

US FOMC Meeting (18 - 19 March)

Holds rates steady amid rising economic uncertainty, no rush to cut

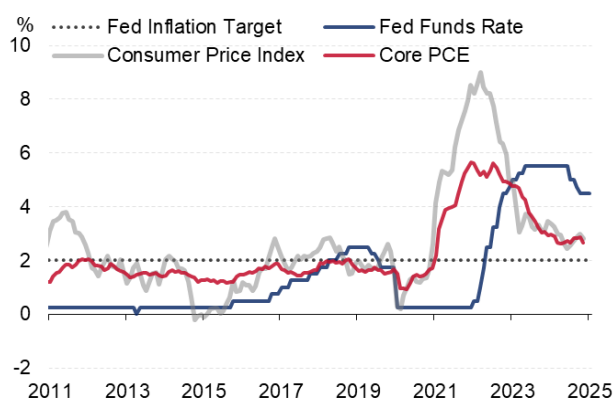
- The Federal Reserve extended its rate cut pause for a second straight meeting, keeping the target range at 4.25% to 4.50%,** as expected. While the decision was unanimous, Chris Waller dissented on the QT decision, preferring to maintain the current pace of balance sheet drawdown.
- Fed speak: A somewhat dovish pause.** The statement had minor but notable changes, with the key shift being a slowdown in the balance sheet runoff. The Fed also acknowledged that **“uncertainty around the economic outlook has increased,”** referencing Trump’s trade policies.
- Press conference: Tariff, tariff and tariff.** Fed Chair Jerome Powell conceded that **tariffs accounted for a “good part” of the Fed’s higher inflation forecast.** While warning that “further progress may be delayed,” he **reintroduced the notion of inflation being “transitory,”** arguing tariffs would not have lasting effects. On **recession risks,** Powell put the odds at **“one in four at any time,”** aligning with consensus (25.0%) but lower than prediction markets (~36.0%). His composed tone suggested the Fed believes it can manage uncertainties from Trump’s policies.
- Dot plot highlights: A “highly uncertain” forecasts.** The Fed still project 50 bps of rate cuts in 2025, but the **number of officials expecting no cuts at all has risen to four, up from one in December.** **Core PCE** is now expected to **end 2025 at 2.8%** (previously 2.5%), while **GDP growth** (1.7% vs. 2.1%) and **labour market conditions** (unemployment at 4.4% vs. 4.3%) **are set to weaken.** In May 2024, Powell dismissed concerns of stagflation, stating, “I don’t see the ‘stag’ or the ‘-flation’,” yet the latest projections suggest otherwise.
- Fed policy outlook: No rush to cut.** Powell reiterated that “the right thing to do is to wait here for greater clarity.” While waiting for more data is prudent, **Trump’s tariff-driven inflation risks could erode consumer and corporate confidence,** soften the labour market, and raise stagflationary risks. **We still expect two rate cuts this year,** probably in June and September, provided inflation expectations remain anchored.
- US Treasury (UST) outlook: Balance sheet shift.** The Fed will slow its runoff of Treasuries, lowering the monthly redemption cap to USD5.0b from USD25.0b starting in April. This cautious approach aims to avoid liquidity disruptions as Congress navigates the debt-ceiling impasse. The bond market rallied in response, with 10-year UST yields easing. With greater clarity on the Fed policy rate direction, the market sees reduced upside risk for longer-duration bonds. For now, **we maintain our year-end yield forecast of around 4.50%, given lingering economic uncertainty.**

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.75% (-0.25%)	Canada	Overnight Rate	Mar-25
2.50% (-0.25%)	Euro Area	Key Deposit Facility Rate	Mar-25
2.00% (-0.25%)	Thailand	Repo Rate	Feb-25
2.75% (-0.25%)	South Korea	Base Rate	Feb-25
3.75% (-0.50%)	New Zealand	Official Cash Rate	Feb-25
4.10% (-0.25%)	Australia	Cash Rate	Feb-25
4.50% (-0.25%)	UK	Base Rate	Feb-25
4.25% - 4.50% (-0.25%)	USA	Funds Rate Target	Jan-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25
5.75% (-0.25%)	Indonesia	BI Rate	Jan-25
5.75% (-0.25%)	Philippines	Target Reverse Repurchase	Dec-24
3.10% (-0.25%)	China	Loan Prime Rate (1Y)	Oct-24
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23

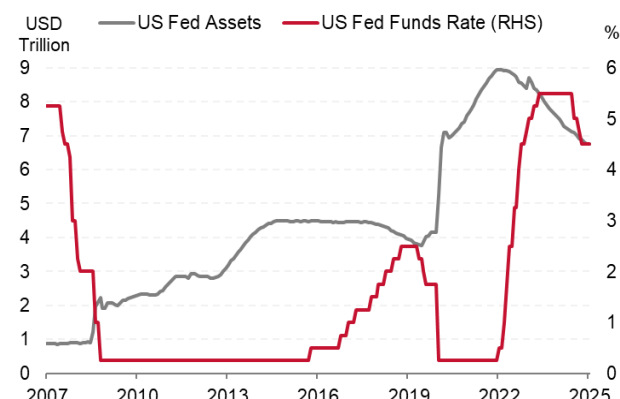
Source: Bloomberg, Kenanga Research

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

20 March 2025

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	<input checked="" type="checkbox"/>	No change	No change	No change
2nd	18 and 19 Mar*	<input checked="" type="checkbox"/>	No change	No change	No change
3rd	6 and 7 May	<input type="checkbox"/>	No change	No change	
4th	17 and 18 Jun*	<input type="checkbox"/>	25 bps cut	25 bps cut	
5th	29 and 30 Jul	<input type="checkbox"/>	No change	No change	
6th	16 and 17 Sep*	<input type="checkbox"/>	25 bps cut	25 bps cut	
7th	28 and 29 Oct	<input type="checkbox"/>	No change	No change	
8th	9 and 10 Dec*	<input type="checkbox"/>	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)

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my