



# Phillip Macro Update

## Key points for Nov FOMC Meeting

UNITED STATES | MACRO | UPDATE

2 November 2023

### Event

The U.S. Federal Open Market Committee (FOMC) concluded its two-day meeting on the 1<sup>st</sup> of November 2023. The meeting discussed the Fed's monetary policy stance and economic projection.

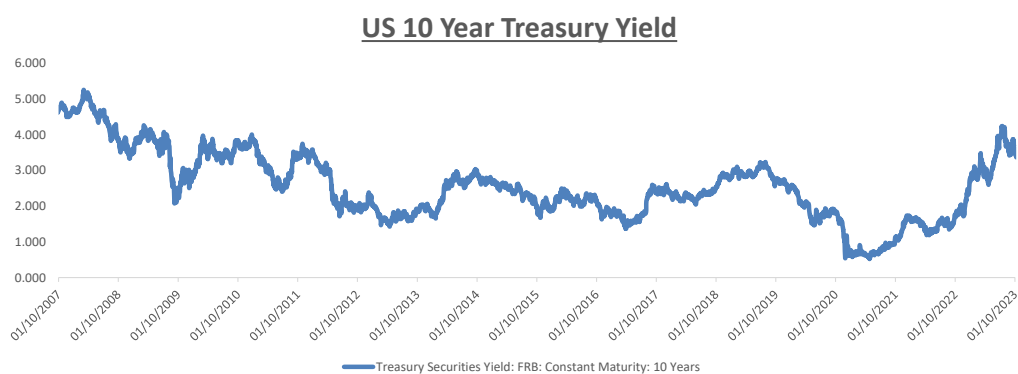
### Key pointers to note in this meeting

- Second hold-back on the hike cycle** – In this FOMC meeting, the committee of the U.S. Federal Reserve (Fed) expressed their view that the current monetary policy stance is seen as restrictive, exerting downward pressure on economic activity. However, they also noted that the full impact of these tightening measures has yet to be fully realized. The committee has also acknowledged that tighter credit conditions, including the increase in Treasury bond yields and home mortgage rates, are placing a burden on economic activities. Therefore, all members of the committee voted unanimously to maintain the benchmark federal funds rate within the range of 5.25-5.50% for a second time. This decision to keep the policy interest rate unchanged was in line with market expectations.
- Inflation still hovering above the 2% targeted range** – Personal Consumption Expenditure (PCE) which is the Fed's preferred measurement of inflation has continued to show signs of moderation with the latest Total PCE and Core PCE for September coming in at 3.4% YoY and 3.7% YoY, respectively (a slight decrease from August 3.4%, 3.8%) while for Consumer Price Index (CPI), the latest headline CPI and Core CPI for September came in at 3.7% YoY and 4.1% YoY, respectively (a slight decrease from August a well 3.7%, 4.3%). Although inflation has shown signs of loosening since the middle of last year, there remains a substantial gap to cover before the Federal Reserve can bring inflation back to its target range of 2%.
- Federal Reserve Projection/Guidance** – In terms of guidance, there was no dot plot graph provided in this meeting as it is published every quarter. The next dot plot graph will be available in the December meeting. However, a more dovish sentiment was seen in this meeting as the committee noted that persistent tighter financial conditions such as higher bond yields could have implications on the path of its monetary policy, similar to what was seen in this meeting, although optimism for rates to hover at the current level is evident. The committee said that a few months of positive data pointers are insufficient and a period of below-potential growth and some softening of labor market conditions will be required to have a more meaningful guidance in term of what direction monetary policy should take. Therefore, the upcoming unemployment data (3 November 2023) will be one pointer to look out for.
- Optimism within the market** – With the central bank keeping its interest rates unchanged for a second time in this meeting, the market remains doubtful that the Federal Reserve would increase the interest rate once more. This optimism was felt after the meeting as all three major indices pulled up higher on Friday morning (2 November 2023) with the Dow Jones Industrial Average +0.67% to 33,274.58, S&P500 +1.05% to 4,237.86 and lastly NASDAQ +1.77% to 14,664.91.

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5. **US treasury yields still remain relatively attractive** – With the current high-interest rate environment that we are experiencing, bond yields have been climbing higher. The US 10-year Treasury Yield which is a widely used benchmark/indicator for many investors crossed the 5% range on 19th October 2023 and this is the first time in 16 years since 2007 when it crossed 5.11 in June 2007 (Figure 1). For investors who are looking to lock yields that are trading in the high 4-5% range, this may be a good time to look at US Treasuries as they considered to be among the safest investments in the world, since they are backed by the full faith and credit of the US government and as of 1st August 2023, the credit rating of US government stands at Aaa/AA+/AA+ (Moody's/S&P/Fitch). US treasury bills are tradable on our POEMS platform. For more information please visit <https://www.poems.com.sg/bonds/treasuries/>.

Figure 1: US 10-Year Treasury Yield Curve

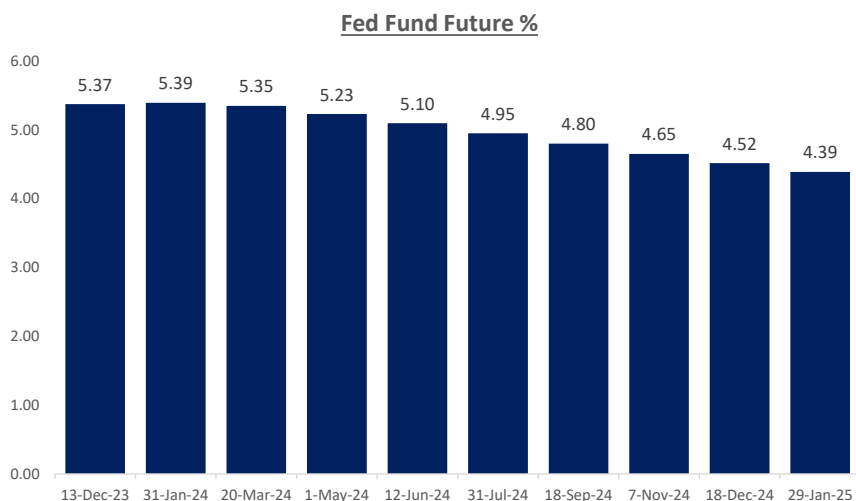


Source: CEIC, PSR

As of 1 November 2023

US Treasuries							
6mth	1Yr	2Yr	3Yr	5Yr	10Yr	20Yr	30Yr
5.540%	5.380%	4.949%	4.752%	4.643%	4.718%	5.082%	4.901%

Figure 2: Market Expectation for Interest rate in the coming months



Source: Bloomberg, PSR

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