Fed Maintained FFR at 3.50-3.75% Amid Higher Inflation Concerns

Economic Review
Mar-26 FOMC Meeting



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- At the Mar-26 FOMC meeting, the FOMC maintained the target range for fed funds rate (FFR) at 3.50-3.75%. The decision is in line with our and market expectations as the Fed balancing its mandate given the stability in the US job market and elevated inflation concerns.
- The FOMC statement indicated that activities in the US economy have been growing at a solid pace, the same broad assessment as in the previous meeting. Fed also maintained that job gains have been low, with inflation remaining somewhat elevated.
- The updated projection shows FOMC members anticipating the US economy to grow at +2.4% this year, a slight upgrade from +2.3% in the Dec-25 projection. The projection for both headline and core PCE inflation has also been upgraded to +2.7% (Dec-25 projection: +2.4%) and +2.7% (Dec-25 projection: +2.5%), respectively.
- Given the higher inflation concerns, we believe the probability for rate cuts is relatively lower. While the Fed still signals for possibility of another cut this year, we expect the timing for further policy easing will be delayed to latter part of the year.

Fed continues to balance its dual mandates

At the Mar-26 FOMC meeting, the FOMC maintained the target range for fed funds rate (FFR) at 3.50-3.75%. The decision is in line with our and market expectations as the Fed balancing its mandate given the stability in the US job market and elevated inflation concerns. According to the FOMC statement, 11 members voted in favour of the action, while Stephen Miran was the only member who voted for additional -25bps cut. Despite concerns about the geopolitical situation in the Middle East, the FOMC statement indicated the uncertain implications to the US economy which could affect both the outlook for inflation and the job market.

Broadly similar assessment on the economy and job market; no stagflation

The FOMC statement indicated that activities in the US economy have been growing at a solid pace, the same broad assessment as in the previous meeting. Fed also maintained that job gains have been low, with the -92K decline in nonfarm payrolls in Feb-26 (Jan-26: +126K) and "little change" in the unemployment rate in recent months. The Fed Chair also dismissed concerns of stagflation; unlike the high inflation and double-digit unemployment in the 1970s, the current level of unemployment remains near historical norms.

Some upgrades to growth and inflation outlook

The updated projection shows FOMC members anticipating the US economy to grow at +2.4% this year, a slight upgrade from +2.3% in the Dec-25 projection. The GDP growth forecast for 2027 has also been raised to +2.3% from +2.0% previously. Meanwhile, unemployment rate is expected to stabilize around 4.4% this year, the same forecast as in Dec-25, before declining slightly to 4.3% next year. Price pressures, however, will likely be higher this year as the projection for both headline and core PCE inflation has been upgraded to +2.7% (Dec-25 projection: +2.4%) and +2.7% (Dec-25 projection: +2.5%), respectively. This reflects concerns of the higher crude oil and fuel prices because of the war in Iran. Despite the elevated inflation, the FOMC members kept its median forecast for fed funds rate unchanged at 3.4%, basically anticipating 1 rate cut this year before

easing towards 3.1% next year. The range forecast for FFR, however, has been tightened to 2.6-3.6% (Dec-25 projection: 2.1-3.9%). This more elevated floor suggests the Fed may maintain a restrictive monetary policy for longer to contain inflation, potentially delaying the next rate cut.

Inflation remained somewhat elevated with higher inflation expectations in the short run

The FOMC reiterated that the US Inflation remains somewhat elevated, as both the headline and core inflation continue to hover above the Fed's +2.0% target. As of Feb-26, both headline and core CPI inflation were unchanged at +2.4%yoy and +2.5%yoy, respectively. In contrast, the headline PCE eased slightly to +2.8%yoy in Jan-26 (Dec-25: +2.9%yoy) but core PCE inflation accelerated to +3.1%yoy (Dec-25: +3.0%yoy). Understandably, the short-term inflation expectations picked up particularly due to the recent jump in energy and oil prices triggered by the conflict in the Middle East. However, the Fed Chair indicated that the longer-run inflation expectations remain well-anchored near the Fed's +2.0% target.

Cooling job market conditions may support another rate cut scenario

The US job market has been showing resilience and stability in recent months. Despite the weaker job creation data, with the nonfarm payrolls falling by -92K in Feb-26, Chairman Powell highlighted about the stability in the unemployment rate which continues to hover around 4.3-4.4% in the recent months. Other data such as initial jobless claims, which averaged 214.1K a week in the first 9 weeks this year (weekly average in 2025: 226.1K), also point to stability (and therefore no sharp deterioration) in the US job market. Following the rebalancing in the job market, this explains the reduced pressures on wage growth, as the increase in average hourly earnings has been stabilizing around +3.8% in the 6-month period to Feb-26 (2023: +4.5%; 2022: +5.4%).

Reduced probability for rate cuts due to higher inflation risk

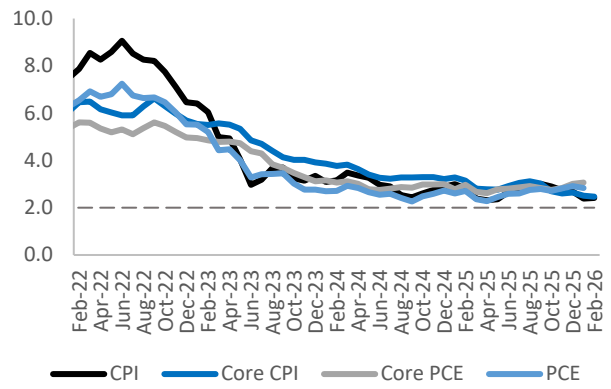
Given the higher inflation concerns, we believe the probability for rate cuts is relatively lower. While the Fed still signals for possibility of another cut this year, we expect the timing for further policy easing will be delayed to latter part of the year. In contrast, market expectations also priced in reduced probability for 2 rate cuts this year. While the decision will be guided by incoming data, we foresee the attention will likely shift towards containing inflation if the job market continues to remain stable. On the other hand, if the job market weakens again, the Fed will continue to balance its dual mandate towards full employment and long-term price stability.

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

	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	5.25	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Philippines	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.25	4.25
Thailand	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.00	1.00
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
India	5.50	5.50	5.50	5.50	5.50	5.25	5.25	5.25	5.25
Japan	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75
UK	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75
Euro area	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
USA	4.25-4.50	4.25-4.50	4.00-4.25	3.75-4.00	3.75-4.00	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75

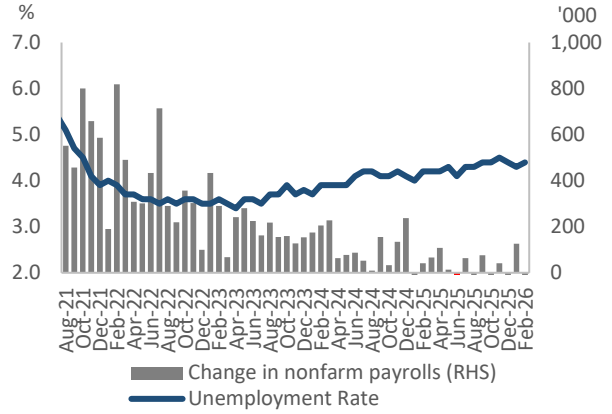
Source: Macrobond, MBSBR

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



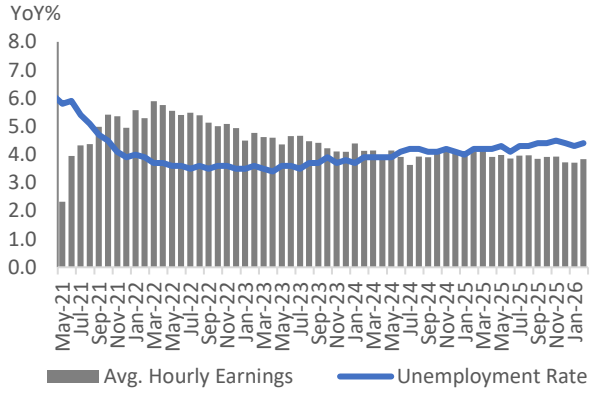
Source: Macrobond, MBSBR

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



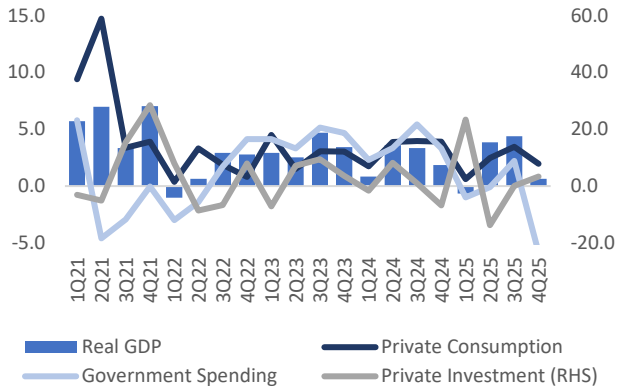
Source: Macrobond, MBSBR

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



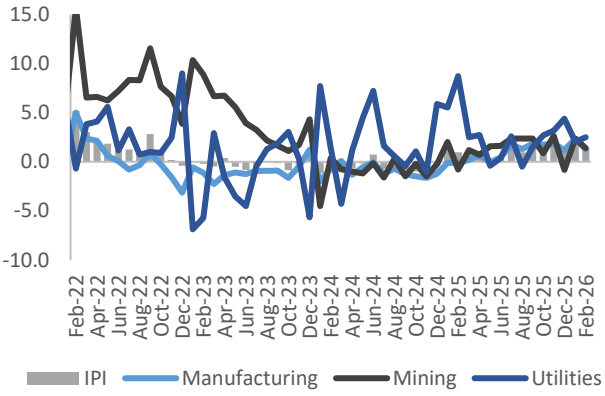
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



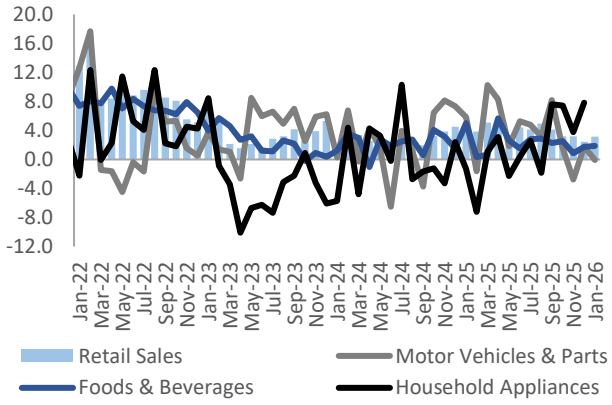
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



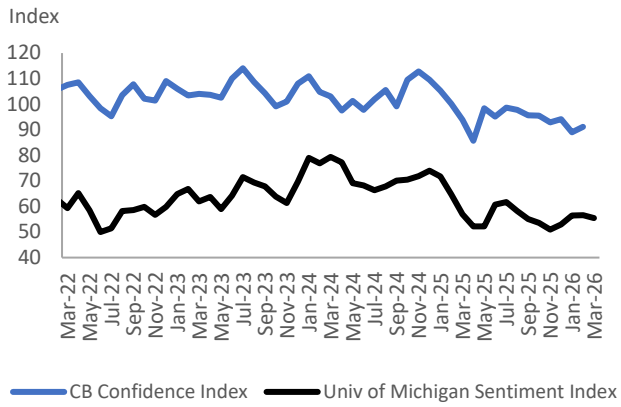
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



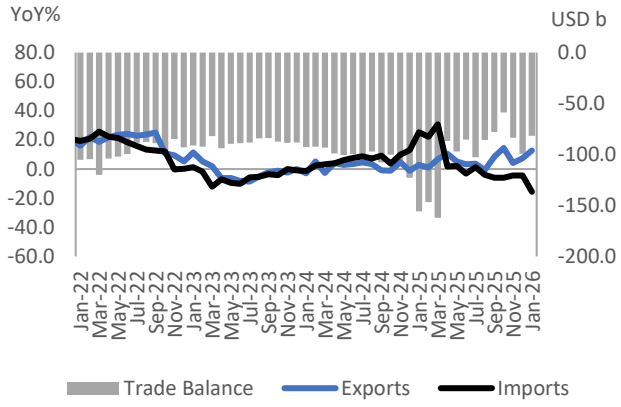
Source: DOSM, MBSBR

Chart 7: US Consumer Sentiment and Confidence (Index)



Source: Macrobond, MBSBR

Chart 8: US External Trade Performance (YoY%)



Source: Macrobond, MBSBR

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