18 September 2025

Global Markets Research

Research Alert

A less dovish than expected cut by the FOMC

Latest Fed dot plot signals another 50bps cut by the FOMC by end-2025 and 25bps in 2026

We revised our house view for another 50bps cut this year; maintain 50bps cut for 2026

Narrowing interest rate differentials will support MYR over the medium-term

Overview

As widely expected, the Fed resumed cutting Fed funds rates with a 25bps reduction to 4.00-4.25% at its September FOMC meeting. There was only one dissent, by new (and temporary) Governor Stephen Miran, who voted for a 50bps cut.

Key highlights and our takes

- Fed Chair Powell described the move as a **"risk management cut"** in view of the shift in the balance of risks, notably increased downside risks to employment. In this regard, the FOMC removed the line "labour market conditions remain solid" in its statement, and replaced it with the line **"job gains have slowed".**

- In terms of tariff impact on inflation, Powell said that: 1) They have begun to see **higher goods prices flowing through into higher inflation,** and expect inflation to continue to build over the rest of 2025 and into 2026. 2) Tariffs are mostly not being paid by exporters, but rather by the companies that sit between the exporters and the consumers, suggesting a squeeze in profit amongst retailers going forward. 3) **A reasonable base case is that the tariff impact on inflation will be relatively short-lived.**

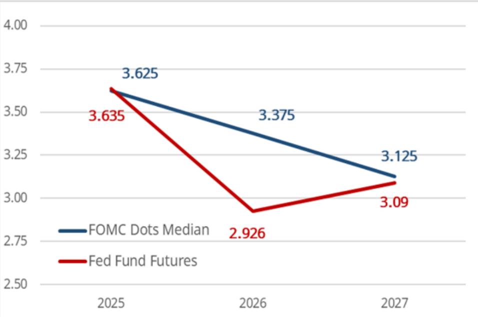
- In the updated dot plot, median participants anticipate **another 50bps of cuts this year (25bps more than June projection)** and 25bps cuts each in 2026 (25bps less than June projection) and 2027 (unchanged from June projection).

- The dot plot also showed a **divided view amongst the 19 Fed members,** with one (1) member projecting a 25bps rate hike, six (6) showing no further changes for 2025, two (2) expecting another quarter point cut this year, **nine (9) projecting a further 50bps cut** and one (1) for a whopping additional 125bps cut by end-2025, the latter most likely pencilled by Miran.

- **Powell pushed back against more aggressive easing,** citing no widespread support for that move and **in a nod to the central bank's independence and the US Dollar for now, and likely a negative for gold.**

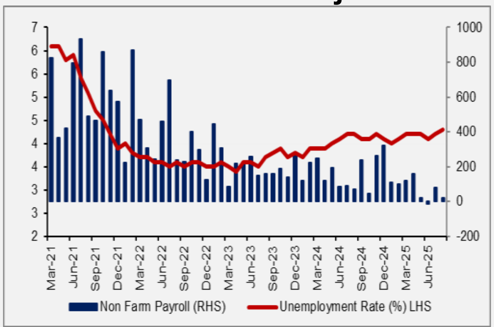
- Given the latest development and our assessment on the US economy, **we are revising our house view for a further 50bps cut in 4Q (previous: 25bps cut) but maintaining our stance for 50bps cut in**

Figure 1: Market is pencilling in more aggressive easing in 2026



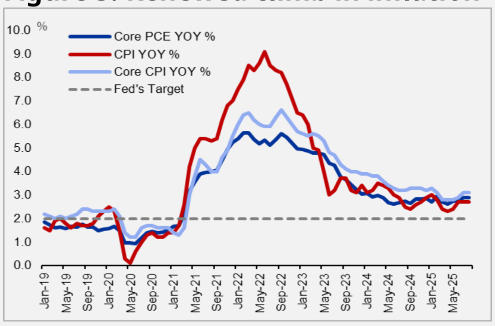
Source: Federal Reserve, Bloomberg

Figure 2: Sharply weaker labour market outlook tilted the balance of risks from inflation to jobs



Source: Bloomberg; HLBB Global Markets Research

Figure 3: Renewed climb in inflation



Source: Bloomberg, HLBB Global Markets Research

2026 (vs market: -50bps in 4Q and -71bps in 2026 at the time of writing).

- In our opinion, US data has been holding up for now and **key risks to the Fed's or even market's rate cut projection will largely hinge on the state of the labour market.** Nonfarm payroll gains have slowed to 22k in August 2025 from an YTD average of 75k, and an average of 168k in 2024. Unemployment rate has ticked up to 4.3% and a softening job market outlook also suggests an uptick in unemployment rate going forward although this is not expected to trigger the SAHM rule that flags recession risk.

- Even as the policy statement flagged downside risks to the labour market, the median projection is for the unemployment rate to settle at 4.5% for this year, a level unchanged from the June projection. Further out, the unemployment rate is expected to ease to 4.4% in 2026 (June projection: 4.5%) and 4.3% for 2027 (June projection: 4.4%). In addition, the Fed median GDP forecasts were slightly upgraded to 1.6% for 2025 (prior: 1.4%), 1.8% for 2026 (prior: 1.6%) and 1.9% for 2027 (prior: 1.8%). All these implied the Fed may not be as pessimistic as it sounds especially with regards to the labour market.

- On the inflation front, the median projection for core-PCE prices was left unchanged at 3.1% for 2025, but raised to 2.6% for 2026 (prior: 2.4%). Fed Chair Powell remarked that the impact of tariffs on current core PCE is around 0.3-0.4ppt. In our opinion, **tariffs are likely to keep inflation elevated in the near term, but cooling consumer demand and a weakening jobs market will likely keep a lid on demand-pull inflation.** Moreover, factors that has contributed to spiralling inflation in 2022, namely oil prices, soaring housing rents and wages are clearly absent for now.

Interest rate differentials likely to narrow further, supporting MYR

With the Fed having cut the policy rates and likely to continue easing, and with BNM anticipated to hold the OPR steady, interest rate differentials will likely continue to narrow further from the current 150bps. This will continue to provide a source of support for the MYR going forward and USD/MYR likely to continue heading lower over a medium-term horizon. That said, a less than expected dovish cut could likely limit Dollar downside while increased volatility in FX swaps may present hedging opportunities.

Economic projections of Federal Reserve Board members and Federal Reserve Bank Presidents @ 17 September 2025

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0	1.3–2.0	1.5–2.6	1.7–2.7	1.6–2.6	1.7–2.5
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0	1.1–2.1	0.6–2.5	0.6–2.5		1.5–2.5
Unemployment rate	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3	4.2–4.6	4.0–4.6	4.0–4.5	4.0–4.5	3.8–4.5
June projection	4.5	4.5	4.4		4.2	4.4–4.5	4.3–4.6	4.2–4.6		4.0–4.3	4.3–4.6	4.3–4.7	4.0–4.7		3.5–4.5
PCE inflation	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0	2.5–3.2	2.2–2.8	2.0–2.4	2.0	2.0
June projection	3.0	2.4	2.1		2.0	2.8–3.2	2.3–2.6	2.0–2.2		2.0	2.5–3.3	2.1–3.1	2.0–2.8		2.0
Core PCE inflation[4]	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0		2.7–3.4	2.2–2.9	2.0–2.4	2.0–2.2	
June projection	3.1	2.4	2.1			2.9–3.4	2.3–2.7	2.0–2.2			2.5–3.5	2.1–3.2	2.0–2.9		
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	2.9–4.4	2.6–3.9	2.4–3.9	2.6–3.9	2.6–3.9
June projection	3.9	3.6	3.4		3.0	3.9–4.4	3.1–3.9	2.9–3.6		2.6–3.6	3.6–4.4	2.6–4.1	2.6–3.9		2.5–3.9

Source: Federal Reserve

Side by Side Comparison of FOMC Statements

September 17 meeting

Recent indicators suggest that growth of economic activity moderated in the first half of the year. Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen.

In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4 to 4-1/4 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller. Voting against this action was Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting.

July 30 meeting

Although swings in net exports continue to affect the data, recent indicators suggest that growth of economic activity moderated in the first half of the year. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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Source: Federal Reserve

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