

ECONOMIC REVIEW | December 2019 US FOMC Meeting

The Fed May Cut Rate Twice in 2020

- *Interest rate maintained.* The Fed maintained its policy rate at 1.5-1.75% during the FOMC meeting in Dec-19. The decision is widely expected by market analysts and economists. The economic outlook for the economy next year is expected to be affected by external challenges.
- *USA Presidential Elections.* Looking at macro indicators, there are possibilities of Donald Trump to remain in office given that jobless rate hits historic low and inflationary pressure stays at below 2% level. In addition, confidence in federal policies with the IBD/TIPP Economic Optimism index showing an improving trend after Donald Trump took over as President in 2017.
- *We expect two rate cuts in 2020.* External sector of the US economy is predicted to continue on weak side in 2020. Hence, domestic demand mainly household spending and business investment should expand steadily to maintain GDP growth at above 2%. Despite of three rate cuts, private investment contracted for two-consecutive quarters since 2Q19. Private consumption moderated in 3Q19.

Interest rate maintained. The Fed maintained its policy rate at 1.5-1.75% during the FOMC meeting in Dec-19. The decision is widely expected by market analysts and economists. The economic outlook for the economy next year is expected to be affected by external challenges. Global trade tension, political instability and volatility of commodity prices are among key downside risks. We expect the Fed to pursue easing monetary policy next year in order to spur household spending and business investment.

USA Presidential Elections. Economic growth in the US is predicted to continue moderating in 2020 amid external trade challenges and domestic political instability. Domestic demand remains firm yet still surrounded by political uncertainties as Presidential Elections to be held by year-end. Looking at macro indicators, there are possibilities of Donald Trump to remain in office given that jobless rate hits historic low and inflationary pressure stays at below 2% level. In addition, confidence in federal policies with the IBD/TIPP Economic Optimism index showing an improving trend after Donald Trump took over as President in 2017. Consumer sentiments by the University of Michigan and the Conference Board are also indicating uptrends. Hence, we expect external front of the US economy to continue to thread in rough seas next year and indirectly require further loosening monetary policy to support economic growth.

No significant pressure on inflation. The US's both headline CPI and core CPI maintained at 1.8% and 2.3% respectively in Oct-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 the decrease in energy prices which buffers the rise in cost of food and rent. We anticipate inflationary pressure mainly from the energy side to remain weak in line with our expectation of Brent crude oil price at \$63pb for 2019 (2018: \$71.6pb). We predict inflationary pressure in the US to maintain at moderate level next year as the oil price is forecasted to inch up marginally to \$65pb.

Full-employment condition remains. Non-farm payrolls increased 266K in Oct-19, highest in ten-month. However, the average so far in 2019 is 180K 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 Oct-19.


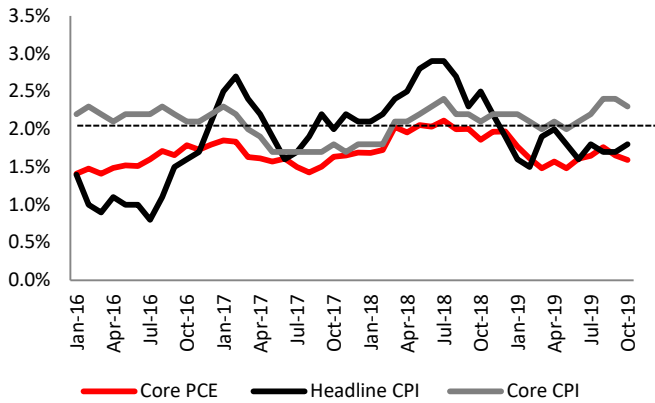
We expect two rate cuts in 2020. External sector of the US economy is predicted to continue on weak side in 2020. Hence, domestic demand mainly household spending and business investment should expand steadily to maintain GDP growth at above 2%. Despite of three rate cuts, private investment contracted for two-consecutive quarters since 2Q19. Private consumption moderated in 3Q19. Moving forward, we forecast the Federal Reserve shall make two cuts next year, one in 1H20 and another one in 2H19, 25 basis points each. 

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Thailand	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.25
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00
South Korea	1.75	1.75	1.75	1.75	1.50	1.50	1.25	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.20	4.15
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	2.25	2.25	2.00	1.75	1.75

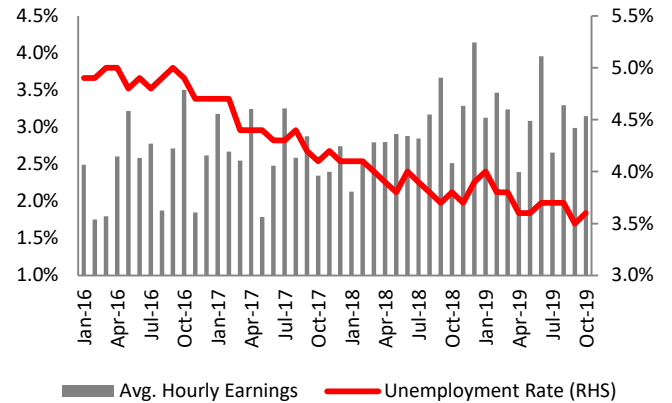
Source: CEIC; MIDFR

Chart 1: Headline vs Core PCE Inflation (%)



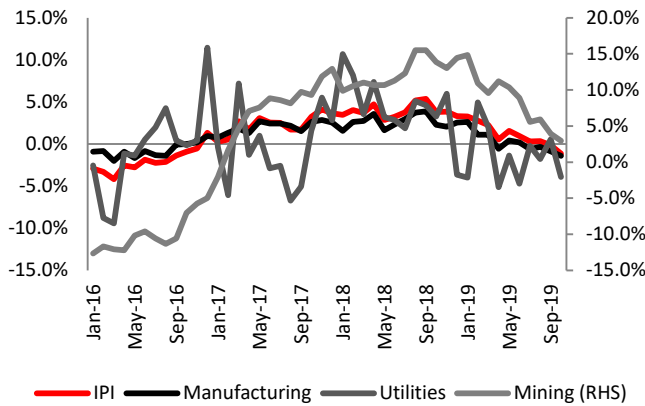
Source: CEIC; MIDFR

Chart 2: Unemployment Rate vs Non-Farm Payroll



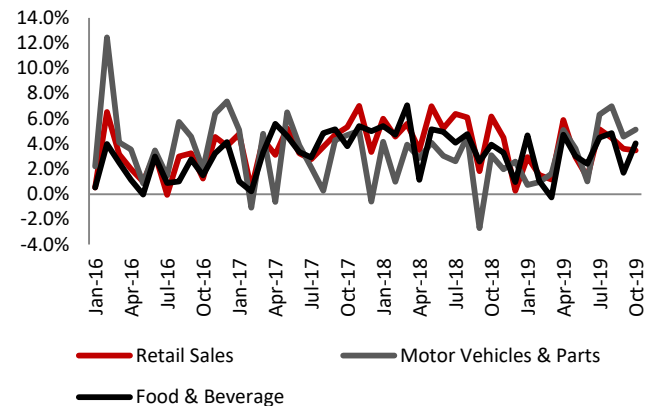
Source: CEIC; MIDFR

Chart 3: IPI Performances (YoY%)



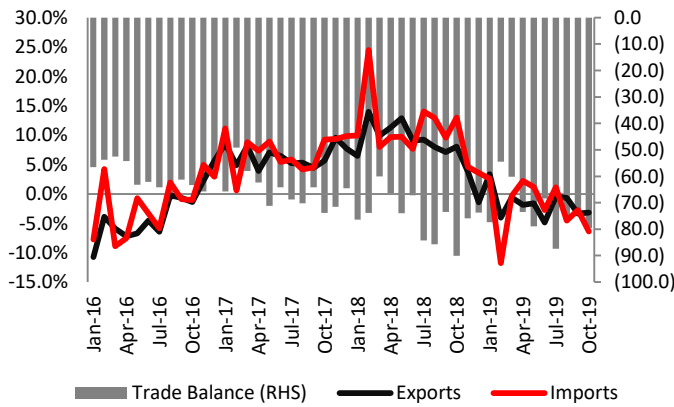
Source: CEIC; MIDFR

Chart 4: Retail Sales (YoY%)



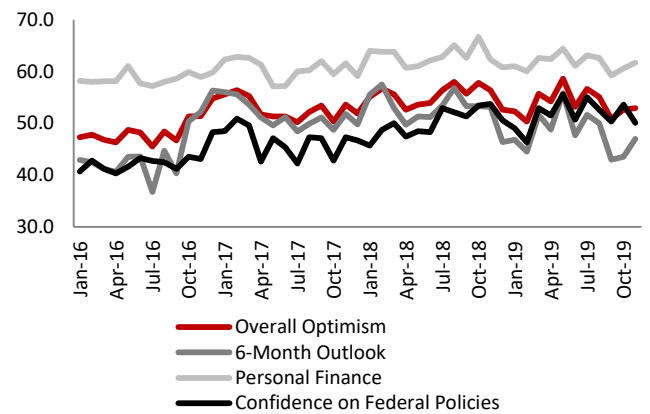
Source: CEIC; MIDFR

Chart 5: External Trade Performance (YoY%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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