

FX Viewpoint Flash

Currencies
Global

FOMC meeting outcome reaffirms our strong USD view

- ◆ The FOMC cut the US policy rate by 25bp but signaled fewer rate cuts in 2025; this likely means a “skip” in January
- ◆ While the rate cut was widely anticipated, other aspects of the meeting were more hawkish than expected
- ◆ We continue to look for a strong USD through 2025, a stance reaffirmed by the outcome of the December FOMC meeting

The Federal Open Market Committee (FOMC) **cut rates by 25bp** in their December meeting to a range of 4.25-4.50%, as widely anticipated, but other aspects of the meeting were **more hawkish** than expected. These included new dots projections, a new hawkish dissenter, a notable tweak to the statement, and a press conference that revealed the decision to cut today had been a close call. The USD was justifiably stronger in the wake of the meeting.

The FOMC cut rates by 25bp but other aspects were more hawkish than expected

The decision by the Federal Reserve to lower the policy rate by 25bp was unsurprising. In a Bloomberg survey of economists, 88% expected a 25bp cut, 10% expected unchanged policy, and an outlier 2% forecast a 50bp easing. The market was fully priced for 25bp also. However, in his press conference, Chair Powell indicated that **this decision was a “close call”**, suggesting the market’s near certainty may have overestimated the FOMC’s appetite for today’s cut.

The decision was a “close call”

The accompanying statement was little changed, whether looking at the paragraph describing recent economic developments, or to the committee’s view that “the risks to achieving its employment and inflation goals are roughly in balance”. However, the statement now refers to the “extent and timing” of additional rate cuts whereas previously, it merely talked of the “extent”. Chair Powell noted that this change “signals that we are at or near a point at which it will be **appropriate to slow the pace of further adjustments**” (Bloomberg). The statement also revealed that the Fed’s Beth Hammack dissented from the decision to cut by 25bp, lending a somewhat hawkish footnote to the statement.

Pace of rate cuts may be slowed

The new set of dots projections adds to the less dovish tone. **The median dot for 2025 was raised to 3.875%** from 3.375% in the September release, higher than the median expectation of economists (Bloomberg), including HSBC’s. The Fed’s median projected path during 2025 was in line with market pricing ahead of the meeting, though the market has since repriced hawkishly. It was also shared by 10 members of the FOMC, a solid consensus. The long run dot was raised to 3.00%.

The median dot for 2025 was revised up to 3.875%

Chair Powell was quizzed about whether the new dots incorporated expectations for policy change during President-elect Donald Trump’s second term. He said some FOMC members had begun to weave in possible policy changes, but others had not, and others chose not to reveal whether they had or not. His main takeaway though was that **policy uncertainty is another reason for moving cautiously**. Another interpretation, in our opinion, is that there may be some upside risks to the dots as other FOMC members update their forecasts in the months and quarters ahead.

Policy uncertain is another reason for moving cautiously

**We retain our strong USD
view for 2025**

We retain our view of USD strength in 2025. This is still largely built on US exceptionalism, notably when compared to Europe. In 2024, that was captured in the shifts in interest rate differentials and echoed in a stronger USD. That has been evident again in the wake of the December FOMC. In 2025, other factors are also likely to play a part, including any developments in US trade policy, US deregulation, relative fiscal policy, and geopolitics. In the end, it may still come down to the data, but drivers may become more varied, and we expect the USD to remain on top.

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