17 September 2026

Global Markets Research

Research Alert

Two and done cycle for the Fed

The latest FOMC economic projections saw a hawkish tilt; upward revisions to GDPs and core PCEs

Dot plot pencilling in one more hike in 4Q; status quo in 2027 and 25bps cut each in 2028 and 2029

USD positive in the near-term; MYR likely to be supported and outperform over the medium term

Overview

As expected, the FOMC unanimously voted 12-0 to increase the fed funds rate by 25bps to 3.75-4.00%, marking its first rate hike sine Jul-23.

Key highlights

- The accompanying statement contained minimal changes. FOMC members opine that ***economic activity is still expanding at a "solid" pace*** and while uncertainty is elevated partially due to the geopolitical developments, ***domestic spending has been resilient***, the latter a new addition to the statement. Productivity growth assessment was maintained as "strong", while capital investment assessment has been changed to "robust." Labour market assessment has been left unchanged at keeping pace with the workforce and that the unemployment rate was little changed.

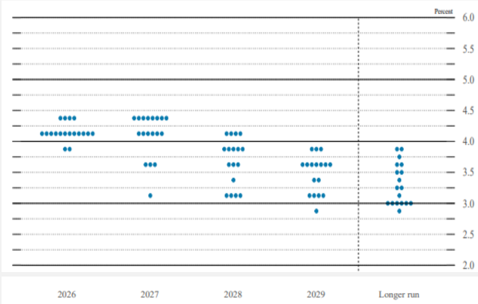
- In terms of the guidance, ***our key takeaway is that the FOMC has shifted to a hawkish direction to "support a timelier return to the Committee's 2.0% inflation goal***." Notably. the central projection within the Fed's summary of economic projections has one more rate hike this year (in line with market pricing), a hold through 2027 (market pricing in 2 hikes), followed by a cut of 25bps each in both 2028 and 2029 to 3.60%.

- Within the actual dot plot there were only 18 submissions, suggesting that Fed Kevin Warsh has declined to offer a view again. Only 2 of the 18 had no further rate hike this year, suggesting strong backing for another move, and similarly, there are only 4 of 18 that expect to see any sort of rate cut next year.

- ***Economic forecasts were tweaked slightly higher****, with growth lifted to 2.3% (prior forecast: 2.2%) for 2026 and 2.4% (prior: 2.3%) for 2027,* ***suggesting that the FOMC members do not foresee any drag from the recent spike in bond yields nor from energy prices***. Growth at this level is also above the economy's full potential at 2.0%.

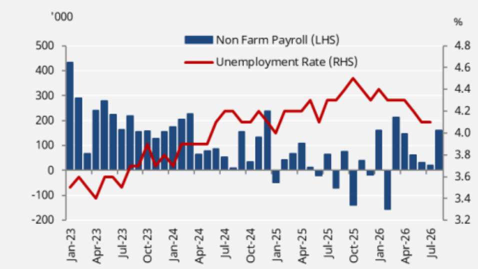
- Similarly, ***projections for core PCE inflation were raised*** *to 3.4% (prior: 3.3%) for 2026 and left unchanged at 2.5% for 2026.* ***Median projections for unemployment rate were however revised lower*** *to 4.1% from 4.3% across both years.*

Figure 1: FOMC participants' assessments of the appropriate monetary policy path



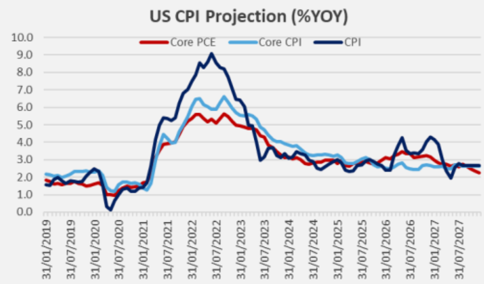
Source: Federal Reserve, Bloomberg

Figure 2: Labour market remained largely in the low hiring low firing mood



Source: Bloomberg; HLBB Global Markets Research

Figure 3: Expect inflation to momentarily head up in the next few months before tapering off in 2027



Source: Bloomberg, HLBB Global Markets Research

Our thoughts

- With a 25bps hike unlikely to materially change the economic/inflation dynamics and the FOMC shifting to a hawkish direction (Warsh repeatedly highlighting that the inflation risks were not showing signs of having meaningfully improved, to the upward revision to growth and downward revisions to the unemployment rate), we are therefore ***tweaking our house view to include one more 25bps hike in 4Q and expect Fed rates to stay on hold in 2027 given the trade off from 2026's hike(s).***

- Hiking rates won't do much to contain supply-driven inflation shocks, but will pose risks to financial conditions, business spending, the K-shaped consumer sector, labour and housing markets.

- On the FX front, the DXY broke above the 100-handle after the announcement. The FOMC tilt, coupled with still firm energy prices, will likely reinforce Dollar momentum in the near term and with this, we are optimistic that *the* ***DXY will remain firm above the 100-handle to end 2026,*** barring any significant surprises on the Middle East front, and a significant dial-back in Fed rate outlook.

- On the domestic front, there is also no change in our view that BNM will maintain the OPR at 2.75% in the foreseeable future, given BNM's firm expectations for continued resilient growth for 2026/ 2027 and benign price outlook, and as the central bank maintained a neutral stance in its latest policy statement, even though as it dropped the "appropriate" language paving the way for policy adjustment if need be. ***A tightening bias in 2027 from BNM will nonetheless, keep Ringgit well supported in the near term in our view.***

House View and Forecasts

FX	This Week	3Q-26	4Q-26	1Q-27	2Q-27
DXY	97-101	102.28	100.86	99.42	98.07
EUR/USD	1.15-1.17	1.13	1.14	1.16	1.18
GBP/USD	1.34-1.36	1.29	1.30	1.32	1.33
USD/CHF	0.80-0.82	0.81	0.81	0.80	0.79
USD/JPY	152-157	162	159	155	153
AUD/USD	0.70-0.73	0.68	0.70	0.71	0.72
NZD/USD	0.57-0.59	0.56	0.56	0.57	0.57
USD/CNY	6.70-6.72	6.85	6.78	6.72	6.65
USD/MYR	4.04-4.10	4.15	4.11	4.07	4.03
USD/SGD	1.25-1.28	1.31	1.30	1.28	1.27
USD/THB	32.50--33.50	32.50	32.30	32.0	32.0

FX	Last close	3Q-26	4Q-26	1Q-27	2Q-27
EUR/MYR	4.7141	4.68	4.71	4.73	4.75
GBP/MYR	5.5087	5.37	5.36	5.36	5.36
AUD/MYR	2.9132	2.83	2.86	2.87	2.89
CNY/MYR	0.6089	0.61	0.61	0.61	0.61
SGD/MYR	3.2114	3.18	3.17	3.17	3.17

Rates, %	Current	3Q26	4Q26	1Q27	2Q27
Fed	**3.74-4.00**	**3.75-4.00**	**4.00-4.25**	**4.00-4.25**	**4.00-4.25**
ECB	2.50	2.50	2.75	2.75	2.75
BOE	3.75	3.75	3.75	3.75	3.75
SNB	0.00	0.00	0.00	0.00	0.00
BOJ	1.00	1.00	1.25	1.25	1.25
RBA	4.35	4.35	4.35	4.35	4.35
RBNZ	2.50	2.50	2.50	2.50	2.50
BNM	2.75	2.75	2.75	3.00	3.00

Source: HLBB Global Markets Research

Economic projections of Federal Reserve Board members and Federal Reserve Bank Presidents @ 16 Sept

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2026	2027	2028	2029	Longer run	2026	2027	2028	2029	Longer run	2026	2027	2028	2029	Longer run
Change in real GDP	2.3	2.4	2.2	2.1	2.0	2.2–2.4	2.2–2.6	2.1–2.3	2.0–2.2	2.0–2.2	2.1–2.6	2.0–2.9	1.8–2.6	1.8–2.4	1.7–2.5
June projection	2.2	2.3	2.2		2.0	2.0–2.3	2.0–2.4	2.0–2.3		1.8–2.0	1.8–2.6	1.9–2.9	1.8–2.6		1.7–2.5
Unemployment rate	4.1	4.1	4.1	4.1	4.2	4.1–4.2	4.0–4.2	4.0–4.2	4.0–4.3	4.0–4.3	4.0–4.3	4.0–4.5	3.9–4.4	3.8–4.4	3.8–4.4
June projection	4.3	4.3	4.2		4.2	4.3–4.4	4.2–4.5	4.1–4.3		4.0–4.3	4.3–4.6	4.0–4.6	4.0–4.4		3.8–4.5
PCE inflation	3.7	2.3	2.1	2.0	2.0	3.5–3.7	2.2–2.5	2.0–2.2	2.0	2.0	2.9–3.8	2.0–2.6	2.0–2.2	2.0	2.0
June projection	3.6	2.3	2.0		2.0	3.5–3.7	2.2–2.5	2.0–2.1		2.0	2.7–4.1	1.9–2.8	2.0–2.3		2.0
Core PCE inflation[4]	3.4	2.5	2.2	2.0		3.3–3.4	2.3–2.6	2.0–2.2	2.0		2.8–3.5	2.1–2.7	2.0–2.3	2.0–2.1	
June projection	3.3	2.5	2.1			3.2–3.5	2.3–2.6	2.0–2.2			2.6–3.5	2.0–3.0	2.0–2.4		
Memo: Projected appropriate policy path															
Federal funds rate	4.1	4.1	3.9	3.6	3.2	4.1–4.4	3.6–4.4	3.1–4.1	3.1–3.6	3.0–3.6	3.9–4.4	3.1–4.4	3.1–4.1	2.9–3.9	2.9–3.9
June projection	3.8	3.6	3.4		3.1	3.6–4.1	3.1–3.9	3.1–3.6		3.0–3.5	3.4–4.4	2.9–4.4	2.9–3.9		2.9–3.9

Source: Federal Reserve

Side by Side Comparison of FOMC Statements – changes

July 29 meeting

The Federal Open Market Committee approved the following statement for release by a 9 – 3 vote:

The Committee decided to maintain the target range for the federal funds rate at 3-1/2 to 3-3/4 percent, in support of the Federal Reserve's dual mandate. The Committee is continuing its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.

Voting against the monetary policy action were Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who preferred to raise the target range for the federal funds rate by 1/4 percentage point at this meeting.

Sept 16 meeting

The Federal Open Market Committee approved the following statement for release by a 12 – 0 vote:

The Committee decided to raise the target range for the federal funds rate by 1/4 percentage point to 3-3/4 to 4 percent, in support of the Federal Reserve's dual mandate. The Committee is continuing its policy of maintaining ample reserves in the banking system.

Economic activity is expanding at a solid pace. While uncertainty remains elevated owing, in part, to geopolitical developments, domestic spending has been resilient. Productivity growth is strong, and capital investment is robust. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

Inflation remains elevated. Today's policy action will support a timelier return to the Committee's 2 percent goal. The Committee will deliver price stability.

Source: Federal Reserve

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