

Outthink. Outperform.

**No surprises in FOMC decision, FFR is kept at 0.75-1.0%**

Economic Update

**US Fed will likely keep to two 25bps hike throughout 2017**

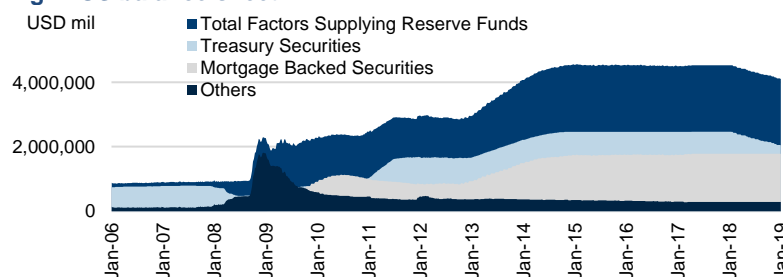
As widely expected, the US Federal Reserve (US Fed) kept its Federal Funds rate (FFR) unchanged at 0.75-1.0% in the latest FOMC, after raising its policy interest rate by 25bps in March 2017. In the statement, the US Fed remained hawkish with the overall US economy noting that "labor market has continued to strengthen even as growth in economic activity slowed". Recall that US 1Q17 GDP growth was the lowest in three years at 0.7% (2.1% in 4Q16), while March non-farm payroll was the weakest in 10 months at 98k (219k in February). With a slightly hawkish FOMC statement, where it noted that "the slowing in growth during the first quarter as likely to be transitory and continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further," we believe the US Fed may likely raise its FFR by another 25 bps in the next meeting on 13-14 June 2017. Based on our assessment, in the past few years, there have been a seasonal adjustment with the US GDP numbers in between the first two quarters of the year, where GDP growth tend to be slower in first quarter of the year. Most US economists are expecting a strong rebound in the US GDP growth in 2Q17. The US Fed also noted that despite "household spending rose only modestly, but the fundamentals underpinning the continued growth of consumption remained solid".

**US Economy - Monetary Policy**

On the inflation front, the US Fed dismissed the weakness in growth data and reiterated that inflation "has been running close to the Committee's 2 percent longer-run objective" but that "market-based measures of inflation compensation remain low". US core PCE inflation improved to 1.6% yoy in March as compared to 1.8% in February. While the current positive momentum underpinning US and global economy is likely to push inflationary pressure higher in the coming months, we believe any policy rate hikes in 2H17 will likely to be gradual. Based on the US Fed dot plots analysis, we are maintaining our view that the US Fed will likely increase its policy interest rate by another two times this year, possibly in September and December meeting, by 25 basis points each.

In the FOMC statement, the Fed is also maintaining its existing policy of reinvesting principal payments from its securities holdings. In the previous Fed minutes, most FOMC committees view that it is time for Federal Reserve to start reducing its balance sheet. From our estimate, if the Fed decided to stop in reinvesting their holdings starting in 2018, the total amount of reduction in Fed balance sheet will be approximately US\$425.6bn. This will be equivalent to monetary policy tightening of approximately 50 basis points (bps) hikes. As such, if the US Fed decides to reduce the size of its balance sheet (quantitative tightening process), we do not expect that the US Fed will be aggressive with its rate hike this year and next year.

**Fig 1: US balance sheet**



Source: CEIC, Affin Hwang estimates

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Appendix I: Focus Charts

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

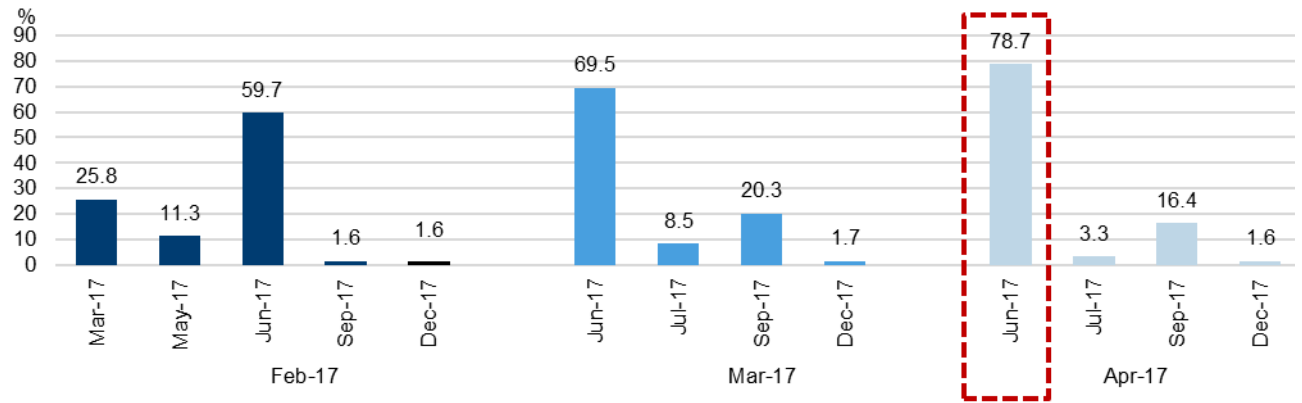


Chart 2: Non-farm payrolls and unemployment rate

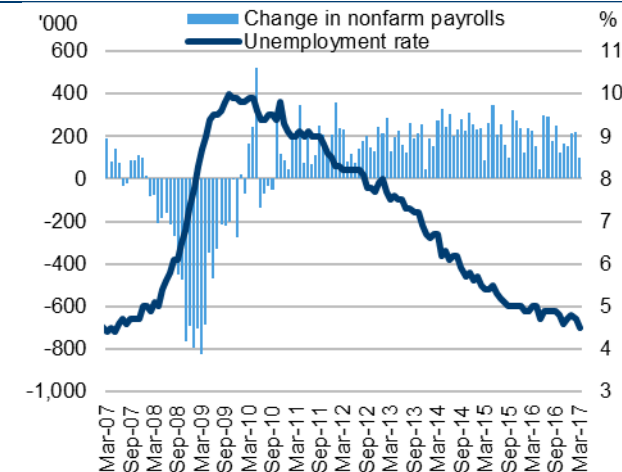


Chart 3: PCE

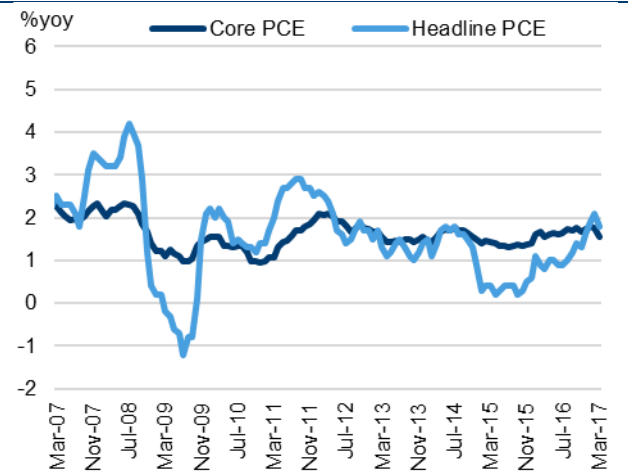


Chart 4: US GDP growth

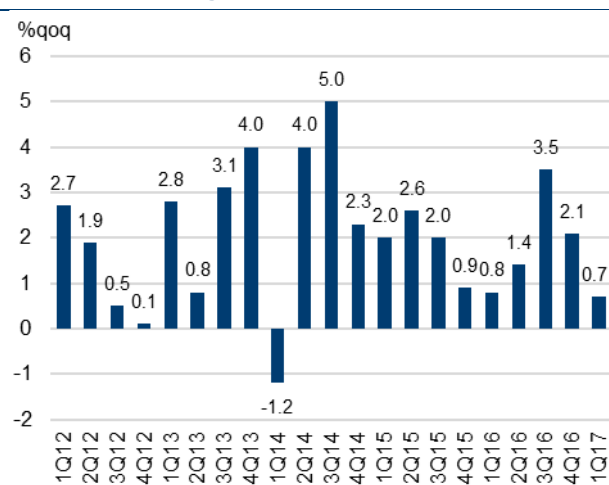
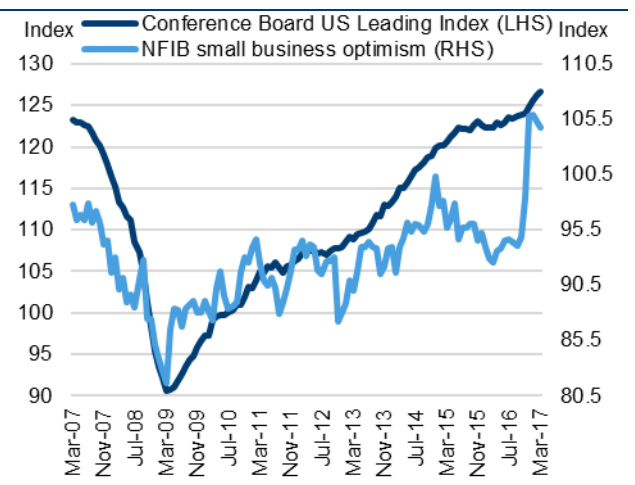


Chart 5: Consumer confidence



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

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## Appendix II: Monthly US economic data trends

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR
	2016	2016	2016	2016	2016	2016	2017	2017	2017	2017
<b>Employment</b>										
Change in Payrolls ('000)	291	176	249	124	164	155	216	219	98	-
Unemployment Rate (%)	4.9	4.9	4.9	4.8	4.6	4.7	4.8	4.7	4.5	-
Jobless Claims ('000)	266	260	247	261	262	241	250	227	235	257
<b>Consumer &amp; Price Indices</b>										
CPI (%mom)	0.0	0.2	0.3	0.3	0.2	0.3	0.6	0.1	-0.3	-
Change (%yoy)	0.8	1.1	1.5	1.6	1.7	2.1	2.5	2.7	2.4	-
Core CPI (%mom)	0.1	0.3	0.1	0.1	0.2	0.2	0.3	0.2	-0.1	-
Change (%yoy)	2.2	2.3	2.2	2.2	2.1	2.2	2.3	2.2	2.0	-
Advance Retail Sales (%mom)	0.0	-0.1	1.0	0.6	0.1	0.9	0.5	-0.2	-0.2	-
Retail Sales ex. Auto (%mom)	-0.4	-0.1	0.8	0.5	0.2	0.3	1.1	0.0	0.0	-
U. of Michigan Consumer Sentiment	90	90	91	87	94	98	99	96	97	98
Conference Board Consumer Sentiment	96.7	101.8	103.5	100.8	109.4	113.3	111.6	116.1	124.9	120.3
Core PCE (%mom)	0.2	0.2	0.1	0.1	0.0	0.1	0.3	0.2	-0.1	-
Change (%yoy)	1.6	1.7	1.7	1.8	1.7	1.7	1.8	1.8	1.6	-
PPI (%mom)	-0.1	-0.2	0.3	0.3	0.2	0.1	0.6	0.3	-0.1	-
Change (%yoy)	0.0	0.0	0.6	1.1	1.3	1.6	1.6	2.2	2.3	-
Personal Income (%mom)	0.5	0.2	0.4	0.4	0.2	0.3	0.4	0.3	0.2	-
Change (%yoy)	3.5	3.5	3.7	3.7	3.7	3.6	4.1	4.5	4.5	-
Personal Spending (%MoM)	0.4	0.1	0.7	0.5	0.3	0.6	0.2	0.0	0.0	-
Consumer Credit (US\$bn)	16.7	24.8	18.0	21.5	25.5	13.9	10.9	15.2	-	-
<b>Housing Indicators</b>										
Housing Starts ('000)	1,218	1,164	1,052	1,320	1,149	1,275	1,241	1,303	1,215	-
Change (%yoy)	6.2	2.8	-11.5	23.0	-1.9	9.9	10.0	7.4	9.2	-
Building Permits ('000)	1,144	1,152	1,225	1,260	1,212	1,228	1,293	1,216	1,267	-
Change (%yoy)	0.2	-1.2	8.5	7.2	-5.8	2.2	8.8	4.6	17.6	-
Existing Home Sales (m)	5.3	5.3	5.5	5.5	5.6	5.5	5.7	5.5	5.7	-
Change (%yoy)	-2.2	0.2	1.3	4.7	15.9	1.5	3.8	5.2	5.9	-
New Home Sales ('000)	622	559	568	568	573	551	585	587	621	-
Change (%yoy)	24.9	10.7	24.3	18.8	12.8	2.4	11.2	11.8	15.6	-
S&P/Case-Shiller Index	190.7	191.3	191.4	191.5	191.8	192.3	192.7	193.5	-	-
Change (%yoy)	4.9	5.0	4.9	4.9	5.1	5.5	5.7	5.9	-	-
Construction Spending (%mom)	0.5	0.5	-0.2	0.8	1.5	-0.2	0.8	1.8	-0.2	-
<b>Manufacturing &amp; Production</b>										
Industrial Production (%mom)	0.1	-0.1	-0.2	0.2	-0.2	0.8	-0.3	0.1	0.6	-
ISM Manufacturing Index	52.3	49.4	51.7	52.0	53.5	54.5	56.0	57.7	57.2	54.8
ISM Non-Manufacturing Index	54.9	51.7	56.6	54.6	56.2	56.6	56.5	57.6	55.2	0.0
Markit PMI Manufacturing Index	52.9	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8
Markit PMI Services Index	51.4	51.0	52.3	54.8	54.6	53.9	55.6	53.8	52.8	52.5
Capacity Utilization (%)	75.9	75.8	75.6	75.7	75.5	76.0	75.7	75.7	76.1	-
Factory Orders (%mom)	1.4	0.4	0.6	2.8	-2.3	1.3	1.5	1.0	-	-
Durable Goods Orders(%mom)	3.6	0.2	0.3	5.0	-4.7	-0.9	2.4	2.3	0.7	-
Empire Manufacturing Index	-0.5	-3.2	-1.2	-5.5	2.2	7.6	6.5	18.7	16.4	5.2
Business Condition Outlook Index	-0.9	4.3	11.6	11.1	8.7	19.7	23.6	43.3	32.8	22.0
<b>Leading Indicators</b>										
Leading Index (%mom)	0.5	-0.1	0.2	0.2	0.2	0.6	0.6	0.5	0.4	-
<b>4Q14 1Q15 2Q15 3Q15 4Q15 1Q16 2Q16 3Q16 4Q16 1Q17</b>										
Real GDP, Chain-Weighted (%qoq)	2.3	2.0	2.6	2.0	0.9	0.8	1.4	3.5	2.1	0.7
Change (%yoy)	2.5	3.3	3.0	2.2	1.9	1.6	1.3	1.7	2.0	1.9

Source: Bloomberg

**Equity Rating Structure and Definitions**

<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
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*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
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