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TRENDMACRO LIVE!

On the December FOMC

Wednesday, December 10, 2025

Donald Luskin

The rate cut regime is on pause. But is quantitative easing starting up again?

The FOMC cut the fed funds rate target by 25bp from 3-7/8% to 3-5/8%, in line with market expectations. According to every "Taylor Rule" model published by Cleveland Fed (please see the chart on the following page), no matter what the data source for the models, the Fed was already one rate cut easy at 3-7/8%, and is now even easier. The median model calls 4-1/8% neutral, which is close enough to our rough-and-ready "model" – the nominal 10-year yield. But models are just models. And maybe things aren't so easy with the funds rate still well above the Fed's inflation target. But *we're in the zip code of neutral, so small policy changes don't mean all that much in terms of macroeconmic forecasting. There's no big policy error being made here. Today's meeting means little.*

- This banal result comes from internal ferment, with a most unusual three dissents. Once again, Governor Stephen Miran (see "On Miran's Senate Banking Hearing: Triumph of the Weasel" September 5, 2025) dissented on the dove side, preferring a 50bp cut. Once again, Kansas City Fed president Jeffrey Schmid preferred no cut, and was joined by Chicago president Austan Goolsbee.
- In the post-meeting presser, Chair Jerome Powell said in his prepared remarks that he agrees with us that policy is now "plausibly" something like neutral. It's not clear, then, why the "dot plots" in the December Summary of Economic Projections didn't budge. As in September, they still call for one more rate cut in 2026, and one on top of that in 2027.
- The FOMC statement, dots or no dots, underscored the idea that we are approximately neutral already by adding language emphasizing that after today's cut the easing regime of the past three meetings is on pause.

> "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

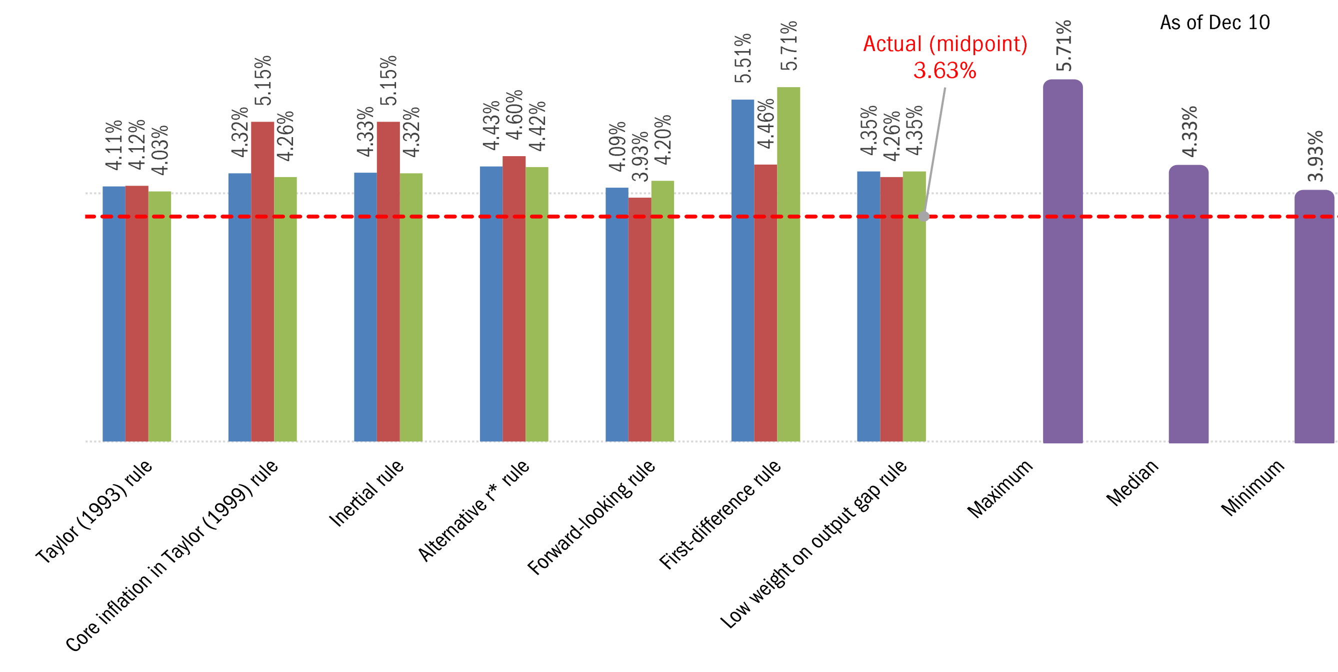
- The only thing that remotely qualifies as a surprise is this new paragraph in today's statement:

Update to strategic view

FEDERAL RESERVE, US MACRO: We got the 25bp rate cut markets have expected since the October FOMC. The "dot plots" for 2026, 2027 and 2028 were unchanged, collectively calling for just two more cuts from here over three years. The statement language made it clear that after today, the Fed is on pause. Powell's language in the presser gives the impression he believes that policy is now effectively neutral. We more than agree – it is arguably slightly loose, with a funds rate below any published "Taylor Rule" and the nominal 10-year yield. The only surprise was the announcement that the Fed intends to buy $40 billion in short term Treasuries and make its standing reverse repo facility unlimited. The end of quantitative tightening was announced in October, and arguably this means we are at the start of a new regime of quantitative easing. There was only a single question in the press conference about this seemingly major development, and Powell deflected it claiming it is entirely technical and not indicative of a new policy direction. We'll see.

[Strategy dashboard]

Funds rate versus various monetary policy "rules" (based on inputs from: FOMC SEP, CBO, Cleveland Fed)



Source:: Cleveland Fed, TrendMacro calculations

> "The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis."

- This builds on the October FOMC's announcement that balance sheet run-off would completely stop by December (see "On the October FOMC: Powell to Miran – "Take a Step Back" October 29, 2025). Quantitative tightening is over. If you think any addition to the size of the Fed's balance sheet constitutes quantitatve easing (we don't, but many do), then today it was announced that this is the next step – explicitly "as needed."
- "As needed" is now, apparently. In synchronized statements from the New York Fed, we learn that $40 billion in "reserve management purchases" will take place immediately and maintained until furhter notice. The standing overnight repo facility will become unlimited.
- We are surprised by how little interest was shown in this by the media in the post-meeting presser. We expected the conspiracy theories to begin immediately. Instead, the first (and only) question on it came 25 minutes in, to which Powell responded with an extensive but anecdotal explanation for why it is merely technical – that is, not in and of itself a change in policy, but rather an instrument for the implementation of standing policy. That was it. We'll see.
- By the way – we were amused to hear, toward the end of the press conference, Powell give a little lecture on the amazing and durable

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surge in productivity over the last five years, attributing it to post-pandemic dynamics in place even before the arrival of artificial intelligence. We send him our research (see [“On the September FOMC: It’s Chaos I Tell You, It’s Chaos!”]() September 17, 2025). Maybe he actually reads it.

Bottom line

We got the 25bp rate cut markets have expected since the October FOMC. The “dot plots” for 2026, 2027 and 2028 were unchanged, collectively calling for just two more cuts from here over three years. The statement language made it clear that after today, the Fed is on pause. Powell’s language in the presser gives the impression he believes that policy is now effectively neutral. We more than agree – it is arguably slightly loose, with a funds rate below any published “Taylor Rule” and the nominal 10-year yield. The only surprise was the announcement that the Fed intends to buy $40 billion in short term Treasuries and make its standing reverse repo facility unlimited. The end of quantitative tightening was announced in October, and arguably this means we are at the start of a new regime of quantitative easing. There was only a single question in the press conference about this seemingly major development, and Powell deflected it claiming it is entirely technical and not indicative of a new policy direction. We’ll see.