Fed Cuts Policy Rate by -25bps for the Second Time This Year

Economic Review
Oct-25 FOMC Meeting

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- As widely anticipated, the Fed's Federal Open Market Committee (FOMC) decided to reduce its fed funds rate by -25bps to 3.75-4.00%, given concerns about elevated inflation and heightened downside risks to the job market. The balancing act supports further easing in policy restrictiveness, moving closer to neutral level.
- In addition to the rate cut, the FOMC also decided to end the reduction in its balance sheet (or quantitative tightening) on 1st December 2025. Thus far, the Fed will continue to reduce its holdings of Treasury and agency securities by USD5b and USD35b, respectively, a month.
- The Fed Chairman emphasized that there is no preset course for the fed funds rate, which will be adjusted based on incoming data. Prolonged data blackouts could prompt the FOMC to act more cautiously. Another rate cut in Dec-25 remains uncertain.
- We foresee the possibility of another rate cut in Dec-25 as the Fed shifts its focus more toward supporting growth and the labour market. The current policy rate remains above the estimated neutral level.

Another cut to bring policy rate to more neutral level

As widely anticipated, the Fed's Federal Open Market Committee (FOMC) decided to reduce its fed funds rate by -25bps to 3.75-4.00%. The decision is in line with our expectations as we believe the Fed maintains its focus to support the economy, on the back of softening of job market conditions. The Fed Chairman also mentioned that the Fed continues to balance its dual mandate (to maintain price stability and maximum employment), given concerns about elevated inflation and heightened downside risks to the job market. The balancing act supports further easing in policy restrictiveness, moving closer to neutral level.

Quantitative tightening to end on 1st December

In addition to the rate cut, the FOMC also decided to end the reduction in its balance sheet (or quantitative tightening) on 1st December 2025. Thus far, the Fed will continue to reduce its holdings of Treasury and agency securities by USD5b and USD35b, respectively, a month. Any number of principal payments of the securities that mature in Oct-25 and Nov-25 will be rolled over and re-invested into Treasury securities. Starting Dec-25, all principal payments will be rolled over and reinvested into Treasury securities to keep the Fed's balance sheet size unchanged. From the peak of nearly USD9.0t in Apr-22, the Fed has reduced its balance sheet by more than USD2.3t as of 22nd October 2025.

Moderate economic expansion…

Despite no updated information about the members' projection, the FOMC continued to indicate the moderation expansion in economic activity and slower job growth. The Fed Chair mentioned that growing consumer spending has been supporting the US economic growth, defying concerns over recession or sharper slowdown. The FOMC also repeated its assessment that the jobless rate has edged up but still at low levels.

…and cooling job market, mainly due to supply factor

The Fed Chairman explained that the Fed concluded that there is no significant deterioration in the job market because there is no sharp increase in the initial jobless claims, based on the latest state level information. Although the labour demand has declined, cooling labour market was more influenced by the lower supply: (1) labour force participation dropped due

to cyclical factor, and, (2) the shift in immigration policy also affected labour supply. Based on the preliminary estimate by ADP, private payrolls recorded recovered and picked up by +14.25K jobs on average in the 4-week period to 11th October 2025. Approximately +57K jobs were added in the private businesses during the period, reversing the 2 months of job cuts in Jul-25 (-3K) and Aug-25 (-32K).

Inflation accelerated, remaining elevated

The Fed indicated that inflation has accelerated and remained elevated, above the longer run target of +2.0%. The recent price pressures were driven by rising goods prices—partly due to higher tariffs—and persistent inflation in non-housing services. Housing services, on the other hand, are expected to continue easing, thereby limiting overall upward pressure on prices. While the impact of tariffs may take time to feed into inflation as firms absorb part of the cost increases, the Fed remains vigilant against the risk that these adjustments could lead to more persistent inflationary pressures beyond the anticipated one-off effects.

Uncertainty over rate decision in Dec-25 amid prolonged risk of data blackout

The Fed Chairman emphasized that there is no preset course for the fed funds rate, which will be adjusted based on incoming data. With the absence of official data updates, economic assessment relies on other alternative data sources, including the Fed's Beige Book report. In response to questions on the impact of a government shutdown, he expressed concern that a prolonged data blackout could prompt the FOMC to act more cautiously. On that note, another rate cut in Dec-25 remains uncertain. Jerome Powell also noted growing divisions among FOMC participants —with several members supporting further rate cuts, while other members increasingly advocate for a pause. This can be influenced by differences in their economic assessment and risk tolerance. Despite cumulative rate cuts totaling -150bps, the monetary policy setting remains "modestly restrictive" to contain inflationary pressures.

Potential one more cut this year

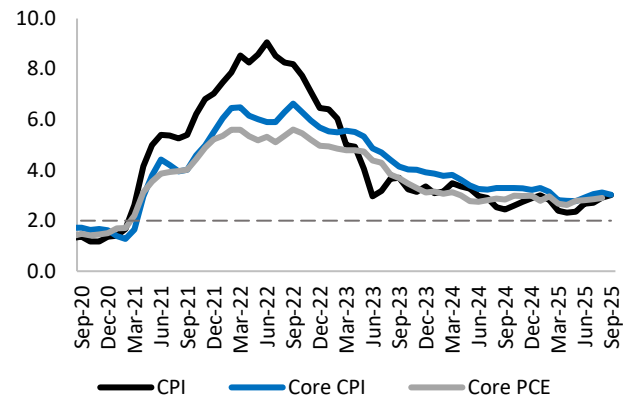
We foresee the possibility of another rate cut in Dec-25 as the Fed shifts its focus more toward supporting growth and the labour market. The current policy rate remains above the estimated neutral level, reflecting the Fed's need to balance between maintaining price stability and achieving maximum employment. That said, the prolonged data blackout could complicate policy decisions, while more persistent inflationary pressures and a still-resilient growth outlook may prompt the Fed to delay further easing and adopt a more gradual approach to policy normalization.

Table 1: Central Bank Policy Rate by Selected Economies (%)

	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
Malaysia	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75	2.75
Indonesia	5.75	5.75	5.75	5.50	5.50	5.25	5.00	4.75	4.75
Philippines	5.75	5.75	5.50	5.50	5.25	5.25	5.00	5.00	4.75
Thailand	2.00	2.00	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50
India	6.25	6.25	6.00	6.00	5.50	5.50	5.50	5.50	5.50
Japan	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.50	4.50	4.50	4.25	4.25	4.25	4.00	4.00	4.00
Euro area	2.90	2.65	2.40	2.40	2.15	2.15	2.15	2.15	2.15
USA	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.00-4.25	3.75-4.00

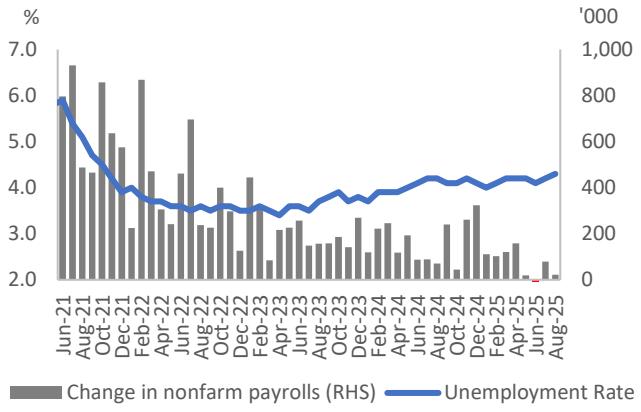
Source: Macrobond, MBSBR

Chart 1: US CPI vs Core PCE Inflation (YoY%)



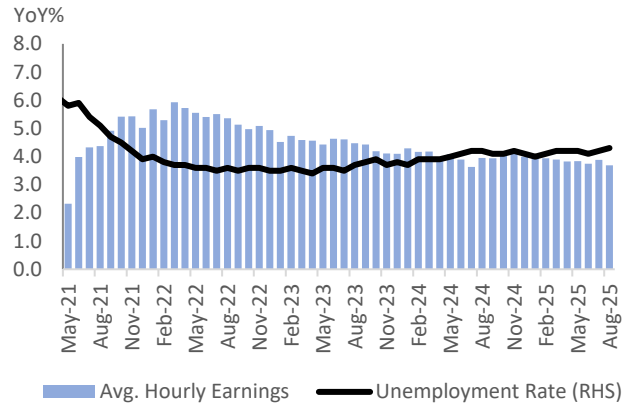
Source: Macrobond, MBSBR

Chart 2: US Unemployment Rate (%) vs Change in Non-Farm Payrolls ('000)



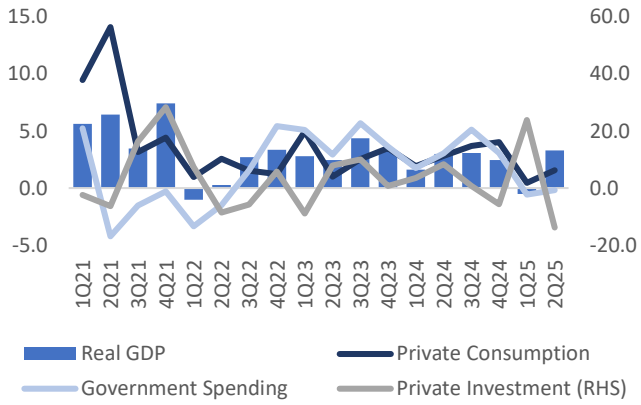
Source: Macrobond, MBSBR

Chart 3: Wage growth (YoY%) vs Unempl. Rate (%)



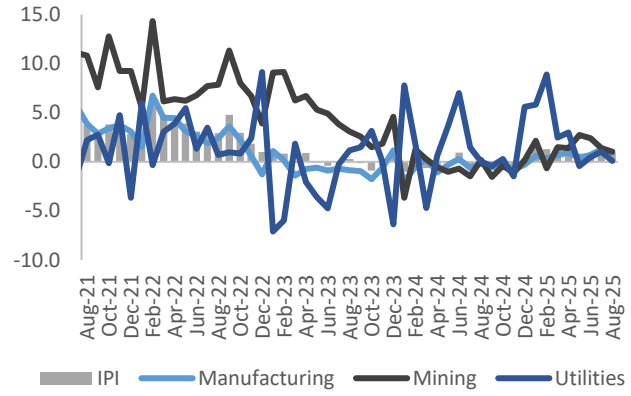
Source: Macrobond, MBSBR

Chart 4: US GDP Growth (Annualised QoQ%)



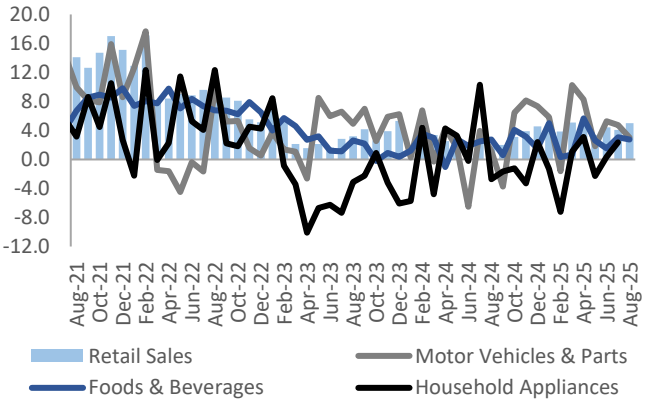
Source: Macrobond, MBSBR

Chart 5: US IPI Performances (YoY%)



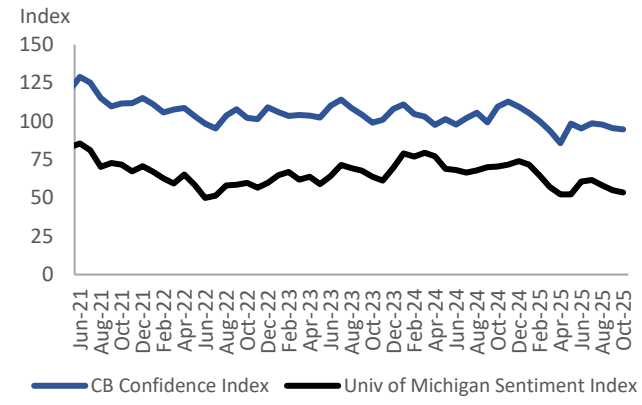
Source: DOSM, MBSBR

Chart 6: US Retail Sales (YoY%)



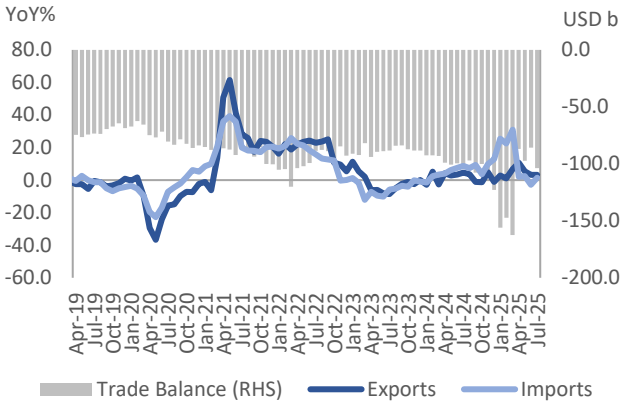
Source: DOSM, MBSBR

Chart 7: US Consumer Sentiment and Confidence (Index)



Source: Macrobond, MBSBR

Chart 8: US External Trade Performance (YoY%)



Source: Macrobond, MBSBR

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