



From the Desk
of the
Chief Economist

BANK ISLAM

FED FUND RATE RAISED BY 50 BASIS POINTS

5 MAY 2022

ECONOMIC RESEARCH

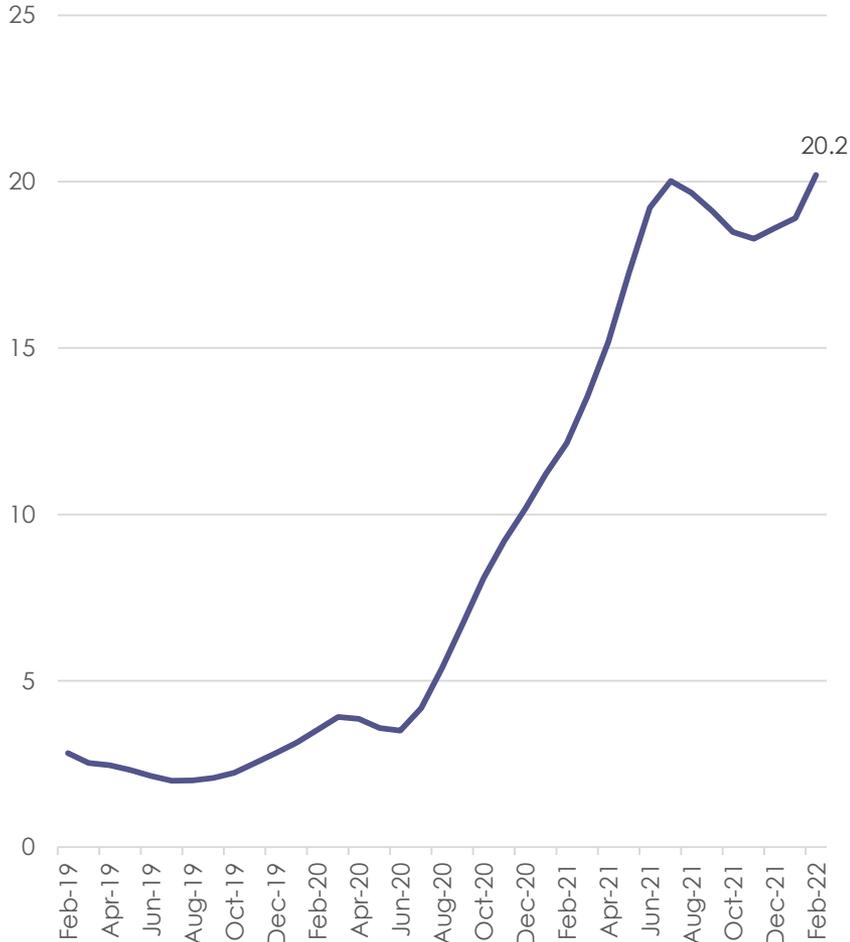
**DR. MOHD AFZANIZAM ABDUL RASHID
SHAFIZ BIN JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

- The U.S. Federal Open Market Committee (FOMC) during its meeting on 3 – 4 May **has decided unanimously to increase the Federal Fund Rate (FFR) by 50 basis points.**
- This will bring the policy rate from 0.25% - 0.50% to 0.75% - 1.00%.
- The size of their balance sheet will also be reduced by USD47.5 billion per month (Treasury securities: USD30 billion, Mortgage Backed Securities: USD17.5 billion) for the next 3 months. Thereafter, the planned reduction will be set at USD95 billion (Treasury securities: USD60 billion, Mortgage Backed Securities: USD30 billion) until such time the Fed deemed appropriate to keep it steady.
- From the press conference, Chairman Powell has indicated that the same quantum (50 basis points hike) would be applied in the next two meetings while at the same time, **indicated that 75 basis points hike at one-go is not an option that has been actively discussed among the committee members.**
- Following such decision, the equities market have rallied with benchmark indices such as Dow Jones Industrial Average, S&P500 and Nasdaq closed higher by 2.81%, 2.99% and 3.19% to 34,061.06 points, 4,300.17 points and 12,964.86 points respectively.
- The US Dollar Index (DXY) fell 0.85% to 102.587 points while the 10-year US Treasury yielded lower by close to 4 basis points to 2.93%.

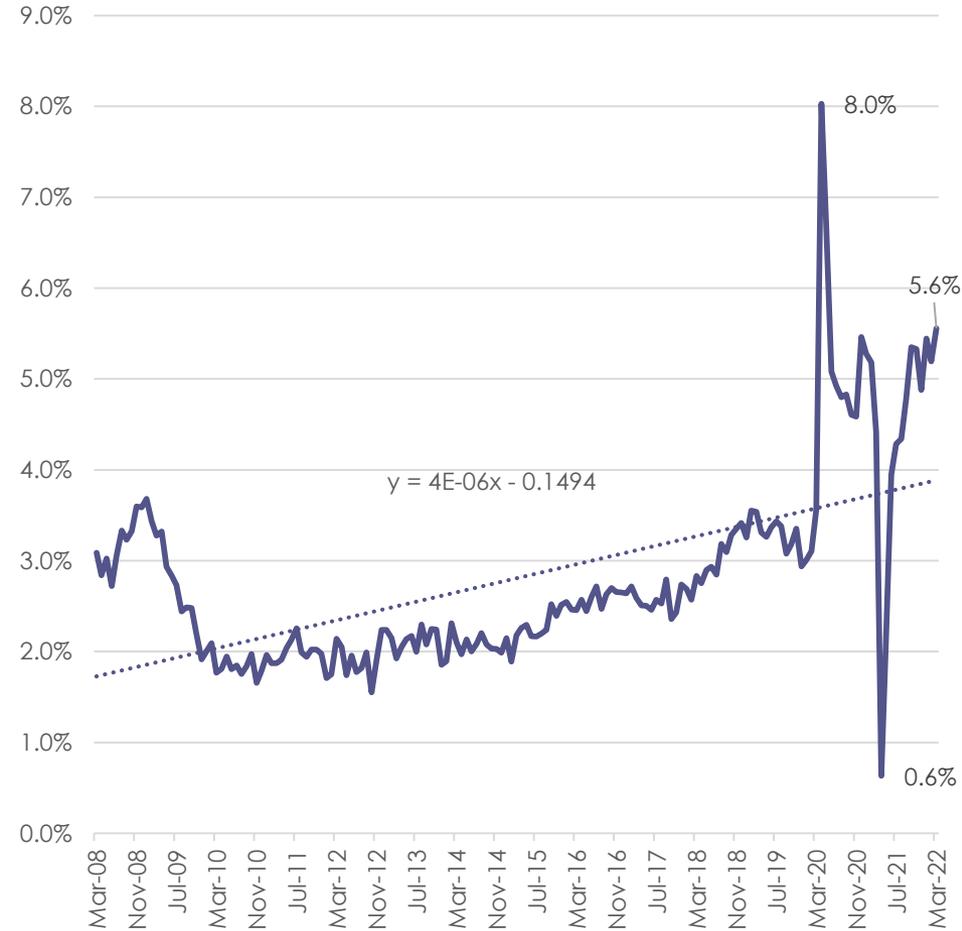
- The latest FOMC meeting has clearly set the path for the normalization of the monetary policy stance from one that are highly accommodative to a more restrictive state that corresponds with the pace of economic recovery.
- Labour market has been performing well with jobless rate significantly reduced from 14.7% in April 2020 to 3.6% as of March this year. Consequently, compensation to labour has improved with average weekly earnings rose 5.6% year-on-year in March from as low as -0.6% in April 2021.
- Similarly, the housing market has been on full throttle with the S&P Case Schiller Home Price Index for 20 major cities rose 20.2% as February this year as massive liquidity injection in the past has found its way in the real estate market.
- As such, **the FFR is likely to hit between 2.50% to 3.00% this year in order to ensure that the monetary policy will be in restrictive zone (neutral rate: 2.00% - 2.50%).**
- What does it mean to our Overnight Policy Rate (OPR)? We believe the BNM will assess the Malaysian economy on its own merit in order to arrive at the appropriate level for OPR. In the past, **we have seen the difference between OPR and FFR at the lowest level of -175 basis points from September 2006 to August 2007.** This indicates that any move in FFR does not necessarily change the level of OPR in an instant.
- As for dollar-ringgit, we believe it might linger around RM4.30 to RM4.34 as there is better clarity in the US Fed monetary policy direction.
- As such, **we are maintaining our call for OPR of 25 basis points hike in the 2H2022 while the USDMYR to end the year at RM4.15.**

THE U.S. HOUSE PRICES HAVE RISEN SIGNIFICANTLY WHILE WAGES FOR LABOUR HAVE TRENDED UP

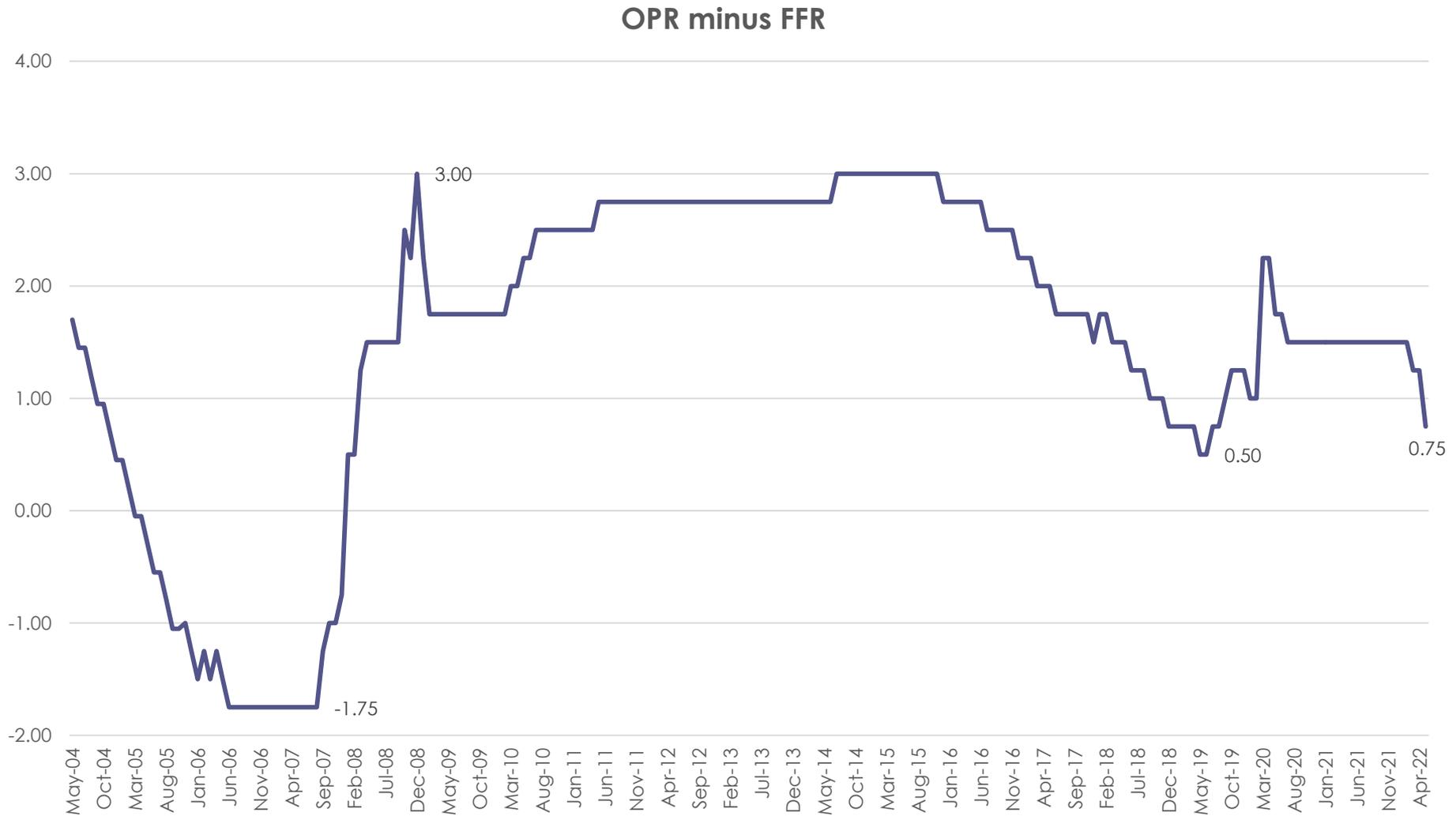
S&P Case Shiller Home Price Index - 20-City



Average Weekly Earnings Year-on Year %



MALAYSIA'S OPR WAS LOWER THAN THE FFR IN 2006 AND 2007. THIS INDICATES THE BNM POLICY DECISION IS INDEPENDENT FROM THE FED



Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission.

An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

BANK ISLAM

Assuring Trust. Delivering Value.

Thank You