Article MARKET COMMENTARY

Weekly round-up: 5th December - 12th December 2025

Darren Ripton recaps the past week's events and looks ahead to the next.

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The week that was!

The US Federal Reserve continues to ease interest rates

On 10 December 2025, the Federal Open Market Committee (FOMC) voted 9–3 to reduce the federal funds rate by 25 basis points, bringing it down to 3.50%–3.75%. This was the third consecutive cut since September, totalling a 75 bps reduction in 2025.

How the FOMC makes decisions

The FOMC meets eight times a year, with decisions made by its 12 voting members.

They weigh:

- Inflation trends, aiming for a 2% target.
- Labour market health, seeking both low unemployment and stable job creation.
- Economic outlook and risks, such as tariffs or supply shocks.

Economic projections (known as the "dot plot") show individual members' expectations for future rate moves. Chair Jerome Powell leads policy discussions and then communicates the outcome via a press conference.

Why the FOMC chose to cut again

Labour market weakness

- Private payrolls data continued to show job reductions in November.
- The Beige Book and other surveys flagged slower job gains, with the official unemployment rate holding around 4.4% in recent months.

Elevated inflation

Although inflation remained above target, it was showing signs of easing, aided by earlier interest rate hikes and the fading impact of tariffs.

> But the FOMC emphasised inflation was still "somewhat elevated," keeping a cautious outlook.

Data gaps due to shutdown

> The recent U.S. government shutdown delayed key data reports on employment and inflation, complicating policy assessments
>
> In response, the Fed leaned on alternative indicators and downgraded its confidence in stability.

Committee division and dissent

This was a divided vote with three members dissenting.

> Stephen Miran preferred a bigger 50 bps cut.
>
> Austan Goolsbee and Jeffrey Schmid wanted to hold rates unchanged.

This marked the first 3 person dissent since 2019 highlighting sharply different views on whether inflation or jobs posed the larger risk.

Powell later said the discussions were "very thoughtful, respectful," acknowledging the trade off between inflation and employment risks.

Path for future rates

The dot plot suggests only one more 25 bps cut in 2026, with another cut in 2027.

Wording in the official statement shifted from earlier signals of more cuts, to "considering the extent and timing of additional adjustments" a more cautious tone identical to December 2024.

New treasury purchases

The Fed will resume buying short term Treasury bills about $40 billion weekly to support liquidity and ensure "ample" bank reserves.

In summary

The FOMC's decision was a measured step: a further easing to support a weakening labour market, while keeping rates sufficiently high to continue addressing inflation. The fact that several members dissented shows a federal split between those prioritising wage growth and those worried inflation could rebound. Most now expect one more cut in 2026, but not much more unless economic conditions shift meaningfully.

This decision reflects the FOMC attempts to slow inflation without derailing economic growth and offers a slight boost to borrowers and economic sentiment, while signalling the Fed remains watchful.

UK GDP October 2025: A surprising dip

The economy contracted by 0.1% in October, matching September's fall and coming in below forecasts for a 0.1% rise. On a rolling three month basis, GDP also declined by 0.1%, the first such drop since December 2023.

What GDP measures

Gross Domestic Product (GDP) captures the total value of goods and services produced in an economy. Monthly GDP reflects short-term economic trends and is broken down into three main sectors: services, production, and construction.

Sector highlights

Services: Fell by 0.3%, dragged down by weakness in wholesale, scientific research, and parts of hospitality even though retail and rental sectors saw some resilience.

Construction: Declined 0.6%, reversing the modest growth seen recently.

Production: Rose by 1.1%, yet this was not enough to offset the broader slowdown.

Key drivers behind this drop

Automotive disruption: A major cyber-attack on Jaguar Land Rover severely hampered car manufacturing, cutting automotive output significantly and weighing on overall industrial production.

Budget uncertainties: Wording in the upcoming autumn budget led both businesses and consumers into a "wait-and-see" mode, which curtailed spending and hiring impacting both services and construction.

In summary

October's contraction adds to the picture of a fragile UK economy. Consumer caution ahead of budget announcements, weak business investment, and ongoing manufacturing vulnerabilities combine to stifle growth. This result accentuates the pressure on the Bank of England to consider easing monetary policy in its December meeting.

What is on the slate for next week!

Bank of England December rate decision

A Reuters poll of economists indicates all respondents expect a 25 basis point cut, bringing Bank Rate down from 4.0% to 3.75% on 18 December.

How the decision is made

The Monetary Policy Committee (MPC) meets eight times annually to set the bank rate, aiming to keep inflation at the Government's 2% target, while supporting sustainable growth.

The MPC consists of nine voting members: the Governor, three Deputy Governors, the Chief Economist, and four external experts appointed by the Chancellor. A Government Treasury representative attends discussions but does not vote.

Decision-making unfolds in two stages: an initial briefing session on the economy, followed by debate and then a formal vote just before each announcement.

Why a cut is likely

Inflation is easing: October's Consumer Price Index fell to 3.6%, down from 3.8%, suggesting price growth has peaked.

Labour market softening: Headline unemployment rose to 5.0%, with job losses evident across recent data.

Reduced fiscal uncertainty: With the autumn Budget behind us, businesses and households face fewer unknowns supporting the MPC's case for lower rates.

The MPC's recent split

In November, the MPC narrowly voted 5-4 to hold rates, with four members favouring a cut. Votes were divided between "hawks", focused on price stability, and "doves", prioritising jobs and growth. Governor Andrew Bailey held the casting vote to maintain rates but acknowledged inflation risks were easing hinting openness to a future cut.

In summary

With an economic backdrop that suggests a pedestrian level of growth for the rest of 2025 and into 2026, an improved inflation outlook, weaker labour conditions and a more stable fiscal backdrop, many of the conditions are in place which would allow the MPC to ease monetary policy.

Change in US Nonfarm payrolls

Monthly U.S. Nonfarm Payrolls, are due on 16th December and are one of the most closely watched economic releases. Consensus forecasts show about +50,000 jobs will have been created, down sharply from September's +119,000, indicating a slowing labour market.
Nonfarm Payrolls (NFP) report shows the monthly change in the number of people employed in the U.S., excluding farm workers, private household staff, and self-employed. It reflects approximately 80% of the U.S. workforce and is a key component of GDP.

Why November's release matters

Timing: Delayed by the U.S. federal government shutdown, the report for October and November will arrive together on 16 December, with unemployment rate data only for November.
Unemployment and wages: Economists expect an unemployment rate around 4.4% with average hourly earnings likely rose to have increased by 0.3% month on month, and 3.6% year on year. This would be considered a healthy level of increase rather than signal overheating.

In summary

This November NFP release will be under intense scrutiny. A weaker reading could ease financial conditions, while a stronger one may reinforce inflation concerns. It's pivotal for investors and policymakers alike.

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