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**Preview: Fed To Cut Rates in October,
With More Easing To Come**

by

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28 October 2025

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Executive Summary

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- **Expected Decision:** *We expect the Fed to cut in October.* In line with consensus, we expect the Fed to cut its target Fed funds range by 25 bps to 3.75% - 4.00% in October. Regarding *forward guidance*, the Fed will continue to be data-dependent regarding further policy changes, but Powell is likely to signal further easing down the line. Regarding *balance sheet policy*, in May last year the FOMC decided to slow down the pace of QT. Most analysts expected quantitative tightening to continue into early 2026, but Chair Jerome Powell recently signaled it could end “in the coming months” after government bill sales unsettled money markets, suggesting QT might wrap up as soon as this year, or even this week.
 - **Policy Discussion:** *The Federal Reserve faces a shifting policy landscape as inflation pressures ease and the labor market softens.* While growth remains solid and unemployment low, momentum is clearly fading. Against this backdrop, the Fed is expected to deliver another 25bp rate cut this week, with markets also pricing in another move in December. The cut would lower the federal funds rate to 3.75%–4%, the lowest since December 2022, with the CME FedWatch tool assigning a 97% probability. Chair Powell described September’s rate cut — the first in nine months — as a “risk management” move, balancing still-elevated inflation with growing labor-market weakness. Tariff-related price pressures have proved milder than expected, giving the Fed more room to focus on employment risks. The Fed projects two cuts this year and one more in 2026, but markets anticipate roughly 125bp of easing by end-2026, potentially bringing rates near 3%. If the job market deteriorates or asset prices correct, policymakers could move faster and deeper. At the same time, the Fed may signal the end of Quantitative Tightening (QT). Bank reserves of about \$3 trillion (10% of GDP) remain comfortable, but the 2019 repo turmoil serves as a reminder not to push liquidity too low.
- All this unfolds amid rising political pressure. President Trump continues to urge steeper cuts while seeking to reshape the Fed’s leadership. His attempt to remove Governor Lisa Cook, currently on hold pending Supreme Court review, underscores broader efforts to align the central bank more closely with his administration’s economic agenda — a challenge to its traditional independence.

Key Picture: US Federal Reserve Forecasts – 2025-2027

	2025f			2026f		2027f		2028f	Longer Run	
	Latest Reading	September Report	June Report	September Report	June Report	September Report	June Report	September Report	September Report	June Report
GDP (<i>real growth, y-o-y</i>)	2.1	1.6	1.4	1.8	1.6	1.9	1.8	1.8	1.8	1.8
Unemployment rate (% <i>y-o-y</i>)	4.3	4.5	4.5	4.4	4.5	4.3	4.4	4.2	4.2	4.2
PCE Inflation (% <i>y-o-y</i>)	2.7	3.0	3.0	2.6	2.4	2.1	2.1	2.0	2.0	2.0
Core PCE Inflat. (% <i>y-o-y</i>)	2.9	3.1	3.1	2.6	2.4	2.1	2.1	2.0	-	-
Federal Funds Rate (%)	4.327	3.6	3.9	3.4	3.6	3.1	3.4	3.1	3.0	3.0

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

Analysis

- ✦ **EXPECTED DECISION:** *On October 29, we expect the US Federal Reserve's FOMC to cut its Fed funds range by 25 bps to 3.75% - 4.00%.* In September, FOMC was divided: Powell and 10 others voted for the policy; Miran opposed, favoring a rate cut of 50 bps. At the July meeting, Governors Michelle Bowman and Christopher Waller pushed for a 25bp cut but accepted the reduction approved in September. All three governors, appointed by Trump, face pressure from him to accelerate rate cuts.

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Regarding *forward guidance*, the Fed will continue to be data-dependent regarding further policy changes with decisions being made meeting by meeting, but Powell is likely to signal further easing down the line to manage the risk of a softening employment picture.

Regarding *balance sheet policies*, the Fed in May last year decided to slow down the pace of QT from June. The Committee will continue reduce the size of its balance sheet made of 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.

Most analysts had expected quantitative tightening, the Fed's bond roll-off program, to run through early 2026. But Chair Jerome Powell recently hinted it could end "in the coming months," after a surge in government bill issuance disrupted money markets. His remarks suggest QT might conclude as soon as later this year, or even this week.

- ✦ **POLICY DISCUSSION:** *The Federal Reserve faces a changing policy landscape as inflation pressures ease and the labor market shows increasing signs of weakness.* While growth remains solid and unemployment low, recent data suggest momentum is fading. Against this backdrop, the Fed is widely expected to deliver another 25bp rate cut this week, with markets also anticipating a further move in December. The markets are fully pricing in a 25bp rate cut that would lower the federal funds rate to 3.75%–4%, the lowest level since December 2022. According to the CME FedWatch tool, investors see a near 97% probability of this move, with many analysts describing it as a "done deal."

The September rate cut, the first in nine months, was described by Chair Powell as a "risk management" measure, balancing still-elevated inflation against a slowing jobs market. Tariffs remain a key uncertainty, but their inflationary impact has been milder than feared, giving the Fed space to prioritize employment risks over price stability concerns.

The Fed's September projections indicated that two cuts this year and one in 2026 should be sufficient to support growth. However, markets remain more cautious, pricing in roughly 125bp of total easing by end-2026, which would bring the Fed funds rate closer to 3%.

If tariffs stay manageable and financial conditions ease, the Fed could stop earlier. But a sharper labor market downturn or an asset price correction could force policymakers into a more aggressive response, potentially pushing rates well below 3%. The key question is whether the Fed's measured approach will be enough to prevent a deeper downturn — or if mounting political and economic pressures will force it into a faster, more aggressive rate-cutting cycle in 2026.

Alongside rate cuts, the Fed may also signal the conclusion of its Quantitative Tightening (QT) program. Bank reserves currently stand near \$3 trillion (around 10% of GDP), a comfortable buffer but not one the Fed wishes to test. The 2019 repo market disruption, when reserves dipped below 7% of GDP, remains a cautionary tale.

The Fed's policy decisions are unfolding under heightened political scrutiny. President Trump has continued to pressure the central bank to cut rates more aggressively, while simultaneously attempting to reshape its leadership. His effort to remove Fed Governor Lisa Cook, a Biden appointee, is now before the Supreme Court, which has temporarily blocked her dismissal until hearings begin in January. Cook's

potential removal underscores Trump's broader push to align the Fed more closely with his administration's economic priorities, challenging its traditional independence.

- ✦ **MACROECONOMIC ANALYSIS:** *US economy posts strongest quarterly growth in nearly two years.* The US economy expanded faster than initially estimated in Q2, driven by robust consumer spending, business investment, and a sharp narrowing of the trade deficit as imports fell after earlier tariff-driven surges. GDP rose at an annualized 3.8%, the fastest pace since late 2023, up from 3.3% in the previous estimate.

While the data underscore the economy's resilience, supported by strong equipment demand from the AI boom and low unemployment claims, momentum appears to be fading amid the drag from tariffs and policy uncertainty. Economists note that job growth has slowed sharply in recent months, largely due to Trump's renewed import duties and immigration curbs, rather than tight monetary policy.

U.S. inflation rose to 3% in September 2025—the highest since January but slightly below expectations of 3.1%—marking a modest uptick from 2.9% in August, according to the Labor Department. Energy costs surged 2.8% year-on-year, driven by higher fuel oil and gasoline prices, while core inflation, which excludes food and energy, eased to 3% from 3.1%, signaling contained underlying pressures despite new trade tariffs.

- ✦ **MARKET IMPLICATIONS:** *Markets have largely priced in two more 25bp cuts this year, keeping yields anchored.* The 2-year Treasury yield hovers near 3.5%, while the 10-year remains around 4%, both supported by expectations of continued easing and subdued inflation. A clear signal that QT is nearing its end could further support risk assets and maintain a constructive tone in bond markets. To put things into context, *in the fixed-income space*, the 10-year Treasury yield held steady Monday as investors awaited the Fed's meeting, where a quarter-point rate cut is widely expected. As of October 28, the 2y *UST* fell by 5 bps to around 3.50% since the last meeting on September 17 (-74 bps y-t-d). The 10y *UST* edged down by 10 bps to 3.98% since the last meeting (-58 bps y-t-d). *In the currency space*, ahead of the meeting the US dollar is steady. As of October 28, and since the last meeting in September, the *dollar index* edged up by 1.9% and trades around 98.7 (-9.6% y-t-d). *EUR/USD* fell by -1.3% to 1.17 since September meeting (+5.8% y-t-d). *In the equity space*, US stocks rose on Tuesday, edging toward record highs as investors digested a wave of earnings reports and awaited the Federal Reserve meeting for confirmation that rate cuts are on the way. As of October 28, S&P 500 trade around 6881.16 rising by 4.3% since the last meeting (+17.3% y-t-d).

- ✦ **APPENDIX (Macro Background):** *The better-than-expected GDP growth was mainly driven by a stronger revision to consumer spending.* In Q2, the US economy grew by an annualized 3.8% (c: -0.6%; p: 3.3%), the fastest expansion since Q3 2023. Consumer spending rose (2.5% vs 0.6% in Q1). Government spending contracted (-0.1% vs -1.0%) and residential investment also shrank (-5.1% vs -1.0%). Exports shrank (-1.8% vs. 0.2%), while imports contracted by far more (-29.3% vs. 38.0%). The economy grew 2.1% y-o-y in Q2 2025, matching Q1 and marking the slowest pace since late 2022, the advance estimate showed.

Composite PMI climbed to 54.8 reached its highest level since July and indicating growth slightly above the third-quarter average. despite the fastest manufacturing rebound since May 2022. In October, *the S&P Global US Composite PMI* rose to 54.8 (p: 53.9). *The Services PMI* increased to 55.2 (c: 53.5; p: 54.2). *The Manufacturing PMI* rose to 52.2 (c: 52.0; p: 52.0).

Labour market weakened. In August, *the unemployment rate* edged up to 4.3% (c: 4.3%; p: 4.2%). The U.S. economy added 911,000 fewer jobs in the 12 months through March 2025 than initially reported — the largest downward revision since at least 2000 — according to the BLS's preliminary benchmark update. Wage growth increased by 4.9% in July (p: 5.2%) in August. The U-6 unemployment rate, which includes those marginally attached to the labour force and those working part-time for economic reasons, increased to 8.1% (p: 7.9%).

Inflation climbed to the highest since January. In August, the *personal consumption expenditures (PCE)* – the Fed’s preferred inflation gauge – increased to 2.7% y-o-y (c: 2.7%; p: 2.6%). The *core-PCE* – which excludes volatile energy and food prices –increased to 2.9% y-o-y (c: 2.9%; p: 2.9%). In September, headline inflation rose to 3.0% y-o-y (c: 3.1%; p: 2.9%) while core inflation ticked down to 3.0% y-o-y (c: 3.1%; p: 3.1%).



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