

# US FOMC Meeting (19 - 20 September)

Fed held policy rate steady, dot plot shows one more hike likely this year

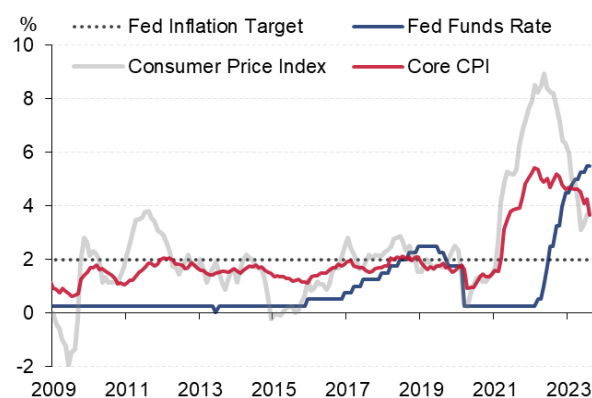
- In line with market expectations**, the US Federal Open Market Committee (FOMC) unanimously voted to keep its policy rate within its target range of 5.25-5.50%.
- Our take:** As in the previous statement, the Federal Reserve officials reiterated that they are not done raising rates until the 2.0% inflation target is achieved. The Fed's latest projections showed one more 25 basis points (bps) rate hike this year.
- Fed speak:** The Fed's language remained the same when it comes to forward guidance, noting that it would consider various factors "in determining the extent of additional policy firming that may be appropriate to return inflation to 2.0% over time". Keeping this guidance unchanged could be seen as a strategic manoeuvre aimed at preserving maximum flexibility for potential future actions.
  - In its communiqué, the Fed struck a positive tone on growth, noting that economic activity has been expanding at a solid pace, a subtle upgrade from the previous "moderate" characterisation.
- Economic projections.** The September Economic Projections showed substantial changes from the previous quarter. In 2023, GDP was revised up to 2.1% from 1.0% , reflecting the strong and resilient economy. In 2024, the GDP outlook improved to 1.5% from 1.1% due to easing concerns of a looming recession. Meanwhile, it sees the unemployment rate to settle at 3.8%, down from 4.1% (June projection). Inflation-wise, the core PCE forecast for 2023 saw a slight dip to 3.7% from the prior 3.9%, while the 2024 projection remains stable at 2.6%.
- Dot Plot.** Illustrating future borrowing costs as envisioned by Fed officials, the dot plot remained somewhat consistent with the June version. The median interest rate projection for 2023 holds steady at 5.6%, indicating a 25 bps hike this year. Looking ahead to 2024, the Fed foresees a slight decrease in interest rates to 5.1%, a shift from the previous 4.6% projection. This suggests a more prolonged period of elevated interest rates in the forecast, signalling reduced easing bias.
- In sync.** Both the committee and Chairman Jerome Powell sent an unambiguously hawkish higher-for-longer message. In the news conference, Powell said "any decision about future rate cuts will be about what the economy needs," adding that the Fed's main concern "is restoring price stability."
- Bank Negara Malaysia (BNM) Policy Outlook.** BNM is unlikely to alter its policy stance for the rest of the year and possibly next year, as we believe it has completed its rate normalisation cycle due to signs of easing inflationary pressures. This will keep the hawkish bias in check, enabling BNM to prioritise financial stability and address external risks.

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

Rate (Last Change)	Country	Central Bank Interest Rate	Date
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
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-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
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

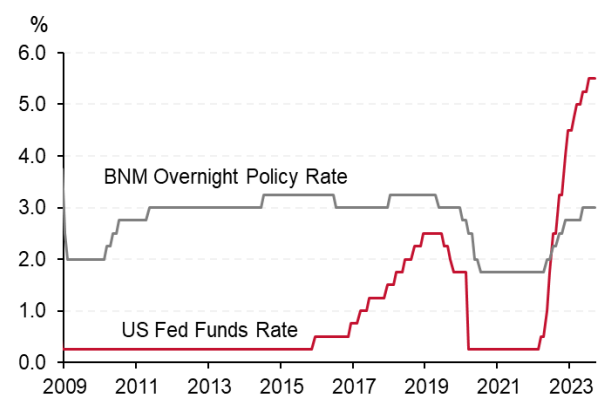
Source: Bloomberg, Kenanga Research

**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

21 September 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 checked="" type="checkbox"/>	No change	No change (81.5% chance)	No change
5th	25 and 26 Jul	<input checked="" type="checkbox"/>	No change	25 bps hike (98.9% chance)	25 bps hike
6th	19 and 20 Sep*	<input checked="" type="checkbox"/>	No change	No change (99.0% chance)	No change
7th	31 Oct and 1 Nov	<input type="checkbox"/>	No change	No change (71.6% chance)	-
8th	12 and 13 Dec*	<input type="checkbox"/>	No change	No change (53.4% 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 checked="" type="checkbox"/>	No change	No change
5th	6 and 7 Sep (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	1 and 2 Nov (Wed and Thu)	<input type="checkbox"/>	No change	-

Source: Bank Negara Malaysia, Kenanga Research

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