

17 September 2020

# US FOMC Meeting (15 - 16 September)

Fed sees better economy with no change in rates through 2023

- **Keeping it steady till 2023.** While the Federal Open Market Committee (FOMC) voted to keep rates unchanged between a range of 0.0% and 0.25%, it also intend to keep it until at least the end of 2023 and would not tighten policy until inflation had been higher than 2.0% "for some time".

- **Re-emphasizing dovish LT policy shift.** The new guidance from the FOMC applies a shift towards a more dovish long-term stance that was endorsed by the Fed last month at the Jackson Hole symposium. Meanwhile, the dot plot of interest rate projections on average sees rates staying near zero through the end of 2023, with only four members see rates higher.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.00% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Jul-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-20
2.25% (-0.50%)	Philippines	Overnight Reverse Repurchase	Jun-20
0.50% (-0.25%)	South Korea	Base Rate	May-20
4.00% (-0.40%)	India	Repo Rate	May-20
0.50% (-0.25%)	Thailand	Repo Rate	May-20
3.85% (-0.20%)	China	Loan Prime Rate	Apr-20
0.25% (-0.75%)	New Zealand	Official Cash Rate	Mar-20
0.25% (-0.50%)	Australia	Cash Rate	Mar-20
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.00-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

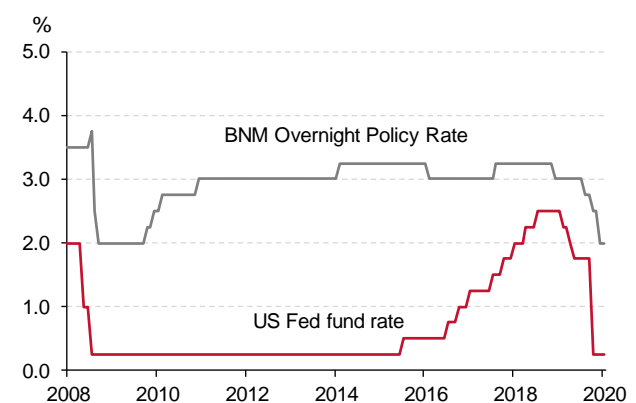
Source: Bloomberg, CEIC, Kenanga Research

- **Re-stating its policy adjustment.** In emphasizing the policy adjustment, the Fed said, "The Committee seeks to achieve maximum employment and inflation at the rate of 2.0% over the longer run". "With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2.0% for some time so that inflation averages 2.0% over time and longer-term inflation expectations remain well anchored at 2.0%." "The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved".
- **Better economic outlook.** The FOMC sees GDP growth contracting by -3.7% for 2020, better than its previous estimate of -6.5%. Its new jobless rate forecast is 7.6%, versus 9.3% made last June. The committee sees unemployment rate to drop to 4.0% by end-2023. The Fed doesn't see core PCE inflation hitting 2.0% until the end of 2023.

- **BNM at ease with current level.** On the domestic monetary front, we believe that Bank Negara Malaysia appears to be comfortable with the cumulative 125 basis points reduction in the overnight policy rate this year. Along with its relatively upbeat tone by BNM in the Monetary Policy Committee statement on the recovery outlook, we see a higher probability that the central bank would keep the OPR unchanged at 1.75% till end of the year.

- **Still room for policy easing.** Nevertheless, we believe BNM still has room to lean towards further monetary easing should the recovery pace weaken, given that the downside risk remains on domestic political and geopolitical uncertainty along with fears of a new wave of COVID-19 infections, which could undermine growth recovery. We also do not rule out alternative monetary tools to be deployed to complement the current conventional policy approach to support the economic growth recovery.

**Graph 1: Fed Fund Rates Vs. BNM OPR**



Source: Bloomberg, Federal Reserve, Kenanga Research

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**Table 2: FOMC Tentative Meeting Schedule for 2020 / KIBB Outlook**

No.	Date		KIBB Research Outlook	Fed Decision
1st	28 - 29 Jan	<input checked="" type="checkbox"/>	No change	No change
2nd	3 Mar (unscheduled)	<input checked="" type="checkbox"/>	n/a	50 bps
3rd	15 Mar (unscheduled)	<input checked="" type="checkbox"/>	n/a	100 bps
4th	17 - 18 Mar (cancelled)	<input checked="" type="checkbox"/>	No change	n/a
5th	28 - 29 Apr	<input checked="" type="checkbox"/>	No change	No change
6th	09 - 10 Jun	<input checked="" type="checkbox"/>	No change	No change
7th	28 - 29 Jul	<input checked="" type="checkbox"/>	No change	No change
8th	15 - 16 Sep	<input checked="" type="checkbox"/>	No change	No change
9th	04 - 05 Nov	<input type="checkbox"/>	No change	
10th	15 - 16 Dec	<input type="checkbox"/>	No change	

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points;

**Table 3: MPC Meeting Schedule for 2020/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BNM Decision
1st	21 and 22 January (Tue and Wed)	<input checked="" type="checkbox"/>	20% Probability cut 25bps	25bps cut
2nd	2 and 3 March (Mon and Tue)	<input checked="" type="checkbox"/>	100% Probability cut 25bps	25bps cut
3rd	4 and 5 May (Mon and Tue)	<input checked="" type="checkbox"/>	50/50 (Pause) - 25bps cut (provisional on severity of COVID-19 impact)	50 bps cut
4th	6 and 7 July (Mon and Tue)	<input checked="" type="checkbox"/>	25bps cut	25bps cut
5th	9 and 10 September (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	2 and 3 November (Mon and Tue)	<input type="checkbox"/>	No change	

Source: Bank Negara Malaysia, Kenanga Research

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