

US FOMC Meeting (12 - 13 Dec)

Fed holds rate steady again, signals policy pivot and sees three rate cuts in 2024

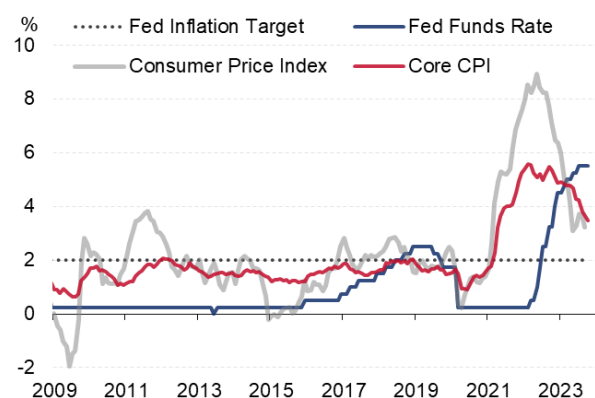
- In line with market expectation**, the US Federal Open Market Committee (FOMC) unanimously left its policy rate unchanged at 5.25%-5.50% for the third straight meeting this year.
- Our take:** Although the Fed expect to start cutting rates three times next year, it implies fewer rate cuts than what the market have priced in. This in a way suggest that the Fed is moving closer to easing and tilting towards dovish from a hawkish stance.
- Fed speak:** The committee's policy statement explicitly acknowledged that inflation "has eased over the past year," and added that they will closely monitor the economy to determine if "any" additional rate hikes are necessary. This suggest that, after a period of aggressive tightening and a bias towards moving rates higher, they may not need additional rate hikes.
- Press conference:** Fed Chair Jerome Powell was quoted as saying that the inclusion of the word "any" reflected a view that the policy rate was "likely at or near its peak for this tightening cycle." Powell reiterated that the Fed was committed to proceeding "carefully" with future rate decisions, given the expectation that economic growth would cool and there had been "real progress" on beating back inflation.
- Dot plots highlights.** Fed members projected that the benchmark rate would end next year at 4.50-4.75%, suggesting three rate cuts in 2024, from a prior projection of two rate cuts. The dot plot showed expectations for rates to fall even lower in 2025, with most officials expect rates to settle between 3.50% and 3.75%. Meanwhile, the market sees up to five rate cuts to 4.00% by the end of 2024 based on CME Group 30-Day Fed Fund futures prices.
- Improving economic outlook:** The Fed sees core PCE at 3.2% this year (previous: 3.7%). Inflation is expected to fall further next year to a 2.4% pace (previous: 2.6%). Meanwhile, it sees GDP growth for this year at 2.6% (previous: 2.1%). However, GDP is expected to fall to 1.4% in 2024 before picking up the pace to 1.8% in 2025. The Fed's outlook on the labour market for this year was largely unchanged from the September meeting, while the unemployment rate was forecast to rise to 4.1% next year and remain at that rate in 2025.
- Outlook signals soft landing.** Expectations of lower inflation and a resilient labour market raised hopes that the Fed might be able to engineer a so-called "soft landing," where inflation is curbed without triggering a broader economic collapse or a spike in unemployment.
- Bank Negara Malaysia (BNM) Policy Outlook.** With a renewed optimism in the US market on Fed's dovish pivot and the possibility of averting a hard-landing next year, it could provide some level of comfort to BNM to retain its policy stance for longer. Hence, we expect the overnight policy rate (OPR) to remain at 3.00% till the end of 2024.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
6.00% (+0.25%)	Indonesia	7-Day Reverse Repo 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
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

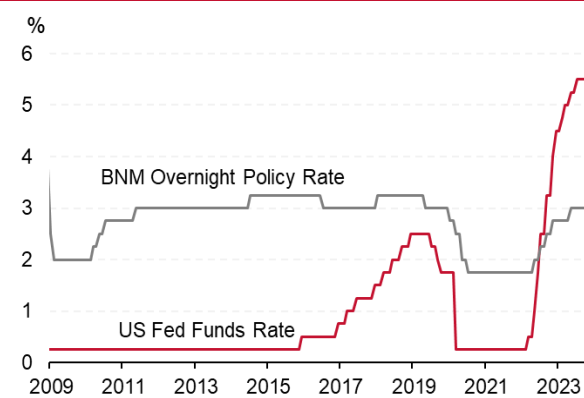
Source: Bloomberg, Kenanga Research

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

14 December 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 checked="" type="checkbox"/>	No change	No change (99.2% chance)	No change
8th	12 and 13 Dec*	<input checked="" type="checkbox"/>	No change	No change (98.4% chance)	No change

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)

Table 3: 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 type="checkbox"/>	No change	No change (83.5%)	
2nd	19 and 20 Mar*	<input type="checkbox"/>	No change	25 bps cut (68.1%)	
3rd	30 Apr and 1 May	<input type="checkbox"/>	No change	No change (47.4%)	
4th	11 and 12 Jun*	<input type="checkbox"/>	25 bps cut	50 bps cut (40.5%)	
5th	30 and 31 Jul	<input type="checkbox"/>	25 bps cut	No change (35.7%)	
6th	17 and 18 Sep*	<input type="checkbox"/>	25 bps cut	25 bps cut (33.5%)	
7th	6 and 7 Nov	<input type="checkbox"/>	25 bps cut	25 bps cut (33.2%)	
8th	17 and 18 Dec*	<input type="checkbox"/>	No change	25 bps cut (32.6%)	

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)

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

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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