

FOMC Jan 2025 Salient Points

A Hawkish Pause



FFR Maintained

As expected, the **Fed held its policy rate at 4.25%–4.50%**, stressing the need for patience in adjusting monetary policy—a stance echoed by Fed officials in recent weeks.

Chair Powell highlighted the **challenge of balancing the risk** of cutting rates too soon against the potential economic drag of keeping policy too restrictive.

With no rate cut expected until late in the 1H25, the **DXY's decline may be limited in the short term**, in our view, especially as other major economies like Canada and the EU continue to ease rates. Following the meeting, the DXY approached the 108 level, while the 2-year UST yield rose 2bps to 4.21%, and the 10-year yield remained steady at 4.55%.



Rates Cut Outlook

No rush to cut rates further. Powell emphasized that monetary policy remains "meaningfully restrictive" and that the Fed is "not in a hurry to adjust our policy stance." While inflation is gradually declining, he cautioned that easing policy too quickly or too aggressively could slow progress. The Fed remains data-dependent, with rate cuts relying on further inflation improvement or signs of labor market weakness.

The Fed views the **labor market as balanced**, noting that it is "not a source of significant inflationary pressures." The unemployment rate held steady at 4.1%, with job gains averaging 170k per month in Q4. Powell expressed **confidence in economic resilience**, stating that "GDP looks to have risen above 2% in 2024, supported by strong consumer spending."



Inflation & Tarriff

Inflation has declined, though Powell noted that "Core PCE prices rose 2.8% over the past year, still somewhat above our 2% longer-run goal." The Fed anticipates further disinflation, especially as housing services inflation eases, but remains cautious about potential risks

Powell acknowledged **increased uncertainty surrounding fiscal and trade policy under the new administration**, repeatedly stating, "We don't know" when addressing the potential impact of tariffs. He also noted that "we need to let those policies be articulated before we can assess their implications for the economy," **signaling a reactive rather than proactive Fed stance**. Powell emphasized that the new govt plans could affect inflation and growth, but for now, the Fed remains in a wait-and-see mode.

Pre-Jan 25 FOMC Fed Member Comments

On Hawkish Mode

Michelle Bowman Federal Reserve Governor



"I supported the December policy action because, in my view, it represented the [Federal Open Market Committee's] **final step in the policy recalibration phase.**"

Christopher Waller Federal Reserve Governor



"I believe **more cuts will be appropriate.**"

"(On inflation). This should result in a significant step-down in the 12-month inflation numbers through March"

Jeff Schmid Kansas Fed President



"We are **currently pretty close** to meeting our dual mandate of price stability and full employment"

"I believe we are **near the point** where the economy needs neither restriction nor support and that policy should be neutral"

Susan Collins Boston Federal Reserve Bank President



"With an economy that is in a good place overall and policy already closer to a more neutral stance, I view the current nature of uncertainty as **calling for a gradual and patient approach to policymaking.**"

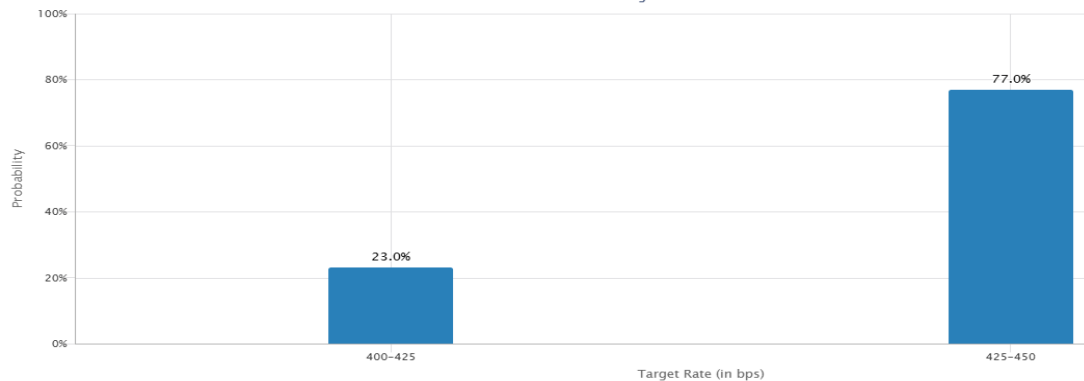
Market Expectation Of More Gradual Rate Cuts

DXY Is On The Rise

Rate Cut Probability Trend

TARGET RATE PROBABILITIES FOR 19 MAR 2025 FED MEETING

Current target rate is 425-450



Rate Cut Probabilities

MEETING DATE	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
3/19/2025			0.0%	0.0%	0.0%	0.0%	23.0%	77.0%	0.0%
5/7/2025	0.0%	0.0%	0.0%	0.0%	0.0%	5.6%	36.1%	58.3%	0.0%
6/18/2025	0.0%	0.0%	0.0%	0.0%	3.0%	22.1%	48.1%	26.7%	0.0%
7/30/2025	0.0%	0.0%	0.0%	0.5%	6.0%	26.2%	44.8%	22.6%	0.0%
9/17/2025	0.0%	0.0%	0.2%	2.4%	12.9%	32.5%	37.2%	14.9%	0.0%
10/29/2025	0.0%	0.0%	0.5%	3.8%	15.6%	33.2%	34.1%	12.8%	0.0%
12/10/2025	0.0%	0.1%	1.2%	6.5%	19.6%	33.4%	29.2%	9.9%	0.0%
1/28/2026	0.0%	0.1%	1.3%	6.7%	19.8%	33.3%	29.0%	9.8%	0.0%
3/18/2026	0.0%	0.2%	1.5%	7.2%	20.3%	33.2%	28.3%	9.4%	0.0%
4/29/2026	0.0%	0.2%	1.6%	7.4%	20.6%	33.1%	27.9%	9.2%	0.0%
6/17/2026	0.0%	0.2%	1.5%	7.1%	19.9%	32.4%	28.1%	10.2%	0.5%
7/29/2026	0.0%	0.2%	1.7%	7.6%	20.3%	32.3%	27.6%	9.8%	0.5%
9/16/2026	0.0%	0.2%	1.7%	7.5%	20.2%	32.1%	27.6%	10.1%	0.6%
10/28/2026	0.0%	0.2%	1.6%	7.0%	19.0%	31.1%	28.0%	11.6%	1.4%
12/9/2026	0.5%	2.9%	9.9%	21.9%	30.4%	24.1%	9.2%	1.1%	0.0%

Total Probabilities

MEETING DATE	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES				
	325-350	350-375	375-400	400-425	425-450
3/19/2025	0.00 %	0.00 %	0.00 %	23.00 %	77.00 %
5/7/2025	0.00 %	0.00 %	0.00 %	47.33 %	52.67 %
6/18/2025	0.00 %	0.00 %	1.50 %	98.50 %	0.00 %
7/30/2025	0.00 %	0.00 %	17.00 %	83.00 %	0.00 %
9/17/2025	0.00 %	0.00 %	51.10 %	48.90 %	0.00 %
10/29/2025	0.00 %	0.00 %	65.00 %	35.00 %	0.00 %
12/10/2025	0.00 %	0.00 %	87.89 %	12.11 %	0.00 %
1/28/2026	0.00 %	0.00 %	89.00 %	11.00 %	0.00 %
3/18/2026	0.00 %	0.00 %	92.93 %	7.07 %	0.00 %
4/29/2026	0.00 %	0.00 %	95.00 %	5.00 %	0.00 %
6/17/2026	0.00 %	0.00 %	89.79 %	10.21 %	0.00 %
7/29/2026	0.00 %	0.00 %	93.00 %	7.00 %	0.00 %
9/16/2026	0.00 %	0.00 %	91.86 %	8.14 %	0.00 %
10/28/2026	0.00 %	0.00 %	83.00 %	17.00 %	0.00 %
12/9/2026	7.00 %	93.00 %	0.00 %	0.00 %	0.00 %

USD Dollar against Six Major Currencies (DXY)

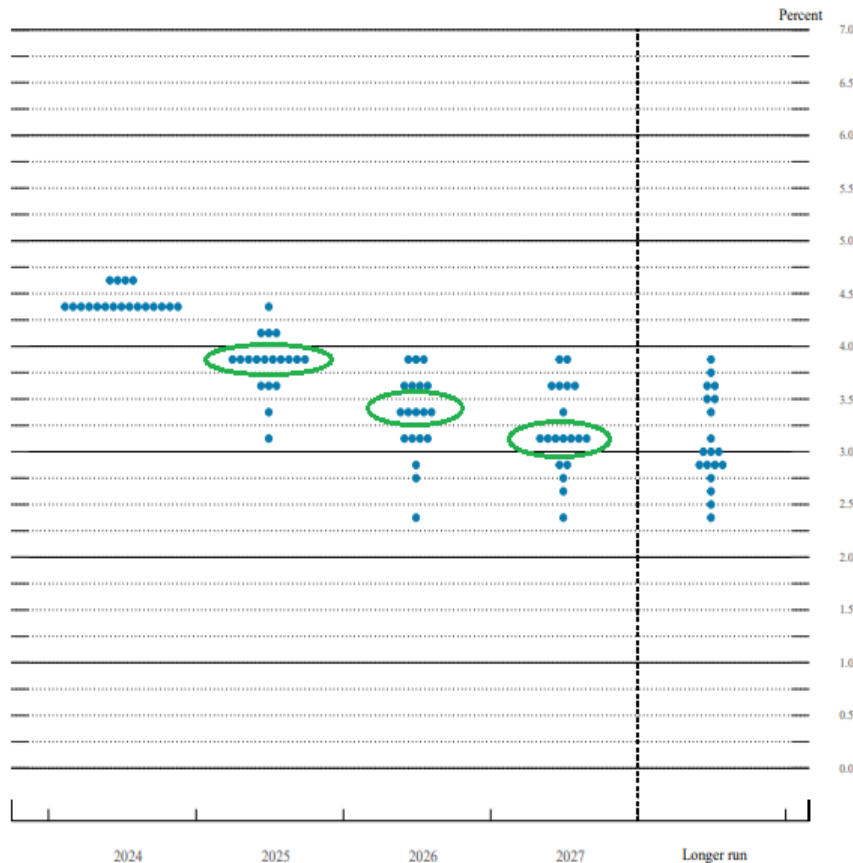


FOMC Expects 50 bps rate cut in 2025

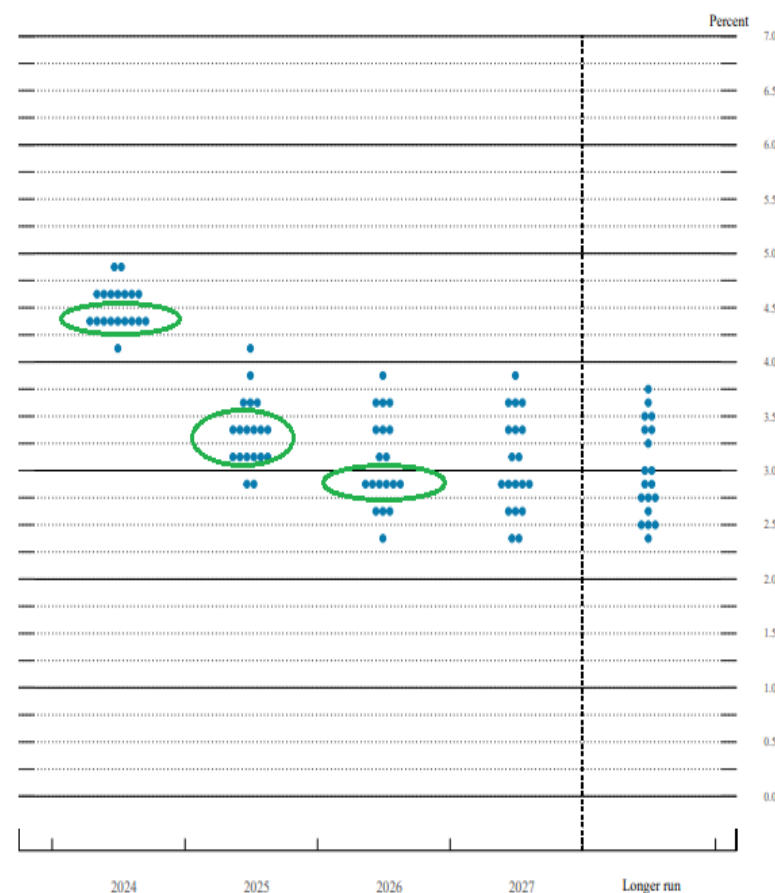
More Hawkish Rate Guidance

Dot plot Dec 24 vs Sep 24

Dec 2024 Dot Plot



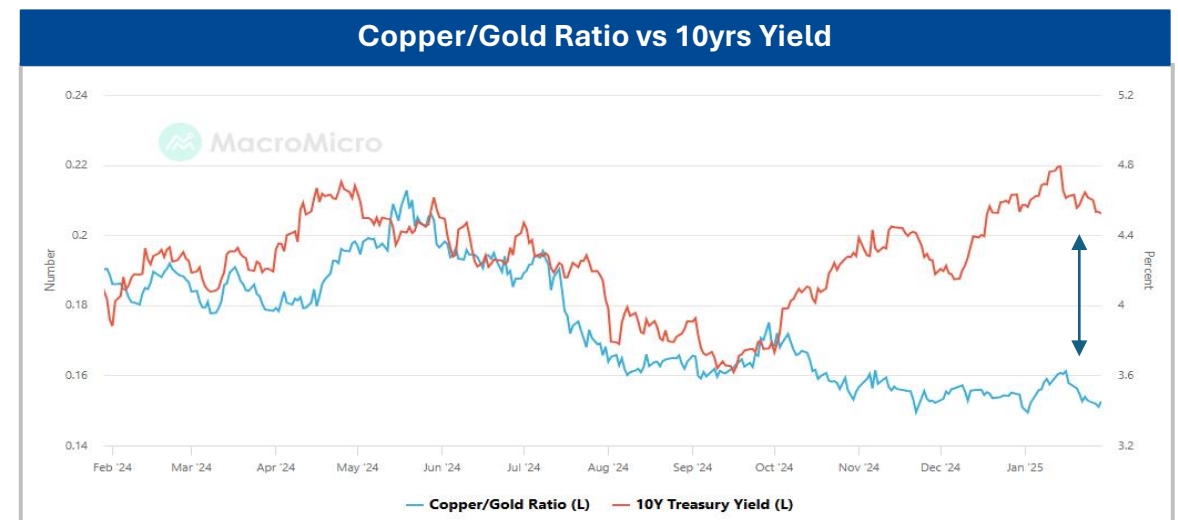
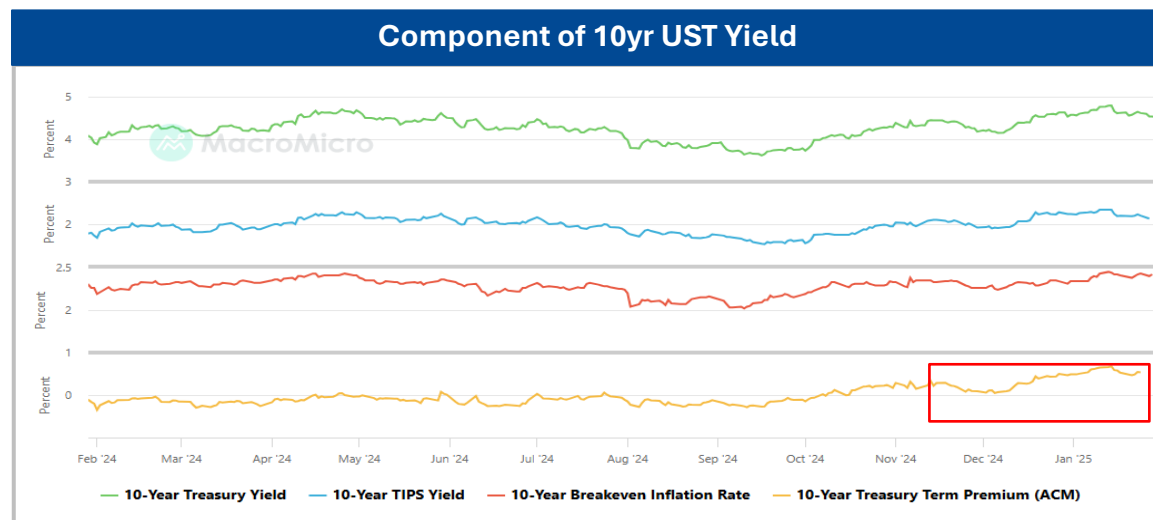
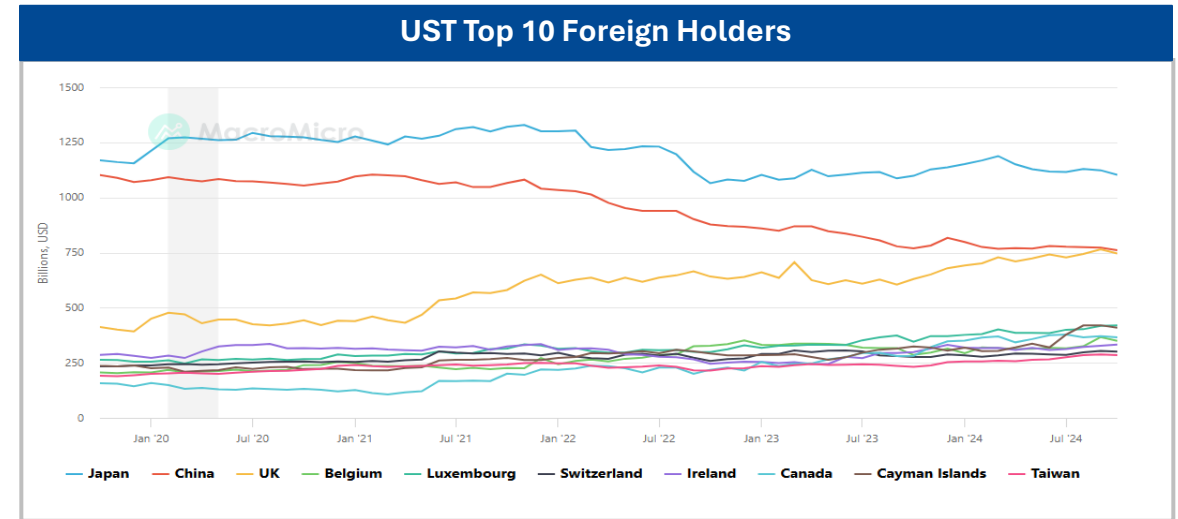
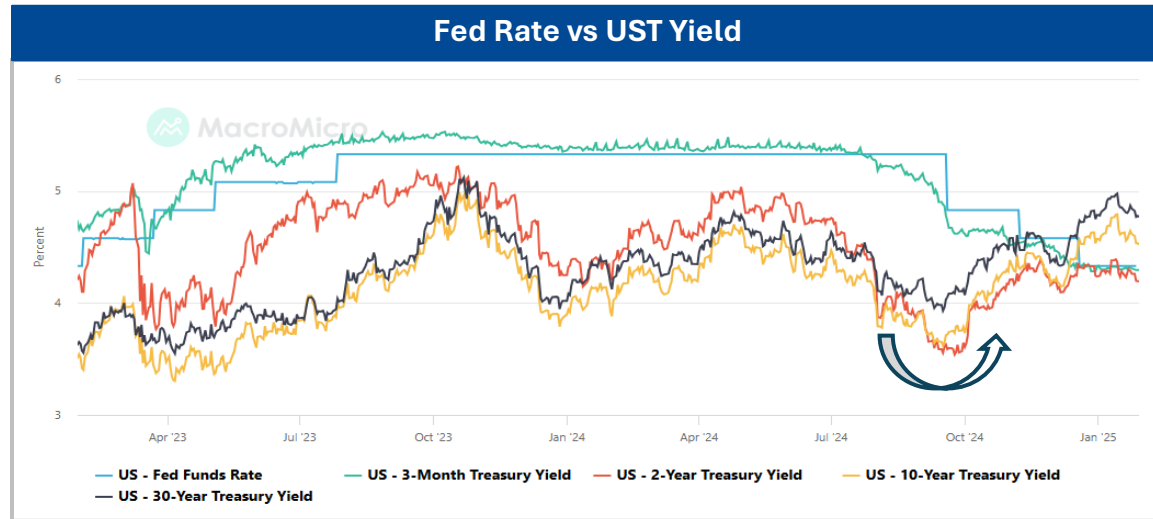
Sep 2024 Dot Plot



- **2025: a median of 50bps rate cut (vs. 100bps in Sep Dot Plot) to 3.9% (vs 3.4%).**
- Long-run FFR median of 3.0% (with the highest projection at 3.6%). This upward shift signals the Fed's view that policy rates will remain higher for longer, driven by persistent inflation risks and a stronger economic backdrop.
- Fed Chairman J. Powell also hinted that rate cuts in 2025 will be highly data-dependent and gradual.

Reflation and Fiscal Deficit Risk Impact to Yield

Surge in UST yields



1. Real interest rate expectations (TIPS yields): reflect changes in policy interest rates and economic outlook. 2. Inflation expectations (breakeven inflation rate): reflect changes in inflation expectations. 3. Term premium (ACM estimates): reflect the required compensation of investors for holding long-term bonds; Source: MacroMicro

Jan 25 Beige Book: Economic activity increased slightly (published 15 Jan 25)

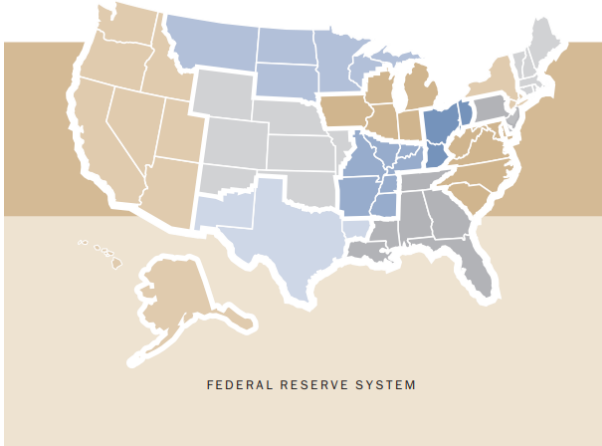
More optimistic on the 2025 outlook than pessimistic



The Beige Book

Summary of Commentary on
Current Economic Conditions by
Federal Reserve District

January 2025



FEDERAL RESERVE SYSTEM



Economic Conditions: Economic activity **increased slightly to moderately** across the twelve Federal Reserve Districts in late November and December. **Consumer spending moved up moderately**, with most Districts reporting **strong holiday sales that exceeded expectations**. More contacts were **optimistic about the outlook for 2025** than were pessimistic about it, though contacts in several Districts expressed **concerns that changes in immigration and tariff policy could negatively affect the economy**.



Business Activity: Vehicle sales grew modestly. Construction activity decreased overall, with several Districts indicating that high costs for materials and financing were weighing on growth. Manufacturing decreased slightly on net, and a number of Districts said manufacturers were **stockpiling inventories in anticipation of higher tariffs**. Residential real estate activity was unchanged on balance, as high mortgage rates continued to hold back demand. Commercial real estate sales edged up. **Financial service providers reported modest growth** in lending and little change in asset quality overall, though **lenders and community organizations voiced concerns about delinquencies among small businesses and lower-income households**.



Employment: Employment ticked up on balance, with six Districts reporting a slight increase and six reporting no change. Contacts across multiple sectors noted **difficulty finding skilled workers**, and **reports of layoffs remained rare**. However, contacts in some Districts expressed greater uncertainty about their future staffing needs. **Wage growth picked up to a moderate pace** in most Districts, though there were some reports that wage pressures had eased.



Inflation: Prices **increased modestly overall**, with growth rates ranging from flat to moderate. Contacts in most Districts reported modest increases in selling prices, though there were instances of flat or decreasing prices as well, particularly in the retail and manufacturing sectors. Contacts expected prices to continue to rise in 2025, with some noting the **potential for higher tariffs to contribute to price increases**.