

US FOMC Meeting (17 - 18 September)

Goes ahead with quarter-point cut, loses control of its own rate

OVERVIEW

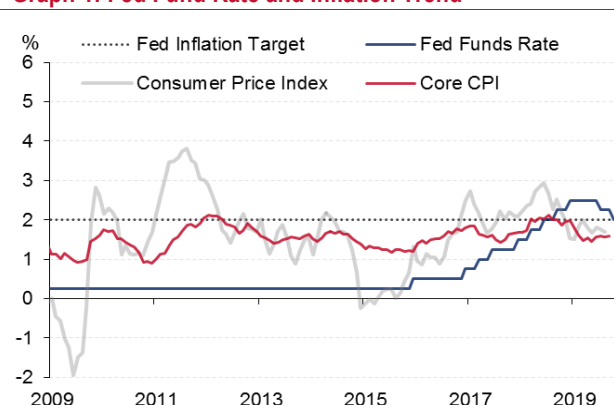
- As widely expected, the Fed trims the federal funds target rate by 25 basis points (bps) to 1.75%-2.00%, its second cut in a row since late July in an effort to prolong the longest economic expansion in history amidst rising global headwinds.**
- Cash crunch averted.** In a rare move, the Fed's own benchmark fed funds target rate rose to 2.3% on Tuesday, above the target range set when it cut rates at its last meeting in July. The Fed meeting followed several days of market disruptions, as returns on overnight lending spiked as high as 10.0% on Tuesday, prompting the Fed to jump into financial markets for a second time this week as the cash that banks keep on hand for short-term funding dried up. The shortage pushed up interest rates, prompting the the Fed to pump a total of US\$128.0b into the market.
- Another insurance cut.** The cut, the second this year, was in line with the expectations of investors and economists, but the central bank's outlook projected a more hawkish tone than markets had anticipated. The median forecast among its rate-setting committee was that rates would be at the same level at the end of 2020. All but three of the 17 Federal Open Market Committee (FOMC) members voted for a rate cut. Dissenting were St. Louis Fed President James Bullard, who preferred to cut rates by 50 basis points while both Kansas City Fed President Esther George and Boston Fed President Eric Rosengren preferred to keep the target range unchanged.
- Maintains cautious approach.** In his remarks at a press conference, Chairman Jerome Powell said the Fed expects the economy to remain strong and inflation to remain around its 2.0% target, suggesting another small cut or two could be warranted in the future. But he doesn't think the Fed needs to keep cutting for many more months. With only two more meetings in 2019, seven of the 17 Fed officials now see the possibility of at least one more rate cut for the year. Five officials would prefer to halt any additional easing for the remainder of 2019, sending mixed signals of where exactly the Fed may go next. President Donald Trump, who has been calling for deeper rate cuts, criticized the move as another "fail" by the Fed.
- Raises probability for BNM to cut.** Though the Fed next move would continue to be a tough guessing game it all boils down to how the global economic situation pans out over the next 6-12 months. With trade tension here to stay and a possible US-led currency war on the horizon, it's hard to see a catalyst for a speedy turnaround in global growth anytime soon. This means manufacturing and exports, Malaysia's growth drivers, would remain weak for a longer duration. Coupled with a slowing domestic demand and limited fiscal policy space to support the economy, it gives the monetary policy a more significant role to play. This raises the probability that Bank Negara Malaysia would cut the overnight policy rate by 25 bps to 2.75%, the soonest being at its sixth and last Monetary Policy Committee meeting for the year on November 5th.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.75-2.00% (-0.25%)	USA	Funds Rate Target	Sep-19
1.00% (-0.50%)	New Zealand	Official Cash Rate	Aug-19
5.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Aug-19
1.50% (-0.25%)	Thailand	Repo Rate	Aug-19
4.25% (-0.25%)	Philippines	Overnight Reverse Repurchase	Aug-19
5.40% (-0.35%)	India	Repo Rate	Aug-19
1.00% (-0.25%)	Australia	Cash Rate	Jul-19
1.50% (-0.25%)	South Korea	Base Rate	Jul-19
3.00% (-0.25%)	Malaysia	Overnight Policy Rate	May-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jul-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16
4.35% (-0.25%)	China	Lending Rate	Oct-15

Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Fed Fund Rate and Inflation Trend



Source: Bloomberg, Kenanga Research

Note: Core CPI = Personal Consumption Expenditures (PCE) Excluding Food and Energy



Table 1: FOMC Tentative Meeting Schedule for 2019 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Decision
1st	29 - 30 Jan	<input checked="" type="checkbox"/>	No change	No change
2nd	19 - 20 Mar	<input checked="" type="checkbox"/>	No change	No change
3rd	30 Apr – 1 May	<input checked="" type="checkbox"/>	25% probability of rate hike	No change
4th	18 - 19 Jun	<input checked="" type="checkbox"/>	10% probability of rate cut	No change
5th	30 - 31 Jul	<input checked="" type="checkbox"/>	30% probability of rate cut	25 bps rate cut
6th	17 - 18 Sep	<input checked="" type="checkbox"/>	50% probability of 25 bps rate cut	25 bps rate cut
7th	29 – 20 Oct	<input type="checkbox"/>	50% probability of 25 bps rate cut	
8th	10 - 11 Dec	<input type="checkbox"/>	50% probability of 25 bps rate cut	

Source: Federal Reserve, Kenanga Research
 Note: bps denotes basis points;

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