

ASIA PACIFIC



ECONOMIC UPDATE

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US FOMC - No green light yet

As widely expected, the Fed did not signal its commitment to cut back QE3 in September after its 30-31 Jul meeting. The decision is in conformity with a more dovish statement from Bernanke lately, who continues to emphasise risks to the economy and flexibility in the Fed's response. A moderately-improved 2Q GDP growth raises the hurdle for the Fed to commence QE3 tapering in the near-term. In our view, even if the Fed scales back later in the year, monetary policy conditions could still remain accommodative for some time. We expect the first rate hike to start at around 2Q-3Q 2015.

“ *Effective communication and careful timing will be critical to avoid disruptions for both the United States and other countries.”*

– IMF annual assessment of the US economy

No decision made on QE3 exit ▶

There were no negative surprises from the FOMC's policy statement. 1) The Fed did not signal its commitment to wind down its stimulus plan in Sep, and 2) the Fed has appropriately indicated its intention to maintain a highly-accommodative monetary policy to support stronger economic recovery and also until the outlook for the labour market has improved substantially.

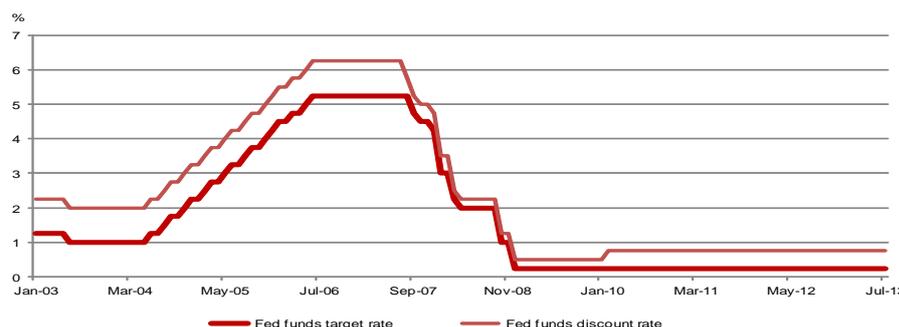
Recovery chugging along ▶

The Fed's overall assessment of the economic outlook has turned slightly positive from the last meeting as it sees diminishing downside risks to the outlook for the economy and labour market. 1) Job gains have improved in recent months although the jobless rate remains elevated (7.6% in Jun), 2) there is continued household spending and reacceleration of capital spending, and 3) there are signs of a credible housing recovery amid rising mortgage rates and restraining fiscal policy.

The Bernanke guessing game continues ▶

While giving little indication of the timeline for the tapering, the Fed left open the possibility that it could increase or reduce the pace of its purchases depending on conditions. We expect the Fed to adopt an effective communication of the exit strategy and a careful calibration of its timing will be critical for reducing the risk of adverse market reactions, which could lead to excessive interest rate and yield volatilities. In our view, even if the Fed scales back later in the year, monetary policy conditions could still remain accommodative for some time. We expect the first rate hike to start at around 2Q-3Q 2015.

Figure 1: Fed to keep rate at 0.0-0.25% for the foreseeable future



SOURCES: BLOOMBERG, CIMB RESEARCH

Figure 2: US Treasury yields rising

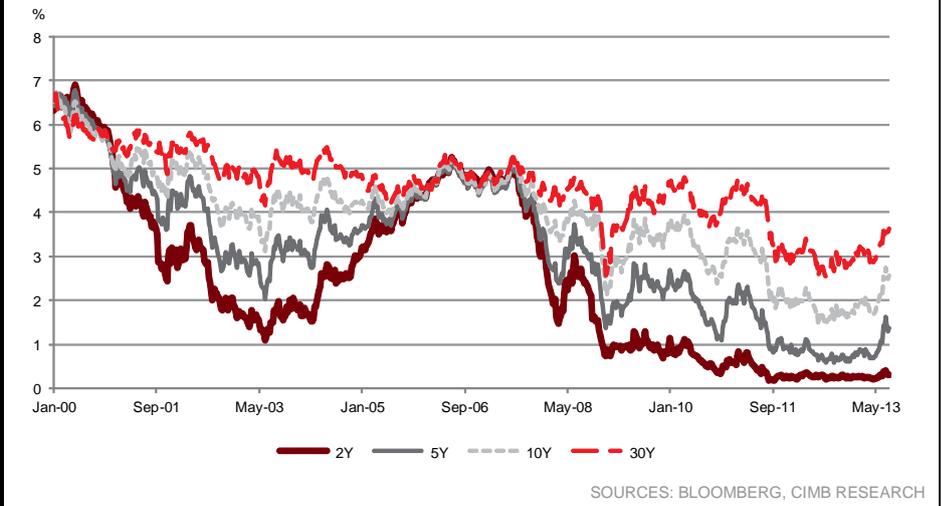


Figure 3: Fed responses to financial market events and recessions

Year(s)	Event	Fed funds target rate	Period	Quantum of rate cuts (bps)	Frequenc of rate cuts
1974-75	Recession - Oil crisis coupled with high government spending due to Vietnam war	13.00% to 5.25%	Jul-74 Apr-75	775	12
1980	Recession - Oil crisis triggered by Iranian revolution	20.00% to 9.50%	Mar-80 Jul-80	1,050	3
1981-82	Recession - Tight monetary policy to control high inflation	20.00% to 8.50%	May-81 Dec-82	1,150	12
1987	Stock-market crash on 20 Oct 1987	No target rate from 19 Oct to 3 Nov 1987	-	-	-
1990-91	Recession - Collapse of savings and loans and restrictive monetary policy	8.25% to 3.00%	Jul-90 Dec-92	525	18
1998	Long-Term Capital Management crisis	5.50% to 4.75%	Aug-98 May-99	75	3
2001-03	Recession - Dot Com bubble burst, 11 Sep terrorist attacks, accounting scandals	6.50% to 1.00%	Dec-01 Jun-03	550	13
2007	Subprime crisis fallout - housing recession	5.25% to 4.25%	Sep-07 Dec-07	100	3
2008	Downside risks to growth, financial market stress	4.25% to 0.00% - 0.25%	Jan-08 Oct-08	400-425	7
2009	Economy enters recovery, financial sector recovers but banking sector still weak and unemployment rate exceeds 10%	No change in rates; held at 0.00% - 0.25%	-	-	-
2010-13	Bumps in economic recovery, unemployment rate remains high, housing market still weak	No change in rates; rates to stay at 0.00% - 0.25% for the foreseeable future	-	-	-

SOURCES: FEDERAL RESERVE, CIMB RESEARCH

Figure 4: Historical Fed actions and FOMC scheduled meetings in 2011-2015

Year	Policy meeting dates	Rate change (bps)	Fed funds rate (%)
2015	27-28 Jan	-	-
2014	16-17 Dec	-	-
	28-29 Oct	-	-
	16-17 Sep	-	-
	29-30 Jul	-	-
	17-18 Jun	-	-
	29-30 Apr	-	-
	18-19 Mar	-	-
	28-29 Jan	-	-
2013	17-18 Dec	-	-
	29-30 Oct	-	-
	17-18 Sep	-	-
	30-31 Jul	No change	0.00 - 0.25
	18-19 Jun	No change	0.00 - 0.25
2012	30 Apr-1 May	No change	0.00 - 0.25
	19-20 Mar	No change	0.00 - 0.25
	29-30 Jan	No change	0.00 - 0.25
	11-12 Dec	No change	0.00 - 0.25
	23-24 Oct	No change	0.00 - 0.25
	12-13 Sep	No change	0.00 - 0.25
	31 Jul-1 Aug	No change	0.00 - 0.25
2011	19-20 Jun	No change	0.00 - 0.25
	24-25 Apr	No change	0.00 - 0.25
	13-Mar	No change	0.00 - 0.25
	24-25 Jan	No change	0.00 - 0.25
	13-Dec	No change	0.00 - 0.25
	1-2 Nov	No change	0.00 - 0.25
	20-21 Sep	No change	0.00 - 0.25
	9-Aug	No change	0.00 - 0.25
	21-22 Jun	No change	0.00 - 0.25
	26-27 Apr	No change	0.00 - 0.25
15-Mar	No change	0.00 - 0.25	
25-26 Jan	No change	0.00 - 0.25	

SOURCES: BLOOMBERG, FEDERAL RESERVE, CIMB RESEARCH

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