From the Desk of the Chief Economist

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FED HOLDS RATES STEADY AND SIGNALS LOW RATES TO REMAIN THROUGH 2023

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ECONOMIC RESEARCH

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THE U.S. FED HOLDS RATES STEADY AND SIGNALS POLICY RATES WILL BE LOWER FOR LONGER

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- ✓ The Federal Open Market Committee (FOMC) left the Federal Funds Rate (FFR) target range unchanged between 0.00% and 0.25% at its final scheduled meeting for 2020.

- ✓ The FOMC members were of the view that the US economy's recovery has progressed faster than generally expected. In light of this, the Gross Domestic Product (GDP) forecast for 2021 was revised up to 4.2% from 4.0% previously (September's projection). In addition, the unemployment rate is anticipated to improve to 5.0% next year from an estimated 6.7% in 2020.

- ✓ The statement notes that the financial conditions remain accommodative given the policy response to support the economy and the flow of credit to the US households and businesses.

- ✓ Be that as it may, the economic recovery remains highly uncertain and will depend on large part on the success of effort to keep the virus in check.

- ✓ In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least USD80 billion per month and of agency mortgage-backed securities by at least USD40 billion per month until substantial progress has been made toward achieving the Committee's maximum employment and price stability goals.

- ✓ All in all, the Committee continues to reiterate their commitment to ensure that the monetary policy will facilitate the recovery process. This would mean the accommodative monetary stance will continue to stay and rates will remain at the zero lower bound.

- ✓ The next FOMC meeting will be held on 26-27 January 2021.

ECONOMIC PROJECTIONS OF FEDERAL RESERVE BOARD MEMBERS AND FEDERAL RESERVE BANK PRESIDENTS, DECEMBER 2020

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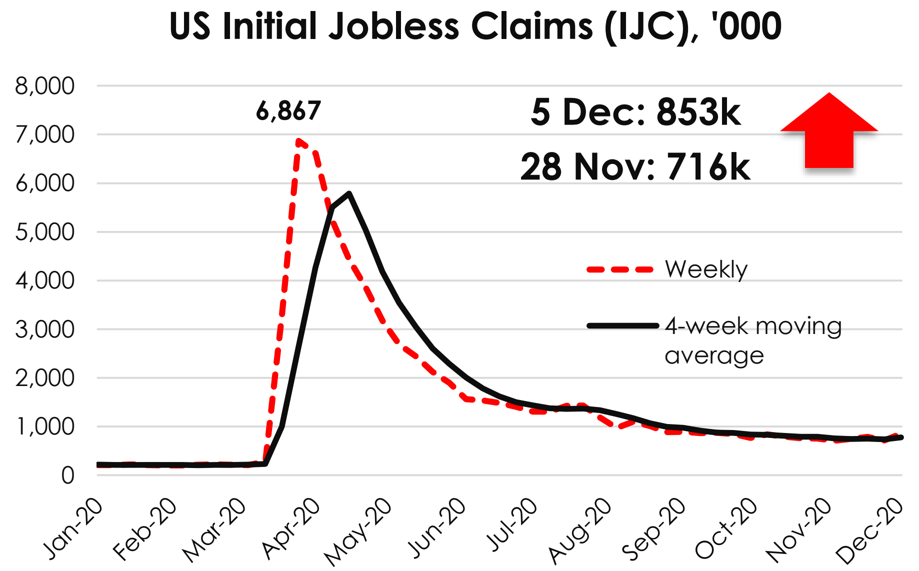
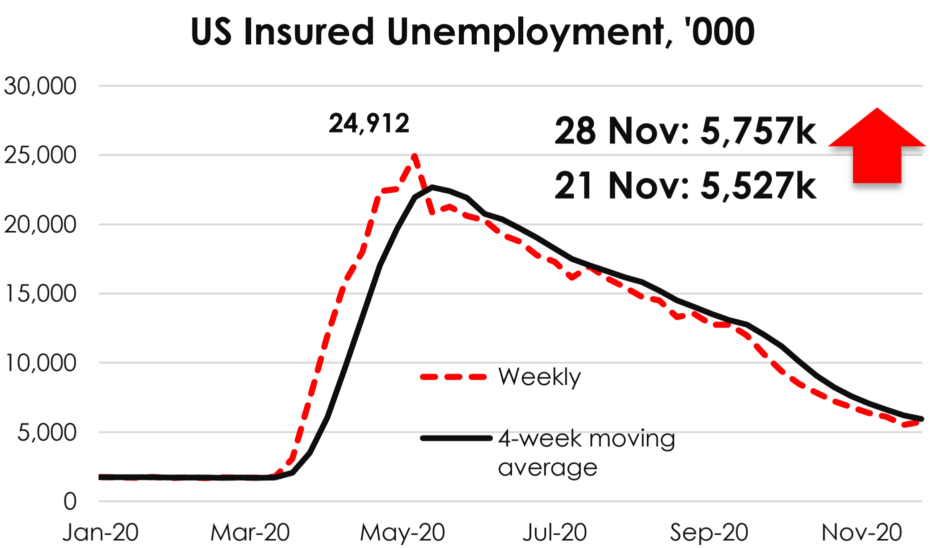
- ✓ Macroeconomic variables (MEVs) projection are all pointing to a better state next year and beyond.
- ✓ The long run Federal Fund Rate (FFR) of 2.5% would mean that the Fed is aiming to normalize the policy rate at some point in 2024.
- ✓ It's a reminiscence of the previous cycle when the economy was badly hit by the US Sub Prime Crisis in 2007 and 2008.
- ✓ The FFR was brought down to 0.00% - 0.25% in December 2008 before the Fed started to raise it to 0.50% in December 2015 and all the way up to 2.50% by December 2018.
- ✓ There was also an incidents dubbed as the Taper Tantrum in mid 2013 when the former Fed Chairman, Ben Bernanke said that the Fed would begin tapering the bond purchases during his testimony to the Congress's Joint Economic Committee on 22 May 2013. The 10-Year US Treasury was up from 1.93% on 21 May 2013 to 2.99% on 5 September 2013. As such, history could repeat itself. So stay sharp.

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run	2020	2021	2022	2023	Longer run
Change in real GDP	-2.4	4.2	3.2	2.4	1.8	-2.5–-2.2	3.7–5.0	3.0–3.5	2.2–2.7	1.7–2.0	-3.3–-1.0	0.5–5.5	2.5–4.0	2.0–3.5	1.6–2.2
September projection	-3.7	4.0	3.0	2.5	1.9	-4.0–-3.0	3.6–4.7	2.5–3.3	2.4–3.0	1.7–2.0	-5.5–1.0	0.0–5.5	2.0–4.5	2.0–4.0	1.6–2.2
Unemployment rate	6.7	5.0	4.2	3.7	4.1	6.7–6.8	4.7–5.4	3.8–4.6	3.5–4.3	3.9–4.3	6.6–6.9	4.0–6.8	3.5–5.8	3.3–5.0	3.5–4.5
September projection	7.6	5.5	4.6	4.0	4.1	7.0–8.0	5.0–6.2	4.0–5.0	3.5–4.4	3.9–4.3	6.5–8.0	4.0–8.0	3.5–7.5	3.5–6.0	3.5–4.7
PCE inflation	1.2	1.8	1.9	2.0	2.0	1.2	1.7–1.9	1.8–2.0	1.9–2.1	2.0	1.1–1.4	1.2–2.3	1.5–2.2	1.7–2.2	2.0
September projection	1.2	1.7	1.8	2.0	2.0	1.1–1.3	1.6–1.9	1.7–1.9	1.9–2.0	2.0	1.0–1.5	1.3–2.4	1.5–2.2	1.7–2.1	2.0
Core PCE inflation[4]	1.4	1.8	1.9	2.0		1.4	1.7–1.8	1.8–2.0	1.9–2.1		1.3–1.5	1.5–2.3	1.6–2.2	1.7–2.2	
September projection	1.5	1.7	1.8	2.0		1.3–1.5	1.6–1.8	1.7–1.9	1.9–2.0		1.2–1.6	1.5–2.4	1.6–2.2	1.7–2.1	
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1	0.1–0.4	0.1–1.1	2.0–3.0
September projection	0.1	0.1	0.1	0.1	2.5	0.1	0.1	0.1	0.1–0.4	2.3–2.5	0.1	0.1	0.1–0.6	0.1–1.4	2.0–3.0

Sources: US Federal Reserve





Sources: CEIC, US Department of Labor

- ✓ The number of Americans filing for unemployment benefits increased by 137k as at 5 December to 853k (previous week: 716k). This was the highest level since September this year, reflecting on going issues in the job market amid higher number of coronavirus infection cases.
- ✓ Apart from that, reimposition of coronavirus-related restrictions in some states and economic activities have also affected the labour market.
- ✓ Similarly, the number of people already collecting for the unemployment benefits increased to 5.7 million as at 28 November from 5.5 million in the preceding week.
- ✓ Overall, the rise in coronavirus infections has put substantial pressure on the labour market. Thus far, employers just added 245k jobs into the market in November, lower than 610k of jobs offered in the previous months.

6 STRAIGHT MONTH OF EXPANSION – MANUFACTURING SECTOR CONTINUED ITS RECOVERY

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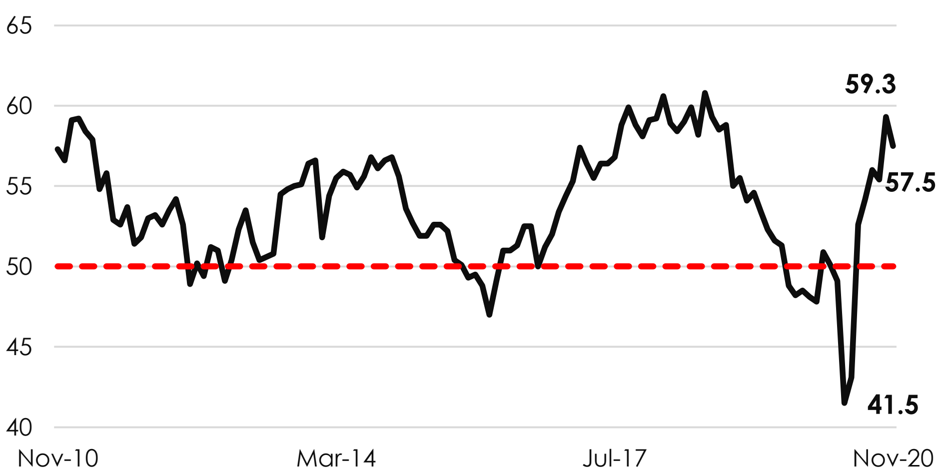
Index	Series Index November	Series Index October	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	57.5	59.3	-1.8	Growing	Slower	6
New Orders	65.1	67.9	-2.8	Growing	Slower	6
Production	60.8	63.0	-2.2	Growing	Slower	6
Employment	48.4	53.2	-4.8	Contracting	From Growing	1
Supplier Deliveries	61.7	60.5	1.2	Slowing	Faster	13
Inventories	51.2	51.9	-0.7	Growing	Slower	2
Customers' Inventories	36.3	36.7	-0.4	Too Low	Faster	50
Prices	65.4	65.5	-0.1	Increasing	Slower	6
Backlog of Orders	56.9	55.7	1.2	Growing	Faster	5
New Export Orders	57.8	55.7	2.1	Growing	Faster	5
Imports	55.1	58.1	-3.0	Growing	Slower	5
OVERALL ECONOMY				Growing	Slower	7
Manufacturing Sector				Growing	Slower	6

US ISM Manufacturing PMI, points



Sources: Bloomberg, US ISM

- ✓ The US Institute for Supply Management (ISM) Manufacturing Purchasing Manger's Index (PMI) stood at 57.5 points in November, lower than 59.3 points recorded in the previous month.
- ✓ Notwithstanding that, it has expanded for the sixth straight month since June this year, indicating that the manufacturing sector continued its recovery amid higher number of coronavirus infections in the US.
- ✓ The growth was mainly supported by New Orders, increasing to 57.8 points in November from 55.7 points previously as demand condition has started to improve gradually.

MANUFACTURERS' SENTIMENTS IN NOVEMBER 2020 - MIXED

Business Sector	Outlook on Business Activities
Plastics & Rubber Products	Strong customer order volumes. However, suppliers are having issues in meeting orders due to people shortages.
Primary Metals	Business is booming as there is great demand from customers.
Chemical Products	Production issues for petrochemicals are getting resolved.
Computer & Electronic Products	Suppliers are still experiencing labor shortages resulting in component constraints. However, they are seeing a positive outlook moving into the 1Q2021.
Furniture & Related Products	Sales have been steady despite 30.0% down y-o-y.
Fabricated Metal Products	Continue to see increases in customer demand and is expected to grow further in 2021.
Machinery	Business continues to be strong with significant back-orders. However, they are seeing significant delays in getting parts and material from China through US ports.
Food, Beverage & Tobacco Products	Covid-19 hits in factories operations and production lines due to lack of staffing. Apart from that, cost of goods sold (COGS) is much higher than normal due to labor and production inefficiencies.

Source: US ISM

- ✓ The decline in the US's labour market and the manufacturing activity signals that downside risks from the resurgence in Covid-19 cases towards the economy remains. Impact from the latest wave of Covid-19 infections is shown through the drop in the US retail sales for the first time in seven months during November 2020. This suggests that consumers are pulling back on spending amid a surging pandemic and expiring federal aid.
- ✓ With countries across Europe such as Germany reimposing stricter lockdowns this week until January 2021, any form of tightened movement restrictions in the US could not be discounted. In fact, the mayor of New York, Bill de Blasio made a statement on Tuesday that the city will need to go into a full lockdown if Covid-19 continue to rise.
- ✓ On the political front, US congressional leaders said they were closer to a compromise on an economic relief legislation on Tuesday. If US political leaders give the green light to the legislation, it could pave the way for the passage of a package worth USD748.0 billion including help for small businesses and the unemployed.
- ✓ All in all, the Fed's plan to keep interest rates low through 2023 is apt considering that economic growth is still well below pre-Covid-19 levels while acknowledging any possibility of disruption in the distribution of the Covid019 vaccine.
- ✓ On the domestic front, the BNM is likely maintain the Overnight Policy Rate (OPR) at 1.75% throughout 2021. Notwithstanding that, with Covid-19 cases continue to be a point of concern, the possibility of OPR cut cannot be totally ruled out. The BNM will adopt a wait-and-see attitude.

MARKET REACTIONS

- ✓ U.S. Treasury yields appeared directionless as bond traders did not react much to Powell's discussion of global disinflationary pressures whereby he suggested that would make the Fed's goal of lifting inflation above 2% a drawn-out process.
- ✓ As such, the 3-Y, 5-Y, 7-Y and 10-Y US Treasury yields saw no daily changes on Wednesday while 30-Y US Treasury yields were marginally higher by 1 basis point. Turning to the US equity market, The Dow Jones index fell about 100 points in the minutes after the Fed's 2pm policy statement, but briefly erased losses as Fed chief, Jerome Powell spoke.
- ✓ After markets closed, the Dow Jones index settled 0.2% lower partly affected by the November's drop in the US retail sales.
- ✓ Meanwhile the S&P 500 index and Nasdaq composite rose 0.2% and 0.5% respectively on Wednesday amid progress of US lawmakers nearing a deal on a stimulus package to support businesses and unemployed Americans.

Changes in US Treasury Yields

Tenure of US Treasury Bill	Daily change in yields (basis points) on 16 December 2020
3-Y	0.0
5-Y	0.0
7-Y	0.0
10-Y	0.0
30-Y	+1.0

Source: US Department of Treasury

Performance of US Stock Market

Index	Gain or Loss on 16 December 2020
Dow Jones	-0.2%
S&P 500	+0.2%
Nasdaq	+0.5%

Source: Bloomberg

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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.

APPENDIX

The Federal Reserve is committed to using its full range of tools to support the U.S. 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.S. 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, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and 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.