and robust macroeconomic environment persists. The US economy is predicted to expand at solid pace this year underpinned by sound industrial production, external trade, business investment and upbeat domestic spending. GDP growth of 3Q18 stood at annualised 3.5% with private consumption jumped to almost 4-year high at 4%. Domestic demand is seen strong given that imports expanded firmly by 9.1% during the quarter.*
- *We expect another one rate hike in December 2018. In tandem with forward guidance by the Fed, we foresee continuous upbeat momentum in the US economy boosted by expansionary fiscal policy, optimistic business environment, pick up in household spending, gradual rise in global commodity prices, build up inflationary pressure and tightening labour market.*

Rate stays in Nov-18, rate hike in Dec-18. As 7th FOMC meeting concluded, the Fed maintains its interest at the range of 2.00-2.25%. The move is widely expected by market analysts. Amid solid pick up in the US economy, the Fed remains hawkish. Fed estimates US GDP to rise 3.1% in 2018, an upward revision from the 2.8% projection in Jun-18. The forecast for 2019 is now higher by 0.1 percentage points to 2.5%. The FOMC also projects another rate hike before end of the year and three more in 2019. We anticipate the next FOMC meeting in Dec-18 will see Fed increasing the rate by another 25 basis points.

Sound and robust macroeconomic environment persists. The US economy is predicted to expand at solid pace this year underpinned by sound industrial production, external trade, business investment and upbeat domestic spending. GDP growth of 3Q18 stood at annualised rate of 3.5% with private consumption jumped to almost 4-year high at 4%. Domestic demand is seen strong given that imports expanded firmly by 9.1% during the quarter. In Sep-18, IPI growth hit 5.2%yoy, fastest since Dec-10. Despite trade tension, average exports and imports growths of 2018 registered higher than previous year's performance, 9.8% vs 6.4% and 11.8% vs 7.1% respectively. Looking at the business confidence indicator, the US economy is expected to expand at solid pace in 2H18 given that manufacturing and services PMI remain above 50 points expansionary line.

Inflation target met. The US headline inflation surges by 2.3% in Sep-18, lowest in 7-month. Core inflation reaches 2.2%, recording 7-consecutive months above 2% level. The rise in inflation is mainly due to rising global commodity prices and stable pick-up in domestic demand. Based on the Fed's preferred inflation indicator, core PCE inflation hover the Fed's 2% target since Mar-18. The steady uptrend in the inflation data would provide strong cue for the Fed to raise its monetary wall in the upcoming meetings.

The labour markets remain solid. Labour market remained solid in Sep-18 which non-farm payroll (NFP) added 250K jobs. Comparatively, average monthly jobs added for the first nine month is 213K against 2017's 182K. Among others, the solid increase in job market is partly due to upbeat business activity, consumer confidence and effects of expansionary fiscal policy. In addition, unemployment rate in the US recorded at 3.7% in Oct-18, hitting in 49-year low. Consequently, wage growth as reflected by private average hourly earnings rose steadily by 2.4%yoy during the month. Moving forward, we foresee the steady labour market in the US will persist until the end of the year and thus supporting the Fed's moves to raise interest rate as guided.

Growing pressure on other central banks. Normalisation in the US's 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. On the other hand, currency-led crisis economy such as Turkey, Indonesia and Argentina are raising interest rate in order to protect their currencies and domestic economy.


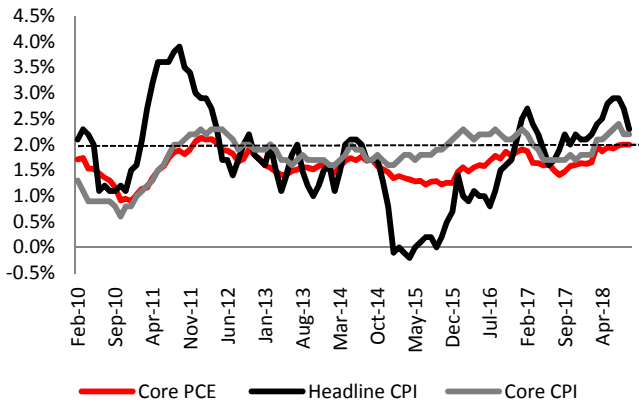
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Table 1: Central Bank Policy Rate by Selected Economies (%)

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.50	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.25	3.25	4.00	4.50	4.50
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	1.50	1.50	1.50	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
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.50	1.75	1.75	1.75	2.00	2.00	2.00	2.25	2.25

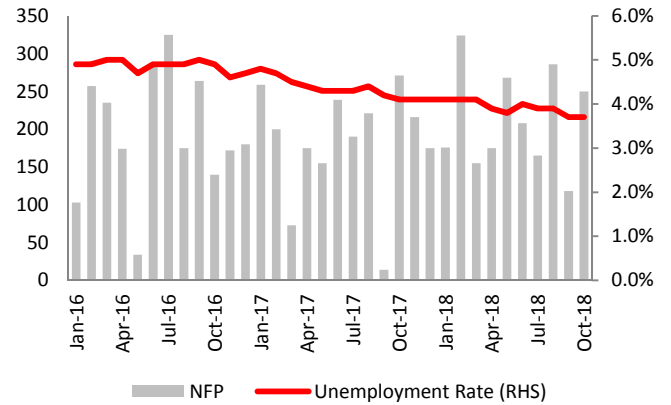
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



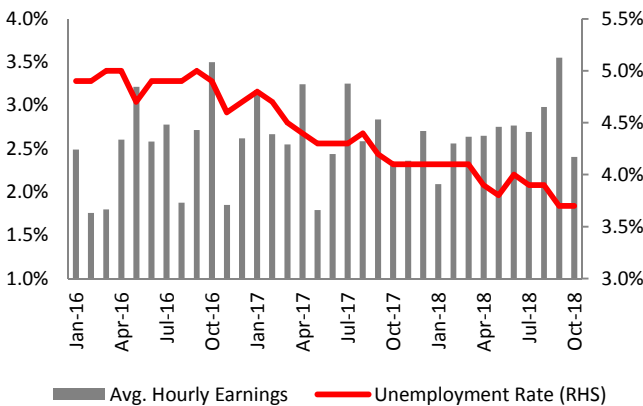
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



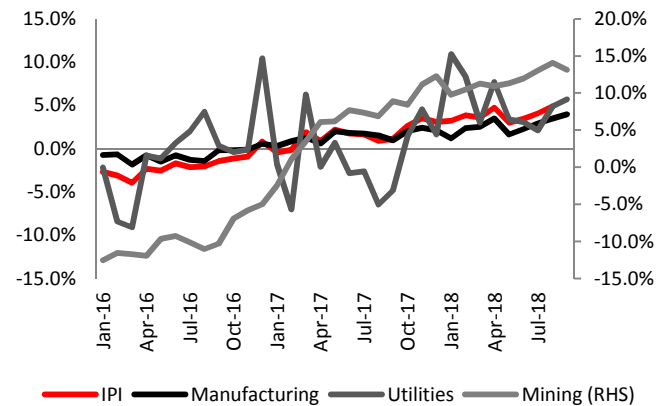
Source: CEIC; MIDFR

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



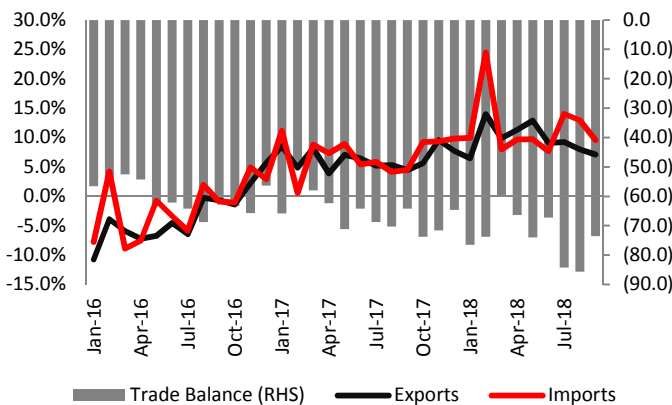
Source: CEIC; MIDFR

Chart 4: IPI Performances (YoY%)



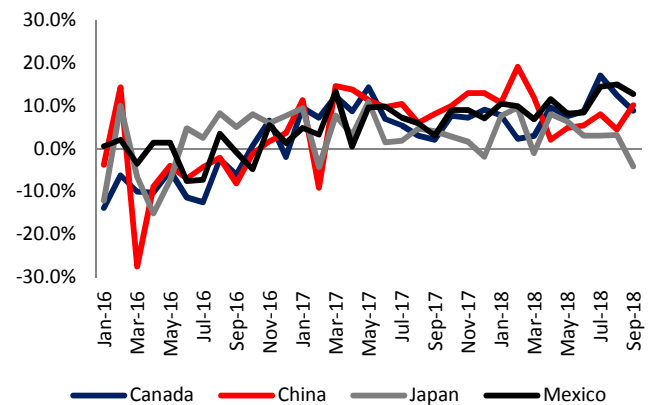
Source: CEIC; MIDFR

Chart 5: External Trade Performance (YoY%)



Source: CEIC; MIDFR

Chart 6: Imports by Country (YoY%)



Source: CEIC; MIDFR

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