

# Fed Watcher

Rate decision in the data gap

HCOB Economics

October 21, 2025

Dr. Cyrus de la Rubia / Nils Müller

## Executive Summary: Rate decision in the data gap (I)

- At the upcoming meeting of the Federal Open Market Committee (FOMC) on October 28–29, 2025, the U.S. Federal Reserve is expected to cut interest rates. Our analysis of recent speeches and interviews suggests that around 67% of voting members are likely to support this move. However, a notable minority of approximately 25% has advocated for maintaining the current rate level and expressed a more cautious stance toward further rate cuts in their statements.
- The Federal Funds Rate (FFR) currently stands in the range of 4.00–4.25%. For the October meeting, we expect a 25 basis point (bps) cut to 3.75–4.00%. We also anticipate another 25 bps reduction at the December meeting. This outlook aligns with market expectations, which have already priced in rate cuts in October and December, each with 99% probability.
- Inflation, as measured by the Consumer Price Index (CPI), stood at 2.9% (headline, YoY) and 3.1% (core, YoY) in August—well above the Fed’s 2% target. Our in-house nowcasting model projects headline inflation to rise to 3.1% in September, while core inflation is expected to ease slightly to 3.0%. In the coming months, it remains to be seen to what extent the new U.S. import tariffs will affect consumer prices. FOMC members increasingly expect these tariff effects to be temporary and not to trigger a persistent inflationary surge.
- The final GDP figure for Q2 showed a solid annualized growth rate of 3.8% (QoQ), exceeding the average growth rates of recent years. The final estimate surprised to the upside, as both the initial and second estimates had indicated significantly slower and below-average growth. Domestic demand also saw a strong upward revision: compared to the second estimate, it was revised up by one percentage point to 2.9%, slightly above the historical average. Overall, these figures signal a robust growth momentum in the U.S. economy despite geopolitical uncertainties and a restrictive interest rate environment.
- Labor market momentum has noticeably weakened in recent months. In August, only 22,000 new nonfarm jobs were created, while the unemployment rate rose to 4.3%.
- The Fed thus faces a monetary policy dilemma: on the one hand, elevated inflation argues for a restrictive stance; on the other, the weakening labor market points to an economic slowdown that would warrant more accommodative policy.

## Executive Summary: Rate decision in the data gap (II)

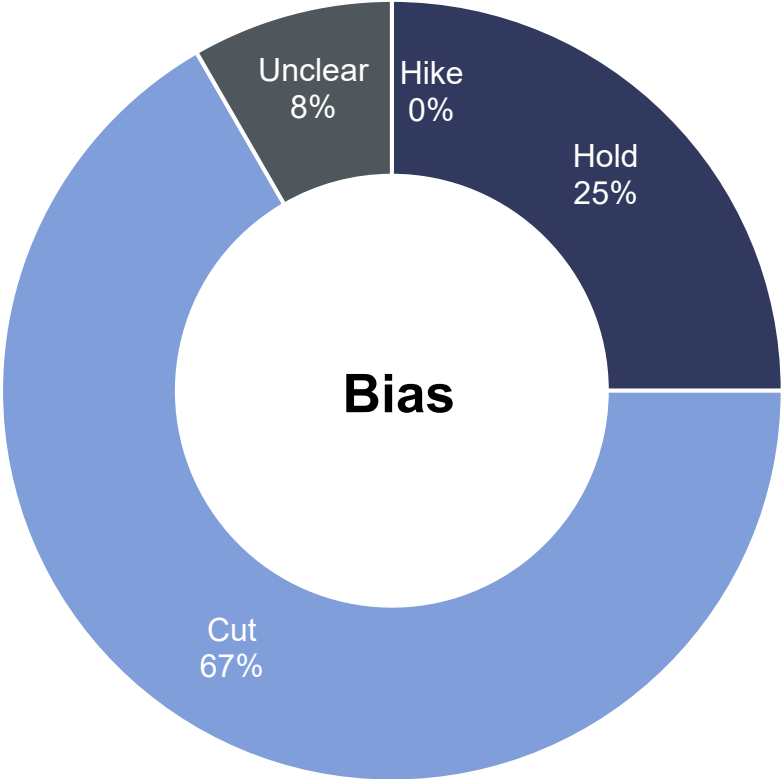
- The Fed's assessment is further complicated by the ongoing government shutdown: many agencies are currently inactive, leading to the absence of key data releases. For example, the crucial September jobs report is unavailable, leaving the Fed with a similar information base as before the September meeting.
- Some unofficial indicators, including the ADP employment report, offer limited guidance: with a monthly decline of 32,000 jobs in September, the picture of a weakening labor market has become more pronounced. The CPI data for September, expected on October 24, will be one of the few official sources available to the Fed ahead of the meeting. While it may provide short-term insights into inflation dynamics, it is unlikely to fundamentally alter the policy decision next week.
- Most FOMC members have already indicated that their assessment has changed little since the September meeting. Fed Chair Jerome Powell confirmed this in his October 14 speech. At the same time, he warned of increasing downside risks in the labor market, which we interpret as a clear signal for a rate cut next week.
- Some voting members, including Michael Barr (Board of Governors), Austan Goolsbee (Chicago), and Jeffrey Schmid (Kansas City), have advocated for a wait-and-see approach. Non-voting members such as Beth Hammack (Cleveland), Lorie Logan (Dallas), and Raphael Bostic (Atlanta) have recently taken a more hawkish stance and expressed less openness to further rate cuts.
- Particularly notable is the position of new FOMC member Stephen Miran, who once again called for a 50 bps rate cut. He was the only member to advocate such a drastic move at the September meeting, so his renewed demand comes as no surprise.
- Miran is considered to be closely aligned with former President Trump and was nominated by Trump to fill a vacant seat on the Fed's Board of Governors. His monetary policy positions strongly reflect Trump's calls for significantly lower interest rates. Critics accuse Miran of undermining the Fed's independence and making policy decisions based more on political motives. Miran, however, rejects these accusations and insists that his decisions are based solely on economic analysis. Nevertheless, he remains a clear outlier within the FOMC, with a markedly more dovish stance than most of his colleagues.

## Executive Summary: Rate decision in the data gap (III)

- Our favorite quote comes from Minneapolis Fed President Neel Kashkari: “If I had to guess which mistake we’re making, I think we’re more likely overestimating the degree of slowdown.” With this statement, Kashkari questions whether the Fed may be overestimating the extent of the economic slowdown. He clearly aligns himself with those advocating for moderate monetary easing and opposes an aggressive rate-cutting cycle.

# We estimate that around 67% of voting FOMC members will support a rate cut at the meeting on October 29.

Bias for October 29, 2025

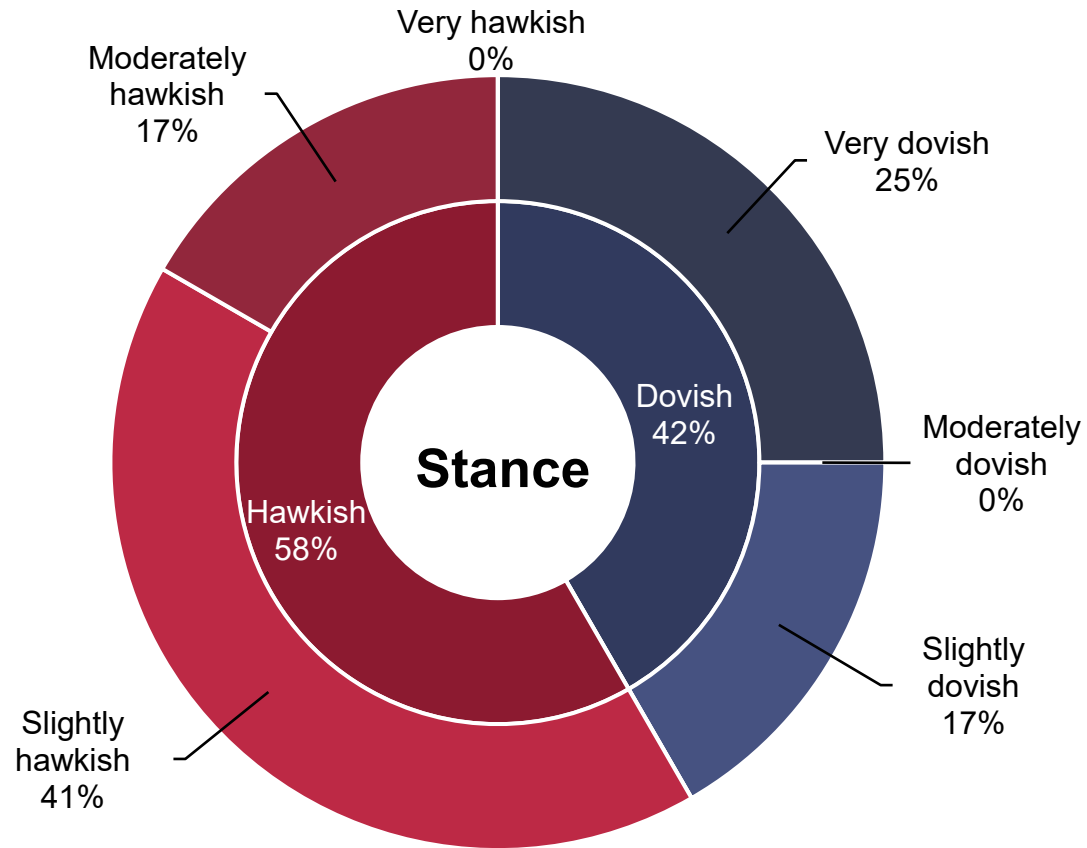


Source: HCOB Economics

Note: We take the following into account when assessing an FOMC member's bias: Statements since the last FOMC meeting, previous statements, general stance, group dynamics, and the current economic situation of the US. Only members with a voting right are considered.

# General stance of the FOMC: Should Trump appoint further members, monetary policy is likely to become significantly more dovish in the future.

## Doves and Hawks in the FOMC



Source: HCOB Economics

Definition of "dovish": certain tolerance when exceeding the inflation target.

Definition of "hawkish": very limited tolerance when exceeding the inflation target.

Note: With "stance" we mean a member's general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each FOMC member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered in this figure.

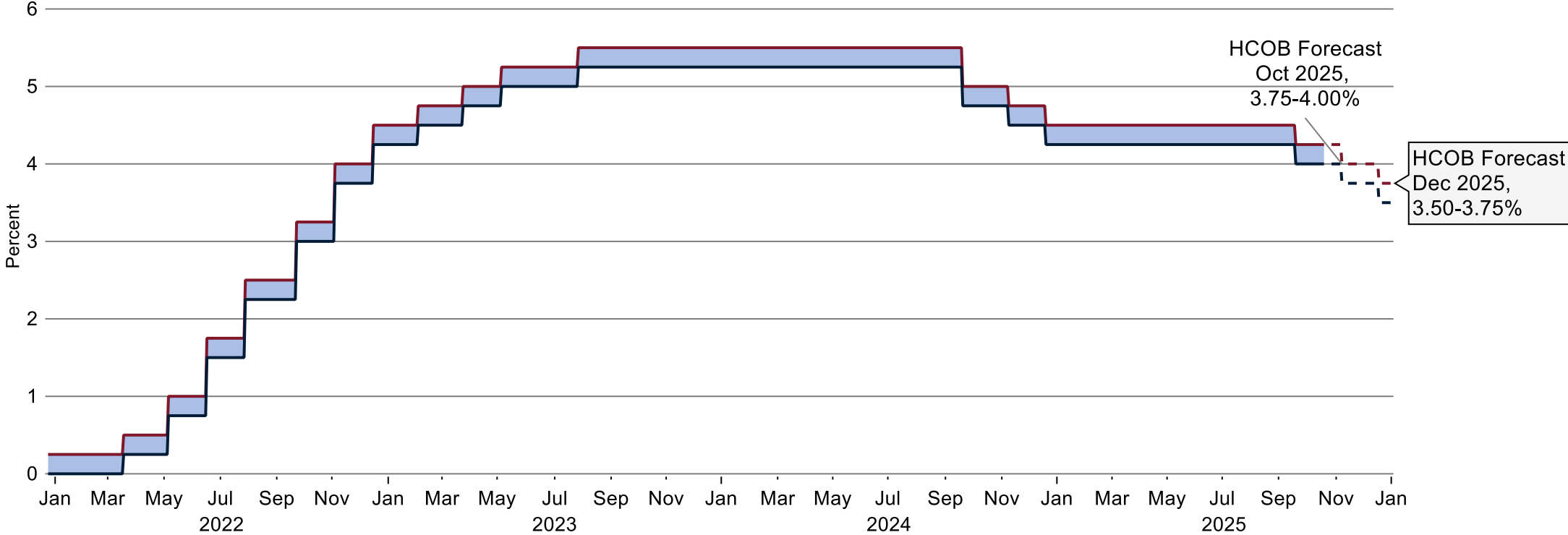
# Overview of the FOMC: Some FOMC members emphasized that a wait-and-see approach was appropriate in light of upside inflation risks.

FOMC Member	Position / Regional Bank	General Stance	Bias for Oct. 29, 2025	Voted for Interest Rate Decision at Last Meeting	Voting Right in 2025	Voting Right in 2026
Jerome H. Powell	Board of Governors, Chair	Slightly hawkish	Cut	Yes	Yes	Yes
John C. Williams	New York, Vice Chair of the FOMC	Slightly hawkish	Cut	Yes	Yes	Yes
Philip N. Jefferson	Board of Governors, Vice Chair of the Board	Slightly hawkish	Cut	Yes	Yes	Yes
Michelle W. Bowman	Board of Governors, Vice Chair for Supervision	Very dovish	Cut	Yes	Yes	Yes
Michael S. Barr	Board of Governors	Slightly hawkish	Hold	Yes	Yes	Yes
Lisa D. Cook	Board of Governors	Slightly dovish	Unclear	Yes	Yes	Yes
Stephen I. Miran	Board of Governors	Very dovish	Cut	No*	Yes	Yes
Christopher J. Waller	Board of Governors	Very dovish	Cut	Yes	Yes	Yes
<b>Regional Bank Members</b>						
Susan M. Collins	Boston	Slightly hawkish	Cut	Yes	Yes	No
Austan D. Goolsbee	Chicago	Slightly dovish	Hold	Yes	Yes	No
Alberto G. Musalem	St. Louis	Moderately hawkish	Cut	Yes	Yes	No
Jeffrey R. Schmid	Kansas City	Moderately hawkish	Hold	Yes	Yes	No
Beth M. Hammack	Cleveland	Very hawkish	Hold	—	No	Yes
Anna Paulson	Philadelphia	Unclear	Cut	—	No	Yes
Neel Kashkari	Minneapolis	Slightly hawkish	Cut	—	No	Yes
Lorie K. Logan	Dallas	Moderately hawkish	Hold	—	No	Yes
Sushmita Shukla	New York, First Vice President	Unclear	Unclear	—	No	No
Thomas I. Barkin	Richmond	Moderately hawkish	Unclear	—	No	No
Raphael W. Bostic	Atlanta	Moderately hawkish	Hold	—	No	No
Mary C. Daly	San Francisco	Slightly dovish	Cut	—	No	No

\*Note: Stephen Miran voted in favor of a 50 basis point cut.

# Interest rate forecast by HCOB Economics: We expect interest rates to be cut by 25 basis points (bps) at the meetings in October and December.

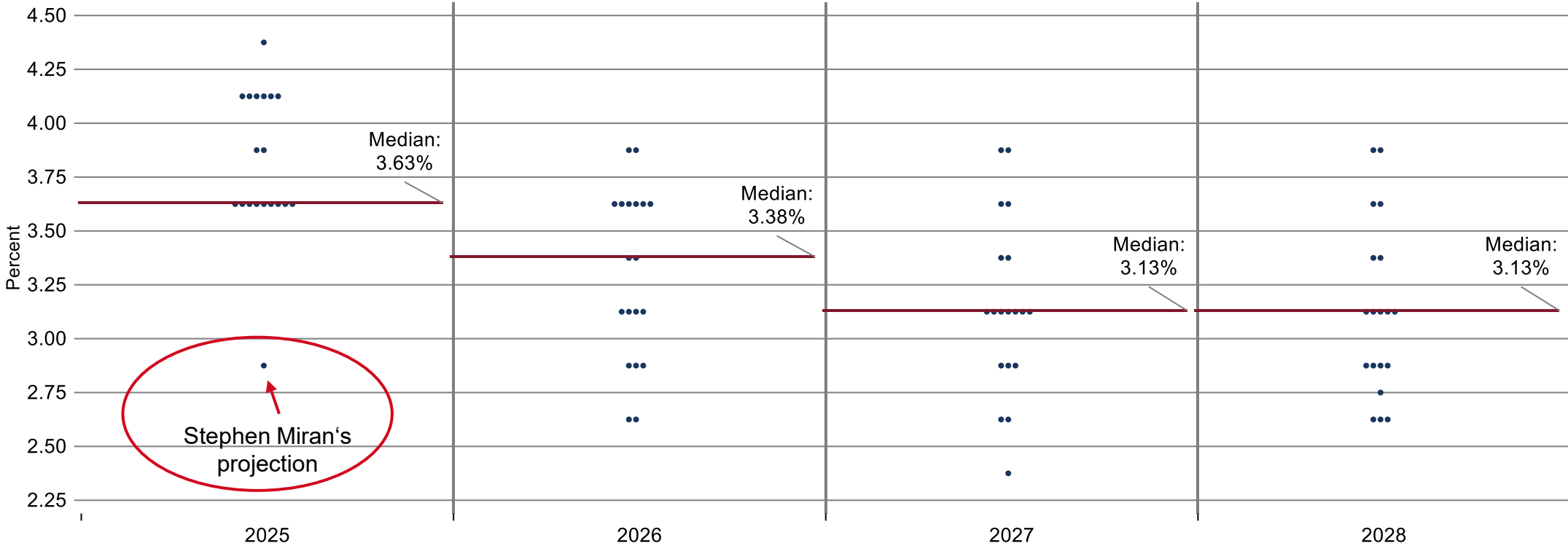
Target Range of the Federal Funds Rate and Forecast of HCOB Economics



Source: Macrobond, HCOB Economics, Federal Reserve

# Dot plot of the September projections: In the latest projection, new FOMC member Stephen Miran estimated the FFR range at 2.75–3.00% by the end of the year.

**Dot Plot: FOMC Members' Projections for the Federal Funds Rate (Midpoint of Target Range)**

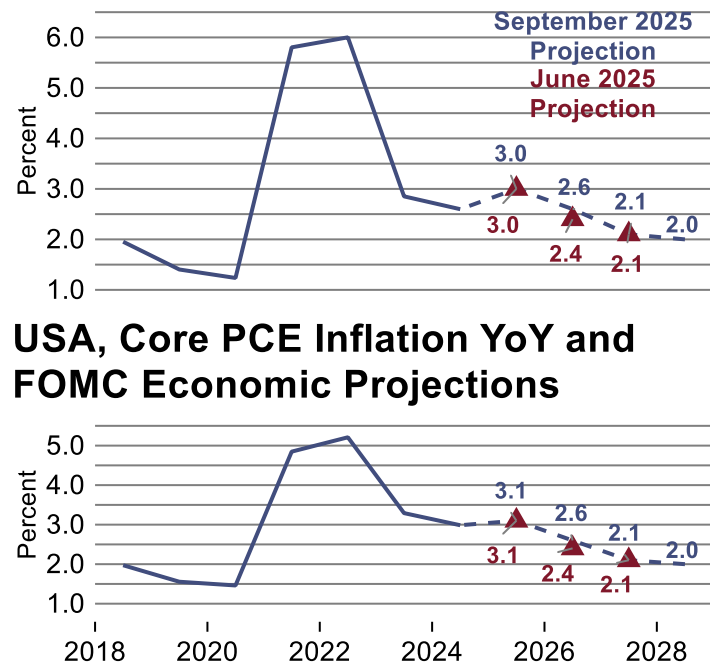


Source: Macrobond, HCOB Economics, Federal Reserve

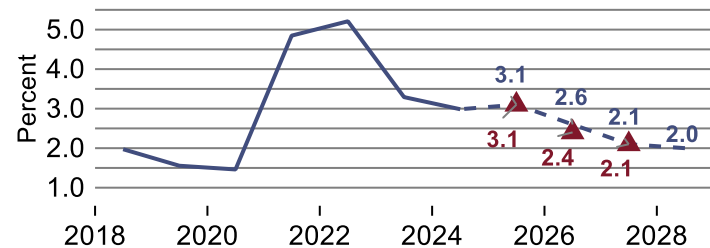
How to read this plot: The dot plot shows each FOMC member's projection for the value of the midpoint of the projected appropriate target range of the federal funds rate at the end of each year. Each dot represents one member's forecast. The vertical axis shows the interest rate (in percent p.a.), while the horizontal axis shows the forecast years (2025, 2026, and 2027). Multiple dots at the same level indicate that several members share the same view. A red line indicates the median projection for each year. Note that the dot plot reflects individual opinions, not a consensus or official forecast.

# Further projections from September: FOMC members expect the 2% inflation target to be reached again only in 2028.

## USA, Headline PCE Inflation YoY and FOMC Economic Projections

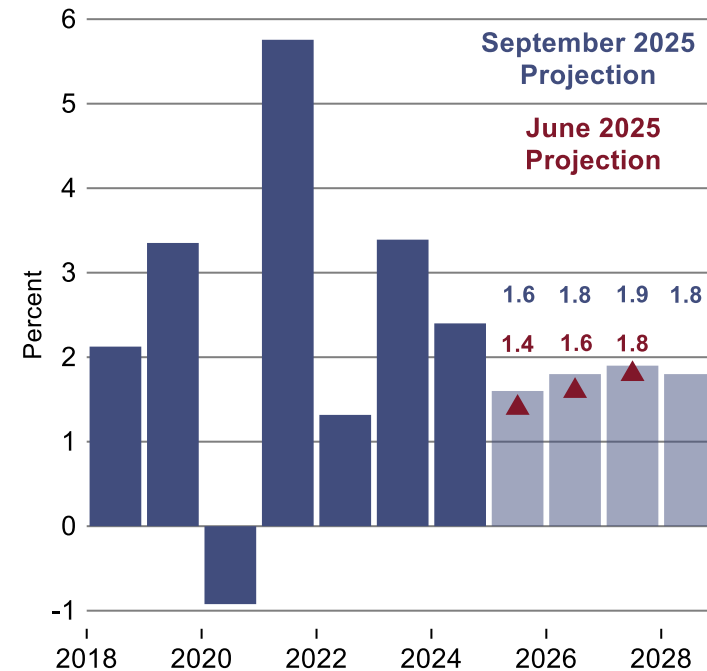


## USA, Core PCE Inflation YoY and FOMC Economic Projections



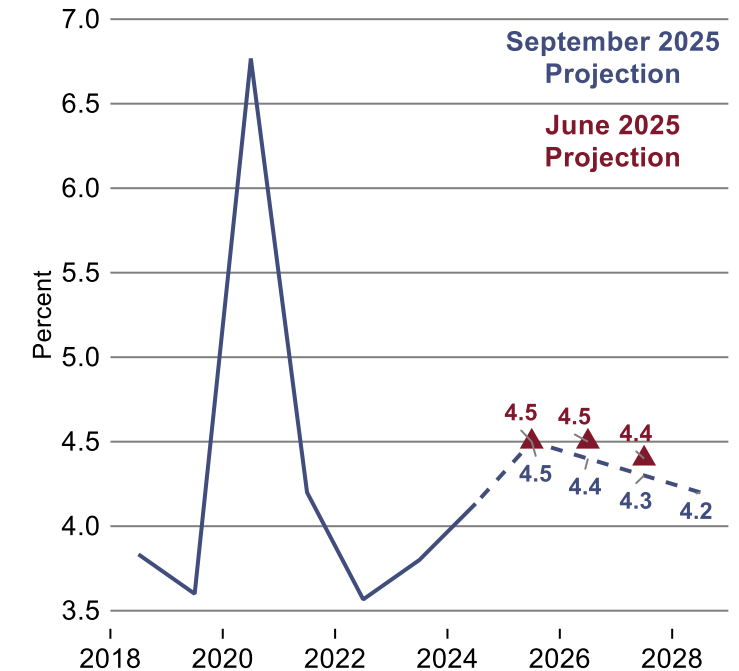
Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA), Federal Reserve

## USA, GDP YoY Percentage Change and FOMC Economic Projections



Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA), Federal Reserve

## USA, Civilian Unemployment Rate and FOMC Economic Projections

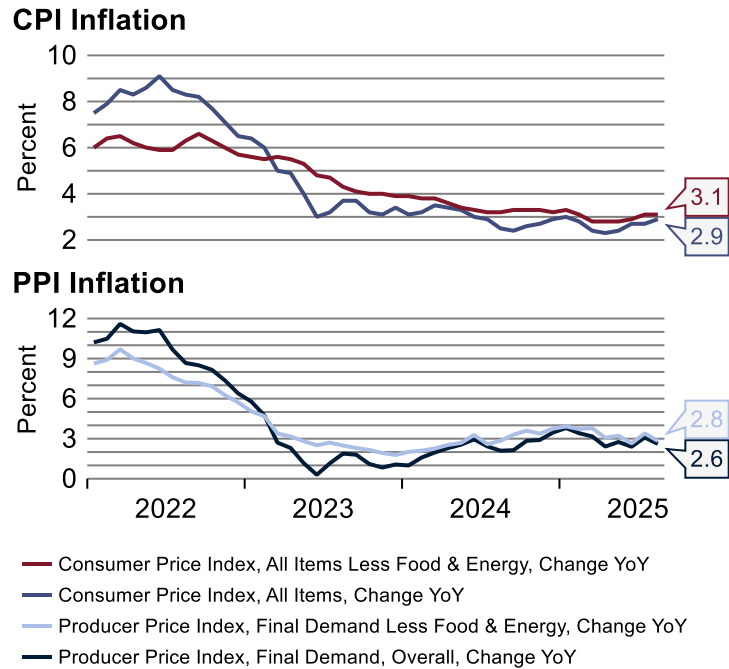


Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS), Federal Reserve

Note: Realizations and projections for both measures of inflation as well as of change of real gross domestic product (GDP) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Personal consumption expenditures (PCE) inflation and core PCE inflation are percentage rates of change in, respectively, the price index for PCE and the price index for PCE excluding food and energy. Projections for the unemployment rate are the average for the civilian unemployment rate in the fourth quarter of the year indicated. Each FOMC member's projections are based on his or her assessment of appropriate monetary policy. The values shown in the figures represent the medians of these individual projections.

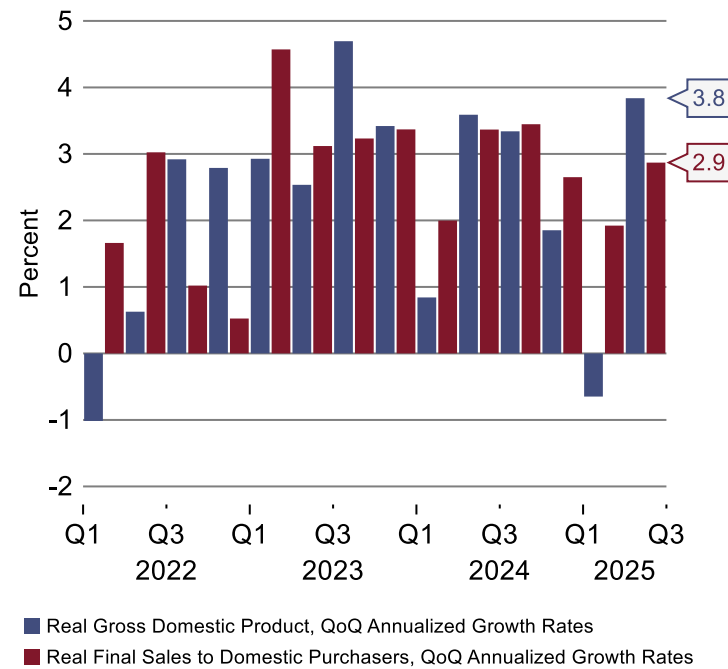
# U.S. economy at a glance: Inflation could rise further due to tariffs. GDP figures are robust, but the labor market has lost considerable momentum.

## USA, CPI and PPI Inflation, YoY, August 2025



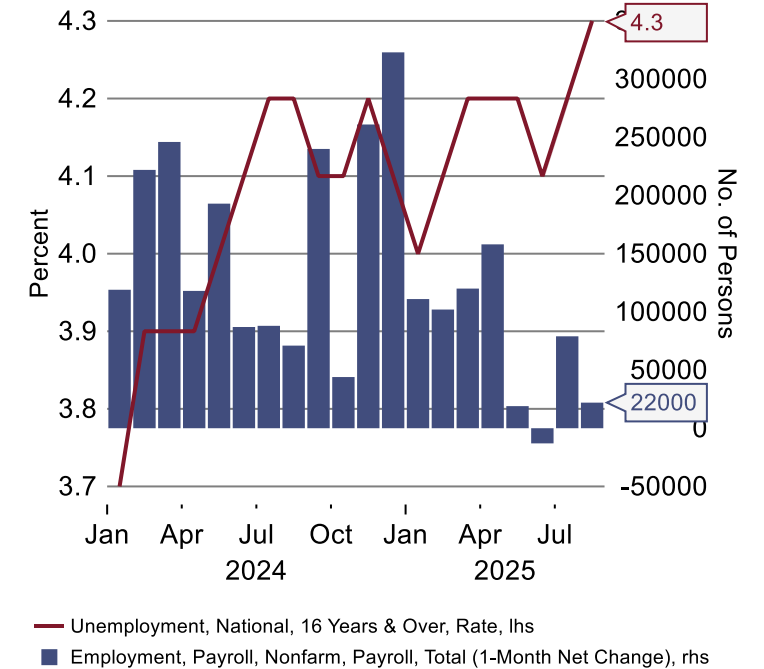
Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

## USA, GDP and Domestic Demand, QoQ Annualized Growth, 2025 Q2



Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA)

## USA, Unemployment Rate and Nonfarm Payrolls, August 2025



Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

# Appendix

- **Monetary policy instruments of the Fed and link to the last meeting**
- **Futures implied interest rate expectations**
- **“One person, one quote”**

# Monetary policy instruments of the Fed and link to the last meeting

## The key monetary policy instruments of the Fed at a glance:

Instrument	Function	Current rate / measure	Effective from
Federal Funds Rate	Short-term interbank interest rate	4.00–4.25%	September 18, 2025
Interest on Reserve Balances	Interest on bank balances at the Fed	4.15%	September 18, 2025
Primary Credit Rate	Interest rate for short-term loans to banks	4.25%	September 18, 2025
Overnight Reverse Repurchase Agreement Facility	Short-term liquidity provision through the purchase of securities	Minimum bid rate: 4.25% Limit: \$500 billion	September 18, 2025
Overnight Reverse Repo Facility	Short-term liquidity absorption through the sale of securities	4.00% Limit: \$160 billion per counterparty/day	September 18, 2025
Quantitative Tightening	Reduction of the central bank's balance sheet through limited reinvestments	Treasuries: max. \$5 billion/month not reinvested Agency-MBS: max. \$35 billion/month not reinvested	April 1, 2025

## Link to the documents from the last FOMC meeting, which took place on September 16–17, 2025:

- [The Fed - September 16-17, 2025 FOMC Meeting](#)

# Futures implied interest rate expectations: Currently, financial markets are expecting a 25 bps interest rate cut at each FOMC meeting this year.

## Effective Federal Funds Rate (EFFR): Futures Implied Probabilities

FOMC meeting	Implied EFFR	250-275 bps	275-300 bps	300-325 bps	325-350 bps	350-375 bps	375-400 bps	400-425 bps
2025-10-29	3.86 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	99.4 %	0.6 %
2025-12-10	3.69 %	0.0 %	0.0 %	0.0 %	0.6 %	98.8 %	0.6 %	0.0 %
2026-01-28	3.47 %	0.0 %	0.0 %	0.4 %	55.0 %	44.4 %	0.3 %	0.0 %
2026-03-18	3.41 %	0.0 %	0.2 %	29.3 %	49.4 %	21.0 %	0.1 %	0.0 %
2026-04-29	3.26 %	0.1 %	9.2 %	35.5 %	40.6 %	14.5 %	0.1 %	0.0 %
2026-06-17	3.19 %	5.4 %	24.5 %	38.5 %	25.5 %	6.1 %	0.0 %	0.0 %
2026-07-29	3.04 %	11.1 %	28.7 %	34.6 %	19.7 %	4.3 %	0.0 %	0.0 %
2026-09-16	3.00 %	17.2 %	30.7 %	29.4 %	14.3 %	2.8 %	0.0 %	0.0 %
2026-10-28	2.94 %	19.0 %	30.5 %	27.4 %	12.8 %	2.5 %	0.0 %	0.0 %

Source: Macrobond, HCOB Economics, CME Group

How to read this table: This table presents market expectations for the future effective federal funds rate (EFFR), derived from 30-day federal funds futures. The first column shows the dates of upcoming FOMC meetings. The second column displays the implied EFFR based on futures pricing. The remaining columns represent the probabilities that the EFFR will fall within specific target ranges (e.g., 275–300 bps, 300–325 bps, etc.). Example (first row): For the FOMC meeting on October 29, 2025, the implied EFFR is 3.86% (second column). There is a 0.6% probability (last column) that the rate will remain in the range of 400–425 bps, while there is 99.4% probability (second last column) of a 25-bps rate cut, placing the rate in the range of 375–400 bps.

## “One person, one quote”: Quotes made since the September meeting (I)

- **Jerome H. Powell (Board of Governors, Chair):** “Based on the data that we do have, it is fair to say that the outlook for employment and inflation does not appear to have changed much since our September meeting four weeks ago. [...] In this less dynamic and somewhat softer labor market, the downside risks to employment appear to have risen.”
- **John C. Williams (New York, Vice Chair of the FOMC):** “The risks of a further slowdown in the labor market [are] something I’m very focused on. [...] I don’t see any signs of second-round effects or factors that could be amplifying the effects of tariffs on inflation. [...] My basic view is that we are on a journey back toward neutral.”
- **Philip N. Jefferson (Board of Governors, Vice Chair of the Board):** “[...] trends across several data series indicate that the labor market is softening, which suggests that, left unsupported, it could experience stress.”
- **Michelle W. Bowman (Board of Governors, Vice Chair for Supervision):** “I still think we will see two more rate cuts before the end of the year. I think that as long as the labor market and other economic data evolve as I expect, we will continue to move down the path of lowering the federal funds rate.”
- **Michael S. Barr (Board of Governors):** “I believe that [...] the FOMC should be cautious about adjusting policy so that we can gather further data, update our forecasts, and better assess the balance of risks.”
- **Stephen I. Miran (Board of Governors):** “My view is that it should be 50 [basis points cut at the meeting in October]. However, I expect it to be an additional 25 and I think that we’re probably set up for three 25 basis point cuts this year, for a total of 75 basis points this year.”

## “One person, one quote”: Quotes made since the September meeting (II)

- **Christopher J. Waller (Board of Governors):** “Based on all of the data we have on the labor market, I believe that the FOMC should reduce the policy rate another 25 basis points at our meeting that concludes October 29.”
- **Susan M. Collins (Boston):** “While inflation risks have receded somewhat, the labor market faces greater downside risks. Therefore, further policy normalization to support the labor market is a prudent course of action.”
- **Austan D. Goolsbee (Chicago):** “I’m uncomfortable with overly frontloading a lot of rate cuts on the presumption that [inflation] will probably just be transitory and go away. [...] We’ve still got a mostly steady and solid jobs market.”
- **Alberto G. Musalem (St. Louis):** “I am open-minded about a potential further reduction in interest rates to provide further insurance against labor market weakening. [...] I believe that we have to tread with caution because there’s limited room for further easing before monetary policy could become overly accommodative, and I believe that monetary policy should continue to lean against persistence in inflation.”
- **Jeffrey R. Schmid (Kansas City):** “Overall, I am anticipating a relatively muted effect of tariffs on inflation, but I view that as a sign that policy is appropriately calibrated rather than a sign that the policy rate should be aggressively lowered.”
- **Beth M. Hammack (Cleveland):** “I think we should be very cautious in removing monetary policy restriction because I think it’s important that we stay restrictive to bring inflation back down to target.”
- **Anna Paulson (Philadelphia):** “Labor market risks do appear to be increasing - not outrageously, but noticeably. And momentum seems to be going in the wrong direction. [...] I view easing along the lines.”

## “One person, one quote”: Quotes made since the September meeting (III)

- **Neel Kashkari (Minneapolis):** “In my [June] submissions to the Summary of Economic Projections (SEP), I had indicated that two 25-basis-point rate cuts would likely be appropriate this year [...]. I nudged that up to three in my most recent SEP [...].”
- **Lorie K. Logan (Dallas):** “We need to be very cautious about rate cuts from here and make sure that we appropriately calibrate policy so that you don't ease conditions too much and only to have to reverse course, which would be very painful in terms of restoring price stability.”
- **Thomas I. Barkin (Richmond):** “While consumers are still spending, we are not in 2022 anymore. Consumers are not as flush.”
- **Raphael W. Bostic (Atlanta):** “For me, yes [the current outlook warrants a restrictive monetary policy]. [...] I had one cut for this year [in the June Summary of Economic Projections, but] I didn't add any cuts this year [...].”
- **Mary C. Daly (San Francisco):** “For me, relaxing the policy rate to make sure it continues to be modestly restrictive — but not so restrictive that it unnecessarily disrupts the labor market — would be the path of policy. [...] We have enough room to do some cuts and still have a modestly restrictive interest rates.”
- **The following FOMC members made no relevant public statement with respect to monetary policy since the last FOMC meeting:**
  - Lisa D. Cook (Board of Governors)
  - Sushmita Shukla (New York, First Vice President)

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