

01 September 2026

Jackson Hole 2026

Warsh sets the bar, but his own data does not clear it

- **No explicit signal, a standard rather than a path.** Fed Chair Kevin Warsh used his first Jackson Hole address to set a test, not a direction: the Fed must see underlying inflation moving to 2.0% clearly and at sufficient speed, or there is more work to do. He closed by saying he was committed to a discipline, not a decision, and stopped short of explicitly calling for higher rates. **We would caution against reading the speech as a shift in the burden of proof from hold-unless to hike-unless. Warsh set out what would justify acting, without saying the bar has been met.**
- **His inflation diagnostic is less hawkish than his conclusion.** Warsh gauges underlying inflation by disaggregating the 199 PCE basket components and counting how many run above 3.0%. Over 12 months, PCE runs at 3.7% with 54% of components above that threshold. Over six months, PCE runs hotter at 4.1%, but only 49% clear it: a faster headline without broader price pressure. We concede the level, and note the six-month window is annualised and noisier. Breadth at 54% sits more than 20 points above the 32% pre-pandemic norm, so inflation remains a broad problem. Our claim is about the margin rather than the level: the hotter six-month reading rests on fewer participating categories, so the recent acceleration is narrower than the stock of elevated inflation it sits on top of. A broad level argues for keeping policy restrictive. It does not by itself argue for making it more so. His own breadth measure does not corroborate a broadening inflation impulse. **A faster headline with fewer participating categories fits a concentrated, commodity-led impulse, consistent with our view that energy-driven inflation fades as Brent normalises toward USD80.0/bbl.**
- **The hawkish case rests on financial conditions, and it is credible.** Warsh pointed to credit spreads near the low end of their historical ranges, strong issuance, four-quarter growth in equipment and intangibles investment of around 9%, S&P 500 profits up more than 20%, and low equity volatility. He acknowledged strains in housing and agriculture, but judged broad financial conditions insufficiently restrictive. The July Senior Loan Officer Opinion Survey supports this with more nuance: standards of commercial and industrial loans were largely unchanged over 2Q26, while demand from large and middle-market firms strengthened, and current standards sit easier than banks' historical midpoint. **The distinction matters: standards are already easy rather than actively easing. If policy is not restraining credit while inflation remains above target, the case for doing more is straightforward.**
- **A quieter Fed raises the burden on the data.** Warsh argued that routine forward guidance has overstayed its welcome and creates a hall-of-mirrors problem between the Fed and markets. He wants markets focused less on the next Fed move and more on the underlying data. **We flagged in our 30 July note that reduced forward guidance would make Jackson Hole the key venue for clarifying the reaction function. It did not deliver one, leaving the data to carry more weight into September.**
- **Fed policy outlook: hold in September, first cut still in 2Q27.** We retain our hold call for the 15-16 September FOMC and expect more than July's three dissents. Two features of the speech argue against an immediate move. Warsh rejects setting policy on stale or isolated readings and insists trends matter most, which cuts both ways on a hot or a soft print. His labour market assessment also pre-explains weak job growth, attributing low monthly gains to barely growing labour supply and low turnover to post-pandemic rematching. With unemployment at 4.1% and four-week average claims near their lowest levels in decades, a soft 4 September payroll should carry less weight for Warsh than markets may assume. **A 25 bps hike remains a live risk rather than our base case. The 11 September CPI is the key test.**

Table 1: Scenario Map Into The 15-16 September FOMC

Trigger: 11 September US CPI	Fed Outcome	USDMYR	UST/MGS
Core CPI $\leq 0.1\%$ m/m, breadth narrows further	Hold, cleanly justified	MYR firms, DXY unwinds	UST front end rallies, MGS-UST differential turns less negative
Core CPI $\sim 0.2\%$ m/m, mixed composition	Hold with heavier dissent (base case)	Range-bound, two-way headline risk	Curve stays bear-flattened, spread little changed
Core CPI $\geq 0.3\%$ m/m, firm shelter and non-housing services	25 bps hike	MYR pressured, DXY bid	Front-end UST yields rise, MGS-UST differential turns more negative

Source: Kenanga Research

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- **Read composition before the headline.** Shelter, non-housing services and core goods will determine whether the latest inflation pressure is concentrated or broad-based. A goods and energy-led impulse supports a hold, while broadening services inflation would strengthen the hike case materially. Market pricing is also less decisive than headlines suggest. Immediately after the speech, fed funds futures implied close to 56% for a 25 bps hike, against 48% on Kalshi and 49% on Polymarket. **We remain more dovish than futures pricing, as we were into July.**
- **USD outlook: we maintain our year-end USDMYR forecast of 3.95.** Hawkish rhetoric without policy action failed to sustain USD gains after the July meeting, and we expect a similar pattern unless the September CPI forces a repricing. Our baseline remains that the USD trades on incoming inflation and labour data alongside oil prices, while narrowing US growth exceptionalism and gradual diversification away from US assets keep medium-term pressure on the USD. **A September hold alone is unlikely to drive sustained ringgit appreciation. A hold that leaves the market pricing a higher-for-longer path still puts a firmer near-term floor under the USD. We would not chase MYR strength on a hold headline alone.**
- **UST outlook: we maintain our year-end 10-year forecast of 4.50%, with risks skewed higher.** We raised the forecast from 4.30% on 30 July as term premium continues rebuilding, while disinflation only regains momentum in 1Q27. The post-Jackson Hole repricing concentrated in the front end and belly rather than the long end, reflecting a shift in the expected policy path rather than in long-run inflation expectations. The 2-year rose around 11 bps on the day against roughly 1 bp at the 30-year, leaving the 10-year at 4.72%. **We see limited scope for a sustained break below 4.50%, with structural issuance and corporate investment demand keeping real yields under pressure. We will reassess after the September CPI and FOMC outcome.**
- **MGS outlook: our end-2026 10-year forecast of 3.63% is under review, with risks skewed higher.** We see no meaningful hawkish domestic repricing in the curve, consistent with our unchanged OPR call. The recent sell-off has been a domestic long-end story rather than an imported one. The curve bear-steepened over the past month, with the 3-year little changed last week against a 10 bps rise in the 10-year, while MGS underperformed UST on both the week and the month. That points to supply absorption at the long end. Foreign demand remains supportive, and resilient growth alongside easing inflation continues to cap rather than drive yields. **We see a case for revising the forecast higher, but prefer to wait for greater clarity on the Fed path. We would stay defensive on duration and favour the front end until the September CPI composition clears.**
- **BNM policy outlook: unchanged.** We expect BNM to hold the OPR at 2.75% through 2026 as underlying inflation remains contained and domestic demand stays resilient. With current risks largely supply-driven, BNM is likely to look through temporary energy price movements unless they generate broader, persistent second-round inflationary pressures. **Nothing in Jackson Hole changes that call. If anything, the narrower breadth of US price pressure reinforces our view that the current global inflation impulse remains largely supply-driven.**

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