



FOMC – Economy stable, so we can move slowly

Event

The FOMC did not change policy, except to lower the cap on US Treasury redemptions in the QT programme (which it referred to as a technical change). Fed Chair Powell stressed the high degree of uncertainty on activity and inflation outcomes, but argued that economic parameters were shifting so slowly that the FOMC could take its time in reacting to developments.

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Implications

Markets took an optimistic view of the FOMC statement and press conference, but it is probably more accurate to characterise the moves as unwinding excess hawkishness in the run-up to the FOMC meeting. 10Y UST yields dropped 7bps, the December 2025 fed funds futures markets added 9bps of cuts, and equities were up 0.9%. The USD index was down about 0.4%, led by JPY and NOK. Some market commentary referred to the 'dovish' response, but the S&P, 10Y USTs and the USD stayed well within the ranges of the last week or so. December fed funds futures similarly went back to the Monday close level.

On policy rates, Powell's main message was that uncertainty on outcomes was very elevated, but there was no hurry to act because the hard economic data seemed very stable. He downplayed survey data that had dropped sharply. So far the FOMC has been treating tariffs as a transitory inflationary factor, but Powell acknowledged the uncertainty on that assessment as well.

There was not much discussion of QT coming into the meeting, so the approximate halving of the pace of balance-sheet shrinkage may have been seen as a somewhat dovish surprise, despite Powell's insistence that it was a technical move.

The outcomes were pretty much as we expected. There was not much reason to make a big policy statement, and the FOMC didn't. We had detected a hawkish lean in markets in the days leading up to the meeting, and that was unwound. The takeaway is that the FOMC will watch for signals that hard data (NFP, GDP, etc.) confirm soft survey data, and that the price effects of tariffs are not spreading more broadly beyond the tradable goods sector.

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