

## ECONOMIC REVIEW | June 2019 US FOMC Meeting

# The Fed Signals Possibility of Rate Cut amid Moderating Growth and Market Uncertainties

- *Fed's funds rate unchanged. The Fed maintains its key policy rate at 2.25-2.50% during the FOMC meeting in Jun-19. The central bank views the economy is expanding at moderate pace and global uncertainties remain as one of the major downside risks. Based on the FOMC latest projection, the Fed signals of possible rate cut by at least one this year. The Central Tendency's projection changed from 2.4-2.6% in Mar-19 to 1.9-2.4% in Jun-19.*
- *Moderating NFP sparked rate cut idea. Non-farm payrolls increased 75K in May-19, lowest in 3-month and missing market expectations of 185K. The average so far in 2019 is 164K per month, lower than the previous year's 223K per month. The long-term average is 126K per month. The slowdown in NFP figures indirectly sparked the idea of a rate cut by the Fed in 2H19.*
- *We expect a single rate cut in 2019. As guided by the Fed's latest projection, we foresee a change towards an expansionary monetary stance. A single cut by 25 basis points is possible in 2H19 amid moderating economic growth and heighten trade war uncertainties. Henceforth, we opine cutting the Fed's funds rate by 25 basis points would provide support for consumers as well as businesses to continue to spend and invest.*

**Fed's funds rate unchanged.** The Fed maintains its key policy rate at 2.25-2.50% during the FOMC meeting in Jun-19. The central bank views the economy is expanding at moderate pace and global uncertainties remain as one of the major downside risks. Based on the FOMC latest projection, the Fed signals of possible rate cut by at least one this year. The Central Tendency's projection changed from 2.4-2.6% in Mar-19 to 1.9-2.4% in Jun-19. Other estimates such as GDP maintains at 2.1% while Core CPI and unemployment rate slightly lower at 1.8% (Mar-19: 2%) and 3.6% (Mar-19: 3.7%). Cutting the interest rate would positively impact economic activities in the US particularly household spending and business investment. In addition, it may offset the uncertainties due to global trade tension.


**Weakening external trade numbers reflect trade war impacts.** For the first four months in 2019, total trade of the US contracted by -1.4%yoy (2018: 9.6%yoy, 2017: 6.8%yoy). Most obvious, exports to China shrank at average of -22.6%yoy for 9 consecutive months since Aug-18. Imports from the second world's largest economy fell -13%yoy in the first four months in 2019. Consequently, IPI growth moderated in 1H19 as compared to previous year, mainly dragged by factory output. On a flip side, mining output jumped strongly underpin by crude oil and natural gas productions. Crude oil output grows by double digit rate for 21 consecutive months since Sep-17.

**Economic optimism shows signs of moderation.** Overall economic optimism in the US fell to 4-month low. Among the components, the six-month economic outlook turns pessimistic amid revival of trade war with China. On a flip side, optimism in federal government policies and personal financial outlook remains high. The economic optimism may decline further in coming months following the rising tariffs by the US and China as well as Mexico.

In addition, the preliminary estimate of the University of Michigan's consumer sentiment in Jun-19 which reported weaker than market expectations (97.9 vs 98 points) was due to concerns over both trade tensions and weak performance of some economic data. In addition, weaker-than-expected retail sales growth and job addition in the economy also contributed to the lower sentiment.

**Stable inflationary pressure.** The US's headline CPI rebounded modestly at 1.8% in May-19 amid steady global energy prices. Core CPI maintains above 2% level for 15 consecutive months since Feb-18. Based on the Fed's preferred inflation indicator, core PCE inflation hovers below the target line of 2% for the first four months of 2019. Latest in Apr-19, the rate is 1.6%.

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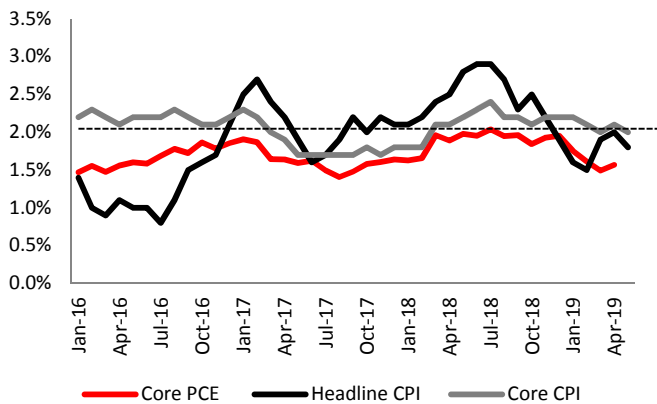
**We expect a single rate cut in 2019.** As guided by the Fed's latest projection, we foresee a change towards an expansionary monetary stance. A single cut by 25 basis points is possible in 2H19 amid moderating economic growth and heighten trade war uncertainties. Henceforth, we opine cutting the Fed's funds rate by 25 basis points would provide support for consumers as well as businesses to continue to spend and invest. 

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

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00
Indonesia	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50
Thailand	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75	1.75
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
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	0.75	0.75	0.75	0.75	0.75	0.75	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	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50

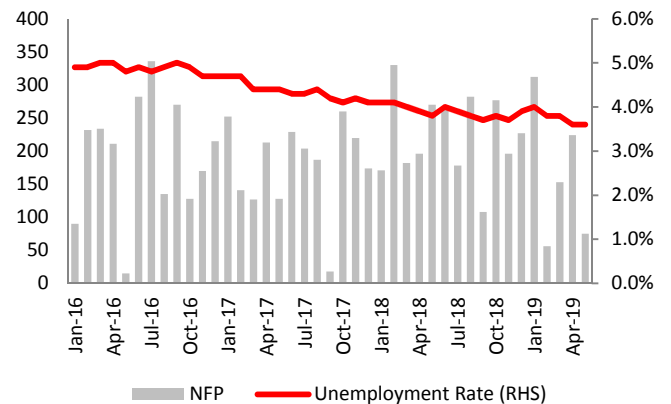
Source: CEIC; MIDFR

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



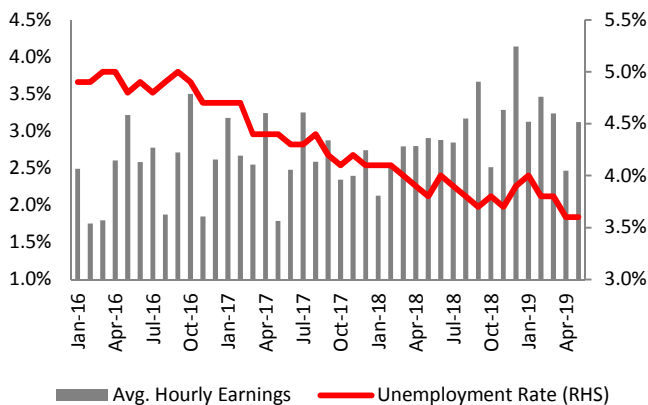
Source: CEIC; MIDFR

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



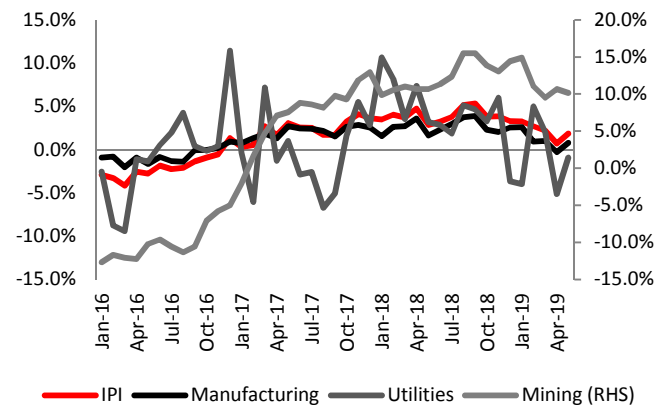
Source: CEIC; MIDFR

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



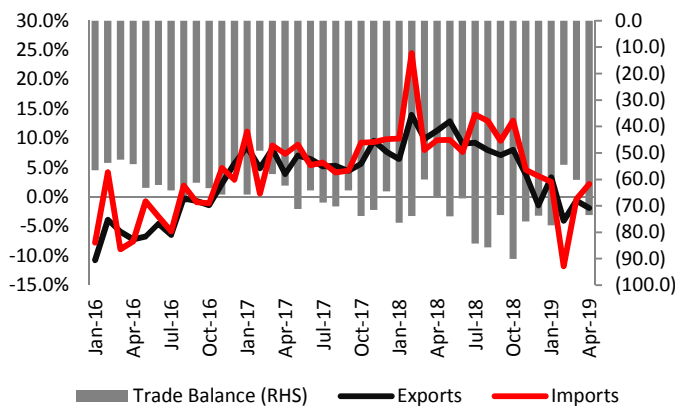
Source: CEIC; MIDFR

**Chart 4: IPI Performances (YoY%)**



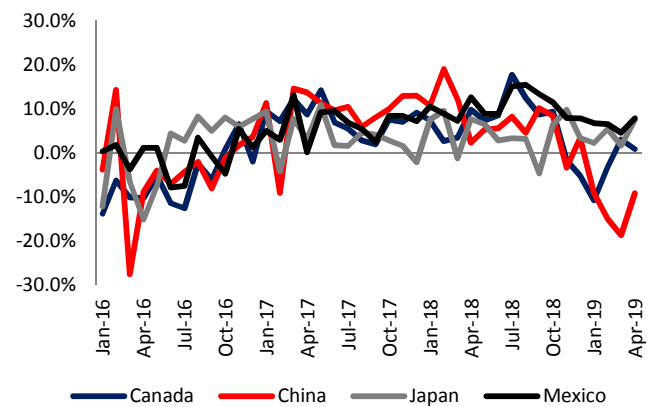
Source: CEIC; MIDFR

**Chart 5: External Trade Performance (YoY%)**



Source: CEIC; MIDFR

**Chart 6: Exports by Country (YoY%)**



Source: CEIC; MIDFR

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