From the Desk of the Chief Economist

BANK ISLAM

US FOMC : THE FED STOMPS ON INFLATION FEARS, PLEDGES CONTINUED STIMULUS

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ECONOMIC RESEARCH

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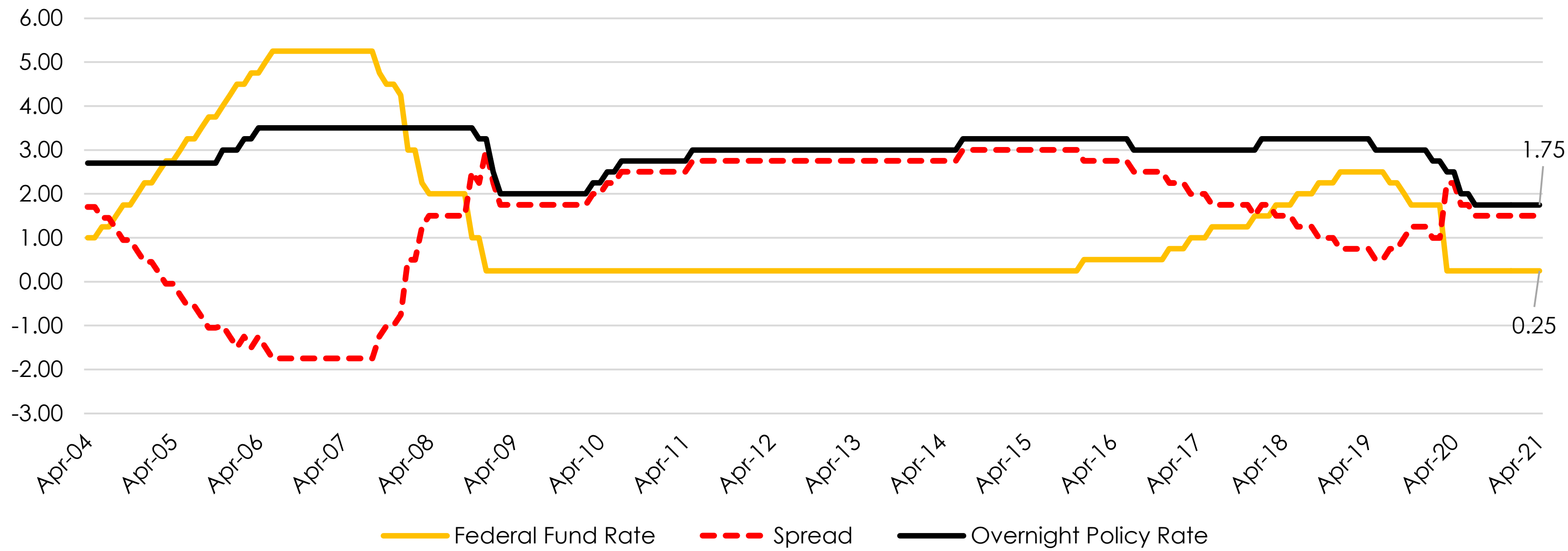
THE FOMC KEPT THE FEDERAL FUND RATE ANCHORED NEAR ZERO

- ✓ The Federal Open Market Committee (FOMC) decided to leave the Federal Funds Rate (FFR) target range unchanged at 0.00% to 0.25% following its 27-28 April policy meeting.
- ✓ Apart from that, the Federal Reserve (the Fed) repeated its aim to achieve maximum employment and inflation moderately above 2.0% for some time so that inflation averages 2.0% over the long run.
- ✓ According to the press statement, the US economy is on much firmer footing than the start of the year.
- ✓ The housing sector has more than fully recovered from the downturn mainly contributed by low mortgage interest rates. Moreover, business investment and manufacturing production have also picked up.
- ✓ The recently enacted Coronavirus Response and Relief Act [Consolidated Appropriations Act, 2021] would provide additional support to the economic rebound this year. Furthermore, the higher vaccination rate in the nation would allow the economy to return to growth.
- ✓ Be that as it may, the overall economic activity remains below its pandemic level. The economic prospect remains highly uncertain will depend significantly on the path of the Covid-19 virus, including progress on vaccinations.
- ✓ As for inflation, the Fed anticipates the inflation to rise above 2.0% this year in light of base effects. However, the 12-month inflation remains below the Fed's 2.0% longer run objective.
- ✓ On the other hand, the central bank would maintain its sizeable securities holdings by at least USD120.0 billion per month (USD80.0 billion of Treasury and USD40.0 billion of agency mortgage-backed securities (MBS)) to spur economic growth this year.
- ✓ All in all, the Fed is expected to maintain an accommodative stance of monetary policy until these employment and inflation targets are achieved.

OVERNIGHT POLICY RATE (OPR) VS. FEDERAL FUND RATE (FFR)



Source: CEIC

- ✓ At the current juncture, the spread between Malaysia's OPR and FFR stood at 150 basis points (bps) (1.75% minus 0.25%).
- ✓ This would mean Bank Negara Malaysia (BNM) still has room for a possible OPR reduction if the decision is based on the interest rate differentials with the US Fed.
- ✓ Assuming that the Fed is likely to normalize its benchmark rate of 2.50% (long run FFR) at some point in the future as the majority of policy makers believe that the appropriate target level for the FFR in the longer run is in that region (based on dot plots in previous meetings), the OPR could reach 3.50%.
- ✓ The reason being is that the highest OPR ever recorded was at 3.50% from April 2006 to October 2008 when the annual GDP growth hit 5.6%, 6.3% and 4.8% in 2006, 2007 and 2008 respectively.

CENTRAL BANK POLICY RATES

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Policy rates	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21*
Advanced countries													
US (Fed Fund Rate)	0.25	0.25	0.25	0.25	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	-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	0.00
UK (Bank 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
Canada (ON Lending Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Latin America													
Mexico (ON Rate)	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00
Brazil (Selic Rate)	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.75	2.75
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	38.00	36.00	38.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe													
Russia (Key Rate)	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	5.00
Ukraine (Discount Rate)	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	7.50
Turkey (1W Repo Rate)	8.75	8.25	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00	17.00	19.00	19.00
Asia													
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50
Thailand (1D Repo Rate)	0.75	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)	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00
Australia (Cash Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10
New Zealand (Cash Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

***As at 29 April 2021**

Source: Bloomberg

- ✓ Most of the central banks have maintained their benchmark policy rate in April amid the highly fluid environment caused by the resurgence in Covid-19 cases in many parts of the world. The move of maintaining benchmark interest rates was to ensure that the stability of their exchange rates remain intact though continued to be affected by the volatility in the global financial markets, as well as to control inflationary pressures.
- ✓ For instance, the Bank of Canada kept its benchmark interest rate steady at a record-low of 0.25% during its latest meeting on 21 April 2021 as the recovery from the pandemic continues to require monetary policy support. However, the central bank cut its weekly net purchases of Canadian government bonds to a target of CAD3.0 billion from CAD4.0 billion to reflect the progress made in the economic recovery.
- ✓ Meanwhile, there were exceptions for Russia and Ukraine which increased its benchmark interest rates in April amid rising prices.

US GDP REBOUNDED BY 0.4% Y-O-Y IN 1Q2021 – US BEA ADVANCE ESTIMATES

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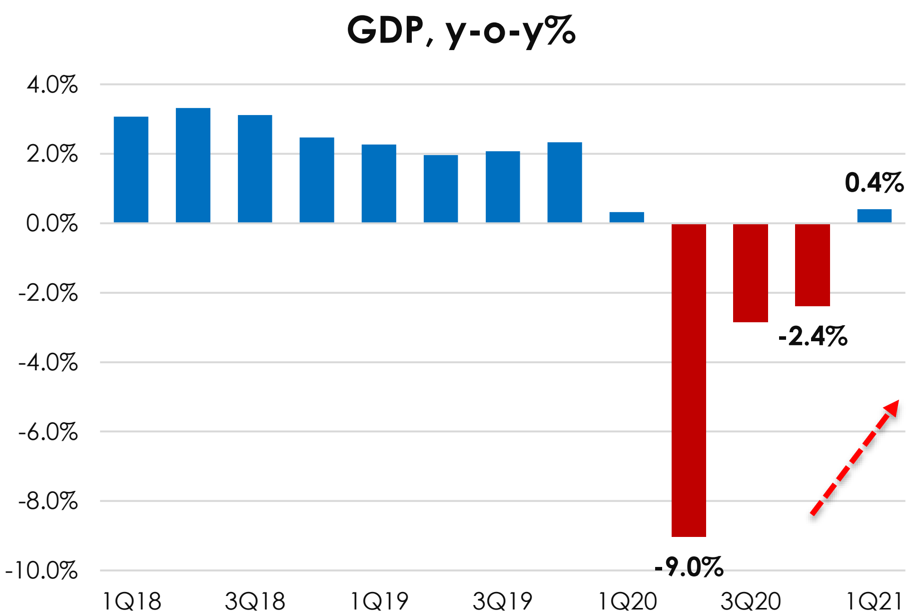

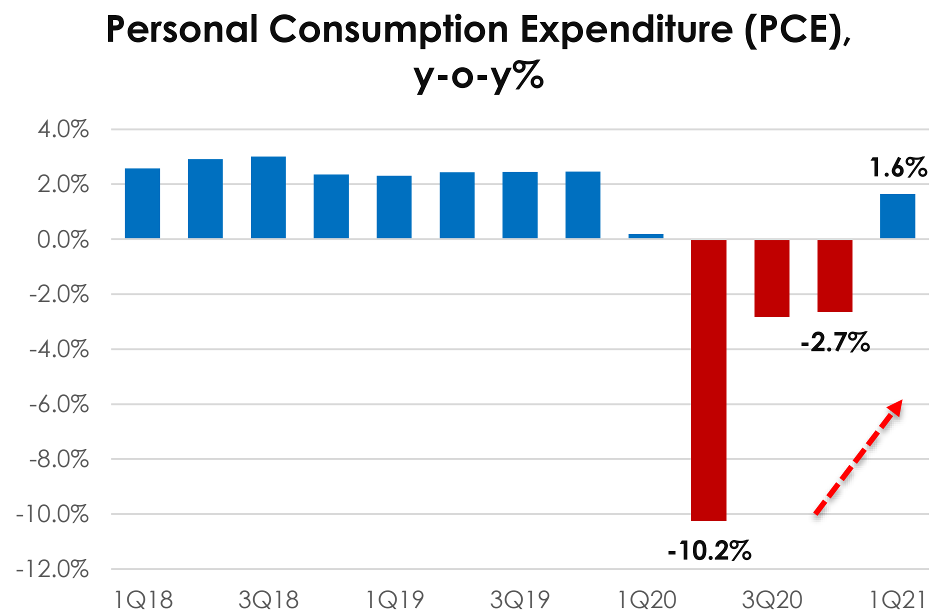

Sources: US Bureau of Economic Analysis (BEA), CEIC

- ✓ The US Gross Domestic Product (GDP) recovered by 0.4% year-on-year (y-o-y) in 1Q2021 from a 2.4% contraction in the previous quarter, fuelled by government spending (1Q2021: 0.7% vs. 4Q2020: -0.5%) and widespread vaccinations program.
- ✓ On further scrutiny, government assistance payments such as direct economic impact payments, expanded unemployment benefits and Paycheck Protection Program loans via the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act were distributed during 1Q2021, showing continuous government response related to the Covid-19 pandemic.
- ✓ Apart from that, personal consumption expenditure (PCE) which is the anchor of the US economy expanded by 1.6% in 1Q2021 (4Q2020: -2.7%), mainly underpinned by higher spending in durable and nondurable goods.

LABOUR MARKET IS GRADUALLY IMPROVING

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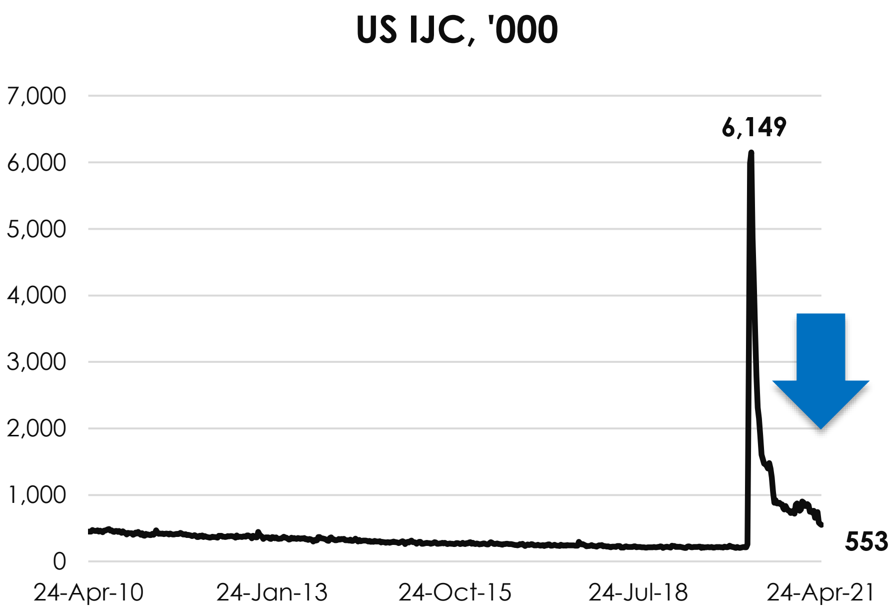

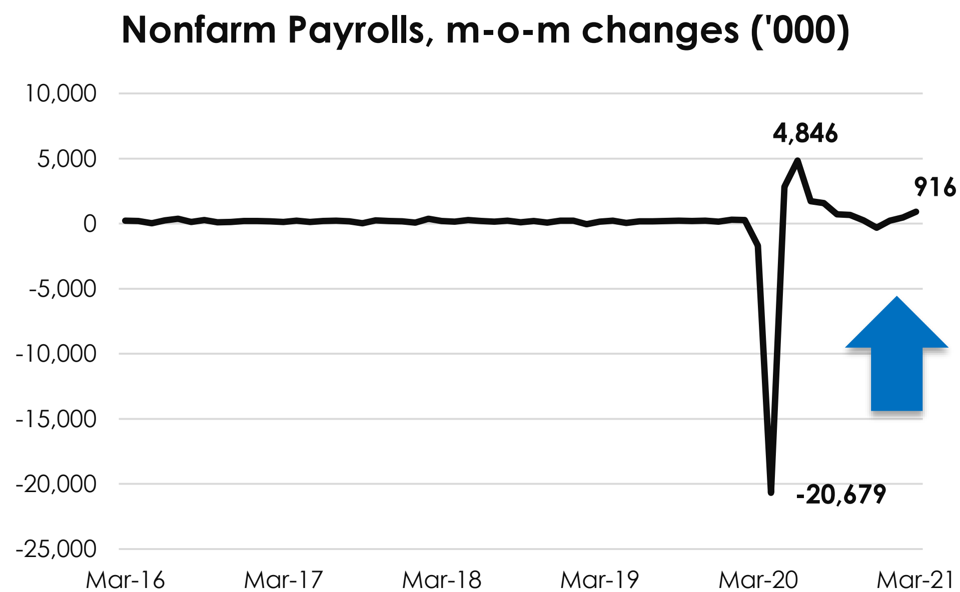

Sources: CEIC, US Department of Labor

- ✓ The number of Americans filling for the US unemployment benefits stood at 553k for the week ended 24 April, down by 13k from 566k in the previous week. The claims keep falling to a new post-pandemic low for the third straight week, suggesting labour market is gathering its momentum.
- ✓ This was supported by the rapid vaccination program, the relaxing of businesses restrictions in many states, as well as the US massive Coronavirus relief package of USD1.9 trillion.
- ✓ Thus far, the US economy added 916k number of jobs in March from 468k previously with leisure and hospitality, public and private education, as well as construction recorded the biggest gains.
- ✓ Overall, the labour market may continue to recover from the impact of Covid-19 pandemic amid accelerating pace of vaccinations in the US.

MANUFACTURING SECTOR CONTINUED TO SUPPORT THE ECONOMY

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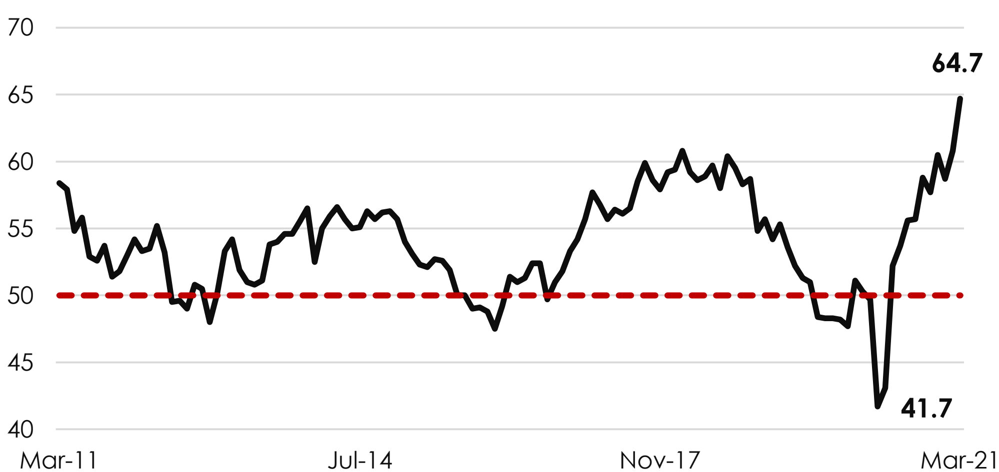
Index	Series Index March 2021	Series Index Febuary 2021	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	64.7	60.8	3.9	Growing	Faster	10
New Orders	68.0	64.8	3.2	Growing	Faster	10
Production	68.1	63.2	4.9	Growing	Faster	10
Employment	59.6	54.4	5.2	Growing	Faster	4
Supplier Deliveries	76.6	72.0	4.6	Slowing	Faster	61
Inventories	50.8	49.7	1.1	Growing	From Contracting	1
Customers' Inventories	29.9	32.5	-2.6	Too Low	Faster	54
Prices	85.6	86.0	-0.4	Increasing	Slower	10
Backlog of Orders	67.5	64.0	3.5	Growing	Faster	9
New Export Orders	54.5	57.2	-2.7	Growing	Slower	9
Imports	56.7	56.1	0.6	Growing	Faster	9
OVERALL ECONOMY				Growing	Faster	10
Manufacturing Sector				Growing	Faster	10

US ISM Manufacturing PMI, points



Sources: Bloomberg, US ISM

- ✓ According to the US Institute for Supply Management (ISM), Manufacturing Purchasing Manger's Index (PMI) jumped to 64.7 points in March from 60.8 points in the preceding month.
- ✓ This figure indicates the expansion in the overall economic activities related to the manufacturing sector for the tenth straight month since June last year.
- ✓ The growth was mainly contributed by the higher New Orders (March: 68.0 points vs. February: 64.8 points) and Production (March: 68.1 points vs. February: 63.2 points) during March.
- ✓ In addition, the reopening of the economy following an easing of lockdown measures has also led to firmer client demand despite unprecedented supply chain disruptions due to the Covid-19 pandemic.

MARKET REACTIONS

- ✓ The three US major indexes recorded losses on Wednesday. On further scrutiny, the S&P 500 index traded to its intraday high after Fed Chairman Jerome Powell mentioned that it would likely take some time before the Fed's objectives are achieved. However, the benchmark index traded off those highs to close 0.1% lower at 4,183.2 points when Fed Chairman Jerome Powell acknowledged that some asset prices may be high and that there may be frothiness in equity markets.
- ✓ As for the US bond market, the 3-year and 7-year US Treasury bond saw a 1.0 bps drop in yields on Wednesday while the 5-year US Treasury bond saw a steeper drop of 2.0 bps. Meanwhile, the yield of the 10-year US Treasury bond, fell to 1.61% on the late Wednesday afternoon after the US Fed announced its decision to keep interest rates on hold. Before the meeting ended, the yield of the 10-year US Treasury bond was trading above 1.65% prior to closing at 1.63% which led to no changes at the end of the day.
- ✓ Remarks by the Fed Chairman regarding the frothiness in equity markets caused some investors to shift towards the bond market, pushing bond prices higher which limits the upside on US treasury yields.

Changes in US Treasury Yields

Tenure of US Treasury Bill	Daily Change in yields (basis points) on 28 April 2021
3-year	-1.0
5-year	-2.0
7-year	-1.0
10-year	0.0
30-year	0.0

Source: US Department of Treasury

Performance of US Stock Market

Index	Percentage Change in Index on 28 April 2021
Dow Jones Industrial Average	-0.5%
S&P 500	-0.1%
Nasdaq	-0.3%

Source: Bloomberg

STILL A LONG WAY TO REACH THE FED'S LONG TERM INFLATION TARGET OF 2.0%

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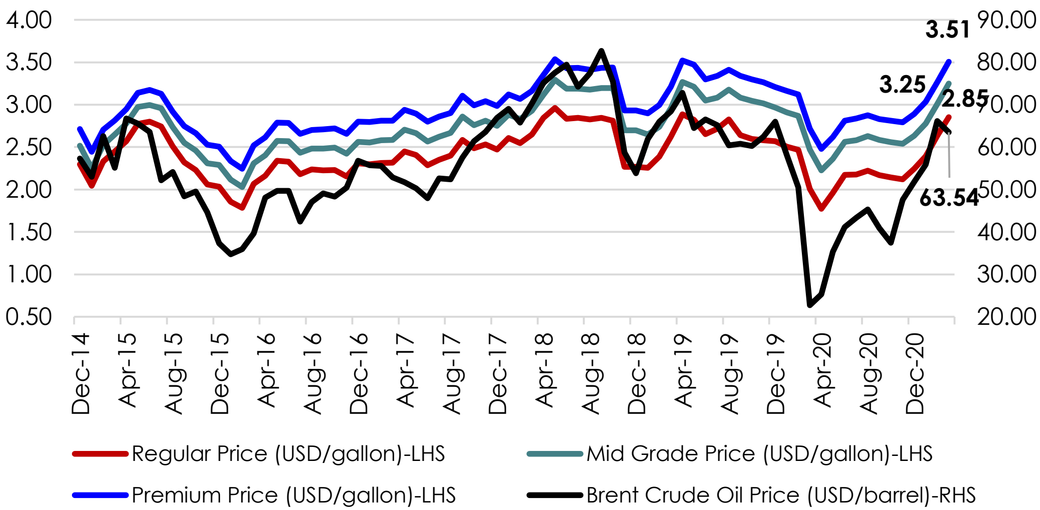
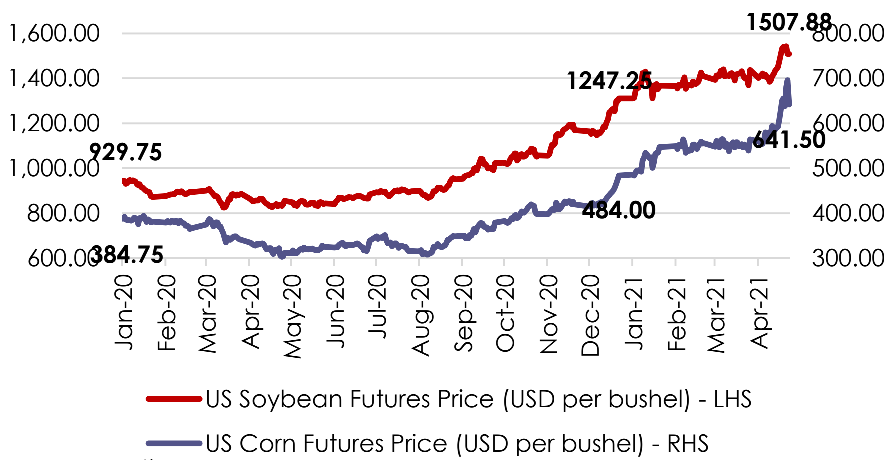
US Petroleum Prices of Different Grades vs. Brent Crude Oil Price



Sources: CEIC, Bloomberg

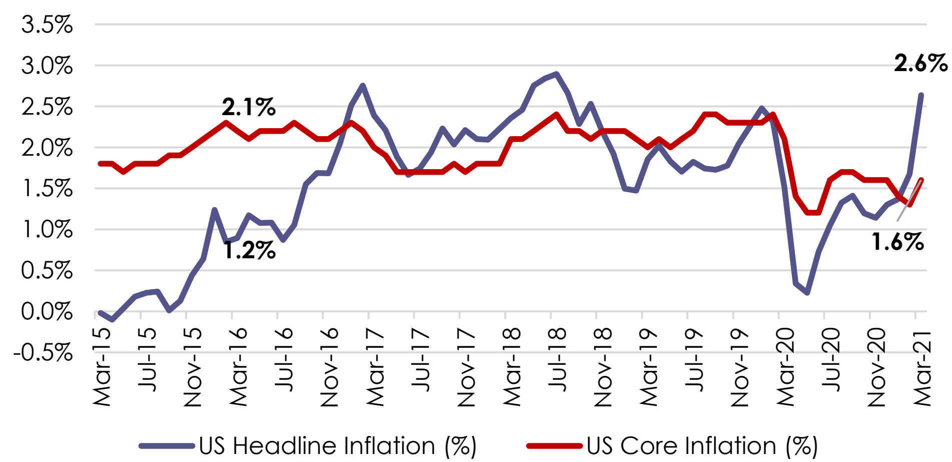
- ✓ US consumer prices rose by 2.6% y-o-y in March (February: 1.7%), but this rapid increase was fuelled by a large rebound in energy prices. In fact, the US core inflation, which excludes both food and energy, rose at a more modest rate of 1.6% in March (February 1.3%). Therefore, there is still room for inflation to grow further in 1H2021.
- ✓ Consumers have been put on notice to expect higher prices for goods. Food and beverage producers cited that price increases were necessary to offset rising input costs, particularly commodities.
- ✓ Nevertheless, the growth in real economic activity will normalize further in 2H2021, moderating the pace of inflation. Henceforth, it may take some time to reach the Fed's long-term inflation target of 2.0%.

US Soybean Futures Price vs. US Corn Futures Price



Source: Investing.com

US Headline Inflation vs. US Core Inflation (%)



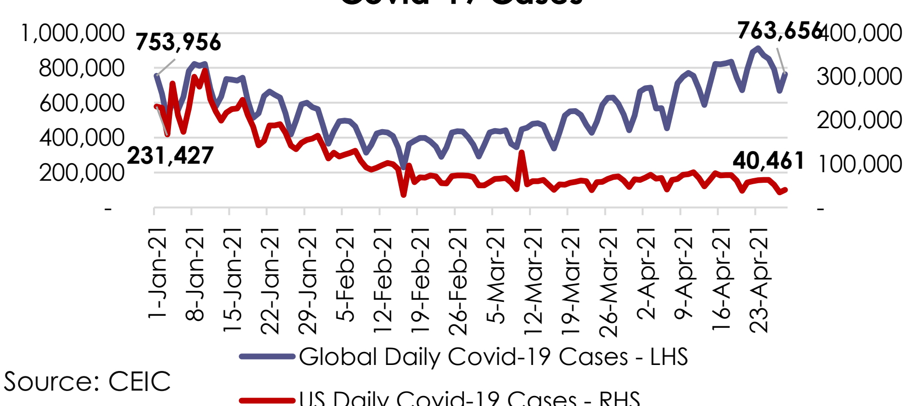
Source: CEIC

Covid-19 cases in the US declines but global cases remain on the rise – The daily Covid-19 vaccine doses administered per 100 people is deemed commendable compared to other countries such as Germany and China. This coincided with the decline in daily Covid-19 cases in the US but the number of global daily Covid-19 cases has been on the uptrend, mainly contributed by countries such as India.

Prudency is key for now – Although the US inflation rate increased to 2.6% in March (February: 1.7%), the Fed should give more time before raising rates despite the easing of pandemic concerns as the recent inflation spike was due to transitory factors. While the data over the last couple of months has been encouraging namely the GDP, indicators such as the unemployment rate which dropped to 6.0% in March (February: 6.2%) is still above pre-pandemic levels ranging between 4.0% and 5.0%. Therefore, the Fed's pledge for a continued stimulus until a consistent improvement is seen in the economy is viewed to be appropriate at this point of time.

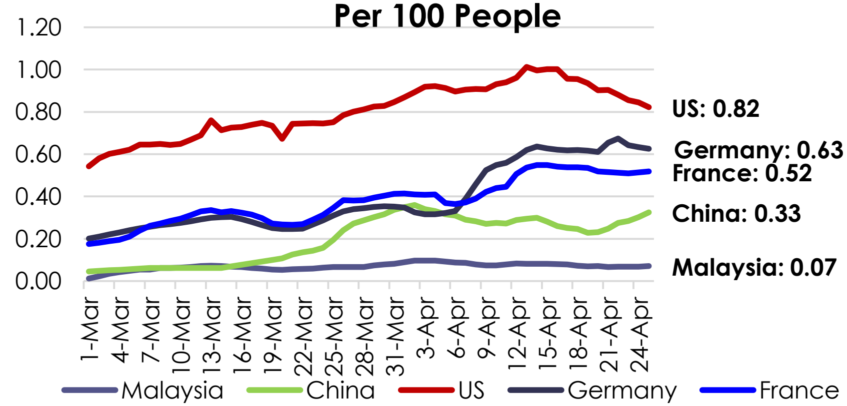
Where does BNM stand? – At the moment, it is safe to say that the overnight policy rate (OPR) cut may not be on the cards, at least in the immediate term, given that the prevailing economic condition has been satisfactory. It is also quite premature to think that BNM would opt to raise the policy rates given that inflation rate is likely to be elevated in the near term following the rise in fuel costs. Hence, it is going to be a status quo for now.

Global Daily Covid-19 Cases vs. US Daily Covid-19 Cases



Source: CEIC

Daily Covid-19 Vaccine Doses Administered Per 100 People



Source: Our World In Data

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APPENDIX

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- ✓ 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. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. 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 US households and businesses.
- ✓ The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.
- ✓ 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.
- ✓ Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

MANUFACTURERS' SENTIMENTS IN MARCH 2021

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Business Sector	Outlook on Business Activities
Electrical Equipment, Appliances & Components	Business is stronger this year and they are expecting a very healthy growth of their manufacturing sales.
Furniture & Related Products	Business bottomed out in February and steady improvement is expected through the end of the year.
Transportation Equipment	Business conditions are positive for the industry. However, the constraints are mainly related to parts availability (imports, supply chain congestion), as well as manpower.
Petroleum & Coal Products	The spring and summer months look great for the national oil markets.
Chemical Products	Demand remains strong. However, there are significant supply impacts on raw materials due to the Texas freeze.
Machinery	Supply chain issues - suppliers are struggling to manage demand and capacity in the face of chronic logistics and labor issues.

Source: US ISM

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