Fed Pauses at 3.50–3.75%, Steering Clear of Explicit Guidance

Economic Review
Jul-26 FOMC Meeting



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- In line with the broad market expectations, the US Fed left the fed funds rates unchanged at 3.50-3.75% after the Jul-26 FOMC meeting. However, 3 out of the 12 policymakers voted for a +25bps hike, indicating some of the FOMC members preferred Fed to tighten its monetary policy.
- In the brief FOMC statement, the assessment on the labour market was mainly unchanged, with the US economic activity is growing at a "solid pace" despite the growing uncertainty in the Middle East.
- We foresee a still hawkish policy path for the Fed, incorporating the distinct possibility of one rate hike later this year. This prospective tightening reflects an effort to keep elevated price pressures in check, particularly as fresh volatility in the oil market threatens the disinflation outlook.

No change to FFR, 3 policymakers dissented

In line with the broad market expectations, the US Fed left the fed funds rates unchanged at 3.50-3.75% after the Jul-26 FOMC meeting. However, 3 out of the 12 policymakers voted for a +25bps hike (Beth M. Hammack (Cleveland), Neel Kashkari (Minneapolis), and Lorie K. Logan (Dallas), indicating preference for the Fed to tighten its monetary policy. The FOMC reiterated its commitment to fulfilling its dual mandate, particularly in ensuring price stability amid persistent inflationary pressures. The policy statement remained short, which contained no forward guidance. This move was within market expectations, as the CME Fed Watch indicated a high probability for the FFR to remain stable for this Jul-26 meeting.

Solid economic activity, with stable job market

In the brief FOMC statement, the assessment on the labour market was mainly unchanged, with US economic activity growing at a "solid pace" despite the growing uncertainty in the Middle East. Meanwhile, the FOMC stated that "productivity growth and capital investment are strong". The FOMC also commented that job growth was generally in line with the labor supply, maintaining a steady unemployment rate. Based on the latest labour market data, nonfarm payrolls moderated in Jun-26, recording the slowest gains in four months, adding only +57K jobs (May-27: +129K). Meanwhile, the US jobless rate dropped to 4.2% in Jun-26, down from 4.3% in May-26. FOMC expects job market stability will keep the jobless rate at 4.3% this year.

Inflation remained elevated above the Fed's target, despite the recent easing

The FOMC again mentioned that inflation remained elevated well above the +2.0% inflation target, as a result of the supply shocks which led to price increases in certain sectors including energy. Recent data shows that the US headline inflation has eased lower in Jun-26 to +3.5%yoy (May-26: +4.2%yoy), marking the first decline in five months, similar to core inflation, which eased to+ 2.6%yoy in June-26 (May-26: +2.9%yoy).

During the press conference, Fed Chair Kevin Warsh mentioned that while acknowledging these supply-side shocks, policymakers are primarily focused on assessing the extent to which price pressures are broadening into secondary goods and services. Federal Reserve officials cautioned that June's favourable CPI data has been largely superseded by recent

geopolitical escalations in the Middle East. Clarifying the policy stance, Kevin Warsh emphasised that the decision was not a pause, but rather a rigorous review of current economic conditions and core macroeconomic challenges. Towards the end of the press conference, Kevin Warsh mentioned that between now and year-end, the Federal Reserve committed to provide a press conference this year.

Possible rate hike to contain price pressures in the coming meetings

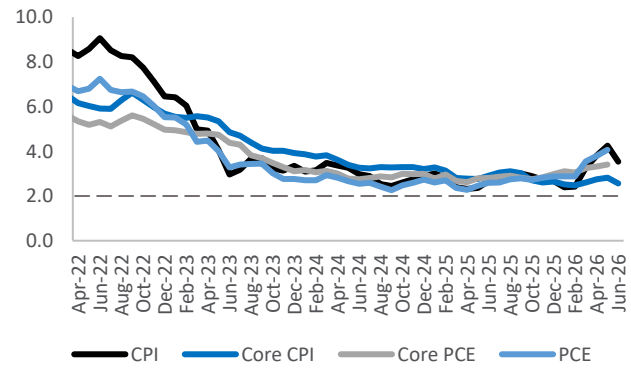
We foresee a still hawkish policy path for the Fed, incorporating the distinct possibility of one rate hike later this year. This prospective tightening reflects an effort to keep elevated price pressures in check, particularly as fresh volatility in the oil market threatens the disinflation outlook. The latest FOMC projection also signals the possibility of one rate hike in 2026, while three FOMC members preferred to hike rates by +25bps in the Jul-26 meeting. There is possibility for a rate hike in the upcoming meetings (Sep-26: 62.4% probability; Oct-26: 89.0%), unless labour data updates significantly weaken or inflation moderates near or below +2.0% level, which is not within our expectations at the moment. Looking ahead, ongoing supply-chain disruptions and elevated raw material costs are expected to keep inflation elevated and sticky, justifying a firmer monetary policy stance. On another note, the inflation outlook could cool significantly if a durable peace agreement between the US and Iran takes hold, as a corresponding drop in global oil prices would relieve energy-related cost pressures.

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

	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-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	5.25	5.75	5.75
Philippines	4.75	4.50	4.50	4.25	4.25	4.50	4.50	4.75	4.75
Thailand	1.50	1.25	1.25	1.00	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	2.75
India	5.50	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Japan	0.50	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
UK	4.00	3.75	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	2.40	2.40
USA	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	3.50-3.75

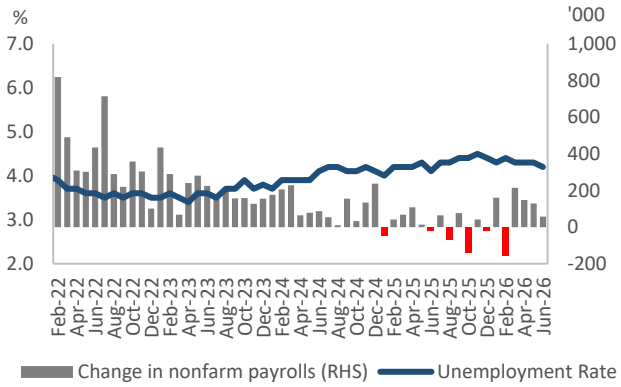
Source: Macrobond, MBSBR

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



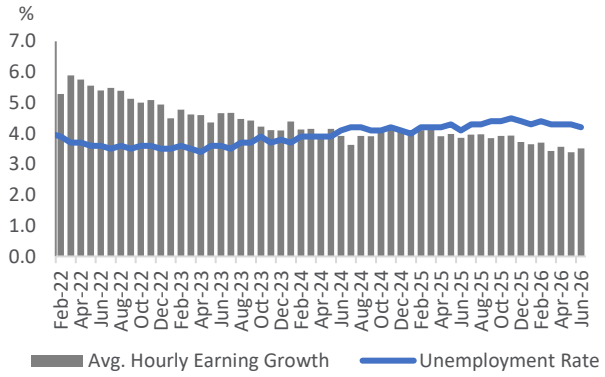
Source: Macrobond, MBSBR

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



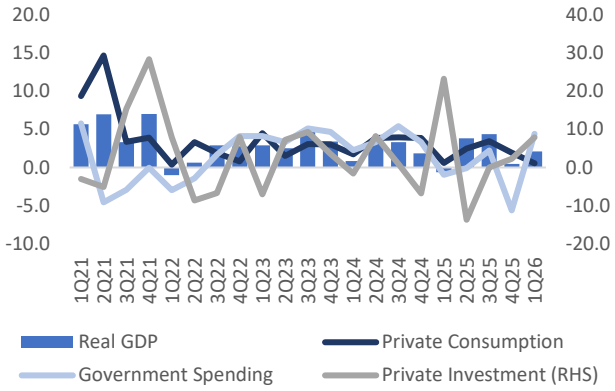
Source: Macrobond, MBSBR

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



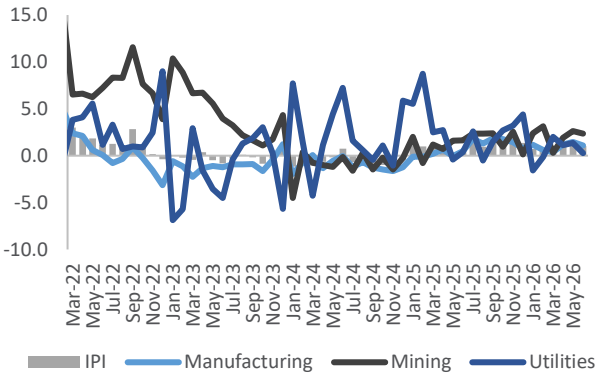
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



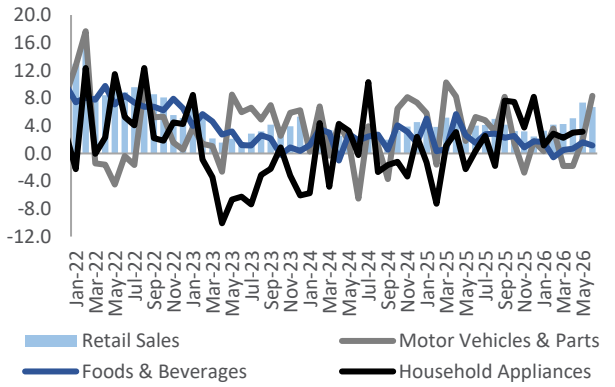
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



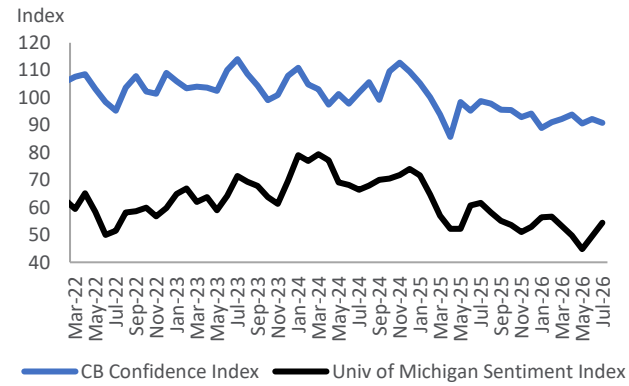
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



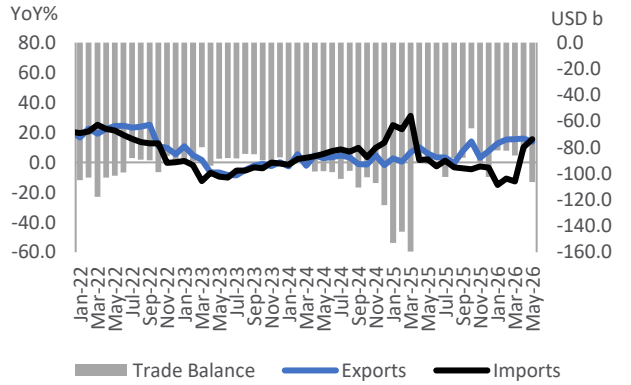
Source: DOSM, MBSBR

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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