

US FOMC Meeting (17 - 18 September)

Delivers first 50 bps rate cut in four years, eyes two more in 2024

- The Fed's decision to cut interest rates by 50 bps rather than the expected 25 bps, reflects a **pre-emptive effort to increase the likelihood of a soft landing**. While this aligns with market expectations, it exceeded economists' consensus estimates.
- The Federal Open Market Committee (FOMC) voted 11-1 to lower the policy rate to a range of 4.75%-5.00%, with Michelle Bowman, a well-known hawk, dissenting in favour of a quarter-point cut. The last time it cut rates by 50 bps was in March 2020.
- **Fed speak:** Despite describing the economy as expanding at a solid pace, the committee cited potential labour market weakness as a key reason for the larger cut. They also noted "greater confidence" that inflation is moving sustainably toward the 2.0% target. This decision came as a surprise, especially considering that core inflation remained elevated, and the August jobs report is better-than-expected.
- **Press conference:** Fed Chairman Jerome Powell defended the outsized cut, stating that "with an appropriate recalibration of our policy stance, strength in the labour market can be maintained in a context of moderate growth and inflation moving sustainably down to 2.0%." He suggested that had the job data been available earlier, the Fed might have cut rate in July. Powell reiterated that the Fed is not following a preset course and will continue making decisions on a meeting-by-meeting basis. We continue to believe that **incoming data may point more towards a slowdown than a recession, supporting a more gradual pace of rate cuts going forward**.
- **Dot plot highlights:** The Fed is signalling another 50 bps of cuts this year, followed by an additional 100 bps in 2025 and 50 bps more in 2026, potentially bringing the policy rate down to 2.75%-3.00%. The Fed's growth outlook remains optimistic, with a 2.0% annual growth forecast for 2025-2027. However, the unemployment rate is expected to rise to 4.4% in both 2024 and 2025. Inflation projections have been slightly lowered for 2024 and 2025, with a possible return to the 2.0% target by 2026 and 2027. The market, however, expects faster and deeper cuts, with policy rates possibly reaching around 2.75%-3.00% by October 2025, as indicated by CME Group's Fed Funds futures. The Fed has also once again revised its long-run policy rate forecast slightly upward, from 2.8% to 2.9%.
- **Fed policy outlook:** Despite the latest Beige Book highlighting flat or declining economic activity in most regions, solid corporate earnings, low default rates, and a stable labour market seem to counter the market's expectations for aggressive rate cuts. However, **we still anticipate the economy to decelerate, with the labour market cooling in the coming months**. Coupled with a persistent disinflationary trend, **this could justify two more 25 bps cuts this year. Looking ahead to 2025**, uncertainty – especially with the upcoming election – remains, but **we broadly align with the Fed's outlook for a further 100 bps of easing** throughout the year.
- **US Treasury outlook:** After initially dipping, the 10-year UST yield rebounded above 3.70%, reflecting market caution about the Fed's aggressive rate cuts due to concerns over renewed inflationary pressures. With yields already low relative to the expected terminal rate and two more 25 bps cuts likely this year, **we expect the 10-year yield to end 2024 around 3.60%**.

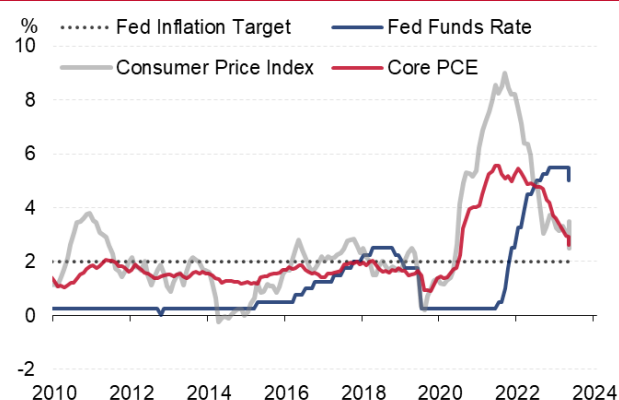
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% - 5.00% (-0.50%)	USA	Funds Rate Target	Sep-24
6.00% (-0.25%)	Indonesia	BI Rate	Sep-24
3.50% (-0.25%)	Euro Area	Key Deposit Facility Rate	Sep-24
4.25% (-0.25%)	Canada	Overnight Rate	Sep-24
5.25% (-0.25%)	New Zealand	Official Cash Rate	Aug-24
6.25% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-24
0.25% (+0.15%)	Japan	Overnight Call Rate	Aug-24
5.00% (-0.25%)	UK	Base Rate	Jul-24
3.35% (-0.10%)	China	Loan Prime Rate (1Y)	Jul-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

Source: Bloomberg, Kenanga Research

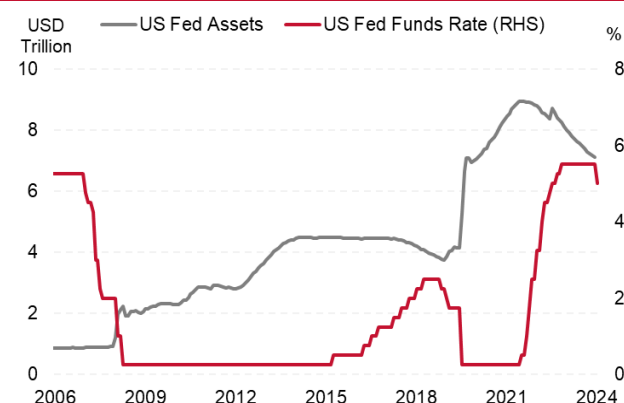
19 September 2024

Graph 1: Fed Funds Rate and Inflation Trends



Source: Bloomberg, Kenanga Research

Graph 2: Fed Balance Sheet Vs. Fed Funds Rate



Source: Bloomberg, Kenanga Research

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	No change
2nd	19 and 20 Mar*	<input checked="" type="checkbox"/>	No change	No change	No change
3rd	30 Apr and 1 May	<input checked="" type="checkbox"/>	No change	No change	No change
4th	11 and 12 Jun*	<input checked="" type="checkbox"/>	No change	No change	No change
5th	30 and 31 Jul	<input checked="" type="checkbox"/>	No change	No change	No change
6th	17 and 18 Sep*	<input checked="" type="checkbox"/>	25 bps cut	50 bps cut	50 bps cut
7th	6 and 7 Nov	<input type="checkbox"/>	25 bps cut	25 bps cut	
8th	17 and 18 Dec*	<input type="checkbox"/>	25 bps cut	50 bps cut	

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

Nurul Hanees Hairulkama
Economist
nurulhanees@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