MNI Fed Review: Dec 2025

MNI View: Not A Particularly Hawkish Cut

By Tim Cooper
December 10, 2025

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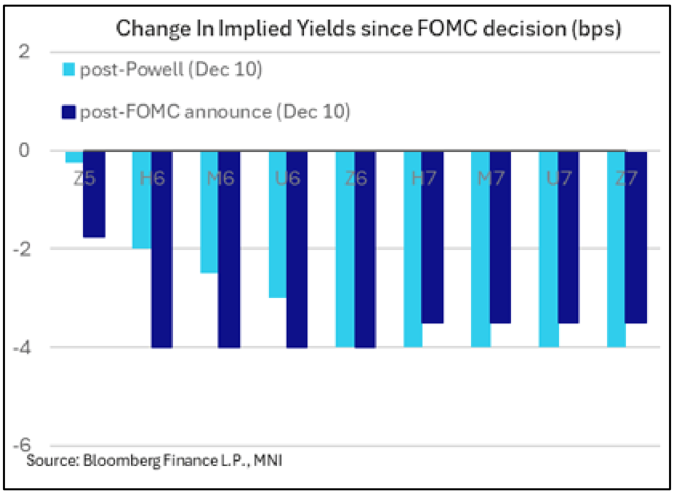
The FOMC delivered what was widely anticipated to be a “hawkish cut” at the December meeting, lowering the Funds rate range by 25bp to 3.50%-3.75% while portraying a cautious stance on further adjustments in the Statement and Dot Plot. But with most of the main communications having been well-anticipated – from the subtle shift in forward guidance in the Statement, to the unchanged Dot Plot rate forecast medians – overall the meeting outcome brought some slight dovish surprises and a concomitant market reaction.

- Rates markets ended up pricing in two 25bp cuts thorough October 2026 a little more firmly (by about 3bp) than they did before the decision, though a January cut remains a longshot (about 25% implied probability before and after the meeting).
- We go through the composition of the Dot Plot (unchanged medians, including 1 cut in each of the next 2 years), the adjustments to the economic projections (slightly lower inflation profile through 2026), and the change in Statement language (eyeing the “extent and timing” of future adjustments) below – but none of these were at all surprising. In particular, the paucity of official economic data since the September projections made it unlikely that participants would have a radically changed view of the outlook, and so it proved in the SEP.
- That didn’t mean there weren’t some surprises, but these were marginally dovish leaning on net.
- We haven’t yet seen any analyst view changes following the meeting, though there’s probably not enough new information received that would change opinions on the rate trajectory.



Fed Front-Loads Reserve Management Purchases: In the biggest surprise, the Fed announced that it will buy $40B monthly in bills as part of reserve management purchases, starting on Friday. That compares to expectations that RMPs would begin in 2026, and perhaps even in the second half of the year. The purchases will be front-loaded so as to get reserve levels up in anticipation of the usual funding market pressures associated with April’s tax date. Powell explained the decision to immediately start reserve management purchases: "In light of the continued tightening in the money market, interest rates relative to our administered rates, and other indicators of reserve market conditions, the committee judged that reserve balances have declined to ample levels... purchases will amount to $40 billion in the first month, and may remain elevated for a few months to alleviate expected near term pressures in money markets. Thereafter, we expect the size of reserve management purchases, to decline. So the actual pace will depend on market conditions." While Powell said that this decision had nothing to do with monetary policy, it was interpreted as a dovish development.

Dissent Contained: While dissents to the rate decision had been anticipated (namely Gov Miran in favor of a 50bp cut), the Committee didn’t appear to any more divided than had been feared. Two regional presidents dissented in favor of a hold (KC’s Schmid again; in a modest surprise, the second was Chicago’s Goolsbee), but we’d seen some expectations that all four presidents could vote for a hold.

- And in the Dot Plot, the 12 (of 19) members putting in a 25bp cut was a fairly solid core. On a less dovish note, this meant there were 6 who filed a “shadow” dissent with rates unchanged at end-2025 – and those 4 outside of Schmid and Goolsbee probably include Logan, Hammack, and Kashkari – all 2026 voters.
- While that’s not really a surprise given inter-meeting comments, some of them may have pencilled in no change in rates through next year (3 dots at 3.9%), or perhaps somebody is eyeing a hike (though Powell said that wasn’t any participant’s base case).

Not Pushing Back Forcefully Against A January Cut: One of the key focuses of the meeting was how much Powell and the FOMC would lean against a January cut. If anything Powell was less cautionary about a follow-up cut than he sounded in October when he delivered an actual “hawkish cut”.

- Powell said "We're going to get a great deal of data between now and the January meeting, and I'm sure we'll talk more about that, and that will the data that we get are going to factor into our thinking.... We did some cutting, and then we paused for a while to work our way through what was happening in the middle of the year. And then we resumed cuts in September.... We're well positioned to wait and see how the economy evolves from here…. In terms of what it would take, we all have an outlook in terms of what is going to come, but I think ultimately having cut 75 [basis points], the effects of the 75 basis points will only begin to be coming in. As I said before a couple times, we are well positioned to wait to see how the economy evolves. We will have to see. We will get quite a bit of data."
- That broader guidance on being “well positioned” was repeated multiple times: "adjustments to our policy stance since September bring it within a range of possible, plausible estimates of neutral and leave us well positioned to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook and the balance of risks".

Powell Cites “Negative” Payrolls: The other notable surprise was the degree to which Powell expressed concern over the state of the labor market (he maintained his upbeat tone on inflation). In explaining why the Fed cut now instead of waiting in January, he said that "in terms of inflation, it's coming in a touch lower" and the labor market cooling has continued.

- **Most provocatively, he said that payrolls have been overstated and have actually been negative on an adjusted basis since April**: "In October, I said that there was no certainty of moving. And that was indeed correct. I said it's possible you could think about it that way, but I was careful to say other people could look at it differently. So why do we move today? You know, I would say point to a couple things. First of all, gradual cooling in the labor market has continued. Unemployment is now up three tenths from June through September. Payroll jobs averaging 40,000 per month since April. We think there's an overstatement in these numbers by about 67,000 so that would be negative 20,000 per month. And also, just to point one other thing, surveys of households and businesses both show declining supply and demand for workers. So I think you can say that the labor market has continued to cool gradually, maybe just a touch more gradually than we thought."
- **The implication is that even with lower labor supply, the Fed needs to be watching the labor market "very carefully:** "Labor supply has also come down quite sharply. So if you had a world where there is just no growth in workers and you really don't need a lot of jobs to have full employment, some people argue that is what we are looking at. But I think a world where job creation is negative, I think we need to watch that situation very carefully, and be in a position where we are not pushing down on job creation with our policy."

Risks Seen Differently: Why not cut even more than is currently being signalled? Powell highlighted the division in the FOMC on the risks to outlook: "The risk is that tariff inflation just turns out to be more and more persistent... I think the other possibility is, less likely, and that is just that the labor market gets tight, or the economy gets tight. And you see, just traditional inflation. I don't see that as particularly likely, but ... again, all across the Committee, people see the picture pretty similarly, but see the risks quite differently. And some people do see the inflation risk. And I wouldn't dismiss that case. But you've got to make an assessment, and this is the assessment."

Updated Dot Plot Shows Same Medians, Longer-Run Closer To Edging Up: The updated Dot Plot retains the same end-year medians vs September's projections, as widely anticipated: 3.6% for end-2025, 3.4% end-2026, and 3.1% for end 2027-2028.

- 2025 saw 6 members pencil in no cut at December's meeting, but a solid 12 put in a 25bp cut.
- The 2026 distribution shows a bit of divergence, with the number of participants at the top dot at 3.9% rising to 3 from 2. Otherwise it's a fairly solid 3.4% median, with 7 above that figure and 12 at or below it. Notably the bottom dot has fallen to 2.1% from 2.6% previously - we'd suspect this is Gov Miran.
- Otherwise for 2027 and 2028, the distributions are basically identical.
- Looking at the longer-run dot, while unchanged at 3.0%, we are getting very close to an increase: there are now 5 on 3.00% and 5 below it, with vs 4 and 6 respectively in the previous edition. One of those dots moving above 3.00% would force a shift higher (some had seen it rising to 3.1% at this meeting).

FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate										
	2025	Sept SEP	2026	Sept SEP	2027	Sept SEP	2028	Sept SEP	Longer-Run	Sept SEP
4.500										
4.375		1								
4.250										
4.125		6								
4.000										
3.875	6	2	3	2	2	2	2	2	1	1
3.750									1	1
3.625	**12**	**9**	4	6	2	2	2	2	**1**	**1**
3.500									1	1
3.375	1		**4**	**2**	3	2	2	2	2	2
3.250									1	1
3.125			4	4	**6**	**7**	**6**	**5**	2	2
3.000									**5**	**4**
2.875		1	2	3	3	3	3	4	1	1
2.750							1	1	1	2
2.625			1	2	2	2	3	3	3	3
2.500										
2.375					1	1				
2.25										
2.125			1							
MEDIAN	**3.6**	3.6	**3.4**	3.4	**3.1**	3.1	**3.1**	3.1	**3.0**	3.0

Medians Bolded. Source: Federal Reserve, MNI

New Statement Includes More Patient Forward Rate Guidance Tweak: A comparison of December's rate decision statement vs the previous edition in October is later in this document: **Policy Statement Changes**

- The only major change is in forward guidance, which was widely expected, noting "In considering the extent and timing of additional adjustments..." vs previously "In considering additional adjustments". This is seen as maintaining the overall easing bias while suggesting that the consecutive pace of reductions is set to slow in 2026.
- The new statement also mentions the launch of reserve management purchases as noted earlier.
- 2 dissents in favor of a hold is more or less in line with expectations, though most thought along with KC's Schmid that it would be St Louis's Musalem that dissented - instead it was Chicago's Goolsbee. (Gov Miran dissented in favor of a 50bp cut for the 3rd consecutive meeting, as expected.)

Updated Econ Projections Eye Softer Inflation Profile: The updated economic projections are also largely in line with expectations, and mostly unchanged, reflecting the paucity of official data since the last edition in September.

- The unemployment rate is still seen as 4.5% in Q4 2025, suggesting that there is a fairly low bar to exceeding that forecast when we get the end-year data (September was 4.44%) - some had seen this nudged up to 4.6% to suggest a continued upward trajectory. Outer years are basically unchanged as well.
- The inflation profile was downgraded by 0.1pp for 2025 (core PCE seen at 3.0%, headline 2.9% for 2025), with the 2026 drop in PCE to 2.4% from 2.6% prior being somewhat notable.
- The 2025 real GDP upgrade was a little smaller than might have been expected given GDP readings since the last meeting - at 1.7% vs 1.6% prior. That may reflect some participants' downside risk assessment of the federal government shutdown fallout; the 2026 increase to 2.3% from 1.8% prior reflects the expected bounceback from the reopening (a point clarified by Powell in the press conference).

Percent

Variable	Median[1]				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8
September projection	1.6	1.8	1.9	1.8	1.8
Unemployment rate	4.5	4.4	4.2	4.2	4.2
September projection	4.5	4.4	4.3	4.2	4.2
PCE inflation	2.9	2.4	2.1	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0
Core PCE inflation[4]	3.0	2.5	2.1	2.0	
September projection	3.1	2.6	2.1	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
September projection	3.6	3.4	3.1	3.1	3.0

Market Reaction: Dovish

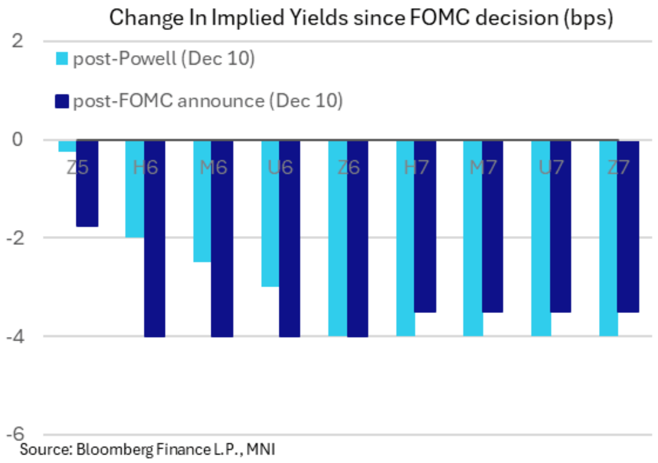
Rates: US rates pared a large part of what was already an initially limited dovish reaction to the first look at the suite of FOMC communications. Then Chair Powell had a net dovish impact, reversing a hawkish reaction to initially patient rhetoric. Fed Funds futures implied rates are 0.5-2bp lower since shortly before the FOMC announcement, with about half of that coming since Powell's press conference. Cumulative cuts from an assumed 3.64% effective: 5bp Jan, 13bp Mar, 18.5bp Apr, 32.5bp Jun, 47bp Sep and 54.5bp Dec.The terminal implied yield of 3.16% (Z6) is 6.5bp lower on the day but only gives back yesterday's climb to its highest since July.

FX: The dollar index saw declines after the release in lockstep with lower short-end yields. As the FOMC press conference progressed, negative sentiment towards the dollar re-emerged, with the USD index extending session lows and down a little more than 0.5%. Gains across the G10 vs USD were broad based.

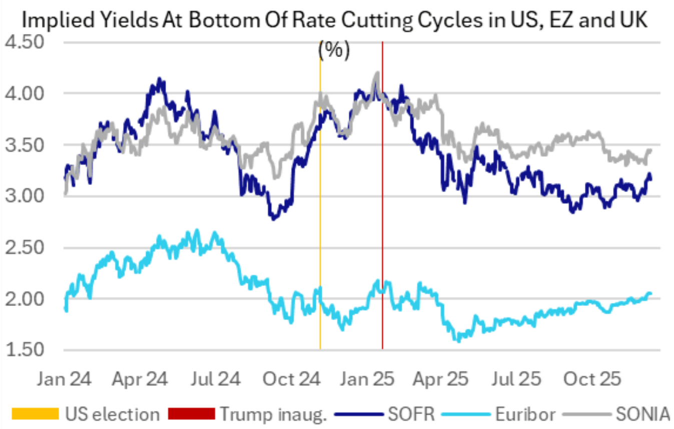
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Dec 10)			*chg in rate*	pre FOMC (Dec 10)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	3.64			3.64				3.64			
Jan'26	3.59	-5.2	-5.2	3.59	-5	-5.2	*0.0*	3.59	-5	-5	*-0.4*
Mar'26	3.51	-7.8	-13.0	3.52	-6	-11.6	*-1.4*	3.53	-6	-11	*-1.9*
Apr'26	3.45	-5.7	-18.7	3.47	-6	-17.3	*-1.4*	3.47	-6	-17	*-2.0*
Jun'26	3.32	-13.7	-32.4	3.34	-13	-30.1	*-2.3*	3.34	-13	-30	*-2.8*
Jul'26	3.25	-7.1	-39.5	3.27	-7	-37.3	*-2.2*	3.28	-7	-36	*-3.2*
Sep'26	3.17	-7.7	-47.2	3.19	-7	-44.8	*-2.4*	3.20	-8	-44	*-3.1*
Oct'26	3.13	-3.6	-50.8	3.16	-3	-48.2	*-2.6*	3.16	-4	-48	*-3.0*
Dec'26	3.10	-3.5	-54.3	3.12	-4	-52.1	*-2.2*	3.12	-4	-52	*-2.4*

Source: Bloomberg Finance L.P., MNI.
Assuming same EFFR-target lower bound spread from latest fix going ahead (& showing pre-FOMC/Powell for ease)



Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

FOMC Instant Answers

Fed Cuts 25BP, Announces $40B In Bill Purchases

- Fed funds rate range maximum: **3.75%**
- Number of dissenters: THREE. Miran preferred 50bp cut. Goolsbee and Schmid preferred holding steady.
- Does the FOMC change its forward guidance to indicate a higher bar for additional cuts? **YES. "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."**
- Median dot for 2026**: 3.4% vs 3.4% PREV**
- Median dot for 2027: **3.1% vs 3.1% PREV**
- Median dot for 2028: **3.1% vs 3.1% PREV**
- Median longer run dot: **3.0% vs 3.0% PREV**
- Interest rate paid on reserve balances: **3.65% vs 3.90% PREV**
- Standing repo minimum bid rate: **3.75% vs 4.0% PREV. "Going forward, standing overnight repo operations will no longer have an aggregate operational limit and will be conducted in a full allotment format using the FedTrade Plus trading platform."**

Press Conference Transcript:

Press Conference Q&A live-reported by MNI Analysts and Policy Reporters on our MainWire, IB and Bullets services (transcript may not exactly match what what said). MNI's Unofficial Press Conference Transcript:

https://media.marketnews.com/Rough_Transcript_Powell_December_d6b25681de.pdf

FOMC Links:

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20251210a.htm

Summ. Of Econ Proj: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20251210.htm

Implement. note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20251210a1.htm

Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20251210.htm

NY Fed Statement Regarding Reserve Management Purchases Operations:
https://www.newyorkfed.org/markets/opolicy/operating_policy_251210a

Statement Changes (Vs Previous FOMC)

~~October 29~~December 10, 2025

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~~September. 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 3-1/2 to 3-3/4 ~~to 4~~ percent. 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. ~~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.

The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.

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 Austan D. Goolsbee and Jeffrey R. Schmid, who preferred no change to the target range for the federal funds rate at this meeting.

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Dot Plot / Econ Projections

December 2025 - Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. Source: Federal Reserve

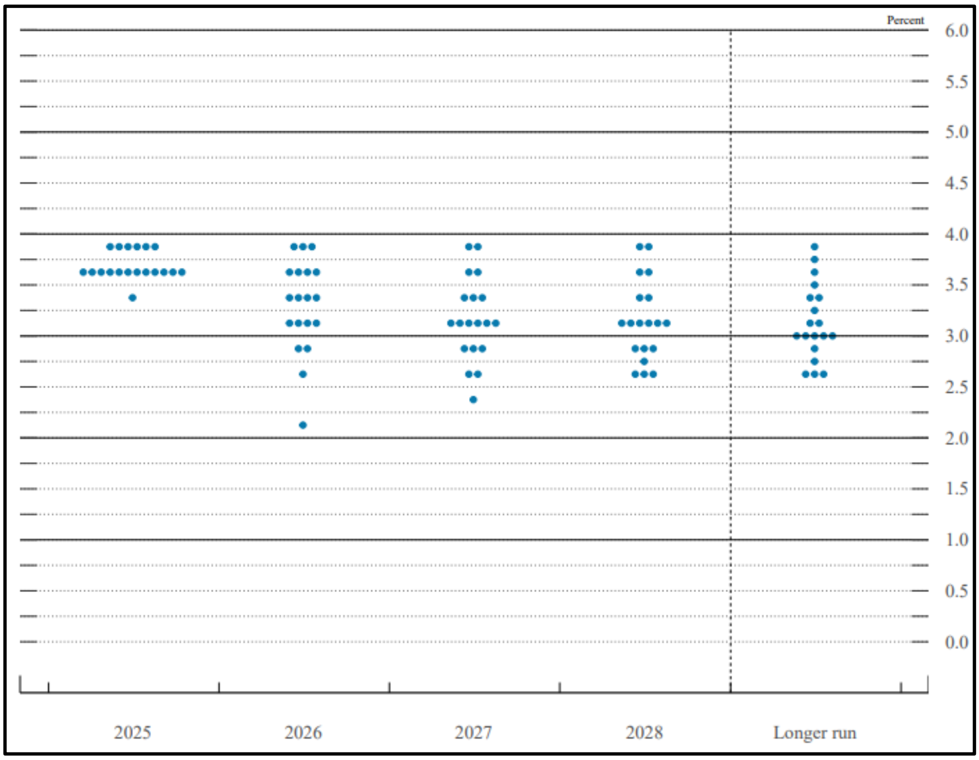
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2025

Percent

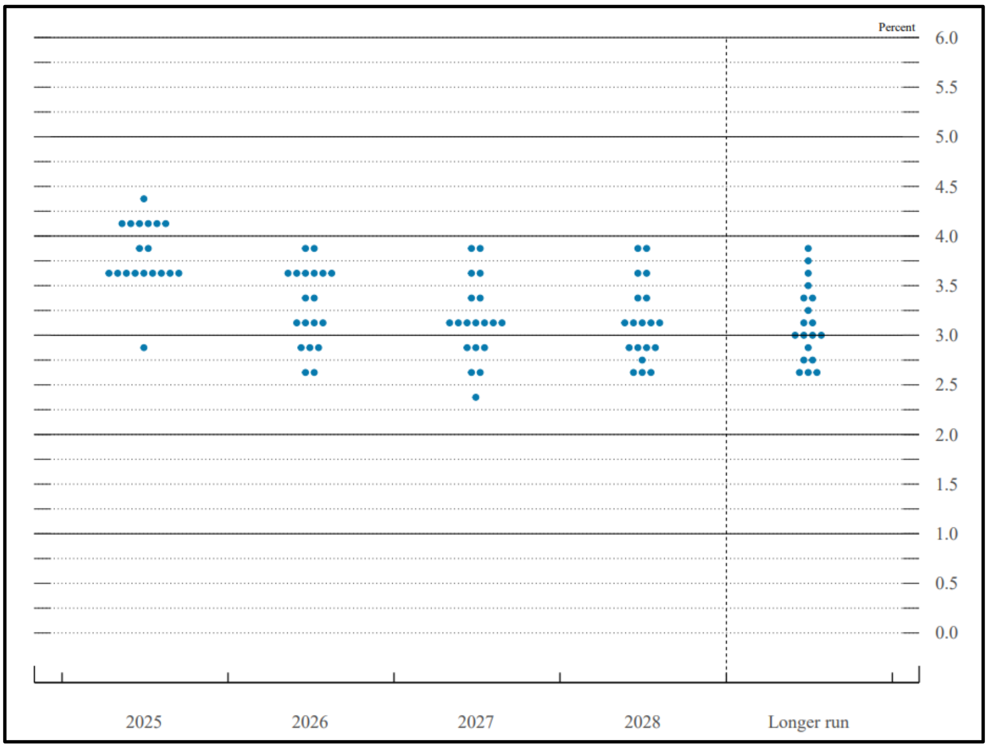
Variable	Median[1]					Central Tendency[2]					Range[3]				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6–1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0	1.5–2.0	2.0–2.6	1.8–2.6	1.7–2.6	1.7–2.5
September projection	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0	1.3–2.0	1.5–2.6	1.7–2.7	1.6–2.6	1.7–2.5
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5–4.6	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3	4.4–4.6	4.2–4.6	4.0–4.5	4.0–4.5	3.8–4.5
September projection	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3	4.2–4.6	4.0–4.6	4.0–4.5	4.0–4.5	3.8–4.5
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8–2.9	2.3–2.5	2.0–2.2	2.0	2.0	2.7–2.9	2.2–2.7	2.0–2.3	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0	2.5–3.2	2.2–2.8	2.0–2.4	2.0	2.0
Core PCE inflation[4]	3.0	2.5	2.1	2.0		2.9–3.0	2.4–2.6	2.0–2.2	2.0		2.7–3.1	2.2–2.7	2.0–2.5	2.0	
September projection	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0		2.7–3.4	2.2–2.9	2.0–2.4	2.0–2.2	
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6–3.9	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	3.4–3.9	2.1–3.9	2.4–3.9	2.6–3.9	2.6–3.9
September projection	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	2.9–4.4	2.6–3.9	2.4–3.9	2.6–3.9	2.6–3.9

Participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate. Source: Federal Reserve

DEC 2025 FOMC:



SEPT 2025 FOMC:



MNI POLICY - FED WATCH: Well-Positioned To Wait On More Cuts In 2026

By Jean Yung (Dec 10, 2025)

WASHINGTON - Federal Reserve Chair Jerome Powell signaled Wednesday the U.S. central bank is taking a more cautious stance toward additional monetary easing to start 2026, after lowering benchmark interest rates by a third straight quarter-point in response to weakening labor market conditions.

"The adjustments since September bring our policy within neutral," Powell said. "We haven't made any decision about January, but we think we are well positioned to wait and see how the economy performs."

The job market continues to lose steam, with the unemployment rate up three-tenths between June and September to 4.4%, he noted. Hiring averaging 40,000 per month since April may actually be a negative 20,000 per month after expected revisions from the Bureau of Labor Statistics, as immigration curbs are also felt on the supply of workers, he said.

"Surveys of households and businesses both showed declines in supply and demand for workers, so I think you could say the labor market has continued to cool gradually, maybe a touch more gradual than we thought."

A TOUCH LOWER

Meanwhile, tariff-related increases in goods prices are masking somewhat lower underlying inflation pressures, Powell said.

"The evidence is kind of growing that what is happening here is services inflation coming down, and that is offset by increases in goods, and that goods inflation is entirely in sectors where there are tariffs," he said. With wage growth also cooler, "It doesn't feel like the hot economy that wants to generate a Phillips Curve kind of inflation," he said.

Assuming there are no new tariff announcements, goods inflation from tariffs should peak in the first quarter or so, he said. "From here it shouldn't be big. It could be a couple tenths or even less than that," he said. Fed economists estimate roughly nine months for tariffs to flow through the economy, "then you should see that coming down in the back half of next year."

Though headline PCE inflation has risen to 2.8% in September, the latest month for which data are available, from a low of 2.3% in April, and most FOMC members continue to see risks to the upside, a rate hike is nobody's base case at this point, Powell said. "When people are writing down their estimates of policy and where it should go, it is either holding here, or cutting a little or cutting more than a little."

Six FOMC members had preferred no cut this month and three no cut next year, according to the latest set of projections. (See: MNI: Fed Dots To Show 1-2 Rate Cuts Next Year - Ex-Officials) Three voting members dissented against Wednesday's cut, the most since 2019.

ASSET PURCHASES

The FOMC also surprised markets Wednesday by announcing an immediate return to Treasury bills purchases to bolster the supply of reserves in the banking system.

The federal funds rate and other money market rates began to tick higher in September, "so we knew this was going to come. When it finally did come, it came a little quicker than expected," Powell said.

The purchases which will start at USD40 billion a month to build a buffer against April Tax Day inflows, will likely fall to around USD20 billion to USD25 billion per month to keep pace with the growth of liabilities, he said.

"That is completely separate from monetary policy, we just need to keep an ample supply of reserves out there."