18 September 2015

NO HIKE—Digesting The Fed

"FOMC discussed the possibility of raising rates at this week's meeting, but decided not to in light of the heightened uncertainties abroad and slightly lower expected path for inflation" Yellen.

The world has finally got the answer of the September's FOMC Meeting, which has been considered as a crucial decision for determining the next move for all asset classes around the world ranging from stock, bonds, and commodity markets. The ultimate decision for this September FOMC meeting is NO HIKE. The followed conference press by Yellen clearly stated her ongoing concern regarding two most important issues.

The first one is the labor market. She stated that the labor market has been improving considerably, however, the involuntarily part time job and the labor participation rate have not been compelling enough for the Fed to decide on the first hike in almost a decade.

The second issue, which Yellen also emphasized, is that the Fed members would have been much more confident to finally raise the Fed Funds Rate when the inflation number has finally moving towards their target which stands at 2%. The cheap imported energy price is certainly put the downward pressure on the inflationary number.

The other notable wordings from the conference press is that she has been continuously mentioning that the Fed members have been watching closely the current global uncertainties, which closely related to what has been going around in emerging market particularly China.

She also did not rule out the possibility of the October rate hike.

What we think:

- The Fed has been more dovish than the market expectation. The dovishness would certainly make the current uncertainties linger for some time.
- As long as the low energy prices persist for, we see it would make it much harder for the Fed to increase the rate.
- We are, to a certain extent, disagree with the Fed's point of view that the current low unemployment level would slowly push back the inflation number. We see that as long as the US utilization rate has not made significant improvement from the current level of 77.6% (Figure 4) and the mighty strong dollar persist for longer time, it could be much harder to measure weather the price index would actually go up.
- The bond market would outperform the equity stock market as the uncertainties still linger for the time being.
- The close attention from the Fed regarding the emerging market condition could possibly heighten the risk for the emerging market particularly the stock and currency market.
- Our observation (Figure 3) shows that IDR Currency has been somewhat underperforming the other emerging market currency during the last two-week period.

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Figure 1: The US Labor Participation Rate Since 1985

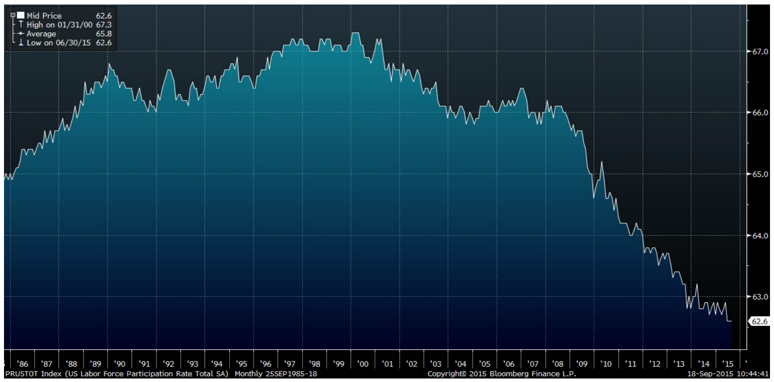

Figure 2: The US Unemployment Rate Since 1985

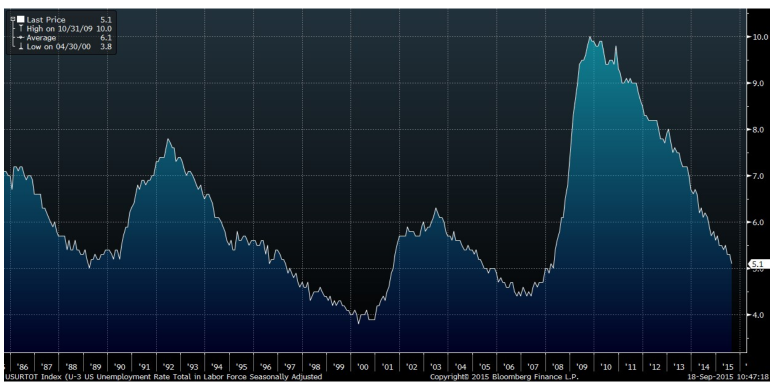

Figure 3: Country Currency vs USD since 7 Sept 2015

Country Spot vs USD Since 7 Sept 2015	Iso	% Change
Indonesian Rupiah	IDR	-1.41
Brazilian Real	BRL	-1.39
Argentine Peso	ARS	-0.60
Hong Kong Dollar	HKD	0.00
Chinese Renminbi	CNY	0.03
Turkish Lira	TRY	0.74
Philippine Peso	PHP	0.80
Indian Rupee	INR	1.00
Thai Baht	THB	1.03
Taiwanese Dollar	TWD	1.15
Peruvian New Sol	PEN	1.40
Czech Koruna	CZK	1.82
Singapore Dollar	SGD	1.97
Malaysian Ringgit	MYR	1.98
Bulgarian Lev	BGN	2.02
Romanian Leu	RON	2.17
Chilean Peso	CLP	2.41
Mexican Peso	MXN	2.53
Polish Zloty	PLN	3.01
South Korean Won	KRW	3.19
Hungarian Forint	HUF	3.49
South African Rand	ZAR	4.88
Russian Ruble	RUB	5.43
Colombian Peso	COP	6.03

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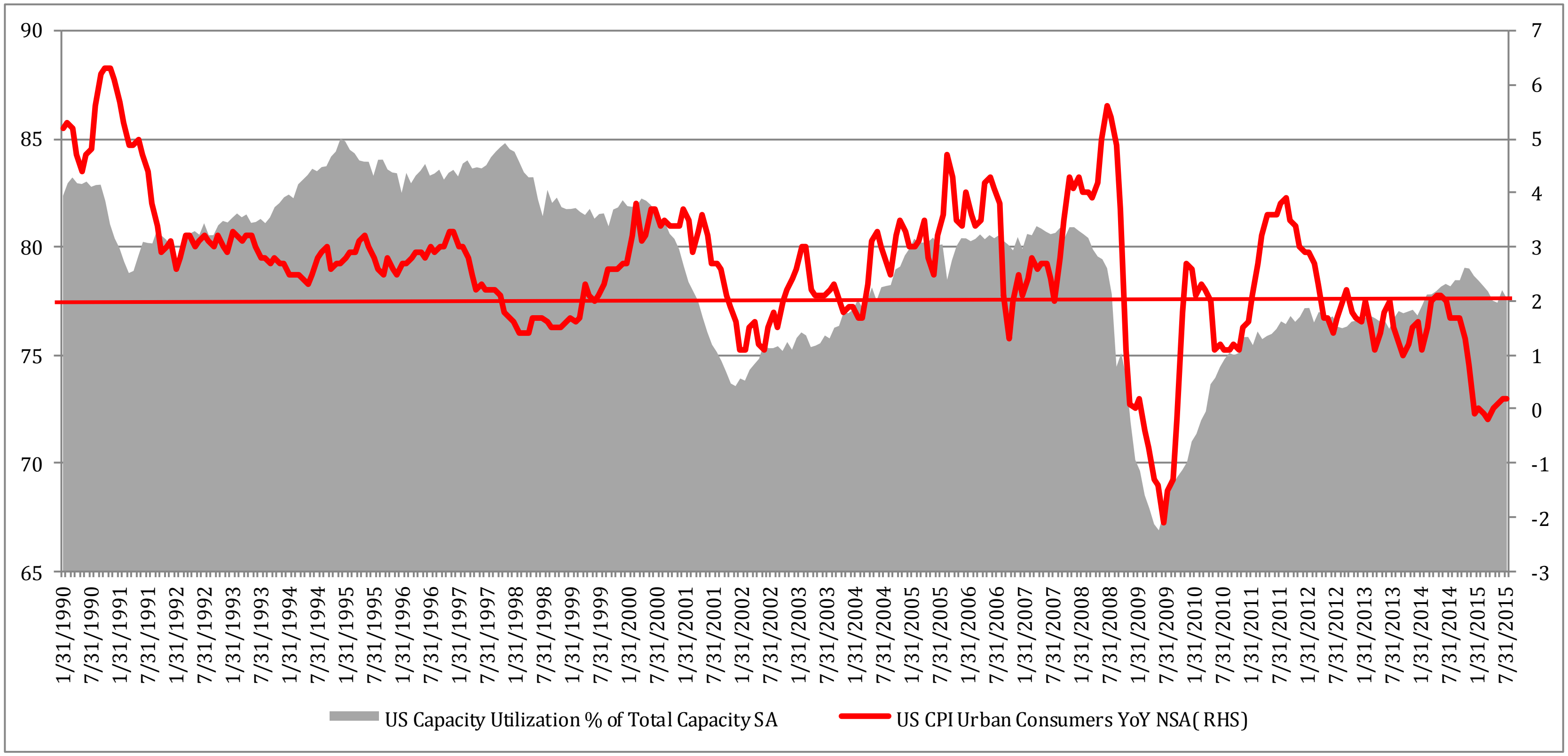
Figure 4: The US Capacity Utilization Rate vs US CPI YOY



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