

**ECONOMIC REVIEW | September 2017 US FOMC Meeting****Fed Keeps Rates Steady, Set Stage for Balance Sheet Reduction and Year-End Rate Hikes**


- *Fed maintains rate as expected. The Fed's decision today to keep interest rates unchanged at 1.0-1.25%, as well as its long-anticipated move to formally announce the start of its balance sheet normalisation process next month, came as little surprise.*
- *Fed to start balance sheet reduction exercise in October. Finally, the announcement that the Fed will begin winding down its USD4.5tn crisis-era balance sheet next month, by phasing out the reinvestment of principal from maturing securities, was something of a historic moment.*
- *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%, as well as its long-anticipated move to formally announce the start of its balance sheet normalisation process next month, came as little surprise. The bigger news was that, despite the weakness of core inflation in recent months, Fed officials continue to project one more 25bp rate hike by year-end.

**Inflation rate rebounded to 1.7% in August.** After six months of tapering down, the US headline inflation surged to 1.7% from 1.4% low in June 2017. 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 has been staying at 1.5% for four consecutive months since April, well below the Fed's target of 2%.

**Low unemployment but yet weak spending.** Unemployment rate in August recorded at 4.4%, slightly higher than May and July's 16-year low of 4.3 percent. Plus, non-farm payrolls data shows that number of persons entering the US labour market is rising. NFP figures still showing optimistic trend, registering 156 thousands in August. However, wage growth and retail sales are seen lukewarm as both reflecting decelerating trends. Despite of strengthening labour market, the US domestic spending is seen not improving much.

**Fed to start balance sheet reduction exercise in October.** Finally, the announcement that the Fed will begin winding down its USD4.5tn crisis-era balance sheet next month, by phasing out the reinvestment of principal from maturing securities, was something of a historic moment. 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.

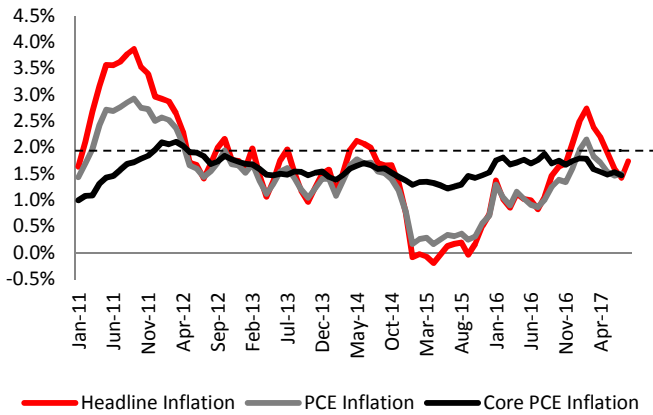
**We are maintaining our expectation of one more rate hike in the US this year.** At the moment, we are maintaining our expectation that the Fed will be conducting one more rate hike this year i.e in December as guided in recently concluded meeting. Strengthening labour market despite core PCE inflation 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	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-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	4.75	4.75	4.75	4.50
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	6.50	6.50	6.50	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	-0.10
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
EU	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.00
United States	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25

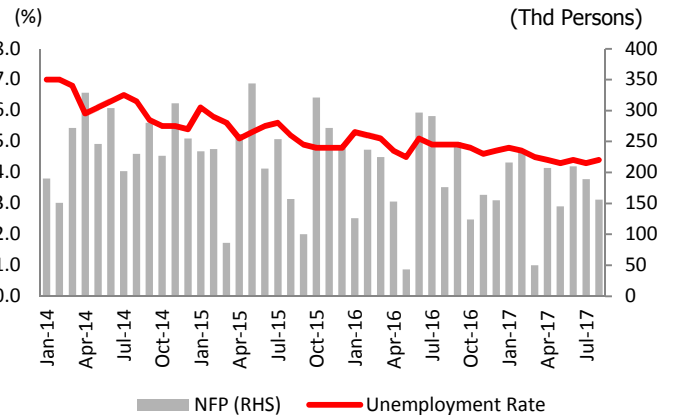
Source: CEIC, MIDFR

**Chart 1: Headline vs PCE Inflation (%)**



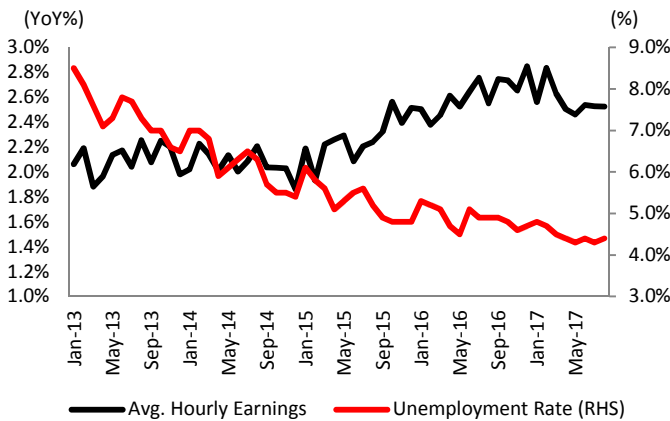
Source: CEIC; MIDFR

**Chart 2: Unemployment Rate vs Non-Farm Payroll**



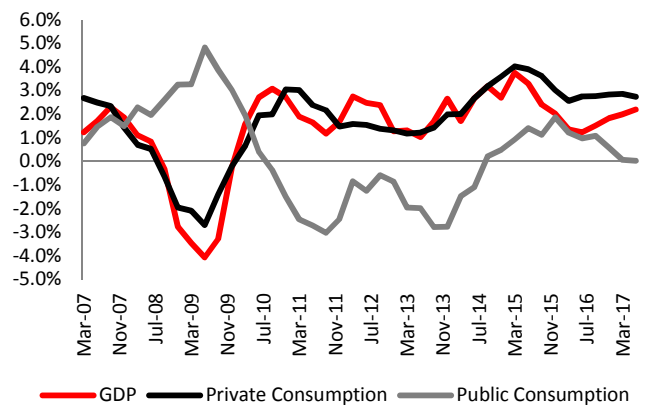
Source: CEIC; MIDFR

**Chart 3: Wage Growth vs Unemployment Rate**



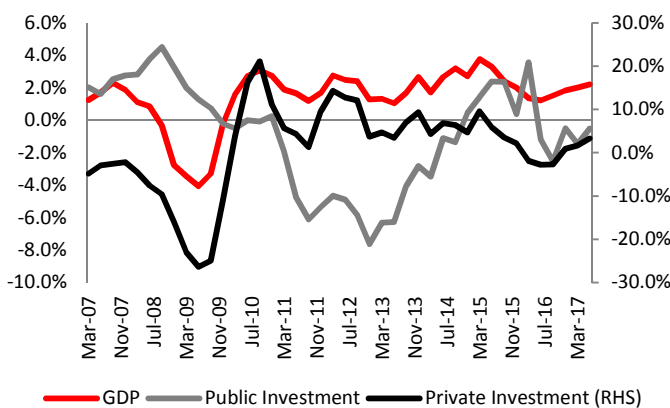
Source: CEIC; MIDFR

**Chart 4: GDP vs Consumption Expenditures (YoY%)**



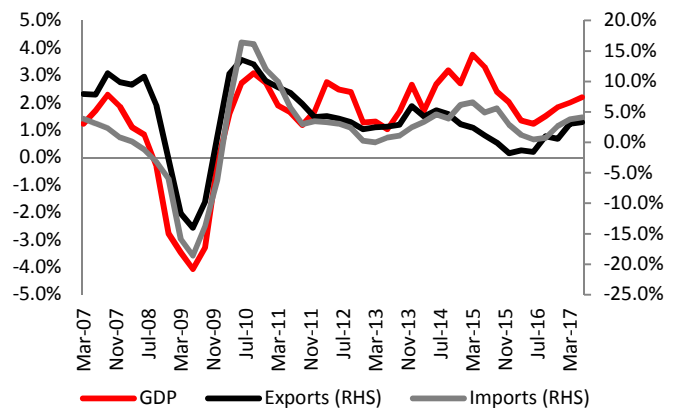
Source: CEIC; MIDFR

**Chart 5: GDP vs Investment Expenditures (YoY%)**



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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