FX Viewpoint

Currencies
Global

Hawkish hike supports a stronger USD

- The USD rallied after the Fed's rate hike, with most aspects of the decision supportive for the currency
- The dots point to one more hike this year and some risk of another in 2027, but the path is still below market pricing
- We remain bullish on the USD but expect gains to be gradual and data-dependent

The Fed hiked rates, in line with market expectations

At its 15-16 September meeting, **the FOMC unanimously raised rates by 25bp**, lifting the federal funds target range to 3.75-4.00% and delivering the first increase since 2023. Updated projections signal further tightening, and Chair Warsh struck a firm, inflation-fighting (hawkish) tone in the press conference.

The unanimous, hawkish hike supported the USD

The USD strengthened following the decision. While the move was widely expected, the **unanimous vote reinforced confidence in the Committee's tightening bias**. The median 2026 "dot" implies one additional hike before year-end (see table), with a significant minority of participants still anticipating a further rate rise in 2027.

This path is more hawkish than a "one-and-done" outcome but remains below current market pricing, so **we do not expect a major repricing of rate expectations or the USD**. Instead, the market's attention is likely to focus on whether incoming data validate the final projected increase this year.

Median of the FOMC's economic projections

	2026	2027	2028	2029	Longer run
Real GDP growth (%), Q4/Q4					
September 2026 projection	2.3	2.4	2.2	2.0	2.0
June 2026 projection	2.2	2.3	2.2	N/A	2.0
Unemployment rate (%), Q4					
September 2026 projection	4.1	4.1	4.1	4.1	4.2
June 2026 projection	4.3	4.3	4.2	N/A	4.2
PCE inflation (%), Q4/Q4					
September 2026 projection	3.7	2.3	2.1	2.0	2.0
June 2026 projection	3.6	2.3	2.0	N/A	2.0
Core PCE inflation (%), Q4/Q4					
September 2026 projection	3.4	2.5	2.2	2.0	N/A
June 2026 projection	3.3	2.5	2.1	N/A	N/A
Federal funds rate (%), year-end					
September 2026 projection	4.125	4.125	3.875	3.625	3.250
June 2026 projection	3.750	3.625	3.375	N/A	3.062

Source: Federal Reserve

High inflation and robust growth could see more hikes

Warsh's remarks extended the USD-supportive message, stressing that inflation remains too high, economic activity – particularly in the labour market – is resilient, and policy is still accommodative, with the latest hike only reducing that accommodation. Overall, this points to a **Fed that is prepared to tighten further** if required, which should continue to support the currency.

We expect gradual, data-driven USD upside

We remain modestly bullish on the USD. The US economy continues to show resilience, the Fed has joined the group of central banks tightening and appears willing to do more, and the USD is less exposed than the EUR, GBP and JPY to the drag from elevated energy prices. However, the modest gap between the dots and market pricing suggests **upside is likely to be measured and data-driven**, particularly given that other G10 central banks are also leaning more hawkish.

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