

US FOMC Meeting (19 - 20 Mar)

Fed holds rate steady and continues to imply three cuts, despite higher 2024 inflation forecast

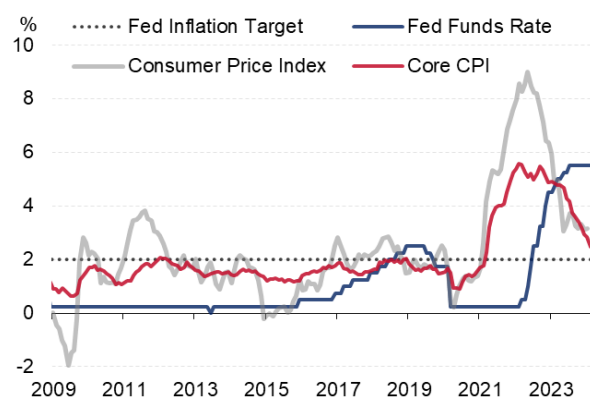
- **As widely expected**, the US Federal Open Market Committee (FOMC) unanimously decided to keep its policy rate steady at 5.25%-5.50% for the fourth consecutive meeting this year.
- **Our take:** We persist in factoring in the possibility of the Fed initiating its first rate cut in June, projecting a total of four rate reductions this year, compared to the Fed's forecast of three cuts. Our expectation is fuelled by an anticipated disinflation rate of approximately 0.15-0.20% MoM in the coming data releases, which we view as prerequisite for the Fed to consider reducing rates.
- **Fed speak:** The committee does not expect "it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2.0%." This suggests that the Fed is adopting a wait-and-see approach, with no urgency to cut rates, and emphasises the need for more data before taking further action.
- **Press conference:** Fed Chair Jerome Powell stated, "Strong hiring, in and of itself, would not be a reason to hold off lowering interest rates" and expressed belief that "our policy rate is likely at its peak for this type of cycle." This suggests that inflation remains a primary concern, and a robust jobs report alone would not dissuade the Fed from cutting rates.
- **Dot plots highlights.** Despite projecting marginally higher inflation and greater economic growth rate, the Fed is maintaining its expectation of three rate cuts in 2024. The Fed asserts that higher inflationary data over the past two months has not altered its overall downward trend. Initially concerned that the Fed might reduce the number of cuts to two, the market now anticipates three cuts this year, based on CME Group 30-Day Fed Fund futures prices. Notably, the Fed has revised its long-run rate forecasts from 2.5% to 2.6%.
- **Amid increasing optimism regarding growth, there is a call for higher rates in the long term.** The Fed projects GDP growth to average around 2.0% over the next three years, with a substantial uptick to 2.1% for 2024 (previously 1.4%). They have revised their unemployment rate projection downward to 4.0% (previously 4.1%), while core PCE has been adjusted to 2.6% (previously 2.4%) for end-2024. They project a higher Fed funds rate (FFR) of around 3.9% (previously 3.6%) and 3.1% (previously 2.9%) for 2025 and 2026 respectively.
- **The Fed sticks to soft landing narrative.** Given their optimistic growth forecast and increased long-term FFR projections, there's growing optimism that a recession might not be necessary for achieving desired outcome. We still believe that challenges may persist in the economy, suggesting that the Fed may achieve a soft-ish landing instead.
- **Bank Negara Malaysia (BNM) Policy Outlook.** With the growing chances of the US avoiding a hard landing and the Fed's possible pivot from June, coupled with domestic price stability and robust growth expectations, BNM is likely to keep its policy unchanged for a while. Therefore, we expect the overnight policy rate to remain at 3.00% until at least the end of 2024.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.00% - 0.10% (+0.10%)	Japan	Overnight Call Rate	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
6.00% (+0.25%)	Indonesia	BI Rate	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

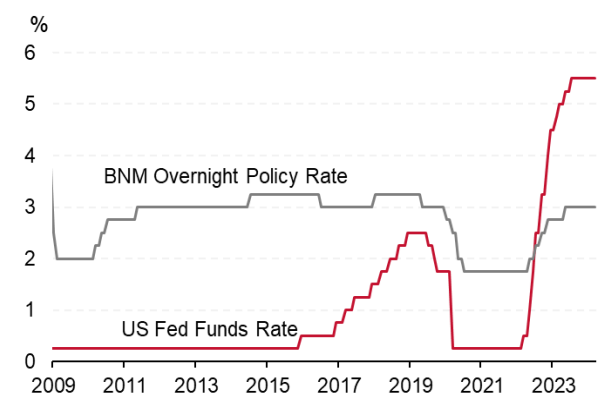
Source: Bloomberg, Kenanga Research

Graph 1: Fed Fund Rate and Inflation Trends



Source: Bloomberg, Kenanga Research

Graph 2: Fed Funds Rate vs. BNM OPR



Source: Bloomberg, Kenanga Research

21 March 2024

Table 2: US FOMC Tentative Meeting Schedule for 2024 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future**	Fed Decision
1st	30 and 31 Jan	<input checked="" type="checkbox"/>	No change	No change (97.9%)	No change
2nd	19 and 20 Mar*	<input checked="" type="checkbox"/>	No change	No change (99.0%)	No change
3rd	30 Apr and 1 May	<input type="checkbox"/>	No change	No change (92.3%)	
4th	11 and 12 Jun*	<input type="checkbox"/>	25 bps cut	25 bps cut (70.8%)	
5th	30 and 31 Jul	<input type="checkbox"/>	No change	No change (46.8%)	
6th	17 and 18 Sep*	<input type="checkbox"/>	25 bps cut	25 bps cut (45.1%)	
7th	6 and 7 Nov	<input type="checkbox"/>	25 bps cut	25 bps cut (38.0%)	
8th	17 and 18 Dec*	<input type="checkbox"/>	25 bps cut	No change (34.2%)	

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points

*Meeting associated with a Summary of Economic Projections

**CME Fed Rate Monitor: Based on CME Group 30-Day Fed fund futures prices (highest probability)

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