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ECONOMIC REVIEW | March 2020 US FOMC Meeting

50bps Surprise Cut Signals Tough Year Ahead

- *Interest rate is at a 2-year low. The Fed cut its policy rate by 50bp to a range between 1-1.25% in an emergency move before its second meeting scheduled on 18th of March. It was the first emergency cut and the biggest one time cut since the global financial crisis. The move is viewed as a bold attempt to safeguard the US economy on heightening concerns over the COVID-19 outbreak.*
- *IPI continued downward trend. The US industrial production continued contracting for the fifth consecutive month at -0.8%yoy in Jan-20. Manufacturing output fell by the same rate but improved compared to -1.3%yoy drop in Dec-19 as both durable and nondurable goods declined at a softer pace. On monthly basis, manufacturing output declined by 0.1%mom after two sequential months of positive growth led by a drop of -0.5%mom in durable goods mainly resulting from falling output of aerospace & misc. transport.*
- *We expect two more rate cuts in 2020. External sector of the US economy is predicted to continue on a weak side in 2020. Hence, domestic demand mainly household spending and business investment should expand steadily to maintain GDP growth at above 2%. As more challenges emerge particularly on COVID-19, we forecast the Fed to make two more rate cuts this year, 25bp each.*

Interest rate is at a 2-year low. The Fed cut its policy rate by 50bp to a range between 1-1.25% in an emergency move before its second meeting scheduled on 18th of March. It was the first emergency cut and the biggest one time cut since the global financial crisis. The move is viewed as a bold attempt to safeguard the US economy on heightening concerns over the COVID-19 outbreak. Although the recovery rate has increased and mortality rate dropping, fears continue to escalate as it began to spread rapidly outside of China. The outbreak is perceived to pose evolving risks to economic activities.

Multiple headwinds are on air. Economic growth in the US is anticipated to slowdown in 2020 amid multiple headwinds including external trade challenges, COVID-19 and domestic political instability. Domestic demand remains firm yet still surrounded by political uncertainties with Presidential Elections to be held by year-end. Looking at macro indicators, there are possibilities of President Donald Trump twill be re-elected given that jobless rate hits historic low and inflationary pressure stays at below 2% level. On the other hand, the US-China phase one trade deal is likely to be less successful as China's commitment to the deal is at stake due to COVID-19. Furthermore, production cessation of 737 Max planes which affect the overall Boeing exports poses significant risks to the economy at least in the 1Q20 due to its important role in the US production and exports.

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Full-employment condition remains. Unemployment rate inched up to 3.6% in Jan-20 but remain under full-employment condition. NFP for Jan-20 increased by 225K, following an upwardly revised 147K in the preceding month with notable job gains occurred in construction and health care, among others. In regards to inflation, headline and core CPI remain at stable levels. The Fed's referred inflation indicator, the core PCE, stays below the target line of 2% for 13-consecutive months since Dec-18.

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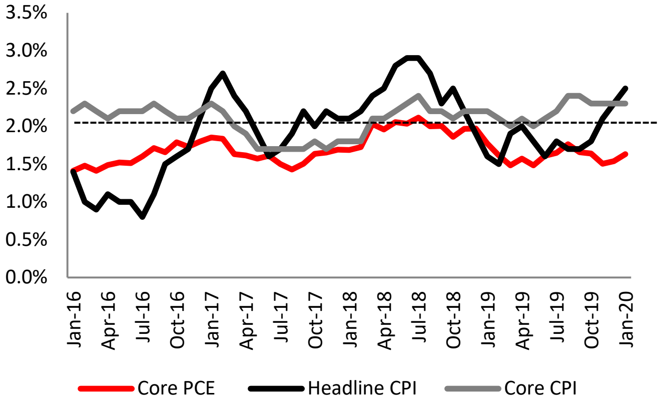
Table 1: Central Bank Policy Rate by Selected Economies (%)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50
Indonesia	5.75	5.50	5.25	5.00	5.00	5.00	5.00	4.75	4.75
Philippines	5.00	4.75	4.00	4.00	4.00	4.00	4.00	3.75	3.75
Thailand	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.00	1.00
Vietnam	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.25
India	5.75	5.40	5.40	5.15	5.15	5.15	5.15	5.15	5.15
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	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.00

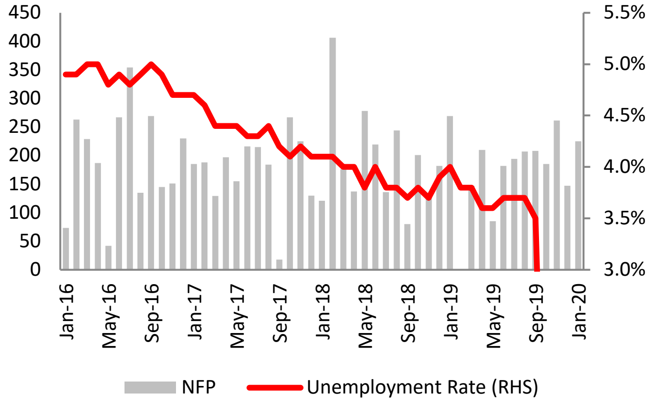
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



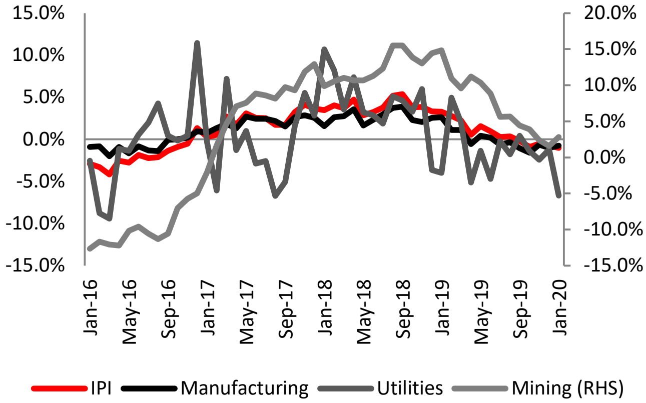
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



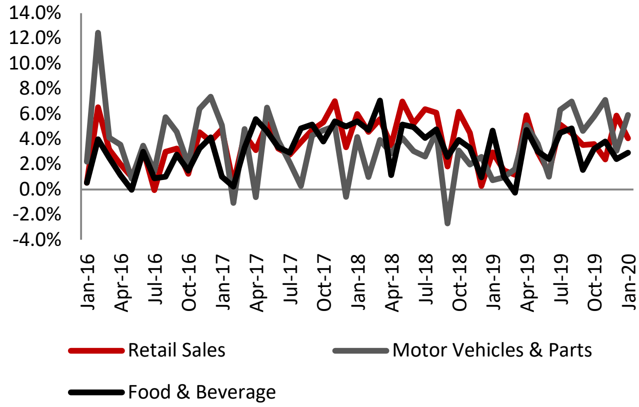
Source: CEIC; MIDFR

Chart 3: IPI Performances (YoY%)



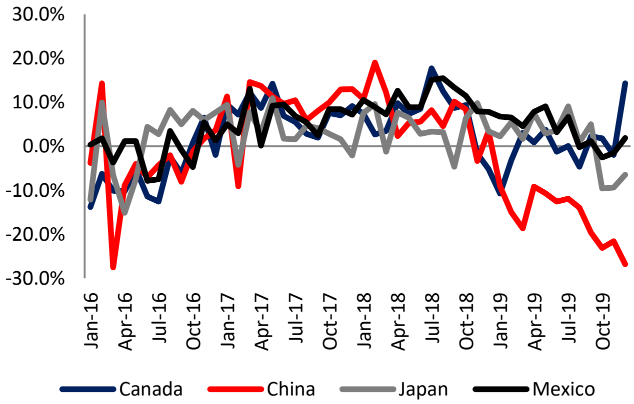
Source: CEIC; MIDFR

Chart 4: Retail Sales (YoY%)



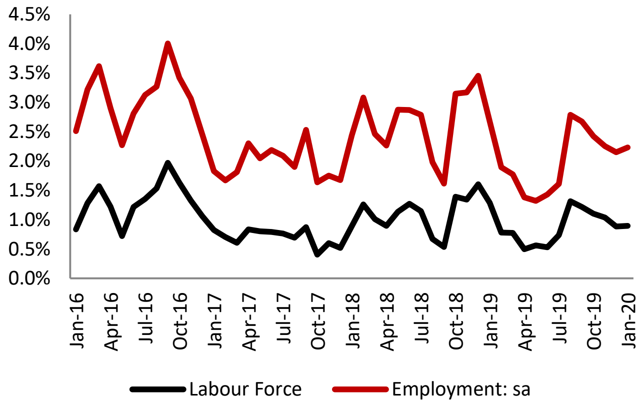
Source: CEIC; MIDFR

Chart 5: Imports from Major Destinations (YoY%)



Source: CEIC; MIDFR

Chart 6: Labour Market (YoY%)



Source: CEIC; MIDFR

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