From the Desk of the Chief Economist

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U.S. FOMC : THE FED IS PREPARING FOR A RATE HIKE IN MARCH

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ECONOMIC RESEARCH

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THE FOMC MAINTAINED FFR TARGET RANGE OF 0.00%-0.25%

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The Federal Open Market Committee (FOMC) **decided to keep the Federal Fund Rate (FFR) range near zero.**

- ✓ The U.S. economic indicators have been pointing to a stronger performance while labour market was solid as reflected by substantial decline in unemployment rate (December 2021: 3.9% vs. November 2021: 4.2%) .
- ✓ Nevertheless, the Covid-sensitive sectors such as travel and restaurants were adversely affected by recent Omicron outbreak in the country and **this will dampen the economic growth this quarter.**
- ✓ **As for Inflation, it remains well above the Federal Reserve's (Fed) longer-run goal of 2.0%**. Supply and demand imbalances related to the pandemic and the reopening of the economy have translated into an elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term.
- ✓ Furthermore, wages are rising at their fastest pace in many years as employers are having difficulties in filling job openings. Therefore, persistent real wage growth in excess of productivity could exert upward pressure on inflation. These problems have been larger and longer lasting than anticipated, and further exacerbated by waves of the virus.
- ✓ Hence, the outlook remains cloudy as economic recovery will highly depend on the course of the pandemic.
- ✓ The Committee decided to continue to **unwind its massive balance sheet, bringing them to an end in early March this year**. Hence, the Committee will increase its holdings of Treasury securities by at least USD20.0 billion per month and agency mortgage-backed securities (MBS) by at least USD10.0 billion per month.
- ✓ All in all, the FOMC members will remain attentive to risks, including the **risk that high inflation is more persistent than expected**, and are prepared to respond as appropriate to achieve the Fed's goals.

Source: Federal Reserve

CENTRAL BANK POLICY RATES

Policy rates	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22*
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	0.25	0.25
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)	4.25	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.50	5.50
Brazil (Selic Rate)	2.00	2.00	2.75	2.75	3.50	4.25	4.25	5.25	6.25	7.75	7.75	9.25	9.25
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	40.00
Eastern Europe													
Russia (Key Rate)	4.25	4.25	4.50	5.00	5.00	5.50	6.50	6.50	6.75	7.50	7.50	8.50	8.50
Ukraine (Discount Rate)	6.00	6.00	6.50	7.50	7.50	7.50	8.00	8.00	8.50	8.50	8.50	9.00	10.00
Turkey (1W Repo Rate)	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	18.00	16.00	15.00	14.00	14.00
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	3.80	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	4.00	4.00	4.00
Indonesia (7D Repo Rate)	3.75	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	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25
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	2.00	2.00	2.00
Australia (Cash 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
New Zealand (Cash Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	0.75
Malaysia (OPR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

Source: Bloomberg
*As at 27 January 2022

- ✓ Global monetary policy does not necessarily moves in same direction.
- ✓ On 20 January, the Board of the National Bank of Ukraine decided to raise the key policy rate by 100 basis points (bps) to 10.0% as tighter monetary policy is needed in order to improve inflation expectations and ensure steady disinflation toward the target of 5.0%.
- ✓ Meanwhile, the Bank of Canada kept its overnight rate at 0.25% during its first meeting of 2022 on 26 January, mentioning that the Omicron variant is weighing on activity in the first quarter.

OMICRON FALLOUT TO DISRUPT SUPPLY CHAINS AND DRIVE INFLATION

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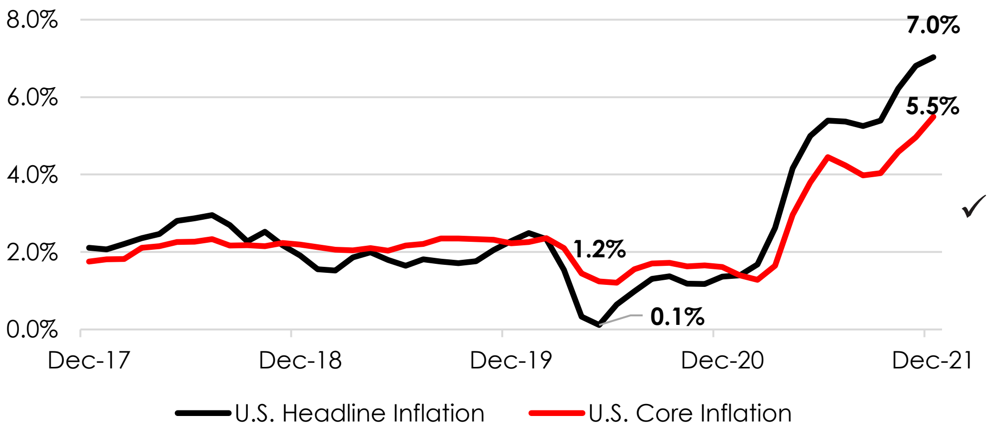
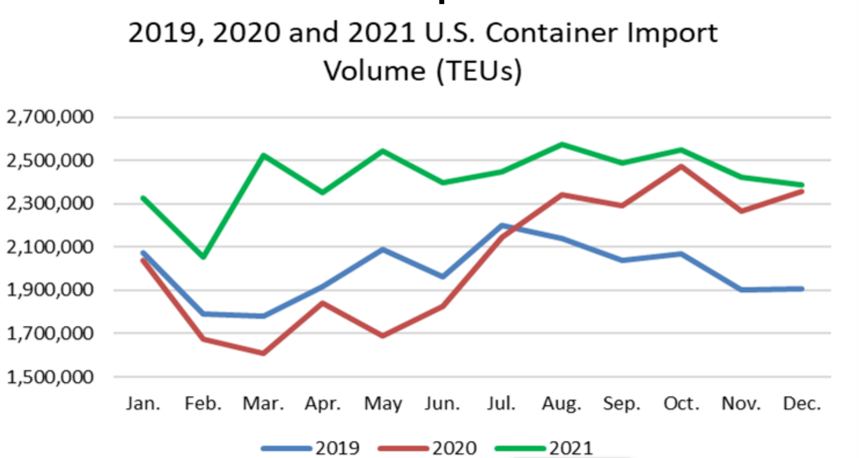
U.S. Headline Inflation vs. U.S. Core Inflation, %



U.S. Container Import Volume Year-over-Year Comparison



Sources: CEIC, Descartes Datamyme

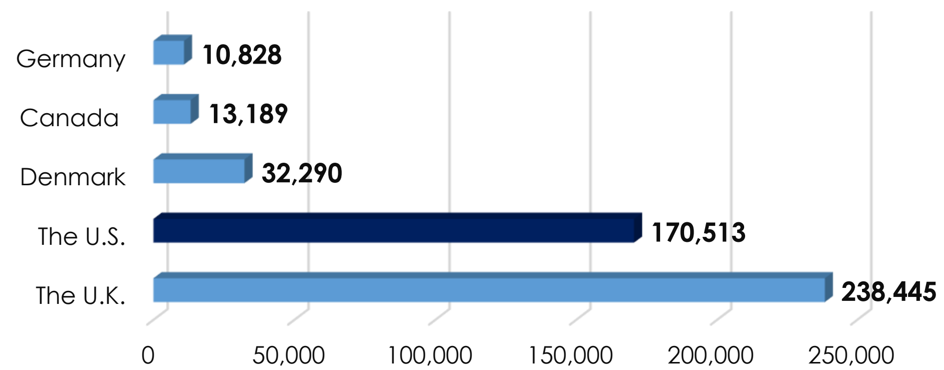
- ✓ The U.S. inflation rate reached 7.0% y-o-y in December 2021 (November 2021: 6.8%), marking the third straight month increases in which inflation exceeded 6.0%, as well as the fastest since 1982. Meanwhile, the core inflation stood at 5.5% in the same month (November 2021: 4.9%).
- ✓ It is undeniable that supply chain issues continue to drive up prices during the month, in part because of the fast-spreading Omicron variant infecting workers at ports, leading to further shortages of some products and parts used for making goods.
- ✓ Subsequently, this has caused further delay times at the Port of Angeles, Port of Long Beach, as well as Port of New York/New Jersey to reach 15.1 days, 15.6 days and 11.7 days respectively in December even though container import volume shows a downward trend in the said month, according to the Descartes Datamyne analysis.
- ✓ At the same time, a strong demand from American consumers also contributes to the higher cost of shipping and energy.
- ✓ Contrary to predictions that supply chain problems may see improvements, there seems to be little progression which spills over to raise costs and higher sticker prices.

OUR VIEW - THE OMICRON VARIANT IS AN IMPENDING RISK TOWARDS THE PATH OF MONETARY POLICY NORMALIZATION

- ✓ **Faster-spreading of Omicron variant has led to economic slowdown -** The U.S. private sector activities recorded a slower growth at the beginning of 2022 amid softer demand conditions alongside with worsening supply chain disruptions due to the Omicron wave. This was reflected in the IHS Markit Flash U.S. Composite Purchasing Manager's Index (PMI) Output Index which dropped to 50.8 points in January 2022 from 57.0 in the previous month as ongoing supply issues and labor shortages were intensified by the renewed pandemic related containment measures.

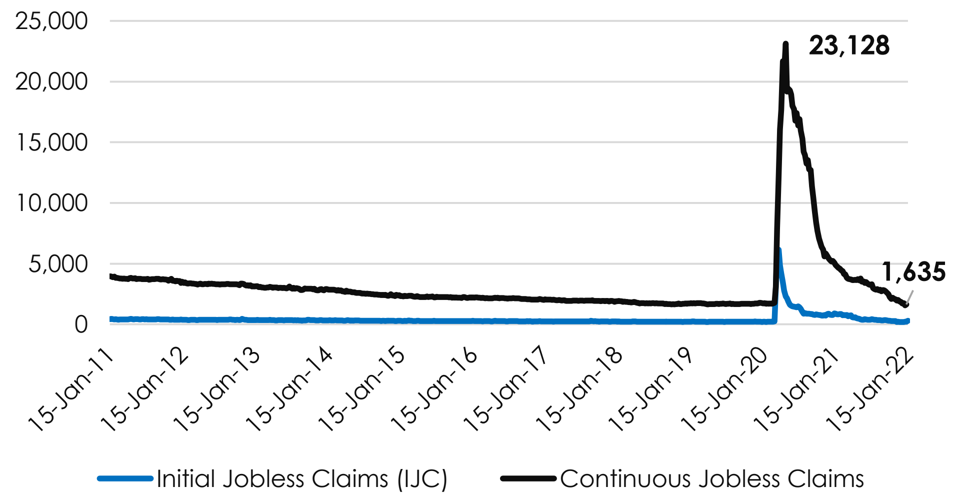
- ✓ **Apart from that, the U.S. labour market recovery has also been deteriorating –** The U.S. initial jobless claims (IJC) increased to a three-month high since October last year in light of Omicron variant. It rose by 55k to 286k in the week ending 15 January 2022 from 231k in the preceding month. Similarly, the number of Americans who have been receiving unemployment benefit rose to 1.64 million in the week ending 8 January 2022 (1 January 2022: 1.55 million), suggesting that some workers have been sidelined as the Omicron variant is having a bigger impact on the labour market.

Top 5 Countries with the Highest Cumulative Omicron Cases as of 24 January 2022



Source: Statista.com

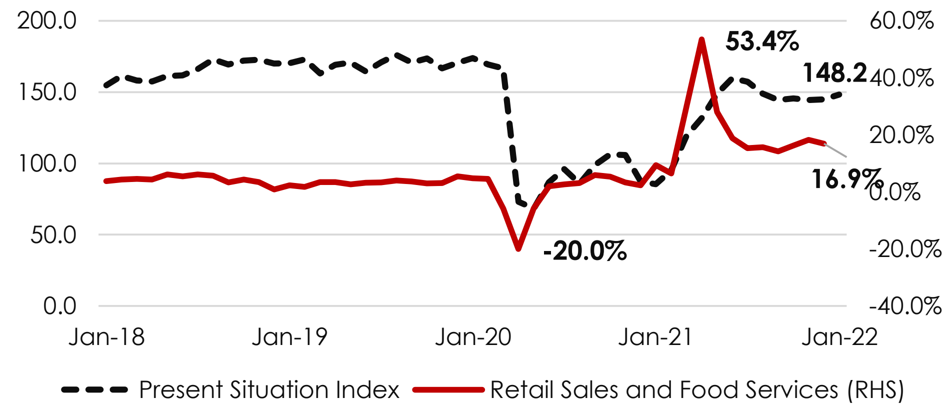
U.S. Jobless Claims, '000



Source: CEIC

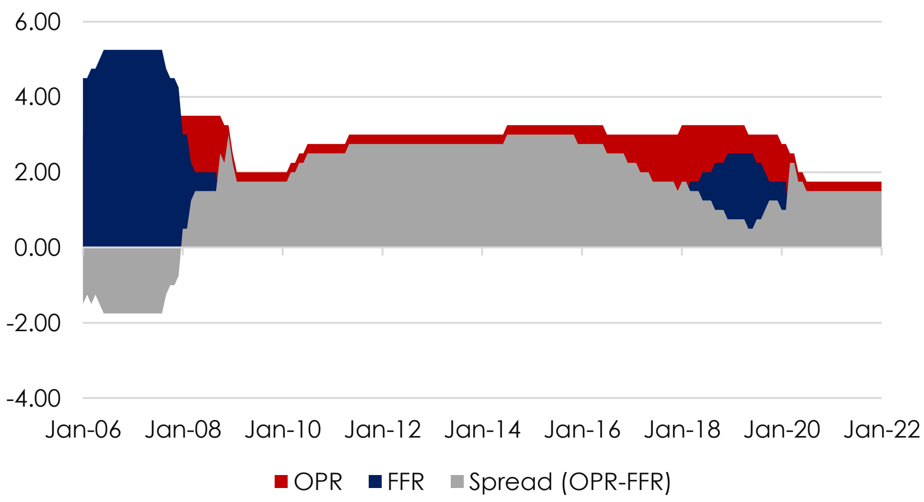
✓ **Meanwhile, consumers spending would remain the cornerstone of economic growth -** Strong consumer spending was seen in the U.S. as reflected from higher retail sales and food services. It increased by 16.9% y-o-y in December last year (November 2021: 18.2%), marking the tenth consecutive month of double-digit growth. Apart from that, the Present Situation Index that gauges how consumers feel about the economy improved from 144.8 in December last year to 148.2 in January 2022, suggesting the economy entered the new year on the right footing.

Consumer Confidence: Present Situation Index vs. Retail Sales and Food Services, y-o-y%



Source: CEIC

OPR vs. FFR, %



Source: CEIC

✓ **How will BNM react?** – While the timeline for the Fed to raise policy rate is used as a benchmark for other central banks to follow suit, however, BNM remains independent in their assessment as the downside risks remain clearly visible and policy decision will hinge upon the incoming data. All in all, **our base case scenario as of now is that BNM will likely raise the OPR in 2H2022 by 25 basis points to 2.00%.** As such, OPR could remain unchanged at 1.75% in the 1H2022.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APPENDIX

- ✓ Indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but are being affected by the recent sharp rise in COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of 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 continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus.
- ✓ 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 keep the target range for the federal funds rate at 0 to 1/4 percent. With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate. The Committee decided to continue to reduce the monthly pace of its net asset purchases, bringing them to an end in early March. Beginning in February, the Committee will increase its holdings of Treasury securities by at least $20 billion per month and of agency mortgage-backed securities by at least $10 billion per month. The Federal Reserve's ongoing purchases and holdings of securities will continue to 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; Michelle W. Bowman; Lael Brainard; James Bullard; Esther L. George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller. Patrick Harker voted as an alternate member at this meeting.

MANUFACTURING SECTOR – PERFORMING FOR 19 CONSECUTIVE MONTHS

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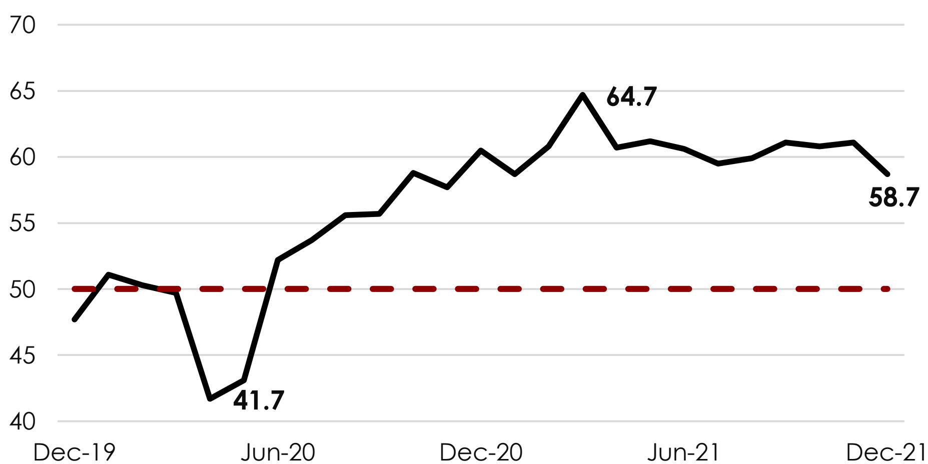
Index	Series Index December 2021	Series Index November 2021	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	58.7	61.1	-2.4	Growing	Slower	19
New Orders	60.4	61.5	-1.1	Growing	Slower	19
Production	59.2	61.5	-2.3	Growing	Slower	19
Employment	54.2	53.3	0.9	Growing	Faster	4
Supplier Deliveries	64.9	72.2	-7.3	Slowing	Slower	70
Inventories	54.7	56.8	-2.1	Growing	Slower	5
Customers' Inventories	31.7	25.1	6.6	Too Low	Slower	63
Prices	68.2	82.4	-14.2	Increasing	Slower	19
Backlog of Orders	62.8	61.9	0.9	Growing	Faster	18
New Export Orders	53.6	54	-0.4	Growing	Slower	18
Imports	53.8	52.6	1.2	Growing	Faster	2
OVERALL ECONOMY				Growing	Slower	19
Manufacturing Sector				Growing	Slower	19

Source: U.S. ISM

U.S. ISM Manufacturing PMI, points



Sources: Bloomberg, U.S. ISM

- ✓ Based on a report from the U.S. Institute for Supply Management (ISM), manufacturing PMI recorded a drop of 2.4 points to 58.7 points in December 2021 compared to the previous month.
- ✓ The U.S. manufacturing sector is experiencing supply chain problems despite having an improvement in labour resources and supplier delivery performance.
- ✓ Consequently, global issues related to the pandemic such as absenteeism and short-term shutdowns have adversely impacted the performance of manufacturing sector.
- ✓ A moderate-to-strong growth are reported in December 2021 for all 6 biggest manufacturing industries.

MANUFACTURING SENTIMENTS – LABOR SHORTAGE AND SUPPLY CHAIN PROBLEMS CONTINUE TO IMPEDE OPERATIONS

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Business Sector	Responses from Survey
Chemical Products	Easier to source chemical raw materials despite having chemical supply chain problems.
Transport Equipment	Vehicles are continuously produced due to high demand. Notwithstanding that, capacity to produce is limited in view of global chip shortage.
Petroleum & Coal Products	Concerns are raised on production and capital expenditure in 2022 due to drop in oil prices which was associated to Omicron variant.
Food, Beverage & Tobacco Products	Experiencing labor shortage and supply chain issues causing customers to cut orders.
Fabricated Metal Products	Moderate price growth and lead times are gradually reduced.
Furniture & Related Products	High incoming orders from customers while having shortage in labor, material and transportation.
Nonmetallic Mineral Products	See resilience in construction projects for 2022 and 2023.
Machinery	Improvement in on-time deliveries, performance by suppliers and steel price are seen.
Miscellaneous Manufacturing	Suppliers could not deliver products until January or February 2022 due to the supply chain interruptions.
Plastics & Rubber Products	Order activity is strong leading to increase in backlog. Shortages in plastic raw material has worsen the condition.

Source: U.S. ISM

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