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ECONOMIC REVIEW | November 2016 US FOMC Meeting

As Widely Expected, Fed Left Interest Rate Unchanged

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- *At the moment, we are maintaining our expectation that the Fed is going to increase its interest rate by one time this year, which the only time left is now in December meeting. Rather than due to the strengthening of US economy, the move is mostly motivated for the Fed's credibility, which has been previously expecting four rate hikes this year, and so far has conducted none. At the same time, we are keeping a close watch at Friday's NFP numbers and US presidential election, which could deter the Fed's December rate hike decision.*

As have been widely expected, Fed left interest rate unchanged. Six out of eight voting members voted to leave fed funds at target range of 0.25% to 0.50% at November meeting, as have been widely expected by economists and market alike. In the first place, despite the Fed reiterating that every meeting is a live possibility, so far it has never conducted any move in meetings without press conference and latest economic projection. Furthermore, the uncertainty arising from US presidential election and the continuously mixed data of US economy is making a November rate hike is even more unlikely as compared to the previous September rate hike.

Household spending moderated while inflation picked up slightly. As compared to September FOMC meeting, the Fed opines that the household spending has been rising moderately from 'growing strong' previously. However the inflation has picked up, though we opine that it was mostly due to the increasing oil price rather than the due to an upward inflationary pressure coming from a strong economy. Consequently, inflation rate is no longer expected to remain low, though it will only begin to reach the Fed's 2% target in medium term.

Fed is to wait for 'some' further evidence before making a move. The Fed is waiting for 'some' further evidence before increasing its benchmark interest rate, in which the jobs data continues to be the most important indicator for the time being. On Wednesday, ADP private sector employment showed an increase of 147,000 jobs in October, which is lower than the economist consensus at 165,000. The number is the lowest in five months. However, it should be noted that ADP private sector employment numbers had diverged from BLS non-farm payroll numbers previously, though in the long term trend has been equally the same. BLS NFP number for October will come out this Friday, and these numbers are the ones that both the market and the Fed watched for. At the moment, as long as the numbers remain above 100,000 (which is relatively low actually), it is highly likely that the Fed is going to continue with its normalisation process.

We are maintaining our expectation of one rate hike this year. At the moment, we are maintaining our expectation that the Fed is going to increase its interest rate by one time this year, which the only time left is now in December meeting. Rather than due to the strengthening of US economy, the move is mostly motivated for the Fed's credibility, which has been previously expecting four rate hike this year, and so far has conducted none. At the same time, we are keeping a close watch at Friday's NFP numbers and US presidential election, which could deter the Fed's December rate hike decision.

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