

Economic QuickView

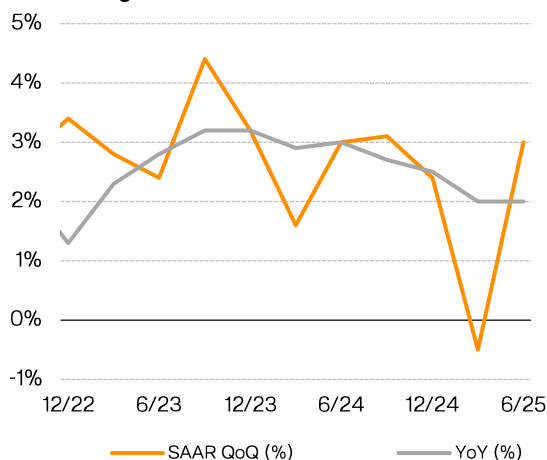


FOMC Meeting: The Fed held rates steady as pressure builds to cut rates

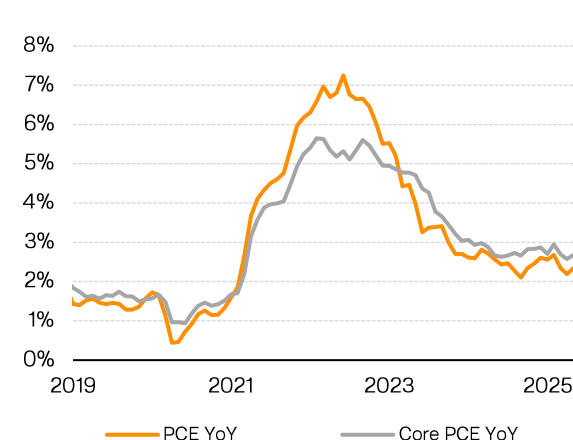
- The Fed held rates steady at 4.25-4.50%.
- The Fed's vote was not unanimous as two FOMC governors dissented, the first time since 1993.
- With largely stable inflation, particularly core PCE inflation, and a moderate weakening in the labour market, we expect the Fed to cut rates in the second half of the year.

The Fed held rates steady in July. During its July meeting, the Federal Open Market Committee (FOMC) voted to hold the federal funds rate unchanged at 4.25-4.50%. Notably, two FOMC governors, Michelle Bowman and Christopher Waller, dissented and preferred to cut rates by 25 basis points (bps). This marked the first time since 1993 that two governors dissented during a single meeting, underscoring a possible growing divide within the committee and amplifying calls for Powell to consider rate cuts going forward. The post-meeting statement only featured a few changes, particularly, introducing that economic growth had "moderated in the first half of the year" compared to "expand at a solid pace" in previous statements. Additionally, the statement omitted the phrase "has diminished", with Powell acknowledging that while uncertainty had diminished ahead of last month's meeting, it hasn't diminished further since then and remains elevated.

Powell exhibits hawkish tone when speaking to the press. When fielding questions from the press, Powell reiterated the Fed's patient approach, refusing to give forward guidance on a September rate cut. He noted, as in previous meetings, that more data is needed before the Fed decides its next monetary policy action. Notably, before the Fed's next meeting in September, the Fed will receive two rounds of employment and inflation data. Despite this, Powell maintained a hawkish tone. Powell also acknowledged the effects from higher tariffs are starting to feed into inflation data, with higher goods prices. He also mentioned that while various trade agreements have been reached, uncertainty remains high, and the full economic impact of tariffs is still unclear.

US GDP growth


Source: Bloomberg

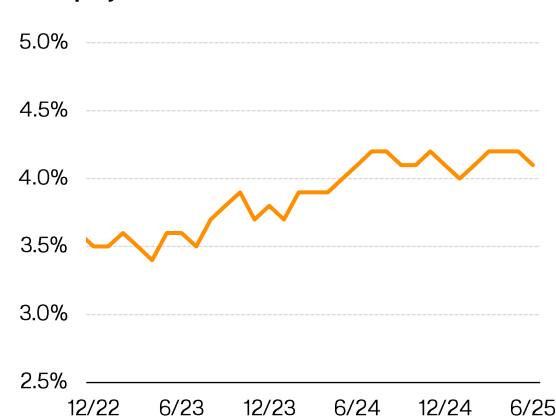
US PCE Inflation


Source: Bloomberg, data as of 31/07/2025

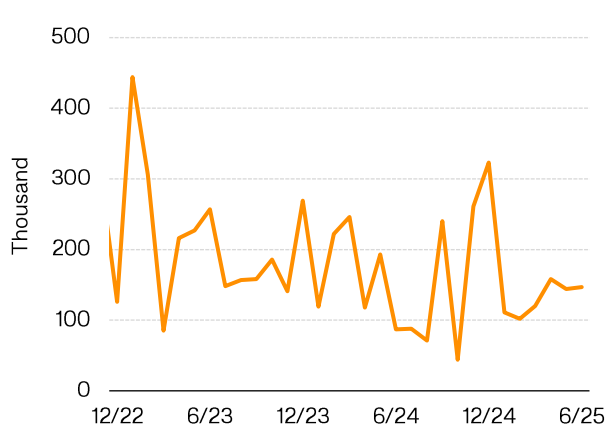
Pressure building on Powell to introduce rate cuts. While core PCE inflation remained above target at 2.7% year-on-year (YoY) in May, inflation readings have been largely range-bound. The labour market has softened recently, with a slowdown in hiring practices, the easing of wage growth, and a softening in private sector job creation. Meanwhile, political pressure has intensified, with President Trump urging Powell to cut rates. The two Fed governors dissenting in favour of rate cuts further underscores the committee's divide.

Despite this, the US economy performed better than expected in Q2, as evidenced by real GDP growing at a seasonally adjusted annual rate (SAAR) of 3.0%, following a 0.5% contraction in Q1. However, even with the announcement of new trade agreements, overall tariff rates are higher than they were previously, casting a shadow of uncertainty over the future trajectory of inflation, the labour market, and economic growth.

Considering these factors, pressure is building on Powell to cut rates going forward. We continue to project two rate cuts for the second half of the year.

Unemployment rate


Source: CEIC

Change in non-farm payroll employment


Source: CEIC

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).