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ECONOMIC REVIEW | March 2017 US FOMC Meeting

Fed Raises Rate Amid Strengthening Macro Outlook

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- *At the moment, we are maintaining our expectation that the Fed is going to increase its interest rate twice more this year i.e by June and December. The inflation firming and tightening labour market as well as solid domestic consumption will enable Fed to gradually on course for normalization.*

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Inflation and unemployment rate on firming recovery path. Headline inflation hit 2.7% in February well above the Fed's inflation target of 2%. Unemployment rate went down to 4.7% in February reflecting positive development in business activity and it is considered near at a level of full employment condition. We opine that increasing inflation rate is due to both supply and demand-side factors. In particular, improvement in global crude oil prices contributes towards pushing up general prices in the US economy. On the other hand, stronger labour market and progressing business activity indicate better performance from the demand factor. We expect the demand factor to remain firm throughout coupled with expansionary Trump's policies whereas supply-side factor is seen to drag down inflation rate slightly as global oil prices saw a drop below $50 per barrel recently.

Fed takes President Trump slightly off the center stage with this meeting but we think it will only be so temporarily. The market's gyration will remain with the President as he unfolds more decisions that will have real repercussion on trade and investment globally. So far, Trump has been somewhat ahead of expectation, especially with his executive order signing to hasten the pace of building the Mexican wall. The blanket border tax and high tariff if implemented should be negative to globalisation and world economy. With the Fed rate hike, we believe it can compensate and absorb Trump's expansionary plan effects.

We are maintaining our expectation of two more rate hike in the US this year. At the moment, we are maintaining our expectation that the Fed is going to increase its interest rate twice more this year i.e by June and December. The inflation firming and tightening labour market as well as solid domestic consumption will enable Fed to gradually on course for normalization.

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