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## **MONETARY AFFAIRS:**

**Review: FOMC Leaves Rates Unchanged,  
With Two Dissenters**

**by**

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**30 July 2025**

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#### Executive Summary

- ✘ **Decision Made:** *The Fed held US interest rates steady in July.* The FOMC kept the Fed funds rate steady at 4.25%–4.50%. The Fed maintained its data-dependent approach, signalling that rate decisions will continue to be made on a meeting-by-meeting basis. FOMC was divided: Powell and 8 others voted for the policy; Bowman and Waller opposed, favoring a rate cut; Kugler was absent. The July’s statement said uncertainty “remains elevated,” a more cautious view than in June, when the committee noted it had “diminished but remains elevated.”
- ✘ **Policy Discussion:** *A divided Fed voted to hold interest rates steady, facing both political pressure from President Trump and internal dissent.* Governors Michelle Bowman and Christopher Waller voted for a 25-bps cut, citing concerns over slowing growth and the inflationary effects of tariffs, though they see these effects as a one-time price shift. Their dissent marked the first time in over three decades that multiple governors opposed a rate decision, and is notable as both are seen as potential successors to Chair Powell when his term ends in May. Powell called the meeting constructive, underscoring the importance of open debate.

At the press conference, Powell said the current “modestly restrictive” stance remains “appropriate” given the economy’s resilience, even as growth slows. Powell stressed that no decision has been made ahead of September. Markets are pricing in a rate cut next month, but the path ahead will be shaped by two more rounds of inflation and employment data before the next FOMC meeting.

The Fed also adopted a more cautious tone in its July statement, dropping the phrase “diminished uncertainty.” Powell acknowledged that the impact of tariffs on core inflation, estimated at 0.3 to 0.4 pp, may be temporary, though the risk of persistent effects remains. He also flagged uncertainty around whether businesses can pass higher costs on to consumers, reflecting broader inflation risks.

#### Key Picture: US Federal Reserve Forecasts – 2025-2027

	2025f			2026f		2027f		Longer Run	
	Latest Reading	June Report	March Report	June Report	March Report	June Report	March Report	June Report	March Report
GDP (real growth, y-o-y)	2.0	1.4	1.7	1.6	1.8	1.8	1.8	1.8	1.8
Unemployment rate (% y-o-y)	4.1	4.5	4.4	4.5	4.3	4.4	4.3	4.2	4.2
PCE Inflation (% y-o-y)	2.3	3.0	2.7	2.4	2.2	2.1	2.0	2.0	2.0
Core PCE Inflat. (% y-o-y)	2.5	3.1	2.8	2.4	2.2	2.1	2.0	-	-
Federal Funds Rate (%)	4.327	3.9	3.9	3.6	3.4	3.4	3.1	3.0	3.0

Source: Federal Reserve ‘Summary of Economic Projections’ [June](#) and [March](#) 2025. Note: 1. GDP reading for Q2-2025; 2. Unemployment rate as of June 2025; 3. PCE and core PCE inflation as of May 2025; 4. Projections reflect the median of FOMC projections

## Analysis

- ✦ **DECISION MADE:** *On July 30, the US Federal Reserve's FOMC held its Fed funds range unchanged at 4.25% - 4.50%.* FOMC was divided: Powell and 8 others voted for the policy; Bowman and Waller opposed, favoring a rate cut; Kugler was absent.

Regarding *forward guidance*, the Fed continues to be data-dependent with decisions being made meeting by meeting. The FOMC's statement made only minor adjustments to the committee's assessment of economic conditions. The committee noted that: *"Although swings in net exports continue to affect the data, recent indicators suggest that growth of economic activity moderated in the first half of the year."* At the June meeting, the committee struck a more optimistic tone, noting that the economy *"continued to expand at a solid pace."* The July's statement said uncertainty *"remains elevated,"* a more cautious view than in June, when the committee noted it had *"diminished but remains elevated."* The Fed further stated: *"In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks".*

Regarding *balance sheet policies*, the Fed in May last year decided to slow down the pace of QT from June. The Committee plans to further decrease its Treasury securities, agency debt, and agency mortgage-backed securities holdings. Starting in April, the Committee slowed the reduction of its securities holdings by lowering the monthly Treasury redemption cap from \$25 billion to \$5 billion, while keeping the agency debt and mortgage-backed securities cap at \$35 billion.

- ✦ **POLICY DISCUSSION:** *A divided Fed held rates steady amid dissent, tariff uncertainty, and political pressure, with Powell signaling data will guide the next move.* A divided Fed voted to keep interest rates unchanged, despite pressure from President Trump and dissent from Governors Michelle Bowman and Christopher Waller, who favored cuts. Regarding the dissents—Bowman and Waller's push for a rate cut—Powell described the meeting as productive, with clear rationale behind opposing views. Their votes mark the first multiple dissents in over 30 years and are particularly noteworthy given both officials are seen as potential successors to Powell when his term ends in May. Bowman and Waller content that Trump's tariffs are inflationary, but only as a one-time increase in price levels.

During the press conference, Fed Chair Jerome Powell said the current *"modestly restrictive"* policy stance remains appropriate, given the economy's resilience. While a slowing economy could justify rate cuts, the committee didn't go that far. Chair Powell reiterated that no decision has been made ahead of the September meeting. The Fed's path will depend heavily on upcoming data, with two rounds of employment and inflation figures still to come before the next FOMC gathering. However, Traders anticipate a Fed rate cut in September, though that outlook may shift with incoming data. In June, Fed officials signaled—by a slim margin—expectations for two cuts this year.

Notably, the Committee dropped the phrase *"diminished uncertainty"* from its July statement, signaling a more cautious tone. Powell acknowledged that officials now have greater clarity on tariff trajectories, suggesting there's a *"reasonable case"* that their inflationary impact may be short-lived. Still, he warned that persistent effects remain a risk that must be closely monitored.

On tariffs, Powell appeared ambivalent. While business surveys indicate firms plan to pass costs to consumers, he admitted this may not be possible across the board, reflecting uncertainty around inflation pass-through. Notably, Powell estimated that tariffs could add 0.3 to 0.4 percentage points to core inflation.

Labor market conditions, meanwhile, remain broadly solid, but Powell pointed to signs of slowing job creation and potential downside risks. He stressed that the Fed does not currently observe labor market weakening, though caution is warranted.

Fed Chair Jerome Powell described President Trump's rare visit to the Fed headquarters as a "nice" and "honorable" occasion, despite tensions over renovation costs. When asked whether Trump's interest in the Fed building relates to his push for lower rates, Powell declined to speculate, instead underscoring the importance of central bank independence—a principle he said is "widely understood," especially in Congress.

- ✦ **ECONOMIC ASSESSMENT:** *Despite ongoing uncertainty, the economy remains solid.* Unemployment is low at 4.1%, and the labor market is near full employment, with job gains averaging 150,000 per month. Wage growth is moderating but still outpaces inflation.

Economic activity has slowed, with GDP rising 1.2% in the first half of the year, down from 2.5% last year. Though Q2 growth hit 3%, that figure was boosted by volatile net exports. The slowdown mainly reflects weaker consumer spending, while business investment has picked up. Housing remains sluggish and Private Domestic Final Purchases (which abstract from government expenditure and net export), slowed to 1.2% from 1.9% annual growth rate.

Inflation has eased since mid-2022 but remains above the 2% target. Over the past year, headline PCE rose 2.5% and core PCE 2.7%. Services inflation is slowing, but tariffs are raising prices for some goods. While short-term inflation expectations have edged higher due to tariff concerns, long-term expectations remain anchored around 2%.

- ✦ **OUR TAKE:** *In September, the Fed will decide if conditions are ripe for a rate cut.* The Fed will wait two full rounds of employment and inflation data, as well as the initial effects of the tariffs being imposed before making a decision in September, which is the date in which expects the rate cut to occur.

- ✦ **MARKET REACTION AND IMPLICATIONS:** *Markets had overwhelmingly expected no action on rates, while Treasury yields and the dollar got a boost from the GDP data. In the fixed-income space, the 2-year Treasury yield rose by around 7 bps and now trades around 3.94%. 10-year Treasury yield surged to as high as 4.38% by around 4 bps. In the currency space, The US Dollar Index rose by 0.5% to around 99.9. EUR/USD fell and trades around 1.143. In the equity space, stocks held steady after the Fed's widely expected decision to leave rates unchanged. The S&P 500 edged up 0.2%, the Nasdaq gained 0.4%, and the Dow rose 26 points, or 0.07%. However, S&P 500 gave up after Powell signaled that the central bank isn't quite ready for rate cuts.*



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