Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

19 JUNE 2025

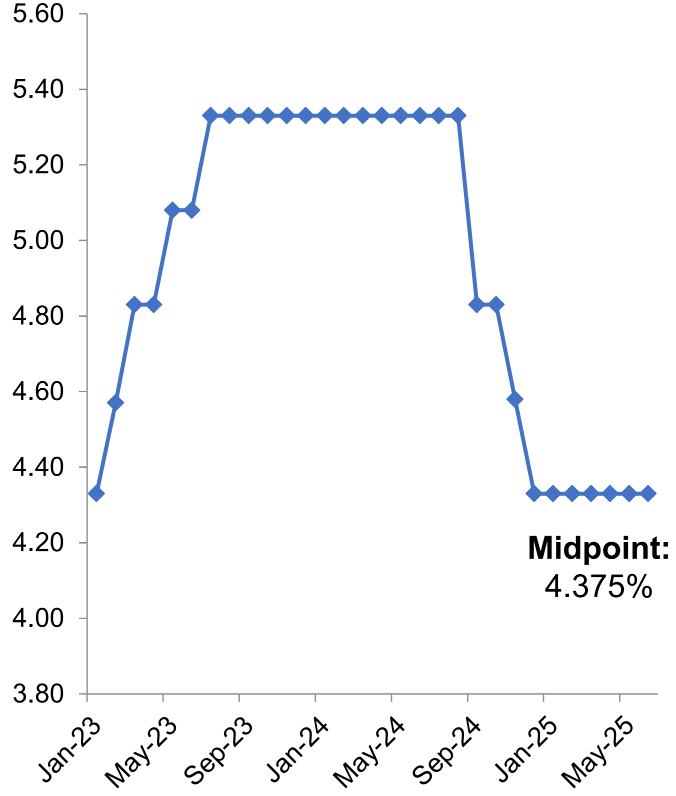
Fed Holds Steady as Inflation Clouds Outlook

At its 17-18 June meeting, the **FOMC held the federal funds rate steady at 4.25%–4.50%**—marking the fourth straight meeting with no change—consistent with market expectations and the Fed's data-dependent, wait-and-see approach. **Financial markets responded calmly**: equities were little changed, Treasury yields edged slightly higher, and the US dollar remained broadly stable, as investors continued to price in potential rate cuts later in 2025—most likely starting in September. The policy statement offered several key takeaways:

- **Interest Rates**: The Fed held the federal funds rate steady at 4.25%–4.50%, reaffirming its data-dependent stance. While inflation remains somewhat elevated, the Committee gave no signal of imminent cuts—implying continued caution until clearer evidence of disinflation emerges.
- **Balance Sheet**: The Committee reaffirmed that it will continue reducing its holdings of Treasury securities, agency debt, and mortgage-backed securities, maintaining its ongoing balance sheet runoff policy.
- **Forward Guidance:** The Committee reaffirmed its dual mandate commitment, remaining attentive to risks on both inflation and employment fronts. The tone of the statement softened slightly, dropping explicit concerns about rising risks to both mandates that were present in May.
- **Vote and Dissent:** The decision to hold rates steady was supported unanimously by all FOMC members.

Our view: While the base case for a September rate cut remains intact, the Fed is clearly signaling **greater caution in response to persistent inflation** and emerging tariff-related cost pressures. We continue to believe that **policy normalization will be slower and more staggered**, with growing risk that the Fed may deliver only one cut—or none at all—in 2025 if disinflation progress stalls. Investors and policymakers should prepare for a prolonged period of restrictive rates, especially if geopolitical tensions and supply chain shocks re-anchor inflation expectations.

Policy Rate: Effective Federal Funds Rate



Sources: CEIC, BMMB Economics

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

19 JUNE 2025

Key Changes in Fed Messaging: May vs June 2025

	May 2025	June 2025	Key analysis
Economic Activity	Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace.	**Same wording**	No change. Fed **maintains a consistent tone on solid growth**, despite trade-related volatility.
Unemployment Rate & Inflation	The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.	The unemployment rate **remains low**, and labor market conditions remain solid. Inflation remains somewhat elevated.	Slight rewording but **same message**—labor strength intact; no further escalation in inflation tone.
Uncertainty	Uncertainty about the economic outlook has increased further.	Uncertainty about the economic outlook **has diminished but remains elevated**.	Notable shift: Fed acknowledges **improved visibility, though caution persists**.
Dual Mandate Risk	The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen.	The Committee is **attentive to the risks to both sides of its dual mandate**.	Explicit **stagflation warning removed**, suggesting slightly less concern on dual risk tradeoff.
Balance Sheet Plan	Committee will continue reducing holdings of Treasuries and MBS.	**Same wording**	**No change—QT process remains intact and on autopilot.**
Policy Flexibility	The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.	**Same wording**	**No change**, suggesting the Fed remains data-dependent.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

19 JUNE 2025

Summary of Economic Projections (SEP): Slower Growth, Higher Inflation, Divided Fed

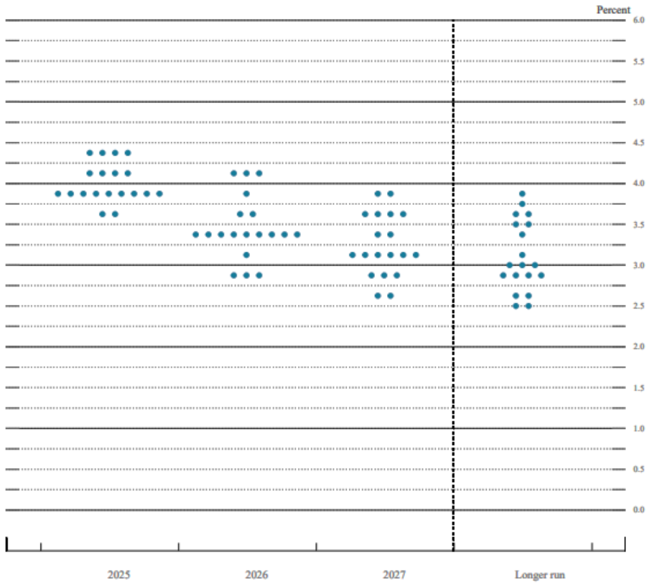
The Federal Reserve's June 2025 Summary of Economic Projections reflects a more cautious outlook than previously anticipated. Policymakers now forecast slower growth, a slight rise in unemployment, and stickier inflation, reinforcing the case for delayed rate cuts.

- **GDP Growth:** The median projection for real GDP growth in 2025 was revised **down to 1.4% from 1.7%,** pointing to a **softer expansion pace** amid rising tariffs and global uncertainty.
- **Unemployment:** Projected to **increase slightly** to 4.5%, up from 4.4% in March, suggesting a cooling but still resilient labor market.
- **Inflation:** Both headline PCE inflation (3.0%) and Core PCE inflation (3.1%) were revised upward by 0.3 percentage points, underscoring lingering price pressures—especially from services and **tariff-related passthrough**.
- **Fed Funds Rate:** Despite the shifts in macro outlook, the projected policy rate remains unchanged at 3.9%, implying two rate cuts are still expected but not guaranteed.

Fed's Projection 2025 (%)

Indicator	June 2025 SEP	March 2025 SEP	Change
Change in Real GDP	1.4%	1.7%	▼ 0.3pp
Unemployment Rate	4.5%	4.4%	▲ 0.1pp
PCE Inflation	3.0%	2.7%	▲ 0.3pp
Core PCE Inflation	3.1%	2.8%	▲ 0.3pp
Federal Funds Rate	3.9%	3.9%	—

Fed's Dot Plot: Rate Projections as of June 2025

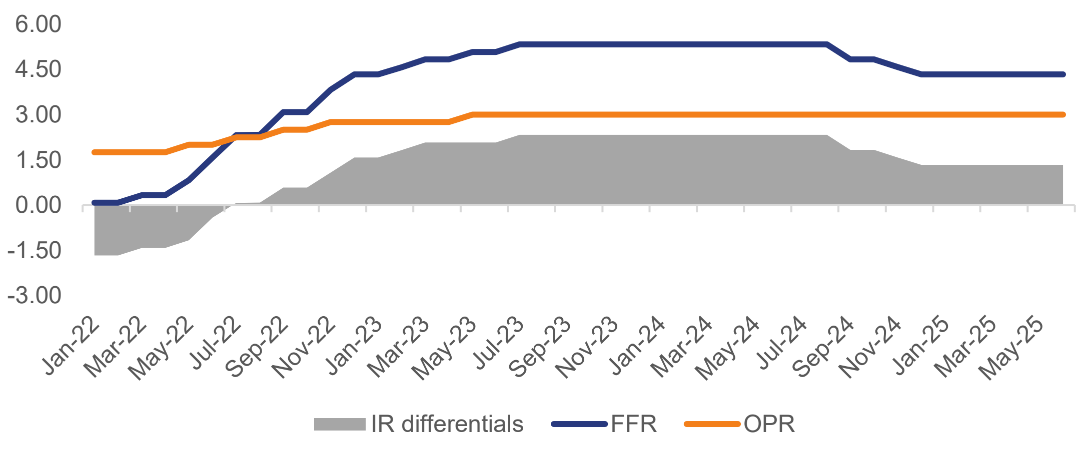


Sources: Federal Reserve, BMMB Economics

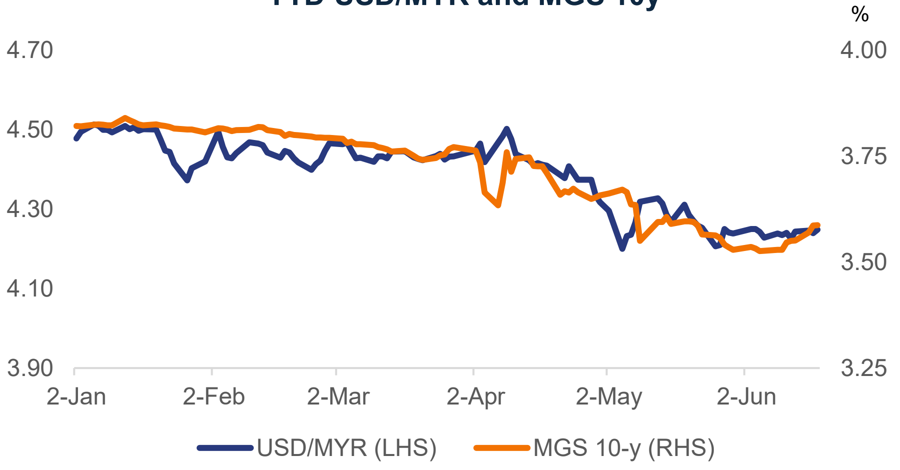
Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

19 JUNE 2025

Fed's June Pause: What It Means for Malaysia's Policy Path



Sources: CEIC, BMMB Economics



Sources: CEIC, BMMB Economics

While the Fed held rates steady in June, it sent **no strong signal of imminent easing**—highlighting inflation stickiness and tariff-related risks. However, the updated dot plot still projects **two rate cuts later this year**, and markets remain anchored to a likely September start. This "higher-for-longer" message delays—but doesn't derail—easing expectations. Importantly, it **reduces pressure on regional central banks to front-run the Fed**, offering policy flexibility. Malaysia remains relatively well-positioned compared to its regional peers, underpinned by contained headline inflation and easing underlying price pressures. In the first quarter of 2025, domestic demand remained firm, credit growth has also held steady, supported by accommodative financing conditions across household and business segments. However, risks to the growth outlook are becoming more pronounced amid external headwinds, including trade and geopolitical uncertainty, China's slower recovery trajectory, and moderation in global tech demand. In this context, we **maintain our base case for a 25bps OPR cut in the second half of 2025**, with BNM likely to act pre-emptively should downside risks to growth begin to materialise.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

Appendix: Full June 2025 Statement

Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook has diminished but remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Adriana D. Kugler; Alberto G. Musalem; Jeffrey R. Schmid; and Christopher J. Waller.

Sources: Federal Reserve, BMMB Economics