

Interest Rates Focus

18 September 2025

September FOMC review – we maintain our Fed funds rate and yield forecasts

- FOMC outcome and our base-case.** 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. 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 call. **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.
- FOMC Statement.** The Statement cited the “shift in the balance of risks” in support for the rate cut decision. 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 (see below); the 2026 median dot was as expected given the lower 2025 median dot.
- Powell’s comments.** Powell characterised the September 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.
- Indeed, the Committee, while supporting the September rate cut decision, remains split over the outlook for the Fed funds rate. For the rest of 2025, while the median dot is for additional 50bps of cuts, the distribution of individual dots is skewed to the upside. One individual dot moving higher will be enough to push the median dot higher. Two dots look for one 25bp cut only, and six dots predict no more cut for this year. One dot is even put at 4.375% corresponding to the 4.25-4.50% range – might be from a non-voting member as all voting members supported a cut, but there is no clarity on that at this juncture.

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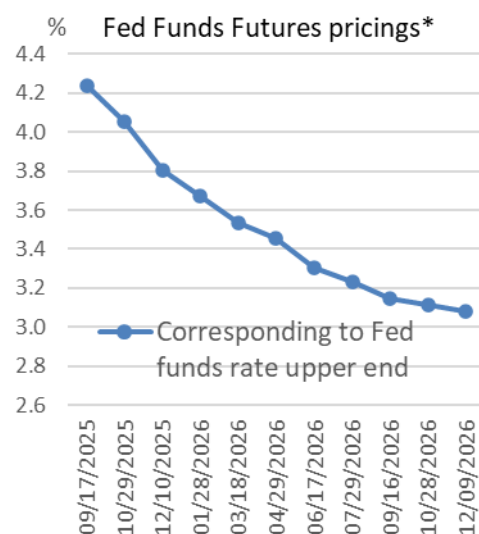
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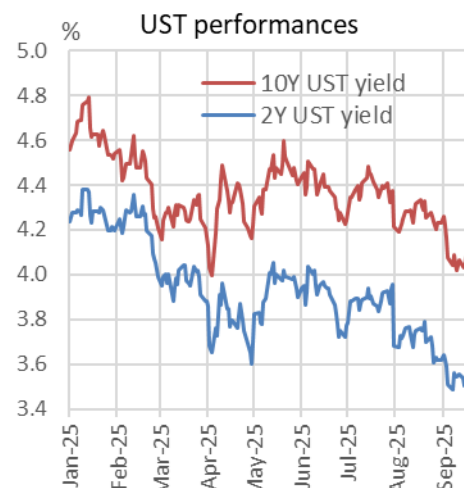
Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

*18 September Asia morning

- SEP economic forecasts.** In the Summary of Economic Projections (SEP), GDP forecasts have been revised upward for 2025, 2026 and 2027, while unemployment rate forecast stays unchanged for 2025 but has been revised down by 0.1 percentage point each for 2026 and 2027. Core PCE inflation forecast stays unchanged at 3.1% for this year but has been revised up to 2.6% for 2026 from 2.4% prior. The whole set of economic forecasts do not support hefty rate cuts in 2026.
- Market implications.** Market pared back rate cut expectations for 2026 mildly. Fed funds futures last priced additional 44bps of cuts for the rest of the year, and 72bps of cuts for 2026. Our bullish view on USTs up to 10Y tenor panned out well. 2Y UST yield at 3.55% remains roughly consistent with market-priced Fed funds rate trajectory. Although such pricing is more dovish than our baseline expectations, as additional Fed funds rate cuts materialise, the lower rate will be increasingly factored into the valuation in short-end bonds. Hence, on balance, we expect 2Y UST yield to trade in a range of 3.55-3.65%, while maintaining our year-end forecast of 3.60%. We do not expect a material rally in the 2Y bond from here as a slew of rate cuts are already in the price. Meanwhile, we continue to see 10Y yield in the range of 4.00-4.20% as fair, and we maintain our year-end forecast of 10Y UST yield at 4.10%.



Source: Bloomberg, OCBC Research

Interest rates forecasts*	4Q25	1Q26	2Q26	3Q26
FFTR Upper	3.75	3.50	3.50	3.50
3M SOFR OIS	3.70	3.50	3.50	3.50
2Y UST	3.60	3.60	3.60	3.60
10Y UST	4.10	4.05	4.05	4.05
30Y UST	4.80	4.75	4.70	4.70

*forecasts made on 2 September; no change since then



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