

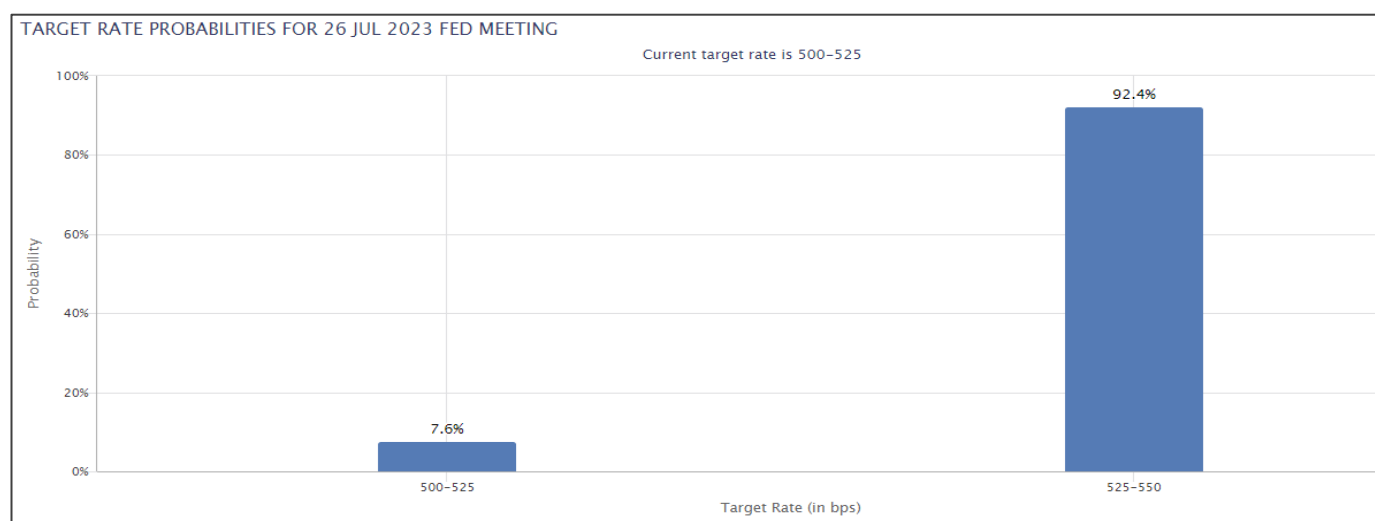
## US Federal Reserve Meeting Minutes show more Interest rate hikes this year.

The Federal reserve signaled in their meeting in June that they might carry out two additional rate hikes this year to curb inflation. This decision comes after 11 voting members of its interest rate setting committee decided to pause the rate hike in June to assess the impact of its previous hikes on the economy. The minutes highlighted the fact that not all officials agreed to pause in June and pushed for a 25 basis points increase due to continued tightness in the labour market (low unemployment) and GDP growth that far exceeded expectations. Non-farm payrolls, which measures the number of new jobs added in the private sector and government excluding farm workers, grew by 306,000 in May and 209,000 in June. Despite the Fed reserve raising rates by 500bps to slow the economy, the unemployment rate decreased slightly to 3.6% in June from 3.7% in May and US GDP grew by 2% in Q1 2023 well above forecast of 1.4%.

The minutes, however, revealed that the majority of the Fed officials anticipate at least two other rate hikes in the upcoming months, starting from their next meeting on July 26, 2023. So far, the Federal Reserve has successfully reduced inflation from its peak of 9.1% in June 2022 to 4% in May 2023 without triggering a recession. Despite some indications of weakness in the US economy, such as stress in the commercial real estate sector and the collapse of three banks (SVB, First Republic, and Silvergate Bank), we believe that the chances of the Federal Reserve achieving a "soft landing" have increased. The only dilemma lies in the resilient labor market, as attaining a soft landing would require the Federal Reserve to raise borrowing costs sufficiently to cool the economy and control inflation, while avoiding a steep recession.

### Our Expectations.

Markets will begin to price in the expectations of two additional hikes this year and would at best trade sideways in anticipation of the July fed meeting given that June was a very strong month for the US equity market. Most traders are expecting a rate hike of 25 basis points as shown in the chart below.



Source: CME group