Daily Bulletin

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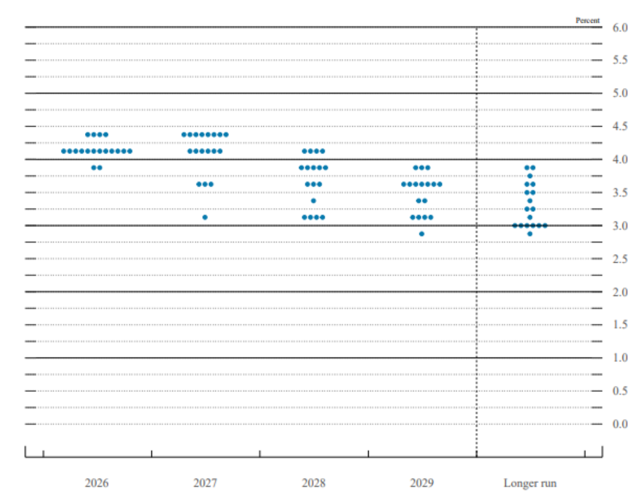
Fed hikes 25 bps and SAMA follows; corporate heavy, CASA rich banks best placed

The Federal Open Market Committee (FOMC) raised the federal funds target range by 25 bps to 3.75%-4.00% in a unanimous (12-0) vote, its first hike since Jul-23, ending a nine month pause that followed 75 bps of cuts in 2H25. Chairman Kevin Warsh framed the move as necessary to support a timelier return of inflation to the Fed's 2% goal. SAMA followed in lockstep, lifting the repo rate to 4.50% and the reverse repo rate to 4.00%.

The dot plot has turned hawkish. For 2026, 16 of the 18 participants see at least one more hike this year, while only 2 see no further moves for the remainder of the year. The 2027 move is more split: 8 policymakers expect rates at 4.25%-4.50% range, 6 in the 4.00%-4.25% range, 3 in the 3.50%-3.75% range, and one member projecting rates to decline to 3.00%-3.25%. Additionally, the median 2026 inflation forecast was revised up to 3.7%, from 3.6% in the Jun-26 projections. This was set against an upgraded growth outlook, with median real GDP growth for 2026 raised to 2.3% from Jun-26 projection of 2.2%, and a firmer labor market, as the median unemployment forecast for 2026 was lowered to 4.1% from 4.3% projected in Jun-26.

In his press conference, Chairman Warsh identified three developments since the July meeting that tipped the balance toward a hike. Firstly, stronger-than-expected labor market data, with total nonfarm payroll employment rising by 162,000 in Aug-26, higher than the average monthly gain of 31,000 over the previous 12 months. Secondly, inflation continues to run high, with CPI advancing 3.4% YoY in Aug-26. Lastly, geopolitical risk remains heightened and continues to impact energy prices.

Fed funds rate dot plot



Source: US Fed, anbc research

Economic projections

	2026	2027	2028	2029	Long run
Real GDP change					
Current projections	2.3%	2.4%	2.2%	2.1%	2.0%
June projections	2.2%	2.3%	2.2%	-	2.0%
Unemployment rate					
Current projections	4.1%	4.1%	4.1%	4.1%	4.2%
June projections	4.3%	4.3%	4.2%	-	4.2%
PCE inflation					
Current projections	3.7%	2.3%	2.1%	2.0%	2.0%
June projections	3.6%	2.3%	2.0%	-	2.0%
Core PCE inflation					
Current projections	3.4%	2.5%	2.2%	2.0%	-
June projections	3.3%	2.5%	2.1%	-	-
Projected policy path					
Current projections	4.1%	4.1%	3.9%	3.6%	3.2%
June projections	3.8%	3.6%	3.4%	-	3.1%

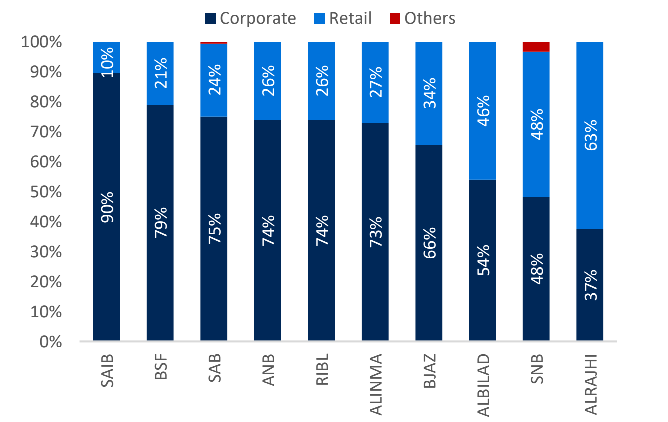
Source: US Fed, anbc research

Implication for Saudi Banks: The higher-for-longer interest rates are expected to be a net positive for margins but come with an offsetting headwind. Loan growth had already been decelerating in recent periods (6.8% YoY as of Jul-26), and higher borrowing costs are likely to weigh further on credit demand.

The margin uplift will be uneven, driven by loan mix and deposit base. Banks with a higher share of corporate lending, which is typically SAIBOR-linked and reprices quickly, are better placed to see net interest margins expand as asset yields rise. As of Jun-26, Saudi Investment Bank had the highest share of corporate loans within its gross loan portfolio of 89.5% (albeit corporate mix advantage partly offset by sector's lowest CASA of 26.9%), followed by Banque Saudi Fransi with a corporate book share of 79.0%. Banks weighted toward retail lending, where rates reprice more slowly and borrower sensitivity is higher, are likely to see a more muted effect. Al Rajhi's loan book is tilted towards retail loans, with corporate portfolio making up 37.5% share of its total loan book, as of Jun-26.

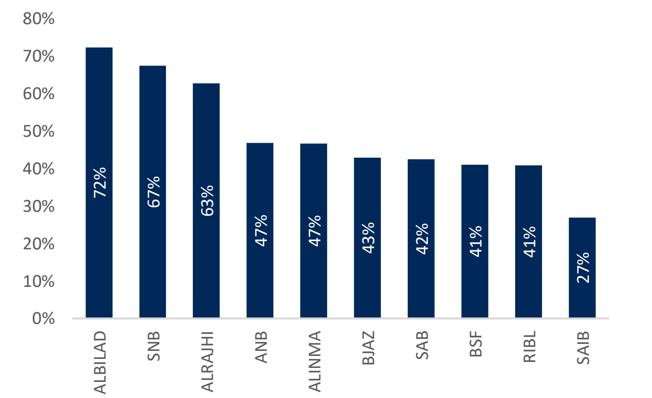
On the funding side, banks with a higher share of CASA deposits benefit from a lower, stickier cost of funds, allowing more of the rise in asset yields to flow through to margins, whereas banks more reliant on time deposits face faster repricing liabilities that erode part of the gain in yields. Within the Saudi banking sector, Bank Albilad has the highest share of CASA within its deposit mix of 72.2%, as of Jun-26, followed by Saudi National Bank with a CASA mix of 67.4%.

Gross loan mix (Jun-26)



Source: Company financials, anbc research

CASA ratio (Jun-26)



Source: Company financials, anbc research

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