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% YoY	2023	2024	2025F*
Real GDP	2.9	2.8	1.6
Core PCE	4.2	2.8	3.1
Unemployment (%)	3.6	4.0	4.5

*Fed projection

US FOMC Meeting

Fed delivers first 25-bp rate cut for the year

- The Fed cut its policy rate by 25 bps to 4.00–4.25%, with newly appointed Governor Stephen Miran dissenting in favour of a larger 50-bp cut.
- With inflation risks easing, the Fed is shifting away from a restrictive stance to manage the risks of a slowing labour market.
- The dot plot signals another 50 bps of cuts this year, followed by an additional 25 bps in 2026, while the Fed's baseline growth and inflation outlook remains broadly steady.
- Mixed signals of rising inflation and a weakening labour market may complicate the Fed's policy trajectory.
- We now expect a further 50-bp of cuts by year-end, with 10-year UST yields maintaining a mild downward bias and MGS yield broadly stable, anchoring USD/MYR near 4.20.
- We see risk that markets may have overshot in pricing cuts, in which a reversal of expectations could pressure the ringgit. Overall, we see limited impact on BNM's OPR outlook, which remains accommodative following July's pre-emptive 25-bp cut.

The beginning of easing cycle

As widely anticipated, the Federal Reserve voted 11–1 to reduce the federal funds target range by 25 bps to 4.00–4.25%, with newly appointed Governor Stephen Miran dissenting in favour of a larger 50-bp move. This marks the first rate cut since Dec-24 and likely signals the start of a new easing cycle, underscoring the Fed's pivot towards preserving labour market strength while balancing still-elevated inflation pressures.

Fed's focus shifts from inflation to employment

The Fed's decision to cut was guided by its assessment that *"downside risks to employment have risen."* Chair Powell stressed that policy has been skewed towards inflation for a long time, but that *"the risks of higher and more persistent inflation have probably become a little less."* He noted that policy had remained *"restrictive"* this year, but given labour-market risks, the Fed is now *"moving to a neutral policy."* His remarks signal a clear shift in focus towards managing the risks of a slowing labour market.

Fed increasingly dovish

The dot plot now signals 50 bps of additional easing by end-2025 (median rate: 3.6%), followed by a further 25 bps in 2026 (median: 3.4%), taking the policy rate down to 3.25%–3.50%. This represents one extra 25-bp cut in 2025 versus the July projection.

Despite the lower rate path, the Fed's baseline outlook remains broadly steady. Annual GDP growth has been revised up, but unemployment and PCE inflation forecasts for 2025 are unchanged (Fig. 2). This suggests the Fed still views economic and inflation conditions as stable but is using rate cuts as risk management in light of rising downside risks to employment.

Mixed data could complicate Fed's easing trajectory

Recent data highlight the Fed's challenge in balancing its dual mandate of maximum employment and stable prices. Nonfarm payrolls rose just 22k in August (consensus: 75k), while the unemployment rate climbed to a near four-year high of 4.3%. At the same time, headline CPI ticked up to +2.9% YoY in August (July: +2.7%), pointing to tariff-related inflation risks. Meanwhile, retail sales surprised to the upside with a 0.6% MoM gain in August, underscoring consumer resilience. We think the discrepancy partly reflects the wealth effect from buoyant equity markets supporting upper-income spending, even as weaker labour market conditions weigh on lower-income groups. Taken together, these mixed signals may complicate the Fed's policy trajectory.

Expect another two rate cuts in 2025; support for ringgit

Markets had largely priced in the September cut. The 10-year UST yield has fallen 21 bps MTD to 4.02%, while broad dollar weakness has lifted the USD/MYR by 0.9% MTD to 4.19.

Given increasing signs of softer labour and a more dovish Fed, we now expect a 25-bp cut in October and another 25-bp cut in December, bringing cumulative cuts to 75 bps in 2025 (50 bps previously). This is broadly in line with Fed funds futures, which price in 80% chance of two more cuts by December 2025. Under this scenario, we expect UST to maintain a mild downward bias and MGS yields to stay broadly stable, anchoring USD/MYR near 4.20.

Risks of an overshoot in rate-cut expectations

Notwithstanding the dovish Fed, its rate-cut trajectory remains fluid, reflected in the wide dispersion of the dot plot (Fig. 3). Nearly half of participants project the policy rate ending 2025 above the median 3.50-3.75%.

Given the mixed data, particularly resilient consumer spending alongside weakening labour market conditions, we see a risk that markets have overshoot in pricing cuts. A reversal of those expectations could unwind part of the Treasury rally and pressure the ringgit closer towards **our baseline expectation of 4.30**. Overall, we see limited impact on BNM's OPR outlook, as policy remains accommodative following July's pre-emptive 25-bp cut. We maintain our forecast for **OPR to stay at 2.75%** through 2025 and 2026.

Figure 1: FOMC Meeting Schedule & Outlook for 2025

No. of Meetings	Date	In-house Projection	Fed Funds Future	Fed Decision
1st	28-29 Jan	Unchanged	Unchanged	Unchanged
2nd	18-19 Mar*	Unchanged	Unchanged	Unchanged
3rd	6-7 May	Unchanged	Unchanged	Unchanged
4th	17-18 Jun*	Unchanged	Unchanged	Unchanged
5th	29-30 Jul	Unchanged	Unchanged	Unchanged
6th	16-17 Sep*	25-bp cut	25-bp cut	25-bp cut
7th	28-29 Oct	25-bp cut	25-bp cut	
8th	9-10 Dec*	25-bp cut	25-bp cut	

Source: Federal Reserve, CME Group, Apex Securities

*Meeting associated with a Summary of Economic Projections

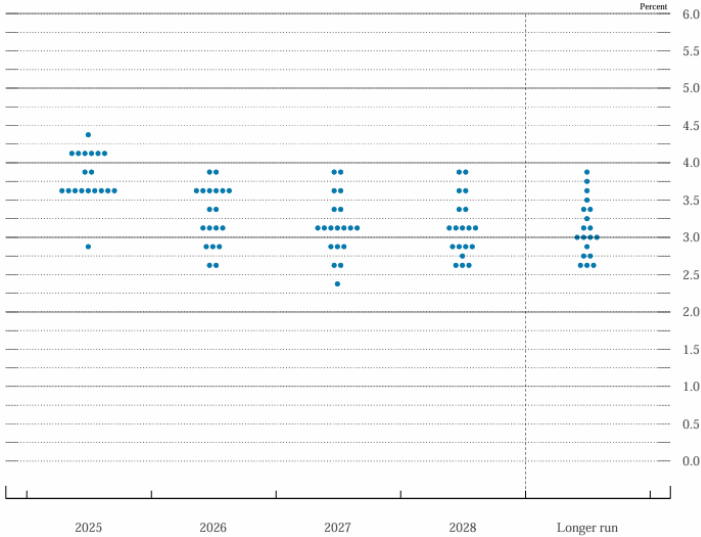
Figure 2: Fed's Summary of Economic Projections

Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation ⁴	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

Note: SEP projections reflect Q4 levels or Q4/Q4 changes, not full-year averages.

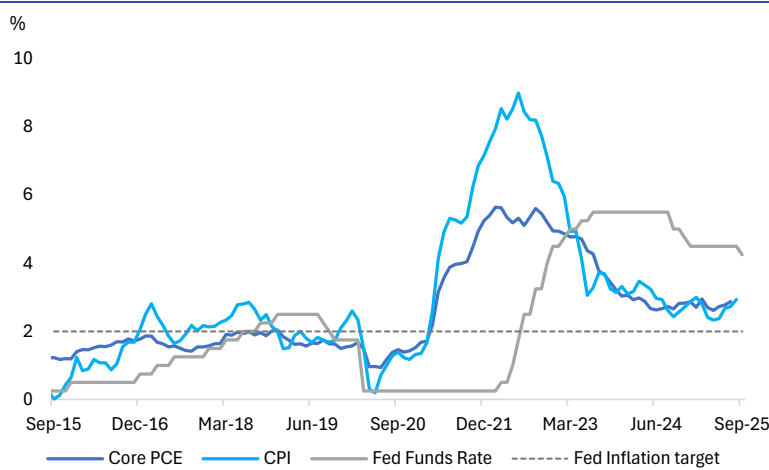
Source: Federal Reserve

Figure 3: Fed's Dot plot



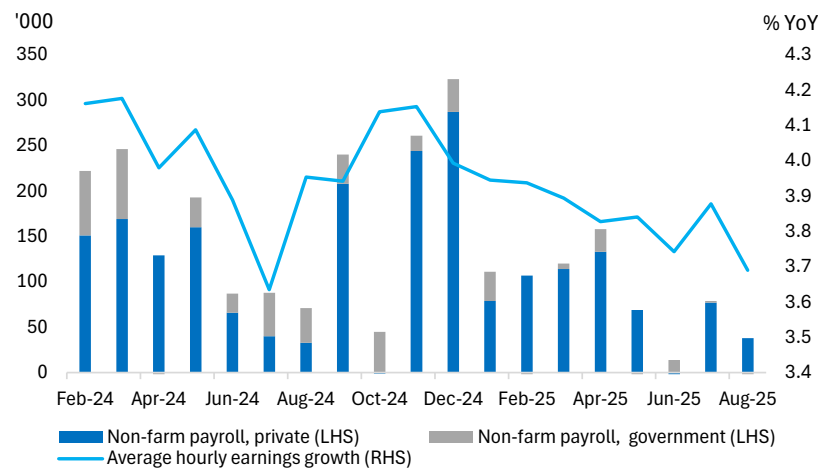
Source: Federal Reserve

Figure 4: Inflation rose further in August



Source: Macrobond, Apex Securities

Figure 5: US labour market conditions have deteriorated in recent months



Source: Macrobond, Apex Securities

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
