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FOMC Sep policy review

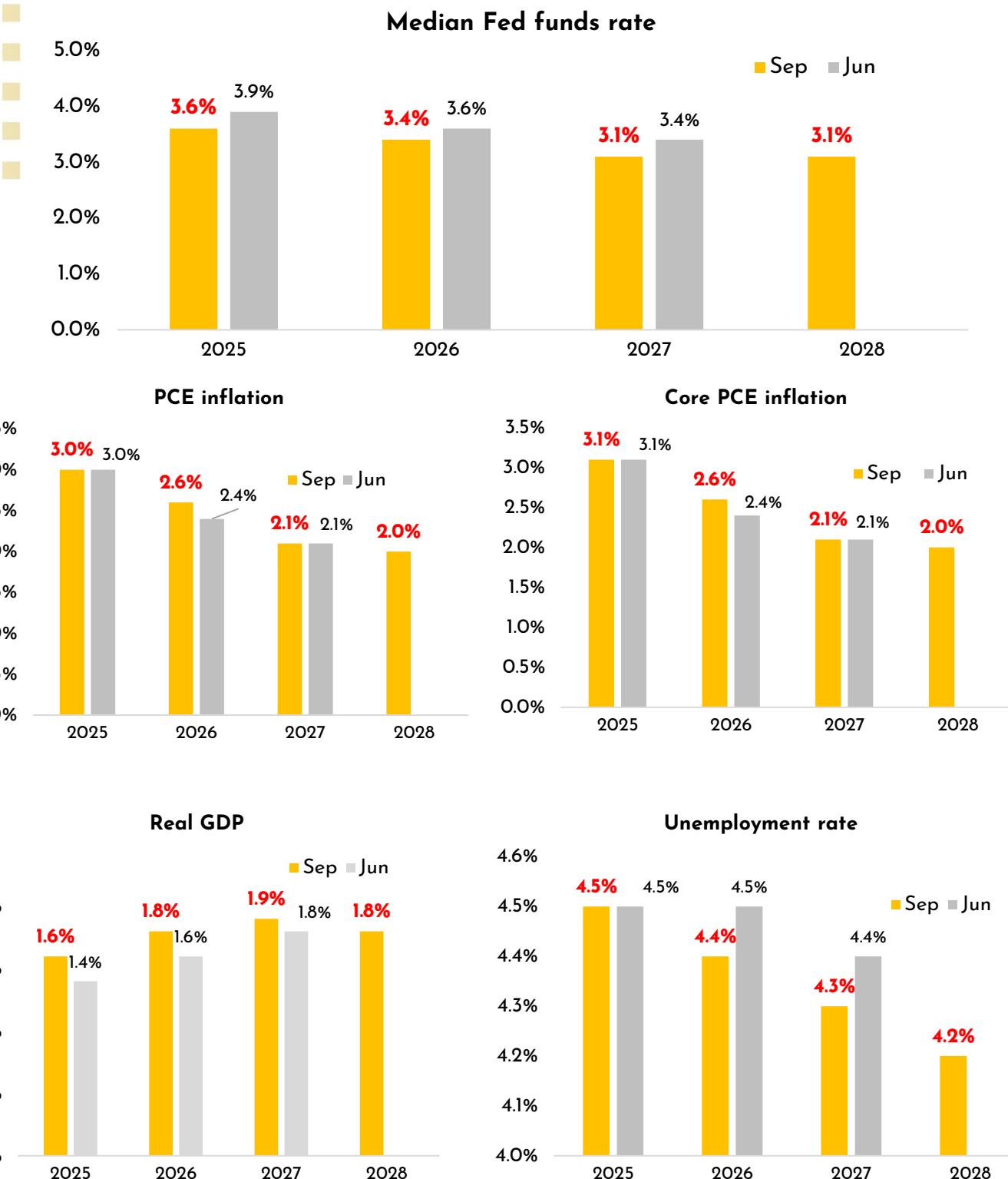
18- September - 2025

FOMC cuts benchmark rate along expected lines, shifts tone towards a more neutral policy with cooling jobs market

- The Federal Open Market Committee (FOMC) cut its benchmark rate by 25 bps as widely anticipated, with one member dissenting towards a 50bps easing.
- The policy statement highlighted a shift in labor market conditions, noting slower job gains, an uptick in unemployment rate, and increased downside risks to employment, in contrast to jobs market seen as solid in the previous policy meeting.
- Importantly, the dot-plot indicated rates to come down by 50 bps further this year, taking the median fed fund rate by end 2025 to 3.6% from 3.9% earlier. Rates for 2026 and 2027 were now being seen at 3.4% (vs 3.6% before), and 3.1% (vs 3.4% earlier). Projections for PCE (Personal Consumption Expenditure) and core PCE inflation were maintained for this year at 3% and 3.1% respectively but raised for next CY. Meanwhile, the unemployment rate for this year was also held at 4.5% but lowered for next year at 4.4%.
- In the post policy press conference, chair Powell attributed the recent slowing in payrolls to declining labor force participation and lower immigration and marked the moderation in both jobs supply as well as demand as unusual.
- On inflation, Mr. Powell noted a rise in goods inflation emanating from tariffs but also stated that these were not so large yet, with disinflation continuing for services. Apart from this, upside risks to inflation in the near term was noted but clarified that risks of higher and more persistent inflation was somewhat less than feared before.
- In response to recent shoot-up in prices of grocery items, Mr. Powell attributed it to increase in goods prices from tariffs, but also said this would be a one time increase rather than resulting in an inflationary process. The chair pointed out that the policy had been skewed towards inflation for long and called for a more balanced/neutral approach given downside risks to labor markets.
- Mr. Powell stressed that the recent policy action was in response to much lower job creation and softening in labor market and called it as a 'risk-management cut' - this wording led yields to reverse early downside.
- Lastly, chair Powell reiterated to adopt a meeting-by meeting approach in the forthcoming meetings.

Implication: The policy outcome was largely as anticipated. From the Indian bonds market perspective, focus now shifts to H2 supply distribution for the GOI bonds. In addition, markets will also look forward to the RBI MPC Oct policy meeting. We expect the committee to hold rates in the upcoming meeting, given a sharp depreciation in INR and continuing uncertainty on US trade policies, though potential revision in real GDP and CPI projections will be closely watched following GST rate rationalization. In addition, any tweaks to underlying assumptions this year is also awaited.

Summary of Fed's economic projections



Source: FOMC economic projections statement, SWL research

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