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

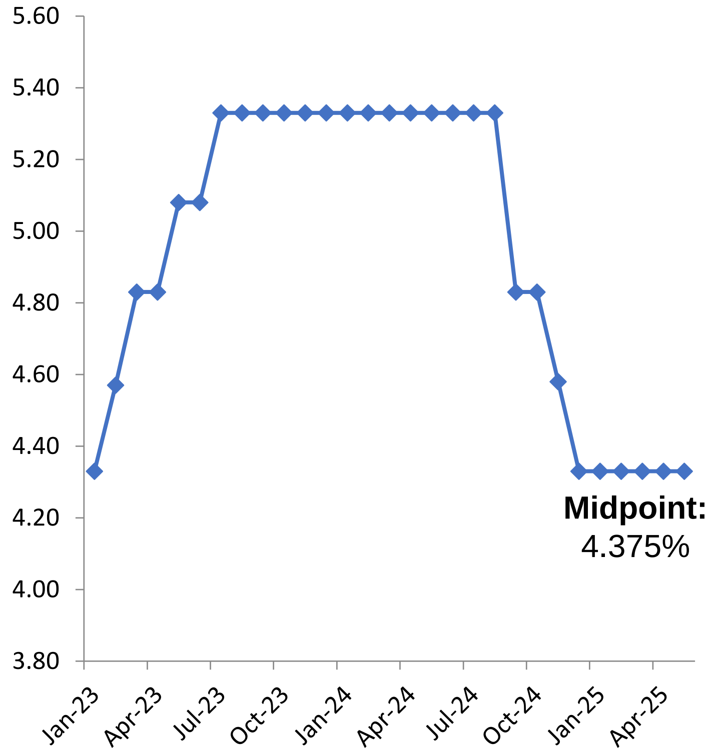
8 May 2025

No Cut Yet: Fed Stays the Course Amid Mixed Signals

At its 7 May meeting, the **FOMC maintained the target range for the federal funds rate at 4.25%–4.50%,** holding steady for the third consecutive meeting—aligning with market expectations, reflecting the Fed's cautious approach amid persistent inflation and emerging economic uncertainties. The Committee highlighted increased risks of both higher inflation and rising unemployment. **Financial markets reacted modestly**: equities saw slight gains, Treasury yields dipped, and the US dollar softened, as investors continued to anticipate potential rate cuts later in the year.

- **Interest Rates**: The Fed held the target range for the federal funds rate at 4.25%–4.50%, in line with our expectations. The Committee emphasized that it will "carefully assess incoming data" to determine the extent and timing of any future adjustments to rates, signaling a patient and data-dependent approach.
- **Balance Sheet**: The FOMC will continue reducing its securities holdings (quantitative tightening) at the current pace. The monthly cap on Treasury runoff remains at USD5 billion, while the cap for agency debt and mortgage-backed securities is maintained at USD35 billion.
- **Forward Guidance:** The policy statement highlighted increased uncertainty in the economic outlook, stating that *"the risks of higher unemployment and higher inflation have risen."* The Committee reiterated its commitment to its dual mandate and noted that it *"would be prepared to adjust the stance of monetary policy as appropriate if risks emerge"* that threaten its goals.
- **Vote and Dissent:** The decision to hold rates steady was supported unanimously by all FOMC members.

Policy Rate: Effective Federal Funds Rate



Sources: CEIC, BMMB Economics

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Key Changes in Fed Messaging: March vs May 2025

	March 2025	May 2025	Key analysis
Economic Activity	Recent indicators suggest that economic activity has continued to expand at a solid pace.	**Although swings in net exports have affected the data,** recent indicators suggest that economic activity has continued to expand at a solid pace.	May statement adds a qualifier on net exports, possibly **signaling trade disruptions** (e.g., tariffs)
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 has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.	**No change.**
Uncertainty	Uncertainty around the economic outlook has increased.	Uncertainty **about** the economic outlook has increased **further**.	Fed sees **downside risks becoming more prominent**.
Dual Mandate Risk	The Committee is attentive to the risks to both sides of its dual mandate.	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**.	**Explicit warning on stagflation risk** i.e., slowing jobs + high inflation
Balance Sheet Plan	Beginning in April, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $25 billion to $5 billion.	The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.	**Change was already announced and now implemented.**
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.	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.	**No change**, suggesting the Fed remains data-dependent.

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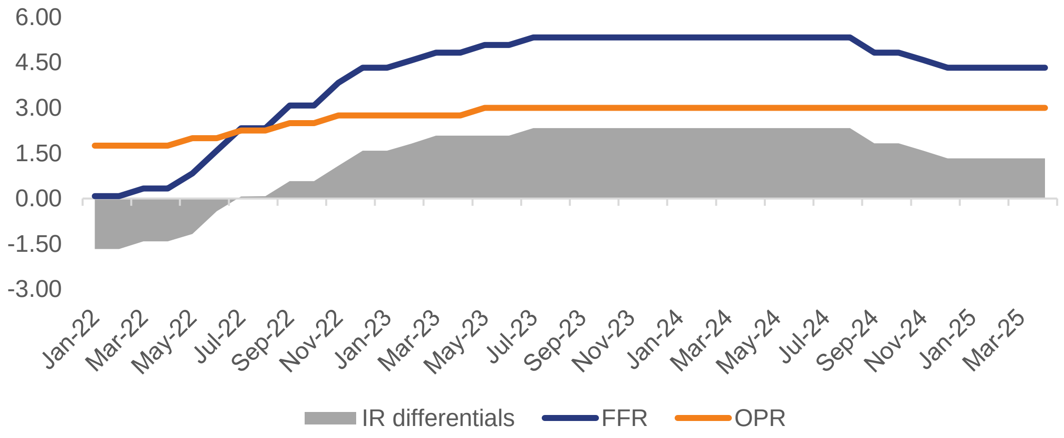
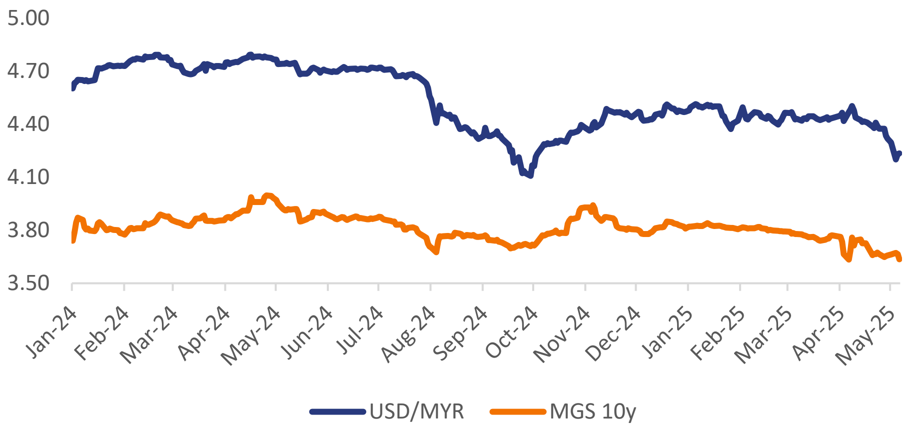
Increasingly uncertain outlook strengthen the case for a Fed easing—and warrant pre-emptive monetary policy support at home

FFR, OPR and interest rate differentials



Sources: CEIC, BMMB Economics

USD/MYR and MGS 10y



Sources: CEIC, BMMB Economics

While the Fed has maintained its policy rate for now, we believe the **case for rate cuts is building** as underlying confidence in the US economy continues to erode—particularly in light of escalating tariff measures. Given this backdrop, we expect the Fed to ease rates later this year to cushion against further economic deceleration. For Malaysia, the external environment is turning increasingly challenging, with the spillover effects from weaker global growth and trade frictions likely to **weigh on domestic demand**, particularly through exports, investment, and consumer sentiment. With BNM MPC taking place today, **we see scope for BNM to act pre-emptively, potentially by delivering 25bps cut**. Given the lags in monetary policy transmission, a timely rate cut could help mitigate downside risks to growth. Looking at market dynamics, we expect the **ringgit to continue appreciating as the US dollar weakens on the back of rising Fed rate cut expectations and deteriorating US fundamentals**. Meanwhile, Malaysia's government bond yields may trend lower, supported by easing global yields and expectations of a more accommodative domestic policy stance.

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Appendix: Full May 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 has stabilized at a low level in recent months, 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 increased further. 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.

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; Neel Kashkari; Adriana D. Kugler; Alberto G. Musalem; and Christopher J. Waller. Neel Kashkari voted as an alternate member at this meeting.

Sources: Federal Reserve, BMMB Economics

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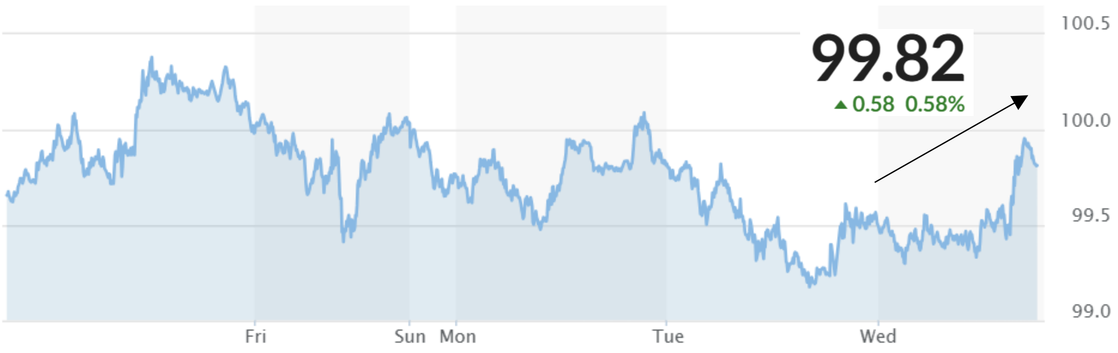
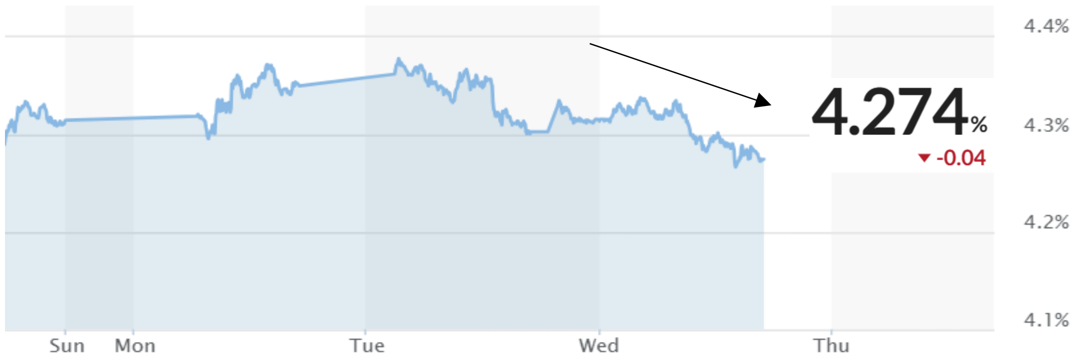
Appendix: Snapshot of US Market Reaction

US Dollar Index (DXY)



UST 10y



S&P 500 Index

Dow Jones Industrial Average

Sources: MarketWatch, BMMB Economics