



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **THE FOMC STOOD PAT ON INTEREST RATES**

**6 NOVEMBER 2020**

## **ECONOMIC RESEARCH**

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- ✓ The Federal Open Market Committee (FOMC) voted unanimously to maintain the Federal Funds Rate (FFR) target range at 0.00% to 0.25% at the conclusion of its 4-5 November meeting.
- ✓ The statement notes that the economy and employment continued to pick up but remain below its pre pandemic level. Recovery in economic activities were mainly supported by the household spending particularly purchase of durable goods which has increased to above pre pandemic level. Nevertheless, services expenditure remains weak affected by restriction in human mobility.
- ✓ The Federal Reserve (Fed) Chairman, Jerome Powell emphasizes that the outlook of the economy is highly uncertain and will depend on large part on the success of effort to keep the virus in check.
- ✓ As of the inflation target, the Committee will aim to achieve inflation moderately above 2.0% for some time so that inflation averages 2.0% over time.
- ✓ Moreover, the central bank has been rising its securities holdings by USD120 billion per month (USD80.0 billion of Treasury and USD40.0 billion of agency mortgage-backed securities (MBS)) in order to ease financial conditions and to provide substantial support to the economy.
- ✓ In light of this, the Fed is expected to remain on accommodative stance until the maximum employment and inflation outcome are achieved. Be that as it may, the Committee would be prepared to adjust the stance of monetary policy should the risks emerge that could impede the attainment of the Committee's goals.

# CENTRAL BANK POLICY RATES

Policy rates	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20*
<b>Advanced countries</b>												
US (Fed Fund Rate)	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Latin America</b>												
Mexico (ON Rate)	7.25	7.25	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25
Brazil (Selic Rate)	4.50	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	55.00	50.00	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	36.00	36.00
<b>Eastern Europe</b>												
Russia (Key Rate)	6.25	6.25	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25
Ukraine (Discount Rate)	13.50	11.00	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	12.00	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	10.25
<b>Asia</b>												
China (1Y Loan Prime Rate)	4.15	4.15	4.05	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00
Thailand (1D Repo Rate)	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.25
Australia (Cash Rate)	0.75	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10
New Zealand (Cash Rate)	1.00	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75

## \* As at 6 November 2020

Source: Bloomberg

Most Central banks have put a hold on interest rate cuts in the past four months, indicating that the expectation of economic recovery is under way barring any unforeseen circumstances from any resurgence in Covid-19 infections. The Bank of England maintained the Bank Rate at a historic low of 0.1%, despite fears that negative interest rates could be looming.

- ✓ The improvement in the US's labour market and the manufacturing activity attests that US is gradually heading into economic recovery. Moreover, the US's GDP saw a slower contraction of 2.9% year-on-year (y-o-y) in 3Q2020 (2Q2020: -9.0% y-o-y).
- ✓ Be that as it may, the US faces a tougher road ahead as Covid-19 cases increase and worries grow over the health and economic impacts. Nearly half of the 22.0 million jobs lost in March and April remain unfilled and the unemployment rate remains at 7.9%, more than double of its pre-pandemic level as more than 10.0 million Americans are still out of work.
- ✓ On the political front, the slow resolution of the presidential election, and the growing chance that Democrats and Republicans will divide power in Washington next year will less likely to end months of gridlock at the Congress. This will present a hurdle to quickly approve another giant spending package to help workers and businesses.
- ✓ Therefore, the Fed's move to keep interest rates near zero is apt considering that economic growth is still well below pre-Covid-19 levels combined with a possibility of a split government where Democrats control the White House and Republicans retain the Senate.
- ✓ On the domestic front, the BNM has recently decided to maintain the overnight policy rate (OPR) at 1.75% in November. With Covid-19 cases being a point of concern, the current OPR gives room for the BNM to cut rates if economic conditions worsen later on.

- ✓ U.S. Treasury yields struggled for direction on Thursday as the stood pat on interest rates and the slow trickle of election results had yet to deliver a winner.
- ✓ 3-Y and 5-Y US Treasury yields saw no daily changes on Thursday while 7-Y and 10-Y US Treasury yields were marginally higher by 1 basis point. The 30-Y US Treasury yields also saw smaller changes but with a 1 basis point drop .
- ✓ More importantly, US Treasury yields have seen a decline compared to levels seen before the US presidential election took place (refer table below).
- ✓ The difficulty of pushing a large coronavirus aid relief package in a split government has bolstered bond values.
- ✓ Turning to the US equity market, Wall Street stocks rose for a fourth straight session on Thursday amid continued positive momentum after the US presidential election despite no closure yet to the presidential contest.
- ✓ The rally reflected enthusiasm of the apparent outcome of the election, which may leave Washington politically divided and pose a barrier to sweeping policy changes that could upset investors, such as tax increases.

### Changes in US Treasury Yields

US Treasury	Change in yields (basis points) between 2 Nov and 5 Nov
3-Y	-2.0
5-Y	-5.0
7-Y	-7.0
10-Y	-8.0
30-Y	-9.0

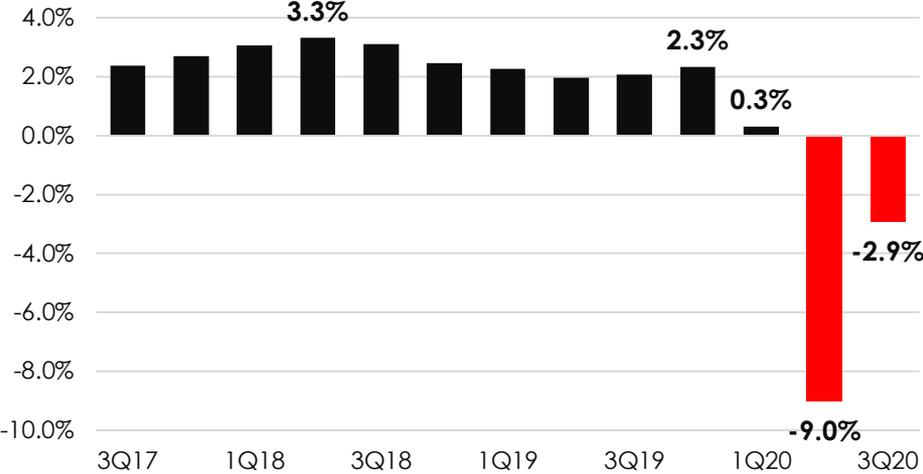
Source: US Department of Treasury

### Performance of US Stock Market

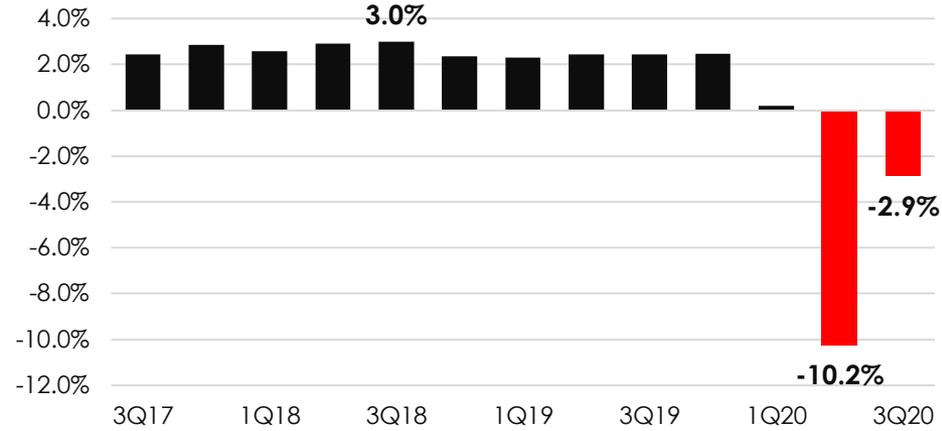
Index	Gain on 5 November 2020
Dow Jones	2.0%
S&P 500	2.0%
Nasdaq	2.6%

Source: Bloomberg

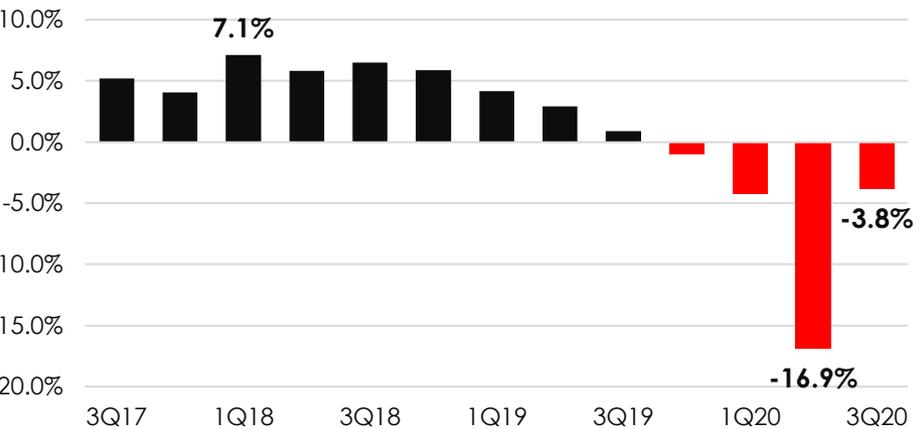
### GDP Growth, y-o-y%



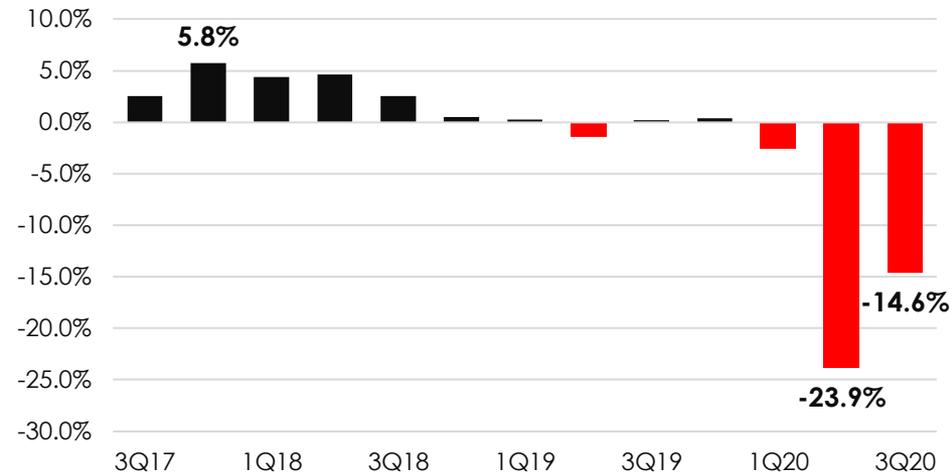
### Personal Consumption Expenditure (PCE), y-o-y%



### Gross Private Domestic Investment (GPI), y-o-y%

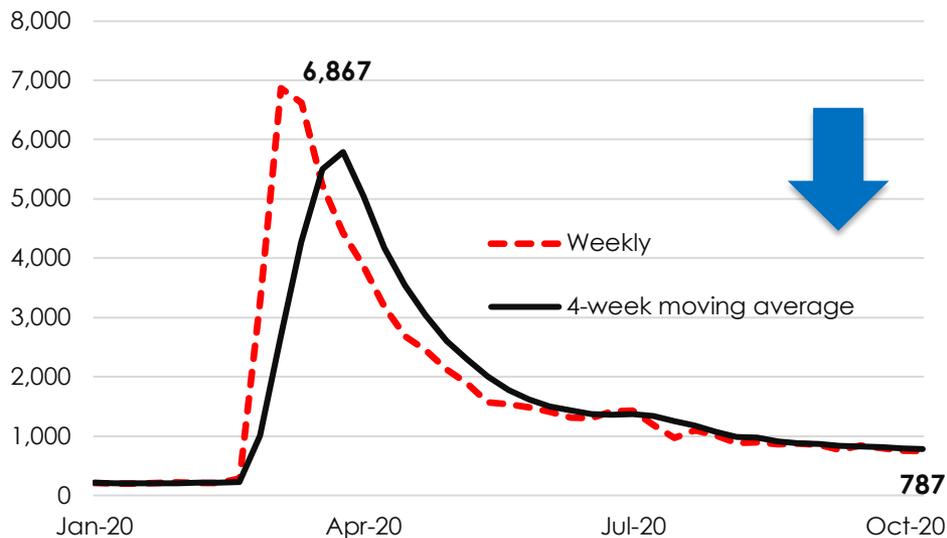


### Export, y-o-y%

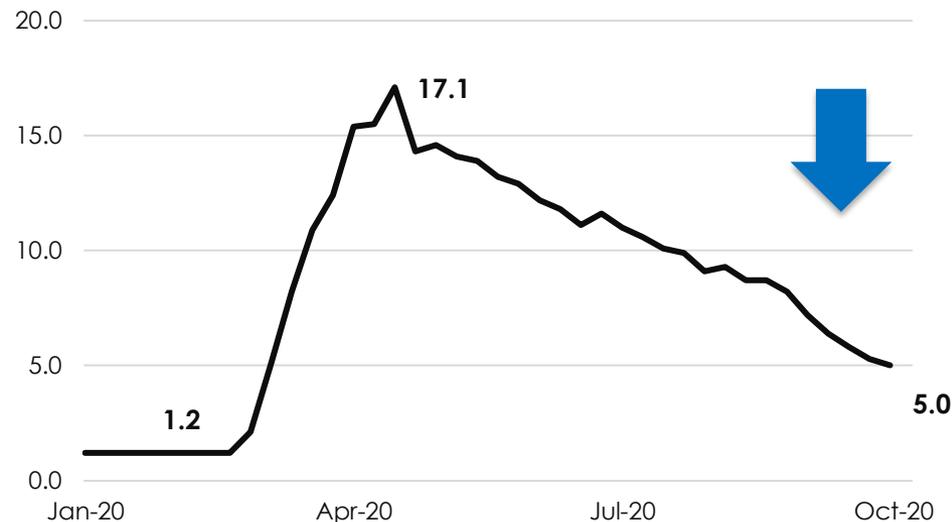


Sources: CEIC, US BEA  
ECONOMIC RESEARCH

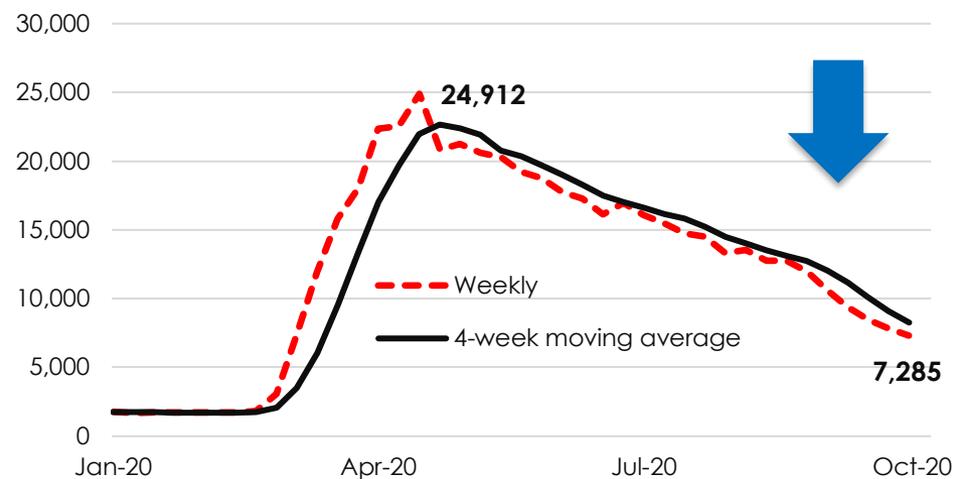
## US Initial Jobless Claims (IJC), '000



## US Insured Unemployment Rate, %



## US Insured Unemployment, '000



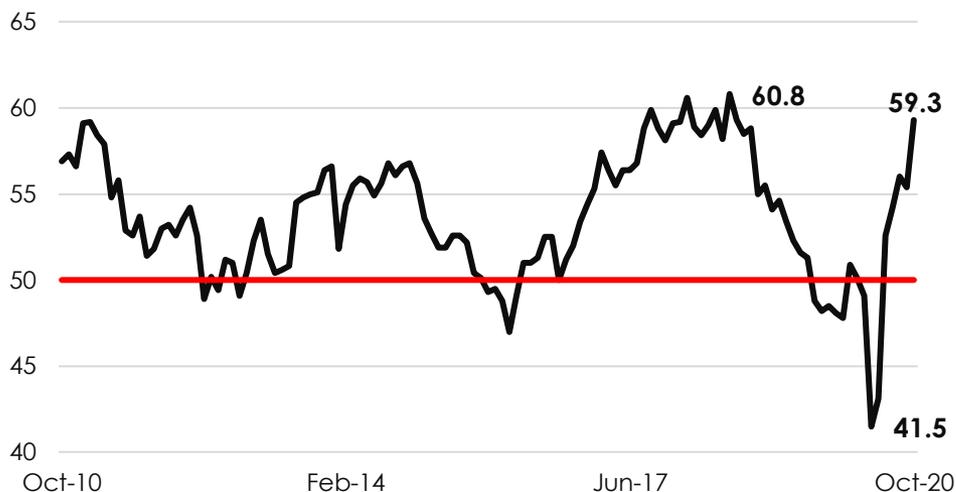
Sources: CEIC, US Department of Labor

- ✓ The number of Americans filing for unemployment benefits decreased by 7k as at 31 October to 751k (previous week: 758k). This was the lowest level since the economic shutdown, suggesting a gradual recovery in the US labour market.
- ✓ Similarly, the number of people already collecting for the unemployment benefits declined to 7.3 million as at 24 October from 7.8 million in the preceding week as Americans are heading back to work.
- ✓ Overall, the labour market continues to repair itself, though at a slower pace.

# MANUFACTURING SECTOR CONTINUED ITS RECOVERY

Index	Series Index October	Series Index September	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	59.3	55.4	3.9	Growing	Faster	5
New Orders	67.9	60.2	7.7	Growing	Faster	5
Production	63.0	61.0	2.0	Growing	Faster	5
Employment	53.2	49.6	3.6	Growing	From Contracting	1
Supplier Deliveries	60.5	59.0	1.5	Slowing	Faster	12
Inventories	51.9	47.1	4.8	Growing	From Contracting	1
Customers' Inventories	36.7	37.9	-1.2	Too Low	Faster	49
Prices	65.5	62.8	2.7	Increasing	Faster	5
Backlog of Orders	55.7	55.2	0.5	Growing	Faster	4
New Export Orders	55.7	54.3	1.4	Growing	Faster	4
Imports	58.1	54.0	4.1	Growing	Faster	4
<b>OVERALL ECONOMY</b>				Growing	Faster	6
<b>Manufacturing Sector</b>				Growing	Faster	5

US ISM Manufacturing PMI, points



Sources: Bloomberg, US ISM

- ✓ The US Institute for Supply Management (ISM) Manufacturing Purchasing Manager's Index (PMI) **increased to 59.3 points in October** from 55.4 points in the preceding month.
- ✓ This was the **highest figure recorded since August 2018 at 60.8 points**, indicating continued expansion in manufacturing sector after enduring a series of contractions since March due to Covid-19 pandemic.
- ✓ The strong growth was mainly **supported by New Orders** (October: 67.9 points vs. September: 60.2 points) and **Production** (October: 63.0 points vs. September: 61.0 points) indexes during October.

Business Sector	Outlook on Business Activities
<b>Chemical Products</b>	Business continues to be robust. Apart from that, sales are greater than their expectations, and cost pressures are modest. As such, they are expecting a strong finish for 2020 and a solid start in 2021.
<b>Transportation Equipment</b>	Lower sales were recorded as compared to last year due to Covid-19 shutdown. However, sales are stronger than expected and forecast to stay strong through the first quarter of 2021.
<b>Food, Beverage &amp; Tobacco Products</b>	Increased production due to stores stocking up for the second wave of Covid-19.
<b>Miscellaneous manufacturing</b>	Business levels just returned to pre-Covid-19 levels. However, companies remained conservative with fixed-cost spending, knowing the uncertainties that lie ahead with Covid-19 and its potential impact globally.
<b>Fabricated Metal Products</b>	Continue to see increases in customer demand.
<b>Machinery</b>	Business is almost back to normal levels. However, customers are still cautious with capital spending.

Source: US ISM

# THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

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# APPENDIX

- ✓ The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time, thereby promoting its maximum employment and price stability goals.
- ✓ The Covid-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U. households and businesses.
- ✓ The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent.
- ✓ The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.
- ✓ In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.
- ✓ Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Patrick Harker; Robert S. Kaplan; Loretta J. Mester; and Randal K. Quarles. Ms. Daly voted as an alternate member at this meeting.