FOMC Dec 2025 Salient Points

A Hawkish or Dovish Cut? Our View

1 FFR Cut

The **FOMC cut the Fed Funds Rate by 25 bps to 3.50%–3.75% in December which broadly in line with market expectations**, citing moderate economic growth, softer job gains, and inflation that has moved up from earlier in the year.

The **Fed's divisions were evident in the rate-cut decision**, which passed by a 9–3 vote. Governor Miran pushed for a larger 50-bps cut, while Goolsbee and Schmid preferred no change, resulting in an **unusual three-way split**.

2 4 Key Takeaways

1. The **Fed is increasingly divided**, with dissent from both dovish and hawkish members, raising the likelihood of a slower and more cautious easing path.
2. The **FOMC noted a shift in risks**, with employment softening while inflation stays elevated, signaling a more balanced stance and a **measured pace of future cuts** that will depend entirely on incoming data.
3. The **Fed will begin Treasury bill purchases in Dec (USD40bn)** and may expand to other short-term Treasuries if needed, marking a move toward modest balance-sheet expansion to stabilize reserves and liquidity.
4. The **latest Summary of Economic Projections shows stronger growth expectations**, steady unemployment projections, and further easing in 2026 PCE inflation, while the Dot Plot is unchanged at 3.4 percent for end-2026 and 3.1 percent for end-2027.

3 Market Impact and Moving Forward

- The **market reaction was also split**: some viewed the move as a **hawkish cut** given the more gradual rate path signaled for 2026, while others argued it was a **dovish one** as the rate cut paired with faster balance-sheet expansion reflects the Fed's pro-cyclical bias.
- The 10-year Treasury yield eased to 4.15% after the 25 bps cut, while the odds of a January hold rose to 77.9% from 69.8%. The S&P 500 gained 46 points as sentiment improved, and the **DXY slipped to 98.68 (-0.17% w-w), a six-week low**.
- **Our view for 2026**: The easing cycle is set to continue, though at a slower pace than in 2025. A more dovish Fed Committee composition and political cycle may also lean toward further easing, though policymakers will stay wary of undoing recent disinflation progress.

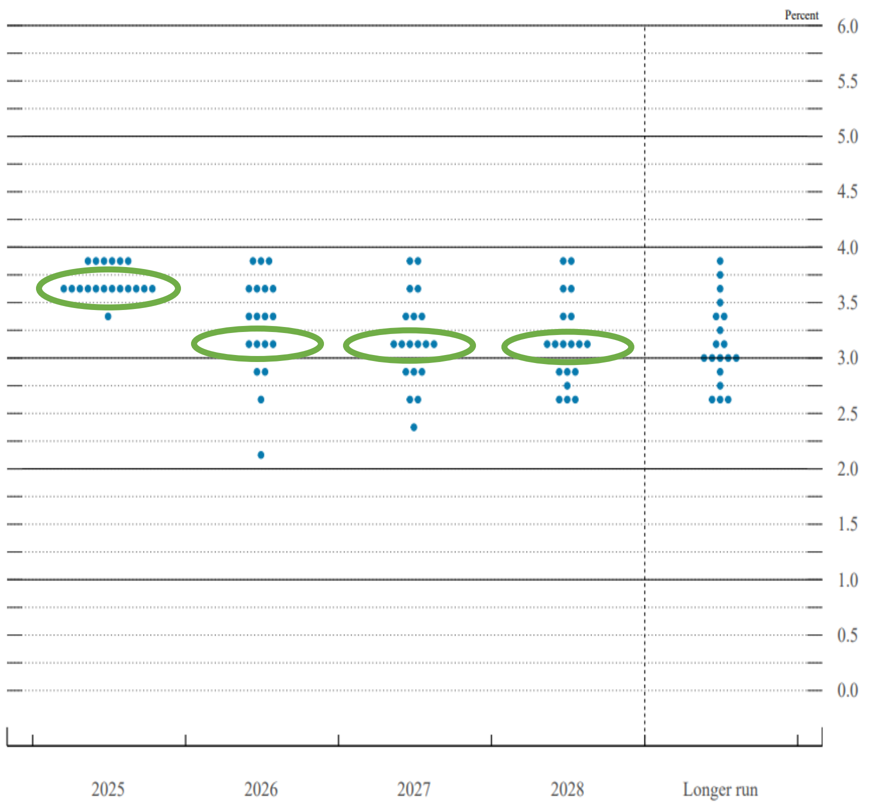
Source: Federal Reserve, BRI Danareksa Sekuritas

FOMC Still Expects 25 bps rate cut toward 2026

Easing cycle will continue through 2027 with the FFR at 3.1%

Dot plot Sep 25 vs Jun 25

Dec 2025 Dot Plot



Sep 2025 Dot Plot

The Key Points from the latest Dot Plot:

- The Fed maintains its median estimate of FFR to end at 3.4% by end of 2025. indicates a quarter point lower than the current range (3.5%-3.75%) and indicating same projection from its last SEP.
- For 2027, the Fed projected the terminal rate hitting 3.1% (lower than Sep forecast of 3.4%), indicating one further rate cut
- The long-run median FFR remains at 3.0%, with the upper bound of projections still reaching as high as 3.9%, indicating no shift from the Sep SEP.

Source: FOMC Summary of Economics Projections

Improving Outlook Across the Board

Upward Revisions in Growth and Broadly Stable Policy Path

Economic Projection in Sep 25 FOMC

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

The new Dec SEP summary for median expectations (vs. Sep SEP):

1. GDP to grow 1.7% (vs. 1.6%) in 2025 and 2.3% (vs. 1.8%) in 2026. Growth expectation is also upgraded to 2.0% (vs. 1.9%) in 2027 and 1.9% in 2028.
2. Unemployment rate stays at 4.5% (unchanged) in 2025 and 4.4% (unchanged) in 2026, and will moderate to 4.2% (vs. 4.3%) in 2027
3. Core PCE inflation is projected at 3.0% (vs. 3.1%) in 2025 and 2.5% (vs. 2.6%) in 2026. Long-run inflation remains 2.0%.
4. FFR expected at 3.6% (unchanged) in 2025, 3.4% (unchanged) in 2026, and 3.1% (unchanged) in 2027. Long-run FFR stays at 3.0%.

Source: FOMC Summary of Economics Projections

Pre-Dec 25 FOMC Fed Member Comments

Still A Mixed

Susan Collins
Boston Federal Reserve Bank President

"Given my baseline outlook, it will likely be **appropriate to keep policy rates at the current level for some time** to balance the inflation and employment risks in this highly uncertain environment."

Stephen Miran
Federal Reserve Governor

"**Nothing is certain**. We could get data that would make me change my mind between now and then." "But failing new information that's made me update my forecasts, looking out in time, yeah, I would think that **50 is appropriate**, as I have in the past, but at a minimum 25."

Lisa Cook
Federal Reserve Governor

"Looking ahead, policy is not on a predetermined path." "We are at a moment when **risks to both sides of the dual mandate are elevated**."

Christopher Waller
Federal Reserve Governor

"I am **not worried about inflation accelerating** or inflation expectations rising significantly"

"My **focus is on the labor market** ..."

John Williams
Federal Reserve Bank of New York

"I view monetary policy as being **modestly restrictive**"

"Therefore, I still see **room for a further adjustment in the near term** to the target range for the federal funds rate to move the stance of policy **closer to the range of neutral**"

Beth Hammack
Cleveland Federal Reserve Bank President

"I think that we need to **maintain a modestly, somewhat restrictive stance of policy** to make sure that we are continuing to bring inflation back down to our 2% objective"

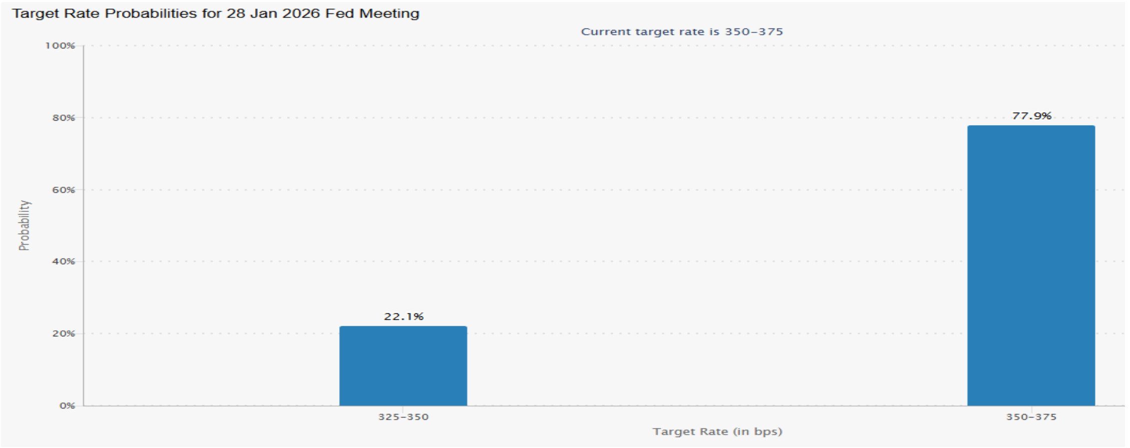
Blue box = Voting Member, Orange box = Non-voting member

Source: Bloomberg, CNBC, Various Media Portals

Rate Cut Expectation Is Moderating

DXY continues to move sideways

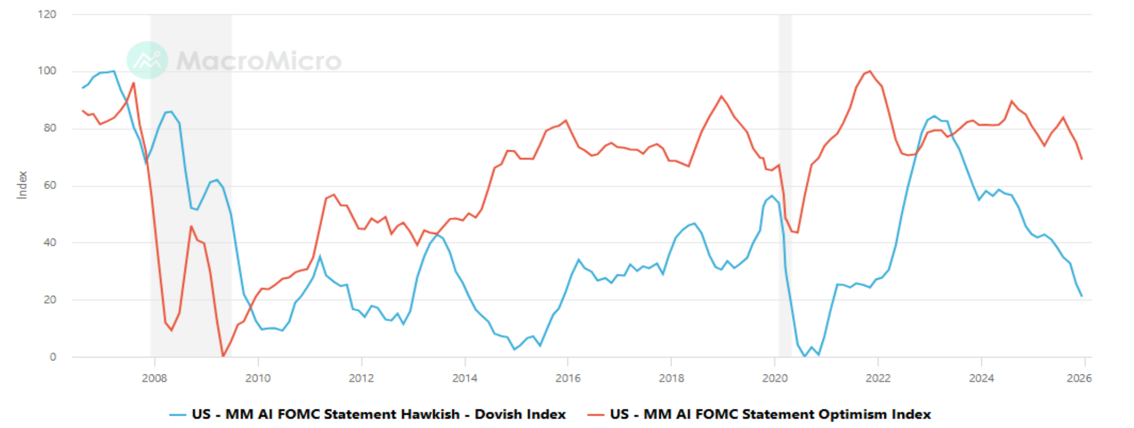
Rate Cut Probability Trend



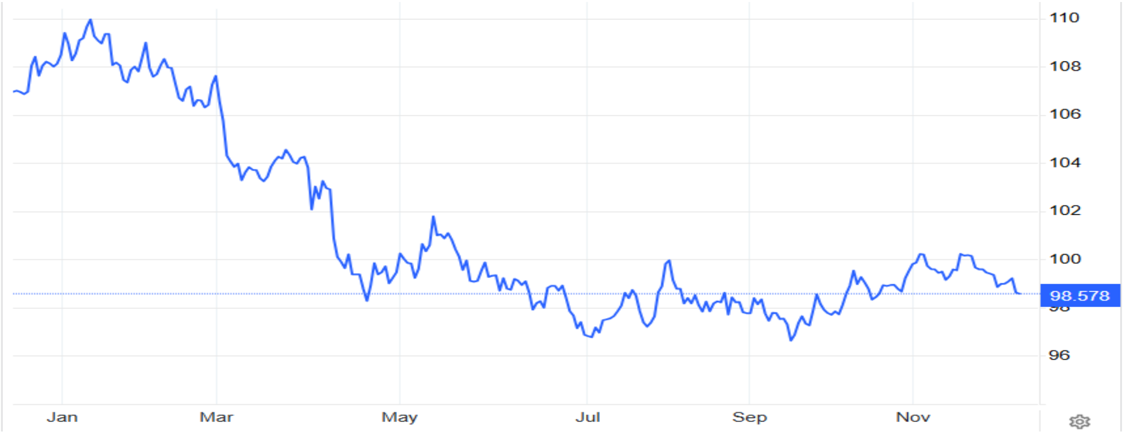
Rate Cut Probabilities

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES									
MEETING DATE	175-200	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425
1/28/2026			0.0%	0.0%	0.0%	0.0%	22.1%	77.9%	0.0%	0.0%
3/18/2026	0.0%	0.0%	0.0%	0.0%	0.0%	7.8%	41.7%	50.6%	0.0%	0.0%
4/29/2026	0.0%	0.0%	0.0%	0.0%	2.2%	17.2%	44.2%	36.4%	0.0%	0.0%
6/17/2026	0.0%	0.0%	0.0%	1.1%	9.5%	30.4%	40.4%	18.7%	0.0%	0.0%
7/29/2026	0.0%	0.0%	0.2%	2.7%	13.5%	32.3%	36.2%	15.1%	0.0%	0.0%
9/16/2026	0.0%	0.1%	1.2%	6.9%	20.8%	33.8%	28.0%	9.2%	0.0%	0.0%
10/28/2026	0.0%	0.3%	2.4%	9.8%	23.6%	32.6%	24.0%	7.3%	0.0%	0.0%
12/9/2026	0.0%	0.5%	2.9%	10.8%	24.2%	32.0%	22.8%	6.7%	0.0%	0.0%

US – MM AI FOMC Statement Hawkish-Dovish Index



USD Dollar against Six Major Currencies (DXY)



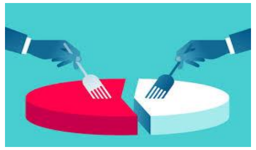
Source: CME, Trading Economics; Macromicro

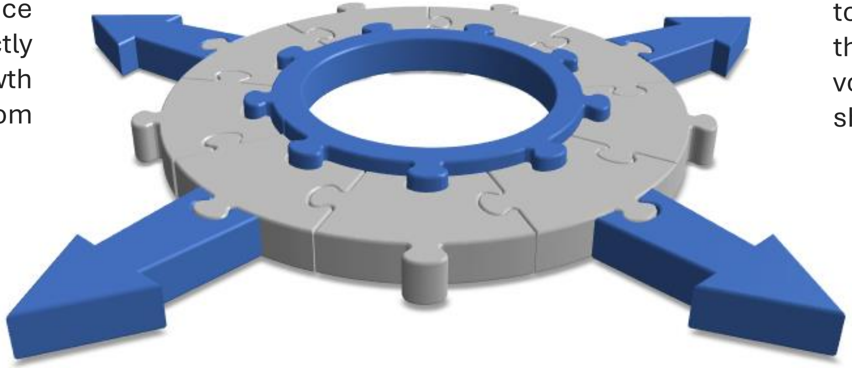
The Fed in 2026: What to Expect? (8 Dec 2025)

Four Key Aspects Which Defines Opportunity and Risk For Further Easing Policies

Political Cycle Effects

The US 2026 **midterm elections in Nov are likely to influence the growth outlook** through fiscal flexibility, policy clarity, and confidence effects rather than major new stimulus. Historically, midterms shape both the likelihood and timing of growth-supportive measures, such as limited tax relief, selective spending, or simply avoiding fiscal tightening. Even in periods of political gridlock, clearer policy boundaries tend to reduce uncertainty and improve business sentiment, indirectly supporting investment and risk-taking. As a result, any growth impact from the political cycle will likely come more from expectations and confidence than from large fiscal expansion.



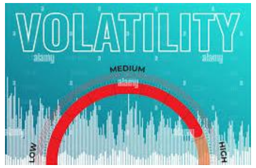


More Dovish New Fed Chair

The potential appointment of Kevin Hassett as Chair could further **nudge the leadership toward a more accommodative bias,** given his perceived preference for lower rates. However, his close alignment with former President Trump has raised concerns that such political proximity could weaken perceptions of Fed independence, heightening the risk that monetary decisions may appear influenced by political priorities rather than purely economic considerations.

A Cautious Tilt

The 2026 FOMC composition points to a **more measured policy environment**, shaped by lingering inflation concerns and gradual openness to easing. Several regional Fed presidents maintain a guarded stance, noting that inflation has not cooled enough to justify aggressive rate cuts. This suggests the committee will be wary of moving too quickly for fear of reversing recent disinflation gains. At the same time, dovish tone is also emerging. More Fed voting members appear willing to support gradual easing should growth soften or financial conditions tighten.



Market–Fed Gap vs Market Volatility

As the Fed turns more dovish, **rising market expectations for rate cuts can amplify volatility.** Historically, spikes in the VIX have occurred when market-implied rates fell well below the Fed's guidance, creating a wide expectation gap. That disconnect often triggered sharp repricing. Today, however, market pricing is broadly aligned with the Fed's latest signals. The gap between market-implied rates and the Dot Plot has largely narrowed, pointing to a more stable policy backdrop and a reduced risk of rate-driven volatility in the near term

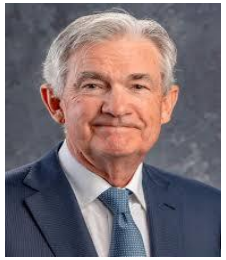
Source: BRI Danareksa Sekuritas

The FOMC 12 Voting Members - 2025

More Dovish Composition on the Board of Governors

Federal Reserve Governor

07


Jerome Powell


Michelle Bowman


Chris Waller


Philip Jefferson


Michael Barr


Adriana Kugler


Stephen Miran


Lisa Cook

Regional Fed President

05

Permanent


John Williams
New York Fed

Rotating Members


Susan Collins
Boston Fed


Austan Goolsbee
Chicago Fed


Jeff Schmid
Kansas Fed


Alberto Musalem
St. Louis Fed

Source: The Fed Reserve

The FOMC 12 Voting Members - 2026

Will the Division Continues?

Federal Reserve Governor

07

Jerome Powell

The Chair's term ends on May 15, 2026

Michelle Bowman

Chris Waller

Philip Jefferson

Michael Barr

Stephen Miran

The term ends on January 31, 2026

Lisa Cook

Regional Fed President

05

Permanent

John Williams
New York Fed

Rotating Members

Beth M. Hammack
Cleveland Fed

Neel Kashkari
Minneapolis Fed

Lorie K. Logan
Dallas Fed

Anna Paulson
Philadelphia Fed

Source: The Fed Reserve

2026 Crosswinds at the Fed

Incoming voters blend inflation caution with conditional easing openness

Kevin Hassett
Trump's Candidate

"I think we should, and I think that we are likely to (cut rate). They now seem much more like they're leaning in the direction of a rate cut."

Nael Kashkari
Minneapolis Federal Reserve Bank President

"So, it really comes down to, **do you believe tariffs are a one-time effect or something more persistent? I'm getting more confident that it's likely a one-time effect**, but it's going to take a couple years for it to play out."

"I can make a case depending on how the data goes to cut, I can make a case to hold, and **we'll have to see**."

Anna Paulson
Philadelphia Federal Reserve Bank President

"..monetary policy should be focused on **balancing risks to maximum employment and price stability** which means moving policy towards a more neutral stance.."

"Over the rest of this year, **I view easing along the lines of the median SEP policy path as appropriate.** Of course, that is if economic and financial conditions evolve as I expect."

"On the margin**, I'm still a little more worried about the labor market than I am about inflation,** but I expect to learn a lot between now and the next meeting. And, as I think about monetary policy over the longer arc, **I'll be focused on how to appropriately balance the risks** to both inflation and the labor market.."

Beth M. Hammack
Cleveland Federal Reserve Bank President

"I remain **concerned about high inflation** and believe policy should be leaning against it."

"Inflation has been running above the Fed's 2 percent objective for four and a half years. **Lowering interest rates to support the labor market risks prolonging this period of elevated inflation**, and it could also encourage risk-taking in financial market."

"There's already a substantial body of research on **how persistent inflation can increase risks for banks and put pressure on household finances**. The challenging period we're currently experiencing for monetary policy could well be the subject of future research on the implications of having **both sides of the Fed's mandate under pressure**."

Lorie K. Logan
Dallas Federal Reserve Bank President

"**I supported the FOMC's rate cut earlier this month** because it helped better balance the risk of slowing the labor market too much against the ongoing imperative to bring inflation back to the 2 percent target. However**, I am also committed to finishing the job of sustainably restoring price stability**."

"The labor market has remained roughly balanced and cooling slowly. **Inflation remains too high**, taxing the budgets of businesses and families, and appears likely to exceed the FOMC's 2 percent target for too much longer. **This economic outlook didn't call for cutting rates**."

"...and with two rate cuts now in place, **I'd find it difficult to cut rates again in December unless there is clear evidence that inflation will fall faste**r than expected or that the labor market will cool more rapidly."

Source: Bloomberg, CNBC, Various Media Portals

Who’s Next Fed Chair?

Several Potential Trump’s Candidates

A former Morgan Stanley banker and economic adviser to George W. Bush, Warsh joined the Fed board in 2006 at just 35, becoming its youngest member. He **acted as the Fed’s liaison to Wall Street during the 2007–08 crisis and stayed until 2011**. Warsh was also a finalist to replace Janet Yellen as Fed Chair in 2018 but ultimately lost to Powell.

Hassett chaired the White House Council of Economic Advisers during Trump’s first term, acting as his top economist through major tax, financial, and trade shifts. Now, as director of the National Economic Council, he focuses on **shaping Trump’s broad tariff strategy and domestic agenda, including extending key tax cuts from the first term**.

As the Fed’s Vice Chair for Supervision, she has extensive experience overseeing the banking system and is viewed as supportive of lighter regulation, which fits the administration’s deregulatory agenda. **Her pragmatic approach and openness to further rate cuts align with the push for easier monetary conditions**, making her a politically compatible and institutionally seasoned Fed candidate.

Rick Rieder is nominated for his deep market expertise and leadership at BlackRock. His credibility with investors, pragmatic approach to growth and inflation, and strong communication skills make him a **trusted, market-oriented candidate to ensure stability and confidence in monetary policy.**

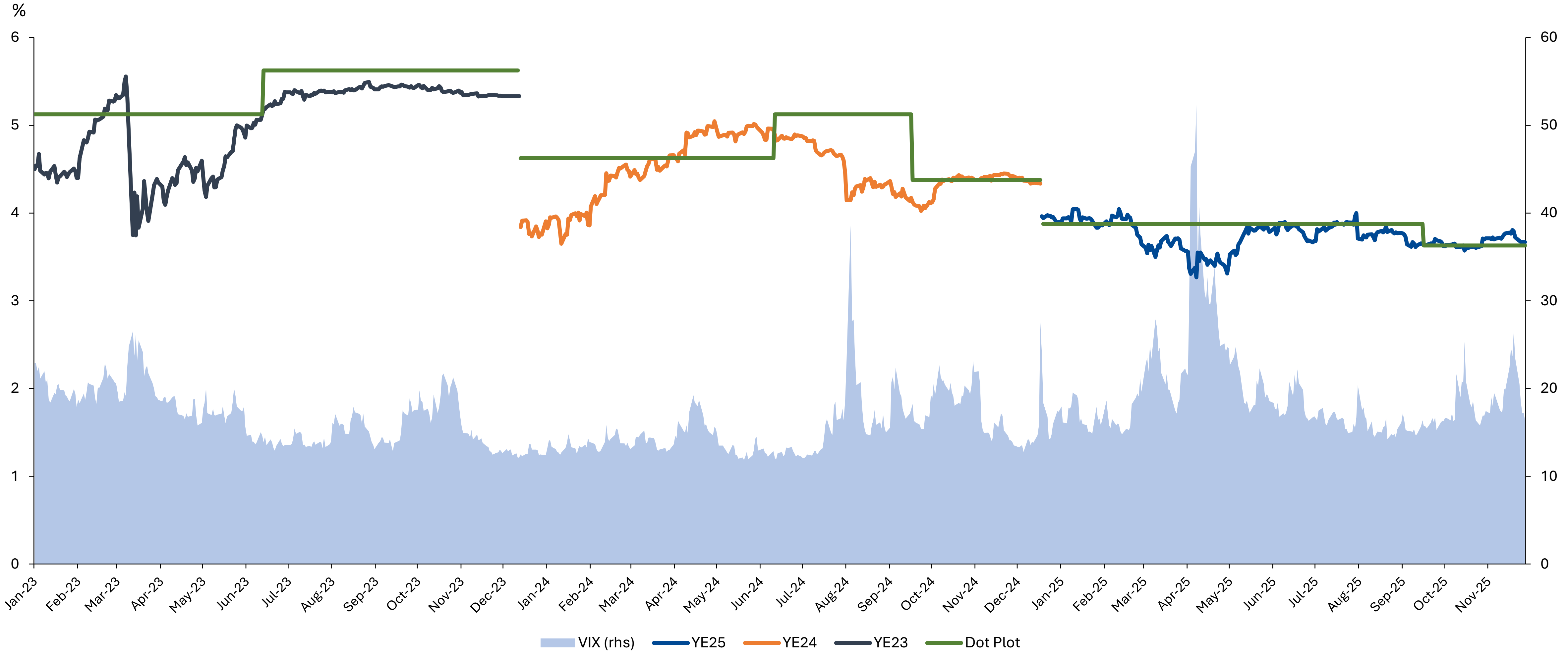
After decades as an economics professor and Fed research chief, Waller joined the Fed board in 2020 on Trump’s nomination. Unlike four other Trump picks, he narrowly cleared the Senate before Trump left office. He’s mostly aligned with Powell on rates but is **less worried about Trump’s tariffs fueling inflation and has floated cutting rates as early as July.**

Source: WSJ, CNBC; The Hill

Market-Fed Gap Narrowing

Pointing to lower volatility ahead

The Gap between Market-implied year-end FFR vs. Dot Plot has been one of the key driver in volatility

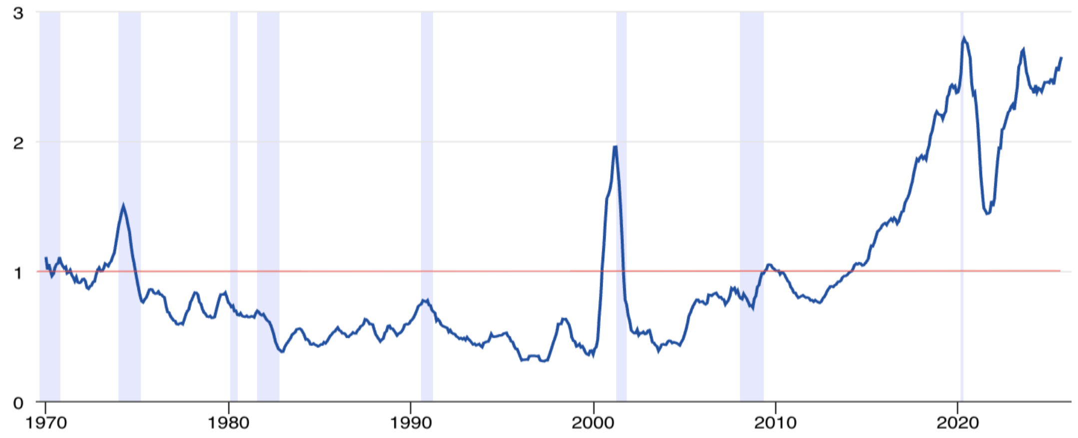


Source: Bloomberg

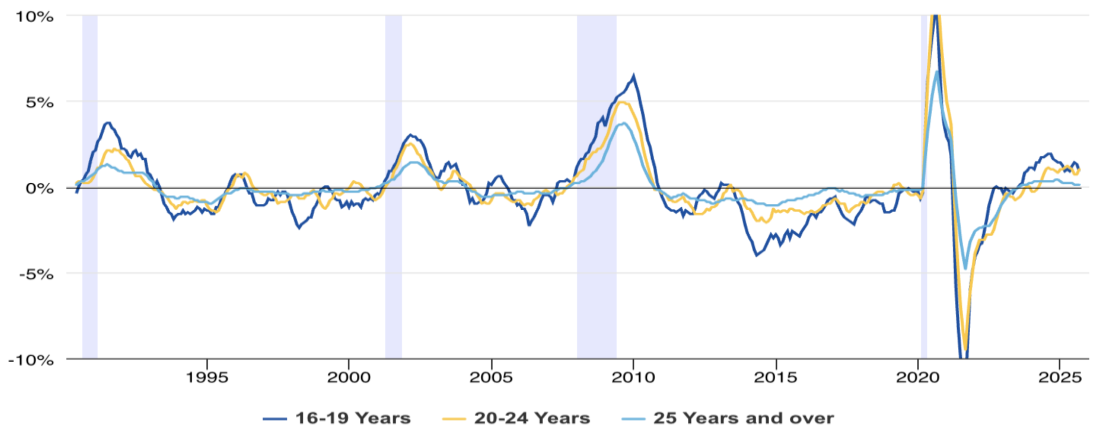
Softening Labour Signals Ahead

Weaker Job Market Support Further Easing

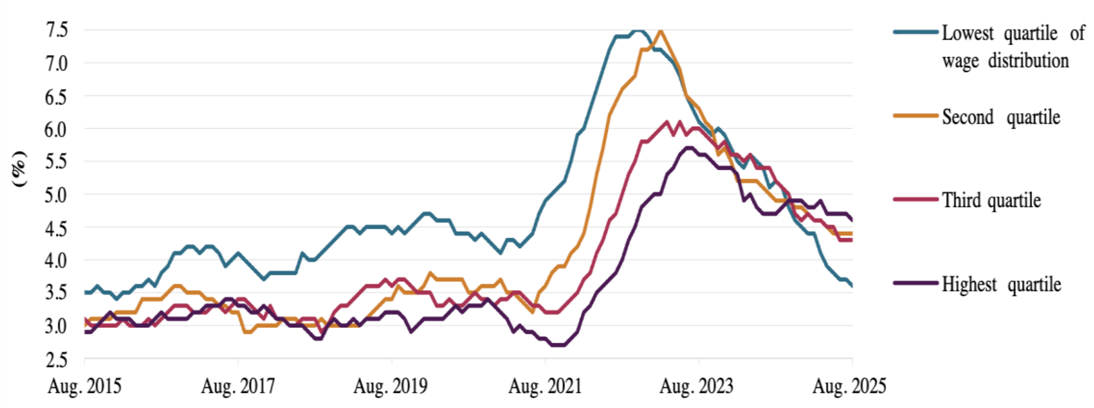
Ratio of Retired Workers to Unemployed is rising



The U-rate for recent college grads is rising



Wage Growoth has fallen back to the pre-pandemic annualized pace.



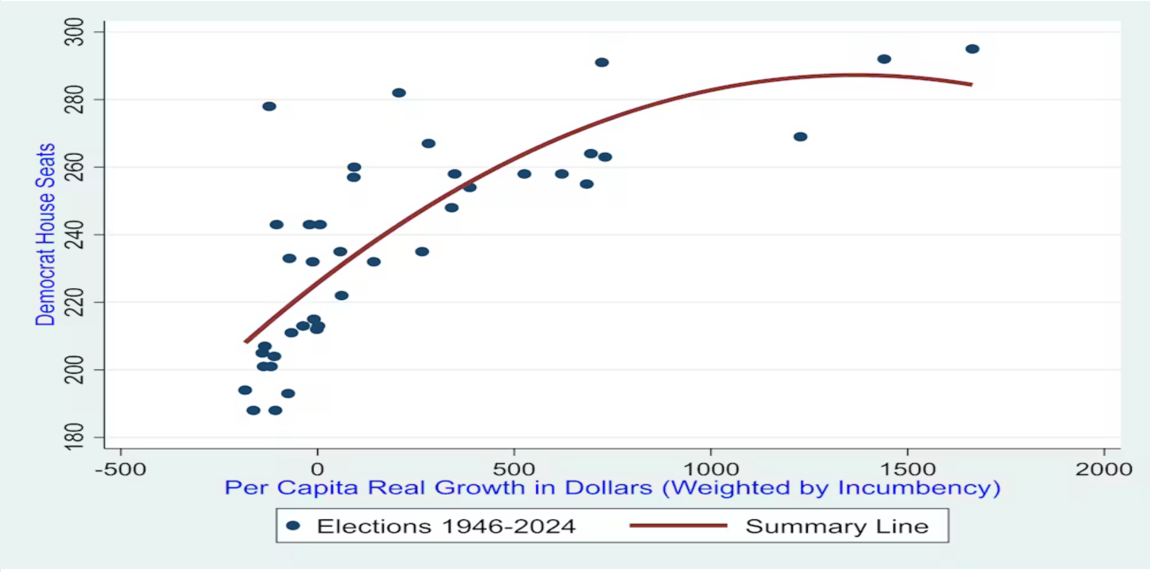
1. **Labour demand continues to weaken**, with job openings per unemployed falling back to **2017 levels** and only **just above 50%** of industries adding jobs (Jul–Sep average).
2. **Cyclical softness is evident**, as wage growth has slowed back to its **pre-pandemic annualized pace**, signalling broader cooling across sectors.
3. **Structural pressures are building**, with slower inflows of skilled non-citizen workers, a labour force weighed down by a rising share of retirees, and **early signs of job-search strain among recent college graduates**, even though AI-related displacement remains too early.

Source: RBC, S&P Global BLS,

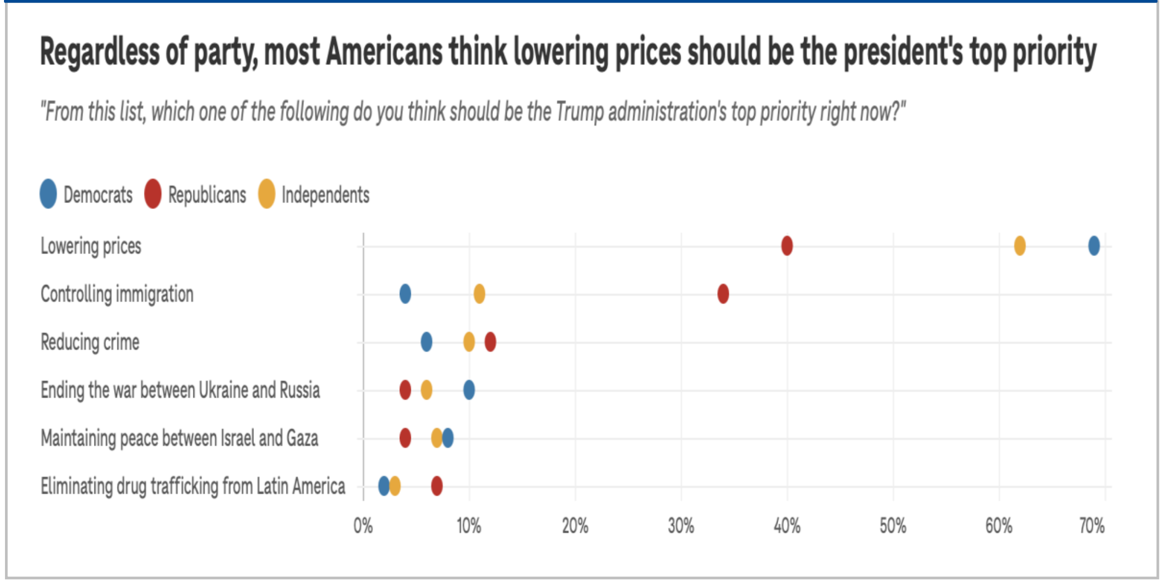
Can Growth Priority Alter the 2026 Midterm Landscape?

Economic Performance, Voter Priorities, and Policy Incentives

Stronger economic growth historically improves incumbents' House seat outcomes



Lowering prices/affordability emerges as the top voter priority across parties



- **Affordability dominates voter priorities**, making economic performance decisive ahead of the 2026 midterms.
- **Stronger growth improves incumbents' electoral outcomes**, while weaker growth raises political risk.
- **This trend raises pressure for pro-growth policy in 2026**, via targeted tax relief, selective spending, and cost-of-living measures.
- **With limited fiscal space, clearer post-midterm alignment reduces uncertainty**, supporting growth mainly through confidence and expectations rather than large fiscal expansion.

Source: Forbes, Federal Reserve Bank of St Louis, BRI Danareksa Sekuritas

Key Macro Assumptions

Indicator	2021	2022	2023	2024	2025F	2026F
Real GDP Growth YoY (%)	3.70	5.31	5.05	5.03	4.9 – 5.2	5.0 – 5.2
Inflation YoY (%)	1.75	5.51	2.61	1.57	2.3 – 2.8	2.2 – 3.0
BI Rate(%)	3.5	5.50	6.00	6.00	4.50 – 4.75	4.00 – 4.50
USDIDR (avg)	14,296	14,848	15,231	15,843	16,300 – 16,750	16,250 – 16,850
US Treasury 10Y (%)	1.52	3.88	3.88	4.58	3.85 – 4.20	3.75 – 4.15
CDS 5Y (bps)	75	104	70	78	65 – 85	55 – 75
IDR SUN 10Y (%) [BTMM ID]	6.37	6.94	6.48	7.00	5.92 – 6.30	5.62 – 6.14

The 3 Scenarios

Year	Scenario	CDS 5 Yr	UST 10yr (%)	USDIDR	BI Rate %	% Foreign	% BI	Forecast
2025F	Optimistic	0.60	3.85	16,300	4.50	14.00	22.00	**5.92**
	Base	0.70	4.00	16,550	4.75	13.50	23.00	**6.09**
	Pesimistic	0.80	4.20	16,750	4.75	13.00	24.00	**6.30**
2026F	Optimistic	0.55	3.75	16,250	4.00	14.70	21.00	**5.62**
	Base	0.65	3.90	16,600	4.25	14.00	22.00	**5.88**
	Pesimistic	0.75	4.15	16,850	4.50	13.30	23.00	**6.14**

Year	APBN Assumption	Realization EoP	Realization avg
2021	7.29	6.38	6.34
2022	6.80	6.94	6.63
2023	7.90	6.48	7.02
2024	6.70	7.00	6.80
2025	7.00	6.30	6.63

*as of 2 Dec 25

Approximate Sensitivity*					
-10 bps CDS	:	-2bps Yield	-25bps BI Rate	:	-14bps Yield
-10bps UST 10Y	:	-5bps Yield	+1% Foreign	:	-1bps Yield
-100 USDIDR	:	-3bps Yield	+1% BI	:	+3bps Yield

*ceteris paribus

The 2026 outlook points to a less dovish global and domestic rate environment, limiting the potential for further yield declines despite some remaining room for rate cuts. Risks from Trump's trade policies remain manageable but still require monitoring. Domestically, better policy direction, stronger political communication, and an improved investment climate are needed to support growth, which will continue to be backed by fiscal and monetary stimulus. Market liquidity is expected to stay adequate, and Bank Indonesia is likely to maintain Rupiah stability. INDOGB yields are projected at 5.62%–6.14% with a baseline of 5.88%, below the government's 6.9% assumption.

Sources : BRIDS Economic Research, Debt Research

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