# Central Bank Weekly - 3rd January 2025

## Previewing FOMC Minutes; Reviewing Riksbank Minutes

### PREVIEWS

**FOMC MINUTES (WED):** At its December meeting, the Fed cut rates by 25bps to 4.25-4.5%, as expected. The vote was split 11-1, with Hammack voting to leave rates unchanged. The statement was little changed from the November meeting but added that in considering the "extent and timing" of additional rate adjustments (prev. In considering additional adjustments), the Committee will assess incoming data, evolving outlook and balance of risks, signalling a slowing of easing ahead. A further hawkish skew came in the updated SEPs, where the median dot plot for 2025 and 2026 FFR forecasts were lifted above expectations. Recapping: the median 2025 and 2026 dot rose to 3.9% (prev. 3.4%, exp. 3.6%) and 3.4% (exp. 3.1%, prev. 2.9%), respectively, while 2027 and longer run median dot plots rose to 3.1% (prev. 2.9%) and 3.0% (prev. 2.9%). As such, the 2025 median dot plot signals just two 25bps cuts in 2025; but the FOMC were more aligned this time round - four members see rates above the median, and five see rates below, but ten were in line with the median. Elsewhere, Core PCE inflation is now seen at 2.5% for 2025 (exp. 2.3%, prev. 2.2%) and 2.2% for 2026 (exp. 2.0%, prev. 2.0%). Forecasts for the unemployment rate were largely as expected, with all horizons, ex-longer run, seen at 4.3%, although 2027 was expected. Chair Powell stated that the Fed is squarely focused on its dual-mandate, and that the economy is strong, with the labour market solid, and inflation much closer to its 2% goal. Powell added that the policy stance is now significantly less restrictive, and going forward the Fed can be more cautious. In his Q&A, the Fed Chair said that the decision was a "closer call", but the "right call", suggesting there was a discussion surrounding holding rates at the meeting. Powell added that risks were two-sided, and officials were trying to steer between those two risks. On the statement change, he said that "extent and timing language" shows the Fed is at or near the point of slowing rate cuts, and the slower pace of cuts reflects that expectation. He also said that cuts that are made in 2025 will be in response to data and, as long as the labour market and economy are solid, officials can be cautious as they consider further cuts. Additionally, looking to US President-elect Trump's term, Powell said some people did take a very preliminary step and incorporated conditional effects of coming policies into their projections. Looking ahead, the Fed chief said the Committee will be looking for further progress in inflation to make cuts, and added that from here is a new phase, and the Fed is going to be cautious about further cuts. After the meeting, Goldman Sachs said despite the hawkish message from the dots, they kept their more dovish baseline forecast of three more cuts in March, June, and September 2025 unchanged, though added a bit more probability weight in their Fed scenario analysis to an outcome with a higher terminal rate.

### REVIEWS

**RIKSBANK MINUTES**: December’s minutes highlighted the mixed views held amongst policymakers at the Bank, but was ultimately as expected. As a reminder the Riksbank delivered a 25bps cut to 2.50% on December 18th and reiterated its guidance that the policy rate may also be cut once again during H1-2025. On inflation, Governor Thedeen and Bunge noted that inflation pressures are “in-line with the target" / "compatible with on-target inflation"; although, other members are a little more cautious on the inflation outlook. Elsewhere, in typical hawkish fashion, member Seim, remarked that "My assessment is that we are now conducting a monetary policy that can essentially be considered neutral". Governor Thedeen highlighted that " it will soon be appropriate to wait and see before making any further changes to the policy rate". In terms of the timing of the first cut in H1-2025, Jansson said "I believe this cut needs to come quite early in the year, in January or possibly at the meeting after that in March". On the policy path, Danske Bank writes “Current market pricing and the rate path suggesting a 50/50 distribution between January and March seem fair at this point.”. As a reminder, December’s inflation metrics are due on Wednesday 8th January, which could be a key factor in the decision between a cut in January or March.