

Interest Rates Focus

30 October 2025

25bp Fed funds rate cut; implications of ending QT on Treasury refunding

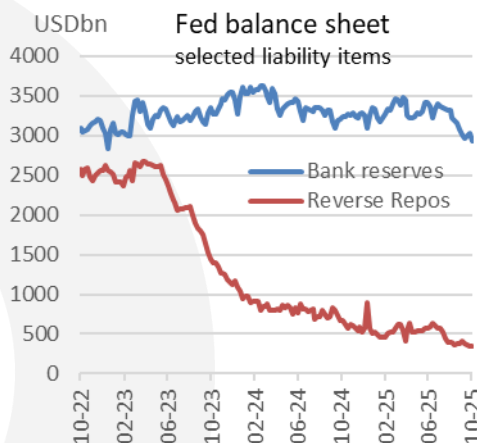
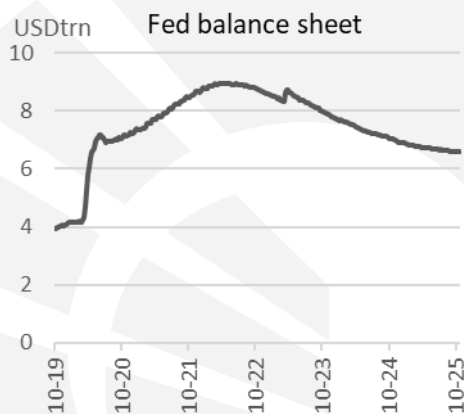
- Fed funds rate decision.** The FOMC decided to lower the target range for the fed funds rate by 25bps to 3.75-4.00% at the October meeting, in line with expectation. Miran preferred to lower the target range by 50bps, while Schmid preferred no change to the target range. A split Committee was not a surprise, which has been reflected in the September dot-plot with six dots predicting only one more cut before year end after the September cut. The FOMC statement said the Committee “is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months”. Powell, in the post meeting press conference, commented that “a further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it”. Some in the market had expected an additional 5bp cut in SFR and/or IORB. Market therefore reacted with UST yields higher by 9-10bps and Fed funds futures paring back rate cut expectations. Our base-case remains for a 25bp cut in December and a 25bp cut in Q1-2026; thereafter, any additional cut will probably require inflation moves near the 2% mark. Market pricings for 2026 still looks dovish to us. On bond side, 2Y and 10Y UST yields are back to around our year-end targets of 3.60% and 4.10%, respectively.
- End to QT.** The Fed has decided to end QT effective 1 December. Balance sheet run-off via US Treasury securities will stop, while redemption from agency securities will be reinvested into Treasury bills. 1/ effective 1 Dec, “roll over at auction all principal payments from the Federal Reserve's holdings of Treasury securities”; 2/ effective 1 Dec, “reinvest all principal payments from the Federal Reserve's holdings of agency securities into Treasury bills”.

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FX and Rates Strategy

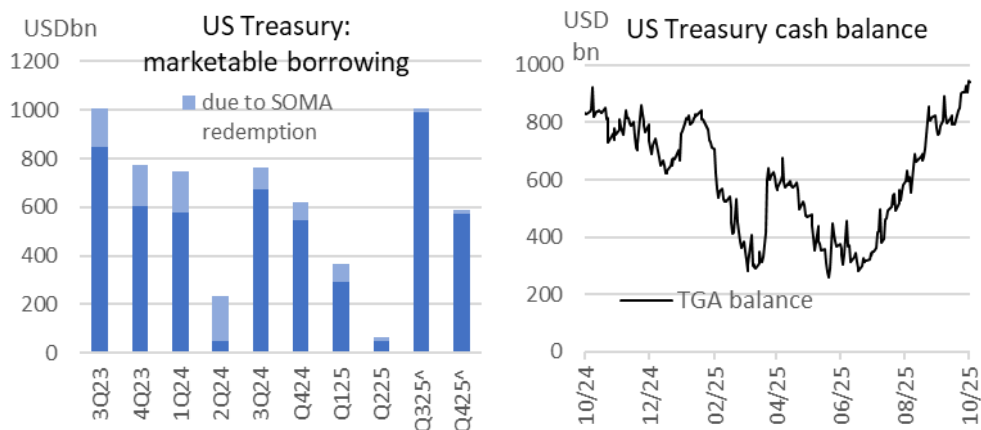
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Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

- Implication on Treasury refunding.** The previous two rounds of slowdown in QT pace via US Treasury securities has already been having an impact on US Treasury refunding. Marketable borrowing needs due to SOMA redemption was reduced to USD91bn per quarter in Q3-2024, to USD75bn per quarter for Q4-2024 and Q1-2025, and then to USD15bn per quarter for Q2-2025 and Q3-2025. Currently, balance sheet run-off via US Treasury securities is USD5bn per month. Hence, full roll-over of holdings of US Treasury securities means a removal of this final USD5bn/month – or USD60bn in a year – from treasury refunding.
- Monthly redemption cap for agency securities (essentially MBS) run-off** is at USD35bn, but the actual monthly redemption amount has been mostly in the range of USD15-17bn over recent months. Hence, the decision will likely lead to purchases of T-bills at USD180-200bn in a year, alleviating some treasury refunding needs facing the market. Next quarterly refunding documents are due on 3 and 5 November. We expect US Treasury to be able to keep the guidance on “maintaining nominal coupon and FRN auction sizes for at least the next several quarters.”



Source: US Treasury, OCBC Research ^US Treasury estimates



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