

FX Viewpoint Flash

Currencies
Global

USD: Fed pauses; headwinds remain

- ◆ The FOMC left rates unchanged and did not shift its stance despite two dissenting votes
- ◆ Fed Chair Powell stuck to previous data dependent guidance; our economists expect rates to remain steady
- ◆ The USD is likely to face near-term pressure from structural concerns, rather than monetary policy changes

Following a series of 25bp rate reductions at the Federal Open Market Committee (FOMC) meetings in September, October, and December last year, **the Committee voted by a margin of 10 to 2** to maintain the federal funds target range at 3.50-3.75% during its 27-28 January meeting, in line with market expectations. **The forward guidance portion of the policy statement was little changed.**

The two dissenting votes came from Fed Governors Stephen Miran and Christopher Waller, both of whom advocated for a further 25bp cut. Notably, **Governor Miran, who had previously pushed for larger 50bp cuts, moderated his position**, while Governor Michelle Bowman – who has previously indicated that rates have room to fall (*The Wall Street Journal*, 16 January) – did not dissent on this occasion. It is important to note that **two dissenting votes fall well short of the consensus required for additional easing in future meetings**. Fed Chair Jerome Powell emphasised that these dissenting views represented a minority, highlighting **“broad support” within the FOMC – including non-voting members – for holding rates steady**. The FOMC comprises 19 policymakers in total (12 voters and 7 non-voters), with voting rights rotating annually.

For markets, Fed Chair Powell's press conference offered the prospect of two main strands of inquiry – guidance around the likely policy path and Fed independence. On the latter, Chair Powell basically said he had nothing to say on the topic, leaving markets to interpret the policy guidance. **The overall tone was relatively hawkish, with no indication of imminent further easing**. Powell reiterated that no decisions had been made regarding future meetings, noting that **the US economy is growing at a solid pace, the unemployment rate is broadly stable, and inflation remains somewhat elevated** (*Bloomberg*, 29 January). He also noted that both upside risks to inflation and downside risks to employment had “diminished a bit”. This position allowed the USD to remain steady, supported by US Treasury Secretary Bessent's earlier comments that the US “has a strong dollar policy”, and the Treasury is “absolutely not” intervening in the currency market (*Bloomberg*, 29 January).

Fed Chair Powell's remarks were consistent with a wait-and-see approach regarding future rate changes. **Our economists' view remains that the FOMC will keep rates steady through 2026 and 2027**, though as always there will be important double-sided risks to this outlook to consider as the US economy evolves. **Market expectations, however, also remain largely unchanged, with two additional rate cuts still anticipated later this year** (*Bloomberg*, 29 January).

In summary, **we expect the USD to face ongoing downward pressure in the near term, driven primarily by structural concerns**, such as questions around Fed independence and potential FX intervention to weaken the USD against the JPY, rather than the immediate trajectory of US monetary policy. While Fed Chair Powell did not address these structural issues in his latest remarks, they remain relevant for market sentiment.

At its first meeting of 2026, the Fed kept rates steady, in line with market expectations

Only two FOMC members dissented, with broad support for steady rates

Powell's press conference signalled a hawkish stance and no imminent easing

Our economists expect rates to remain steady through 2026 and 2027, but markets see two cuts

The USD is likely to face near-term pressure due to structural, not policy, concerns

Disclosure appendix

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