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ECONOMIC REVIEW | October 2019 US FOMC Meeting

Fed's Third Interest Rate Cut in a Row to Limit Economic Slowdown

- *Fed's funds rate lower by 25 basis points. The Fed reduced its key policy rate to 1.5-1.75% during the FOMC meeting in Oct-19. The central bank views the economy is slowing down while global uncertainties remain as major downside risks. Advance estimate showed the US annualized economic growth moderated to 1.9% in 3Q19 from 2% recorded in the previous quarter.*
- *No significant pressure on inflation. The US's both headline CPI and core CPI maintained at 1.7% and 2.4% respectively in Sep-19. Based on the Fed's preferred inflation indicator, core PCE inflation still hovers a little below the target line of 2% so far in 2019. This was mainly due to decrement in energy prices buffering the cost of foods and rents increased.*
- *No more rate cut for the rest of 2019. As guided by macro trends and indicators, we opine there are only three rate cuts in 2019. The third cut is adequate to support economic growth in the US. In fact, fundamentally the economy remains stable across all sectors except manufacturing and export-oriented due to trade disputes. Domestic demand stays solid underpin by full-employment condition, moderate inflationary pressure and lower interest rate.*

Fed's funds rate lower by 25 basis points. The Fed reduced its key policy rate to 1.5-1.75% during the FOMC meeting in Oct-19. The central bank views the economy is slowing down while global uncertainties remain as major downside risks. Advance estimate showed the US annualized economic growth moderated to 1.9% in 3Q19 from 2% recorded in the previous quarter. However, the slowdown was not intense as market had expected (1.6%). The third cut of the interest rate is expected to impact economic activities in the US particularly household spending and business investment. In addition, it may offset the uncertainties due to the global trade tensions.

IPI and exports indicate signs of stagnant economic growth. Due to global trade uncertainties and volatility of commodity prices, overall IPI growth contracted by -0.2%yoy in Sep-19, the first fall since Dec-16. Manufacturing output further shrank by -0.9%yoy, 3rd straight months of contractions while mining output growth moderated to 2.9%yoy, slowest pace in 2½ years. On external front, exports have been on contractionary since Mar-19. Trade deficit widened despite protectionist policies by Trump was initially aimed to reduce the trade gap. Domestically, household spending remains solid as retail sales continued expanding, but at a moderating pace. Average sales growth for first nine months stood at 3.3%yoy, lower than previous year's 4.7%yoy. Henceforth, we opine the third cut is timely to compensate the external risks and provide additional boost to domestic demand.

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Consumer stays optimistic despite economic outlook weakened. Consumer sentiment and confidence indices remain on optimistic path amid low inflationary pressure, full-employment condition and lower interest rate. On the other hand, IBD/TIPP Economic Optimism Index rebounded to 52.6 points in Oct-19 compare to 50.8 points in Sep-19, after falling 2-months consecutively. Although, the Six Month Outlook improved a little to 43.5 points, it is still in weak state. Whereas, the Personal Finance Outlook bounced to 60.6 points after a dip in Sep-19, same as Confidence on Federal Policies also increased to 53.6 points. The third cut by the Fed is expected to boost up domestic spending as well as business investment in 4Q19 and 2020.

No significant pressure on inflation. The US's both headline CPI and core CPI maintained at 1.7% and 2.4% respectively in Sep-19. Based on the Fed's preferred inflation indicator, core PCE inflation still hovers a little below the target line of 2% so far in 2019. This was mainly due to decrement in energy prices buffering the cost of foods and rents increased. We anticipate inflationary pressure mainly from energy side to remain weak in line with our expectation of Brent crude oil price at $63pb for 2019 (2018: $71.6pb).

Full-employment condition remains. Non-farm payrolls increased 136K in Oct-19, same increment as the previous month, which was still the lowest in 5-month, but well above the market expectations of 85K. The average so far in 2019 is 158K per month, lower than the previous year's 223K per month. The moderation of NFP is in tandem with the downward trends of IPI and external trade performances. Nevertheless, the job market remains at full-employment condition as overall unemployment rate fell to 3.5% in Sep-19; lower than 3.7% in Aug-19.

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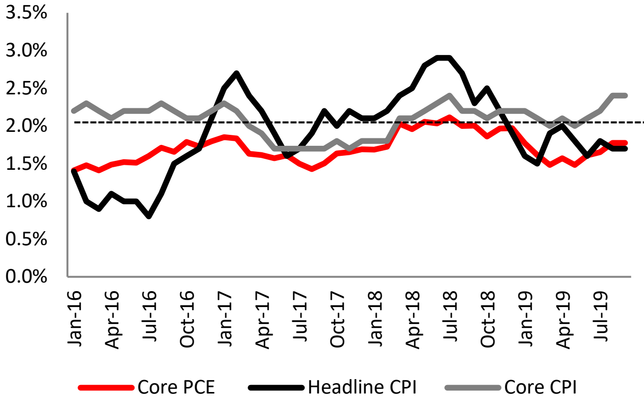
Table 1: Central Bank Policy Rate by Selected Economies (%)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Malaysia	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00
Thailand	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00
South Korea	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.25	4.20	4.20
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	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.00	1.75

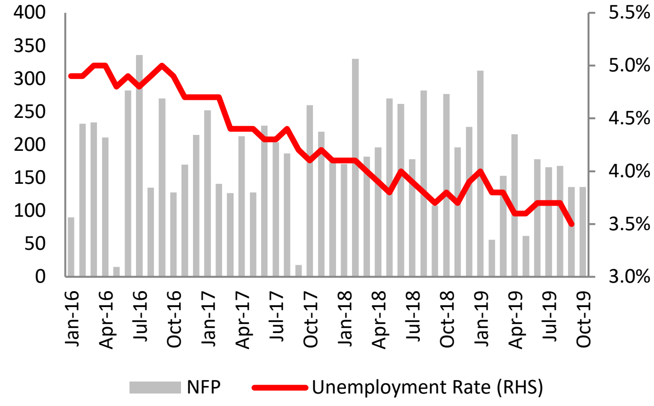
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



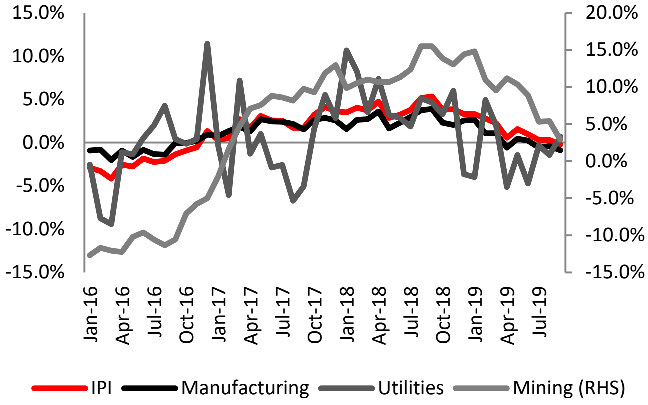
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



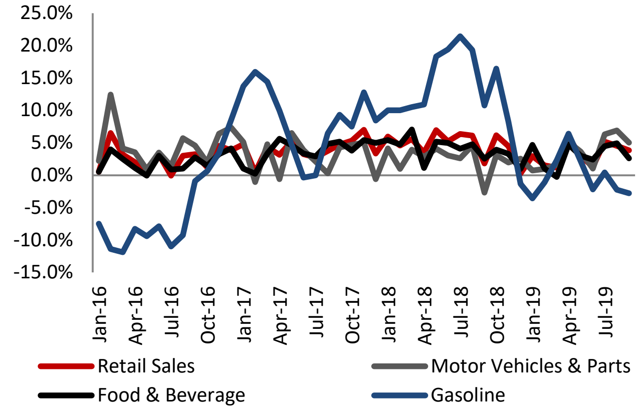
Source: CEIC; MIDFR

Chart 3: IPI Performances (YoY%)



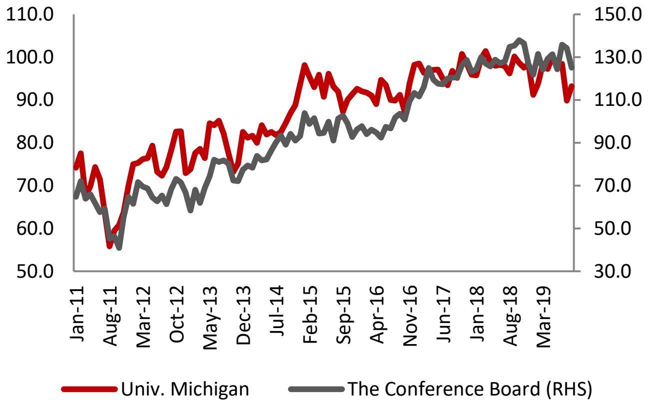
Source: CEIC; MIDFR

Chart 4: Retail Sales (YoY%)



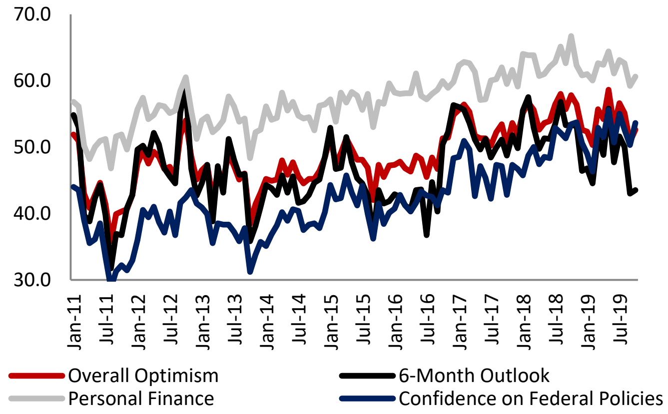
Source: CEIC; MIDFR

Chart 5: Consumer Sentiment & Confidence (Points)



Source: CEIC; MIDFR

Chart 6: IBD/TIPP Economic Optimism Index (Points)



Source: CEIC; MIDFR

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