

05 May 2022

US FOMC Meeting (03 – 04 May)

Hikes rate by 50 bps, signals similar hikes ahead and to start shrinking balance sheet in June

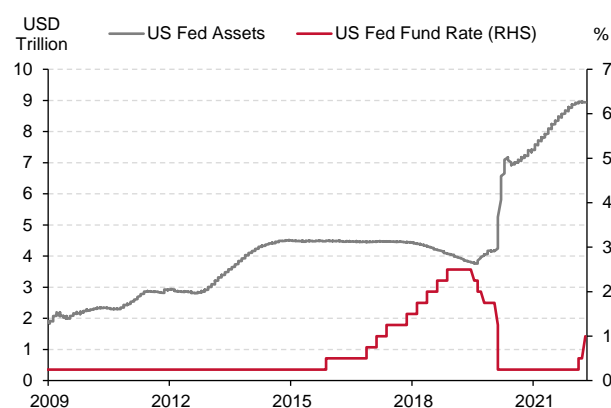
- As expected**, the Federal Reserve jacked up its key policy rate by 50 basis points (bps), its first half a percentage point increase in 22 years (since May 2000), bringing the federal funds target rate range to 0.75%-1.00% (prev: 0.25%-0.50%). Note that all the members of the Federal Open Market Committee (FOMC) voted in favour.
- Staying hawkish**. As usual, the policymakers are ready to adjust their policy stance if risks emerge that could hinder progress in reaching their goals of full employment and price stability.
- Focus on inflation**. The Fed is putting most of its focus on inflation as it considers the labour market strong enough to withstand higher interest rates. "The invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions," the Fed's statement said.
- Balance sheet roadmap**: Starting June 1, the principal payments from securities held in the Fed's System Open Market account will be reinvested to the extent that they exceed monthly caps. For Treasury securities, the cap will initially be set at USD30.0b per month and after three months will increase to USD60.0b per month. For agency debt and agency MBS, the cap will initially be set at USD17.5b per month and after three months will increase to USD35.0b per month.
- Questions remain on QT**. While the Fed hopes the process will allow it to reduce its USD8.9 trillion in holdings, the central bank has not clarified how small it will allow its balance sheet to shrink.
- Staying the cause**. While reiterating that a 50 bps rate hike would be on the table in its next meetings Chairman Jerome Powell ruled out a 75 bps hike in the immediate future. This took the steam out of market speculation that the Fed would further ratchet up its pace of tightening, causing the US bond and the equity markets to rally.
- BNM Policy Outlook**. The signal given out by the Fed Chairman, that it would not be too aggressive and go beyond a 50 bps hike may contribute, in our view, one of the factors that Bank Negara Malaysia's (BNM) policy stance will remain status quo and maintain its overnight policy rate (OPR) on May 11. We continue to believe BNM would adopt a cautious policy stance in its upcoming policy meetings. However, BNM's policy stance may gradually tilt towards tightening in the event that the economic recovery gathers momentum leading to the build-up of a demand-driven inflationary trend. That would very much depend on BNM's interpretation of economic indicators to determine the sustainability of economic growth. For now, we expect that BNM would keep its overnight policy rate (OPR) unchanged at 1.75% until 2H22. Nevertheless, we are still looking at a possibility of a 50 bps rate hike by BNM by year end.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.75%-1.00% (+0.50%)	USA	Funds Rate Target	May-22
4.40% (+0.40%)	India	Repo Rate	May-22
0.35% (+0.25%)	Australia	Cash Rate	May-22
1.50% (+0.25%)	South Korea	Base Rate	Apr-22
1.50% (+0.50%)	New Zealand	Official Cash Rate	Apr-22
1.375% (+0.25%)	Taiwan	Discount Rate	Mar-22
3.70% (-0.10%)	China	Loan Prime Rate	Jan-22
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-20
0.50% (-0.25%)	Thailand	Repo Rate	May-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

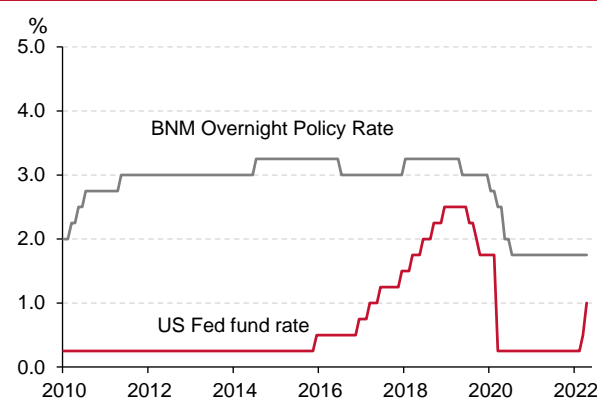
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: US Fed Assets Vs. Fed Fund Rate



Source: Bloomberg, Kenanga Research

Graph 2: Fed Fund Rate Vs. BNM OPR



Source: Bloomberg, Kenanga Research

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Table 2: FOMC Tentative Meeting Schedule for 2022 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future	Fed Decision
1st	25 - 26 Jan	<input checked="" type="checkbox"/>	No change	No change	No change
2nd	15 - 16 Mar*	<input checked="" type="checkbox"/>	25bps hike	25bps hike (100% chance)	25bps hike
3rd	3 - 4 May	<input checked="" type="checkbox"/>	25bps hike	50bps hike	50bps hike
4th	14 - 15 Jun*	<input type="checkbox"/>	50bps hike	50bps hike	
5th	26 - 27 Jul	<input type="checkbox"/>	50bps hike	50bps hike	
6th	20 - 21 Sep*	<input type="checkbox"/>	50bps hike	50bps hike	
7th	1 - 2 Nov	<input type="checkbox"/>	25bps hike	25bps hike	
8th	13 - 14 Dec*	<input type="checkbox"/>	25bps hike	25bps hike	

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points

*Meeting associated with a Summary of Economic Projections

**Fed Funds Futures

Table 3: MPC Tentative Meeting Schedule for 2022/ KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	19 and 20 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	2 and 3 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	10 and 11 May (Tue and Wed)	<input type="checkbox"/>	No change	
4th	5 and 6 July (Tue and Wed)	<input type="checkbox"/>	No change	
5th	7 and 8 September (Wed and Thu)	<input type="checkbox"/>	50% probability of 25 bps hike	
6th	2 and 3 November (Wed and Thu)	<input type="checkbox"/>	>50% probability 25 bps hike	

Source: Bank Negara Malaysia, Kenanga Research

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