

Outthink. Outperform.

**US Fed delayed its hike in Federal Funds rate in June****Economic Update****US Fed likely to keep to two 25bps hike in the remaining months**

The US Federal Reserve (US Fed) kept its Federal Funds rate (FFR) at 0.25-0.50%, unchanged for the fourth consecutive meeting since raising its policy interest rate by 25bps in December 2015. The US Fed painted a mixed assessment for the economy that improvement in the labor market has slowed while growth in economic activity appears to have picked up. This was in contrast with April FOMC meeting's statement, where the US Fed highlighted the reverse. We believe this may be in reference to the weak non-farm payroll gains of 38k in May, the lowest level since September 2010, although unemployment rate fell to 4.7% on lower participation rate.

Nevertheless, with retail sales and home sales (pending, new and existing) rising more than forecast, the central bank also noted that *"growth in household spending has strengthened. Since the beginning of the year, the housing sector has continued to improve and the drag from net exports appears to have lessened, but business fixed investment has been soft."* However, inflation remained below long-term objective of 2%, due to decline in energy prices and in prices of non-energy imports, but the US Fed continues to expect inflation to rise to 2% over the medium term.

Apart from the assessment on US economy, at the press conference, US Fed Chair Janet Yellen also noted that the outcome of 23<sup>rd</sup> June 2016 UK referendum would impact global economic and financial conditions, and hence US economic outlook. While maintaining its forecast for two 25bps hikes in the remaining FOMC meetings in 2016, the US Fed also guided that the pace of increase in FFR beyond 2016 will be more gradual than previously projected, as expectation for longer-term FFR level has been revised lower. The rate hikes of 200bps combined for 2017-2018 projected in the March's FOMC meeting, has been reduced to 150bps for two years in the latest assessment, see Fig 1.

From the latest assumption on the dot plots analysis, while six policy makers now see only one rate hike for 2016, we continue to believe that US Fed will likely stick to two rate hikes for 2016, possibly in July or September and December 2016. In the latest FOMC Summary of Economic Projection, the GDP forecast has been revised only slightly lower to a range of between 1.9-2.0%, from earlier forecast of 2.1-2.3% for 2016. However, unemployment rate was left unchanged at 4.6-4.8% range for 2016, which was below Fed's long term average of 4.8%.

**Fig 1: Economic projection by the US Fed**

Variable	Central tendency			Longer run
	2016	2017	2018	
<b>Change in real GDP</b>	1.9 to 2.0	1.9 to 2.2	1.8 to 2.1	1.8 to 2.0
<b>March projection</b>	2.1 to 2.3	2.0 to 2.3	1.8 to 2.1	1.8 to 2.1
<b>Unemployment rate</b>	4.6 to 4.8	4.5 to 4.7	4.4 to 4.8	4.7 to 5.0
<b>March projection</b>	4.6 to 4.8	4.5 to 4.7	4.5 to 5.0	4.7 to 5.0
<b>PCE inflation</b>	1.3 to 1.7	1.7 to 2.0	1.9 to 2.0	2.0
<b>March projection</b>	1.0 to 1.6	1.7 to 2.0	1.9 to 2.0	2.0
<b>Federal funds rate</b>	0.6 to 0.9	1.4 to 1.9	2.1 to 2.9	3.0 to 3.3
<b>March projection</b>	0.9 to 1.4	1.6 to 2.4	2.5 to 3.3	3.0 to 3.5

Source: US Federal Reserve

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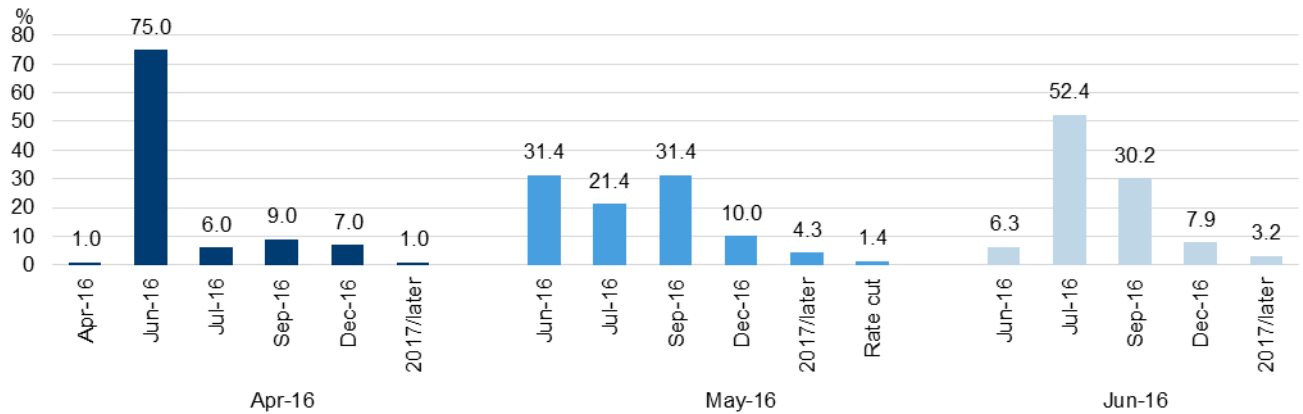
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## US Economy - Monetary Policy

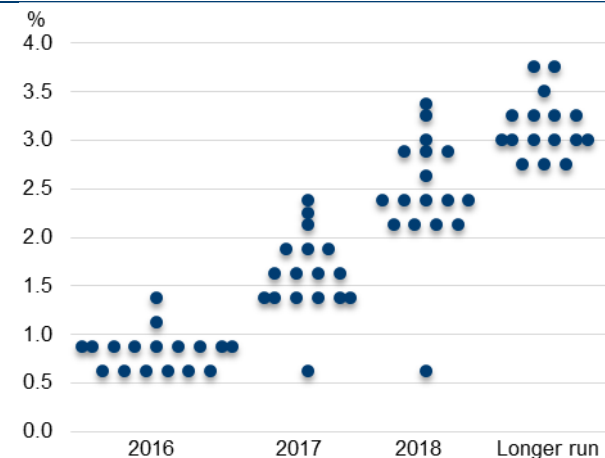
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## Appendix I: Focus Charts

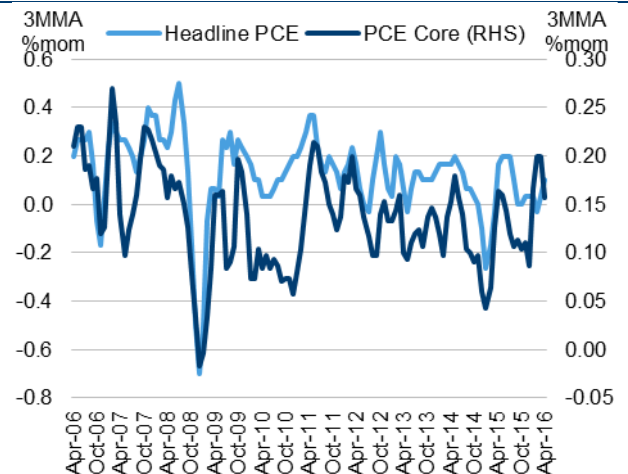
**Chart 1: The interest hike survey by Wall Street Journal (WSJ)**



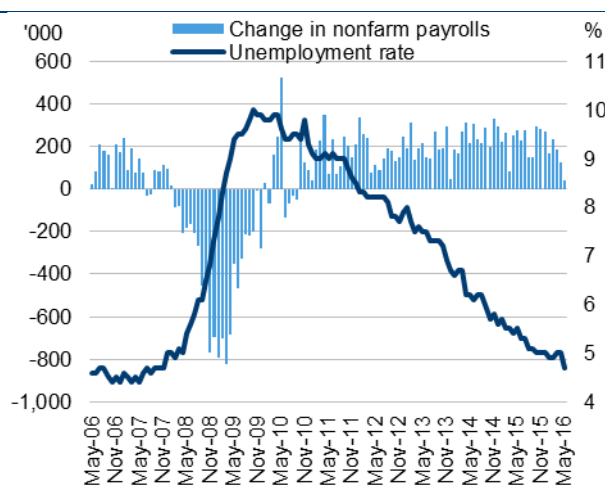
**Chart 2: US box plot**



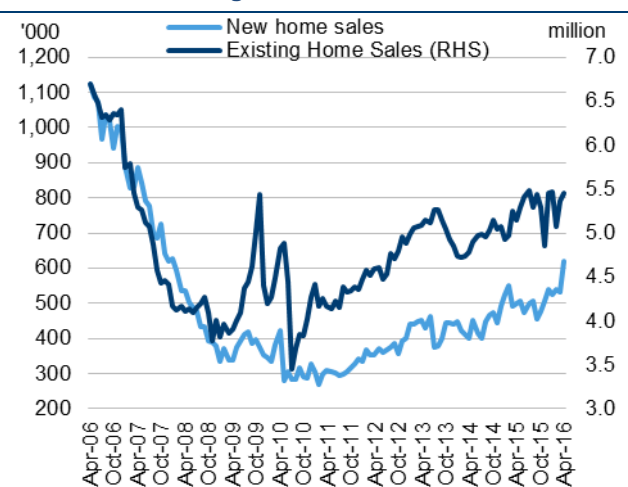
**Chart 4: US inflation**



**Chart 5: US labor market**



**Chart 6: US housing condition**



Source: All data for charts sourced from Bloomberg and US Federal Reserve

## Appendix II: Monthly US economic data trends

	AUG 2015	SEP 2015	OCT 2015	NOV 2015	DEC 2015	JAN 2016	FEB 2016	MAR 2016	APR 2016	MAY 2016
<b>Employment</b>										
Change in Payrolls ('000)	150	149	295	280	271	168	233	186	123	38
Unemployment Rate (%)	5.1	5.1	5.0	5.0	5.0	4.9	4.9	5.0	5.0	4.7
Jobless Claims ('000)	281	277	278	274	285	286	262	276	274	268
<b>Consumer &amp; Price Indices</b>										
CPI (%mom)	0.0	-0.1	0.2	0.1	-0.1	0.0	-0.2	0.1	0.4	-
Change (%yoy)	0.2	0.0	0.2	0.5	0.7	1.4	1.0	0.9	1.1	-
Core CPI (%mom)	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.1	0.2	-
Change (%yoy)	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.2	2.1	-
Advance Retail Sales (%mom)	-0.1	0.1	0.0	0.3	0.4	-0.5	0.3	-0.3	1.3	0.5
Retail Sales ex. Auto (%mom)	-0.3	-0.3	0.0	0.2	0.5	-0.4	0.2	0.4	0.8	0.4
U. of Michigan Consumer Sentiment	92	87	90	91	93	92	92	91	89	95
Conference Board Consumer Sentiment	101.3	102.6	99.1	92.6	96.3	97.8	94.0	96.1	94.7	92.6
Core PCE (%mom)	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.1	0.2	-
Change (%yoy)	1.3	1.3	1.3	1.4	1.4	1.7	1.7	1.6	1.6	-
PPI (%mom)	-0.2	-0.5	-0.2	0.1	-0.1	0.4	-0.4	-0.1	0.2	0.4
Change (%yoy)	-1.0	-1.1	-1.4	-1.3	-1.1	0.0	0.0	-0.1	0.0	-0.1
Personal Income (%mom)	0.3	0.1	0.5	0.4	0.3	0.4	0.1	0.4	0.4	-
Change (%yoy)	4.5	4.4	4.4	4.3	4.3	4.4	4.2	4.6	4.4	-
Personal Spending (%MoM)	0.3	0.2	0.2	0.4	0.1	0.1	0.2	0.0	1.0	-
Consumer Credit (US\$bn)	15.8	27.9	16.1	15.8	21.0	12.2	12.9	28.4	13.4	-
<b>Housing Indicators</b>										
Housing Starts ('000)	1,132	1,189	1,073	1,171	1,160	1,128	1,213	1,099	1,172	-
Change (%yoy)	15.0	19.0	-1.9	17.8	7.3	2.5	35.8	14.0	-1.7	-
Building Permits ('000)	1,166	1,129	1,175	1,286	1,201	1,188	1,162	1,077	1,130	-
Change (%yoy)	11.6	6.3	4.6	19.9	12.2	10.7	4.3	0.6	-4.1	-
Existing Home Sales (m)	5.3	5.4	5.3	4.9	5.5	5.5	5.1	5.4	5.5	-
Change (%yoy)	6.7	8.2	2.9	-3.6	7.5	11.0	2.0	2.1	6.0	-
New Home Sales ('000)	505	457	478	508	538	526	538	531	619	-
Change (%yoy)	12.5	-1.9	0.8	13.9	9.3	0.4	-2.0	8.4	23.8	-
S&P/Case-Shiller Index	182.3	182.5	182.5	182.6	182.5	182.5	182.9	184.5	-	-
Change (%yoy)	5.0	5.2	5.4	5.7	5.6	5.7	5.4	5.4	-	-
Construction Spending (%mom)	0.6	0.2	-0.1	-0.5	0.8	-0.3	1.4	1.5	-1.8	-
<b>Manufacturing &amp; Production</b>										
Industrial Production (%mom)	0.1	-0.3	-0.1	-0.6	-0.4	0.5	-0.2	-1.0	0.6	-0.4
ISM Manufacturing Index	51.0	50.0	49.4	48.4	48.0	48.2	49.5	51.8	50.8	51.3
ISM Non-Manufacturing Index	58.3	56.7	58.3	56.6	55.8	53.5	53.4	54.5	55.7	52.9
Markit PMI Manufacturing Index	53.0	53.1	54.1	52.8	51.2	52.4	51.3	51.5	50.8	50.7
Markit PMI Services Index	56.1	55.1	54.8	56.1	54.3	53.2	49.7	51.3	52.8	51.3
Capacity Utilization (%)	76.7	76.4	76.3	75.7	75.4	75.8	75.6	74.8	75.3	-
Factory Orders (%mom)	-2.3	-1.7	2.4	-0.8	-2.4	0.9	-1.9	1.7	1.9	-
Durable Goods Orders(%mom)	-2.9	-2.7	4.8	-0.9	-3.9	3.7	-3.3	2.0	3.4	-
Empire Manufacturing Index	-12.8	-12.9	-11.4	-10.1	-6.2	-19.4	-16.6	0.6	9.6	-9.0
Business Condition Outlook Index	3.4	-3.6	-5.9	-5.7	-10.2	-3.5	-2.8	12.4	-1.6	-1.8
<b>Leading Indicators</b>										
Leading Index (%mom)	0.0	-0.2	0.5	0.4	-0.3	-0.2	0.1	0.0	0.6	-
<b>4Q13 1Q14 2Q14 3Q14 4Q14 1Q15 2Q15 3Q15 4Q15 1Q16</b>										
Real GDP, Chain-Weighted (%qoq)	3.8	-0.9	4.6	4.3	2.1	0.6	3.9	2.0	2.0	2.0
Change (%yoy)	2.5	1.7	2.6	2.9	2.5	2.9	2.7	2.1	2.1	2.1

Source: Bloomberg

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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