

## Hawkish tilt from most major central banks

**FOMC maintained Fed funds rate; hawkish tilt in the latest Fed economic projections**

**RBA likely on extended pause as the economy slows and amid tighter financial condition**

**BOJ raised policy rate; expect more tightening given easing risk of a significant slowdown**

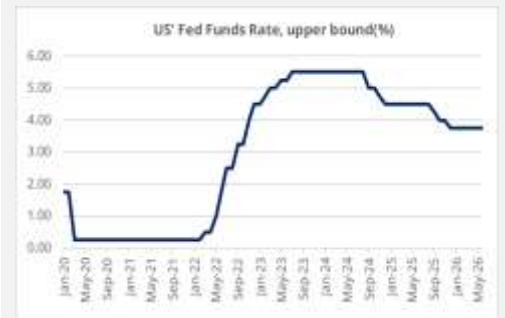
### Overview

Major central banks from the FOMC to the RBA and BOJ delivered their policy decision during the week and in short, most, if not all, acknowledged growing inflation risks and saw a tinge of hawkishness in their statements. At this juncture, there is no change to our view for an extended pause by the FOMC and RBA going forward, but we are now pencilling in another quarter point hike by the BOJ in the last quarter of the year.

### FOMC maintained policy rates as the Warsh era began; hawkish shifts in the median dot plot projecting a 25bps rate hike in 2026

- As widely expected, and in a unanimous vote, the FOMC decided to maintain the target range for the Fed funds rate at 3.50-3.75%.
- The length of the policy statement was drastically shortened and the dot plot did not contain any forecast from the Fed chair himself, in line with Kevin Warsh' stance of reducing forward guidance.
- This was also reflected in his presser, where he was asked about a rate cut in the meeting, he unambiguously said that there was just a long discussion on one proposal. He did however comment that **the current Fed policy appears to be restrictive for the housing market, but not financial markets.**
- FOMC, as well as Warsh, reiterated its commitment to the Fed's dual mandate, including the 2.0% inflation target. The statement described the economy as expanding at a solid pace, strong productivity growth and capital investment, job gains that have kept pace with the workforce and an unemployment rate that was little changed. Inflation was described as elevated, in part reflecting supply shocks.
- In a hawkish tilt, the dot plot has 9 of the 18 members pencilling in at least one rate hike in 2026 (vs zero in March and to be exact, 1 expecting 3 rates hikes, 5 anticipating 2 hikes and 3 for 1 hike), 8 expecting no change and 1 anticipating a rate cut.** As such, the **median dot plot is now for 1 quarter point hike this year**, but this is followed by a quarter point cut each in 2027 and 2028. At the point of writing, traders are pricing in more than 100% chance that the Fed will raise rates by the end of the year but **we prefer to maintain our extended hold bet for now** pending more clarity on Friday's US-Iran peace deal, and the subsequent pace of energy prices and supply chain normalization.
- Furthermore, **core-PCE projections were revised up to 3.3% in 2026 (+0.6ppts from March's projection), 2.5% for 2027 (+0.3ppts) and 2.1%**

**Figure 1: FOMC delivered a hawkish hold**



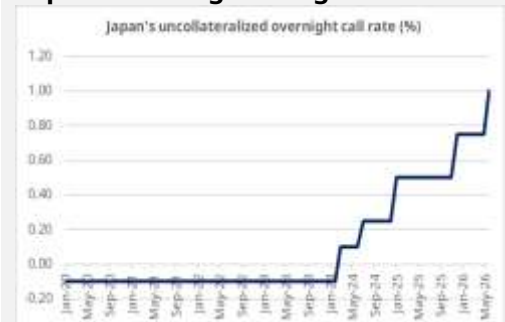
Source: Bloomberg, HLBB Global Markets Research

**Figure 2: RBA on track for an extended pause**



Source: Bloomberg; HLBB Global Markets Research

**Figure 3: BOJ raised rates by 25bps; expect more tightening ahead**



Source: Bloomberg, HLBB Global Markets Research

**for 2028 (+0.1ppts).** There is no projection for longer-run core PCE, but the longer-run projection for headline PCE was left unchanged at 2.0%.

- Median projections for real GDP were mixed across the forecast horizons, revised down 0.2ppts to 2.2% for 2026, left unchanged at 2.3% for 2027 and revised up 0.1ppts to 2.2% for 2028. The longer-run projection of 2.0% was maintained.
- Median projection for the unemployment rate was revised lower to 4.3% for 2026 (-0.1ppts) and left unchanged at 4.3% for 2027 and 4.2% for 2028 and over the longer run.
- Outside of the economic numbers, Warsh also announced the establishment of task forces to review Fed's approach to communication, balance sheet management, the use of economic data, productivity and the jobs market as well as inflation framework.
- Reaction to the FOMC outcome was a flatter UST yield curve. The 2Y yield jumped 13bps to 4.18%, while the 10Y increased 5bps to 4.49%, hardly a surprise given the upshift in the median dots. The dollar also took its cue from this and strengthened against all its G10 peers. DXY closed the day 0.6% d/d higher at 100.09 overnight.
- Over the near term, the hawkish tilt in the recent FOMC projections has heightened rate hike bets. This, coupled with lingering uncertainty over the geopolitical front, are expected to continue to pose an upside risk for the Dollar but over a more medium run, the performance of the USD will depend on more concrete development in the Middle-east conflict and its repercussions on the world, as well as the US economy. Should the US-Iran deal take effect as anticipated this Friday, any economic fallout is expected to be manageable and hence, the USD may see a softening bias. On the flip side, if the war, oil shock and disruption to global supply chains are prolonged, the USD may continue to outperform riding on its haven appeal in a risk-off environment.
- Even then, we expect the MYR to remain relatively well-supported among its peers, on account of our position as a net energy exporter, and relatively sound economic fundamentals that will help Malaysia navigate through the turmoil, not totally unscathed but in a more manageable manner. However, domestic political noises could curtail MYR strength, keeping it above 4.00 against the greenback in the near term in our view.

**RBA maintained bank rate at 4.35% as expected; no change expected for rest of 2026**

- The Reserve Bank of Australia (RBA) decided to leave the cash rate target unchanged at 4.35% as expected. While ensuring that the transitory higher fuel prices pass through to the prices of other goods and services is not embedded remains in focus, the central bank is also of the view that slower growth is needed to reduce capacity pressure and help bring inflation back to target. Coupled with the assessment that financial conditions are now tighter than they were, and there are signs that the economy is slowing as expected, our base case is unchanged, which is for the RBA to hold rates steady from here until end-year.

### BOJ raised the uncollateralized overnight call rate by 25bps to 1.00%; on track for another round of tightening

- In an 7-1 majority vote and as expected, the board of the Bank of Japan (BOJ) decided increase the uncollateralized overnight call rate by 25bps to 1.00%. Kazuo Ueda was absent, while Toichiro Asada dissented, preferring to hold as he assessed greater downside risks to production and employment versus upside risks to prices.
- The BOJ also decided that it will continue cutting the planned amount of its monthly purchases of JGBs by about 200bn yen each calendar quarter until 1Q of 2027, before halting the taper and maintaining its monthly purchases of JGBs by about 2tn yen from April 2027.
- The BOJ also opines that: 1) Risks of a significant slowdown in the economy appears to have decreased and that the economy is growing in line with baseline scenario. 2) Accommodative financial conditions are expected to be maintained even after the change in the policy interest rate. 3) Upside risks to inflationary pressures to a level above the price stability target of 2% stemming from the rise in crude oil prices.
- While BOJ's next moves will depend heavily on the development on the geopolitical front, given the above and the central bank signalling of its willingness to keep raising rates, **we opine that there is rising probability of the central bank delivering another quarter point hike in policy rate in 4Q.**

### House View and Forecasts

FX	This Week	2Q-26	3Q-26	4Q-26	1Q-27
DXY	98-102	100.63	99.80	97.96	96.48
EUR/USD	1.14-1.17	1.14	1.15	1.17	1.19
GBP/USD	1.32-1.36	1.31	1.32	1.34	1.35
USD/CHF	0.7-0.81	0.79	0.78	0.76	0.75
USD/JPY	157-162	159	155	152	152
AUD/USD	0.69-0.72	0.68	0.69	0.70	0.71
NZD/USD	0.56-0.61	0.57	0.58	0.58	0.59
USD/CNY	6.75-6.80	6.93	6.88	6.84	6.77
USD/MYR	4.03-4.09	3.98	3.96	3.93	3.90
USD/SGD	1.27-1.30	1.29	1.28	1.27	1.25
USD/THB	32.40-33.10	31.60	31.80	31.80	31.40

FX	Last close	2Q-26	3Q-26	4Q-26	1Q-27
EUR/MYR	4.7206	4.55	4.55	4.60	4.66
GBP/MYR	5.4598	5.23	5.23	5.26	5.28
AUD/MYR	2.8759	2.72	2.72	2.75	2.77
CNY/MYR	0.6023	0.58	0.58	0.58	0.58
SGD/MYR	3.1747	3.09	3.10	3.11	3.12

Rates, %	Current	2Q26	3Q26	4Q26	1Q27
Fed	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75
ECB	2.25	2.25	2.50	2.50	2.50
BOE	3.75	4.00	4.25	4.25	4.25
SNB	0.00	0.00	0.00	0.00	0.00
BOJ	1.00	1.00	1.00	1.25	1.25
RBA	4.35	4.35	4.35	4.35	4.35
RBNZ	2.25	2.25	2.25	2.25	2.25
BNM	2.75	2.75	2.75	2.75	2.75

Source: HLBB Global Markets Research

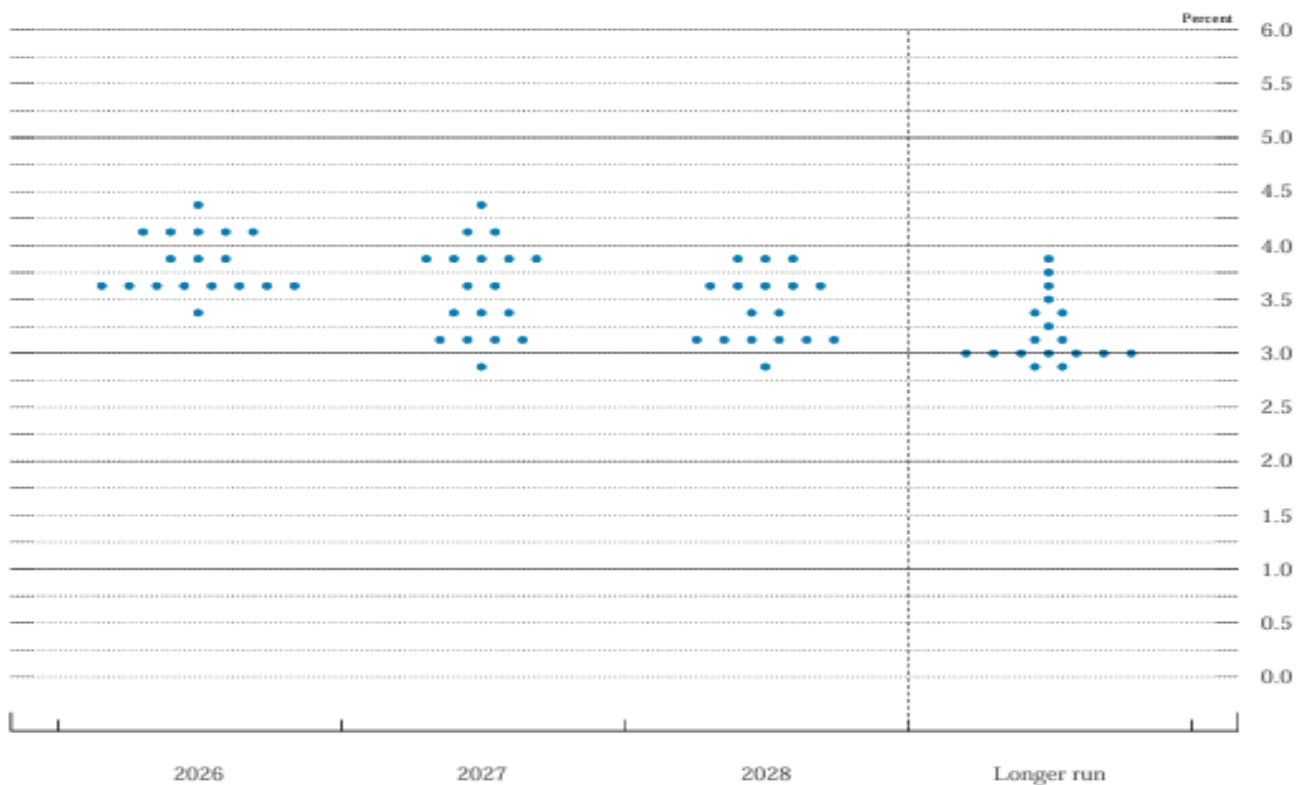
### Economic projections of Federal Reserve Board members and Federal Reserve Bank Presidents @ 17 June 2026

Percent

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

Source: Federal Reserve

### FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: Federal Reserve

## Side by Side Comparison of FOMC Statements – changes

### June 17 meeting

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

### April 29 meeting

Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, on average, and the unemployment rate has been little changed in recent months. Inflation is elevated, in part reflecting the recent increase in global energy prices.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook. 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 3-1/2 to 3-3/4 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 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; Lisa D. Cook; Philip N. Jefferson; Anna Paulson; and Christopher J. Waller. Voting against this action were Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting; and Beth M. Hammack, Neel Kashkari, and Lorie K. Logan, who supported maintaining the target range for the federal funds rate but did not support inclusion of an easing bias in the statement at this time.

Source: Federal Reserve

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