

# US FOMC Meeting (14 – 15 June)

Hikes rate by 75 bps, sees key rate topping 3.0% in 2022 with more hikes in 2023 before rate cuts in 2024

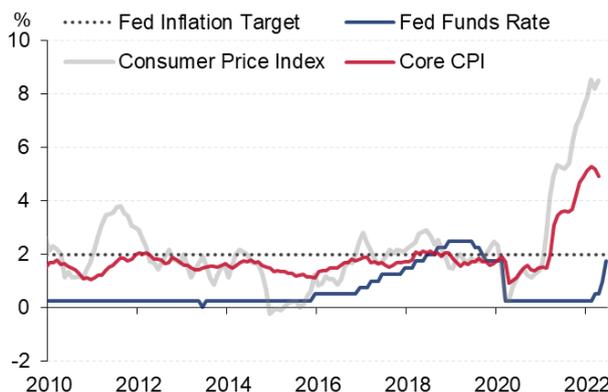
- Ending weeks of speculation**, the Federal Reserve raised its key policy rate by 75 basis points (bps), the biggest hike since 1994, bringing the federal funds target rate range to 1.50%-1.75% (prev: 0.75%-1.00%). All Federal Open Market Committee (FOMC) members voted in favour except Kansas City Fed President Esther George, who preferred a 50 bps rate hike.
- Elevated dot-plot signal.** The committee unanimously see its key interest rate topping 3.0% in 2022. According to the dot plot projection, most policymakers expect rates to reach at least 3.25% by the end of the year, with one forecasting a level nearing 4.0%. On the March projections, even the most aggressive prediction topped out at between 3.0% and 3.25%
- Cuts possibly in 2024.** For 2023, the dot-plot showed one Fed member expects rates to top out near 4.5%, with the vast majority seeing a level between 3.5% and 4.25%. From there, policymakers see rate cuts coming in 2024, with most officials predicting a level between 3.0% and 3.5% for the year.
- Economic forecast downgrade.** The Fed has slashed its GDP growth forecast for 2022 to 1.7% from its prediction of 2.8% it made in March and 4.0% in December 2021. Looking at the labour market, the Fed sees the 2022 unemployment rate at 3.7%, slightly above March’s projection of 3.5%. For inflation, the central bank targeted a PCE inflation rate of 5.2%, versus 4.3% forecast it issued in March. Back in December, the Fed predicted inflation would hit 2.6%.
- In a post-meeting news conference, Federal Reserve Chairman Jerome Powell acknowledged that a three-quarter-point rate hike “is an unusually large one.” While Fed officials “do not expect moves of this size to be common,” Powell said, he noted that the central bank would likely discuss raising rates by 75 bps or just 50 bps at its next meeting, on July 26-27. This took the steam out of market speculation, triggering the US bond and the equity markets to rally.
- BNM Policy Outlook.** The signal given by the Fed and the reaction of the global financial markets and its eventual impact on the economy would provide a stronger reason for most central banks to follow suit. However, this does not imply that Bank Negara (BNM) would follow the Fed’s monetary decision in lockstep manner. Based on its latest monetary decision, BNM’s policy stance has gradually tilted towards tightening in view that domestic demand has improved following the reopening of international borders and relaxation of COVID-19 restrictions leading to the build-up of a demand-driven inflationary trend. Hence, we believe that this would raise the probability that BNM would likely raise its overnight policy rate (OPR) by at least 25 bps at its remaining three Monetary Policy Meetings for this year.

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

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.50-1.75% (+0.75%)	USA	Funds Rate Target	Jun-22
4.90% (+0.50%)	India	Repo Rate	Jun-22
0.85% (+0.50%)	Australia	Cash Rate	Jun-22
1.75% (+0.25%)	South Korea	Base Rate	May-22
2.00% (+0.50%)	New Zealand	Official Cash Rate	May-22
2.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	May-22
2.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-22
1.375% (+0.25%)	Taiwan	Discount Rate	Mar-22
3.70% (-0.10%)	China	Loan Prime Rate (1-YR)	Jan-22
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
0.50% (-0.25%)	Thailand	Repo Rate	May-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

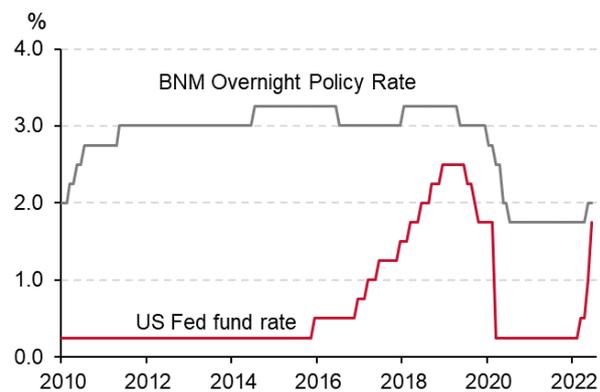
Source: Bloomberg, CEIC, Kenanga Research

**Graph 1: Fed Fund Rate, Core PCE, and Inflation Trend**



Source: Bloomberg, Kenanga Research

**Graph 2: Fed Fund Rate Vs. BNM OPR**



Source: Bloomberg, Kenanga Research

16 June 2022

**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"/>	25 bps hike	25 bps hike (100% chance)	25 bps hike
3rd	3 - 4 May	<input checked="" type="checkbox"/>	25 bps hike	50 bps hike	50 bps hike
4th	14 - 15 Jun*	<input checked="" type="checkbox"/>	50 bps hike	75 bps hike (99% chance)	75 bps hike
5th	26 - 27 Jul	<input type="checkbox"/>	50 bps hike	75 bps hike (78% chance)	
6th	20 - 21 Sep*	<input type="checkbox"/>	50 bps hike	50 bps hike	
7th	1 - 2 Nov	<input type="checkbox"/>	50 bps hike	50 bps hike	
8th	13 - 14 Dec*	<input type="checkbox"/>	50 bps hike	25 bps 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 checked="" type="checkbox"/>	No change	25 bps hike
4th	5 and 6 July (Tue and Wed)	<input type="checkbox"/>	>75% probability of 25 bps hike	
5th	7 and 8 September (Wed and Thu)	<input type="checkbox"/>	>75% probability of 25 bps hike	
6th	2 and 3 November (Wed and Thu)	<input type="checkbox"/>	>50% probability of 25 bps hike	

Source: Bank Negara Malaysia, Kenanga Research

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