US FOMC Meeting (27 – 28 October)

October pause is no pivot: December hike stays live as oil risk builds

- **Hold, with two hawkish dissents.** The Fed kept rates at 3.75%–4.00% in a 10–2 vote, as consensus and we expected. Lisa Cook and Beth Hammack dissented, favouring another 25 bps hike. Markets had priced little chance of a move, so the reaction was muted.
- **Statement: hawkish wording, no commitment.** The Fed upgraded activity from "solid" to "strong" and kept the line that inflation remains elevated. More importantly, it dropped September's reference to supporting a "timelier" return to 2% inflation. The new wording stresses gathering more information before setting policy, giving the Fed room to assess the impact of September's hike. The closing line, "The Committee will deliver price stability", is unchanged. **The tone is firm, but the Fed is keeping its options open.**

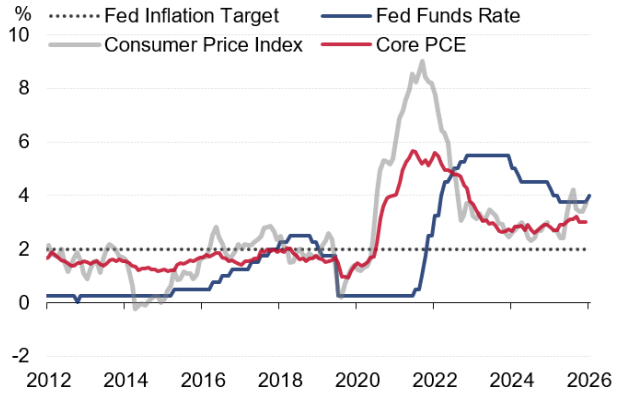
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.50% (+0.25%)	Canada	Overnight Rate	Oct-26
5.50% (+0.50%)	Philippines	Target Reverse Repurchase	Oct-26
4.60% (+0.25%)	Australia	Cash Rate	Sep-26
1.25% (+0.25%)	Japan	Overnight Call Rate	Sep-26
3.75% - 4.00% (+0.25%)	USA	Funds Rate Target	Sep-26
2.50% (+0.25%)	Euro Area	Key Deposit Facility Rate	Sep-26
2.75% (+0.25%)	New Zealand	Official Cash Rate	Sep-26
3.00% (+0.25%)	South Korea	Base Rate	Aug-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

Source: Bloomberg, Kenanga Research

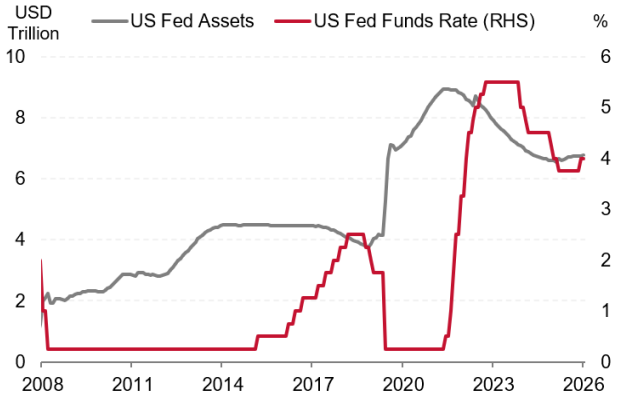
- **Press conference: the medicine is working, but the job is not done.** Warsh said the overwhelming consensus was that the "monetary medicine is starting to work". Credit has tightened for some businesses and households, and investors have become more selective. However, he stopped short of calling overall financial conditions tight and repeated that inflation remains elevated. Asked why the Fed held when participants had pencilled in another hike this year, he said September had already removed some accommodation. He gave no guidance on December but was unequivocal on price stability: "no ifs, ands or buts". **We read his silence as keeping December open, not as a softer stance.**
- **Meeting format: fewer rate decisions from 2027.** From autumn 2027, one of the Fed's eight scheduled meetings will focus on policy strategy, with no rate vote. In 2028, two meetings will be strategy-only, leaving six rate-setting meetings. **Fewer live meetings mean each decision carries more weight and leaves less room to wait.**
- **Fed policy outlook: December hike, then a long hold.** We keep our call for one more 25 bps hike in December, taking rates to 4.00%–4.25%, then a hold through end-2027. Markets agree on December, pricing around an 80% chance, but go further than us with three hikes priced over the next 6-9 months. The next important tests are the September PCE inflation release and 3Q26 GDP data tonight. Before the meeting on 9 December, the Fed will also see two payroll reports and the October CPI. **A hot core print would strengthen the case for a hike. Only a meaningful retreat in oil, alongside softer core inflation, would put it back in doubt.**
- **USD outlook: consolidation first, with Iran the swing factor.** The USD eased slightly after the decision. We see this as positioning adjustment after a largely one-way rally since early September, not a change in trend. Strong growth and above-target inflation limit room for a lasting correction. After the 3 November US midterms, focus shifts to Iran. Renewed US and Israeli strikes look likely unless a last-minute deal is struck. The chain runs from oil to the UST term premium, then to the ringgit. **We keep our USDMYR forecasts of 4.00 for end-2026 and 3.90 for end-2027.** Rate differentials anchor the call: the US rate advantage peaks with December's hike, and BNM's 1Q27 normalisation hike begins to narrow it. A Gulf escalation would delay, but not reverse, the move towards 4.00.
- **US Treasury (UST) outlook: anchored near 5.00%, with upside risk on Iran.** The 10-Y UST yield rose initially on the statement, before Warsh's comments on inflation expectations pulled it back towards 5.00%. Both the 10-Y and 2-Y remain more than 20 bps below their levels a month ago, after a haven bid driven by stress in AI-related credit despite strong activity data. **We raise our end-2026 10-Y UST forecast to 5.00% from 4.80%, as oil-driven inflation and heavy issuance keep the term premium elevated.** At the same time, markets still price three more hikes in the next 6-9 months. We see December as the last. As that extra tightening comes out of pricing, front-end yields should ease, offsetting term-premium pressure and keeping the 10-Y near current levels. The main upside risk is renewed strikes on Iran pushing oil, and with it the 10-Y, higher. For Malaysia, **we keep our end-2026 10-Y MGS target at 3.88% and expect BNM to hold the OPR at 2.75% on 5 November, before a 25 bps normalisation hike to 3.00% in 1Q27.**

Graph 1: Fed Funds Rate and Inflation Trends



Source: Bloomberg, Kenanga Research

Graph 2: Fed Balance Sheet Vs. Fed Funds Rate



Source: Bloomberg, Kenanga Research

Table 2: US FOMC Tentative Meeting Schedule for 2026 / KIBB Outlook

No.	Date		KIBB Research Outlook	Fed Funds Future**	Fed Decision
1st	27 and 28 Jan	☑	No change	No change	No change
2nd	17 and 18 Mar*	☑	No change	No change	No change
3rd	28 and 29 Apr	☑	No change	No change	No change
4th	16 and 17 Jun*	☑	No change	No change	No change
5th	28 and 29 Jul	☑	No change	No change	No change
6th	15 and 16 Sep*	☑	No change	25 bps hike	25 bps hike
7th	27 and 28 Oct	☑	No change	No change	No change
8th	8 and 9 Dec*	☐	25 bps hike	25 bps hike	

Source: Federal Reserve, Kenanga Research
Note: bps denotes basis points
**Meeting associated with a Summary of Economic Projections*
***CME Fed Rate Monitor: Based on CME Group 30-Day Fed fund futures prices (highest probability)*

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