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All Signal, No Noise

MARKET ANALYSIS

MNI Fed Review: Oct 2025

MNI View: “Fog” Raises Bar For Next Cut

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The Fed’s October 29 policy decisions were more or less as expected, with the Fed funds rate range cut by 25bp for a 2nd consecutive meeting to 3.75-4.00%, and an announcement that quantitative tightening would end imminently.

- However, there was a significant surprise as Chair Powell began the post-meeting press conference by highlighting the FOMC’s divisions on the way forward: *"in the Committee's discussions at this meeting, there were strongly differing views about how to proceed in December. A further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it. Policy is not on a preset course."*
- With markets having come into the meeting expecting a follow-up cut in December as nearly a done deal, this led to a sharp hawkish reaction across rates and FX. There are now only ~16bp of cuts priced for December vs 22.5bp (nearly a foregone conclusion) pre-meeting.
- The reaction was only reinforced by Powell’s reiteration of the theme of FOMC division over prospects for a December cut: “there's a growing chorus now of feeling like maybe this is where we should at least wait a cycle, something like that”, highlighting that the meeting minutes release in 3 weeks would offer some more color on the internal debate.
- “We had 19 participants on the committee…And at a time when we have tension between our two goals, we have strong views across the Committee. And as I mentioned, they were strongly different views today. And the takeaway from that is that we haven't made a decision about December, and you know, we're going to be looking at the data that we have, how that affects the outlook and the balance of risks. And I'll just say that…I always say that it's a fact that we don't make decisions in advance, but I'm saying something in addition here - is that it's not to be seen as a foregone conclusion. In fact, far from it."
- Having pushed back against the idea that the Fed was on autopilot going into end-year, one of the key questions was how the Fed would make its next rate decision in the absence of “official” government data during the ongoing federal shutdown. Powell didn’t quite endorse but likewise didn’t push back against the notion that the Fed could skip a December cut in light of the data “fog”: “what do you do if you are driving in the fog? You slow down…I don't know how that will play into things. We may get the data -- the data may come back, but there is a possibility it would make sense to be more cautious about moving. Again, I am not committing to that, but I am saying it is certainly a possibility that you would say, we really can't see, so let's slow down.”
- That appeared to raise the bar to what was already going to be a data-dependent cut in December: it may be that without tangible evidence of further labor market weakness and given apparent underlying strength in the economy, the FOMC’s default position may not be to ease again in December, but rather to wait to gather more information.
- Asked if today's cut was a close call, Powell said that aside from the two dissents in opposing directions there was a "strong, solid vote in favor of this cut". But the "strongly differing views" at this meeting were "really about the future". "And I think people are saying, they're noticing stronger economic activity....In the meantime, we see a labor market that's kind of, I don't want to say stable, but it's not clearly declining quickly. In any case, it may be just continuing to gradually cool again.”
- Overall Powell sounded a lot like Gov Waller who in an inter-meeting speech highlighted that there was a disconnect between apparently strong economic growth and nascent weakness in the labor market. Powell: “I think for some part of the Committee, it's time to maybe take a step back and see whether there really are downside risks to the labor market, or see whether, in fact, the stronger growth that we're seeing is real. Ordinarily, the labor market is a better indicator of the momentum of the economy than the spending data. In this case that gives a more downbeat read.”
- Waller of course this month had sounded a slightly more cautious note than he previously did on cuts beyond October, arguing that the ultimate path of monetary policy would depend on how the employment-GDP disconnect resolved - a sentiment that appears to have carried over into Powell’s messaging.

- It wasn't all hawkish: Powell sounded dovish on inflation, saying that the September CPI report "was a little softer than expected", and that "inflation away from tariffs is actually not so far from our 2% goal" while inflation expectations remained well-behaved.
- But Powell was clearly seeking to convey that the FOMC saw more optionality in making its next decision, and on that front he was successful.
- Rate markets are now pricing in closer to a 65% implied probability of a December cut, vs closer to 90% before the meeting.

QT Ends Dec 1: In terms of Statement changes vs September's – the key was the announcement that the FOMC would conclude balance sheet runoff (QT) on December 1 in light of increasing evidence that reserves were moving from "abundant" to close to/at "ample". MBS reinvestments will be made into Treasury bills as opposed to across the Treasury curve - an area of uncertainty going into this meeting.

- Otherwise not much was unexpected in the Statement except a slight surprise with a hawkish dissent by KC Fed Pres Schmid (as we flagged as a risk in our preview), with Gov Miran again voting for a 50bp cut (no surprise there). We go through the Statement language changes later in this document.

- The Fed will have some significant decisions to make on the future composition of the balance sheet, but those will probably be hammered out over the next few meetings. Powell said: "We didn't make decisions about this today, but we did talk today about the composition of the balance sheet... it's got a lot more duration than the outstanding universe of Treasury securities, and we want to move to a place where we're closer to that duration. That will take some time. We haven't made a decision about the ultimate endpoint, but we all agree that we want to move more in the direction of a balance sheet that more closely reflects the outstanding treasuries, and that means a shorter duration balance sheet."

Market Reaction: Powell Drives Rate Sell-Off

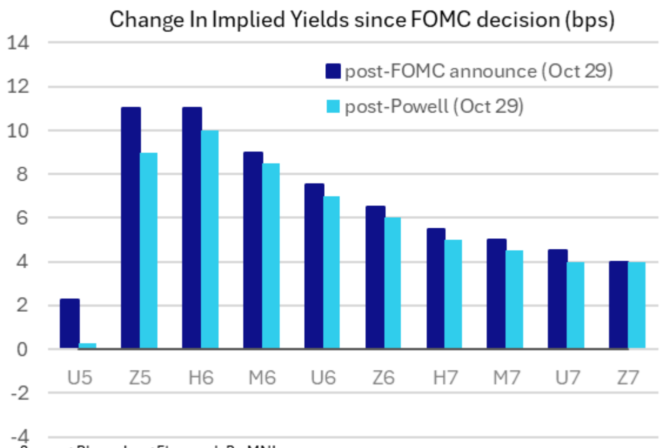
- **Rates:** Powell's press conference drove a sizeable post-FOMC sell-off in rates after little net reaction to the decision statement. Moves came early on with hawkish comments around the December meeting: "A further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it."
- There are 16bp of cuts priced for December vs 22.5bp but with higher uncertainty than there has been with the recent push higher in EFFR. Cumulative cuts from an assumed 3.87% effective: 16bp Dec, 27bp Jan, 36bp Mar (vs 45bp pre-Powell), 43bp Apr and 56.5bp Jun (vs 65bp). The terminal implied yield at 3.07% (H7) is 7.5bp higher on the day at some of its highest levels for the past month.

- **FX:** Powell's comments prompted a significant rally for the dollar as he explicitly said that an FOMC rate cut in December is not a foregone conclusion. In sympathy, the dollar index was up 0.6%.
- The late dollar bid prompted a solid reversal for USDCAD, having initially been pressured following a hawkish Bank of Canada cut. EURUSD also fell. While the ECB meeting is on Thursday, market participants will be eagerly awaiting both GDP and inflation data from the Eurozone over the next two sessions.

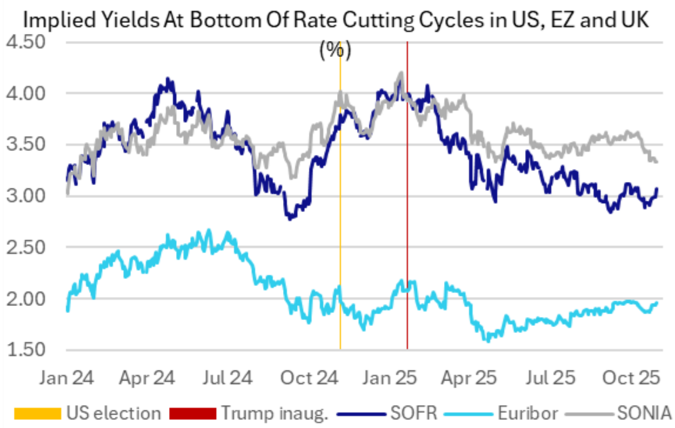
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Oct 30)			chg in rate	pre FOMC announce (Oct 29)			chg in rate
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	bp	%	step (bp)	cum. (bp)	bp
Effective	3.87			3.87				3.87			
Dec'25	3.71	-16.2	-16.2	3.65	-22	-22.4	6.2	3.64	-23	-23	6.7
Jan'26	3.60	-10.6	-26.8	3.52	-13	-35.3	8.5	3.52	-12	-35	8.5
Mar'26	3.51	-9.3	-36.1	3.42	-10	-45.2	9.1	3.42	-10	-45	9.1
Apr'26	3.44	-7.1	-43.2	3.35	-7	-51.8	8.6	3.36	-6	-51	8.0
Jun'26	3.31	-13.3	-56.5	3.22	-13	-64.8	8.3	3.22	-13	-65	8.1

Source: Bloomberg Finance L.P., MNI.



Source: Bloomberg Finance L.P., MNI



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

FOMC Instant Answers

FED: Instant Answers: Fed Cuts 25BP; To End QT December 1

- Fed funds rate range maximum: **4.0%**
- Interest Rate Paid On Reserve Balances: **3.90%**
- Number of dissenters to size of rate move: **TWO**
- Number of dissenters preferring a larger cut: **ONE**. Stephen Miran preferred a larger half percentage point cut. Jeffrey Schmid preferred no change to the fed funds rate at this meeting.
- Does the Fed change its QT plan? **YES**. The FOMC decided to conclude the reduction of its Treasury, agency, and MBS holdings on December 1. Beginning December 1, the Fed **will reinvest all principal payments from all its holdings of agency securities into Treasury bills.**

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/MNI_Fed_Oct2025_Press_Conference_Rough_Transcript_63db059412.pdf

FOMC Links:

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20251029a.htm

Implementation note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20251029a1.htm

Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20251029.htm

Statement Changes (Vs Previous FOMC)

- Aside from the diverging dissents noted earlier - the first paragraph notes "available" indicators (a nod to a lack of official federal government data releases amid shutdown), mark-to-marking economic activity as "expanding at a moderate pace".
- The statement has to contort the language a little bit around unemployment and inflation to reflect the lack of new data, saying that "recent indicators are consistent" with the trend seen "through August" of job gains having "slowed this year" as unemployment "edged up but remained low".
- Similarly, the balance of risks doesn't change substantively, noting downside risks to employment "rose in recent months" (vs "have risen").
- No change to forward rate guidance as expected, with the end of QT announced in the policy actions paragraph as MNI had anticipated.

~~September 17~~October 29, 2025

~~Recent~~Available indicators suggest that ~~growth of~~ economic activity ~~moderated in the first half of the year.~~has been expanding at a moderate pace. Job gains have slowed this year, and the unemployment rate has edged up but ~~remains~~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 ~~have risen~~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~~-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~~ decided to conclude the reduction of its ~~holdings of Treasury~~aggregate securities ~~and agency debt and agency mortgage-backed 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; ~~Jeffrey R. Schmid;~~ and Christopher J. Waller. Voting against this action ~~was~~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.

Implementation Note Changes (Vs Previous FOMC)

QT Ends Dec 1, MBS Reinvested Into Bills, No Admin Rates Tweak: The latest Implementation Note vs September's incorporates the new QT directives appears below. Two key takeaways: one, QT will end only on Dec 1 (not much difference really vs the immediate end expected by most including MNI), and two, MBS reinvestments will be made into Treasury bills (as opposed to across the Treasury curve) - an area of uncertainty going into this meeting. Also there was no change to administered rates relative to the 25bp cut in the policy rate (IORB 3.90% as expected with standing repo facility 4.00%).

Re the start date for QT, Powell noted in the press conference that the FOMC decided on December 1 as it "gives the markets a little bit of time to adapt " (in contrast to an immediate QT end).

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its ~~statement on September 17~~statement on October 29, 2025:

- The Board of Governors of the Federal Reserve System voted unanimously to lower the interest rate paid on reserve balances to ~~4.15~~3.90 percent, effective ~~September 18~~October 30, 2025.
- As part of its policy decision, the Federal Open Market Committee voted to direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

  "Effective ~~September 18~~October 30, 2025, the Federal Open Market Committee directs the Desk to:

  - Undertake open market operations as necessary to maintain the federal funds rate in a target range of 3-3/4 to ~~4-1/~~4 percent.
  - Conduct standing overnight repurchase agreement operations with a minimum bid rate of 4.~~25~~0 percent and with an aggregate operation limit of $500 billion.
  - Conduct standing overnight reverse repurchase agreement operations at an offering rate of ~~4~~3.75 percent and with a per--counterparty limit of $160 billion per day.
  - Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in ~~each calendar month~~October and November that exceeds a cap of $5 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap. Beginning on December 1, roll over at auction all principal payments from the Federal Reserve's holdings of Treasury securities.
  - Reinvest the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage--backed securities (MBS) received in ~~each calendar month~~October and November that exceeds a cap of $35 billion per month into Treasury securities to roughly match the maturity composition of Treasury securities outstanding. Beginning on December 1, reinvest all principal payments from the Federal Reserve's holdings of agency securities into Treasury bills.
  - Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons."

- In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve a 1/4 percentage point decrease in the primary credit rate to 4.~~25~~0 percent, effective ~~September 18~~October 30, 2025. In taking this action, the Board approved requests to establish that rate submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, ~~Minneapolis, Kansas City,~~ Dallas, and San Francisco.