

## ECONOMIC REVIEW | September 2016 US FOMC Meeting

### The Fed Left the Interest Rates Unchanged

- *The Fed decided to maintain the benchmark interest rate at 0.5% in September but possibly pointing towards a December move. The decision met our expectation and traders but it is interesting to note that three of the 10 member-policy-making committees have voted for an increase in the interest rates. The three were Esther L George, Loretta J. Mester and Eric S. Rosengren whose statements in recent months have been suggesting that the Fed need to act faster on raising the interest rate.*
- *Fed dials down on 2016 projection and long-run economic growth. The Committee toned down its forecast for economic growth in 2016 for the third time this year to 1.8%. Previously in June, the Fed was projecting a growth of 2.0%. Similarly, the Fed was downgrading its forecast for the long-run growth from 1.6%-2.4% in June to 1.6%-2.2% yesterday, admitting that the country could enter a period of slower economic growth due to lower productivity. However, the Fed projects a slight optimism on the economy for the year 2017-2018 periods with growth forecast nudged up by 0.1% higher to 1.6%-2.5% and 1.5-2.3% respectively.*
- *We are staying pat with our forecast that the Fed would not increase interest rate by this year but believe there is a live chance for December. In the past 23 meetings since then, there was only one rate hike of 25 basis points. Hence, under such pressure, the Fed might felt urged to make another rate hike this year, possibly in December to uphold its credibility to the market. However, we believe the current indicators are pointing towards a more sluggish economy in the future thus we are staying firm with our forecast on the Fed trajectory at the moment.*

**The Fed decided to maintain the benchmark interest rate at 0.5% in September but possibly pointing towards a December move.** The decision met our expectation and traders but it is interesting to note that three of the 10 member-policy-making committees have voted for an increase in the interest rates. The three were Esther L George, Loretta J. Mester and Eric S. Rosengren whose statements in recent months have been suggesting that the Fed need to act faster on raising the interest rate.

**The Committee judged that the case for an increase in the interest rate has strengthened** but decided, for the time being, to wait for further evidence of continued progress toward its objectives. That was the exact statement for the Fed press release highlighting their belief that the domestic economy has marched towards a better condition to withstand a rate hike but we opine that should not be the case moving forward. Private investments have contracted on a yearly basis in the past two quarters, pointing towards a slower growth and consequently lesser jobs creation in coming quarters. The last time private investment dropped i.e 3Q06 onwards; the US was hit with the subprime crisis a year and half later.

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**We are staying pat with our forecast that the Fed would not increase interest rate by this year** but believe there is a live chance for December. The Fed has come under intense criticism for hesitating for too long in conducting a hike since signalling its first intent to do so in 2013. In the past 23 meetings since then, there was only one rate hike of 25 basis points. Hence, under such pressure, the Fed might felt urged to make another rate hike this year, possibly in December to uphold its credibility to the market. However, we believe the current indicators are pointing towards a more sluggish economy in the future thus we are staying firm with our forecast on the Fed trajectory at the moment. 

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