

# Macro Note

## US Dec 2025 FOMC: A hawkish cut

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- As widely expected, the US Federal Reserve lowered key policy rate for third straight meeting at the 9/10 Dec FOMC. The Fed Funds Target Rate (FFTR) was reduced by 25bps to 3.50%-3.75%. The decision was non-unanimous, in a 9:3 vote. Fed Chair Powell said that the rate reduction puts the Fed in a “comfortable position” while the latest dot plot indicates only one additional cut in 2026.
- In the updated Summary of Economic Projections (SEP), the median growth forecast for 2026 was revised significantly higher to 2.3% (from 1.8% in Sep). Forecasts for the Fed’s preferred inflation gauge (core PCE) was revised slightly lower to 2.5% for 2026 (from 2.6% in Sep). These and the delayed data releases support the case for a cautious stance on rate policy ahead.
- **FOMC Outlook - A pause before resuming with 2 more cuts in 2026.** We maintain our call for two rate reductions in 2Q and 3Q 2026, to bring the terminal FFTR to 3.25% by year-end 2026, with weakness in the labour market to manifest itself ahead. The key uncertainty will be the appointment of the next Fed Chair, who will take over in May 2026.

### Dec 2025 FOMC: A hawkish cut amid a divided Fed

As widely expected, the US Federal Reserve lowered key policy rate for third straight meeting at the 9/10 Dec FOMC. The Fed Funds Target Rate (FFTR) was reduced by 25bps to 3.50%-3.75%. In addition to the rate decision, the Fed also announced it will resume buying Treasury securities. It will start by buying \$40 bn in Treasury bills, beginning Friday (12 Dec), to maintain an ample supply of reserves on an ongoing basis - a likely move to support liquidity in overnight funding markets.

However, the latest rate cut decision was again non-unanimous, in a 9:3 vote. This reflects the extent of divisiveness within the Fed just as Chairman Jerome Powell serves out his remaining term. Chicago Fed President Austan Goolsbee joined Kansas City Fed President Jeffrey Schmid in voting for no rate cut (Schmid also voted for no cut in Oct). On the other end of the spectrum, Governor Stephen Miran again voted for a larger, half-point cut, following similar calls in both the Oct and Sep meetings. This marked the most divisive FOMC since Sep 2019 when there were also 3 dissenting votes.

The latest “Dot Plot” of individual officials’ views on rates indicated just one rate cut in 2026 and another in 2027, before the FFTR hits a longer-run target around 3%. Those projections were unchanged from the Sep update, but the latest dot plot also reflects divisions within the FOMC about where rates should head.

In its latest update to economic forecasts, the Fed raised its collective view of GDP growth for 2026, raising its September projection up by half a percentage point, to 2.3%. The Fed continues to expect inflation to hold above its 2% target until 2028. Unemployment rate is projected to ease from 4.5% end-2025 to 4.4% by 2026.

In the post-meeting press conference, the key takeaways include Powell's slightly hawkish remark that rates are now within the "broad range" of neutral although he noted that "a hike is not anybody's base case". However, he also emphasized significant downside risks to the labour market and highlighted that annual benchmark revisions suggest that the "actual" payroll job growth has likely been negative in recent months (likely overstated by 60k/month compared to reported survey numbers). Powell seemed less concerned about inflationary pressures and noted that excluding tariffs, inflation is now in "the low 2s". Powell also said that the rate reduction puts the Fed in a comfortable position as far as rates go and "we are well positioned to wait and see how the economy evolves".

As for the \$40 bn in Treasury bills monthly purchase programme commencing 12 Dec, the Fed said it is to help manage market liquidity levels to ensure firm control over its interest rate target system and is "technical" in nature. The Fed said in a statement that these reserve management purchases (RMPs) "will remain elevated for a few months to offset expected large increases in non-reserve liabilities in April," adding, "after that, the pace of total purchases will likely be significantly reduced in line with expected seasonal patterns in Federal Reserve liabilities." These seasonal fluctuations include those driven by tax payment dates. According to Bloomberg, the last time the Fed conducted reserve management purchases was in Oct 2019, when it bought \$60 bn of T-bills per month, following a spike in a key overnight rate to as high as 10% which forced the Fed to intervene by pumping half a trillion dollars into the financial system.

### Summary of Economic Projections (SEP): Significant upgrades in growth forecasts

In the updated Summary of Economic Projections (SEP), the median growth forecast for 2026 was revised significantly higher to 2.3% (from 1.8% in Sep), although this could reflect a boost from an expected rebound in 1Q26 activity following the end of Federal government shutdown. Forecasts for the Fed's preferred inflation gauge (core PCE) was revised slightly lower to 2.5% for 2026 (from 2.6% in Sep), with projections indicating a return to the 2% pace by 2028 (2027: 2.1%). Meanwhile, median projections for the federal funds rate remained unchanged across the forecast horizon.

Interestingly, the updated Dot Plot shows that six participants assessed the appropriate 2025 FFTR range at 3.75-4.00% (which is where it was prior to today's meeting), suggesting that four non-voting members likely favored a pause in the latest decision.

### Our FOMC Outlook - A pause before resuming with 2 more cuts in 2026

Going into 2026, we anticipate a period of pause to coincide with Jerome Powell's scheduled departure as Chair in May. The latest SEP from the Fed - upward adjustments to growth forecasts, downward shifts in inflation projections, and stable unemployment rate - reinforces the case for rate policy to be on hold. The delayed US data releases further support a cautious stance, until leadership uncertainty is resolved.

While the Fed's current dot plot signals only one additional cut in 2026 and another in 2027 - amid notable divergence among FOMC members - we maintain our call for two rate reductions in 2Q and 3Q 2026, with weakness in the labour market to manifest itself ahead. This would bring the **terminal Fed Funds Target Rate (FFTR) to 3.25% by year-end 2026**, consistent with our view of a gradual normalization path.

The key uncertainty will be the appointment of the next Fed Chair (announcement expected in early Jan). Should an exceptionally dovish candidate (such as Kevin Hassett) aligned with current administration’s policy priorities come onboard, the probability of additional cuts in 2026 would rise materially. As such, the risks are tilted towards deeper rate cuts ahead, as Chair Powell has ruled out a rate hike in this post-meeting news conference.

However, an overly aggressive pursuit of loose monetary policy without clear support from data and macro fundamentals could trigger financial market volatility and pushback, particularly in US Treasury yields and the “de-dollarization” momentum, as well as the reputation/independence of the Fed. As such, the incoming Fed Chair would have to evaluate his policy options carefully. Following the Dec rate decision, US Treasury yields declined modestly by 3-5 bps across the curve, with the 10-year yield remaining above the 4% level, at 4.15%, underscoring persistent market caution.

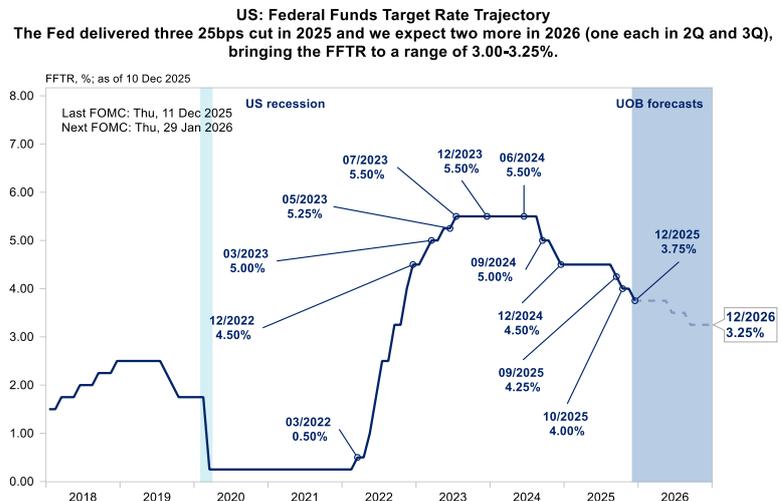
The next FOMC meeting will be on 28 Jan 2026 (decision on 29 Jan, 3am SGT).

Please use the following links to access the official Fed documents:

- 9/10 Dec 2025 [FOMC statement](#)
- [Summary of Economic Projections](#) for Dec 2025
- [Statement Regarding Reserve Management Purchases Operations](#) 10 Dec 2025

Chart 1: UOB’s projected US Federal Funds Target Rate trajectory (as of 11 Dec 2025)

Source: Macrobond, UOB Global Economics & Markets Research



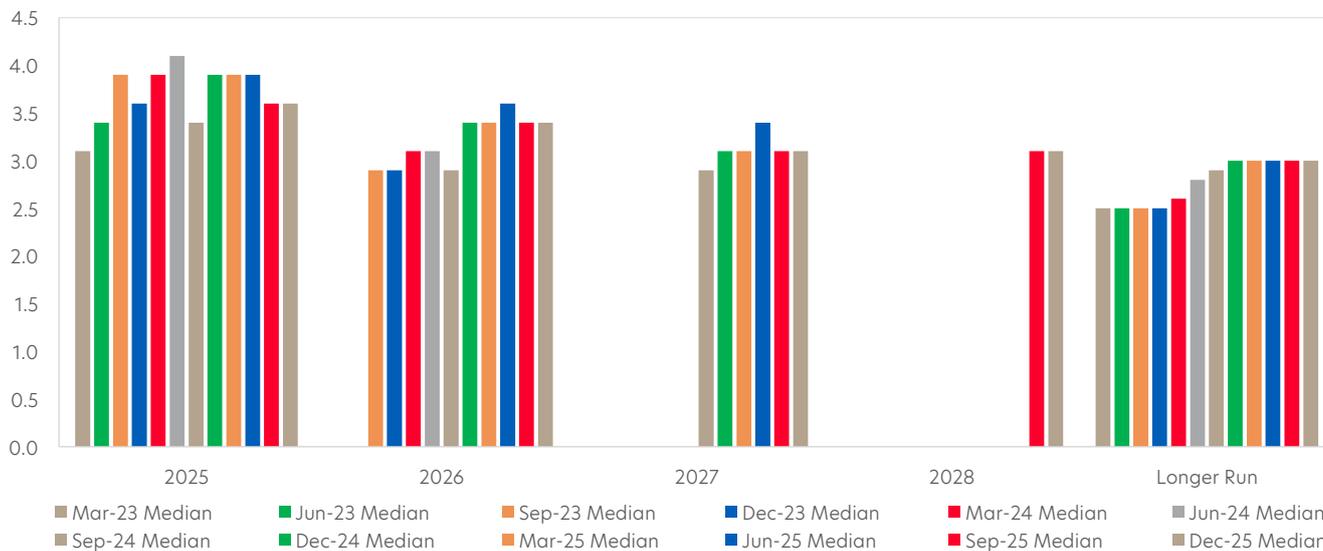
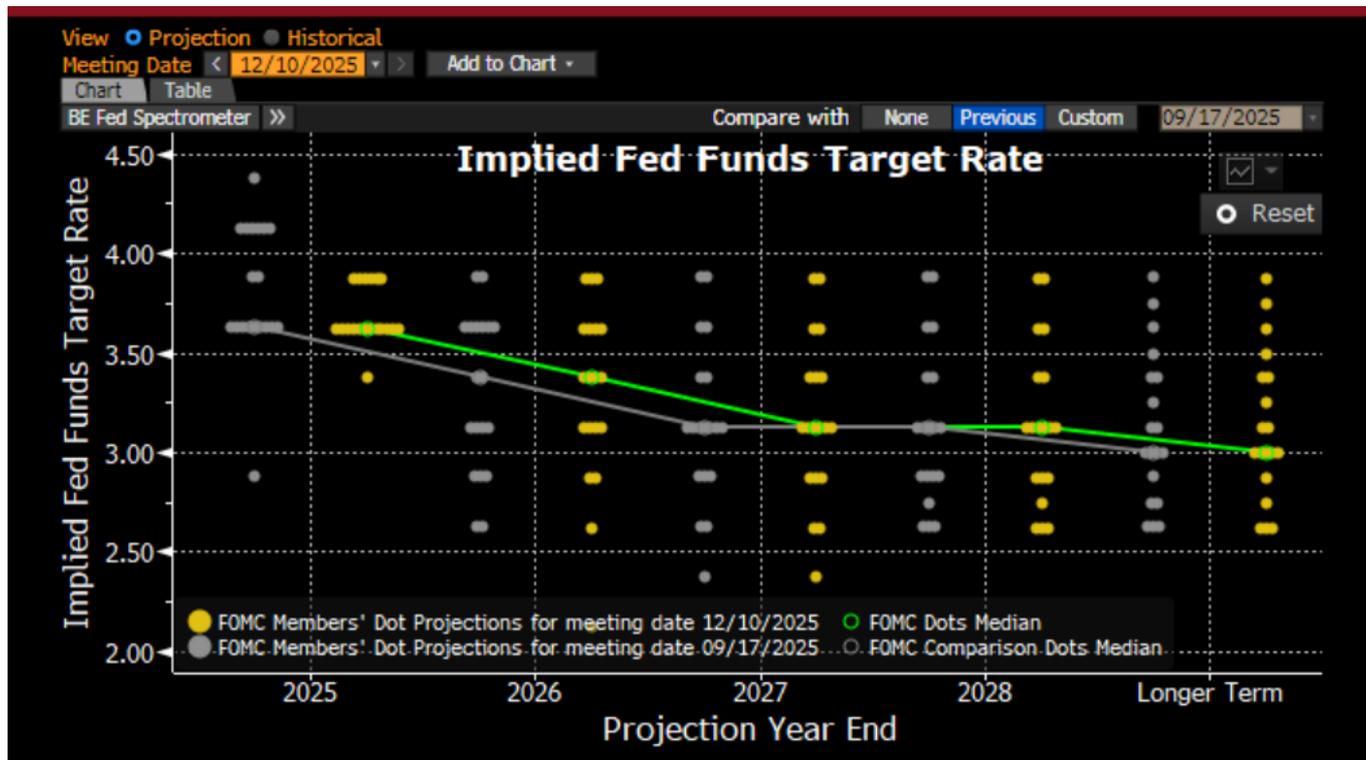
### Our Forecast

%	As of 11 Dec	1Q26	2Q26	3Q26	4Q26
US Fed Funds Target - Upper Bound	3.75	3.75	3.50	3.25	3.25

Source: Global Economics & Markets Research (as of 11 Dec 2025)

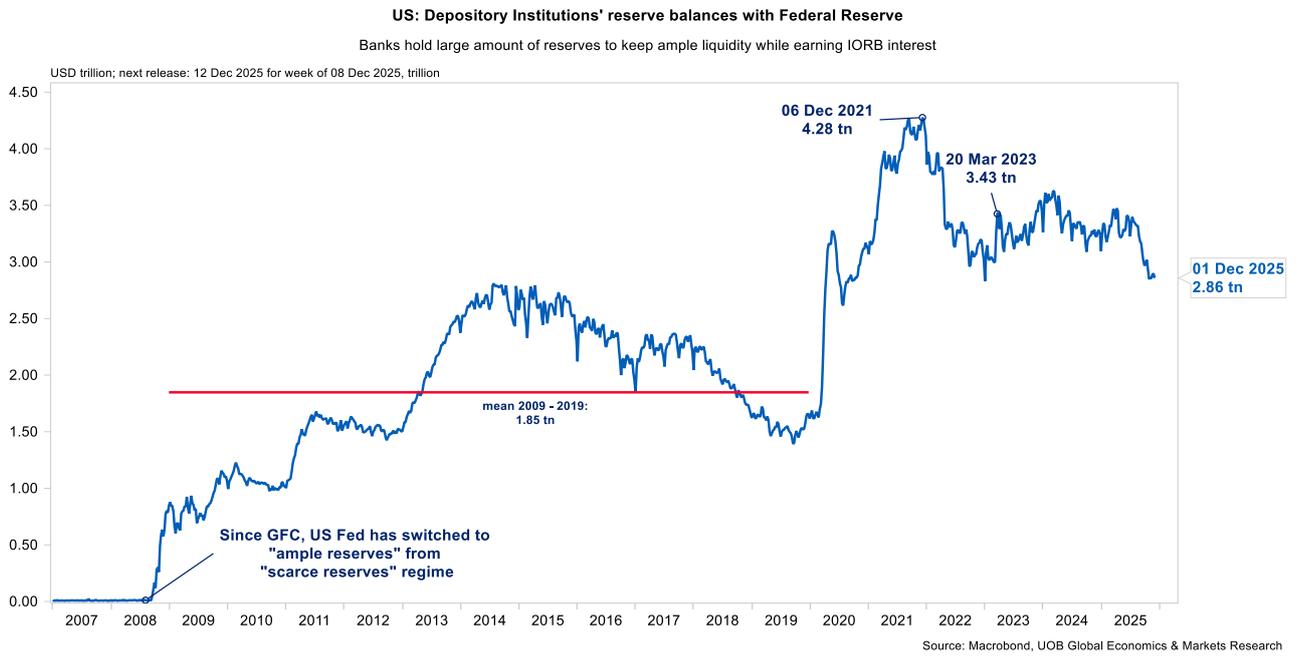
Chart 2: Comparison between Dec 2025 and Sep 2025 Dot projections & history of past projections (median)

Source: The Federal Reserve, Bloomberg, UOB Global Economics & Markets Research



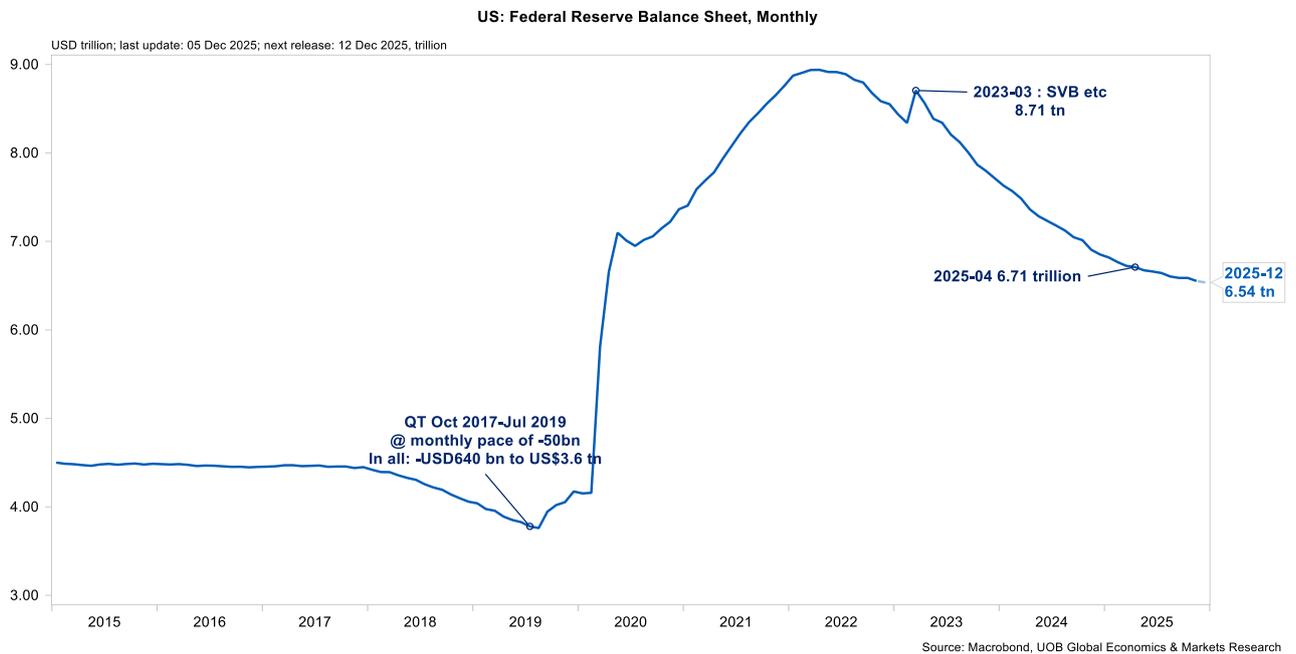
### Chart 3: Rapid declines in reserve balances since around Mar 2025

Source: Macrobond, UOB Global Economics & Markets Research



### Chart 4: US Fed has ended its Quantitative Tightening (QT) by 1 Dec 2025

Source: Macrobond, UOB Global Economics & Markets Research



Economic Projections of US Federal Reserve Board, December 2025					
Variable	Central Tendency				
	2025	2026	2027	2028	Longer Run
<b>Change in real GDP</b>	<b>1.6-1.8 (↑)</b>	<b>2.1-2.5 (↑)</b>	<b>1.9-2.3 (↑)</b>	<b>1.8-2.1 (↑)</b>	<b>1.8-2.0 (↑)</b>
September 2025 projection	1.4-1.7 (↑)	1.7-2.1 (↑)	1.8-2.0 (↑)	1.7-2.0	1.7-2.0 (-)
June 2025 projection	1.2-1.5 (↓)	1.5-1.8 (↓)	1.7-2.0 (↑)		1.7-2.0 (-)
March 2025 projection	1.5-1.9 (↓)	1.6-1.9 (↓)	1.6-2.0 (↓)		1.7-2.0 (-)
<b>Unemployment rate</b>	<b>4.5-4.6 (↑)</b>	<b>4.3-4.4 (↓)</b>	<b>4.2-4.3 (↓)</b>	<b>4.0-4.3 (-)</b>	<b>4.0-4.3 (-)</b>
September 2025 projection	4.4-4.5 (-)	4.4-4.5 (↑)	4.2-4.4 (↓)	4.0-4.3	4.0-4.3 (-)
June 2025 projection	4.4-4.5 (↑)	4.3-4.6 (↑)	4.2-4.6 (↑)		4.0-4.3 (↑)
March 2025 projection	4.3-4.4 (↑)	4.2-4.5 (↑)	4.1-4.4 (↑)		3.9-4.3 (-)
<b>PCE inflation</b>	<b>2.8-2.9 (↓)</b>	<b>2.3-2.5 (↓)</b>	<b>2.0-2.2 (-)</b>	<b>2.0 (-)</b>	<b>2.0 (-)</b>
September 2025 projection	2.9-3.0 (↑)	2.4-2.7 (↑)	2.0-2.2 (-)	2.0	2.0 (-)
June 2025 projection	2.8-3.2 (↑)	2.3-2.6 (↑)	2.0-2.2 (↑)		2.0 (-)
March 2025 projection	2.6-2.9 (↑)	2.1-2.3 (↑)	2.0-2.1 (↑)		2.0 (-)
<b>Core PCE inflation</b>	<b>2.9-3.0 (↓)</b>	<b>2.4-2.6 (↓)</b>	<b>2.0-2.2 (-)</b>	<b>2.0 (-)</b>	
September 2025 projection	3.0-3.2 (↑)	2.5-2.7 (↑)	2.0-2.2 (-)	2.0	
June 2025 projection	2.9-3.4 (↑)	2.3-2.7 (↑)	2.0-2.2 (↑)		
March 2025 projection	2.7-3.0 (↑)	2.1-2.4 (↑)	2.0-2.1 (↑)		
<b>Federal Funds Rate</b>	<b>3.6-3.9 (↓)</b>	<b>2.9-3.6 (-)</b>	<b>2.9-3.6 (-)</b>	<b>2.8-3.6 (-)</b>	<b>2.8 - 3.5 (-)</b>
September 2025 projection	3.6-4.1 (↓)	2.9-3.6 (↓)	2.9-3.6 (-)	2.8-3.6	2.8 - 3.5 (↑)
June 2025 projection	3.9-4.4 (-)	3.1-3.9 (-)	2.9-3.6 (-)		2.6-3.6 (-)
March 2025 projection	3.9-4.4 (↑)	3.1-3.9 (↑)	2.9-3.6 (-)		2.6-3.6 (↓)
	Median				
<b>Change in real GDP</b>	<b>1.7 (↑)</b>	<b>2.3 (↑)</b>	<b>2.0 (↑)</b>	<b>1.9 (↑)</b>	<b>1.8 (-)</b>
September 2025 projection	1.6 (↑)	1.8 (↑)	1.9 (↑)	1.8	1.8 (-)
June 2025 projection	1.4 (↓)	1.6 (↓)	1.8 (-)		1.8 (-)
March 2025 projection	1.7 (↓)	1.8 (↓)	1.8 (↓)		1.8 (-)
<b>Unemployment rate</b>	<b>4.5 (-)</b>	<b>4.4 (-)</b>	<b>4.2 (↓)</b>	<b>4.2 (-)</b>	<b>4.2 (-)</b>
September 2025 projection	4.5 (-)	4.4 (↓)	4.3 (↓)	4.2	4.2 (-)
June 2025 projection	4.5 (↑)	4.5 (↑)	4.4 (↑)		4.2 (-)
March 2025 projection	4.4 (↑)	4.3 (-)	4.3 (-)		4.2 (-)
<b>PCE inflation</b>	<b>2.9 (↓)</b>	<b>2.4 (↓)</b>	<b>2.1 (-)</b>	<b>2.0 (-)</b>	<b>2.0 (-)</b>
September 2025 projection	3.0 (-)	2.6 (↑)	2.1 (-)	2.0	2.0 (-)
June 2025 projection	3.0 (↑)	2.4 (↑)	2.1 (↑)		2.0 (-)
March 2025 projection	2.7 (↑)	2.2 (↑)	2.0 (-)		2.0 (-)
<b>Core PCE inflation</b>	<b>3.0 (↓)</b>	<b>2.5 (↓)</b>	<b>2.1 (-)</b>	<b>2.0 (-)</b>	
September 2025 projection	3.1 (-)	2.6 (↑)	2.1 (-)	2.0	
June 2025 projection	3.1 (↑)	2.4 (↑)	2.1 (↑)		
March 2025 projection	2.8 (↑)	2.2 (-)	2.0 (-)		
<b>Federal Funds Rate</b>	<b>3.6 (-)</b>	<b>3.4 (-)</b>	<b>3.1 (-)</b>	<b>3.1 (-)</b>	<b>3.0 (-)</b>
September 2025 projection	3.6 (↓)	3.4 (↓)	3.1 (↓)	3.1	3.0 (-)
June 2025 projection	3.9 (-)	3.6 (↑)	3.4 (↑)		3.0 (-)
March 2025 projection	3.9 (-)	3.4 (-)	3.1 (-)		3.0 (-)

Source: US Federal Reserve

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