

Will The Fed Make Its Move In June?

Last week's Federal Open Market Committee (FOMC) meeting minutes have raised the probability of a rate hike this year, possibly as early as the next meeting in June. This is a departure from the cautious tone adopted by Fed Chair Janet Yellen during her speech in March; prior FOMC meeting minutes before this had also reaffirmed that dovishness.

What has changed since March has been the improvement to global financial conditions, particularly with China on the mend, while oil and commodity prices have also rebounded. Domestically, the US recovery remains uneven, but on track, and core inflation has also firmed.

As highlighted in the FOMC minutes, a rate increase in the US could happen in the near term if upcoming economic data supports the FOMC's outlook for the economy, namely i) economic data adds to signs of a 2Q16 US GDP rebound; ii) labour market continues to strengthen, and iii) inflation progresses towards the Federal Reserve's target of 2.0%.

Notably, the market had been pricing in an extremely shallow interest rate path based on previous guidance by the Fed. Indeed, the federal funds rate path had flattened considerably, indicating that the probability of a rate hike by the June FOMC meeting had declined significantly.

On balance, we still expect the Fed to resume hiking rates this year at a gradual pace. However, the probability of a June rate hike would not hinge solely on improving US data and stable global financial conditions. The outcome of the "Brexit" referendum in late June, with the UK voting on EU membership, also looms large in the background. Whether the UK remains in the EU has considerable economic impact within and beyond Europe. Hence, 'Brexit' remains a key risk factor that could swing the Fed's rate hike decision and bears continued watching.

 Value % w/w
 Change

Equities

Dow Jones Indus. Avg	17,500.9	-0.2
S&P 500 Index	2,052.3	+0.3
MSCI AC Asia Pacific	125.6	-0.1
S&P/ASX 200 Index	5,351.3	+0.4
Hang Seng Index	19,852.2	+0.7
Ho Chi Minh Stock Index	614.8	+0.7
Jakarta Composite Index	4,711.9	-1.0
FTSE Bursa Malaysia KLCI	1,628.8	+0.0
KOSPI Index	1,947.7	-1.0
Karachi 100 Index	36,693.5	+1.6
S&P Bse Sensex Index	25,301.9	-0.7
Shanghai Se Composite	2,825.5	-0.1
Stock Exch Of Thai Index ¹	1,385.9	-0.6
Straits Times Index	2,763.8	+1.1
Taiwan TAIEX Index	8,131.3	+1.0
TOPIX Index (Tokyo)	1,343.4	+1.8

Bonds / Currencies

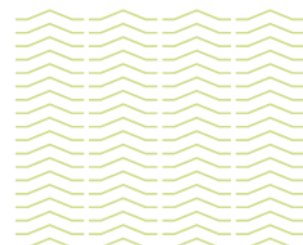
US 10YR Treasuries	1.8384	+14bps
EUR/USD	1.1224	-0.8
USD/JPY	110.15	+1.4
GBP/USD	1.4502	+1.0

Commodities

Gold (Spot)	1,252.2	-1.6
Crude Oil (WTI)	47.8	+3.3
RJ/CRB Commodity Index	184.2	+0.9

¹ Previous week's data as of 19 May 2016

Source: Bloomberg (last trading price for week ended 20 May 2016)



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