

# US FOMC Meeting (15 – 16 December)

Mirrors previous decision, signals extension to debt purchase

- **Expected.** As expected, members of the Federal Open Market Committee (FOMC) made another unanimous decision to keep the federal funds rate target range at 0%-0.25%.
- **But...** we reckon it falls short of calls for more forceful monetary stimulus to tackle the waning recovery by lengthening the average maturity of its bond purchases, or even increasing the aggregate size.
- **Consistent.** The committee "expects it will be appropriate to maintain this target range until labour market conditions have reached levels consistent with the committee's assessments of maximum

employment and inflation has risen to 2.0% and is on track to moderately exceed 2.0% for some time," in coherent with previous statements it has made.

- **Extend time horizon on debt purchases.** To boost the flagging economy, the Fed pledged to keep buying at least USD120.0b of debt (USD80.0b per month of Treasury securities and USD40.0b of agency mortgage-backed securities) "until substantial further progress has been made toward the committee's maximum employment and price stability goals." The new guidance sets a longer time horizon for the bond purchases; the previous statement said they would only continue over the "coming months". Total Fed assets now is at a record high of USD7.2t (see chart).

- **Reinforcing the commitment.** Fed Chairman Jerome Powell said the new guidance on asset purchases was a "powerful message" about Fed's determination to keep bolstering the economic recovery hit by the pandemic as it still operating well below capacity.

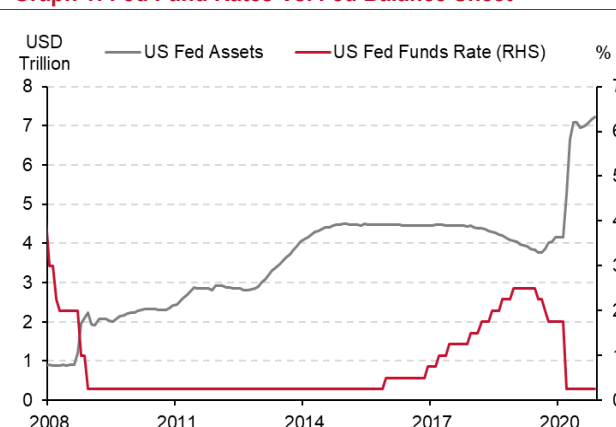
- **BNM policy outlook.** On the domestic monetary front, we expect Bank Negara Malaysia may take necessary measures to support the economy if the pace of recovery falters over the coming months as it still has ample room to cut interest rates. However, we believe any decision to alter its policy path would be determined by the impact of the large fiscal stimulus which has so far been promising

**Table 1: Policy Rate Decision in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.75% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Nov-20
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
0.10% (-0.15%)	Australia	Cash Rate	Nov-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-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
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

**Graph 1: Fed Fund Rates Vs. Fed Balance Sheet**



Source: Bloomberg, Federal Reserve, Kenanga Research

given the performance of the 3Q20 GDP growth. As the economy might suffer from the latest wave of outbreak of the COVID-19 pandemic it would raise the likelihood that the easing cycle would resume. Nonetheless, for now, we see a higher probability that BNM would keep the overnight policy rate (OPR) unchanged at 1.75%, on the back of improvement in some segments of the economy as well as positive development on COVID-19 vaccine.

17 December 2020

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

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

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points;

**Table 3: FOMC Tentative Meeting Schedule for 2021**

No.	Date
1st	26 - 27 Jan
4th	16 - 17 Mar
5th	27 - 28 Apr
6th	15 - 16 Jun
7th	27 - 28 Jul
8th	21 - 22 Sep
9th	2 - 3 Nov
10th	14 - 15 Dec

Source: Federal Reserve

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