Macro Note

US Oct FOMC Minutes: Nearly all Fed officials expect to raise rates "in the months ahead"

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- **October FOMC minutes reinforced a firmly hawkish policy stance despite the decision to leave rates unchanged at 3.75-4.00%.** While most officials supported pausing to assess inflation trends, AI-related investment demand and the impact of previous tightening, almost all policymakers judged that further rate hikes would likely be appropriate under their baseline outlooks. The Committee remained united on restoring price stability, with some members warning that persistent inflation could require even greater policy restraint and two dissenters favouring an immediate 25-bps increase.

- **Inflation remained the dominant concern, with risks still viewed as skewed to the upside.** Policymakers expect inflation to moderate gradually as tariff effects fade and supply conditions improve, but highlighted elevated energy prices, strong AI-related investment demand and persistent core services inflation as key risks. Many officials warned that AI-driven spending could sustain excess demand and broaden price pressures, while concerns remain that prolonged above-target inflation could become embedded in expectations, wages and pricing behaviour.

- **FOMC Outlook: Maintaining our view of two more rate hikes (Dec and 1Q 2027), while recognizing rising risks of an outsized hike.** Consistent with the hawkish Oct FOMC minutes and subsequent Fed commentary, we continue to expect two additional 25-bps rate hikes in Dec 2026 and 1Q 2027, while recognising growing risks of a larger-than-expected tightening response if inflation remains persistent.

Oct FOMC Minutes showed almost all Fed officials expect more rate hikes

- Recall that at the 27/28 Oct 2026 Federal Open Market Committee (FOMC) meeting, policymakers decided to maintain the Fed Funds Target Rate (FFTR) at 3.75-4.00%, following the 25-bps increase delivered in September. While the decision to leave rates unchanged was approved by a 10-2 vote, the minutes showed that almost all participants viewed further policy tightening as likely to be appropriate in coming months under their baseline outlooks. The minutes revealed broad agreement that inflation remained elevated, labour market conditions were close to maximum employment and economic activity continued to expand at a strong pace. Many policymakers preferred to pause in October to gather additional information on the evolution of inflation, the durability of AI-related investment demand and the effects of September's rate increase, while some participants argued that inflation remained sufficiently persistent to warrant an immediate additional hike. Policymakers generally viewed inflation risks as tilted to the upside, and almost all participants judged that further increases in the target range for the federal funds rate would likely be appropriate if inflation evolves broadly in line with their baseline outlook. The key takeaways from the minutes of the Oct FOMC were:

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1) The minutes indicated that **Fed officials were broadly aligned in supporting the decision to keep rates unchanged at the October meeting while maintaining a tightening bias**. Most participants supported leaving the target range unchanged at 3.75-4.00%, citing the benefits of accumulating additional information on inflation dynamics, AI-related investment demand, financial conditions and geopolitical developments before taking further action. According to the minutes, many participants viewed the October decision as allowing more time to assess the transmission of September's rate hike and the appropriate degree of policy restraint needed to restore price stability. Nevertheless, **almost all participants judged that further increases in the federal funds rate would likely be appropriate in coming months under their baseline outlooks**. Two participants dissented in favour of an immediate 25-bps increase, arguing that inflation remained unacceptably high and that delaying further tightening risked allowing inflation to become entrenched.

   Based on the minutes, policymakers remained more aligned on the medium-term policy path than on the timing of the next move. Many participants emphasised that maintaining rates at the October meeting did not signal a reduced commitment to restoring price stability, while several noted that the overall path of monetary policy was more important than any single meeting decision. Some participants observed that market expectations for additional tightening later this year and in 2027 were broadly consistent with their own assessments of the appropriate policy path. A couple of participants also remarked that a gradual approach to additional policy firming would allow households and businesses more time to adjust to higher borrowing costs. At the same time, **some participants judged that inflation remained sufficiently persistent that additional restraint may ultimately prove necessary.**

   (In the Oct Minutes, "With regard to the outlook for monetary policy in the months ahead, almost all participants judged that, under their baseline outlooks for inflation and the labor market, further action to raise the target range for the federal funds rate—broadly consistent with the September Summary of Economic Projections—would likely be appropriate, in order to ensure a timely return of inflation to the 2 percent objective. A couple of participants noted that an increase of more than 25 basis points could warrant consideration at the next meeting if incoming inflation data were unfavorable. A few participants observed that inflation could prove more persistent than anticipated, in which case a shift to a more restrictive policy stance could become necessary.")

2) **Most Fed officials continued to expect inflation to moderate over time, although many acknowledged that inflation was likely to remain elevated in the near term and that upside risks remained significant**. Participants noted that tariff effects were beginning to wane but emphasised that inflationary pressures remained broad based. Policymakers highlighted elevated energy prices associated with ongoing geopolitical developments, continued AI-related demand pressures and supply constraints in technology-related sectors as important contributors to inflation. Most participants continued to expect inflation to return gradually toward the 2% target over time as energy price pressures moderate, tariff effects fade and AI-related supply-demand imbalances ease.

Policymakers nevertheless identified a range of factors that could keep inflation elevated for longer. Many participants viewed the AI buildout as a material source of inflation risk, noting that strong investment demand could push aggregate demand above supply if productive capacity expansion proves slower than expected. Several participants remarked that price pressures associated with AI-related activity appeared to be spreading beyond sectors directly linked to data centre construction. A number of policymakers also pointed to elevated inflation in market-based core non-housing services and measures of underlying inflation that remained above levels consistent with the Committee's objective. As a result, the vast majority of participants continued to assess inflation risks as skewed to the upside.

3) **The Committee retained a distinctly inflation-focused message and continued to emphasise its commitment to restoring price stability**. Members agreed that the post-meeting statement should continue to state that the Committee "will deliver price stability", underscoring policymakers' determination to return inflation to the 2% objective. Participants judged that inflation remained elevated despite strong economic activity, resilient domestic demand and labour market conditions that remained close to maximum employment. Many participants stressed the importance of communicating clearly that the October pause should not be interpreted as a weakening of the Committee's commitment to reducing inflation. The retention of the price stability language reinforced policymakers' view that inflation remained the dominant consideration for monetary policy.

4) Fed officials agreed that inflation risks remain skewed to the upside, although medium- and longer-term inflation expectations were generally viewed as remaining consistent with the Committee's 2% objective. Participants noted that market- and survey-based measures of inflation expectations remained broadly anchored, though some highlighted increases in certain shorter-term measures. Policymakers identified several upside risks to inflation, including elevated energy prices, persistent supply constraints in refined fuel products, strong AI-related investment demand and the possibility that prolonged above-target inflation could become embedded in expectations and wage- and price-setting behaviour. Several participants expressed concern that broader price pressures combined with an extended period of elevated inflation could increase the risk of inflation becoming entrenched.

   Many participants viewed the AI buildout as a significant source of uncertainty for the inflation outlook. Some judged that current investment spending could continue to support demand growth and contribute to broader price pressures, while a few participants acknowledged the possibility that productivity gains arising from AI adoption could eventually reduce inflationary pressures. The staff similarly assessed that risks to the inflation forecast remained skewed to the upside and highlighted the possibility that longer-run inflation expectations could become unanchored after several years of above-target inflation.

5) **The outlook for growth and employment remained constructive**, supported by resilient household spending, strong business investment and continued AI-related capital expenditure. The minutes indicated that economic activity was expanding at a strong pace, with robust consumer spending and business fixed investment continuing to support growth.

Several participants cited elevated household net worth, healthy corporate earnings and strong productivity growth as factors supporting economic resilience. Policymakers also noted that AI-related investment, manufacturing activity and data centre construction remained particularly strong sources of growth, while housing and other interest-sensitive sectors remained relatively weak.

At the same time, policymakers acknowledged considerable uncertainty surrounding both the pace of AI-related investment and the magnitude of any resulting productivity gains. Several participants noted the risk that AI investment could prove excessive and generate lower-than-expected returns, while others highlighted the possibility that AI-related productivity gains could allow output to expand without generating corresponding labour market tightness. Some participants also observed that higher energy costs were affecting certain sectors, including agriculture and lower-income households. Overall, policymakers continued to view risks to growth and employment as broadly balanced.

As for the labour market, Fed policymakers continued to assess conditions as broadly stable and close to maximum employment. Participants cited the unemployment rate remaining near estimates of its natural rate, payroll gains broadly consistent with breakeven employment growth and continued low levels of layoffs and unemployment claims. While many participants pointed to modest recent tightening in labour market conditions, some also noted that labour market dynamism remained subdued, as evidenced by low hiring and layoff rates, a low job-finding rate and elevated long-term unemployment. Most participants assessed that aggregate wage growth remained moderate and broadly consistent with the Committee's inflation objective and generally expected labour market conditions to remain stable in the near term.

6) **Financial stability discussions featured prominently in the October meeting, with policymakers focusing on risks associated with the rapid expansion of AI-related investment and financing activity**. Almost all participants discussed the possibility that returns on AI investment could ultimately disappoint, potentially triggering an AI-related asset price revaluation. Many participants highlighted the rapid growth of AI-related debt, the increasing use of complex and opaque financing structures and growing concentration of AI-related exposures among a small number of firms. Policymakers nevertheless judged that the financial system remained resilient, supported by strong bank capital positions and healthy household balance sheets.

Many participants also highlighted hedge fund leverage, limited dealer intermediation capacity and banks' prime brokerage exposures as potential amplification channels during periods of market stress. Several participants raised concerns that existing supervisory data may not fully capture banks' indirect exposures to nonbank financial institutions and private credit funds. Policymakers discussed a range of contingency measures to address potential financial stability risks, including maintaining strong bank capital buffers, ensuring ready access to liquidity facilities and enhancing operational readiness for periods of market stress. At the same time, several participants stressed that monetary policy was not the appropriate tool for directly addressing financial stability risks and should remain focused on achieving the Committee's dual-mandate objectives.

FOMC Outlook – Maintaining our view of two more rate hikes (Dec and 1Q 2027), but recognizing rising risks of an outsized hike

- The October FOMC minutes confirmed a firmly hawkish consensus, with almost all participants judging that additional tightening would be needed under their baseline outlooks for inflation and the labor market. Furthermore, in a CNBC interview on Wed (18 Nov), Fed Governor Waller (permanent voter) escalated the policy debate by urging officials to consider a 50 bps hike at the Dec FOMC meeting, citing annualized inflation running near 3.5% in the last three months and that inflation is headed in the wrong direction and spreading beyond energy. Waller added that the alternative is 25 bps in Dec with a credible signal of another hike in Jan. Also speaking on Wed, Fed Governor Barr (permanent voter) said higher interest rates would likely be appropriate while San Francisco Fed President Daly (non-voter) preferred the Fed to take a measured approach to raising interest rates. However, earlier on 17 Nov, New York Fed President Williams (permanent voter) dismissed the suggestion that the Fed needs to consider an outsized rate hike. So, while there is enough material in the latest minutes and Fed commentary to believe the Fed is set to resume policy tightening in the Dec FOMC, it remains unclear the Fed is going for a "shock-and-awe" move.

- As of 18 Nov, Fed Funds futures imply a rate of 4.15% at the Dec FOMC (100% probability for a 25bps hike with 7.6% probability for an additional 25-bps increase), with the implied path extending to approximately 4.331% by Jan 2027 FOMC (probability of 79.5% for a 25-bps hike – consistent with two additional hikes by 1Q 2027). The futures are also pricing in a high probability of a third hike by Apr 2027 FOMC (75.5% probability).

- We continue to emphasize we do not think this is a "one-and-done hike" from the Fed, and as per previous rate hike cycles, the Fed usually does not stop at one. On the other hand, we do not believe this is the start of a long series of hikes. As such, **we still expect two additional 25-bps hikes, in Dec 2026 and 1Q 27, thereafter on hold for the rest of 2027** as inflation fades in a more durable fashion in the later part of 2027 as the most likely course of action. That said, we recognize the rising risks of further policy tightening if the inflation trajectory is made more persistent by the combination of higher energy prices, trade tariffs and AI-related factors.

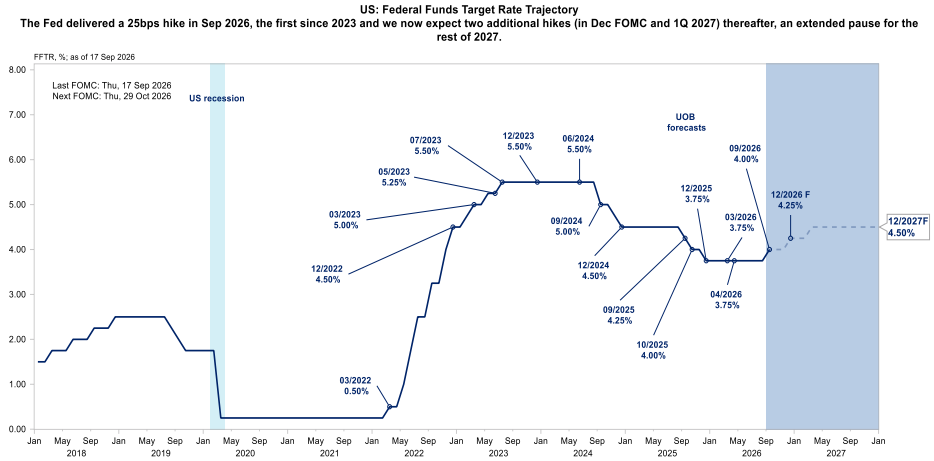
- The next FOMC meeting will be on 8/9 Dec 2026 (Decision on 10 Dec, 3am SGT) and it will be accompanied by an updated Summary of Economic Projections (SEP) including the updated Dotplot chart.

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

i. The 27/28 Oct 2026 FOMC statement and minutes.
ii. The FOMC calendar for 2026 and 2027.

Chart 1: UOB's Projected US Federal Funds Target Rate Trajectory (as of 19 Nov 2026)

Source: Macrobond, UOB Global Economics & Markets Research



Our forecast

%	As of 8 Oct	4Q26	1Q27	2Q27	3Q27
US Fed Funds Target - Upper Bound	4.00	4.25	4.50	4.50	4.50

Source: Global Economics & Markets Research (as of 8 Oct 2026)

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