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All Signal, No Noise

MARKET ANALYSIS

MNI Fed Review: July 2025

MNI View: No Nod To September Cut

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Jul 30, 2025

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The July FOMC decision came with a subtle signal that the Committee was beginning to lay the groundwork for a September rate cut, but Chair Powell's press conference was largely spent playing down that prospect. The net impact on markets was a paring of rate cut expectations, with a September easing finishing the session at no better than a 50% proposition, versus about 60% pre-decision.

Double-Dissent, Weaker Growth Leaned Dovish: The first sign of a possible dovish turn coming out of the meeting was a double dissent in favor of a 25bp rate cut by Governors Bowman and Waller, which - while widely expected - confirmed that there is a growing contingent of activist rate cut supporters.

- And the Statement somewhat unexpectedly acknowledged slowing economic growth in contrast to the previous "solid" description. This appeared to be laying the groundwork for a potential "live" September meeting.

Powell Says Committee Eyeing Above-Target Inflation: Powell's opening statement to the press conference nodded to the dovish dissenters' view that tariff-driven inflation could prove to be a one-off that should be looked through: "A reasonable base case is that the effects on inflation could be short-lived—reflecting a one-time shift in the price level."

- "But", he added, "it is also possible that the inflationary effects could instead be more persistent, and that is a risk to be assessed and managed."
- He spent much of the press conference emphasizing the FOMC's focus on inflation running above-target. He said that he would characterize current policy as "modestly restrictive". and that "it seems to me and to almost the whole committee that the economy is not performing as [though] a restrictive policy is holding it back inappropriately, and modestly restrictive policy seems appropriate... the majority view was still what it has been, which is that inflation is running above target, maximum employment is right at target… When we have risks to both goals, one of them is farther away from goal than the other and that's inflation. Maximum employment at goal. That means policy should be tight because tight policy is what brings inflation down."
- Indeed he repeated multiple variations of the theme: "even if you look through the tariff effects, we think it's still a bit above target", while "the labor market looks solid".
- Asked about Gov Waller's claim that the labor market is "on the edge", Powell said "I think if you take the totality of the labor market data, you have got a solid labor market. But I think you have to see that there are downside risks."

September Cut In The Balance: Overall, Powell said it's "really hard to say" whether there will be enough information to cut in September. Asked about the what the Fed is looking for in the data:

- "If you saw that the risks to the two goals were moving into balance, if they were fully in balance, that would imply that you should move toward a more neutral stance on policy. This is the special situation we are in, which is, we have two-sided risks... As the two targets get back into balance, you would think you would move it in a way closer to neutral and the next steps that we take are likely to be in that direction. What will it take? It will be the totality of the evidence. As I mentioned, there's quite a lot of data coming in which before the next meeting, will it be dispositive of that? You know, it's really hard to say. We don't make those decisions right now. So, we will have to see."

- "This is an intermeeting period where we will get two full rounds of employment and inflation data before the time of the September meeting. We have made no decisions about September. We don't do that in advance."
- While it's a different situation this year, compare Powell's responses at this press conference with July 2024, when the FOMC held rates but ended up cutting 50bp in September. Both times he emphasized that the FOMC hadn't decided on future meetings, and that it would come down to the "totality" of the data, but last year he explicitly said "a reduction in our policy rate could be on the table as soon as the next meeting in September…the broad sense of the Committee is that the economy is moving closer to the point at which it will be appropriate to reduce our policy rate."
- The divide on the Committee this time amid significant uncertainty appears to be too great to make any pre-commitment.

Still "Early Days" To Evaluate Tariff Impact: And incoming information and data haven't really changed the equation for the majority of the Fed, per Powell. He said that he expects there is "much more" to come on the trade front that keeps uncertainties elevated, despite increasing clarity about the eventual "effective" rate of tariffs. Powell didn't make it sound like the Fed was close to getting all the information it needed to make a decision by September, emphasizing that it was still very early to determine the impact of tariffs on the economy.

- "We are still a ways from seeing where things settle down. We are getting clearly more and more information and I think at this point... estimates of the likely effective level of tariffs is not moving around that much at this point. But at the same time, there are many, many uncertainties left to resolve. So yes, we are learning more and more. It doesn't feel like we are very close to the end of that process. And that's not for us to judge, but it feels like there's much more to come as well, looking ahead."
- He called it "early days" to be able to evaluate the tariff impact on inflation: "I think you have to think of this as still quite early days... what we see now is basically the very beginnings of whatever the effects turn out to be on goods inflation. And you know, I'll say again, they may be less than people estimate, or more than people estimate. They're not going to be zero...we are going to have to watch and learn empirically how much of this and over what period of time. I think we have learned that the process will probably be slower than expected at the beginning. But we never expected it to be fast. And we think we have a long way to go to really understand exactly how we will be."
- MNI (and others) had thought Powell would once again acknowledge, when asked, that the June SEP showed a median Committee participant expectations of two cuts by year-end. This time, Powell didn't repudiate the Dot Plot but likewise he hardly endorsed it: "I couldn't point to it six weeks later as expressing people's thoughts. You can't do that." He said they didn't prepare an updated SEP at this meeting "and I don't like to substitute in my own estimate of what the SEP might be. I will say we haven't made decisions about monitoring all of the incoming data and asking ourselves whether the federal funds rate is in the right place."

Dissenting Views: Of the two dissents, Powell said "it's an unusual situation where you have risks to both your employment mandate and your inflation mandate. That's the nature of a supply shock. And it's probably not surprising that there would be differences and different perspectives on that, as well as different views of where the neutral rate is, so different views of how tight policy is... I would call it one of the better meetings I can recall from that standpoint."

- He said that two participants (ie Waller and Bowman) "felt that the time had come to cut and for the reasons that they are going to express. I won't tell you the reasons. They will issue some kind of a thing in the next day or so" (referring to the traditional post-meeting statements from dissenters).

Inflation Composition Evolving: Powell said that "You could argue we are a bit looking through goods inflation by not raising rates. We haven't reacted to new inflation."

- Powell acknowledged that the composition of inflation was changing. Powell notes that inflation readings are "little changed" since the beginning of the year but points out that services inflation has continued to ease but tariffs are "pushing up prices in some categories of goods". "Higher tariffs have begun to show through more clearly to prices of some goods, but their overall effects on economic activity and inflation remain to be seen...if you go back to the last couple of years, it was all about services inflation, which was being very sticky. Now services inflation is coming down nicely. Goods inflation was well behaved before, and now goods inflation is going up. So the story has really changed. That's partially because of tariffs."

Statement Updates Nod to Moderation In Domestic Demand: The new statement cleans up the language in the first two paragraphs a little, with a slight twist in the description of economic conditions that elicited a modest dovish market reaction.

- It maintains the language around the "swings in net exports", but makes note of growth in economic activity having "moderated in the first half of the year" (versus the prior mention of "has continued to expand at a solid pace"). That's potentially a nod to softer domestic demand amid the swings in headline GDP.
- The language about the labor market (unemployment rate remains low, conditions remain solid) and inflation (remains somewhat elevated) are unsurprisingly unchanged.
- The removal of "has diminished but" re uncertainty (which still "remains elevated") in then 2nd paragraph was fully expected, and the two dissents by Waller and Bowman were also expected by most.

Market Reaction: Rates And Dollar Up

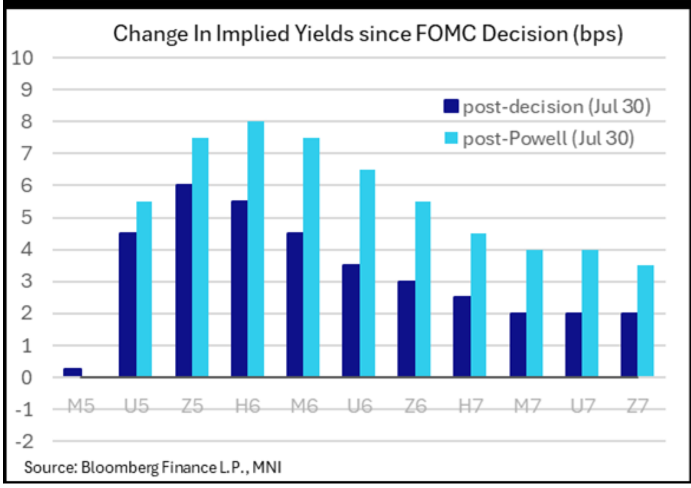
Rates: A hawkish reaction in Fed rates extended throughout Powell's conference, comfortably more than reversing the small dovish reaction to the initial decision statement. Fed Funds cumulative cuts from 4.33% effective: 12.5bp Sep (vs 16bp pre-Powell and 15.5bp pre decision), 21.5bp Oct, 37.5bp Dec (vs 44bp per decision), 46bp Jan and 58bp Mar (vs 65bp pre decision)

FX: The USD Index made light work of resistance into the mid-June highs, testing the 100-dma to the upside for the first time since October 2024.

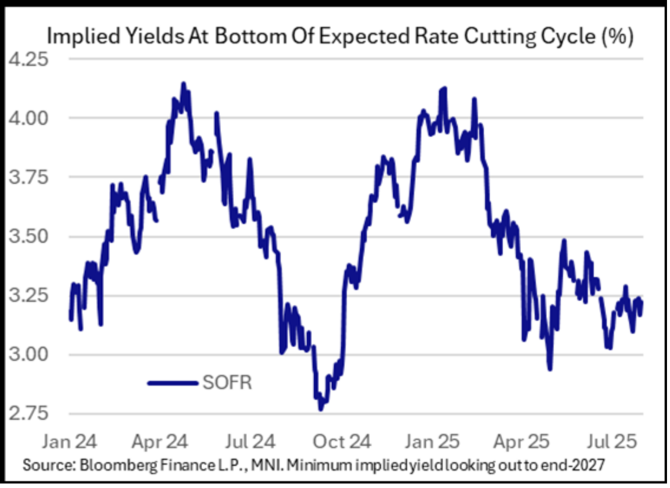
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Jul 30)			*chg in rate*	pre FOMC decision (Jul 30)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.21	-11.6	-12.5	4.17	-15	-16.1	*3.6*	4.18	-14	-15.3	*2.8*
Oct'25	4.11	-9.2	-21.7	4.05	-12	-28.2	*6.5*	4.06	-12	-27	*5.6*
Dec'25	3.95	-16.0	-37.7	3.88	-17	-45.3	*7.6*	3.89	-17	-44	*6.4*
Jan'26	3.87	-8.5	-46.2	3.78	-9	-54.7	*8.5*	3.80	-9	-53	*6.5*
Mar'26	3.75	-12.3	-58.5	3.66	-12	-66.8	*8.3*	3.68	-12	-65	*6.3*

Source: Bloomberg Finance L.P., MNI.



Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

FOMC Instant Answers

FED: Instant Answers: Fed Holds Steady; Bowman, Waller Dissent On Rates

- Federal Funds Rate Range Maximum: **4.5%**
- Number of dissenters: **TWO**
- Number of dissenters preferring a rate cut: **TWO**. **Michelle Bowman and Christopher Waller** preferred to lower the target range by 0.25 percentage point.
- Number of dissenters preferring a 50bp cut: **ZERO**

Press Conference Transcript:

Press Conference Q&A live-reported by MNI Analysts and Policy Reporters on our MainWire, IB and Bullets services (transcript may not exactly match what what said). MNI's Unofficial Press Conference Transcript:

https://media.marketnews.com/rough_transcript_of_Powell_s_presser_July_2025_bd6c48aefa_84960ef968.pdf

FOMC Links:

Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20250730a.htm

Implement. Note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20250730a1.htm

Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250730.htm

Statement Changes (Vs Previous FOMC)

Although swings in net exports ~~have affected~~continue to affect the data, recent indicators suggest that growth of economic activity ~~has continued to expand at a solid pace~~moderated in the first half of the year. The unemployment rate remains low, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook ~~has diminished but~~ remains elevated. The Committee is attentive to the risks to both sides of its dual mandate.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage~~-~~ backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr~~; Michelle W. Bowman~~; Susan M. Collins; Lisa D. Cook; Austan D. Goolsbee; Philip N. Jefferson; ~~Adriana D. Kugler;~~ Alberto G. Musalem; and Jeffrey R. Schmid~~;~~. Voting against this action were Michelle W. Bowman and Christopher J. Waller~~.~~, who preferred to lower the target range for the federal funds rate by 1/4 percentage point at this meeting. Absent and not voting was Adriana D. Kugler.

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