

# Economics Update

## Aggressive Fed hike, but our outlook intact

- US Fed on 4 May hiked the FFR by 50bp and indicated the possibility of another 50bp hike over its next two meetings.
- A wider policy rate differential against ASEANs' may cause greater volatility in regional FX. Still, central banks may not move in lockstep with the Fed.
- We maintain our monetary policy forecasts as we expect regional central banks to continue to focus on domestic economic conditions.

### Aggressive Fed hikes ahead

The US Federal Reserve's hike of the Fed Funds Rate (FFR) by 50bp on 4 May 2022 was a widely expected move. Further policy clarity was given, as the Fed chairman indicated the possibility of another 50bp hike over the next two meetings, scheduled on 15 Jun and 27 Jul 2022. On top of that, the Fed said it will also utilise another policy tool in managing inflation, through reducing its balance sheet by allowing it to decline by US\$47.5bn for the months of Jun-Aug, and then rise to US\$95bn/month starting in Sep.

### Despite interest rate differential, ASEAN central banks not in a rush

A sharp rise in the FFR and the outlook for a wider differential against ASEAN's policy rates may cause greater volatility in the regional FX rates, and could prompt the central banks in the region to reconsider the trajectory of their respective monetary policies. Thus far, Fed Funds futures indicate an 83% chance of a 50bp FFR hike on 15 Jun, and a similar chance of a 50bp hike on 27 Jul. A stronger probability of a hike in the Fed's next two meetings could see ongoing weakness in regional currencies. Despite this, we believe central banks will not react in lockstep with the Fed but maintain their respective monetary policy pace.

### Malaysia still resilient

Malaysia may have greater control over its monetary policy movements vs. regional peers. The country is a major beneficiary of high commodity prices, especially with palm oil and natural gas prices on an uptrend, hence the inflow into its current account can offset the outflow on its financial account. Plus, it has other measures it can utilise to minimise ringgit volatility, including encouraging government-linked companies (GLCs) to repatriate money from abroad, which it had done post the taper tantrum in 2013. Thus far, Bank Negara Malaysia (BNM) continues to reiterate its cautious stance, contrary to the hawkish Fed, and we believe BNM's focus will continue to be on GDP growth. We maintain our forecast of two 25bp Overnight Policy Rate (OPR) hikes in 2H22F.

### Indonesia will focus on inflation

The Fed's policy clarity on FFR should reduce rupiah's volatility. Further, support will come from Indonesia's favourable current account, fiscal position, as well as planned hikes in its reserve requirement ratio (RRR) in Jun and Sep. In our opinion, the key uncertainty on Indonesia's monetary policy remains its inflation outlook, as the government may be adjusting electricity and fuel prices in 2H22F. However, we believe the government will be wary of steep adjustments as the Indonesian economy is still recovering from the Covid-19 pandemic. Hence, inflation should not deviate significantly from Bank Indonesia's (BI) upper range target of 4% in 2022. This would allow BI's monetary policy to remain accommodative. We reiterate our forecast of a 50bp hike of BI's 7-Day Reverse Repo Rate (7DRRR) in 2H22F, with an end-2022F rate of 4.00%.

### Thailand to address growth concerns

Recent Bank of Thailand's (BOT) monetary policy has been more sensitive to GDP growth and less on global interest rates than before. With clear slowdown in economic activity in Mar, owing to the rise in imported inflation, the central bank could remain adamant on keeping rates low, while addressing the pressure of imported inflation from the fiscal side. There is clear pressure for BOT to react, especially if price increases broadened. However, price pressures are moderating, with the latest Apr CPI released today pointing to a weaker-than-expected trajectory. We expect BOT to keep its monetary policy unchanged throughout 2022F at 0.5%.

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