بنك الإمارات دبي الوطني
Emirates NBD

Fed to stay on sidelines as it awaits tariff impact

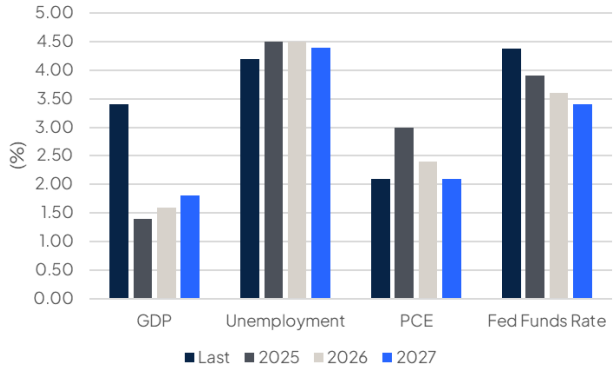
June 19 2025 – Market Economics

- The Fed kept rates unchanged at its June FOMC while also maintaining a forecast of 50bps of easing in 2025
- Policy uncertainty and the impact of tariffs remains a risk for the Fed this year.
- We expect at most two 25bps cuts from the Fed this year, pushed into Q4.

The Federal Reserve kept policy rates unchanged at its June 17-18 FOMC meeting, holding the Fed Funds rate at 4.5% on the upper bound. In its statement accompanying the FOMC decision the Fed said that "economic activity has continued to expand at a solid pace" while "uncertainty about the economic outlook has diminished but remains elevated."

In its summary of economic projections, the Fed cut its expectations for growth to 1.4% for 2025, down from 1.7% published at the March FOMC. Growth expectations for 2026 were also revised marginally lower. More notable was a shift higher in inflation projections to 3% for PCE inflation, meaningfully away from target levels of 2% and up from 2.1% in April. The dots plot, though, was maintained at 50bps of easing by the end of 2025 though the outlook for 2026 was changed to just 25bps of cuts.

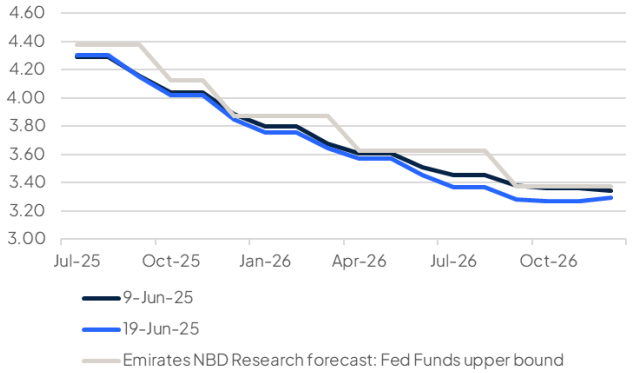
New SEP more downbeat on outlook



Source: Bloomberg, FOMC. Note: last GDP forecast based on Atlanta Fed GDPNow

The Fed's freedom of action for policy this year is hamstrung by substantial policy uncertainty. The tariffs introduced by the Trump administration across multiple geographies have yet to have a noticeable impact on inflation or employment in the US and there is no clarity on whether the "Liberation Day" tariffs announced on April 2 will be reimposed when their 90-day suspension ends in early July or if they will be extended again. Fed Chair Jerome Powell said explicitly that the Fed knows the impact of tariffs on consumers is coming but that they "just want to wait and see a little bit of that before we make judgments prematurely." Whether the sharp rise in oil prices in the last week caused by market anxiety over the war between Israel and Iran is sustained will also be an exogenous risk to the inflation outlook.

Rates outlook



Source: Bloomberg, Emirates NBD Research

The downgrade to growth and upward revision to inflation while maintaining rate cuts in the dots plot suggests the Fed is anxious about growth and the need to have to step in to support the economy. Rate cuts then still look probable for 2025 through we now expect at most 50bps of easing, in line with the Fed's outlook though with a strong chance of fewer if there is a material rise in inflation in the coming months.

For the economies of the UAE and GCC rates at their current elevated level do not appear to be major headwinds to growth. The UAE's non-oil economy expanded by 5% last year when rates on average were higher than they are set to be this year while Saudi Arabia's economy is still showing strong non-oil momentum. The Central Bank of the UAE has immediately followed the Fed with keeping its Base Rate unchanged at 4.4%

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