

MNI Fed Review: Sept 2025

MNI View: No Risk-Free Paths Now

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The Fed resumed its easing cycle with the first cut of the year on September 17, of 25bp to a range of 4.00-4.25%. That decision was expected, but the lack of conviction on the FOMC about the rate path forward was a key theme of the September meeting's release materials, as well as Chair Powell's press conference. Despite a lower rate path signalled in the new Dot Plot, a seeming lack of clarity on delivering those future rate cuts saw an early dovish market reaction subsequently reverse.

- The decision to cut was unanimous (there had been risks of a dissent in favor for a hold), with the lone dissent coming from new Gov Miran who unsurprisingly opted for a 50bp cut. That may have suggested a Committee that was unified in a newfound dovish tilt, but that impression was called into question by the Statement, Dot Plot, and Press Conference.
- As fully expected, the statement revised the description of labor market conditions to reflect weaker conditions and mounting risks to the downside, which were of course the key factor that spurred the Fed to cut. But the projections actually showed stronger growth compared with the last quarter's projections, no deterioration in the labor market (actually a lower end-2026 unemployment rate), and higher inflation through end-2027 (see section below), with no return to target until end-2028. And the statement took the time to add language noting that inflation had moved up, which it hasn't said for several iterations.
- Overall those findings didn't quite square with a downward shift in the end-2025 rate medians in the Dot Plot, which now reflect a total 75bp in cuts this year (50bp prior), in addition to another 25bp cut in 2026. We go into details on the various shifts in the Dot distribution later in this review, but while there was a clear dovish shift on rates, the distribution of outcomes remained wide and fairly bifurcated. (We also had to wonder whether, if Gov Kugler had stayed on for this meeting as opposed to Miran, the 2025 median would have tilted toward only one further cut.)
- Powell may have best summed up the decision to cut rates with "I think you could think of this in a way as a risk management cut". Powell said that the Committee's diverse opinions on the rate path ahead - as encapsulated by a wide dispersion in the Dot Plot and a continued split on year-end 2025 rates - reflected difficult choices that would have to be addressed on a "meeting-by-meeting" basis: "it's not a bad economy or anything like that. We've seen much more challenging economic times but from a policy standpoint... it's challenging to know what to do...there are no risk-free paths now. It's not incredibly obvious what to do, so we have to keep our eye on inflation. At the same time, we cannot ignore and must keep our eye on maximum employment."
- Powell said that while a move "toward the direction of neutral" was warranted, when asked, he wouldn't commit to saying that an exit from restrictive policy was warranted. He said that "I don't think we can say we can say that. What we can say is this, that over the course of this year, we've kept our policy policy at a restrictive level, and people have different views, but a clearly restrictive level, I would say so... [earlier in the year] the risks which were clearly tilted toward inflation, I would say they're moving toward toward equality. Maybe they're not quite at equality. We don't need to know that. But we do know that they've moved meaningfully toward greater equality - the risks between the two goals. And that suggests that we should be moving in the direction of neutral. And that's what we did today."
- His comments on labor market risks warranting policy easing somewhat echoed last year's August "pivot" ahead of the start of easing, saying "we see that that the labor market is softening and we don't need it to soften anymore, don't want it to." But it was much less emphatic than in August 2024 when he presaged a 50bp cut the following month: "We do not seek or welcome further cooling in labor market conditions... We will do everything we can to support a strong labor market as we make further progress toward price stability."

- And while he said that he could “no longer say” that the labor market was in “solid” condition, he also said that the Committee wasn’t so worried about recent labor market developments that they considered a 50bp cut at the meeting (“there wasn’t widespread support at all”).
- On inflation, “since April, to me, the risks of higher and more persistent inflation have probably become a little less... We continue to expect it to move up, maybe not as high as we would have expected it to move up a few months ago. The passthrough of the tariffs into inflation has been slower and smaller. The labor market has softened. So the case for there being a persistent inflation outbreak is less.”
- On whether the Fed would have cut earlier in the year had they known payrolls would be substantially revised lower: “We have to live life looking through the windshield rather than the rear view mirror, as you know, and all I can tell you is we see where we are now and we take appropriate action. And we took that appropriate action today.”
- All of that sets up what, as Powell said, would be a meeting-by-meeting approach. It’s possible we could get more sensitivity to individual releases, as there aren’t many major ones ahead of the next decision at end-October (one CPI, one nonfarm payrolls). A stronger-than-expected employment report in particular could see conviction on an end-October cut dissipate quickly. As such the 85+% priced 25bp cut at that juncture may be on the high side depending on one’s forecasts for the monthly data.

Rate "Dot Plot" Comparison - September vs June: Below is a comparison of the September FOMC "dot plot" of participants' projections of end-year Fed funds rates, vs the last edition in June:

- The median shifts lower are not really a surprise (3.6% from 3.9% in 2025, 3.4% from 3.6% in 2026, then 3.1% further out and 3.0% longer-run).
- The lowest dot almost certainly belongs to the new Governor Miran who pencilled in a 2.9% dot for end-2025 and presumably sees the lowest in 2027 (2.4%) before coming back up toward neutral in 2028.
- To be sure the 2025 and to a lesser extent 2026 Dot medians were reasonably close calls though with definite shifts lower. There were 9 dots at 3.9% or above for this year and 10 at 3.6% or below, making the latter the 2025 median. We presume that includes the leadership of the Committee including Chair Powell. But interesting that one saw no cuts this year (and it wasn't a voting dissenter) and 6 see this as the last reduction. That's not much changed from the total 9 who saw zero or 1 cuts in the June Dot Plot.
- For 2026 the highest dot has shifted lower by 25bp to 3.9%, but again it's a fairly split median. 8 members are at 3.6% or higher (was 10 previously), with 11 at 3.4% or below (vs 9 prior). The mean of the distribution drops lower though with 5 seeing rates at 2.9% or below, vs 2 last time. That's indicative of envisaging more back-loaded cutting.
- As for further out, the 2027-2028 medians are at roughly neutral as expected, 3.1% (2028 was newly introduced in this round of projections).
- There was an interesting shift in the longer-run dots: while the median remains 3.00%, the number above 3.4% has fallen from 6 to 4, while those at 2.50% have shifted up. There are 10 members at 3.00% or below, vs 11 last time - getting a little closer to raising the median. Some of this may be related to the changes in personnel since the June meeting (Philly's Paulson for Harker, Miran for Kugler).

FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate
Number of participants with projected midpoint of target range or target level

	2025	Jun SEP	2026	Jun SEP	2027	Jun SEP	2028	Jun SEP	Longer-Run	Jun SEP
4.500										
4.375	1	7								
4.250										
4.125	6	2		1						
4.000										
3.875	2	8	2	5	2	2	2		1	1
3.750									1	1
3.625	9	2	6	4	2	3	2		1	2
3.500									1	2
3.375			2	5	2	6	2		2	1
3.250									1	
3.125			4	2	7	3	5		2	1
3.000									4	3
2.875	1		3	1	3	3	4		1	4
2.750							1		2	
2.625			2	1	2	2	3		3	2
2.500										2
2.375					1					
MEDIAN	3.6	3.9	3.4	3.6	3.1	3.4	3.1	NA	3.0	3.0

Medians bolded. Source: Federal Reserve, MNI

Statement - September vs July: The September FOMC statement describes a weaker labor market vs the last edition in July with job gains that "have slowed", with an unemployment rate that has "edged" up.

- That's not really a surprise, but there are three surprises in the statement changes:
- one is that they have noted inflation "has moved up" as well as "remains elevated";
- a second is that they add "judges that downside risks to employment have risen".

- A third is that they specifically mention "in light of the shift in the balance of risks", and adjusted the forward guidance to remove "the extent and timing of" additional "adjustments" to rates. Only the latter was an area of change foreseen by any preview MNI had seen, but even only partially (Citi: To remove "and timing").
- Not a surprise: new Gov Miran dissenting in favor of a 50bp cut.

New Econ Forecasts Show Stronger Growth And Inflation, Lower Unemployment: Looking at the updated macroeconomic forecasts: Inflation is seen as a little more stubborn than had been expected in the prior set of projections, with the 2026 medians upped 0.2pp each.

- That pairs with upgrades to growth across the forecast horizon, with the unemployment actually seen as lower than had been previously expected.
- The central tendency of forecasts also shows higher projected growth with lower joblessness and a higher low-end to inflation.
- These are not major changes but we would expect Chair Powell to have to address the seeming incongruence of this with the decision to cut rates at this meeting, as - while they are not central Committee forecasts, per se - the projections appear to suggest that loosening policy restriction leads to stronger growth and higher inflation.
- The longer-run projections were unchanged.

Percent					
Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation ⁴	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

Market Reaction: Fed Rates Lean To Two More Cuts This Year But Not Fully Priced

Fed Funds implied rates saw a sizeable paring of their dovish shift on the initial FOMC announcement and SEP including a highly anticipated dot plot. Implied rates out to mid-2026 are 1.5-2.5bp lower since the FOMC announcement having climbed between 1.5-4.5bp higher during Powell press conference, mostly in the first half.

- Cumulative cuts from an assumed 4.08% effective: 22bp Oct (vs 20bp pre-FOMC and 23.5bp pre-Powell), 45bp Dec (vs 43bp and 47.5bp), 57.5bp Jan, 71.5bp Mar (vs 69bp and 76bp), 78.5bp Apr and 94.5bp Jun (vs 93bp and 99bp).
- In yield terms, the terminal 2.935% (SFRH7) is 0.5bp higher post-FOMC for 5.5bps higher on the day having consistently climbed ahead of the decision. It's at the high end of recent post-NFP ranges and now suggests ~115bp of cuts seen ahead after today's cut.

FX: Sharp Reversal Higher for US Dollar After DXY Prints Cycle Lows: The initial reaction to the Fed's 25bp rate cut and dovish adjustments to the statement was a sharp selloff for the US dollar. This marked a continuation of the recent theme of greenback weakness and prompted the USD index to briefly break to the lowest point since February 2022. Most notably, this propelled EURUSD to a high of 1.1919.

- However, a confident sounding Chair Powell on the US economy as a whole and the mixed messages within the summary of economic projections questioned the overall dovish narrative and subsequently the US dollar aggressively reversed higher alongside US treasury yields. The USD index rallied around 0.8%, with the likes of EURUSD and USDJPY reversing nearer to 1%.

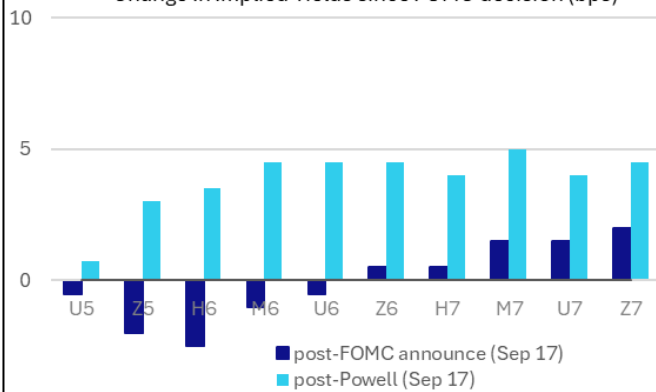
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Sep 17)			chg in rate bp	pre FOMC announce (Sep 17)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.08			4.08				4.08			
Oct'25	3.86	-22.1	-22.1	3.84	-24	-23.6	1.5	3.88	-19	-20	-1.9
Dec'25	3.63	-22.9	-45.0	3.61	-24	-47.3	2.3	3.65	-23	-43	-2.3
Jan'26	3.50	-12.7	-57.7	3.47	-14	-61.3	3.6	3.52	-13	-56	-2.0
Mar'26	3.36	-14.0	-71.7	3.32	-15	-75.8	4.1	3.39	-14	-69	-2.3
Apr'26	3.29	-7.0	-78.7	3.25	-8	-83.5	4.8	3.30	-8	-78	-1.0
Jun'26	3.13	-16.0	-94.7	3.09	-16	-99.2	4.5	3.15	-15	-93	-1.7

Source: Bloomberg Finance L.P., MNI. Calculations based off an assumed effective rate of 4.08% after today's 25bp cut (incl. for an easier pre-meeting comparison)

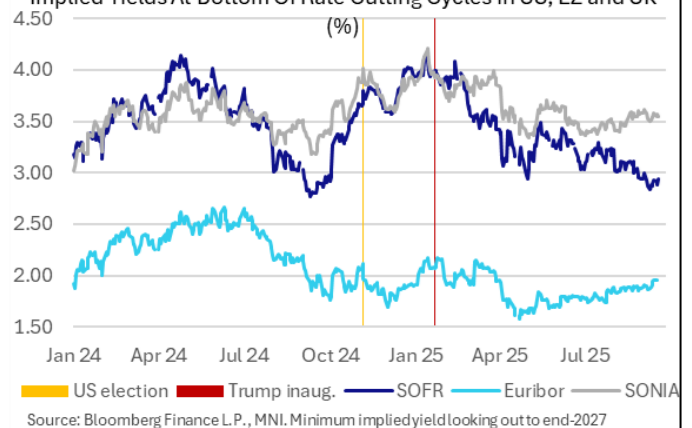
* Note that the Oct rate is taken from FOMC-dated OIS rather than Fed Funds owing to an incorrect FF feed

Change In Implied Yields since FOMC decision (bps)



Source: Bloomberg Finance L.P., MNI

Implied Yields At Bottom Of Rate Cutting Cycles in US, EZ and UK



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

FOMC Instant Answers

Instant Answers: Fed Cuts 25BP; Signals 2 More This Year; Miran Dissents

- Fed funds rate range maximum: **4.25%**
- Number of dissenters to size of rate move: **ONE**. Miran preferred 50bp cut. The lowest dot, if Miran's, suggests he saw 50 bp cuts for Sept, Oct, Dec to end the year at 2.875%.
- Number of dissenters preferring a larger cut: **ONE**. Miran
- Median projection of fed funds rate at end-2025: **3.6%**
- Median projection of fed funds rate at end-2026: **3.4%**
- Median projection of fed funds rate at end-2027: **3.1%**
- Median projection of fed funds rate at end-2028: **3.1%**
- Median projection of longer run fed funds rate: **3.0%**
- Number of 2025 dots > 4.125%: **ONE**
- Number of 2025 dots > 3.875%: **SEVEN**
- Number of 2025 dots < 3.875%: **TEN**
- Number of 2025 dots < 3.625%: **ONE**

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/Fed_Press_Conf_Sept2025_b368cd36a7.pdf

FOMC Links:

Statement: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a.htm>

Implement. note: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a1.htm>

Summary of Econ. Proj.: <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm>

Press Conference: <https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250917.htm>

Statement Changes (Vs Previous FOMC)

~~Although swings in net exports continue to affect the data, recent~~

~~Recent~~ indicators suggest that growth of economic activity moderated in the first half of the year. ~~The Job gains have slowed, and the~~ unemployment rate ~~has edged up but~~ remains low, ~~and labor market conditions remain solid.~~ 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 ~~maintain lower~~ the target range for the federal funds rate ~~at 4- by 1/4 percentage point to 4 to 4-1/24~~ 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 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.

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~~ Jeffrey R. Schmid.; ~~and Christopher J. Waller.~~ Voting against this action ~~were Michelle W. Bowman and Christopher J. Waller was Stephen I. Miran,~~ who preferred to lower the target range for the federal funds rate by 1/42 percentage point at this meeting. ~~Absent and not voting was Adriana D. Kugler.~~

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Dot Plot / Econ Projections

September 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

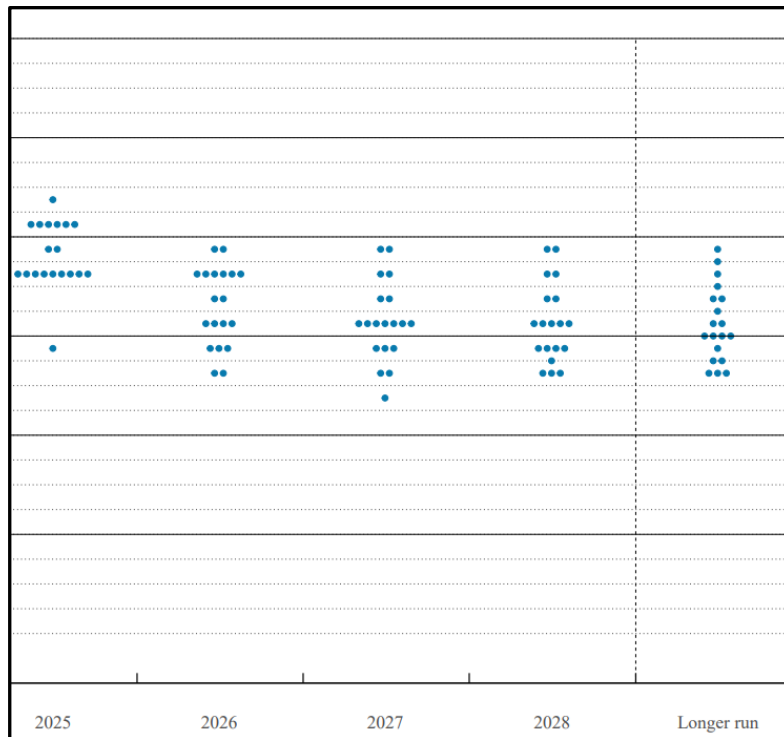
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2025

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	1.6	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
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0	1.1–2.1	0.6–2.5	0.6–2.5		1.5–2.5
Unemployment rate	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
June projection	4.5	4.5	4.4		4.2	4.4–4.5	4.3–4.6	4.2–4.6		4.0–4.3	4.3–4.6	4.3–4.7	4.0–4.7		3.5–4.5
PCE inflation	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
June projection	3.0	2.4	2.1		2.0	2.8–3.2	2.3–2.6	2.0–2.2		2.0	2.5–3.3	2.1–3.1	2.0–2.8		2.0
Core PCE inflation ⁴	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	
June projection	3.1	2.4	2.1			2.9–3.4	2.3–2.7	2.0–2.2			2.5–3.5	2.1–3.2	2.0–2.9		
Memo: Projected appropriate policy path															
Federal funds rate	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
June projection	3.9	3.6	3.4		3.0	3.9–4.4	3.1–3.9	2.9–3.6		2.6–3.6	3.6–4.4	2.6–4.1	2.6–3.9		2.5–3.9

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

SEPT 2025 FOMC:



JUN 2025 FOMC:

