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% YoY	2023	2024	2025	4Q26F*
Real GDP	2.9	2.8	2.1	2.2
Core PCE	4.2	2.9	2.8	3.3
Unemployment (%)	3.6	4.0	4.3	4.3

*Fed projection

US FOMC Meeting

Hawkish tilt as Fed commits to price stability

- **The Fed voted unanimously to keep the policy rate at 3.50–3.75%.**
- **New Fed Chair Kevin Warsh announced a broad overhaul of the Fed's operations, including a move away from forward guidance.**
- **We perceive the Fed as having adopted a more hawkish bias and now expect one 25-bp rate hike in 2026, likely in September (previously: no rate change).**
- **Growing expectations of a more hawkish Fed stance should support the USD in the near term. We maintain our USD/MYR forecast of 4.03 for 2026.**

Fed kept policy rate steady

The Federal Reserve (Fed) voted unanimously to maintain the federal funds target range at 3.50-3.75%. Governor Stephen Miran, who dissented in favour of a rate cut in April, supported keeping rates unchanged this time.

Fed reforms in focus

This was the first FOMC meeting under new Fed Chair Kevin Warsh. The announcement of a broad overhaul of the Fed's operations dominated the post-meeting press conference.

Notably, Chair Warsh announced that the Fed will move away from its traditional practice of providing forward guidance, arguing that financial markets should react to incoming economic data rather than speculate on the Fed's reaction function. He also announced the establishment of five task forces focusing on the Fed's communications, balance sheet management, reliance on data sources, productivity and jobs, and the central bank's inflation framework.

The FOMC statement was also noticeably shorter. While acknowledging that *"productivity growth and capital investment are strong"*, the statement reiterated that inflation remains elevated and that **"the Committee will deliver price stability"**. We believe this suggests that the Fed's focus has increasingly shifted towards containing inflation.

Perceived Fed hawkish stance to contain inflation

Chair Warsh refrained from participating in the dot plot. Among the remaining 18 participants, nine expect rates to move above the current 3.50-3.75% range, while the other nine pencilled in no change or lower rates (Fig. 2). The evenly split dot plot underscores the highly fluid inflation and labour market outlook amid ongoing geopolitical developments.

Meanwhile, the Fed revised its baseline GDP growth projections modestly lower relative to March (Fig. 3). Notably, the Fed raised its 2026 core PCE inflation projection considerably, reflecting inflationary pressures stemming from the oil shock.

Throughout the press conference, Chair Warsh repeatedly emphasised the Committee's commitment to restoring price stability. On policy restrictiveness, he noted that *"it is hard to say policy is restrictive anywhere but in housing"*. While the statement should not be interpreted as forward guidance, taken together, **we perceive the Fed as having adopted a more hawkish bias**, with larger emphasis on containing inflation than supporting the still-resilient labour market.

Inflation remains elevated; labour market broadly steady

The latest inflation data remain elevated, with headline CPI rising to a three-year high of +4.2% YoY in May (Apr: +3.8%) amid higher energy prices. On a positive note, excluding petrol, prices of other household essentials increased at a more moderate pace. Meanwhile, core inflation edged up to +2.9% YoY (Apr: +2.8%), slightly below market expectations, suggesting that spillover into broader prices remains limited for now.

The labour market surprised on the upside. Nonfarm payrolls increased by +172k in May (consensus: +85k), while March and April job gains were revised higher to +214k and +179k respectively. The solid job data may partly reflect temporary hiring associated with the World Cup. Nonetheless, the continued strength in employment despite elevated energy prices and concerns over AI-related job displacement points to ongoing labour market resilience. Meanwhile, the unemployment rate remained steady at 4.3% (Apr: 4.3%).

Revise to one rate hike in 2026; near-term USD supported

Taken together, elevated inflation and the Fed's renewed commitment to price stability strengthen the case for policy tightening. That said, we believe a potential US-Iran agreement could help alleviate energy price pressures, with reports of an upcoming deal already driving crude oil prices 13.1% lower to around USD83.0/bbl, the lowest level since early March. We believe inflationary pressures would ease should lower energy prices be sustained.

As such, we do not anticipate an aggressive pace of rate hikes at this juncture. **We now expect one 25-bp rate hike in 2026**, likely in September (previously: no rate change). Meanwhile, the Fed funds futures currently imply a 51% probability of at least two rate hikes by December 2026.

Growing expectations of a more hawkish Fed stance should continue to support the US dollar in the near term. The dollar index rose as much as 0.9% to 100.6 following the FOMC meeting before moderating slightly. We maintain our USD/MYR forecast of 4.03 for 2026.

BNM policy to remain steady

Closer to home, we maintain our view that BNM will keep the OPR unchanged at 2.75% through 2026 to preserve growth. The extent of spillovers from elevated crude oil prices into broader inflation, alongside the resilience of domestic demand, will remain key policy considerations.

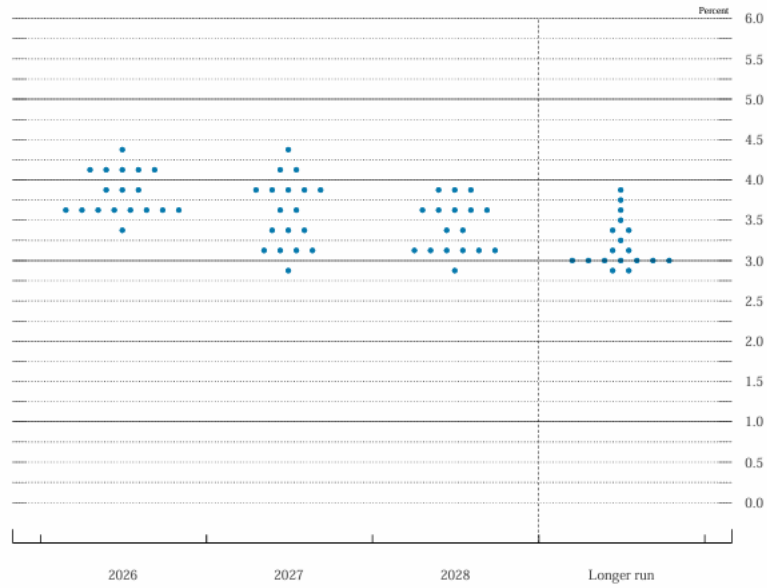
Figure 1: FOMC Meeting Schedule & Outlook for 2026

No. of Meetings	Date	In-house Projection	Fed Funds Future	Fed Decision
1st	27-28 Jan	Unchanged	Unchanged	Unchanged
2nd	17-18 Mar*	Unchanged	Unchanged	Unchanged
3rd	28-29 Apr	Unchanged	Unchanged	Unchanged
4th	16-17 Jun*	Unchanged	Unchanged	Unchanged
5th	28-29 Jul	Unchanged	Unchanged	
6th	15-16 Sep*	25-bp hike	25-bp hike	
7th	27-28 Oct	Unchanged	Unchanged	
8th	8-9 Dec*	Unchanged	25-bp hike	

Source: Federal Reserve, CME Group, Apex Securities

*Meeting associated with a Summary of Economic Projections

Figure 2: Fed's Dot plot



Source: Federal Reserve

Figure 3: Fed's Summary of Economic Projections

Variable	Median ¹			
	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2.0
March projection	2.4	2.3	2.1	2.0
Unemployment rate	4.3	4.3	4.2	4.2
March projection	4.4	4.3	4.2	4.2
PCE inflation	3.6	2.3	2.0	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation ⁴	3.3	2.5	2.1	
March projection	2.7	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.8	3.6	3.4	3.1
March projection	3.4	3.1	3.1	3.1

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

Source: Federal Reserve

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.
