CENTRAL BANK REVIEW

FOMC Minutes: September Meeting

The Federal Reserve raised rates unanimously in September, but the minutes show a committee that agreed on the move far more than on the reasons for it. Most officials expect one more increase by year end, and the debate over why is likely to define the October meeting.

Global Markets Research · Rates and Macro Desk Prepared for internal & client distribution by ANDRA MARKETS

Coverage summary. The minutes of the Federal Open Market Committee meeting of 15 and 16 September, published on 7 October, confirm a 25 basis point increase in the federal funds target range to 3.75% to 4.00%, approved by all twelve voting members. Inflation has moved further from the 2% objective, with the personal consumption expenditures price index rising 3.8% in the year to August and 3.4% excluding food and energy, pushed up by tariffs, higher energy prices linked to disruption of oil shipments from the Middle East, and rising prices for goods tied to the AI investment boom. The staff now see inflation returning to 2% only in 2029. Most participants judged that a further increase would likely be appropriate by the end of the year, yet the record shows a split between officials who see the tightening as insurance against unanchored expectations and those who see it as a response to demand running ahead of supply. This note reviews the decision, the committee's assessment of the economy and inflation, its reading of financial conditions, and what the minutes imply for policy and markets.

FED FUNDS TARGET RANGE	PCE INFLATION, AUGUST	UNEMPLOYMENT RATE	MARKET PRICING
3.75% to 4.00%	**3.8%**	**4.1%**	**Hold, then hike**
+25bp on 17 September, 12 to 0	*core 3.4%*	*risks now broadly balanced*	*October hold; December increase*

Exhibit A. Key points from the minutes

Item	Detail	Note
Decision	+25bp to 3.75% to 4.00%	unanimous; effective 17 September
Administered rates	IORB 3.90%; ON RRP 3.75%	primary credit and standing repo 4.00%
Balance sheet	reserve management purchases paused	"not on a preset course"
Inflation, August	PCE 3.8%; core 3.4%	3.6% and 3.2% on the new BEA method
Staff forecast	inflation back to 2% only by 2029	revised up; risks skewed to the upside
Labor market	unemployment 4.1%	risks to employment broadly balanced
Financial conditions	2 to 10 year yields up about 35bp	mostly real rates; dollar weaker
Guidance	"Most" see another increase by year end	next meeting 27 and 28 October

Figures as stated in the minutes released by the Federal Reserve on 7 October 2026; market pricing from contemporaneous news reports. Colour convention (charts only): red marks inflation pressure or tightening, green marks the objective or easing. All body and table text is set in black.

1.0 Executive Summary

Key takeaways

A unanimous vote with divided reasoning. All twelve voters supported the September increase, but the minutes describe two distinct justifications. Many participants framed a higher policy path as prudent risk management, arguing that the longer inflation stays above target, the greater the danger that households and firms stop believing in the 2%

objective. A number of participants went further and judged that higher rates were necessary on their central outlook, because demand, supported by AI investment and solid growth, is pressing against the economy's capacity. The difference matters: the first camp could stop after one or two increases if inflation expectations hold, while the second would need evidence that demand is cooling.

The bias is towards one more increase. Most participants assessed that another increase would likely be appropriate by year end, and several considered policy "not restrictive or only mildly restrictive", while a couple raised their estimates of the neutral rate. The committee has therefore not signalled a pause; it has signalled that the question is when, not whether, absent a clear change in the data. Markets read the document as consistent with a hold in October and an increase in December, and pared bets on back to back moves.

The inflation picture has several sources at once. Tariffs, energy and AI-related goods are each lifting prices, and the staff forecast now sees inflation returning to 2% only in 2029. Some participants warned that more than five consecutive years above target could unanchor expectations. With unemployment at 4.1% and growth expected to outpace potential through 2028, the Fed sees little in the real economy that argues for patience, which is why the burden of proof has shifted to the doves.

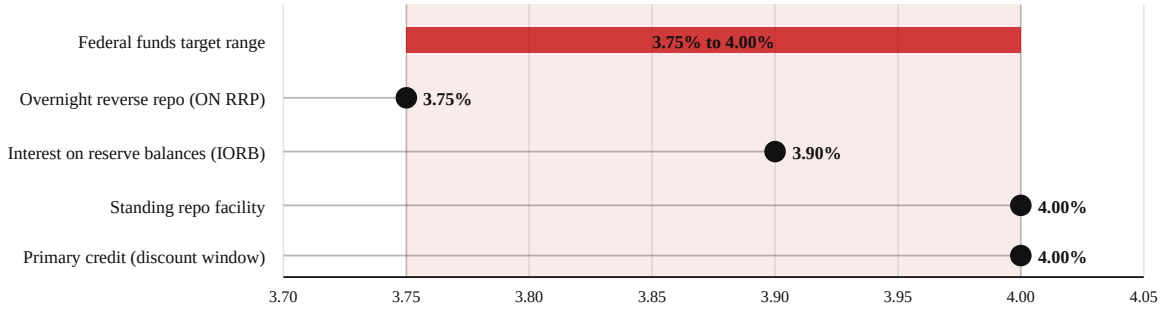
2.0 The Policy Decision

Rates, corridor and balance sheet

The committee raised the target range for the federal funds rate by 25 basis points to 3.75% to 4.00%, effective 17 September. To implement the decision, the Board raised the interest rate on reserve balances to 3.90% and the primary credit rate to 4.00%, while the committee set the standing overnight repurchase agreement rate at 4.00% and the overnight reverse repurchase rate at 3.75%, the bottom of the range. The structure of administered rates is therefore unchanged in relation to the target range, and money market rates moved up in line with the decision.

On the balance sheet, the committee paused the reserve management purchases of Treasury bills it had been conducting to keep reserves ample, and the minutes stress that the balance sheet is "not on a preset course". The pause removes a modest source of demand for short-dated Treasury securities and, together with the rate increase, makes clear that the committee does not want its balance sheet operations to be read as easing at a time when it is tightening through rates.

Exhibit 1. Federal Reserve administered rates after the September decision (%)



Source: Andra Markets; Federal Reserve, minutes of the FOMC meeting of 15 and 16 September 2026 and implementation note. Shaded area marks the target range.

3.0 Economic Assessment

Solid growth, steady labor market

The staff and participants described an economy that continues to grow at a solid pace. Real GDP growth has held up through the year, and the staff projection has output growing faster than potential through 2028. That projection is central to the hawkish case: if the economy expands faster than its capacity for three more years, the gap between demand and supply is likely to widen rather than close, adding to price pressures that already come from other sources.

The labor market looks stable rather than tight. The unemployment rate stood at 4.1%, and participants judged that the risks to employment are now broadly balanced, a notable shift from earlier in the cycle, when the committee was more concerned about a weakening in hiring. That change frees the committee to focus on inflation. Several participants noted that further tariff increases represent an upside risk to prices.

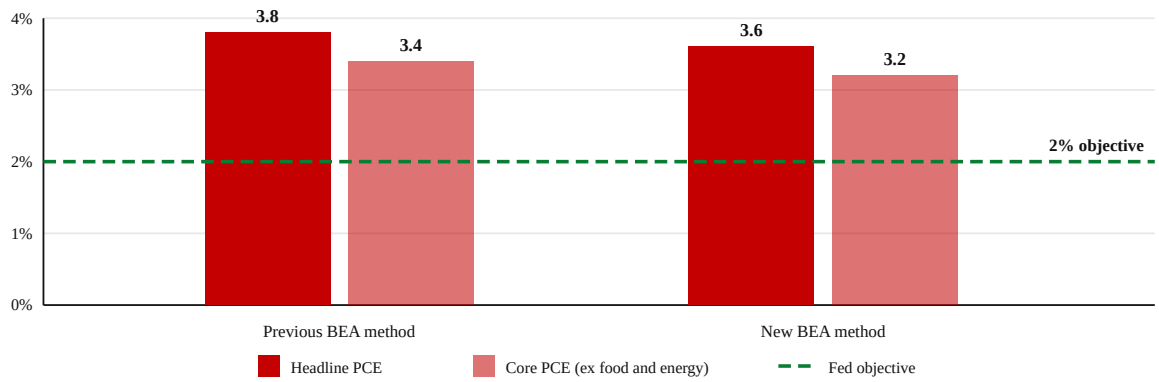
4.0 The Inflation Debate

Three sources of pressure

Inflation is the reason for the tightening, and the minutes make clear that it is not coming from a single place. The PCE price index rose 3.8% in the twelve months to August and 3.4% excluding food and energy. On the Bureau of Economic Analysis's new methodology, the figures are slightly lower at 3.6% and 3.2%, but the conclusion is the same: inflation is well above the 2% objective and has been moving away from it. Participants attributed the pressure to tariffs passing through to goods prices, to higher energy costs after disruption to oil shipments from the Middle East, and to rising prices for goods tied to the AI buildout, such as semiconductors, servers and electrical equipment.

Many participants observed that the longer energy prices remain elevated, the greater the risk that they spread into the prices of other goods and services and into wage setting. Some warned that the AI investment wave could cause demand to outpace supply more broadly, a concern that turns what was previously regarded as a supply-side story about productivity into a demand-side inflation risk. The staff revised up their inflation forecast and now see PCE inflation returning to 2% only in 2029, with risks skewed to the upside. Some participants noted that inflation would by then have been above target for more than five years, a period long enough, in their view, to put the anchoring of expectations at risk.

Exhibit 2. PCE inflation, twelve months to August 2026 (%), against the 2% objective



Source: Andra Markets; Federal Reserve, FOMC minutes of 7 October 2026, citing Bureau of Economic Analysis data. Red marks inflation, the dashed green line the 2% objective.

5.0 Financial Conditions

Higher real rates, weaker dollar

Financial conditions tightened over the intermeeting period. Treasury yields between two and ten years rose by about 35 basis points, and the minutes attribute most of the increase to higher real rates rather than to inflation compensation, which suggests investors were pricing a tighter policy path rather than losing confidence in the inflation objective. The manager's report cited four drivers: expectations for the policy path, geopolitical developments, uncertainty about the Treasury's buyback operations, and "competition for capital from heavy private debt issuance" to fund AI investment. The last point is new in the Fed's record and reflects the scale of bond issuance by hyperscalers and data center developers discussed in our notes on Oracle, Alphabet and SpaceX.

Two other observations stand out. The dollar depreciated over the period, partly after coordinated intervention by the United States and Japan in support of the yen, which eased conditions at the margin and adds to import prices. And equity gains over the period came entirely from earnings growth, with price to earnings multiples declining. In other

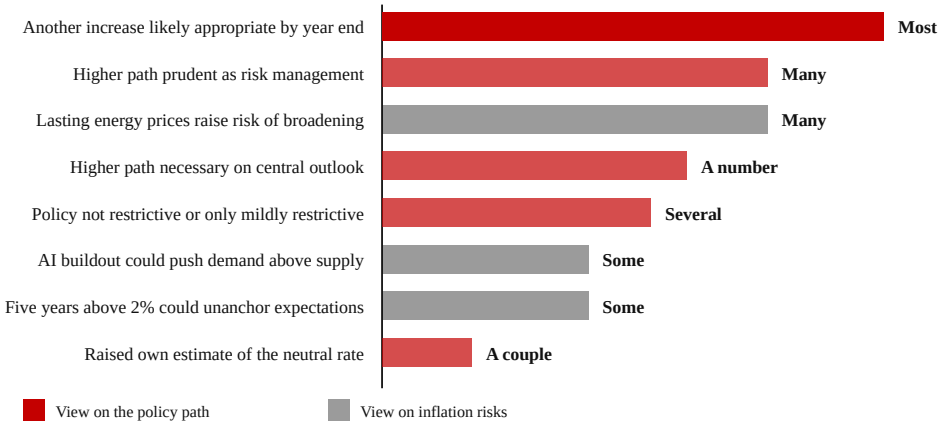
words, rising rates are already compressing valuations, and stock prices are holding up because profits, led by technology and AI-related companies, continue to grow quickly.

6.0 Policy Outlook

Reading the qualifiers

The minutes use a conventional vocabulary to indicate how widely a view is held, from “most” at the top, through “many”, “a number”, “several” and “some”, to “a couple”. Read in that light, the document is clearly hawkish. The view that another increase would likely be appropriate by year end carries the strongest qualifier in the text. The risk management argument for a higher path is held by many participants, and the stronger claim that a higher path is needed on the central outlook by a number of them. Several regarded current policy as not restrictive or only mildly restrictive, and a couple raised their estimate of the neutral rate, the level at which policy neither stimulates nor restrains the economy. No group of participants is recorded as arguing for an early end to tightening.

Exhibit 3. Views recorded in the minutes, by breadth of support (ordinal, illustrative)



Source: Andra Markets reading of the FOMC minutes released 7 October 2026. Bar lengths reflect the conventional ranking of Fed qualifiers and do not represent counts of participants.

The split over reasoning will shape what comes next. Officials who favour precautionary tightening are likely to look mainly at inflation expectations and at whether energy and tariff effects spread into services and wages; if those remain contained, they could be satisfied with one more move. Officials who see excess demand will look at growth, investment and the labor market, and could support a longer sequence of increases if activity stays strong. Contemporaneous reporting described the October meeting as likely to feature a vigorous debate, with the possibility of more than one dissent, an unusual prospect after a unanimous vote.

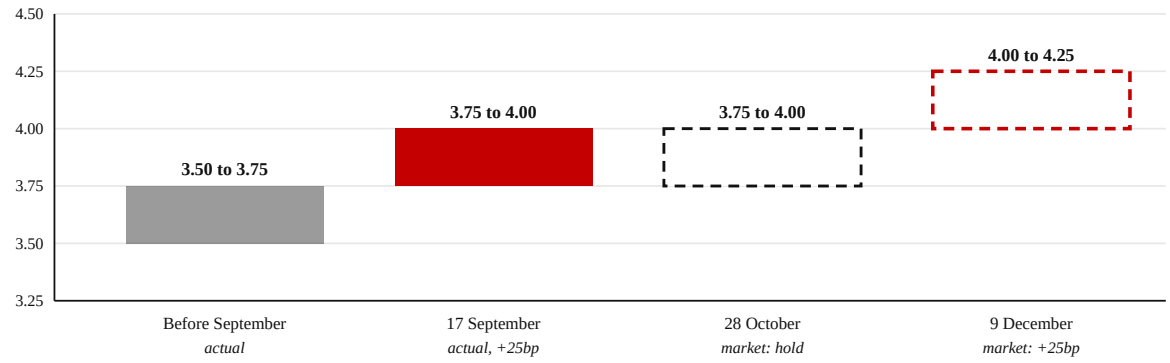
7.0 Market Implications

Hold in October, hike in December

Markets interpreted the minutes as confirming the direction of policy without accelerating it. Futures pricing pared the probability of back to back increases and now points to an unchanged rate at the 27 and 28 October meeting, followed by a 25 basis point increase at the meeting of 8 and 9 December, which would take the target range to 4.00% to 4.25%. That path is consistent with the “by year end” language in the minutes and gives the committee time to see two more inflation reports and the October employment data before acting.

For bonds, the message is that the front end has less room to fall and that real yields, already the main driver of the rise in longer rates, are unlikely to retreat while the committee leans towards tightening and private borrowing for AI remains heavy. For equities, the minutes confirm what the intermeeting period already showed: multiples are contracting, and returns depend on earnings growth continuing to outrun the rise in discount rates. Rate-sensitive sectors such as housing, utilities and smaller companies with floating-rate debt remain the most exposed. For the dollar, a hawkish Fed would normally be supportive, but the minutes’ reference to coordinated yen intervention is a reminder that currency policy is now an active consideration alongside interest rates.

Exhibit 4. Federal funds target range and market-implied path (%)



Source: Andra Markets; Federal Reserve; market expectations as reported by news agencies on 7 October 2026. Solid boxes are actual ranges, dashed boxes market-implied outcomes; red marks an increase.

8.0 Risk Considerations

Where the reading could change

The main upside risk to rates is a broadening of inflation. If energy prices stay high, if further tariff increases materialise, or if AI-related demand keeps pushing up prices for equipment and electricity, the precautionary and demand-driven camps could converge on a longer tightening cycle than markets now price. A rise in measured inflation expectations would be the clearest trigger, given the weight participants placed on the risk of five or more years above target.

The downside risks are of a different kind. A sharp correction in AI-related investment or in the financial markets that fund it would weaken both the growth outlook and the demand-side argument for tighter policy, and the committee's assessment that labor market risks are balanced could change quickly if hiring slowed. A de-escalation in the Middle East and a fall in oil prices would ease headline inflation and strengthen the case of those who see the tightening as insurance rather than necessity. Finally, a committee divided on its reasoning is harder to forecast: dissents in October would signal that the consensus behind further increases is narrower than the "most participants" language suggests.

9.0 Outlook and Monitoring Points

What to watch

The key data before the October meeting are the September consumer price index and PCE reports, the September employment report and measures of inflation expectations from surveys and inflation-linked bonds. Within those, the most informative signals will be services inflation outside energy, which would show whether price pressures are broadening, and wage growth, which would show whether the labor market is adding to them. Oil prices and the course of the Middle East disruption, any new tariff announcements, and the pace of corporate bond issuance tied to AI will also shape the committee's view. On current evidence, the Fed has moved from asking whether to tighten to asking how far, and the October debate over why it is tightening will determine the answer.

Methodology and Source Notes

Method. This note is a review of the minutes of the Federal Open Market Committee meeting held on 15 and 16 September 2026, published on 7 October 2026, read alongside contemporaneous market coverage. Quotations are taken from the minutes. Exhibit 3 is an Andra Markets interpretation of the qualifiers used in the minutes; bar lengths are ordinal and do not represent numbers of participants. The market-implied path in Exhibit 4 reflects expectations reported on the day of release and can change quickly. References to earlier Andra Markets notes are for context. This note is analysis, not investment advice.

Principal sources. Board of Governors of the Federal Reserve System, Minutes of the Federal Open Market Committee, 15 and 16 September 2026 (released 7 October 2026), and the associated implementation note; Reuters, via Investing.com, coverage of the minutes and market reaction (7 October 2026).

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