

US FOMC Meeting (21 & 22 March)

Raised policy rate by 25 bps, signals policy cycle almost done

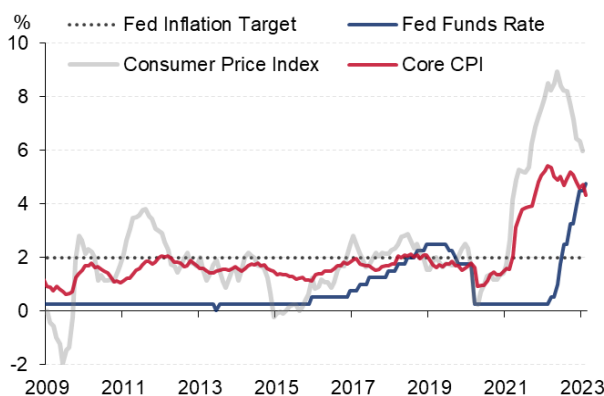
- Aligning with traders' expectations**, the US Federal Open Market Committee (FOMC) hiked its policy rate by 25 basis points (bps) to 4.75%-5.00%, in a unanimous vote.
- Our take:** The Fed's view appears to be cautious and remain committal in its effort to quell inflation but not conditional, leaving it with the right flexibility to raise rates again if needed as banking panic subsides.
- Additional firming.** "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2.0% over time," it said.
- On the banking crisis**, the FOMC said the recent developments at U.S. banks are "likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation," adding that "the extent of these effects is uncertain."
- No change to dot plot.** In the policymaker's summary of economic projections, the median expectation for the federal funds rate at the end of 2023 remained at 5.1%, unchanged from the December projections and indicating the Fed may be nearing its peak rate. Meanwhile, according to the CME FedWatch tool traders see a 49.9% probability of another 25-bp rate hike in May and a 50.1% chance that the federal funds rate will stay unchanged.
- Signals another 25 bps hike at the next FOMC meeting in May.** At a post-monetary policy decision press conference Federal Reserve Chair Jerome Powell said "If we need to raise rates higher, we will...rate cuts are not in our base case," adding that some tightening of credit conditions may substitute for rate hikes. "It's highly uncertain" how long the the banking turmoil last, he added.
- Almost done.** The upshot from the meeting is that the Fed is nearly done hiking. However, the markets are still betting that policymakers will shift from rate hikes to rate cuts towards the 2H23. Currently, market pricing points to a year-end federal funds target rate below 4.50%, meaning that there would be at least two rate cuts of 25 bps each by year end.
- BNM Policy Outlook.** In spite of the Fed Chairman's defence on the banking sector's resilience and unswerving fight against inflation, we believe Malaysia's central bank would likely keep the overnight policy rate (OPR) unchanged at 2.75% for the rest of 2023. Nevertheless, the possibility of any rate decision to adjust the policy rate would mainly depend on the inflation trend and growth outlook, and to a certain extent any major fiscal policy decision made by the government.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% - 5.00% (+0.25%)	USA	Funds Rate Target	Mar-23
3.50% (+0.50%)	Euro Area	Fixed Rate	Mar-23
3.60% (+0.25%)	Australia	Cash Rate	Mar-23
4.75% (+0.50%)	New Zealand	Official Cash Rate	Feb-23
6.00% (+0.50%)	Philippines	Overnight Reverse Repurchase	Feb-23
4.00% (+0.50%)	UK	Base Rate	Feb-23
1.50% (+0.25%)	Thailand	Repo Rate	Jan-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
1.75% (+0.125%)	Taiwan	Discount Rate	Dec-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

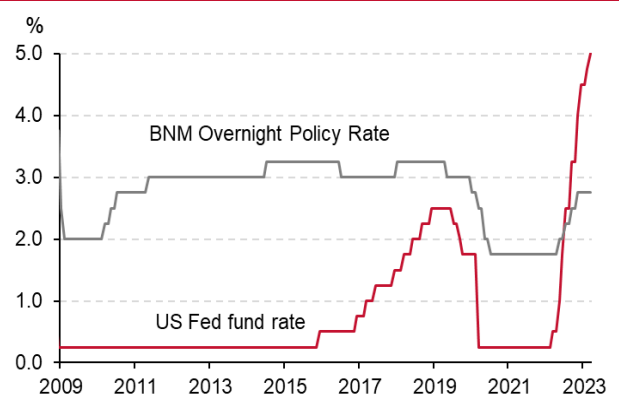
Source: Bloomberg, CEIC, Kenanga Research

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

23 March 2023

Table 2: US FOMC Tentative Meeting Schedule for 2023 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future	Fed Decision
1st	31 Jan and 1 Feb	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike (98.9% chance)	25 bps hike
2nd	21 and 22 Mar*	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike (73.8% chance)	25 bps hike
3rd	2 and 3 May	<input type="checkbox"/>	25 bps hike	No change (50.1% chance)	-
4th	13 and 14 Jun*	<input type="checkbox"/>	No change	No change (50.0% chance)	-
5th	25 and 26 Jul	<input type="checkbox"/>	No change	25 bps cut (43.5% chance)	-
6th	19 and 20 Sep*	<input type="checkbox"/>	No change	No change (40.6% chance)	-
7th	31 Oct and 1 Nov	<input type="checkbox"/>	25 bps cut	25 bps cut (34.9% chance)	-
8th	12 and 13 Dec*	<input type="checkbox"/>	25 bps cut	No change (33.2% chance)	-

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points

*Meeting associated with a Summary of Economic Projections

Table 3: BNM MPC Meeting Schedule for 2023 / KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	18 and 19 Jan (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	No change
2nd	8 and 9 Mar (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	2 and 3 May (Tue and Wed)	<input type="checkbox"/>	No change	-
4th	5 and 6 Jul (Wed and Thu)	<input type="checkbox"/>	No change	-
5th	6 and 7 Sep (Wed and Thu)	<input type="checkbox"/>	No change	-
6th	1 and 2 Nov (Wed and Thu)	<input type="checkbox"/>	No change	-

Source: Bank Negara Malaysia, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my