

ECONOMIC REVIEW | June 2024 US FOMC Meeting

FOMC Maintained Fed Funds Rate at 5.25-5.50%, Still Signalling a Rate Cut this Year

- *Maintained fed funds rate at 5.25-5.50% as expected. After the policy meeting in Jun-24, the Fed's FOMC decided to keep its benchmark fed funds rate (FFR) at the existing range of 5.25-5.50%. The decision was widely anticipated by the market consensus as the US inflation remained above the 2% target.*
- *More progress in inflation moving towards +2% target. In the FOMC statement, the FOMC indicated "modest further progress" in the US inflation disinflating towards the Fed's +2% target. The change of tone from "lack of progress" in the previous FOMC statement in early May-24.*
- *Economy still on "solid pace", no change to growth projection. The US economy is projected to grow at +2.1% this year, similar to the forecast in Mar-24. There is no change to the projection for unemployment rate, which is expected to reach 4.0% this year.*
- *Anticipate at least one rate cut this year. We maintain our expectation that the Fed will consider at least 1 rate cut for the fed funds rate in the latter part of 2H CY24. Although inflation remained above the Fed's +2% target, we believe the US inflation remained on a broad moderating trend.*

Maintained fed funds rate at 5.25-5.50% as expected. After the policy meeting in Jun-24, the Fed's FOMC decided to keep its benchmark fed funds rate (FFR) at the existing range of 5.25-5.50%. The decision was widely anticipated by the market consensus as the US inflation remained above the 2% target, thus requiring the Fed to maintain the restrictive monetary policy for now. With the Fed continuing its plan to reduce the size of its balance sheet, holdings of treasury and mortgage-backed securities dropped further with the total reduction amounting to -USD1.71t since the recent peak in Apr-22. As of early Jun-24, the Fed's balance sheet has dropped to USD7.26t, the level last seen in Dec-20.

More progress in inflation moving towards +2% target. In the FOMC statement, the FOMC indicated "modest further progress" in the US inflation disinflating towards the Fed's +2% target. This was a change of tone from "lack of progress" in the previous FOMC statement in early May-24. The core PCE inflation, for example, have moderated to +2.75%yoy in Apr-24 (Mar-24: +2.81%yoy), the lowest in 3 years. The recent release of May-24 CPI data indicated further easing in inflation; the headline CPI inflation moderated to 7-month low of +0.2%mom and the core CPI inflation also eased to +0.2%mom, the slowest in 4 months. Consequently, the year-on-year CPI reading signalled continued moderation with the headline and core CPI inflation easing further to +3.3%yoy (Apr-24: +3.4%yoy) and +3.4%yoy (Apr-24: +3.6%yoy), respectively.

Not yet thinking about rate cuts. Despite the progress in inflation, the Fed Chairman reiterated that the FOMC needs more confidence before committing to rate cuts. In other words, despite the recent sign of easing price increases, the Fed is not fully convinced the inflation will be moving sustainably lower to its +2% target. On that note, the current restrictive monetary policy may be maintained for longer i.e. adopting high-for-longer as indicated in the revised FOMC projection. The level policy setting has been deemed to be "sufficiently restrictive" which has effectively led to the further disinflation, thus not requiring more rate hikes.

Economy still on “solid pace”, no change to growth projection... The US economy is projected to grow at +2.1% this year, based on the latest economic projection indicated by the FOMC members. This was similar to the forecast published after the Mar-24 FOMC meeting. At the same time, there is no change to the projection for unemployment rate, which is expected to reach 4.0% this year. However, the FOMC expected further rebalancing in the job market will push the jobless rate higher to 4.2% in 2025 (Mar-24 projection: 4.1%). The FOMC statement also maintained similar assessment on the US economy which remained on solid pace, with strong job growth and low unemployment rate. Recent data shows the job growth in May-24 was stronger as the nonfarm payrolls rose at +272K (Apr-24: +165K), the second highest monthly increase in 5 months after +310K in Mar-24. Unemployment rate deemed to be low despite the recent increase to 4.0% in May-24, the highest since Jan-22.

...but FOMC projection anticipating 1 cut in 2024 as inflation outlook upgraded. The FOMC, however, revised higher its outlook for inflation and the fed funds rate. The forecast for PCE inflation has been raised by +0.2%-point higher from the Mar-24 projection; the FOMC predicts the headline and core PCE inflation to reach +2.6% (Mar-24 projection: +2.4%) and +2.8% (Mar-24 projection: +2.6%) this year. As the progress in disinflation is expected to be relatively slower, the FOMC members also raised the 2024 outlook for fed funds rate to 5.1% (Mar-24 projection: 4.6%), signalling only 1 rate cut this year from 3 to 4 rate cuts previously. As the timing and the pace of cuts will be delayed, the FOMC projected the fed funds rate will be slashed to 4.1% in 2025 (Mar-24 projection: 3.9%) with the PCE inflation is expected to reach +2.3% (Mar-24 projection: +2.2%) closer to the Fed’s longer-term target.

Consumers continued to increase spending. Consumers in the US continued to increase spending as shown by sustained rise in retail sales. In Apr-24, the US retail sales rose by +3%yoy (Mar-24: +3.8%yoy). This was more encouraging vis-à-vis earlier concerns the American spending was slowing down, constrained by the high borrowing costs, as retail sales growth previously moderated sharply to +0.3%yoy in Jan-24 (Dec-23: +5.5%yoy). The resilience in the labour market and rising wages are expected to continue supporting consumer spending. The wage growth remained in positives despite the moderation since early 2022 in line with the job market rebalancing; the average hourly earnings recently rose faster at +4.1%yoy in Apr-24 compared to +4.0%yoy in Mar-24, which was the slowest growth in 34 months. Although the level of US consumer sentiment as surveyed by the University of Michigan recently deteriorated to 69.1 in May-24 (Apr-24: 77.2), the reading was still higher than 61.3 in Nov-23. Until May-24, American consumers remained relatively optimistic than previously as the sentiment index has been trending higher after reaching historical low of 50.0 in Jun-22. We believe easing inflation expectations also contributed to the broad improvement in consumer sentiment, in addition to positive job market conditions.

Anticipate one rate cut this year. We maintain our expectation that the Fed will consider at least 1 rate cut for the fed funds rate in the latter part of 2H CY24. Although inflation remained above the Fed’s +2% target, we believe the US inflation remained on a broad moderating trend since the recent peak in early 2022. The current high borrowing costs will not only be sufficient to bring down inflation, we expect aggregate demand will be eventually slow in view of the gradual rebalancing in the job market with the jobless rate slowly trending higher. The increased delinquency rate for consumer loans and credit cards also signalled more Americans struggle with the rise in borrowing costs. In other words, we anticipate the US aggregate demand and inflation to moderate

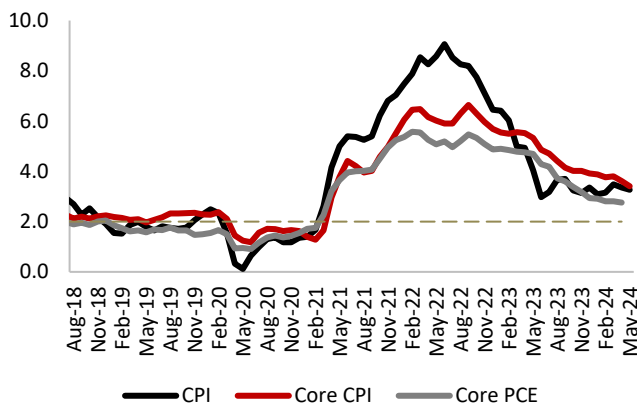
further in 2HCY24, prompting the Fed to begin reducing the level of policy restrictiveness on the economy. In contrast, the timing for rate cut may be delayed should inflation remains stickier and persistently elevated. 📈

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

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.25
Philippines	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	0.00-0.10	(0.10)	0.00-0.10	0.00-0.10
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Euro area	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25
US	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50

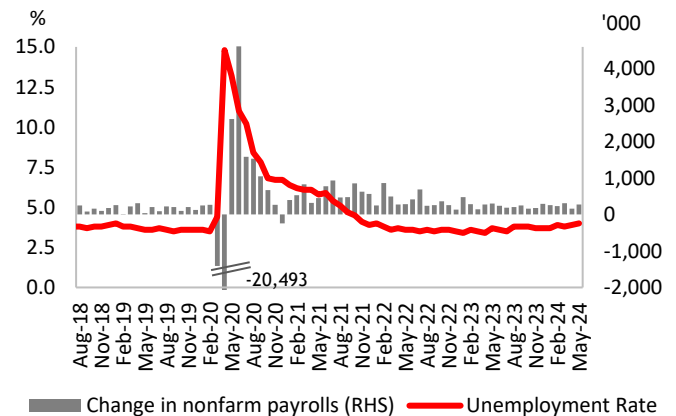
Source: Bloomberg; MIDFR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



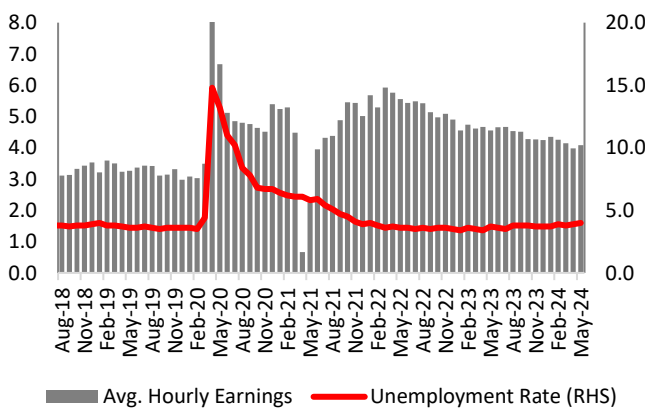
Source: Macrobond, MIDFR

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



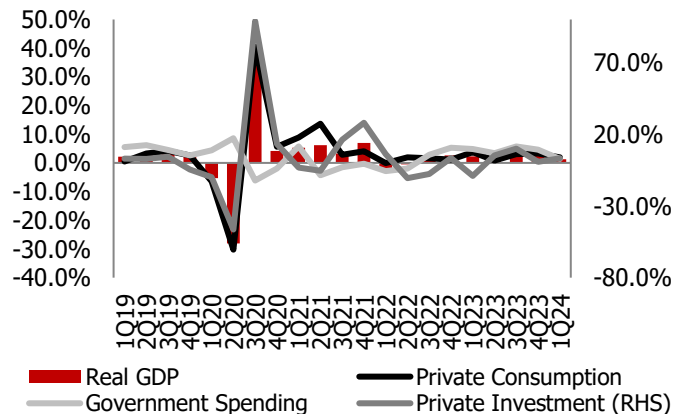
Source: Macrobond, MIDFR

Chart 3: Wage growth (YoY%) vs Unempl. Rate (%)



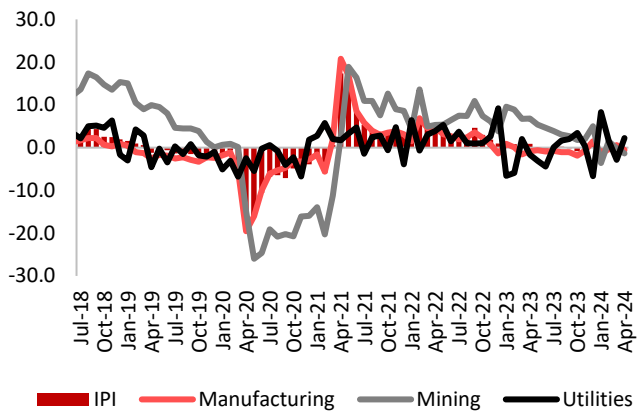
Source: Macrobond, MIDFR

Chart 4: US GDP Growth (Annualised QoQ%)



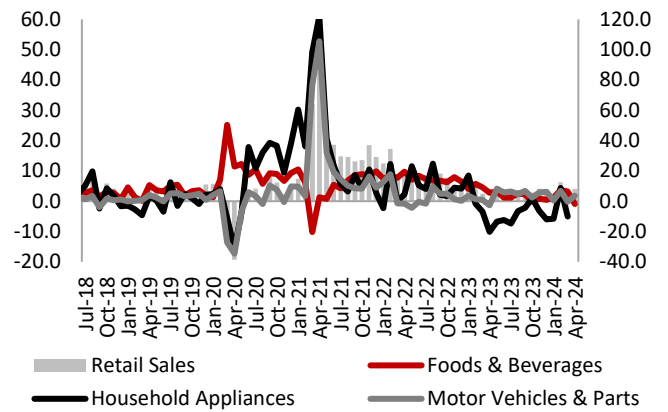
Source: Macrobond, MIDFR

Chart 5: US IPI Performances (YoY%)



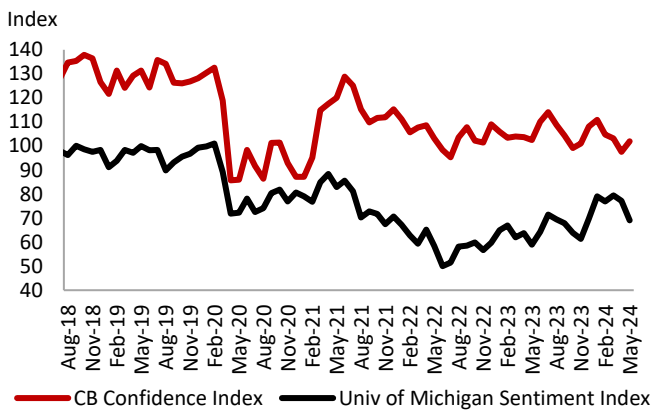
Source: Macrobond, MIDFR

Chart 6: US Retail Sales (YoY%)



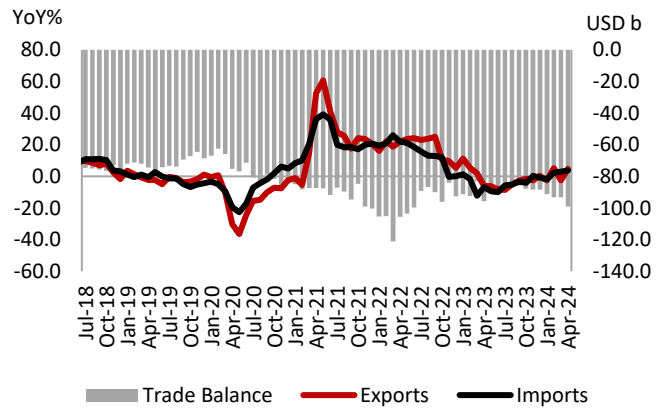
Source: Macrobond, MIDFR

Chart 7: US Consumer Sentiment & Confidence



Source: Macrobond, MIDFR

Chart 8: US Export & Import (YoY%) vs Goods Trade Balance (USD billion)



Source: Macrobond, MIDFR

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