Economic Review

Fed Not in Rush to Cut, Keeping FFR Unchanged at 4.25-4.50%

ECONOMIC REVIEW: January 2025 US FOMC Meeting



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- No change to FFR target range. Following the Jan-25 FOMC meeting, the Fed decided to maintain the target range for fed funds rate (FFR) at 4.25-4.50%. The decision was widely expected in line with ours and market expectations.

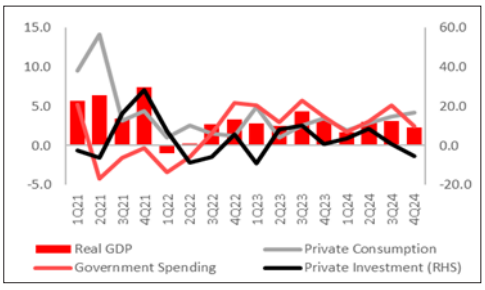
- No update to the FOMC projection. There was no update to the FOMC projection after the recent meeting. Nevertheless, the US economy continued to show resilience, with the Fed reiterating its assessment of a solid economic expansion.

- Higher inflation but still within expectations. The Fed stated inflation in the US remained "somewhat elevated". Nevertheless, inflation pressures generally remained under control as the core CPI inflation eased slightly to +3.2%yoy after remaining unchanged at +3.3%yoy in the previous 3 months.

- Possible another rate cut this year. We maintain our expectations that the Fed will carry out at least 1 rate cut this year as long as inflation continues to move towards the Fed's longer-term price stability target. Nevertheless, we are also cautious of renewed inflationary pressures from policy changes by the new US administration.

No change to FFR target range. Following the Jan-25 FOMC meeting, the Fed decided to maintain the target range for fed funds rate (FFR) at 4.25-4.50%. The decision was widely expected in line with ours and market expectations. The Fed Chairman indicated that the central bank is "not in a rush" to adjust FFR, while it remained committed to ensure the US inflation moving towards its +2% target and support maximum employment. As stated in the FOMC statement, the Fed will continue to shrink its balance sheet by reducing holdings of US treasuries as well as agency debts and mortgage-backed securities (MBS). Until 22 January 2025, the size of the Fed's balance sheet stood at USD6.83t, the lowest level since early May-20. This means the Fed has reduced its security holdings by more than -USD2.1t from the peak in Apr-22.

Chart 1: US GDP Growth (Annualised QoQ%)



Source: Macrobond, MIDFR

No update to the FOMC projection. There was no update to the FOMC projection after the recent meeting. Nevertheless, the US economy continued to show resilience, with the Fed reiterating its assessment of a solid economic expansion. Although the US GDP growth moderated to annualised +2.3%qoq in 4QCY24 (3QCY24: +3.1%qoq) particularly due to weaker non-residential

investment (-2.2%qoq; 3QCY24: +4.0%qoq), personal consumption expenditures expanded faster (+4.2%qoq; 3QCY24: +3.7%qoq), the highest growth in 7 quarters. This indicates robust consumer spending on both goods and services as sentiment improved on the back of easing inflation.

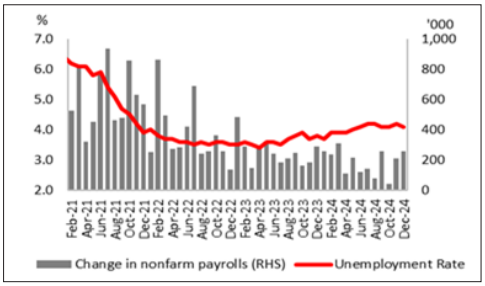
Still healthy job market, with more stable unemployment rate. The Fed maintained its view that conditions in the US labour market remained solid thus far. Following the strong job growth in Dec-24 as non-farm payrolls rose more than expected by +256K (Nov-24 +212K), the unemployment rate even dropped slightly to 4.1% (Nov-24: 4.2%). In response to the press conference, the Fed Chair once again mentioned no further cooling is needed for the US job market given the more balanced conditions as a result of the previous aggressive policy tightening. With no sign of significant deterioration so far, we believe the resilient job market will continue to support the US consumer spending.

Higher inflation but still within expectations. The Fed stated inflation in the US remained "somewhat elevated". While the recent reading remained around 3-year lows, the headline PCE inflation, for example, accelerated for the 2nd straight month to +2.4%yoy in Nov-24 (Oct-24: +2.3%yoy). Nevertheless, the Fed indicated no immediate concerns about strong underlying price pressures as core PCE inflation remained unchanged at +2.8%yoy in Nov-24. Inflation pressures generally remained under control as the core CPI inflation eased slightly to +3.2%yoy after remaining unchanged at +3.3%yoy in the previous 3 months. This was in contrast to the headline CPI which continued to trend higher in the last 3 months of 2024, reaching +2.9%yoy in Dec-24. On another note, the Fed Chair again mentioned the easing inflation for shelter and housing services could result in further easing in the US inflation going forward.

The government policy changes can be inflationary. The Fed also indicated concerns about the possible inflation pressures from policy changes by the new US government. Like other market observers, the Fed also discussed and evaluated possible inflationary risks from tariff hikes, tighter immigration rules and other fiscal policy adjustments. However, the Fed Chair stressed on the uncertainty with regards to the inflation outlook, subject to the actual decisions by the US government. In addition, he indicated that the pick-up in inflation expectations had been the key factor contributing to the upward repricing of long-term interest rates. In other words, increases in the US treasury yields reflected changing market expectations towards slower rate cuts by the Fed.

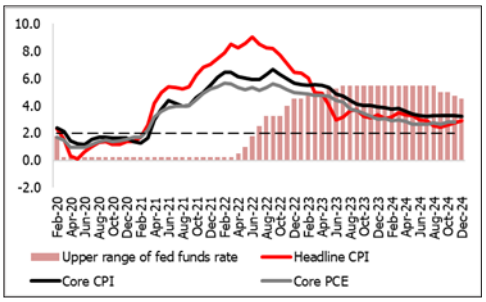
Possible another rate cut this year. At this juncture, we maintain our expectations that the Fed will carry out at least 1 rate cut this year to bring the fed funds rate closer to neutral level as long as inflation continues to move towards the Fed's longer-term price stability target. Nevertheless, we are also cautious of renewed inflationary pressures which can be triggered by policy changes by the new US administration. Given the continued strength in the US economy and the job market, we believe the Fed will continue to maintain its cautious stance for now before slashing FFR further.

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



Source: Macrobond, MIDFR

Chart 3: US CPI vs Core PCE Inflation (YoY%)



Source: Macrobond, MIDFR

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Jun-24	Jul-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.25	6.25	6.00	6.00	6.00	6.00	5.75
Philippines	6.50	6.50	6.50	6.25	6.25	6.00	6.00	5.75	5.75
Thailand	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.50	3.50	3.25	3.00	3.00	3.00
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	0.00-0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
UK	5.25	5.25	5.00	5.00	5.00	5.00	4.75	4.75	4.75
Euro area	4.25	4.25	4.25	4.25	3.65	3.40	3.40	3.15	2.90
USA	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	4.75-5.00	4.75-5.00	4.50-4.75	4.25-4.50	4.25-4.50

Source: Bloomberg; MIDFR

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