

US FOMC Meeting (27 – 28 April)

Fed holds on rates, reiterate inflationary concern as transitory

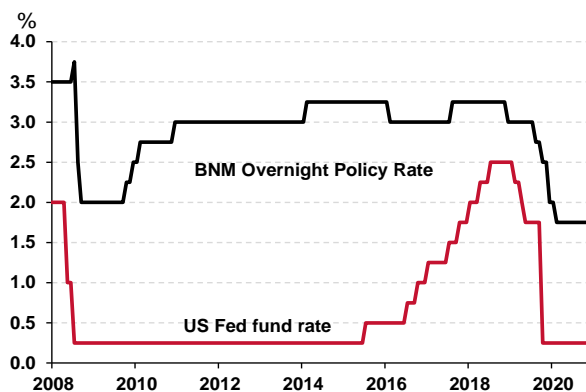
- No surprise.** The Federal Reserve Open Markets Committee (FOMC) expectedly decided to leave monetary policy unchanged. That means the federal funds rate target range at 0.0%-0.25% and USD120b in monthly bond purchases are here to stay a while longer as the economy recovers from the COVID-19-induced recession.
- Same script.** While FOMC voting members voted for the monetary policy action, its forward guidance keeps the same wording as in its March decision. Though it acknowledges that the economy has strengthened the risk to the outlook remain as the public health crisis continues to weigh on the economy.
- Need more time.** Despite President Joe Biden passed a huge stimulus package in March and promised to shell out trillions more on infrastructure and American families, triggering inflationary concern in the market, Chairman Jerome Powell reiterated that more healing is needed before the Fed does anything that might dampen economic activity. "It's not yet time to have a conversation about tapering." Instead, inflation, it reiterates, has risen, largely "reflecting transitory factors."
- Policy outlook.** The reality is the hole left by the COVID-19 economic shutdown was so deep and devastating that the current slew of good economic news is not enough to convince the Fed and other major central banks to wean away from their easy money policy anytime soon. And to make it more difficult, the pandemic is far from being defeated. Hence, we may only see the Fed to start to gradually taper its bond buying exercise somewhere next year.
- BNM policy outlook.** Similarly, BNM acknowledges that an accommodative monetary policy stance will be needed through 2021 given the uneven pace of recovery and the downside risks to economic outlook. This is in line with our house view that BNM will keep the OPR unchanged at 1.75% for the rest of the year, particularly given the recent relaxation of COVID-19 restrictions, Malaysia's continuing vaccination drive and the additional RM20.0b PEMERKASA stimulus package.
- Fiscal policy a priority.** Although there is still room for BNM to cut the OPR by at least 25 basis points, should COVID-19 infections rise significantly hampering economic recovery, we reckon the government would give priority to implement fiscal measures and stimulus to support the economy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
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
0.0-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

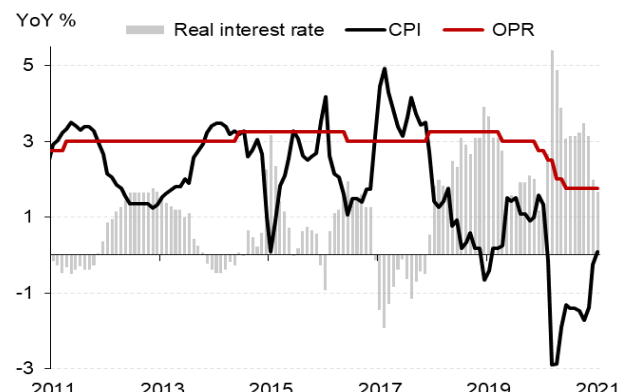
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: US Fed Funds Rate Vs. BNM OPR



Source: Department of Statistics, Bloomberg, Kenanga Research

Graph 2: BNM OPR and Inflationary Trend



Source: Department of Statistics, Bloomberg, Kenanga Research

Table 2: FOMC Tentative Meeting Schedule for 2021 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Decision
1st	26 - 27 Jan	<input checked="" type="checkbox"/>	No change	No change
2nd	16 - 17 Mar	<input checked="" type="checkbox"/>	No change	No change
3rd	27 – 28 Apr	<input checked="" type="checkbox"/>	No change	No change
4th	15 - 16 Jun	<input type="checkbox"/>	No change	
5th	27 - 28 Jul	<input type="checkbox"/>	No change	
6th	21 - 22 Sep	<input type="checkbox"/>	No change	
7th	2 – 3 Nov	<input type="checkbox"/>	No change	
8th	14 - 15 Dec	<input type="checkbox"/>	No change	

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

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Published and printed by:

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