

08 May 2025

US FOMC Meeting (6 - 7 May)

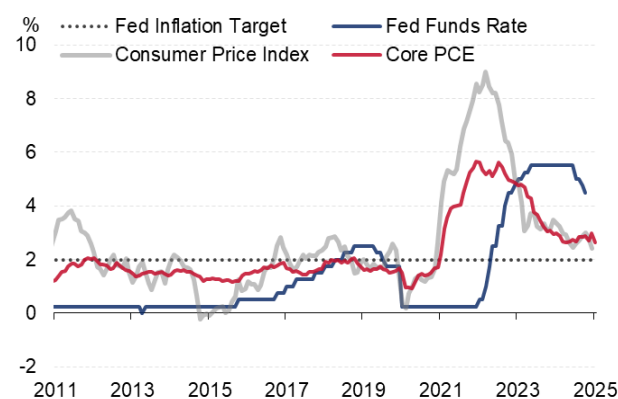
Leaves rates unchanged, flags tariff risks - no rush to cut

- The Federal Reserve decided to leave interest rates unchanged as expected**, holding the target range at 4.25% to 4.50% for the third consecutive meeting. The unanimous decision by all 12 members reflects a cautious stance amid growing economic uncertainty.
- Fedspeak: Less dovish than previously.** What makes the tone less dovish this time is the line: "The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen." This shows Fed officials remain cautious about the divergence between resilient hard data and weakening soft data. They are likely to wait for clearer signs of labour market softness and broader hard data deterioration before cutting rates — likely still a few months away. The statement also used "solid" twice to describe the continued expansion of economic activity, specifically noting that "labour market conditions remain solid." Describing growth as a "solid pace" suggests the Fed sees no urgency to pivot towards cuts.
- Press conference: Risk to the dual mandate.** Fed Chair Jerome Powell acknowledged the complexities of balancing maximum employment and stable price in the current economic climate. He warned that "if the large increases in tariffs that have been announced are sustained, they're likely to generate a rise in inflation, a slowdown, and an increase in unemployment." Still, he noted the economy remains in a "solid state."
- Reiterates tariff risk.** The Committee highlighted the impact of recent tariff policies on net exports and overall economic stability. However, it noted that "recent indicators suggest that economic activity has continued to expand at a solid pace." Powell continued to stress that tariffs could push inflation and unemployment higher. These developments add complexity to the outlook. Acknowledging that the effects of tariffs could be either short-lived or more persistent, Powell added that the Fed may not progress toward its goals this year if the Trump administration's tariffs play out.
- Fed policy outlook: Maintains flexibility.** Reiterating the Fed's cautious stance, Powell stated that the central bank is not in a hurry to lower interest rates, despite pressure from President Trump. He stressed the need to assess tariff impacts before making any policy moves. While the Fed isn't signalling imminent easing, it remains ready to act if risks emerge. Hence, we maintain our view of two rate cuts this year, or 50 basis points (bps). However, we push our expectation of its first cut for the year possibly in September from June. Meanwhile, futures pricing shows traders still expect three cuts (75 bps) this year, according to CME Group data. The probability of a full 100 bps cut is about 36%, slightly lower than Tuesday.

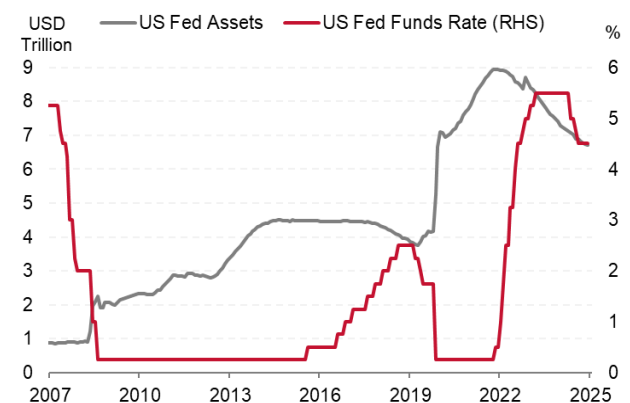
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.75% (-0.25%)	Thailand	Repo Rate	Apr-25
2.25% (-0.25%)	Euro Area	Key Deposit Facility Rate	Apr-25
5.50% (-0.25%)	Philippines	Target Reverse Repurchase	Apr-25
3.50% (-0.25%)	New Zealand	Official Cash Rate	Apr-25
2.75% (-0.25%)	Canada	Overnight Rate	Mar-25
2.75% (-0.25%)	South Korea	Base Rate	Feb-25
4.10% (-0.25%)	Australia	Cash Rate	Feb-25
4.50% (-0.25%)	UK	Base Rate	Feb-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25
5.75% (-0.25%)	Indonesia	BI Rate	Jan-25
4.25% - 4.50% (-0.25%)	USA	Funds Rate Target	Dec-24
3.10% (-0.25%)	China	Loan Prime Rate (1Y)	Oct-24
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23

Source: Bloomberg, Kenanga Research

Graph 1: Fed Funds Rate and Inflation Trends


Source: Bloomberg, Kenanga Research

Graph 2: Fed Balance Sheet Vs. Fed Funds Rate


Source: Bloomberg, Kenanga Research

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Table 2: US FOMC Tentative Meeting Schedule for 2025 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future**	Fed Decision
1st	28 and 29 Jan	<input checked="" type="checkbox"/>	No change	No change	No change
2nd	18 and 19 Mar*	<input checked="" type="checkbox"/>	No change	No change	No change
3rd	6 and 7 May	<input checked="" type="checkbox"/>	No change	No change	No change
4th	17 and 18 Jun*	<input type="checkbox"/>	No change	No change	
5th	29 and 30 Jul	<input type="checkbox"/>	No change	25 bps cut	
6th	16 and 17 Sep*	<input type="checkbox"/>	25 bps cut	25 bps cut	
7th	28 and 29 Oct	<input type="checkbox"/>	No change	No change	
8th	9 and 10 Dec*	<input type="checkbox"/>	25 bps cut	25 bps cut	

Source: Federal Reserve, Kenanga Research

Note: bps denotes basis points

*Meeting associated with a Summary of Economic Projections

**CME Fed Rate Monitor: Based on CME Group 30-Day Fed fund futures prices (highest probability)

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