

17 September 2026

US FOMC Meeting (15 – 16 September)

Unanimous hike into a supply shock; 2Q27 cut dropped for an extended hold

- **First hike since 2023, and a unanimous one.** The Fed raised the target range by 25 bps to 3.75%–4.00%, its first increase in more than three years. The vote was 12-0, with July's three hawkish dissenters now joined by the entire committee, Warsh included. We expected a hold and were wrong on the meeting. Markets had priced the move since Jackson Hole and the August CPI print settled it.

- **Statement: the supply-shock language is gone.** The most telling revision was a deletion. July attributed elevated inflation "in part" to supply shocks in certain sectors, including energy. September removes that clause and replaces it with "today's policy action will support a timelier return to the Committee's 2 percent goal." **The Fed has stopped describing the inflation problem as supply-driven, which was the framing that justified patience two months ago.** The activity language moved the other way: domestic spending "resilient", productivity "strong", capital investment "robust".

- **Press conference: a dose of accommodation removed, no guidance offered.** Warsh framed the move narrowly, saying the committee "removed a dose of accommodation" so that credit and financial conditions align with the mandate, and repeated that he would be hard-pressed to call conditions restrictive. He named three things that changed since July: stronger labour data, elevated summer inflation and geopolitics. He declined to discuss the neutral rate, the path ahead ("I'm not in the forward guidance business") or his conversations with the President, and rejected the suggestion that markets drove the decision. **The message was discipline over direction: the Fed will act on the standard set at Jackson Hole and will not say when.**
- **Dot plot: one more this year, then a long plateau.** The median participant sees the funds rate at 4.1% at end-2026, implying one further hike, and holds it there through 2027 before easing to 3.9% in 2028 and 3.6% in 2029. Twelve of eighteen participants pencilled in one more hike this year, four see two and two see none; only four project any cut in 2027. Warsh again withheld his dot. Growth was revised up to 2.3% and 2.4% for 2026 and 2027, unemployment down to 4.1%, and core PCE up to 3.4% for 2026. **Inflation risks skew to the upside; labour risks are balanced. Markets price roughly three further hikes, well above the median.**
- **Fed policy outlook: the hall of mirrors closes.** We think the hike was a policy error. Warsh has criticised the hall of mirrors in which the Fed validates market expectations rather than exercising independent judgment, and this decision walked into it. The inflation impulse remains an energy and geopolitical shock, with Brent above USD100 and the Saudi East-West pipeline offline. A higher funds rate adds no supply. It tightens credit and raises the cost of capital in an economy already absorbing an external price shock. The risk is that markets test the Fed again: if oil stays elevated and headline inflation does not fall, the question becomes whether one hike was enough. **We lean to one-and-done rather than a cycle and do not attach the next move to a month. We drop our 2Q27 first-cut call, which rested on Brent averaging USD80 in 2026. Our base case is an extended hold at 3.75%–4.00% through end-2027.**
- **USD outlook: initial strength, then fade.** A hawkish hike with the door left open reinforces near-term USD momentum. We expect the ringgit to weaken first as markets digest the signal. As evidence builds that repeated hikes are unnecessary and a December move fades from pricing, we expect the ringgit to recover toward 4.00. **We maintain our year-end USDMYR forecast of 3.95 but see 4.00 as the more realistic near-term anchor,** with domestic variables deciding the rest. The direction of travel from current levels remains toward ringgit strength.
- **US Treasury (UST) outlook: bear flattening, with the long end offering no relief.** Front-end yields rose sharply on the unanimity and the implied second hike, while the 10-Y reversed an earlier decline to close back above the 5.00% line. The 25 bps hike does nothing about what has been driving long rates, namely a wide fiscal deficit, heavy issuance and AI-related capital demand. **Our end-2026 10-Y UST forecast of 4.80% now sits below spot and depends on oil retracing. Risks are clearly skewed higher, and a sustained break above 5.00% would force a revision.** For Malaysia, the MGS sell-off reflects the spillover from higher UST yields and a rebuilt term premium ahead of Budget 2027, not a repricing of BNM. **We maintain our end-2026 10-Y MGS forecast of 3.88% and the OPR at 2.75%.**

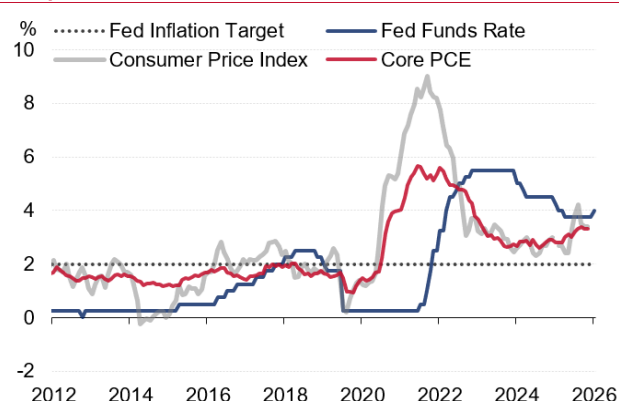
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.75% - 4.00% (+0.25%)	USA	Funds Rate Target	Sep-26
2.50% (+0.25%)	Euro Area	Key Deposit Facility Rate	Sep-26
2.75% (+0.25%)	New Zealand	Official Cash Rate	Sep-26
5.00% (+0.25%)	Philippines	Target Reverse Repurchase	Aug-26
3.00% (+0.25%)	South Korea	Base Rate	Aug-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
1.00% (+0.25%)	Japan	Overnight Call Rate	Jun-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

Source: Bloomberg, Kenanga Research

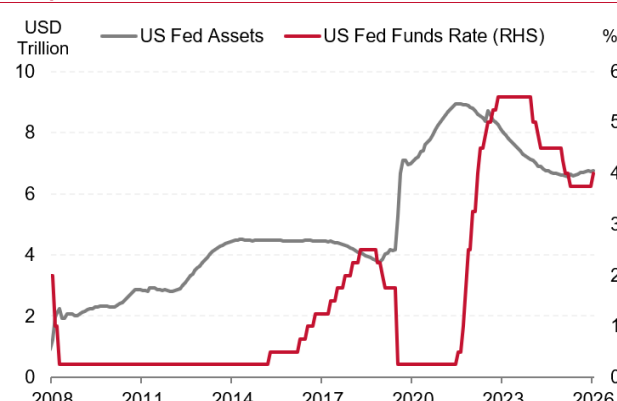
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Graph 1: Fed Funds Rate and Inflation Trends



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*	☑	No change	No change	No change
3rd	28 and 29 Apr	☑	No change	No change	No change
4th	16 and 17 Jun*	☑	No change	No change	No change
5th	28 and 29 Jul	☑	No change	No change	No change
6th	15 and 16 Sep*	☑	No change	25 bps hike	25 bps hike
7th	27 and 28 Oct	☐	No change	No change	
8th	8 and 9 Dec*	☐	No change	25 bps hike	

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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