FFR Target Range Kept at 4.25-4.50%, Still Concerned About Inflation Risk

Economic Review
Jul-25 FOMC Meeting



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- Fed maintained its policy setting as widely anticipated. The Fed decided at the Jul-25 FOMC Meeting to keep the target range for fed funds rate (FFR) unchanged at 4.25-4.50%, in line with ours and market expectations. The Fed believes the existing policy remains "moderately restrictive" to keep inflation under control.
- Growth moderated in 1HCY25 as consumer spending growth slowed. The Fed stated that the US GDP growth has moderated to +1.2% in 1HCY25, slower than the robust +2.5% expansion experienced last year. The 6-month growth performance provides a more stable reading compared to the quarterly growth, which can be more volatile. In contrast to the moderation in 1H, the US GDP growth rebounded to annualised +3.0%qoq in 2QCY25 (1QCY25: -0.5%qoq.
- Inflation remained "somewhat above" the Fed's longer-term target. Overall inflation trends remained above the Fed's +2.0% target amid concerns that the higher tariffs could cause price pressures to accelerate again. The Fed indicated that the higher tariffs explained some of the increases in goods inflation, in contrast to slower services inflation.
- Anticipating Fed to reduce interest rates later this year. We continue to expect the Fed will resume its policy easing at the upcoming FOMC meetings later this year, likely to cut fed funds rate by 1-2 times (or cumulatively up to -50bps). The rate reduction will be intended to support the economy as the growth momentum is projected to moderate.

Fed maintained its policy setting as widely anticipated. The Fed decided at the Jul-25 FOMC Meeting to keep the target range for fed funds rate (FFR) unchanged at 4.25-4.50%, in line with ours and market expectations. The Fed believes the existing policy remains "moderately restrictive" to keep inflation under control. At the same time, the Fed will continue to reduce the size of its balance sheet by decreasing its holding of treasury and agency securities. As of 23rd July 2025, the Fed's balance sheet has declined to USD6.66t, decreasing cumulatively by -USD2.31t from the peak in Apr-22.

Finding the right time before adjusting interest rates. At the press conference, the Fed Chair shared the delicate balance the Fed will have to consider, mainly to avoid cutting too soon or too late. If the Fed makes a hasty decision to continue reducing FFR, the early move to cut interest rates could be inflationary due to renewed strength in consumer spending. On the other hand, if the Fed takes too long to decide on further policy easing, there can be destabilising effects on the job market. According to the Fed Chair, the US central bank is trying to determine the right timing before making further adjustments to its benchmark interest rates.

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tariffs explained some of the increases in goods inflation, in contrast to slower services inflation. On the balance of risk, the Fed also highlighted the risk of a more persistent rise in inflationary pressures, instead of a one-time price hike, triggered by higher tariffs. Thus far, the acceleration in the headline and core PCE inflation rates has been limited even until May-25, which only increased by +2.3%yoy (Apr-25: +2.2%yoy) and +2.7%yoy (Apr-25: +2.5%yoy).

The US job market is stable and "broadly in balance." The Fed continued to signal the continued stability in the job market, with the jobless rate remained low at 4.1%, and has been moving in a "narrow range" over the past 12 months. We view the softening trend in the filings of unemployment benefits, which fell back to around 220K in recent weeks), also suggests overall resilience in the job market. However, the rebalancing in the job market is expected to continue with the FOMC's median projection predicting the jobless rate to increase towards 4.5% this year. At the same time, we are seeing slower job growth with nonfarm payrolls rising by average +130.3K a month in 6MCY25, adding smaller number of jobs compared to previous years (2024: +167.7K/month; 2023: +216.2K/month). Nevertheless, the easing job growth matched with the lower labour demand, as the JOLTS job openings hovering lower at monthly average of 7.5m (2024: 7.8m/month; 2023: 9.3m).

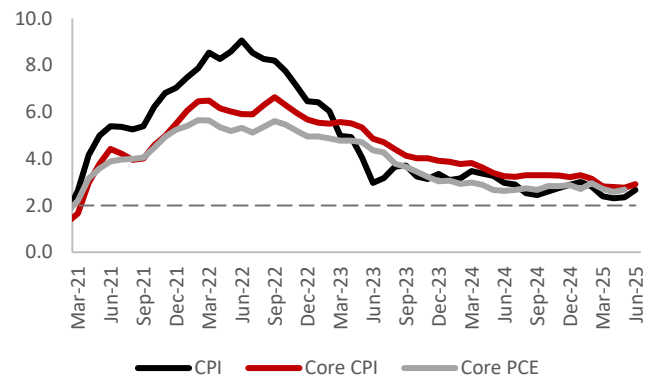
Anticipating Fed to reduce interest rates later this year. We continue to expect the Fed will resume its policy easing at the upcoming FOMC meetings later this year, likely to cut fed funds rate by 1-2 times (or cumulatively up to -50bps). The rate reduction will be intended to support the economy as the growth momentum is projected to moderate. This can be attributable to the still tight and restrictive credit policy and further rebalancing in the job market. However, the Fed will remain cautious, given its ongoing objective to keep inflation under control, following a heightened inflation risk linked to the higher tariffs. In addition, we believe the continued resilience of the US economy and job market will also support the Fed to delay rate cuts.

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

	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75
Indonesia	6.00	6.00	5.75	5.75	5.75	5.75	5.50	5.50	5.25
Philippines	6.00	5.75	5.75	5.75	5.75	5.50	5.50	5.25	5.25
Thailand	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.00	3.00	3.00	2.75	2.75	2.75	2.50	2.50	2.50
India	6.50	6.50	6.25	6.25	6.25	6.00	5.50	5.50	5.50
Japan	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.25	4.25
Euro area	3.40	3.15	2.90	2.90	2.65	2.40	2.40	2.15	2.15
USA	4.50-4.75	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50

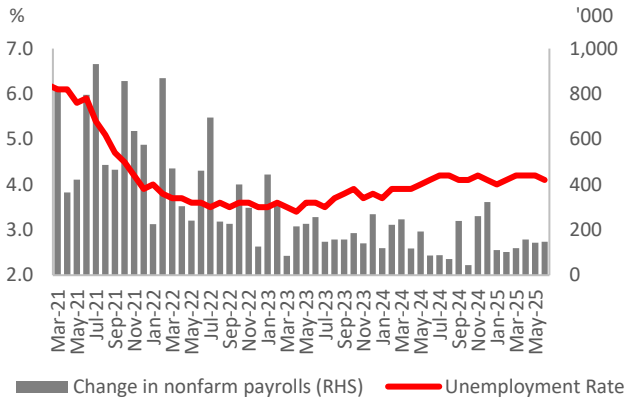
Source: Macrobond, MBSBR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



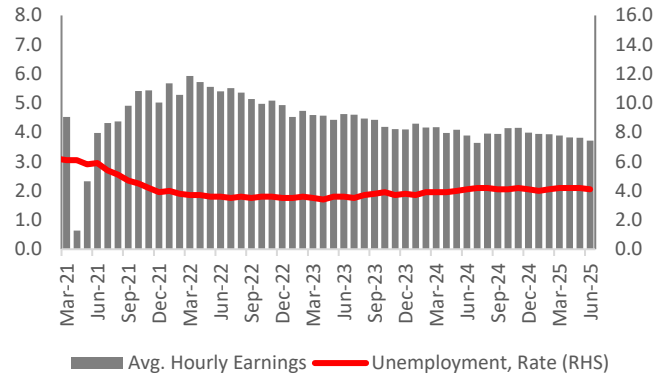
Source: Macrobond, MBSBR

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



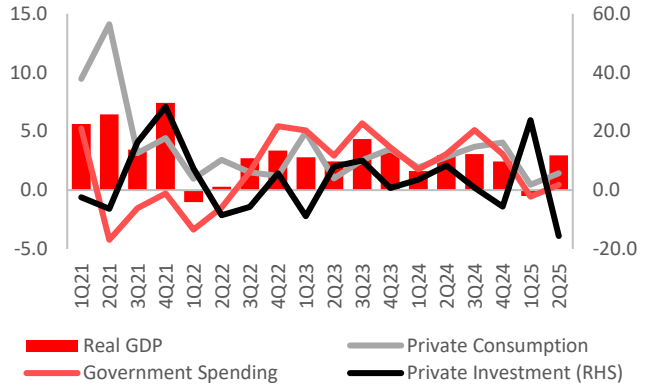
Source: Macrobond, MBSBR

Chart 3: Wage growth (YoY%) vs Unempl. Rate (%)



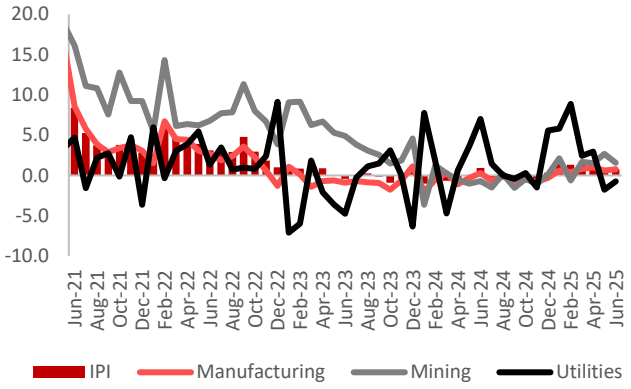
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



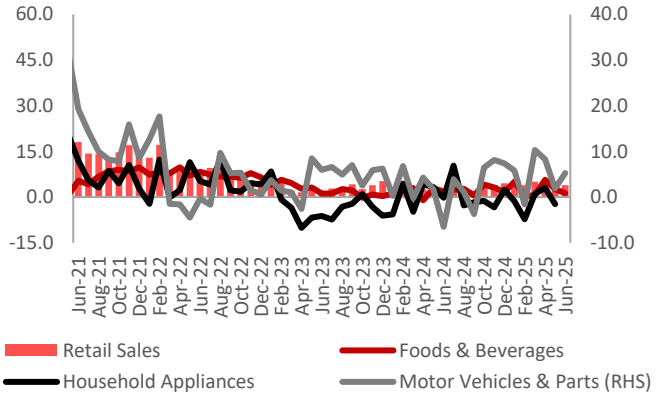
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



Source: Macrobond, MBSBR

Chart 6: US Retail Sales (YoY%)



Source: Macrobond, MBSBR

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