

US FOMC Meeting (2 - 3 May)

Raised rates by 25 bps, signals possible pause

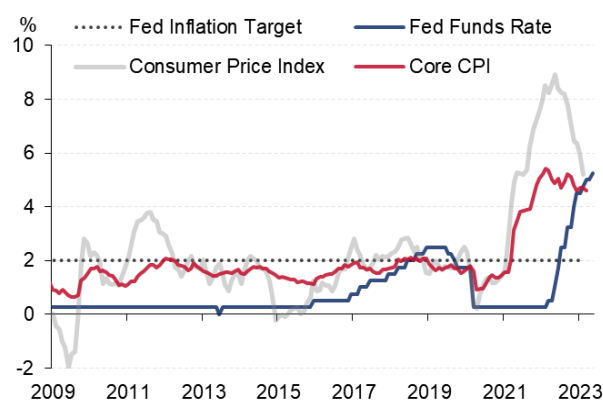
- In line with market expectations**, the US Federal Open Market Committee (FOMC) hiked its policy rate by 25 basis points (bps) to a target range of 5.00-5.25%, the highest level since 2007.
- Our take:** The Federal Reserve seems to be unsure whether it is going to pause, although both the FOMC and Chairman Jerome Powell agree that they are getting to a situation that is sufficiently restrictive. While it is clear that the Fed is not ready to cut rates yet as inflation remains high, it also opens the possibility that it might still need to raise rates if necessary.
- Fed speak:** The Committee hinted it may be the final move as economic risks mount. "The committee will closely monitor incoming information and assess the implications for monetary policy," it said in a statement. Meanwhile, it omitted a line from its previous statement in March that said 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."
- On the banking crisis**, the FOMC reiterated in its statement that "the US banking system is sound and resilient." In the press conference, Powell said that "banking conditions have broadly improved since March," but he remains concerned that "...tighter credit conditions for households and businesses...are likely to weigh on economic activity, hiring and inflation," adding that "the extent of these effects remains uncertain."
- Still undone?** While the futures markets are pricing in roughly 75 bps of reductions in the Fed Funds Rate by the end of 2023, from the current level of 5.00% to 5.25%, Powell vaguely hinted that a rate cut is unlikely to happen. "We on the committee have a view that inflation is going to come down - not so quickly, it will take some time...In that world, if that forecast is broadly right, it would not be appropriate to cut rates."
- US may avoid a recession.** Powell told reporters that "avoiding a recession is, in my view, more likely than having a recession... It's possible that we have a mild recession." Citing durable strength of the US job market as the main factor, Powell added that job openings have declined in recent months without a concurrent rise in the unemployment rate, diverging from the historical pattern. That could mean that wage growth could slow and the labor market could loosen, without a broader decline in economic activity.
- BNM Policy Outlook.** Earlier, Bank Negara Malaysia, in its Monetary Policy Committee meeting, surprised markets with a 25 bps hike of the overnight policy rate (OPR) to 3.00%. While we believe that BNM might have reached its policy normalization target, there is still room for it to adjust rates.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.85% (+0.25%)	Australia	Cash Rate	May-23
5.25% (+0.50%)	New Zealand	Official Cash Rate	Apr-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.50%)	Philippines	Overnight Reverse Repurchase	Mar-23
3.50% (+0.50%)	Euro Area	Fixed Rate	Mar-23
4.25% (+0.25%)	UK	Base Rate	Mar-23
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

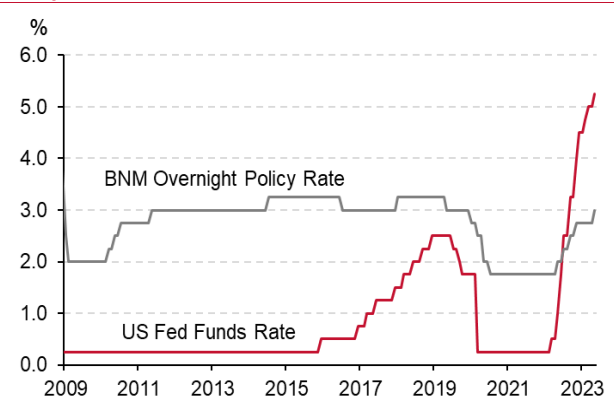
Source: Bloomberg, Kenanga Research

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



Source: Bloomberg, Kenanga Research

Graph 2: Fed Funds Rate vs. BNM OPR



Source: Bloomberg, Kenanga Research

05 May 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 checked="" type="checkbox"/>	25 bps hike	No change (50.1% chance)	25 bps hike
4th	13 and 14 Jun*	<input type="checkbox"/>	No change	No change (91.0% chance)	-
5th	25 and 26 Jul	<input type="checkbox"/>	No change	25 bps cut (51.7% chance)	-
6th	19 and 20 Sep*	<input type="checkbox"/>	No change	No change (45.9% chance)	-
7th	31 Oct and 1 Nov	<input type="checkbox"/>	25 bps cut	25 bps cut (45.3% chance)	-
8th	12 and 13 Dec*	<input type="checkbox"/>	25 bps cut	25 bps cut (45.0% 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 checked="" type="checkbox"/>	No change	25 bps hike
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