Fed Holds Fed Funds Rate at 3.50-3.75% Amid Elevated Inflation Risks

Economic Review
Apr-26 FOMC Meeting



Author
MBSB Research
research@mbsb.com

Economic Review

- After the Apr-26 FOMC meeting, target range for fed funds rate (FFR) remained unchanged at 3.50-3.75%, in line with our and market expectations, balancing between providing continued support to the economy and addressing persistent inflationary pressures.
- The FOMC maintained that US economic activity continued to expand at a "solid" pace. Growth remains supported by resilient consumer spending, with job market having softened but remained stable in recent months.
- According to the FOMC, inflation in the US is elevated, an upgrade from "somewhat elevated" in previous meetings, partly reflecting higher energy prices amid ongoing tensions in the Middle East.
- We expect the fed funds rate to remain on hold as the Fed balances persistent inflation risks against a cooling but stable labour market. With job growth subdued, the Fed is unlikely to tighten aggressively, while continued resilience in consumer spending and business activity reduces the urgency to ease further. Additional rate cuts could risk fuelling inflation, especially amid ongoing geopolitical tensions in the Middle East.

No change to FFR but growing differences regarding easing path

After the Apr-26 FOMC meeting, target range for fed funds rate (FFR) remained unchanged at 3.50-3.75%. The FOMC's decision, which is in line with both our and market expectations, reflects the Fed's balancing act between supporting the economy and addressing persistent inflationary pressures. While most of the FOMC members voted to keep interest rates unchanged, several members preferred to exclude any reference to an easing bias in the latest statement. This suggests diverging views among the Fed policymakers as persistent price pressures are likely to keep inflation above the Fed's +2% target.

Solid expansion in economic activity

The FOMC maintained that US economic activity continued to expand at a "solid" pace. Growth remains supported by resilient consumer spending, with retail sales rising steadily by +4.0%yoy in Mar-26, partly underpinned by higher spending on gasoline and energy. Recent PMI readings also point to expanding business activity in Apr-26. In 1QCY26, the US GDP growth is expected to rebound from the weak +0.5%qoq annualised expansion in 4Q last year, with market consensus projecting a stronger +2.3%qoq growth, higher than the Atlanta Fed's GDPNow estimate of +1.2%qoq.

Inflation remained elevated above the Fed's target

According to the FOMC statement, inflation in the US is elevated, an upgrade from "somewhat elevated" in stated the previous meetings, partly reflecting higher energy prices amid ongoing tensions in the Middle East. Headline CPI rose sharply to +3.3%yoy in Mar-26 (Feb-26: +2.4%yoy), the highest since May-24, while core inflation increased only marginally to +2.6%yoy and has remained broadly stable in the +2.5%–2.6% range over the past five months. The inflation outlook remains uncertain, particularly due to the ongoing conflict with Iran and disruptions in the Strait of Hormuz, which could affect global oil and gas supply. The Fed Chair noted that geopolitical developments, particularly the Middle East conflict, could keep inflation elevated for longer through higher energy prices,

in contrast to earlier concerns that tariff-related price pressures would be largely transitory.

Job market has softened, little changed in recent months

The FOMC continued to indicate the US job market have cooled down, with job gains remaining low in the recent months. The softening of the job market was attributable to both slower labour force growth (due to tighter immigration policy and reduced participation) and softer labour demand. According to the Fed, recent data such as job openings, layoffs, hiring and wage growth showed little changes. We view the recent data indicating stability in the US job market, but conditions are less dynamic. The pace of job growth has slowed, with nonfarm payrolls increasing by average +21.4K per month between Jan-25 to Mar-26 (monthly average in 2024: +121.6K). Meanwhile, jobless rate remained broadly steady around 4.3% in recent months, although occasional monthly declines in nonfarm payrolls over the past year.

Expect no change to interest rates for now

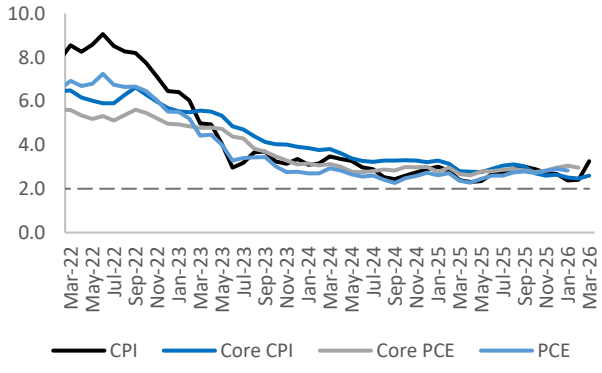
We expect the fed funds rate to remain on hold as the Fed balances persistent inflation risks against a cooling but stable labour market. With job growth subdued, the Fed is unlikely to tighten aggressively, while continued resilience in consumer spending and business activity reduces the urgency to ease further. Additional rate cuts could risk fuelling inflation, especially amid ongoing geopolitical tensions in the Middle East. Overall, policy is likely to stay data-dependent, with rates kept unchanged for now.

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

	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Philippines	5.00	5.00	4.75	4.75	4.50	4.50	4.25	4.25	4.50
Thailand	1.50	1.50	1.50	1.50	1.25	1.25	1.00	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	5.25	5.25	5.25	5.25	5.25
Japan	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
UK	4.00	4.00	4.00	4.00	3.75	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	4.00-4.25	3.75-4.00	3.75-4.00	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75

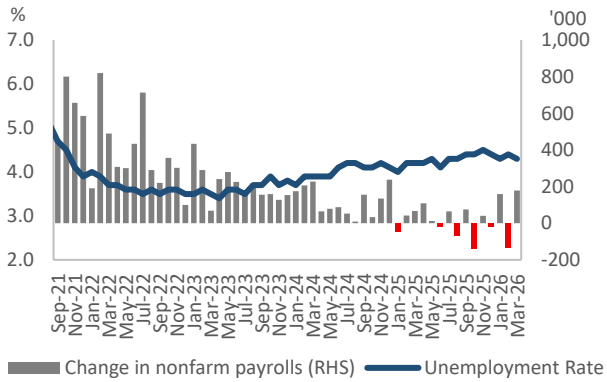
Source: Macrobond, MBSBR

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



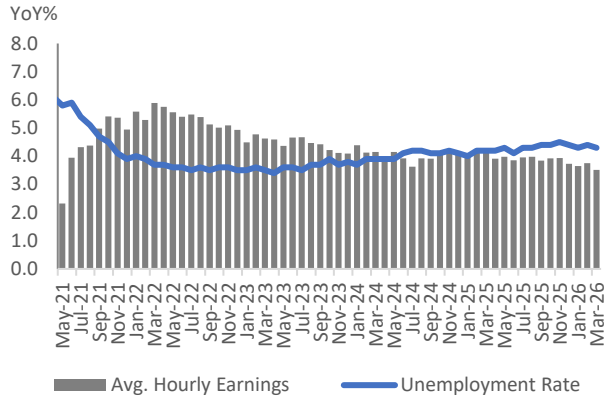
Source: Macrobond, MBSBR

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



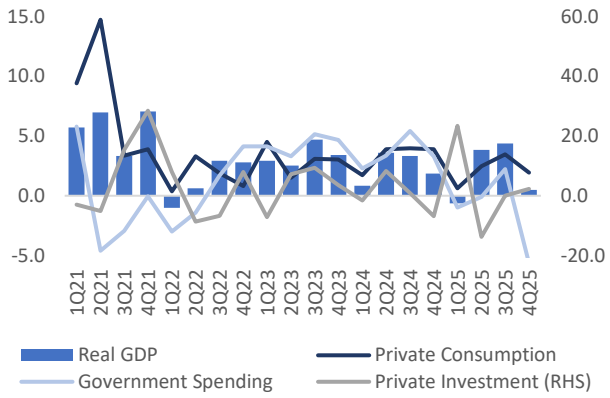
Source: Macrobond, MBSBR

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



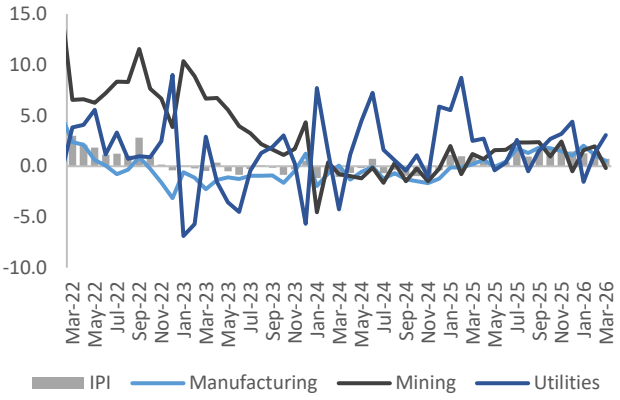
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



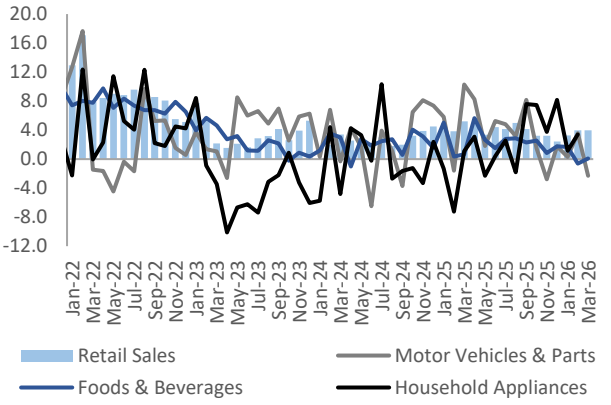
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



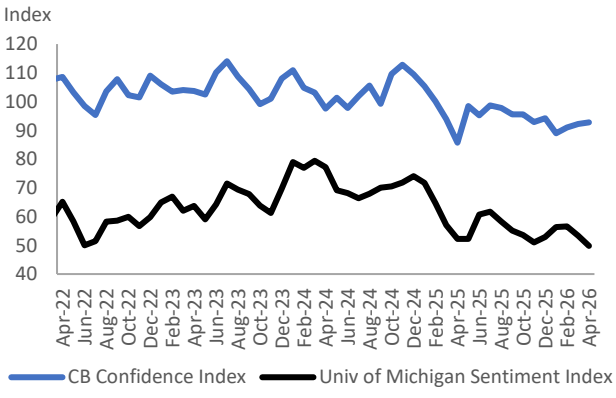
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



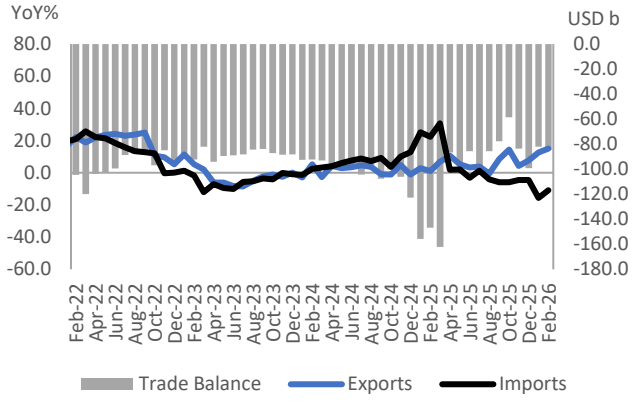
Source: DOSM, MBSBR

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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