Fed Keeps Fed Funds Rate at 3.50-3.75%, Moving Away from Forward Guidance

Economic Review
Jun-26 FOMC Meeting



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Economic Review

- In line with market expectations, the federal funds rate target range has been maintained at 3.50%-3.75% following the June 2026 FOMC meeting. The shorter FOMC statement reflects the reduced emphasis on providing explicit forward guidance to the market.
- Recent data suggests that economic activity in the US has been growing at solid pace. There stability in the job market, with the FOMC indicating "job gains have kept pace with the workforce" with little change to the unemployment rate. Updated FOMC projection anticipates inflation will be more elevated this year, with some impact on the US economic growth.
- Apart from scaling back the use of forward guidance, Kevin Warsh unveiled a broader reform agenda through the creation of five review committees, tasked to evaluate the Fed's operational framework and propose improvements to its policymaking process. This will cover 5 main areas, namely: communications, Fed's balance sheet, data usage, productivity & employment transformation, and inflation framework.
- We foresee a relatively more hawkish policy outlook with the possibility of one rate hike by the Fed later this year. Persistent supply disruptions and rising raw material costs would keep inflation elevated and warrant a tighter monetary policy stance. However, the inflation outlook could improve should a durable peace agreement between the US and Iran materialise.

No change to FFR, reduced emphasis on forward guidance

In line with market expectations, the fund funds rate target range has been maintained at 3.50-3.75% after the Jun-26 FOMC meeting. The FOMC reiterated its commitment to fulfilling its dual mandate, particularly in ensuring price stability amid persistent inflationary pressures. Apart from usual assessment on the monetary policy settings economic activity, labour market conditions and inflation developments, the latest FOMC statement appears shorter than previous versions. This reflects the Fed's reduced emphasis on providing explicit forward guidance to the market.

Solid economic activity, with stable job market

In the FOMC statement, recent data suggests that economic activity in the US has been growing at solid pace. There stability in the job market, with the FOMC indicating "job gains have kept pace with the workforce" with little change to the unemployment rate. Nonfarm payrolls have been increasing robustly, rising more than +170K in Apr-26 and May-26 after the strong +214K rebound in Mar-26. The jobless rate remained at 4.3% in the recent 3 months, easing slightly from 4.4% in Feb-26. The new Fed Chair also shared that some of the FOMC members indicated that the job market is moving in the right direction based on the recent trends.

Inflation remained elevated above the Fed's target

The Fed repeated its assessment that inflation remained elevated above its +2% target. This was attributable to supply shocks, resulting in increased prices in energy and other sectors. Recent data shows that the US headline inflation has been trending higher in the past 3 months, reaching +4.2%yoy in May-26 (Feb-26: +2.4%yoy), and the core CPI inflation accelerating at a more gradual pace to +2.9%yoy (Feb-26: +2.5%yoy).

During the press conference, Fed Chair Kevin Warsh acknowledged that monetary policy has limited influence over the initial (first round) supply-driven increase in prices, particularly those stemming from energy and commodity shocks. However, he stressed

that the Fed remains focused on preventing such shocks from triggering broader and more persistent inflationary pressures through second-round and third-round effects, thereby ensuring that inflation expectations remain well anchored.

Updated projection anticipates elevated inflation and some impact on growth

The updated projection in Jun-26 reflects FOMC members anticipate inflation outlook would be higher this year, with some impact on the US economic growth. The median forecasts for this year's headline and core PCE inflation have been raised to +3.6% (previous in Mar-26: +2.7%) and +3.3% (previous: +2.7%), respectively. Meanwhile, the median forecast for 2026 US GDP growth has been downgraded slightly to +2.2% (previous: +2.4%). FOMC expects the job market stability to keep jobless rate at 4.3% this year, an upgrade from 4.4% in the Mar-26 projection. Finally, the projected policy path for the fed funds rate has been increased to median 3.8% (previous: 3.4%), signaling more hawkish views among the FOMC members given the upgraded inflation outlook.

Push for reforms to the Fed's central banking practices

Apart from scaling back the use of forward guidance, Kevin Warsh unveiled a broader reform agenda through the creation of five review committees. Drawing expertise from the private sector, academia, and public policy circles, these committees will evaluate the Fed's operational framework and propose improvements to its policymaking process. The reviews will cover 5 strategic areas, namely: (1) communications, (2) the Fed's balance sheet, (3) data usage, (4) productivity & employment transformation, and (5) inflation framework. According to the Fed Chair, the review process and the corresponding policy recommendations are expected to be completed by the end of the year.

Kevin Warsh also noted that the reduced reliance on forward guidance would encourage financial markets to respond more directly to incoming data and actual economic developments, rather than being overly influenced by policymakers' indications of the future policy path. In his view, market pricing should reflect underlying economic fundamentals, allowing the Fed to assess more genuine market signals when formulating monetary policy.

Possible rate hike to contain price pressures

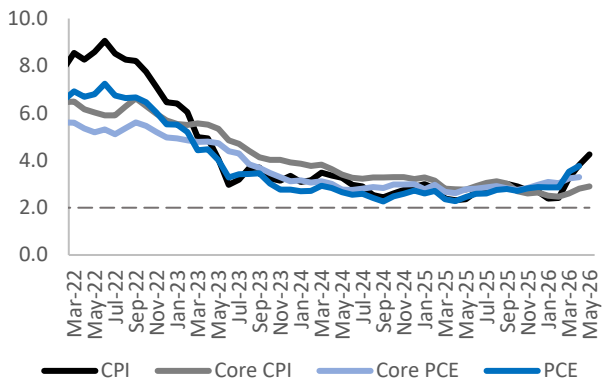
We foresee a relatively more hawkish policy outlook with the possibility of one rate hike by the Fed later this year. This additional policy tightening may be considered to contain elevated price pressures. The updated FOMC projection also signals possible one rate hike in 2026. Looking ahead, persistent supply disruptions and rising raw material costs would keep inflation elevated and warrant a tighter monetary policy stance. However, the inflation outlook could improve should a durable peace agreement between the US and Iran materialise; in particular lower global oil prices would ease energy-related cost pressures.

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

	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.25	5.50
Philippines	4.75	4.75	4.50	4.50	4.25	4.25	4.50	4.50	4.50
Thailand	1.50	1.50	1.25	1.25	1.00	1.00	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	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Japan	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	1.00
UK	4.00	4.00	3.75	3.75	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	2.40
USA	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	3.50-3.75	3.50-3.75

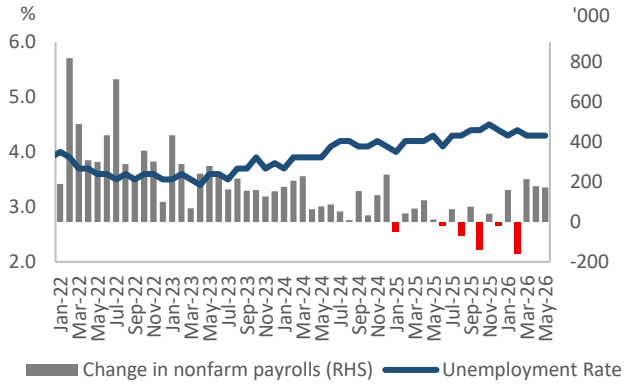
Source: Macrobond, MBSBR

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



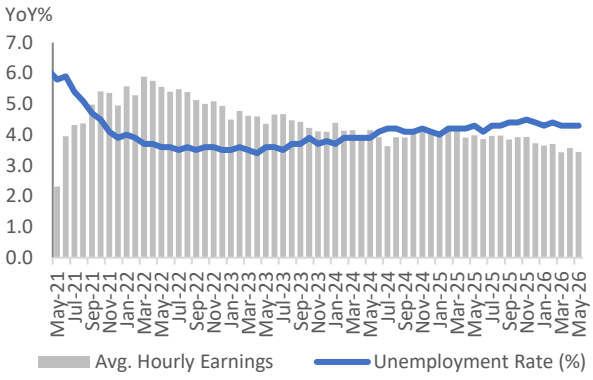
Source: Macrobond, MBSBR

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



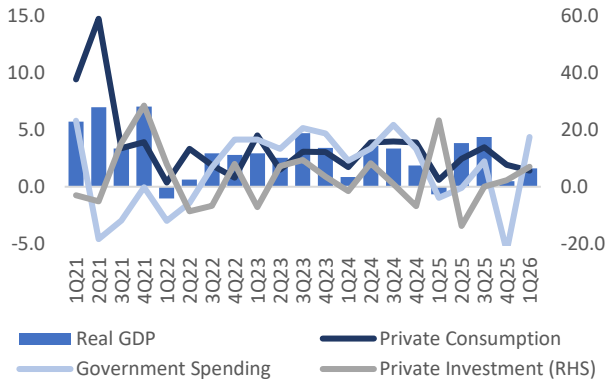
Source: Macrobond, MBSBR

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



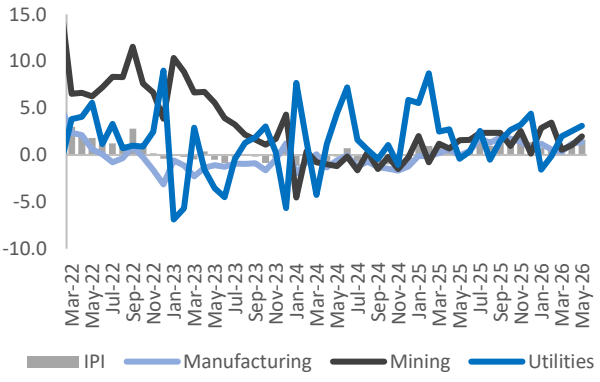
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



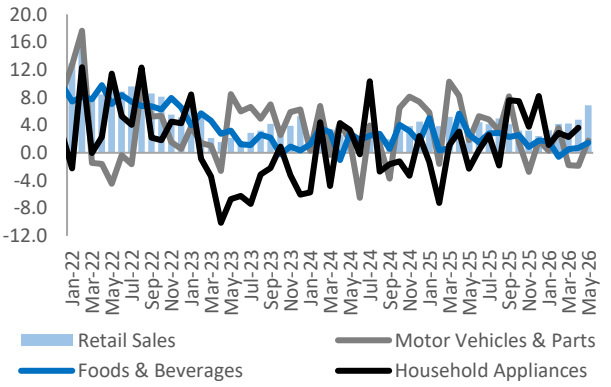
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



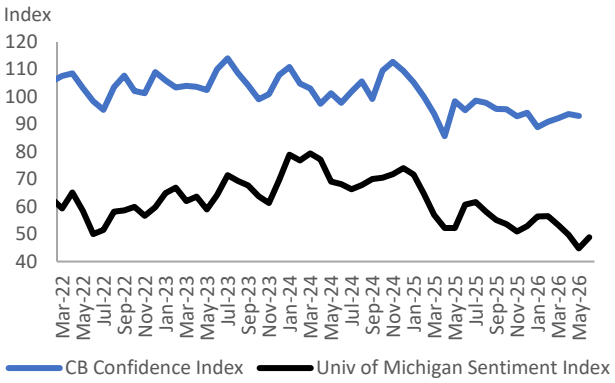
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



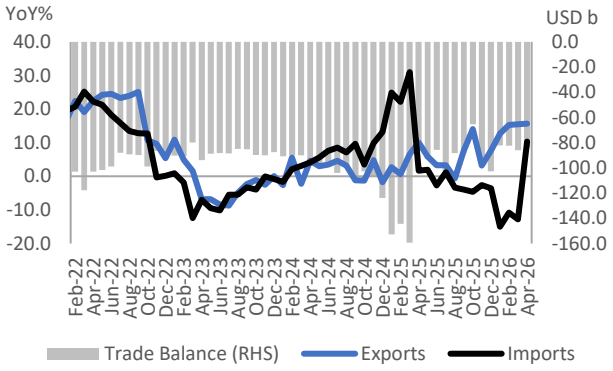
Source: DOSM, MBSBR

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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