



From the Desk
of the
Chief Economist

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FOMC MEETING – THE FED IS WARRING AGAINST INFLATION WITH ANOTHER LARGE INTEREST RATE HIKE

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ECONOMIC RESEARCH

**SAZRIN MOHD RAZAK
SHAFIZ JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

THE U.S. FOMC INCREASED THE FEDERAL FUND RATE (FFR) BY ANOTHER 75 BASIS POINTS (BPS) TO TAME THE SOARING INFLATION

The Federal Open Market Committee (FOMC) **decided to raise the FFR target range by 75 bps to 2.25%-2.50% during its meeting on 26 and 27 July 2022.**

- ✓ The recent U.S. economic data such as spending and production have eased. However, the labour market is extremely tight with the jobs gain have remained robust and unemployment rate maintained low (June: 3.6% vs. May: 3.6%).
- ✓ **As for inflation, it continues to run at more than four times, well above the Federal Reserve's (Fed) 2.0% target.** Pandemic-related imbalances, higher food and energy prices, as well as broader price pressures have translated into an elevated level of inflation.
- ✓ Additionally, the Committee will be highly attentive to risks of inflation which is also attributable to the Russia's war against Ukraine that weighed down the global economic activity.
- ✓ Along with the rate increases, the Committee **will continue reducing its holdings of Treasury securities (USD30.0 billion per month) and agency mortgage-backed securities (MBS) (USD17.5 billion per month) beginning 1 June** as issued in the Plans for Reducing the Size of the Fed's Balance Sheet during May. **After three months, the amount of the monthly reduction will be doubled to USD95.0 billion (Treasury: USD60.0 billion, MBS: USD35.0 billion).**
- ✓ All in all, the Committee will be monitoring the implications of incoming information for the economic outlook in assessing the appropriate stance of monetary policy.
- ✓ They are prepared to adjust accordingly should the emerging risks could impede the attainment of their goals.

GLOBAL INTEREST RATE – TIGHTENING MONETARY POLICY

Policy rates	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22*
Advanced countries													
US (Fed Fund Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75	2.50
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	-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	0.50
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25
Canada (ON Lending Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50
Latin America													
Mexico (ON Rate)	4.25	4.50	4.75	4.75	5.00	5.50	5.50	6.00	6.50	6.50	7.00	7.75	7.75
Brazil (Selic Rate)	4.25	5.25	6.25	7.75	7.75	9.25	9.25	10.75	11.75	11.75	12.75	13.25	13.25
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	38.00	40.00	42.50	44.50	47.00	49.00	52.00	52.00
Eastern Europe													
Russia (Key Rate)	6.50	6.50	6.75	7.50	7.50	8.50	8.50	9.50	20.00	14.00	11.00	9.50	8.00
Ukraine (Discount Rate)	8.00	8.00	8.50	8.50	8.50	9.00	10.00	10.00	10.00	10.00	10.00	25.00	25.00
Turkey (1W Repo Rate)	19.00	19.00	18.00	16.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Asia													
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.85	3.85	3.80	3.70	3.70	3.70	3.70	3.70	3.70	3.70
India (Repo Rate)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90
Indonesia (7D Repo Rate)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Thailand (1D Repo Rate)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.50	1.75	1.75	2.25
Philippines (O/N Lending Rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50	3.25
Australia (Cash Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.35	0.85	1.35
New Zealand (Cash Rate)	0.25	0.25	0.25	0.50	0.75	0.75	0.75	1.00	1.00	1.50	2.00	2.00	2.50
Malaysia (OPR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.25

Source: Bloomberg
*As at 28 July 2022

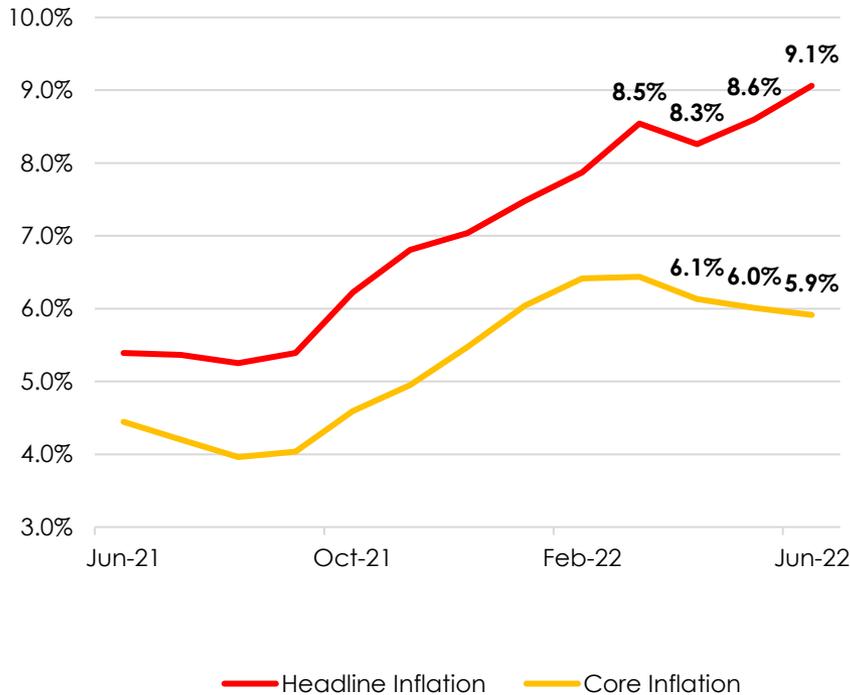
Interest Rate
Hike

Interest Rate
Cut

Further interest rates hike are expected during 2H2022 to contain the inflationary pressures.

THE U.S. STUBBORNLY-HIGH INFLATION STARTING TO BITE THE CONSUMER'S SPENDING

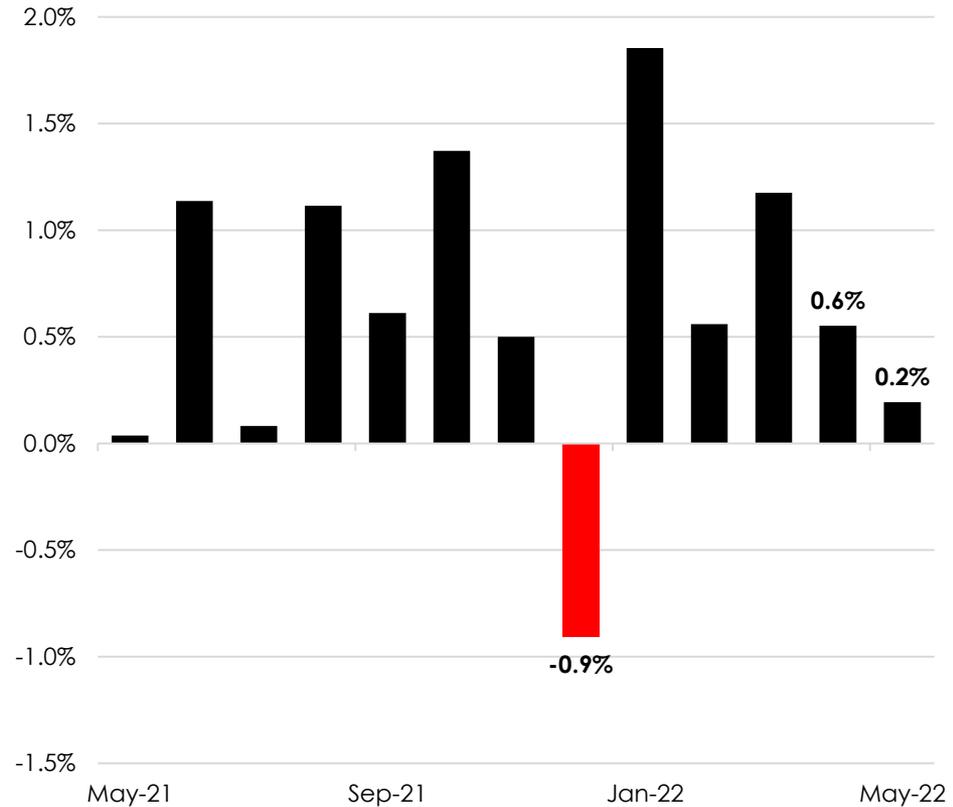
U.S. Headline Inflation v.s .Core Inflation, y-o-y%



Source: CEIC

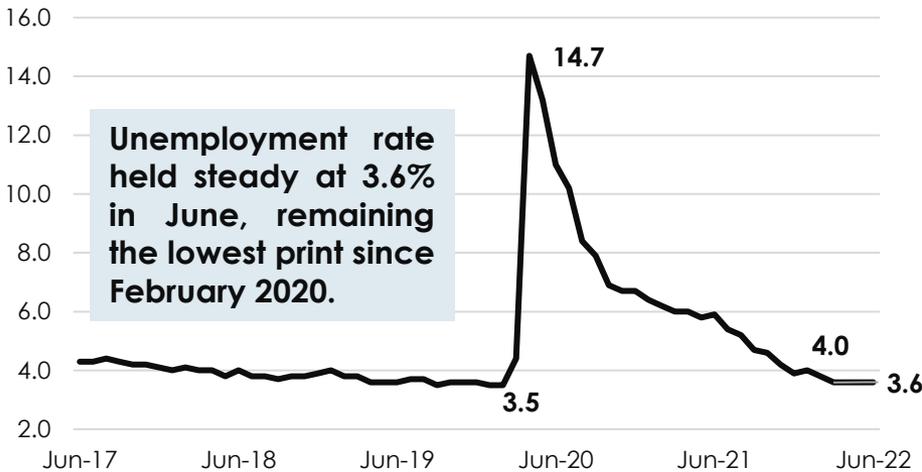
- ✓ The U.S. inflation shows no signs of slowing down when the latest figure rose to 9.1% y-o-y in June as compared to the previous month of 8.6% amid higher energy and food prices.

Personal Consumption Expenditure (PCE), m-o-m%

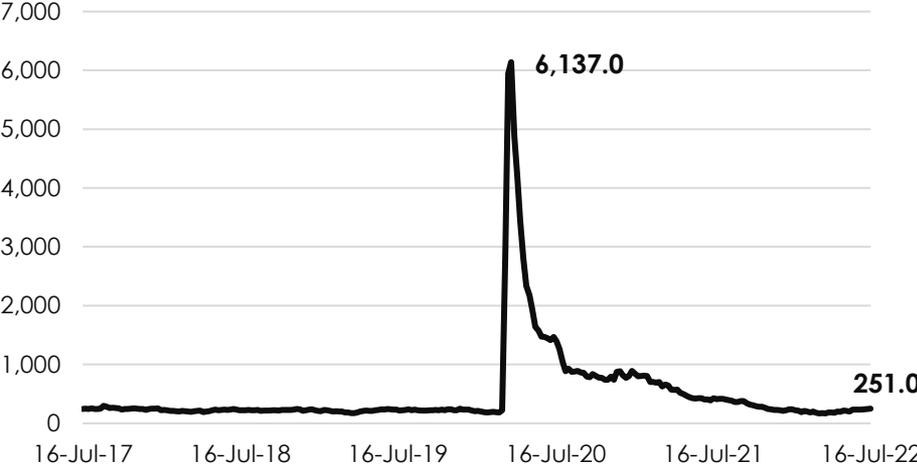


- ✓ Consumer spending has been moderating during the month (May: 0.2% vs. April: 0.6%) as they feel the pinch of inflation.

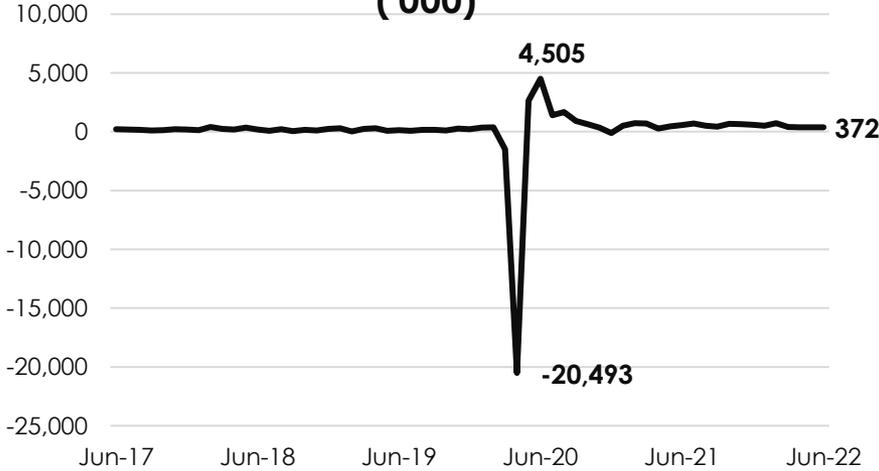
Unemployment Rate, %



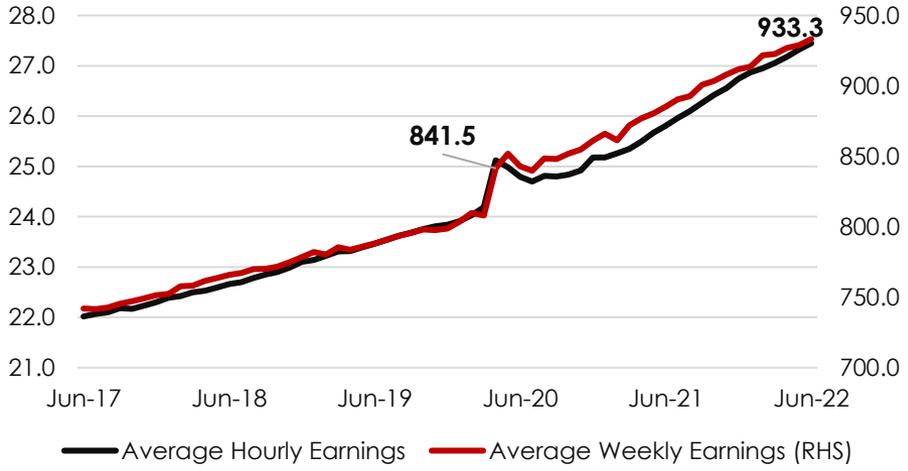
U.S. Initial Jobless Claims (IJC), '000



Nonfarm Payrolls, m-o-m changes ('000)



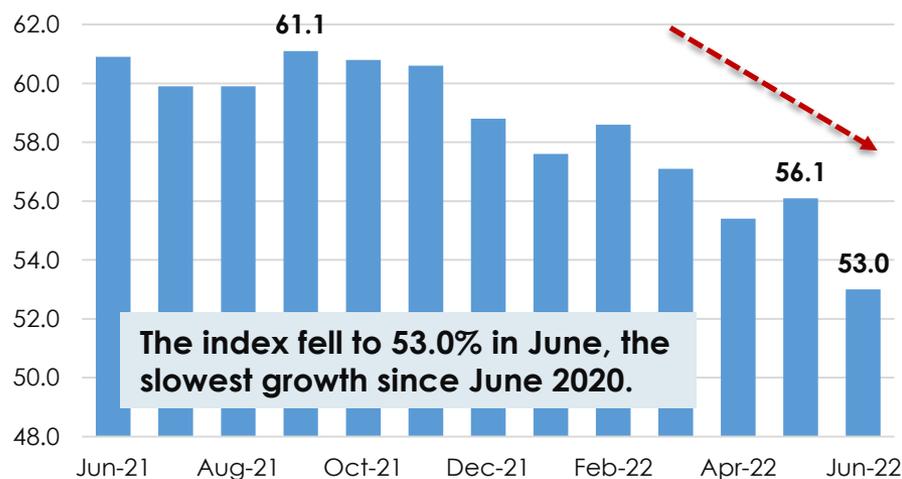
Average Earnings, USD



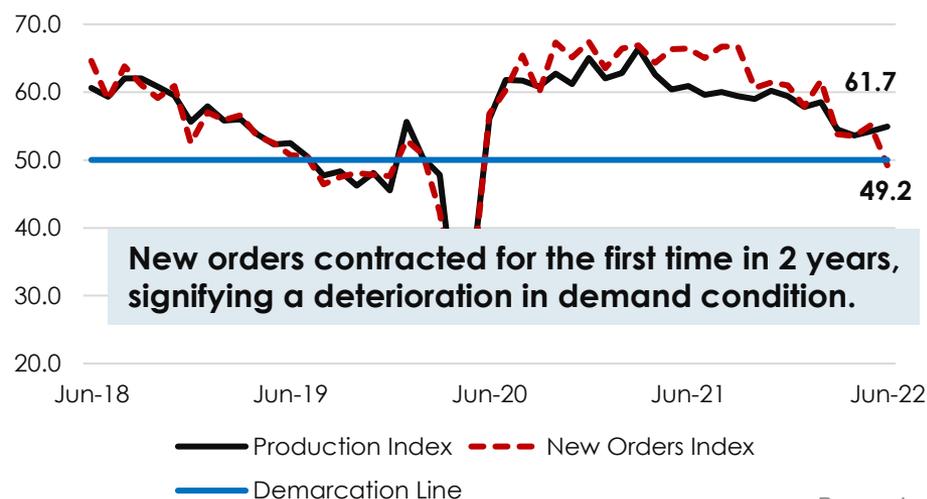
SUPPLY CHAIN CONSTRAINTS AND SLOWER DEMAND CONTINUED TO AFFECT MANUFACTURERS' SENTIMENTS IN LIGHT OF AGGRESSIVE INTEREST RATE MOVEMENT IN THE U.S.

Index	Series Index June	Series Index May	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	53.0	56.1	-3.1	Growing	Slower	25
New Orders	49.2	55.1	-5.9	Contracting	From Growing	1
Production	54.9	54.2	0.7	Growing	Faster	25
Employment	47.3	49.6	-2.3	Contracting	Faster	2
Supplier Deliveries	57.3	65.7	-8.4	Slowing	Slower	76
Inventories	56.0	55.9	0.1	Growing	Faster	11
Customers' Inventories	35.2	32.7	2.5	Too Low	Slower	69
Prices	78.5	82.2	-3.7	Increasing	Slower	25
Backlog of Orders	53.2	58.7	-5.5	Growing	Slower	24
New Export Orders	50.7	52.9	-2.2	Growing	Slower	24
Imports	50.7	48.7	2.0	Growing	From Contracting	1
OVERALL ECONOMY				Growing	Slower	25
Manufacturing Sector				Growing	Slower	25

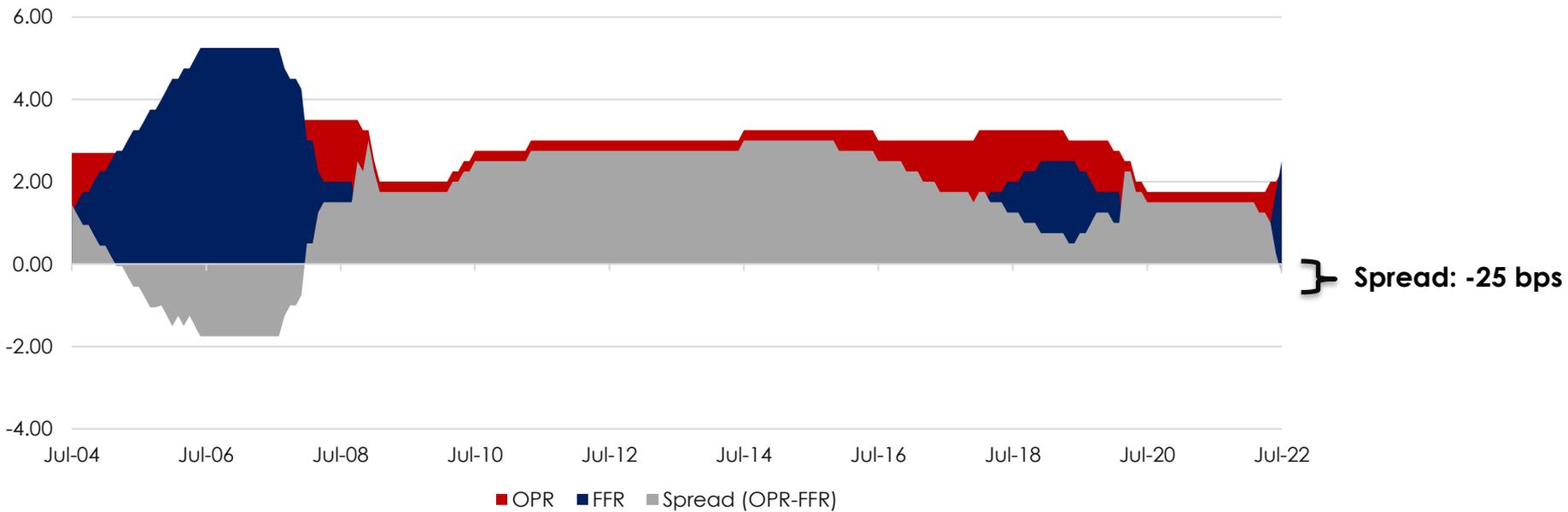
U.S. ISM Manufacturing PMI, %



Production and New Orders Index, %



OPR and Spread Against FFR, %



Source: CEIC

- ✓ Malaysia's Overnight Policy Rate (OPR) spread against the FFR is in negative territory at 25 bps (2.00% minus 2.25%). As such, this could motivate the BNM to stick to their game plan to increase the OPR in a measured and gradual pace.
- ✓ Apart from that, the real interest rate (nominal interest rate minus the inflation rate) in Malaysia has been in negative as well since 2021. We believe the prolonged negative real interest rate could be detrimental to the economy as inflation diminishes purchasing power of consumers, thus eroding savings in the future.
- ✓ **Hence, we anticipate that the OPR to reach 2.75% in 2022**, depending on the development surrounding in the inflationary pressures and economic growth trajectory.

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

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APPENDIX

- ✓ Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.
- ✓ Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.
- ✓ The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 2-1/4 to 2-1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.
- ✓ 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; Michael S. Barr; Michelle W. Bowman; Lael Brainard; James Bullard; Susan M. Collins; Lisa D. Cook; Esther L. George; Philip N. Jefferson; Loretta J. Mester; and Christopher J. Waller.

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