

# US FOMC Meeting (30 Apr - 1 May)

Fed keeps rate unchanged; plans to slow pace of balance sheet runoff starting in June

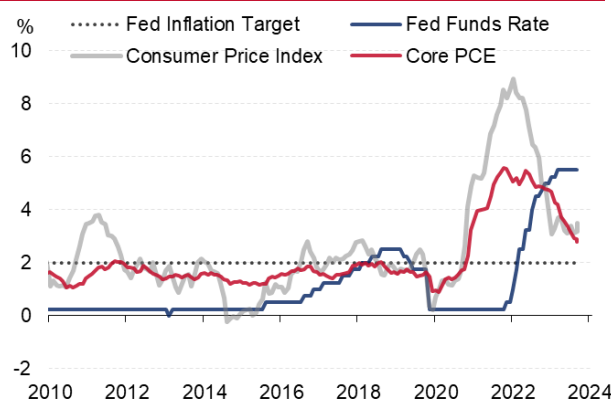
- **While the Fed funds rate remained unchanged as expected, Powell's stance was less hawkish than anticipated.** The US Federal Open Market Committee (FOMC) unanimously agreed to maintain its policy rate at 5.25%-5.50% for the fifth straight meeting this year.
- **Our take:** Incoming data remains pivotal for the Fed's decision-making process. Recent signs of slowing economic growth and business activity indicate a slowdown in consumer spending. Should this trend persist, along with any signs of labour market weakness, a rate cut may become necessary. Meanwhile, consumers are increasingly dipping into their savings and accumulate credit card debt, both unsustainable practices that could lead to further economic fragility in the months ahead.
- **Fed speak:** The committee acknowledged that inflation has eased, but it added that "there has been a lack of further progress toward the Committee's 2.0% inflation objective." This suggests that a meeting-by-meeting approach persists, with future decisions dictated by incoming data.
- **Larger-than-expected quantitative tightening (QT) taper.** Starting June, the Fed will allow up to USD25.0b in Treasuries to mature per month without reinvesting the proceeds, a decrease from the pace of USD60.0b per month since June 2022. Essentially, the Fed will taper QT by USD35.0b which is higher than the consensus (USD30.0b), with the aim of alleviating potential strain on money-market rates. Fed Chair Powell remarked that "The decision to slow the pace does not mean that our balance sheet will ultimately shrink by less than it would otherwise, but rather allows us to approach this ultimate level more gradually."
- **Press conference:** Fed Chair Jerome Powell stated that an "unexpected weakening in the labour market" could prompt rate cuts and expressed the belief that "it is unlikely that the next policy rate move will be a hike." This implies that greater emphasis is placed on job data, and significant weakness may ultimately compel the Fed to reduce rates.
- **Fed policy outlook.** We anticipate that rate cuts remain a possibility in 2H24, with September emerging as the earliest potential turning point. Despite stagnant progress on inflation and a resilient job market, we maintain our expectation that the start of monetary easing would happen this year, though we now project two to three cuts, from four previously.
- **Bank Negara Malaysia (BNM) Policy Outlook.** Despite the presence of upside risks to prices, inflation is expected to remain manageable, while GDP is projected to experience robust growth, ranging between 4.5% to 5.0%. These factors are likely to keep the BNM in a holding pattern for the remainder of 2024, maintaining the overnight policy rate at 3.00%.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
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
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

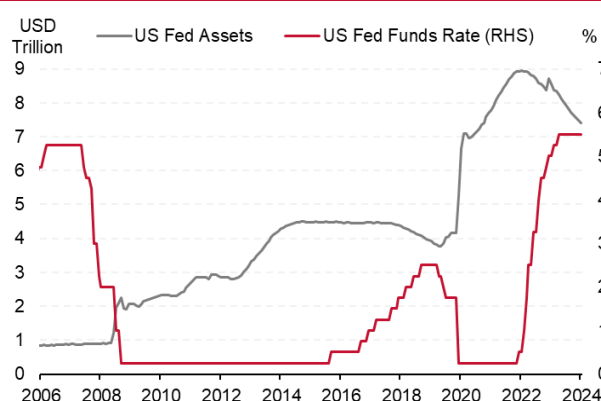
Source: Bloomberg, Kenanga Research

Graph 1: Fed Fund Rate and Inflation Trends



Source: Bloomberg, Kenanga Research

Graph 2: Fed Balance Sheet Vs. Fed Funds Rate



Source: Bloomberg, Kenanga Research

02 May 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 checked="" type="checkbox"/>	No change	No change (99.0%)	No change
4th	11 and 12 Jun*	<input type="checkbox"/>	No change	No change (87.9%)	
5th	30 and 31 Jul	<input type="checkbox"/>	No change	No change (72.5%)	
6th	17 and 18 Sep*	<input type="checkbox"/>	25 bps cut	No change (45.7%)	
7th	6 and 7 Nov	<input type="checkbox"/>	25 bps cut (50.0%)	25 bps cut (43.6%)	
8th	17 and 18 Dec*	<input type="checkbox"/>	25 bps cut	No change (39.2%)	

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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