

ECONOMIC REVIEW | November 2017 US FOMC Meeting**Fed Keeps Rates Steady, But Signals Year-End Rate Hikes**

- *Fed maintains rate as expected. The Fed's decision today to keep interest rates unchanged at 1.0-1.25% is well anticipated by markets. However, possibility of the third rate hike in December meeting is very likely amid of strengthening labour market, steady pace in inflation and strong economic growth.*
- *Balance sheet reduction proceeds as per plan. As announced before, The Fed will winding down its USD4.5tn crisis-era balance sheet next, by phasing out the reinvestment of principal from maturing securities, starting since October 2017.*
- *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 as guided in recently concluded meeting.*

Fed maintains rate as expected. The Fed's decision today to keep interest rates unchanged at 1.0-1.25% is well anticipated by markets. However, possibility of the third rate hike in December meeting is very likely amid of strengthening labour market, steady pace in inflation and strong economic growth.

Inflation rate surged to 2.2% in September. The US headline inflation stays on upward trending from 1.6% low in June 2017 to latest September at 2.2%. The rise in inflation is mainly due to hike in gasoline prices caused by the hurricane Harvey and Irma. Based on the Fed's preferred inflation indicator, core PCE inflation remains below the Fed's 2% target and in fact, has been on declining trend since early of this year, 1.9% in January to 1.3% in September 2017.

Unemployment rate at 16-year low. Unemployment rate in September recorded at 4.2%, lowest since February 2001. As labour market strengthens, we notice there is a slight improvement in consumer spending given that average hourly earnings grew by 2.9%yoy during the month and indirectly push up retail sales by 4.4%yoy, fastest five months. On a flip side, non-farm payrolls shrank by 33 thousands, mainly due to the impact of hurricanes Harvey and Irma.

Balance sheet reduction proceeds as per plan. As announced before, The Fed will winding down its USD4.5tn crisis-era balance sheet next, by phasing out the reinvestment of principal from maturing securities, starting since October 2017. In truth, however, the move has been so well telegraphed and, at just USD10bn per month initially, the pace of run-down will be so gradual that it is unlikely to have a major impact on the economy or financial markets.


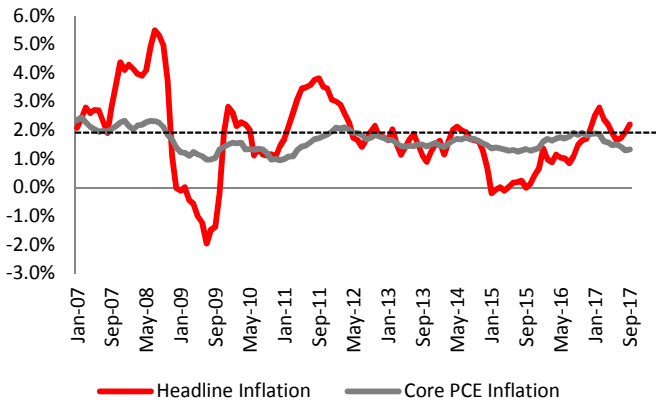
We are maintaining our expectation of one more rate hike in the US this year. At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e in December as guided in recently concluded meeting. Strengthening labour market despite core PCE inflation hovering below its 2% target as well as firming up of domestic consumption should allow Fed to be on track with its normalisation plan for the year. 

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

Economies	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
China	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	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
EU	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25

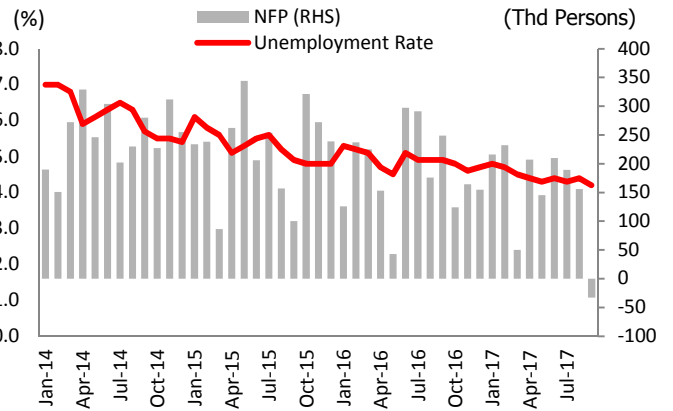
Source: CEIC, MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



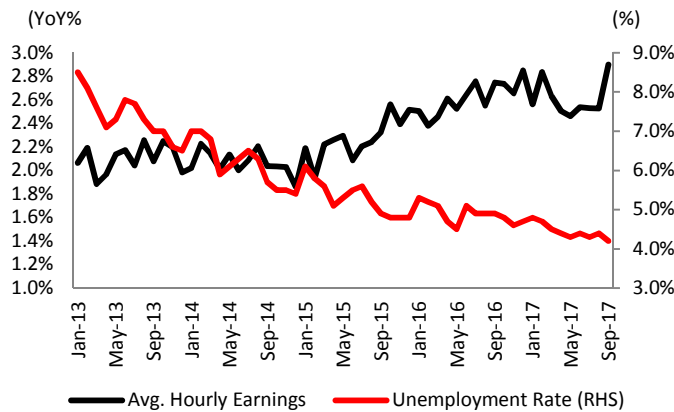
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



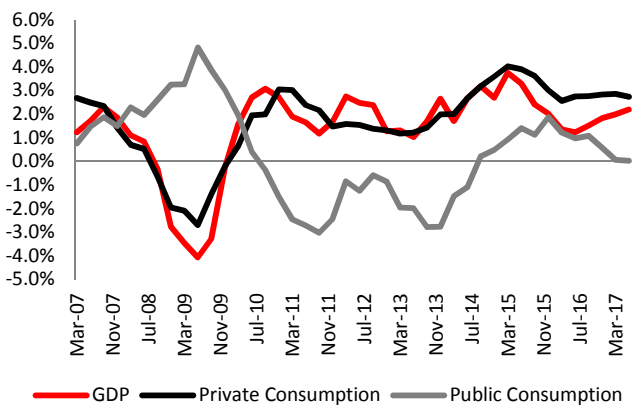
Source: CEIC; MIDFR

Chart 3: Wage Growth vs Unemployment Rate



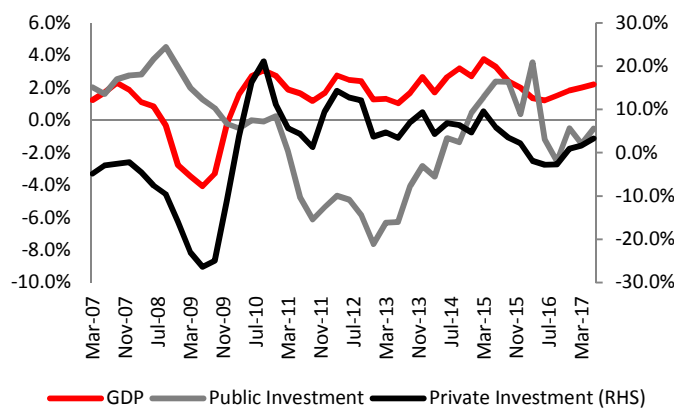
Source: CEIC; MIDFR

Chart 4: GDP vs Consumption Expenditures (YoY%)



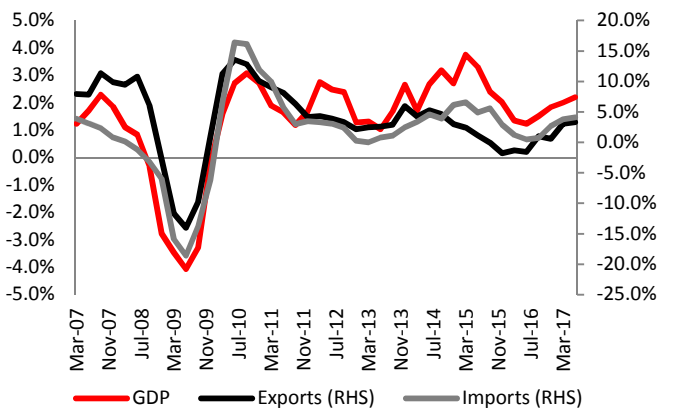
Source: CEIC; MIDFR

Chart 5: GDP vs Investment Expenditures (YoY%)



Source: CEIC; MIDFR

Chart 6: GDP vs External Trade Activities (YoY%)



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.