US FOMC Meeting (27 - 28 January)

A divided Fed holds steady, signals patience and pushes rate cuts further out

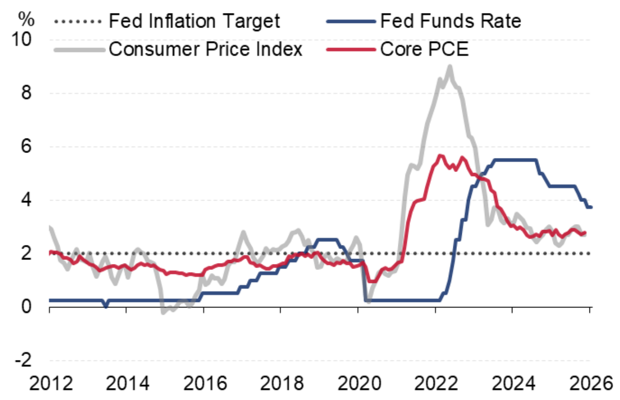
- **Hold as expected, dissent contained:** In a 10–2 vote, the Fed kept the policy rate unchanged at 3.50%–3.75%, as expected. Governors Waller and Miran dissented in favour of a 25 bps cut, highlighting growing unease about the labour market even as the committee chose to pause.
- **Fed speak: a subtle shift in emphasis**. The statement removed references to rising downside risks to employment and described growth as "solid", signalling firmer confidence in the outlook. At the same time, Powell flagged lingering data distortions, noting that recent job gains may have been overstated. This points to a labour market that is cooling but not deteriorating. The combination suggests the Fed sees less urgency to ease, as risks around growth and employment have moderated while inflation progress remains intact.
- **Fed signalled a deliberately patient stance,** noting policy is near the upper bound of neutral and that future moves are not on a preset path. While further hikes appear unlikely under the current outlook, any cuts would require convincing evidence from incoming data. Inflation remains somewhat elevated, and Powell suggested tariff-related price pressures may prove gradual and largely one-off.
- **Press conference: Powell adopts a wait-and-see stance.** At the press conference, Powell repeatedly stressed uncertainty around the data, noting that recent payroll and inflation readings may be distorted by seasonal and measurement effects: "we'll just have to see how the data lead us." He framed policy as balancing a cooling labour market against still-resilient activity, rather than reacting solely to headline inflation, observing that "there's still some tension between the mandates" and it is "hard to say" if they are fully in balance. Powell also reminded markets that policy operates with lags and that the effects of past tightening are still flowing through the economy. This rationale underpins the Fed's caution: acting prematurely risks undermining inflation progress, whereas waiting carries limited downside if growth remains solid."
- **Fed policy outlook: easing delayed, not abandoned.** The meeting reinforces that the Fed can afford to wait. Inflation is easing as housing costs, wage growth, and energy prices soften, while tariff pass through remains slower than feared. **Markets continue to price the next cut around mid-2026. Even so, a March cut cannot be ruled out. Clearer signs of labour market softening, alongside firmer evidence of continued disinflation through the rest of the first quarter, would strengthen the case for earlier easing.** Under that scenario, a second cut would more likely come later in the year, potentially after Powell's term as chair concludes.
- **US Treasury (UST) outlook: front-end anchored, long end constrained.** The pause supports front end rates, but elevated term premia and heavy supply should keep the long end sticky. We expect the 10-year yield to remain above 4.20% in the near term, with volatility driven more by fiscal dynamics than Fed policy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.75% (+0.25%)	Japan	Overnight Call Rate	Dec-25
3.75% (-0.25%)	UK	Base Rate	Dec-25
1.25% (-0.25%)	Thailand	Repo Rate	Dec-25
4.50% (-0.25%)	Philippines	Target Reverse Repurchase	Dec-25
3.50% - 3.75% (-0.25%)	USA	Funds Rate Target	Dec-25
2.25% (-0.25%)	New Zealand	Official Cash Rate	Oct-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
4.75% (-0.25%)	Indonesia	BI Rate	Sep-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

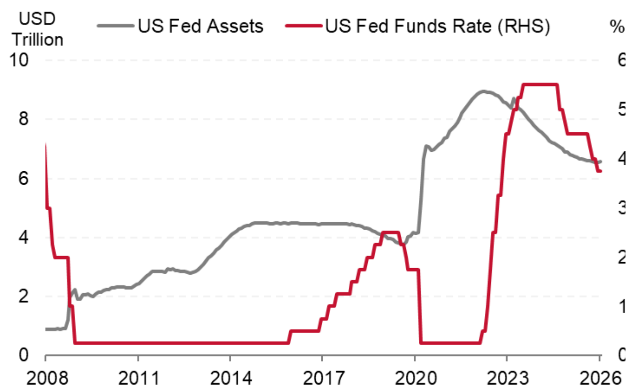
Source: Bloomberg, Kenanga Research

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 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	☑	No change	No change	No Change
2nd	17 and 18 Mar*	☐	25 bps cut	No change	
3rd	28 and 29 Apr	☐	No change	No change	
4th	16 and 17 Jun*	☐	25 bps cut	25 bps cut	
5th	28 and 29 Jul	☐	No change	No change	
6th	15 and 16 Sep*	☐	No change	No change	
7th	27 and 28 Oct	☐	No change	25 bps cut	
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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