US FOMC Meeting (29 - 30 July)

Fed splits, holds steady, offers no clue on future cuts

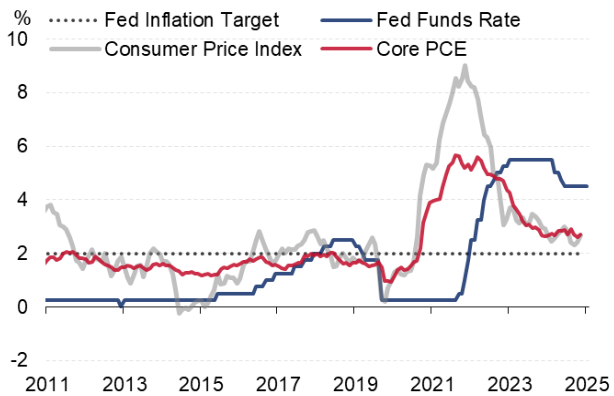
- **As expected, the Federal Reserve left the federal funds target range unchanged at 4.25%–4.50% for a fifth consecutive meeting.** Yet the decision was not unanimous: two governors dissented in favour of a 25 basis points (bps) cut, the first such split in over 30 years, suggesting political pressure from President Trump may be gaining traction.
- Governors Christopher Waller and Michelle Bowman echoed Trump's view that policy remains too restrictive. **Both have recently voiced concerns over labour market softness.** Fed Chair Jerome Powell, in contrast, described the stance as "modestly restrictive," noting that the Fed remains in wait-and-see mode, pending more data.
- **Fed speak: The tone turned modestly dovish**. Notably, the statement revised its economic **assessment**, replacing "continued to expand at a solid pace" with **"moderated in the first half of the year."** The Fed also pared back its language on risks, dropping "have diminished", now saying only that **uncertainty "remains elevated."** The tone suggests **a gradual tilt toward easing, tempered by inflation concerns.**
- **Press conference: Powell reiterated a data-dependent stance, emphasising caution on inflation.** He noted that **tariff-related inflation may be "short-lived,"** but **unwilling to pre-commit**, preferring to see several more months of data, likely influenced by the Fed's 2021 misstep in calling inflation "transitory". He also flagged **"downside risks to the labour market,"** hinting that **further deterioration in employment conditions could tip the scales toward rate cuts.**
- **Fed policy outlook: Trump's tariffs continue to complicate the Fed's path.** While softening labour market data and signs of faltering consumption support the case for easing, tariff-driven inflation remains a risk. If firms absorb costs pressures to hold prices steady, profit margins could shrink, triggering layoffs and deeper labour market stress. **A September cut now look less likely, but we still see scope for two 25 bps cuts, in September and December, if employment weakens further.**
- **US Treasury (UST) outlook: Higher-for-longer narrative holds.** With the Fed offering little forward guidance and persistent inflation risks, markets may lean slightly hawkish. Traders still price in two cuts by year-end, but the probability of a September move is fading. **We maintain our 10-year UST yield forecast at 4.50% by year-end, mainly underpinned by elevated risk premia tied to fiscal concerns.**

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.25% (-0.25%)	Indonesia	BI Rate	Jul-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
5.25% (-0.25%)	Philippines	Target Reverse Repurchase	Jun-25
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
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
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

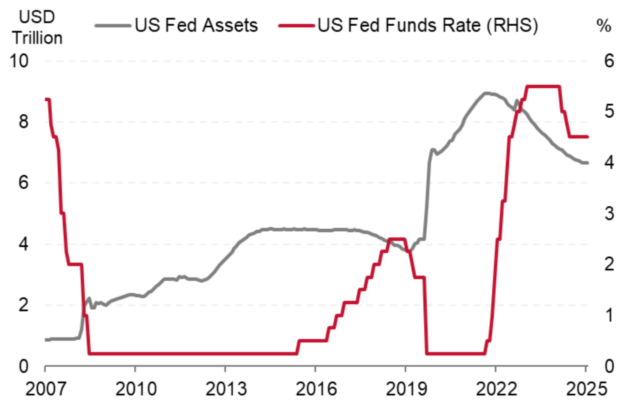
Source: Bloomberg, Kenanga Research

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	No change
6th	16 and 17 Sep*	☐	25 bps cut	25 bps cut	
7th	28 and 29 Oct	☐	No change	25 bps cut	
8th	9 and 10 Dec*	☐	25 bps cut	No change	

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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