

FX Viewpoint Flash

Currencies
Global

Fed held rates steady again, trade policy key for USD

- ◆ The March FOMC was marked by little or no change, with policy rates and the 'dots' left unaltered
- ◆ While the FOMC's projections were changed in a pessimist direction, Fed Chair Powell's tone was one of reassurance
- ◆ The USD wobbles and will probably rest more on how US trade policy evolves over the near term

For a second straight meeting, the Federal Open Market Committee (FOMC) voted to keep the federal funds target range at 4.25-4.50%, as widely expected. In its policy statement, the Federal Reserve (Fed) noted that **uncertainty around the economic outlook "has increased"**. Fed Chair Jerome Powell said, **the central bank was "not going to be in any hurry to move"** in the press conference when answering a question about the potential for a pivot back towards rate cuts as soon as the next policy meeting in May.

The updated FOMC's economic projections showed slower GDP growth but higher inflation, hinting at stagflationary risks (see the table below for details). The median interest rate projections (known as "median dots") remained unchanged from those laid out at the December meeting. It suggests **two further 25bp cuts in 2025**, compared to markets which also see a 60% chance of an additional third cut (*Bloomberg*, 19 March 2025). **Our economists still expect 75bp of rate cuts in 2025, followed by no change in policy rates in 2026.**

Median of the FOMC's key economic projections	2025	2026	2027	Longer run
Real GDP growth, Q4/Q4				
March 2025 projection	1.7%	1.8%	1.8%	1.8%
December 2024 projection	2.1%	2.0%	1.9%	1.8%
Unemployment Q4/Q4				
March 2025 projection	4.4%	4.3%	4.3%	4.2%
December 2024 projection	4.3%	4.3%	4.3%	4.2%
PCE inflation Q4/Q4				
March 2025 projection	2.7%	2.2%	2.0%	2.0%
December 2024 projection	2.5%	2.1%	2.0%	2.0%
Federal funds rate, year-end				
March 2025 projection	3.875%	3.375%	3.125%	3.000%
December 2024 projection	3.875%	3.375%	3.125%	3.000%

Source: Federal Reserve

Uncertainty was a recurring theme in the press conference, waiting for clarity on how trade, immigration, fiscal, and regulatory policies actually evolve. But for the most part, **Fed Chair Powell's tone was one of reassurance**. He downplayed suggestions that the US was heading for recession, noting that the hard data on activity remains solid. He also did not sound especially exercised about the upward revisions to inflation and near-term inflation expectations, instead stressing that longer-term inflation expectations remained anchored. **While the economic projections may have changed, the tone around the policy path has not.**

With policy rates and 'median dots' left unaltered, the 18-19 March FOMC meeting was sufficiently neutral not to challenge the prevailing USD bearish mood in the market, especially with US yields falling. But it was not enough to prompt a sustained USD decline either. **The key for the USD now is likely to rest more on how US trade policy evolves**, rather than monetary policy. Our central case is that the USD will recover some lost ground over the long run, as US tariffs rise, the Fed does not cut more than what is already priced, and the rest of the world begins to look less exceptional again.

The Fed held policy rates steady again in March and said the central bank was not in a hurry to cut rates

Changes to the FOMC's economic projections were in a pessimistic direction: weaker growth and higher inflation...

...but Fed Chair Powell downplayed growth concerns and stressed that longer-term inflation expectations remain anchored

Beyond near-term movements, we expect the USD to remain strong over the long run

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