US FOMC Meeting (17 - 18 June)

Cautious hold as rate cuts remain in sight, but Fed wants more proof

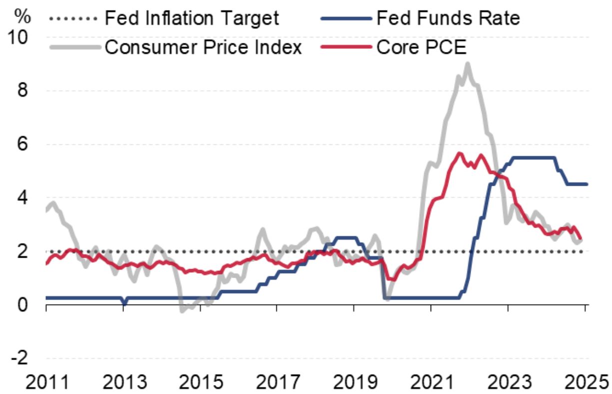
- **As widely anticipated, the Federal Reserve left the federal funds target range unchanged at 4.25% to 4.50%**. The unanimous decision marks the fourth consecutive pause. While signalling a rate cut is on the horizon, officials remain wary, citing persistent upside risks to inflation in the months ahead.
- **Fed speak: The tone was not overtly dovish**. The policy statement saw minor wording changes, with "increased further" replaced by **"has diminished but remains elevated"** to describe **uncertainty around the economic outlook.** This reflects a US economy proving more resilient than previously expected.
- **Press conference: Inflation remains a key concern**. Fed Chair Jerome Powell noted that **"a meaningful amount of inflation"** is expected in the coming months, with tariffs cited as a key driver. **"Someone has to pay for the tariffs,"** he said, warning that **"some of it will fall on the end consumer"**. His remarks reinforced a cautious approach as the Fed waits for clearer signs cutting rates, especially amid potential price pressures.
- **Dot plot highlights: On the surface, little changed**. The median projection still suggests 50 basis points of rate cuts this year. But under the hood, **the hawkish shift emerges**: seven officials now anticipate no cuts at all in 2025, up from four in March. While the Fed removed language suggesting rising risks of both higher unemployment and inflation in the statement, the **new projections paint a stagflationary tilt**: Core PCE is now seen at 3.1% (vs 2.8%), while GDP growth and the labour market are expected to weaken (1.4% growth vs 1.7%, 4.5% unemployment vs 4.4%). **That said, given the economic and political landscape still highly uncertain, projections could shift rapidly**.
- **Fed policy outlook: Waiting for more clarity**. While inflation risks may build from renewed tariffs or geopolitical flare-ups, softening wage growth and a cooling labour market could weigh on household expenditure. Although we previously pencilled in a first rate cut for September, the Fed may still lack sufficient evidence to justify easing by then. That said, **we still maintain our base case for two cuts this year, in September and December, conditional on inflation staying subdued and further job market cooling**.
- **US Treasury (UST) outlook:** Yields to stay elevated amid **uncertainty**. Although the de-dollarisation narrative is gaining traction, and April's Treasury International Capital data showed net foreign selling of US assets, the evidence remains inconclusive. For now, **we maintain our year-end forecast for the 10Y UST yield at 4.50%, reflecting lingering volatility and elevated risk premiums**. One key risk to watch: **pending banking deregulation, which could enable US banks to absorb more Treasuries**, potentially shifting demand dynamics. The Fed is scheduled to discuss the matter on June 25.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.25% (-0.25%)	New Zealand	Official Cash Rate	May-25
5.50% (-0.25%)	Indonesia	BI Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25
3.85% (-0.25%)	Australia	Cash Rate	May-25
4.25% (-0.25%)	UK	Base Rate	May-25
1.75% (-0.25%)	Thailand	Repo Rate	Apr-25
5.50% (-0.25%)	Philippines	Target Reverse Repurchase	Apr-25
2.75% (-0.25%)	Canada	Overnight Rate	Mar-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25
4.25% - 4.50% (-0.25%)	USA	Funds Rate Target	Dec-24
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23

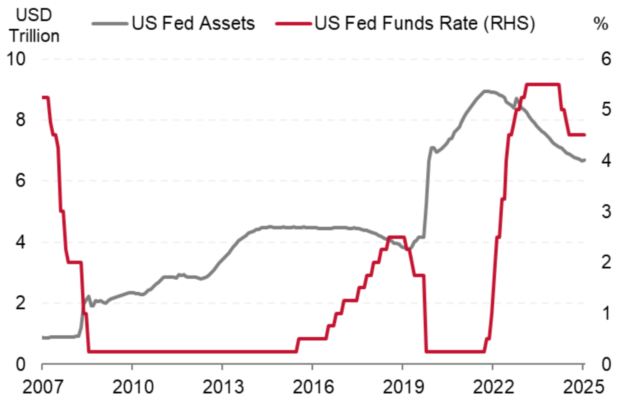
Source: Bloomberg, Kenanga Research

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

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	☑	No change	No change	No change
2nd	18 and 19 Mar*	☑	No change	No change	No change
3rd	6 and 7 May	☑	No change	No change	No change
4th	17 and 18 Jun*	☑	No change	No change	No change
5th	29 and 30 Jul	☐	No change	No change	
6th	16 and 17 Sep*	☐	25 bps cut	25 bps cut	
7th	28 and 29 Oct	☐	No change	No change	
8th	9 and 10 Dec*	☐	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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