

Daily Market Outlook

18 September 2025

Fed cut 25bps; BoE decision next

- **USD rates.** UST yields initially dipped upon FOMC 25bp rate cut decision, before rebounding to end the day a few bps higher, as the 2026 dots and Powell's rhetoric pushed back on the expectation that the Fed will embark on a slew of rapid rate cuts. Overall, we see the FOMC outcome as carrying no material surprise to either side, with Powell's caution offsetting some dovish elements. On the latest dot-plot, 2025 and 2026 median dots point to additional 50bps of cuts for the rest of this year, and one 25bp cut in 2026, in line with our long-held base case. We continue to expect one 25bp Fed funds rate cut each at the October and at the December meeting this year, followed by one 25bp cut in Q1-2026, which will then bring the target range for the Fed funds rate to 3.25-3.50%. Further cuts from 3.25-3.50% level will probably require inflation to move nearer the 2% target. Fed funds futures have pared back rate cuts expectation, but pricing of the overall rate cut trajectory remains dovish at additional 116bps of cuts between now and end-2026. We maintain our year-end forecasts for 2Y yield at 3.60% and for 10Y yield at 4.10%.
- **FOMC review.** At the September meeting, the FOMC decided to lower the target range for the Fed funds rate by 25bps to 4.00-4.25%, in line with expectations. The Statement cited the "shift in the balance of risks". Dovish elements included: 1/ all voting members supported a rate cut - Miran voted for a 50bp cut, while the rest of the voting members supported the 25bp cut decision. 2/ The 2025 median dot moved lower by 25bps, i.e. pointing to additional 50bps of cuts before year end, although the dots are skewed to the upside (one dot moving higher will move the median dot higher); the 2026 median dot was as expected given the lower 2025 median dot. Powell characterised yesterday's rate cut as a "risk management cut", acknowledging that a very different picture of risks has emerged as the labour market has begun to cool off versus the threats on the inflation front. But he expects the increases in goods prices to continue to build up over the course of the rest of this year and into next year. The FOMC is in a meeting-by-meeting situation.
- **GBP rates.** August CPI and RPI came in mostly as expected, with CPI services a tad softer than expected. Gilts traded within ranges on Wednesday, ahead of BoE decision later today. BoE is widely expected to keep its Bank Rate unchanged at 4.00%, which is also

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our call. The decision on QT pace for the next 12-month period starting October is also to be made. We expect BoE to slow QT pace, potentially to GBP60-80bn. First, APF holdings have come a long way down from the peak of GBP875bn in February 2022 to an expected GBP558bn by end-September. Second, gilt maturity under the APF during the Oct 2025 – Sep 2026 period is at GBP49bn compared to GBP87bn during the Oct 2024 - Sep 2025 period. This means if QT pace were to be kept unchanged at GBP100bn, bigger active gilt sales would be required, which may not be very well received given the current bond market environment. A bigger reduction in QT pace to below GBP60bn will likely be seen as a net positive for medium to long-end gilts despite the implications on fiscal expenses to cover any potential losses; this may prevent the 10Y bond/swap spread from breaking below -55bps level.

- CAD.** The Bank of Canada delivered an expected 25bp rate cut, lowering its key policy rate to 2.50%. The central bank, however, set a high bar for a back-to-back cut at its upcoming October meeting signalling a cautious stance ahead. BoC Governor Tiff Macklem highlighted that the Canadian economy is facing dual headwinds: the impact of US tariffs and the persistent unpredictability of global trade policies. However, he emphasised the central bank will “carefully assess” how these factors spill over into areas like business investment, employment, and household spending. On inflation, the BoC maintained its outlook for core inflation to hover around 2.5% in the near term but noted that upside risks to inflation have eased. Market expectations for additional rate cuts this year was pared, with pricing for a follow-up cut at the October meeting having fallen to around 50%. USD/CAD was last at 1.3780 level. Two-way trades are likely as we stay cautious on a tactical USD bounce post FOMC. A decisive break below the support zone around 1.3730–1.3740 would clear a path to the next key support level at 1.3600. On resistance, immediate resistance is now at 1.3860, with a secondary resistance level following at 1.3940.
- IndoGBs** rallied upon BI decision to cut the policy BI Rate by 25bps with a pro-growth, pro-liquidity stance. To support liquidity, the deposit facility rate was lowered by a bigger magnitude of 50bps, while BI is looking for a measured reduction in SRBI, and for purchase of government securities (SBN) in the secondary market in a measured manner. OCBC economists now expect additional 50bps of cuts which will bring the policy rate to 4.25% by end-2025. Against the favourable monetary policy backdrop and relatively low onshore implied IDR rates, we prefer short to mid-tenor IndoGBs on the curve, which are likely supported by domestic demand when IndoGB-UST yield differentials have been hovering around the lower end of ranges. Gross issuance quarter-to-date (as of 16 September sukuk auction) amounted to IDR247.35trn. With one conventional and one sukuk auction left for the quarter, gross issuances are set to surpass initial target of IDR252trn.



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