



# Economic Commentary

## The US

The Fed made 50bps rate hike.

### The US – Slight hawkish Fed — reiterate our rate cut view in 2H23

#### 50bps hike as expected

- The Fed voted unanimously to raise rates by 50bps to 4.25 - 4.50%, in line with ours and market expectations.
- The text reiterates the “ongoing increases” in the fed funds rate will be “appropriate”. The Fed’s forecast update has the central projection for the fed funds rate to end 2023 at 5.1% and 4.1% for 2024. They were 4.6% and 3.9% previously.

#### Fed hawkishness has stemmed some concerns.

- This relative “hawkishness” has stemmed concerns from the recent steep falls in Treasury yields and the dollar are undermining the Fed’s interest rate hikes by loosening financial conditions. It is the opposite of what the Fed wants to see as it addresses inflation.
- And the Fed Chair emphasised that the bank wants to witness financial conditions “reflect the policy restraint that has been put in place”. Inflation is still well above target. Both the jobs market and wage pressure remain hot. And economic data suggests 4Q22 GDP would be decent after a healthy 2.9% growth rate in 3Q22.

#### No commitment on inflation undershooting

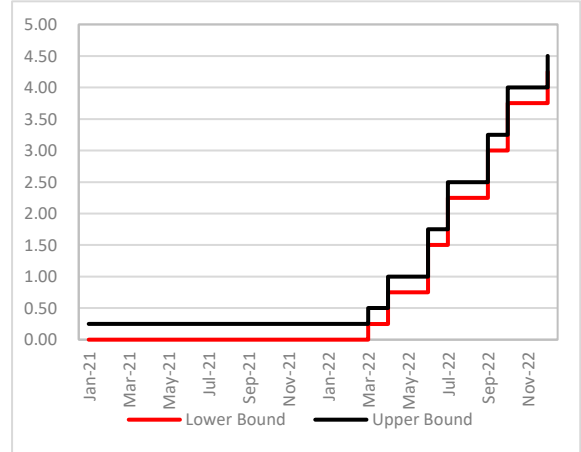
- Meanwhile the Fed is not willing to make a call on the scenario of inflation undershooting two consecutive times that have led us and the market to believe we are getting very close to the peak for interest rates, and rate cuts will soon be on the agenda.
- The Fed is looking at a modest downturn in activity in 2023. The unemployment rate would rise to 4.6% from the current level of 3.7% with the economy continuing to expand at just 0.5% in 2023.

#### Expect a 50bps hike in February

- While the market may view inflation as being in its death throws, the Fed certainly does not. For the Fed to relax it will want to see substantial evidence that inflation is slowing, not just one or two months where core inflation has come in less than the market was expecting.
- We now expect another 50bps hike in February 2023 is on the plate. But the Fed wants more evidence on the inflation environment. If there are more evidence of inflation easing, that could open the cards for a 25bps hike.

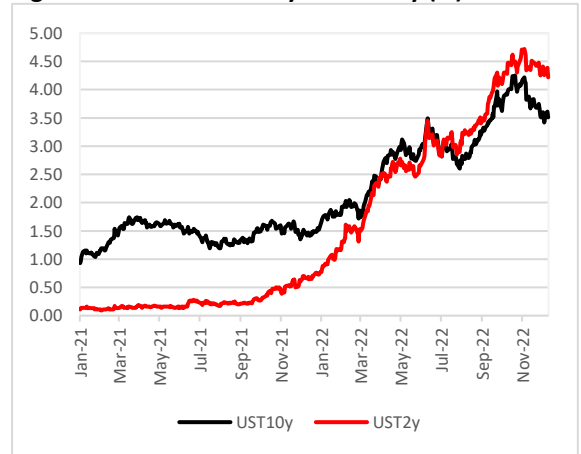
Thursday, 15 December 2022

Figure 1: The US – Fed Funds Rate, Lower Bound and Upper Bound (%)



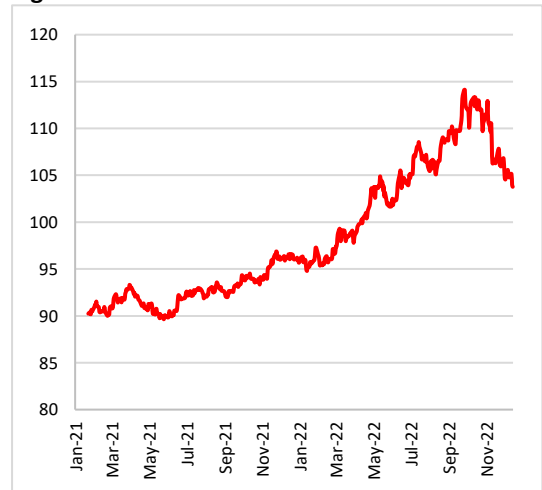
Source: CEIC, AmBank Research

Figure 2: The US – UST10y and UST2y (%)



Source: CEIC, AmBank Research

Figure 3: The US – Dollar Index



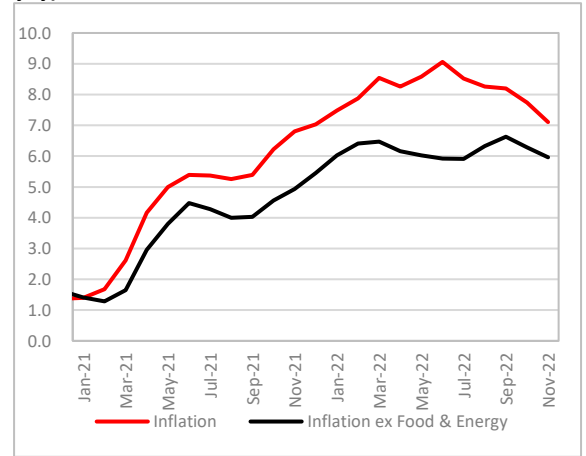
Source: CEIC, AmBank Research



**Still maintain a pause view in 2Q23**

- Our view remains that the Fed will pause in 2Q23 and thereafter institute its first rate cut in 2H23. We believe the downturn will be more painful than the Fed is currently anticipating.
- The recessionary forces will dampen price pressures which is heavily weighted to shelter and vehicles. They will facilitate a far faster drop in inflation readings. We are looking at 100bps cut in the 2H23 for now.

**Figure 4: The US – Inflation and Core Inflation (% y/y)**



Source: CEIC, AmBank Research

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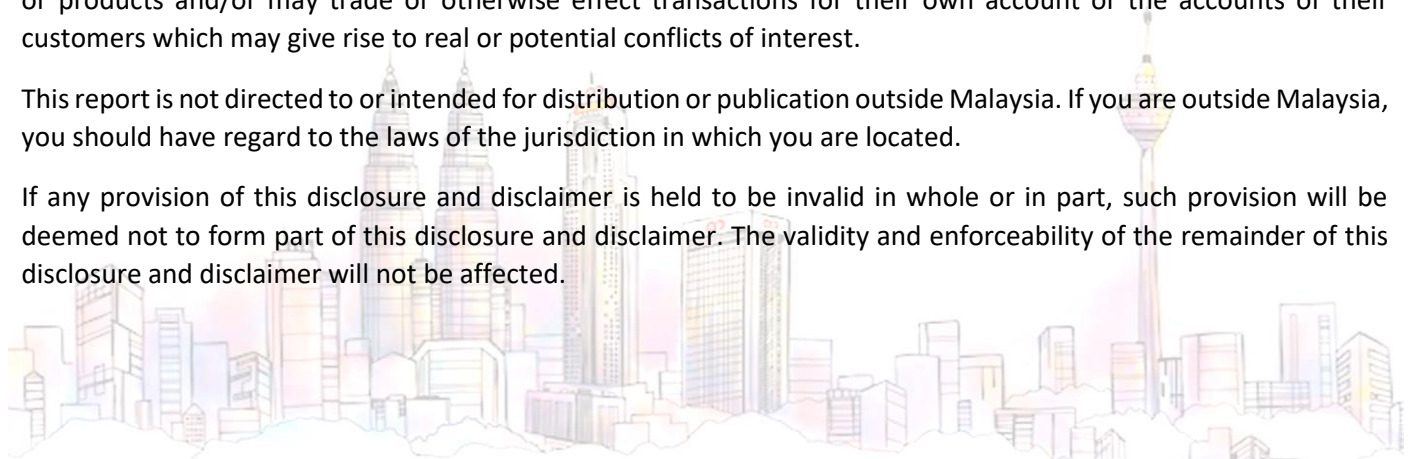
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