

US FOMC Meeting (27 – 28 July)

Holds rates steady, sees improving economic outlook despite pandemic concerns

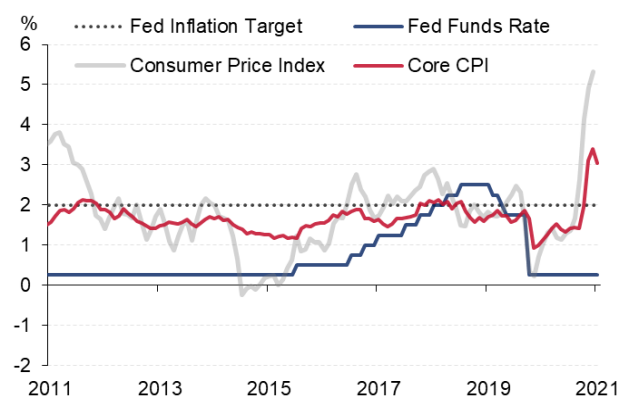
- Holds steady.** As expected, the Federal Open Market Committee (FOMC) concluded its two-day meeting by keeping its federal funds rate target near zero and continues to purchase assets at its current rate.
- Economy strengthens.** It added that the economy continues to progress despite concerns over the pandemic spread. In a unanimously approved statement, the committee observed that the economy continues to “strengthen.”
- Policy outlook.** Still, the FOMC said the path of the economy continues to depend on the course of the coronavirus, and risks to the economic outlook remain. Despite the optimism about the economy, Fed Chairman Jerome Powell said the Fed is nowhere near considering a rate hike.
- Taper talk.** With the Fed likely on hold relative to interest rates at least until late-2022, we believe that the Fed has started the tapering clock or reducing its monthly purchase of USD120.0b in bonds. “Substantial further progress” on inflation and employment is the benchmark the Fed has set before it will tighten policy. This would mean slowing and ultimately stopping monthly bond purchases and eventually raising interest rates. Based on market expectation, the bond buying tapering could start somewhere as early as 4Q21.
- The forward guidance** in the statement remains the same as the previous meeting: The committee “expects it will be appropriate to maintain this target range until labor 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.”
- BNM policy outlook.** Despite the record rise in the number of COVID-19 cases and the resulting extension of a full lockdown since June 1, we still believe that Bank Negara Malaysia would retain an accommodative monetary policy stance through 2021 to support the pace of economic recovery. This is on the expectation that the economy would still expand in the 2H21 on the prospect of a gradual reopening of the economy, backed by the steady progress towards achieving the herd immunity target through mass vaccination and eventually a reduction in the rate of infection. On this premise, we view that BNM will keep the overnight policy rate unchanged at 1.75% until the end of this year.

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: Fed Fund Rate and Inflation Trend



Source: Bloomberg, Kenanga Research

Graph 2: US Unemployment Rate & Wage Growth



Source: Bureau of Economic Analysis, 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. Inflation is transitory
3rd	27 – 28 Apr	<input checked="" type="checkbox"/>	No change	No change. Reiterate inflation concern as transient
4th	15 - 16 Jun	<input checked="" type="checkbox"/>	No change	No change. Growth outlook improves
5th	27 - 28 Jul	<input checked="" type="checkbox"/>	No change	Sees progress in economic growth. Taper talk on.
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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