FOMC STATEMENT TAKEAWAY

OCBC Bank

Key takeaways from the FOMC decision/statement:

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Highlights:

- **The Fed essentially managed to pull off a hat trick in keeping policy rates unchanged but sounding sufficiently dovish to satisfy market doves.** Fed chair Powell opined that "my colleagues and I have one overarching goal, to sustain the economic expansion" and the trade war has "turned to greater uncertainty" with many Fed officials now seeing that "the case for somewhat more accommodative policy has strengthened". The FOMC also removed the "patient" reference from its statement. Notably, there was one dissenter Bullard who preferred to cut by 25bps.

- **Tweaks to economic assessment:** Fed shaded down its unemployment forecasts (3.6% for 2019 and 3.7% for 2020) and core PCE inflation forecasts (1.8% for 2019 and 1.9% for 2020), while upgrading its 2020 growth forecast to 2.0% (previously 1.9%). Notably, the median Fed Funds rate forecast is unchanged at 2.4% in 2019 (unchanged from March) and 2.1% (down from 2.6%) for 2020 and 2.4% (down from 2.6%) for 2021.

- **Opening the door for more aggressive cuts:** Interestingly, when asked if the Fed could cut rates by up to 50bps, Powell hedged by saying that "an ounce of prevention is worth a pound of care" which is a "valid way to think about policy in this era" of near-zero rates environment - this clearly emboldened the doves.

- **Political pressure has taken a toll:** even though Powell noted that "the law is clear that I have a four-year term and I fully intend to serve it".

- **Market reaction was generally positive:** Wall Street rose while the 10-year UST bond yield rallied to 2.03%, with markets now eyeing the possibility of of a 25bp rate cut as early as the July FOMC meeting and discounting between 50-75bps of cuts by year-end.

- **Actually the dot plot dispersion was wider than what Powell's dovish rhetoric suggests:** The median dots plot now showed that 8 of the 17 pencilled in a cut by end-2019, with another 8 opting for no change and one in favour of hike. For 2020, 9 are looking for lower rates versus 5 unchanged and 3 higher.

- **What this means for other central banks:** This will set a high dovish bar for the other central banks to follow today, namely the BOJ, BOE, BI and CBC, albeit the BSP is primed to cut 25bps.

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- **BOJ:** with both the FOMC and ECB pivoting, markets have partly priced in a 10bp rate cut by year-end for the BOJ, but the BOJ's options remain fairly limited at this juncture.

- **BOE:** stuck between a hard place and a rock. With a no-deal Brexit scenario still looming, it is difficult to see BOE delivering sufficiently dovish policy room at today's meeting. Watch Carney's Mansion House speech.

- **BSP:** expect the BSP to pull the trigger on a second 25bp rate cut today. If this comes to pass, it would see the Philippines top the regional pecking order with two rate cuts this year (50bp), with Malaysia in second at one rate cut (25bp).

- **MAS:** it would be interesting to see how the domestic growth-inflation dynamic develops in the run-up to the October MPS. Our 2019 GDP growth and inflation forecasts are 1.8% and 1.0% yoy. The 3-month SOR has retraced to 1.87653%, taking the cue from the pullback in the 3-month LIBOR currently at 2.38663%, but the 3-month SIBOR remains steady at the 2% handle. As of 4 June, our end-2019 forecast for the 3-month SIBOR and SOR are 2.0% and 2.05% respectively. If the Fed delivers the first 25bp rate cut earlier than 4Q19 that we had earlier predicted, then there is some downside risk to our year-end forecast for 3-month SOR.