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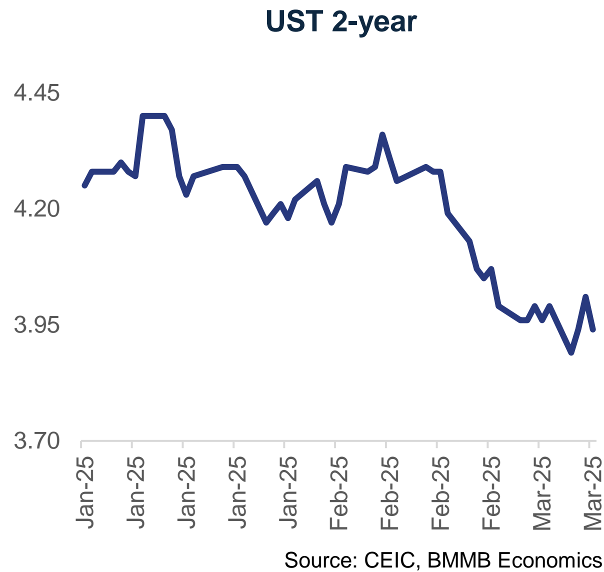
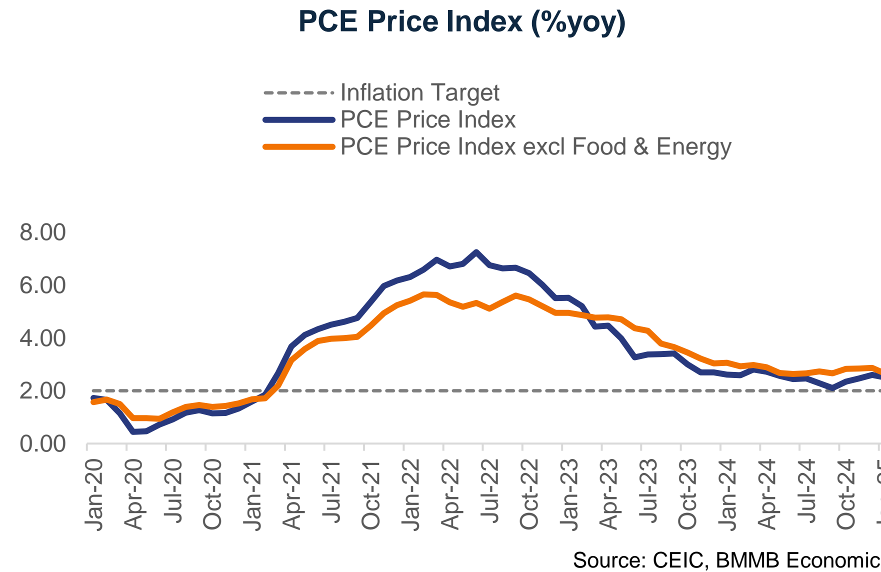
19 MARCH 2025

FOMC Preview: A Pause in Policy as the Fed Navigates Uncertainties



Source: CEIC, BMMB Economics



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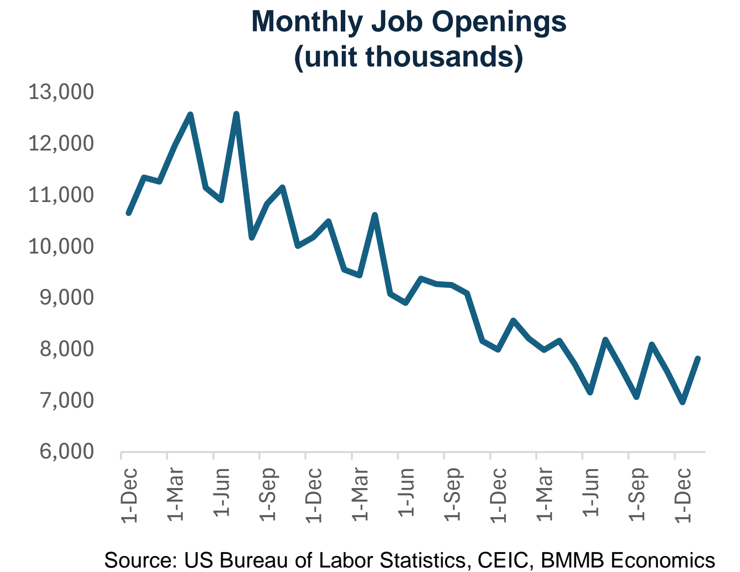

Source: US Bureau of Labor Statistics, CEIC, BMMB Economics

With the March 2025 FOMC meeting just a day away, all eyes are on the Federal Reserve's policy decision and, more critically, its forward guidance. Market consensus overwhelmingly points to the Fed holding the federal funds rate steady at **4.25% - 4.50%,** in line with our expectations. The rationale is straightforward—the Fed is **caught between persistent inflation risks and increasing policy uncertainties**, particularly stemming from fiscal and trade policies. Given this backdrop, policymakers will likely maintain their **wait-and-see stance**, carefully assessing incoming data before committing to any rate adjustments.

However, beyond the rate decision itself, this meeting carries heightened significance as the Fed will also **release its updated Summary of Economic Projections** (SEP), which will offer fresh insights into policymakers' expectations for growth, inflation, employment, and, most crucially, the projected path of interest rates.

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Persistent inflation, signs of labor market cooling, and policy uncertainties will keep the Fed on hold

1. Inflation Stickiness – A Bumpy Path to the 2% Target

While inflation has moderated from its 2022 peak, it remains above the Fed's 2% target, hovering around 2.6%-2.7% on a y-oy basis. Moreover, recent tariff announcements by the US administration add a fresh layer of uncertainty. The risk of import price pass-through to core goods inflation, combined with potential supply chain disruptions, means the Fed will be cautious about cutting rates too soon. At the same time, inflation is not accelerating to a degree that would justify a rate hike.

2. Labor Market Resilience but Signs of Cooling

The US labor market remains strong, but momentum is gradually softening. Payroll growth is slowing, job openings have edged lower, and wage growth—though elevated—has moderated from post-pandemic highs. Additionally, a wave of layoff announcements across various sectors signals emerging cracks in the labor market. The Fed will see this as an argument to remain patient, avoiding premature policy easing that could reignite inflationary pressures.

3. Rising Policy Uncertainties – Trade, Fiscal, and Global Risks

Beyond macroeconomic fundamentals, policy-related uncertainties are emerging as a key consideration for the Fed. Trump's new tariff measures, particularly on Chinese imports, have rekindled concerns over supply-side inflation shocks and potential retaliation from key trading partners.

Recent layoff announcements across various sectors:

Southwest Airlines: Announced its first mass layoff, cutting 1,750 corporate jobs in 2025, ending a 53-year practice of no involuntary cuts.

Starbucks: The coffee chain will lay off 1,100 corporate employees and will not fill several hundred other open positions to simplify structure, remove layers and duplication and create a smaller, more nimble teams.

Bank of America cuts 150 junior investment banking jobs. The US bank started cutting jobs across its global investment banking business on 10 March, with analysts and associate roles put at risk as well as some managing directors.

The **Internal Revenue Service (IRS)** is drafting plans to cut its workforce by as much as half through a mix of layoffs, attrition and incentivized buyouts.

Source: Various news portal

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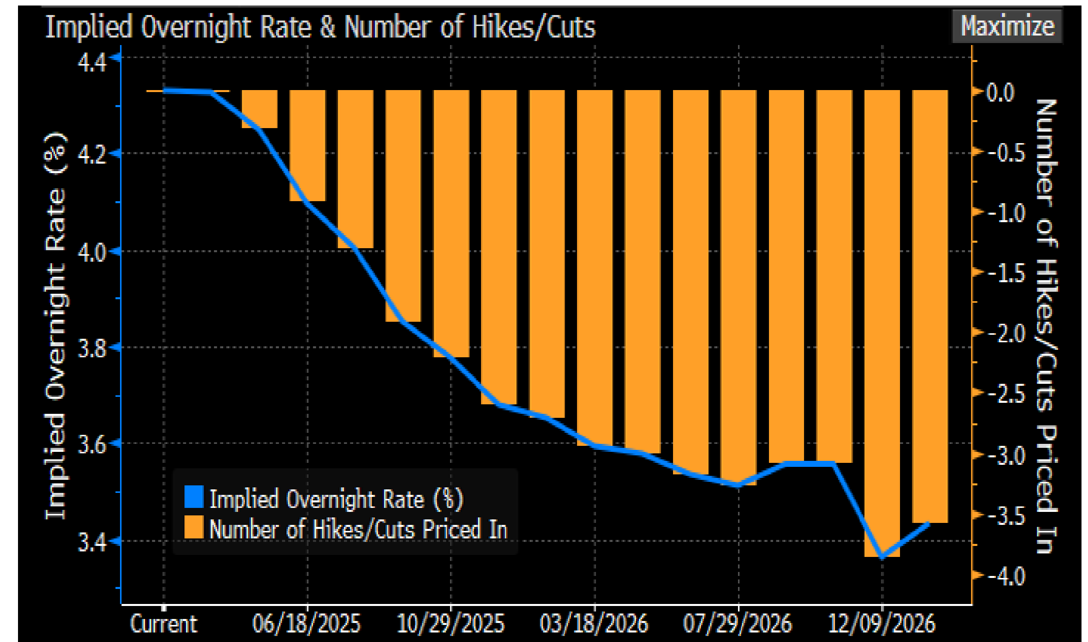
Dot Plot in Focus – How Many Cuts This Year?

While the Fed is unlikely to move on rates in March, the bigger question is what the new dot plot will signal for the remainder of 2025. In December, policymakers projected **two rate cuts (50bps) for 2025**—a forecast that aligned with market expectations at the time. However, since then, while inflation has shown signs of cooling off, uncertainty surrounding trade and fiscal policies has added complexity to the Fed's decision-making. That said, markets have grown more optimistic about rate cuts, **pricing in as many as three reductions** this year.

Implications to Malaysia

Fed rate cuts expectations would continue to provide further support for the ringgit, particularly if the Fed signals a more dovish stance by maintaining or increasing its projected rate cuts for 2025. A clearer easing trajectory would narrow the US-Malaysia interest rate differential, reducing pressure on capital outflows and improving investor sentiment toward emerging market assets, including Malaysian bonds and equities. Despite potential bouts of volatility due to global policy uncertainties, we reiterate our USD/MYR forecast to end the year at RM4.30.

Interest Rate Probability (US)



Source: Bloomberg, BMMB Economics

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