

## ECONOMIC REVIEW | July 2017 US FOMC Meeting

### Fed Leaves Rate Unchanged Amid Inflation Concerns


- *Fed is maintaining existing policy. Fed maintained the federal funds rate (FFR) target in a range of 1.00% to 1.25% as an outcome of the recent concluded July meeting. Positive developments in the US's economic indicator especially strengthening labour market indicates stable and steady growth momentum in the US economy.*
- *Low unemployment but yet weak spending. Unemployment rate in June recorded at 4.4%, slightly higher than May's 16-year low of 4.3 percent. However, wage growth and retail sales are seen lukewarm as both reflecting decelerating trends.*
- *Fed to start balance sheet reduction provided the economy evolves as anticipated. We opine the balance sheet reduction will possibly happen this year as early as September.*
- *We are maintaining our expectation of one more rate hike in the US this year. At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e in December.*

**Fed is maintaining existing policy.** Fed maintained the federal funds rate (FFR) target in a range of 1.00% to 1.25% as an outcome of the recent concluded July meeting. Positive developments in the US's economic indicator especially strengthening labour market indicates stable and steady growth momentum in the US economy. Households spending and business fixed investment remain on upward trajectory.

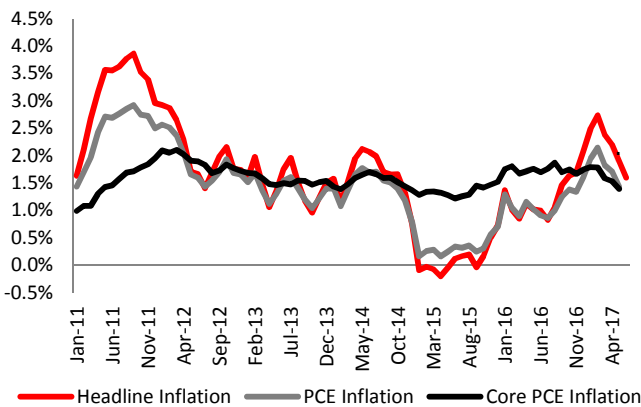
**Inflation rate increased 1.6 percent year-on-year in June of 2017.** June inflation was below 1.9 percent registered in May. The inflation was also slightly lower than market expectations of 1.7 percent. It is the lowest inflation since October of 2016 due to 0.4 percent fall in gasoline prices. We noticed a downward trend in the overall price performance since February 2017 with inflation peak at 2.7% to the latest June at 1.6%. Similar declining trend observed in the Fed's referred core PCE inflation from 1.8% in January nosedived to 1.4% in May. The inflation remain below the Fed's target of 2%.

**Low unemployment but yet weak spending.** Unemployment rate in June recorded at 4.4%, slightly higher than May's 16-year low of 4.3 percent. Plus, non-farm payrolls data shows that number of persons entering the US labour market is rising. In June 2017, 222 thousands increase was recorded in the NFP which was the highest in four months. However, wage growth and retail sales are seen lukewarm as both reflecting decelerating trends. For instance, wage growth in June registered at 3%yoy, lowest in four months while growth retail sales hit 2.8%yoy, marking the fifth consecutive months of slowdown. Despite of strengthening labour market, the US domestic spending is seen not improving much.

**Fed to start balance sheet reduction provided the economy evolves as anticipated.** In this meeting, the Fed maintains its policy of reinvesting principal payments of its assets and rolling over maturing Treasuries until normalisation of FFR takes places. The Fed highlighted that it may begin balance sheet reduction this year given the economy keeps growing as projected. We opine the balance sheet reduction will possibly happen this year as early as September.

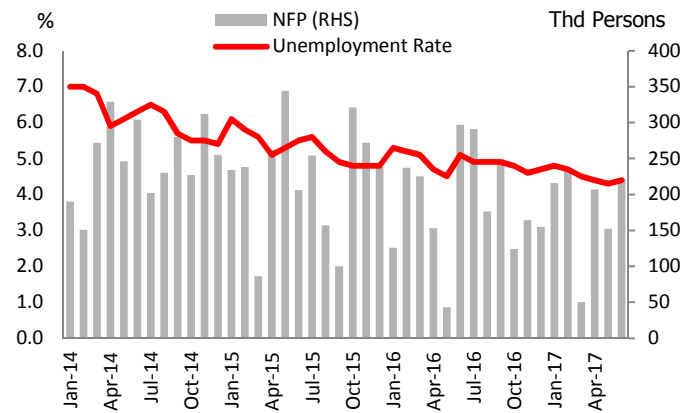
**We are maintaining our expectation of one more rate hike in the US this year.** At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e in December. Strengthening labour market and core PCE inflation hovering within or slightly above the long-term 2% target as well as firming up of domestic consumption should allow Fed to be on track with its normalisation plan for the year. 

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



Source: CEIC; MIDFR

**Chart 2: Payroll data supports Rate Hike**



Source: CEIC; MIDFR

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

Economies	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75
Singapore	Neut.	Neut.	Neut.	Neut.		
Philippines	3.00	3.00	3.00	3.00	3.00	
Thailand	1.50	1.50	1.50	1.50	1.5	1.5
Vietnam	6.50	6.50	6.50	6.50	6.50	
South Korea	1.25	1.25	1.25	1.25	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	
Japan	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
United Kingdom	0.25	0.25	0.25	0.25	0.25	
EU	0.00	0.00	0.00	0.00	0.00	0.00
United States	0.75	1.00	1.00	1.00	1.25	1.25

Source: CEIC, MIDFR

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