

U.S. FOMC Review

- FOMC action: officials ratified market expectations with a cut of 25 basis points in the target range for the federal funds rate to 3-3/4 to 4 percent amid both hawkish and dovish dissents; cut in December “far from” a foregone conclusion
- Policy statement: modest changes to September verbiage while maintaining assessment that “downside risks to employment rose in recent months”
- QT: Treasury redemptions (currently capped at \$5 billion per month) to end effective December 1; redemptions of agency securities to be reinvested in Treasury bills

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The October FOMC Meeting

The FOMC eased monetary policy for the second consecutive meeting in late 2025, reducing the target range for the federal funds rate by 25 basis points to 3-3/4 to 4 percent. When questioned about the nature of the cut in the post-meeting press conference, the Fed Chair agreed that the latest move should again be viewed from a “risk management” perspective, although he indicated that possible future adjustments were “not a foregone conclusion” on account of a wide dispersion of assessments on the appropriate path of policy henceforth (described in Powell’s press conferences as “strongly differing views on how to proceed in December”). Moreover, that divergence in opinions was on display via contrasting dissents in the Committee’s policy statement. Governor Stephen Miran again dissented in favor of a ½ percentage point reduction, whereas Jeffrey Schmid, President of the Federal Reserve Bank of Kansas City, preferred no change in the target range for the federal funds rate. Thus, the disagreement laid bare in the dissents serves as a reminder that debate at upcoming gatherings will be lively, as Chair Powell reiterated messaging from the September press conference that going forward, “there is no risk-free path for policy” given both upside risks to inflation and downside risks to the labor market.

The Statement

Beyond dissents discussed above, the latest policy statement echoed that from September (see the side-by-side statement comparison, p.3). Acknowledging the impact of the government shutdown on the publication of salient statistics, the October iteration noted, “Available indicators suggest that economic activity has been expanding at a moderate pace,” whereas the previous statement indicated that it had “moderated in the first half of the year.” Additionally, the October statement read that “Job gains have slowed this year, and the unemployment rate has edged up but remained low through August; more recent indicators are consistent with these developments” – a statement that apparently suggests little change in underlying conditions from the September language: “Job gains have slowed, and the unemployment rate has edged up but remains low.” Similarly, language on inflation was tweaked (see statement), but Chair Powell again reiterated that his baseline assessment remains that price pressure tied to tariffs will most likely be realized in a one-time price-level shift. Contrastingly, he argued that further cooling was being realized in services inflation and that “non-tariff” inflation was close to the Committee’s goal. All told, we view the latest adjustments as mostly inconsequential versus shifts in September that clearly altered the balance of risks assessment.

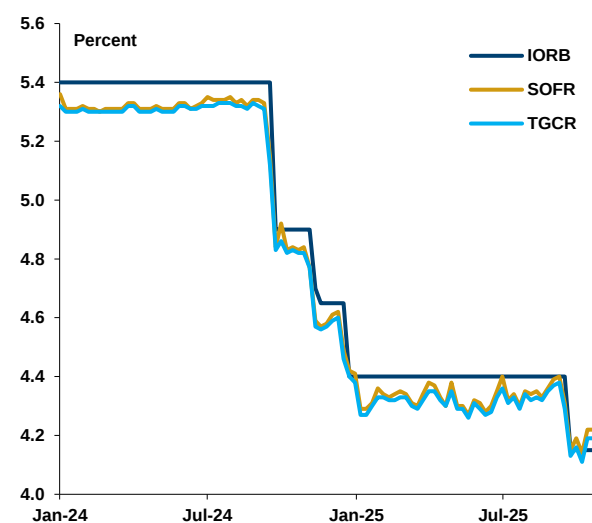
QT

As widely expected, the FOMC announced today that balance sheet runoff (i.e., quantitative tightening) would end effective December 1, although the current Treasury redemption cap of \$5 billion was already a far cry from the recent peak of \$60 billion and had signaled that the program was winding down. Contrastingly, the \$35 billion cap for agency MBS redemptions will remain in place, although proceeds will be reinvested in Treasury bills, thus preventing further shrinkage in the Fed’s securities portfolio and attendant drop in bank reserves. Further changes are likely in 2026, with reserve maintenance operations possibly required to align “ample” reserves with growth in the nominal economy and expanding non-reserve liabilities, but those will be made in due time. In essence, this was the initial step to stabilize reserves.

The change came amid a growing body of evidence that the transition from conditions of “abundant” to “ample” reserves was nearing completion. Notably, money market rates including the Secured Overnight Financing Rate (SOFR) and Tri-Party General Collateral Rate (TGCR), which typically trade below the Interest on Reserve Balances (IORB) rate, have drifted above it. Additionally, usage of the Fed’s Standing Repo Facility has picked up since mid-October – an indication of tightening funding conditions. Again, neither development is suggestive of acute strains, but in context they led policymakers to err on the side of prudence and avoid exacerbating constraints on market function.

(For further reading on upcoming adjustments to the Fed’s portfolio and operational proceedings, please see the following: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20251029a1.htm>; https://www.newyorkfed.org/markets/opolicy/operating_policy_251029; <https://www.newyorkfed.org/markets/treasury-rollover-faq.html>; <https://www.newyorkfed.org/markets/treasury-outright-faq>)

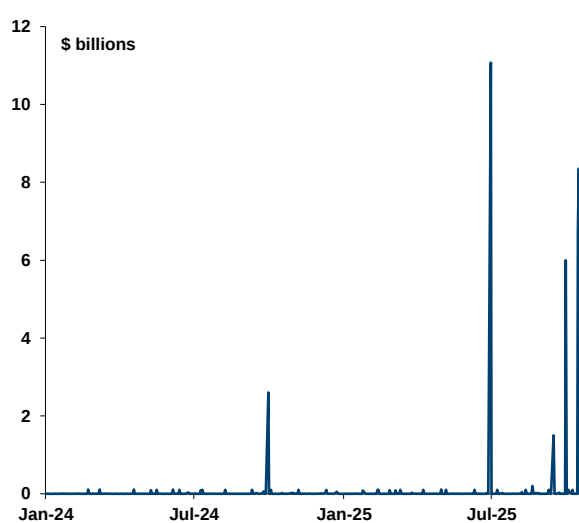
Money Market Rates*



* Weekly average data

Sources: Federal Reserve Board, Federal Reserve Bank of New York via Haver Analytics

Uptake in the Standing Repo Facility*



* Daily data

Sources: Federal Reserve Board, Federal Reserve Bank of New York via Haver Analytics

Daiwa's View

As Chair Powell reminded us, “There were strongly differing views today, and the takeaway from that is that we haven’t made a decision about December, and we’re going to be looking at the data that we have, how that affects the outlook and the balance of risks.” With that said, we still maintain the view that the FOMC is likely to ease by 25 basis points at its December gathering. Available data suggest that the labor market is operating at stall speed, and heightened economic uncertainty on account of tariffs, the government shutdown, etc. set the stage for firms accelerating layoffs should conditions not improve, thus warranting a more accommodative stance of policy. With that said, the surge of data likely after the end of the government shutdown could paint a picture of employment or inflation different than that dictated by currently available statistics. Thus, we remain cautious in our assessment despite the bias toward anticipating further easing.

FOMC Statement Comparison*

October 29, 2025 FOMC Statement

Available indicators suggest that economic activity **has been expanding at a moderate pace**. Job gains have slowed **this year**, and the unemployment rate has edged up but **remained low through August; more recent indicators are consistent with these developments**. Inflation has moved up **since earlier in the year** and remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment **rose in recent months**.

In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to **3-3/4 to 4 percent**. In considering 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. The Committee **decided to conclude the reduction of its aggregate securities holdings on December 1**. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; Alberto G. Musalem; and Christopher J. Waller. Voting against this action **were** Stephen I. Miran, who preferred to lower the target range for the federal funds rate by 1/2 percentage point at this meeting, **and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting**.

* Changes from statement to statement shown in bold.

Sources: Federal Open Market Committee; Daiwa Capital Markets America

September 17, 2025 FOMC Statement

Recent indicators suggest that **growth of** economic activity **moderated in the first half of the year**. Job gains have slowed, and the unemployment rate has edged up but **remains** low. Inflation has moved up and remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment **have risen**.

In support of its goals and in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to **4 to 4-1/4 percent**. In considering 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. The Committee **will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities**. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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