

The Fed dot plot maintained a 25bps cut each in 2026 and 2027

**The latest Fed economic projections saw a hawkish tilt; upward revisions to GDP and core PCE
Market pencilling less than 1 cut in 2026; we are scaling back to one cut in 2026 on inflation risk
USD positive in the near-term; MYR likely to be supported and outperform over the medium term**

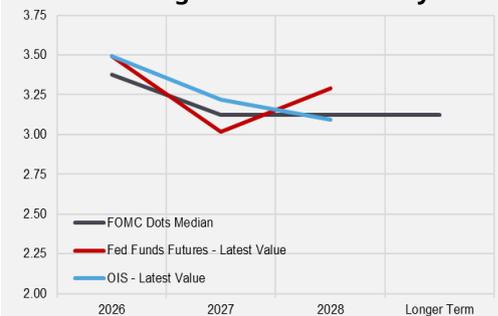
Overview

As widely expected, the FOMC decided to maintain the target range for the Fed funds rate at 3.50-3.75%. The decision was nonetheless not unanimous, with Stephen Miran preferring to lower the fed funds rate by 25bps.

Key highlights

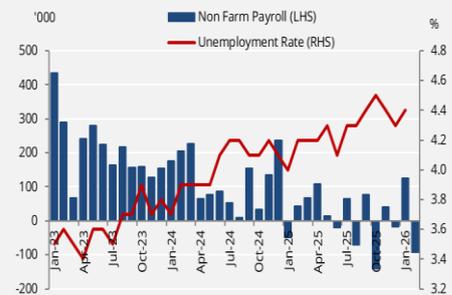
- The accompanying statement contained minimal changes. Instead of describing the labour market as having shown signs of stabilization, it has been amended to “unemployment rate has been little changed in recent months.” In regards to the developments in the Middle East, the statement merely stated that the implications for the economy are uncertain.
- **In a hawkish tilt, median projections for real GDP were revised up across all the forecast horizons.** The median forecast for 2026, 2027 and 2028 GDP growth was revised up to 2.4% y/y (+0.1ppts), 2.3% y/y (+0.3ppts) and 2.1% y/y (+0.2ppts) respectively. The upward revision to the longer-run projection to 2.0% y/y (+0.2ppts) likely reflects AI boost to productivity.
- PCE projections were revised for 2026 and 2027. Headline PCE is now projected to increase by 2.7% y/y (+0.3ppts) in 2026 and 2.2% y/y in 2027 (+0.1ppts), likely imputing some impact from the recent oil prices shock. **Core PCE is expected to increase by 2.7% y/y (+0.2ppts) and 2.2% y/y (+0.1ppts) for this and next year.**
- Median projection for the unemployment rate was left unchanged at 4.4% for 2026 but revised 0.1ppts higher to 4.3% for 2027.
- **The Fed dot plot was left unchanged, with one 25bps cut each in 2026 and 2027, and is projected to hold steady thereafter.** No rate hike was pencilled and it appeared that even Miran has tempered his dovishness, pencilling in a 100bps cut rather than 150bps in the December dot plot.
- The outlook for the economy and inflation, meanwhile, was left unchanged – with growth expanding at a solid pace and inflation remaining somewhat elevated. In the presser, Fed Chair Jerome Powell added that consumer spending has been resilient, and business fixed

Figure 1: Market is pencilling less aggressive easing in 2026 while the Fed is maintaining its one cut for the year



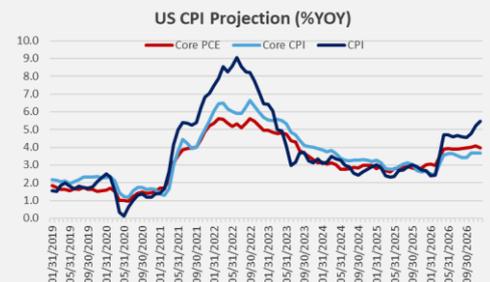
Source: Federal Reserve, Bloomberg

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



Source: Bloomberg; HLBB Global Markets Research

Figure 3: Expect inflation to spiral above 3.0% in March



Source: Bloomberg, HLBB Global Markets Research

investment has continued to expand. In contrast, activity in the housing sector has remained weak.

- On the impact of surging oil prices on inflation, similar to 2021, Fed Chair Powell indicated that the Fed believes that inflation would be transitory during a supply shock and that central banks do not react (raise rates) unless this is followed by a pick-up in inflation expectations.
- Powell further commented that we won't be seeing a rate cut until we see progress in reducing inflation, the latter largely kept elevated by the tariff-induced goods sector before the energy shock. This, and given the recent upward revisions to the PCEs (as well as GDPs), it appears to us that inflation may likely remain a priority for the Fed this year.

Our thoughts

- With all these in view and on our expectations that the economic activities, consumer spending, corporate profitability and the labour market could be disrupted by the energy shock, there is no change to our view that the FOMC remains on an easing bias but the quantum of the cut will likely be scaled back due to the recent oil shock.
- We have therefore tweaked our house view to just one 25bps cut for the year, likely in the 4Q but caution that the situation remains very fluid and we will keep a close eye on the duration and intensity of the Middle East war, and review as and when necessary.
- In terms of FX, the hawkish tilt in the recent FOMC projections, pared rate cut bets coupled with haven bids, will continue to pose an upside risk for the Dollar in the near term but over a more medium run, the performance of the USD will depend on development in the Middle-east conflict and its repercussions on the world, as well as the US economy. Should the conflict turn out shortlived and energy prices and global supply chains are restored within a reasonable timeframe, the 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. We are maintaining our USDMYR forecast of 4.00 by year end for now but will be monitoring and reviewing our views in due course.

House View and Forecasts

FX	This Week	1Q-26	2Q-26	3Q-26	4Q-26
DXY	98-102	96.71	95.13	94.70	95.49
EUR/USD	1.15-1.17	1.20	1.22	1.22	1.21
GBP/USD	1.31-1.35	1.36	1.37	1.37	1.35

USD/CHF	0.76-0.80	0.78	0.78	0.78	0.78
USD/JPY	156-162	153	149	147	147
AUD/USD	0.69-0.72	0.68	0.69	0.70	0.69
NZD/USD	0.57-0.61	0.58	0.59	0.59	0.58
USD/CNY	6.87-6.93	6.90	6.83	6.85	6.90
USD/MYR	3.89-3.97	4.00	3.97	3.97	4.00
USD/SGD	1.26-1.29	1.26	1.23	1.23	1.24
USD/THB	31.50-32.50	32.2	32,1	32.0	30.8

FX	Last close	1Q-26	2Q-26	3Q-26	4Q-26
EUR/MYR	4.5203	4.78	4.82	4.85	4.84
GBP/MYR	5.2323	5.44	5.45	5.45	5.41
AUD/MYR	2.7854	2.72	2.75	2.78	2.76
CNY/MYR	0.5699	0.58	0.58	0.58	0.58
SGD/MYR	3.0690	3.17	3.21	3.23	3.22

Rates, %	Current	1Q26	2Q26	3Q26	4Q26
Fed	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50
ECB	2.00	2.00	2.00	2.00	2.00
BOE	3.75	3.50	3.50	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00
BOJ	0.75	0.75	0.75	1.00	1.00
RBA	4.10	4.10	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 @ 18 Mar 2026

Percent

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

Source: Federal Reserve

Side by Side Comparison of FOMC Statements - changes

January 28 meeting

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has shown some signs of stabilization. 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 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 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; Beth M. Hammack; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Anna Paulson. Voting against this action were Stephen I. Miran and Christopher J. Waller, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting.

March 18 meeting

Available indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, and the unemployment rate has been little changed in recent months. 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 remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain. 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.

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Source: Federal Reserve

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