

FX Viewpoint Flash

Currencies
Global

USD: 25bp rate cut delivered with December in doubt

- ◆ The Fed cut rates by 25bp, with one member wanting a 50bp cut and another preferring no change
- ◆ Fed announced an end to Quantitative Tightening (QT) from 1 December and that a December rate cut is not guaranteed
- ◆ We continue to expect USD weakness into year-end 2025

The Federal Reserve (Fed) continued its policy easing, cutting the federal funds target range by 25bp to 3.75-4.00% at the Federal Open Market Committee's (FOMC) meeting on 28-29 October – the second rate cut so far this year. The decision was voted on 10 to 2, with Fed Governor Stephen Miran favouring a 50bp reduction and Kansas City Fed President Jeffrey Schmid dissented in favour of no change in policy rates. The FOMC also announced an end to overall quantitative tightening (QT) from 1 December onwards.

Our economists expect another 25bp rate cut at the 9-10 December meeting, which could take the range down to 3.50-3.75%. After that, they expect policy rates to stay on hold through 2026-27.

However, Fed Chair Jerome Powell's comments during the October press conference suggested that the Fed could delay a December cut, depending on how the economy performs. The ongoing US government shutdown, which began on 1 October, has also disrupted key economic data releases, adding to the uncertainty.

Powell highlighted that a few pieces of economic data are still available, despite the government shutdown. One key source is state-level jobless claims. While the Department of Labor is not publishing national totals, most individual states continue to release their own data, which can be aggregated. Powell that noted these reports have not shown any rise in unemployment claims, offering a reassurance that labour market conditions remained stable recently.

This supports the view of some FOMC members who believe the committee could pause or skip a December rate cut, while awaiting more information on economic activity, employment, and inflation before going any further.

The meeting ultimately **supported the USD** after Powell's comment that a December rate cut is not assured.

We continue to expect USD weakness by year-end 2025, based on our base case of a December Fed cut, and we expect the USD to bottom by early 2026, as we expect no further Fed easing next year, despite what markets currently expect.

The Fed cut rates by 25bp and announced an end to Quantitative Tightening (QT) from 1 December

Due to dissenting opinions (one voted against a cut), Fed Chair Powell said that another cut in December is not a foregone conclusion

We continue to expect USD weakness into year-end 2025

Disclosure appendix

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