US FOMC Meeting (16 - 17 September)

A 25 bps 'risk management cut'; signals three more to balance risks

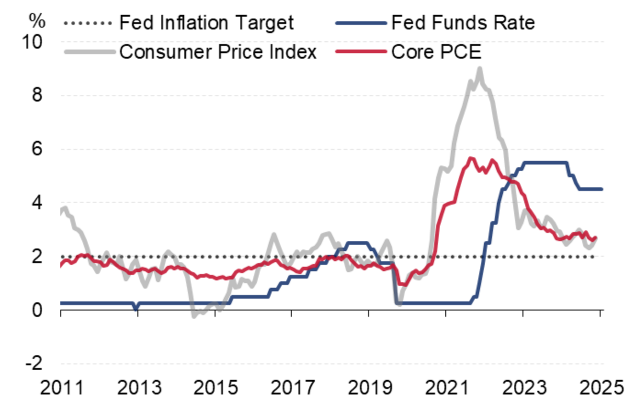
- **As expected, the Federal Reserve cut the federal funds target range by 25 basis points (bps) to 4.00%–4.25%, ending a nine-month pause.** Chair Powell called it a "risk management cut" to cushion the economy. Newly appointed governor Stephan Miran dissented, backing a 50 bps move. His failure to win support underscored the Fed's independence rather than divisions.
- **Fed speak: Softer on jobs, firmer on inflation.** The statement downgraded its labour market review, dropping "solid" and noting that **"job gains have slowed"**. It also sharpened its inflation language, adding the phrase **"has moved up"** to "remains somewhat elevated". The Fed now sees a "shift in the balance of risks" and admits that **"downside risks to employment have risen"**. While labour-market weakness drove the cut, inflation concerns remain.
- **Press conference: Powell struck a stagflationary note.** He warned that "risks to inflation are tilted to the upside and risks to employment to the downside". He said goods price pressures "will continue to build" into 2026 as firms slowly pass costs to consumers. At the same time, he conceded the labour market is already softening and "we do not need it to soften anymore". **The message: if jobs data weaken further, more cuts will follow, unless inflation surges.**
- **Dot plot highlights: Split, but leaning towards cuts.** Nine officials (majority) expect two more cuts this year, in line with markets and our house view; six expect none. Miran again stood apart, projecting the funds rate at 2.875% by end-2025. For 2026, the median shows just one further cut. The Fed also nudged up its 2026 forecasts for growth (1.8% vs 1.6%) and inflation (2.6% vs 2.4%), while trimming unemployment (4.4% vs 4.5%). This suggests officials believe faster easing can prevent a sharper rise in joblessness. **We are less convinced: more than one cut in 2026 may be required to protect jobs without reigniting inflation, particularly if tariffs bite.**
- **Fed policy outlook: Trade policy remains the wild card.** Weakening job data and softer consumption argue for more easing, but tariff-driven inflation still constrains the Fed. **We expect two more 25 bps cuts this year and perhaps another two in 2026, taking the funds rate to about 3.25%,** near the Fed's long-run target of 3.00%.
- **US Treasury (UST) outlook: Inflation risks could push long yields higher.** The 10-year briefly slipped below 4.00% before rebounding after Powell's remarks. We see further upward pressure from sticky inflation, political meddling in Fed policy, and a worsening fiscal backdrop, with a partial government shutdown looming on October 1. **We therefore keep our 10-year forecast at 4.50% near term, especially if inflation breaches 3.50% in the months ahead.**

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.00% - 4.25% (-0.25%)	USA	Funds Rate Target	Sep-25
4.75% (-0.25%)	Indonesia	BI Rate	Sep-25
2.50% (-0.25%)	Canada	Overnight Rate	Sep-25
1.50% (-0.25%)	Thailand	Repo Rate	Aug-25
5.00% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-25
4.00% (-0.25%)	UK	Base Rate	Aug-25
3.00% (-0.25%)	New Zealand	Official Cash Rate	Aug-25
3.60% (-0.25%)	Australia	Cash Rate	Aug-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25

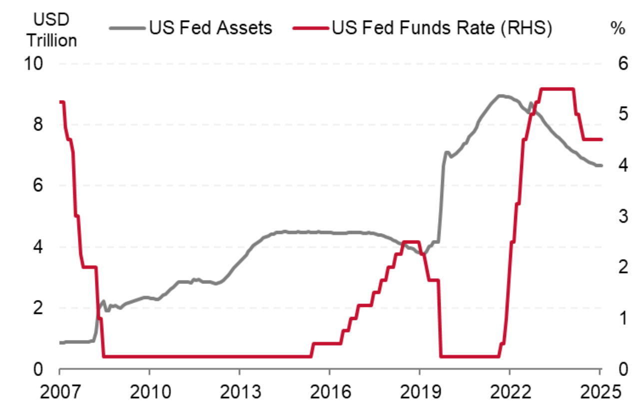
Source: Bloomberg, Kenanga Research

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	25 bps cut
7th	28 and 29 Oct	☐	25 bps cut	25 bps cut	
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)*

Table 3: US FOMC Tentative Meeting Schedule for 2026 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future**	Fed Decision
1st	27 and 28 Jan	☐	25 bps cut	No change	
2nd	17 and 18 Mar*	☐	25 bps cut	25 bps cut	
3rd	28 and 29 Apr	☐	No change	No change	
4th	16 and 17 Jun*	☐	No change	25 bps cut	
5th	28 and 29 Jul	☐	No change	No change	
6th	15 and 16 Sep*	☐	No change	25 bps cut	
7th	27 and 28 Oct	☐	No change	No change	
8th	8 and 9 Dec*	☐	No change	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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