Fed maintains rate amid indications further cuts are on hold

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As expected, the US Federal Reserve kept its interest rate on hold at its meeting yesterday, with all indications that there will be no further rate cuts under chair Jerome Powell before he steps down in May.

And there may not be further cuts beyond that. Speaking to the *Financial Times*, Brett Ryan, senior US economist at Deutsche Bank, said: “This isn’t a change to a slower pace of cuts. They’re not going to move for a while unless something forces them to do so.”

In justification of the decision, Powell said that with the cuts of 75 basis points, three-quarters of a percentage point, since last September, the Fed rate was now “within a range of plausible estimates of neutral”—that is, neither providing a stimulus to the economy nor restricting it.

The decision had “broad” support in the Fed’s policy-making body but there were two dissents. Christopher Waller, one of the four candidates being considered by Trump to be the next Fed chair, and Trump’s ally Stephen Miran called for a cut of 25 basis points.

Powell acknowledged that the inflation rate had not come down in 2025 and was around 3 percent, above the Fed’s target level of 2 percent. He claimed it would trend down once the effect of tariff increases had passed through.

After citing a weakening labour market as the basis for previous cuts, Powell changed course somewhat, saying conditions may be “stabilising after a period of gradual softening,” pointing out that the unemployment rate at 4.4 percent had changed little in recent months.

But the lived experience of workers across a range of industries is very different, with mass layoffs being announced by UPS, Amazon and other major employers. One reason why the unemployment rate has not risen is the cut in immigration and the lower labour participation rate. If they had remained at previous levels, the official jobless rate would be significantly higher.

Given the events since the last Fed meeting—most significantly, the decision of the Trump administration to launch a criminal investigation into Powell over whether he gave false testimony to Congress on cost overruns for renovations to the Fed building, and Powell’s response—there were attempts at his press conference to elicit further comment.

In an unprecedented video statement on January 11, Powell said: “The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president.”

The conflict, however, is not as Powell presents it. It is not a case of the “public” represented by the Fed versus the president, but is being fought out between different factions of the financial oligarchy.

In demanding lower rates, Trump represents the interests of those sections involved in more speculative operations, including real estate, cryptocurrency and sections of the hedge funds and private capital. The Fed represents the more traditional sections of Wall Street, which fear that the loss of so-called Fed independence will boost inflation, setting off wage demands and undermine the stability of the US financial system.

Questioners attempted to draw Powell out on his conflict with Trump, but he largely stonewalled. The first question at the press conference was why he attended the Supreme Court hearing on the case of Fed governor Lisa Cook.

Powell did not comment on the reasons other than to say the case “is perhaps the most important legal case in the Fed’s 113-year history.”

Trump has sought to sack Cook “for cause” over claims she falsified mortgage applications for two houses in 2021. So far, she has fended off the move against her. Courts have ruled she can stay in her post while the legal issues are decided, and the Supreme Court hearing of oral arguments earlier this month did not appear to go well for the administration.

If there is a decision that she can be sacked, then it will place a major question mark over Fed independence, because it is feared members of its governing body will be subject to a similar fate if they earn the ire of the president.

Powell also refused to be drawn further on his January 11 statement, would not comment on whether he planned to stay on as a governor after his term as chair expires, or even whether the Fed has responded to the Justice Department's actions against him.

He only once turned to the issue when asked what advice he would give to the incoming chair. It was that he should stay out of electoral politics, warning that it would be hard to restore the credibility of the institution if it was thought that independence had been lost.

The meeting took place in conditions of a weakening dollar and Trump's statements that the fall in the dollar—now at its lowest point in four years—was a "great" development, prompting a further decline. Treasury Secretary Scott Bessent then intervened to insist that the US still had a "strong dollar policy."

Asked about currency movements, Powell declined to comment, saying this was not an issue for the Fed but for the US Treasury.

Apart from the immediate movements and their effects on financial markets, there are concerns about the longer-term significance of the dollar's decline as the basis of the global monetary system.

It has been noted in periods of financial and stock market turbulence since 2000 that there has been a move into the dollar as a "safe haven." That changed last year after the announcement of Trump's "liberation day" tariff hikes in April when, in the midst of financial upheaval, there was a move out of US assets.

With the impending announcement by Trump on the next Fed chair, attention has turned to a recent addition to the field, and possibly the front runner, Rick Rieder of the hedge fund BlackRock. Trump has been seeking to square the circle on the appointment, putting in place someone who will accede to his demands for lower rates and at the same time have the support of powerful sections of the financial establishment.

Rated a 6 percent chance for the post earlier this month, the odds for Rieder are now put at 60 percent after Trump described him as "very impressive" during a recent interview.

He has been a persistent advocate of lower rates and has linked the issue to the burgeoning US debt, now at $38 trillion, with an annual interest bill of $1 trillion.

In an interview some months ago, which was recalled by the FT today, he said that having passed through many crises, "it all centres around where the vulnerabilities are and that's the debt … today it's at the US government … if you keep nominal GDP over the cost of debt, meaning we get the cost of the debt down a bit, get GDP [up], we'll actually de-lever the economy."

In other words, to deal with the centre of US vulnerability, its rising debt, the "America first" answer is to have the Fed run the economy "hot" and cut debt obligations through inflation.

But that raises the prospect that foreign investors, in Europe, Japan and China, a pillar of the US financial system, will see their assets eroded away by inflation and, under conditions where there are already concerns about stability, cut their holdings of US assets, widely regarded as a "nightmare scenario" for financial markets.