

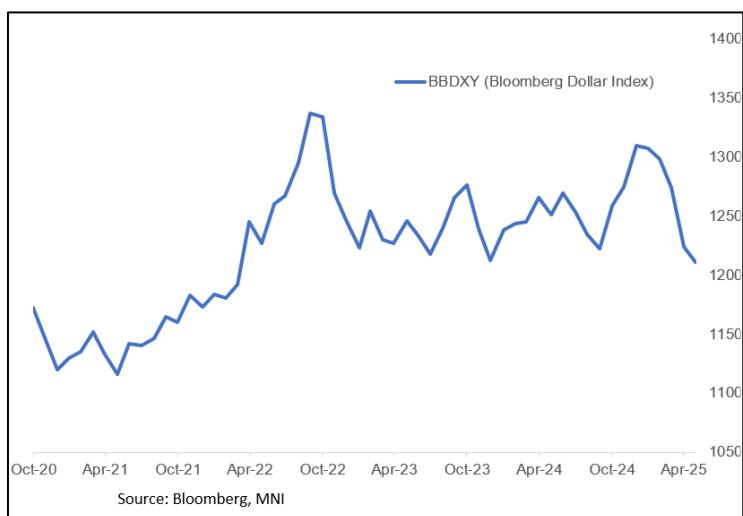
MNI U.S. Macro Weekly

MNI View: No Holiday For Tariff Watchers

May 23, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- Market attention on trade matters had appeared to have run its course for the moment, with focus mounting on deteriorating fiscal accounts as Congress made progress on President Trump's "Big, Beautiful" tax bill.
- But Friday brought a major escalation in trans-Atlantic trade tensions as Trump posted on social media that "I am recommending a straight 50% Tariff on the European Union, starting on June 1".
- He reiterated that threat in an Oval Office appearance just ahead of the long Memorial Day weekend, leaving just 9 days for Washington and Brussels to reach an agreement.
- The most notable reaction in markets was in the US dollar, which fell to its lowest level since 2023.
- On the data side, whilst again looking stale following the latest tariff threat backdrop, firmer than expected flash PMIs were the pick of the week as they better captured the May 12 US-China de-escalation in trade policies compared to previous regional Fed surveys for May.
- That also came with the highest PMI output price inflation for goods & services inflation since Aug 2022.
- Elsewhere, jobless claims extended their trend of a very mild rise whilst home sales data for April were mixed, with existing sales slipping a little further vs new home sales jumping to highs since early 2022.
- Fed speak saw Chicago Fed's Goolsbee ('25 voter, dove) on Friday describe the EU tariff threat as "really scary" for supply chains whilst reiterating a high bar for rate action amidst uncertainty. Hawks Musalem and Schmid ('25 voters) emphasized a preference for watching hard over soft data.
- After initially spiking lower on Friday's tariff threats, markets appear to be banking on a deal and are ending the week with end-2025 Fed rates near their most hawkish levels since February. Growth concerns weigh on terminal rate expectations though, at the low end of recent ranges with ~100bp of cuts for the cycle.



Risk-Off As Trump Recommends 50% Tariff On EU

Weakness in equities and a nascent rally in bonds extended as President Trump posted on Truth Social that "Our discussions with them [the European Union] are going nowhere! Therefore, I am recommending a straight 50% Tariff on the European Union, starting on June 1, 2025".

- Later, Trump didn't back down on those threats, saying in an afternoon Oval Office appearance that "right now" a 50% additional tariff "is going on June 1st, and that's the way it is done. They haven't treated us properly", reiterating his view that the EU imposes various barriers to trade and they "don't take our cars, they don't take our agriculture...they don't take anything". Asked what he hopes to achieve with a 50% tariff on the EU: Trump says he thinks there will be no "tariff because what they'll do is they'll send their

companies into the US and build their plants" here... "I mean, we've set the deal. It's at 50%. But again, there is no tariff, if they build their plant here. Now, if somebody comes in and wants to build a plant here, I can talk to them about a little bit of a delay. But, you know, while they're building their plant, which is something I think that would be appropriate, maybe we'll determine that."

- Thus it didn't appear that there was any breakthrough in the scheduled (though unconfirmed) talk between the EU and US trade representatives later in the morning (and Trump also reiterated that Apple, and other smartphone makers, would be subject to 25% import tariffs as soon as the end of June).

50% EU Tariffs Would Have Big PCE, GDP Hit: Yale Budget Lab's Tedeschi

Shortly after Trump's announcement, Yale Budget Lab's Ernie Tedeschi published (on X.com) some early estimates of the economic impact on the US of a 50% reciprocal tariff on EU imports (vs the 10% baseline) - some selected findings:

- "the pre-substitution tariff rate would be the highest since 1909 under a 50% EU 'reciprocal' tariff. The post-substitution rate would be the highest since 1910."
- "The pre-substitution average effective US tariff rate rises from 15.4% now to 19.5%/Post-substitution, the average rate rises from 14.0% to 18.3%". As explained by the Yale Budget Lab, "pre-substitution metrics (before consumers and businesses shift purchases in response to the tariffs) / post-substitution (after they shift)"
- "Short-run PCE price-level pressures rise by another 0.5pp, from 1.7% to 2.2%"
- "The hit to real GDP growth over 2025 grows by 0.2pp, to -0.84pp"
- "The effect on the unemployment rate in 2025 Q4 rises by 0.1pp, to +0.44pp"
- "Leather product prices (handbags & shoes) rise 40% in the short-run & stay persistently 18% higher."
- "Apparel prices is 31% higher in the short-run & 15% higher in the long-run...Electronics prices are 31% in the near-term & stay 11% higher."

US Average Effective Tariff Rate Since 1790

Customs duty revenue as a percent of goods imports



* Assumes revised April 9 tariffs stay in place past 90 days.

Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis.

Source: Yale Budget Lab's Ernie Tedeschi on x.com

Business Sentiment: Surprisingly Strong Flash PMIs

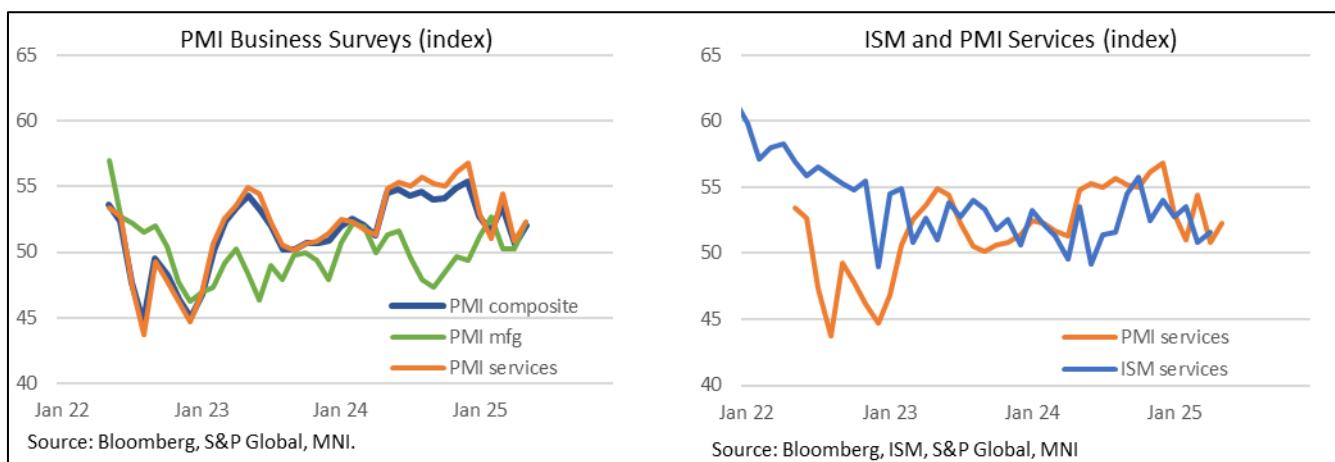
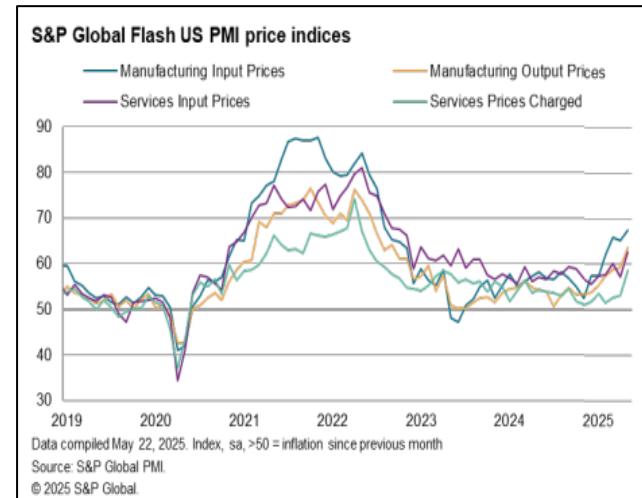
Flash PMIs Surprise Stronger For Both Manufacturing And Services In May

The S&P Global US flash PMIs for May were comfortably stronger than expected for both manufacturing and services, as they better reflected the de-escalation in US-China trade policies on May 12 compared to other surveys already seen for May. We had flagged as such beforehand. Output price inflation for goods & services inflation reached its highest since Aug 2022 whilst, interestingly, mfg inventory showed its largest jump on record which suggests the strong contribution to Q1 GDP growth might not reverse as soon as expected in Q2.

- Manufacturing: 52.3 (cons 49.9, 20 responses) in the May prelim after 50.2 in April – highest since Feb and before that Jun 2022.
- Services: 52.3 (cons 51.0, 16 responses) in the May prelim after 50.8 in April – highest since March.
- Composite: 52.1 (cons 50.3, 5 responses) in the May prelim after 50.6 in April – highest since March.

Press release highlights:

- "US business activity growth and expectations for future output improved from lows seen in April, according to flash PMI® survey data for May. However, they both remained historically subdued amid ongoing concerns over the detrimental impact of tariffs on demand, supply chains, and prices.
- Export orders continued to fall, dropping especially sharply for services, supply chain delays intensified, and prices charged for goods and services surged to an extent not seen since August 2022, overwhelming linked to tariffs.
- Manufacturing input inventory holdings meanwhile showed the largest jump on record as firms sought to safeguard against further tariff related issues."
- Data were collected 12-21 May

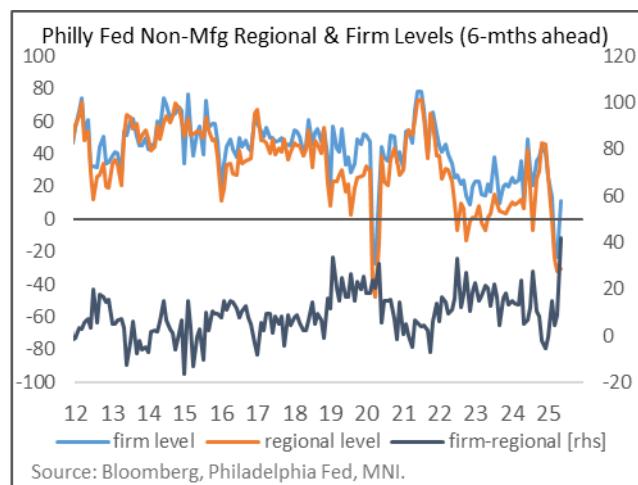
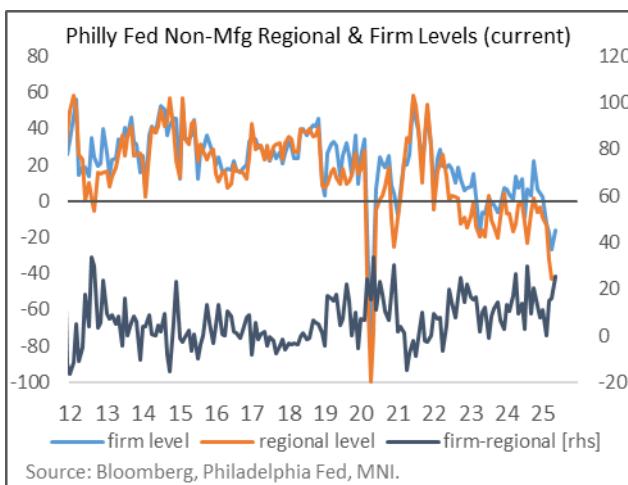


Philly Service Firms Far More Optimistic About Themselves Than Their Region

Service firms in the Philadelphia Fed district were far more optimistic about their own outlook than the dismal prospects for their own region in May, with the largest discrepancy on this basis since the series started in 2011. The net share who saw an increase in full-time employees in May was also the highest since Jan 2024.

- The Philly Fed non-manufacturing only inched up to -41.9 in May after the -42.7 in April has only seen lower in Apr/May 2020 for a series starting in 2011.
- Survey responses were collected from May 5-15, offering some time to start processing the de-escalation in US-China trade policies on May 12.

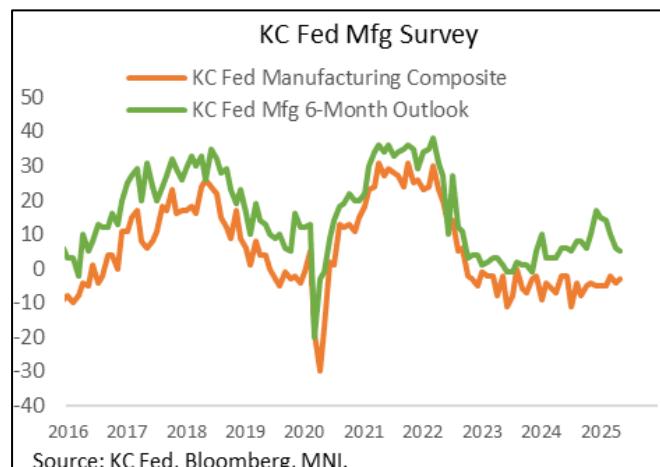
- It's a somewhat similar story to the mild improvement seen in last week's NY Fed services index which ticked up from -19.8 to -16.2 in May, only that -19.8 isn't as outwardly weak on a historical basis.
- Back to the Philly survey, there was interestingly a greater improvement at a firm- rather than regional-level, with the firm-specific index increasing from -26.7 to -16.3.
- This discrepancy between the firm-level and broader assessment of activity, which could point to some upside ahead, is more pronounced in the six-month forward-looking index.
- Specifically, the 6-mth regional index only increased from -31.8 to -30.6, which aside from the -31.8 is the lowest since Apr 2020. However, the 6-mth firm index jumped to +11.6 after two negative months with -23.0 in Apr and -19.8 in Mar. The latter compares with the 31.5 averaged in 2024, including 44.7 in the month of the presidential election, plus 20.8 averaged in 2023.
- There were some mixed, but ultimately encouraging, signs for employment as well. The full-time employees index jumped from -7.2 to +11.3 for its highest since Jan 2024 whilst the part-time employees index fell from -7.9 to -11.9 for its lowest since Jul 2020.



KC Fed Manufacturing Activity Stable, With Optimism And Inflation Lower

The Kansas City Fed's Tenth District Manufacturing survey showed a surprising improvement in the month-over-month composite index in May to -3 (-5 expected, from -4 in April). This kept the survey within its fairly narrow range since late 2022, suggesting that while regional activity isn't falling sharply, it isn't accelerating either.

- New orders ticked up 2 points to -9. However, the 6-month outlook index fell 1 point to 5, marking the weakest in 10 months.
- Price dynamics were disinflationary after the tariff-related spike earlier in the year. Current prices paid fell to a 5-month low 34 (vs 42 in the prior 2 months, with prices received at a 2-month low 17 vs 29 prior). Anticipated inflation also moderated: 6-month ahead prices paid dropped 20 points to 51 (4-month low), with prices received down 13 points to 46 (2-month low).
- This was potentially reflective of the US-China trade war climbdown on May 12 (the survey was open from May 14-19), though that doesn't quite square with the pullback in overall optimism.
- More details from the report: "Nondurable manufacturing declined—driven by food manufacturing—while durable manufacturing was mostly flat, with increases in metals and furniture manufacturing and decreases in electronic and transportation equipment. Production, volume of shipments, and new orders all fell moderately this month. Backlogs of orders declined substantially, while employment increased modestly and inventories were mostly flat. Most year-over-year indexes were negative, except for the prices indexes, capital expenditures, and raw materials inventory. Production continued to decrease along with the number of employees and average employee workweek."



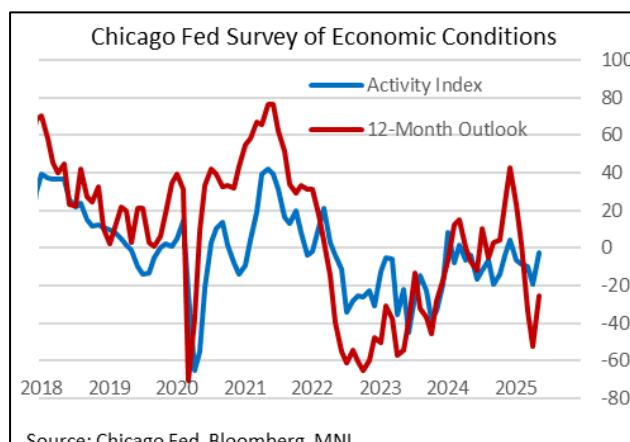
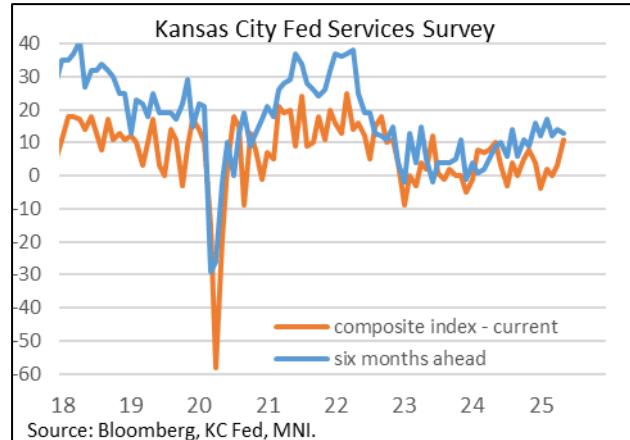
KC Fed Services Sees Surprising Strength In May

- The Kansas City Fed's services sector survey showed a strong rebound in the composite index to 11 in May from 3 prior, marking a 23-month high. The 6-month outlook however ticked 1 point lower to 13.
- The KC Fed survey has been a bit of an outlier versus other regional Fed reports, generally seeing less volatility in either direction throughout the last few months of tariff policy uncertainty.
- Each of the regional surveys for May so far (as well as flash PMI) have shown an improvement in services activity, though the rise in KC is especially impressive, with the current index catching up to prior relative optimism (6-month outlook) rather than the other way around.
- Additionally, input inflationary pressures softened (to 43 from 49) though selling prices rose (to 18 from 16).
- Note that the survey period was May 14-19 so this will have been conducted after the May 12 US-China trade truce, potentially boosting firms' optimism.
- From the report: "Activity in tourism, wholesale trade, and professional services increased, while retail trade and autos saw declines. All month-over-month indexes were positive except access to credit. General revenue/sales accelerated from 4 to 14, and employment and employee hours also increased to 10 and 9, respectively. Access to credit continued to decline modestly at -4. Year-over-year growth ticked down but remained positive, as growth in business services softened while staying mostly steady in the consumer sector (Chart 2). Revenues and employment growth cooled from last month's readings, but capital expenditures accelerated from 9 to 19. Expectations for future services activity remained expansionary, with expectations for revenue easing while employment increased."

Chicago Fed Regional Activity Improves Led By Services, But Still Weak

The Chicago Fed Survey of Economic Conditions (CFSEC) Activity Index rebounded to near-trend levels in May, with a divergence between services activity rebounding but manufacturing deteriorating further. Like other regional Fed surveys for May, it suggests that activity and pessimism may be past the worst (May flash PMIs suggest likewise), but a full recovery in activity and sentiment remains elusive.

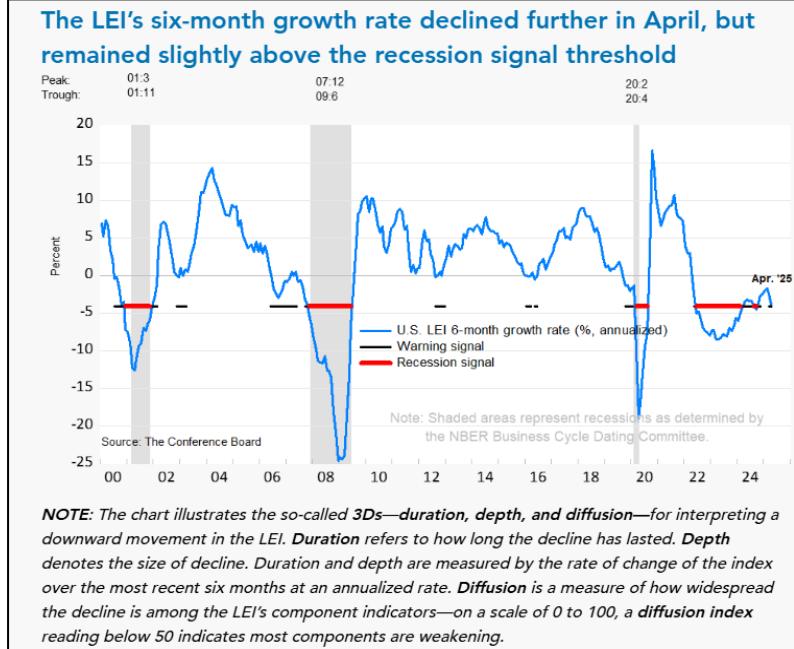
- The survey's headline activity index rose to -3 ("suggesting that economic growth was near trend" among firms in Illinois, Iowa, Indiana, Michigan, and Wisconsin, per the Chicago Fed) in May, vs -20 in April.
- The 12-month outlook likewise rebounded, to -26 from -52 (which was a 23-month low) in April. The report notes that this means despite the rebound, respondents "remained pessimistic on balance", and 45% "expected a decrease in economic activity over the next 12 months."
- "CFSEC is fielded in the middle of the month and asks respondents about how economic conditions have changed over the past 30 days", so this improvement may reflect better economic prospects after the US-China detente on May 12, though that doesn't appear to have helped the manufacturing outlook.
- The nonmanufacturing activity index soared to +11 from -23, but manufacturing fell to -21 from -6.
- Other findings were mixed: "The pace of current hiring increased, as did respondents' expectations for the pace of hiring over the next 12 months. Both hiring indexes remained negative...Respondents' expectations for the pace of capital spending over the next 12 months decreased, and the capital spending expectations index remained negative...The labor cost pressures index was unchanged, but the nonlabor cost pressures index increased. Both cost pressures indexes remained negative."



Growth: Mixed Readings For Lower Tier Releases

Leading Index Sees Sharpest Drop Since 2023 But AVOIDS Recession Signal

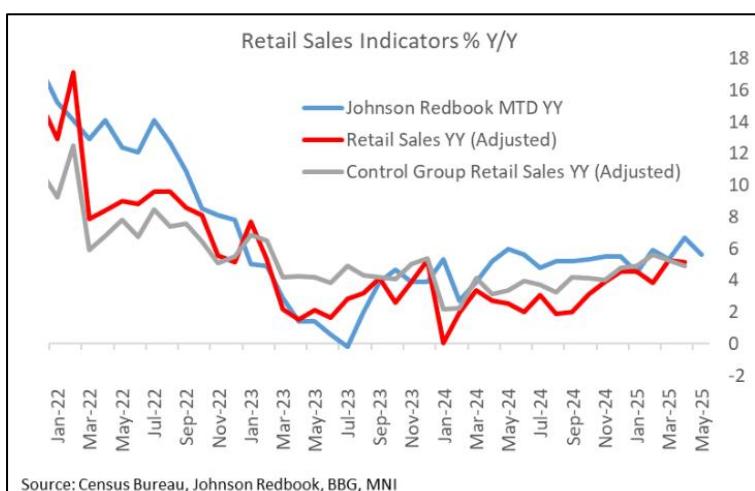
- The Conference Board's Leading Economic Index (LEI) fell -1.0% M/M as expected in April after a downward revised -0.8% (initial -0.7) in March.
- The press release notes this is the "largest monthly decline since March 2023, when many feared the US was headed into recession, which did not ultimately materialize".
- "Most components of the index deteriorated. Notably, consumers' expectations have become continuously more pessimistic each month since January 2025, while the contribution of building permits and average working hours in manufacturing turned negative in April."
- "Widespread weaknesses were also present when looking at six-month trends among the LEI's components, resulting in a warning signal for growth. However, while the six-month growth rate of the LEI went deeper into negative territory, it did not fall enough to trigger the recession signal."
- The Conference Board currently forecasts US real GDP growth of 1.6% in 2025 after 2.8% in 2024, "with the bulk of the impact of tariffs likely to hit the economy in Q3."



Redbook Retail Sales Remained Robust Heading Into 2nd Half Of May

Johnson Redbook's retail sales index posted a 5.4% Y/Y rise in the week ending May 17, which brought May month-to-date to 5.6% Y/Y (above retailers' 5.4% target).

- The report noted that while midweek sales were slow, there was solid shopping on both weekends (Mother's Day May 11, and picking up again last weekend). "Sales of home improvement and outdoor goods increased, although severe storms and flooding in the central USA disrupted business operations."
- In a rare note of caution, "shoppers are becoming more budget-conscious, and retailers are hopeful that sales will strengthen with the arrival of warmer weather, graduations, and the Memorial Day weekend."
- Nonetheless, a 5.6% Y/Y rise would mark the 4th month in a row of 5+% sales, averaging 5.9% over that period. As it accounts for 80% of the Census Bureau Retail Sales series, the latter looks to remain relatively robust this month despite waning consumer confidence.

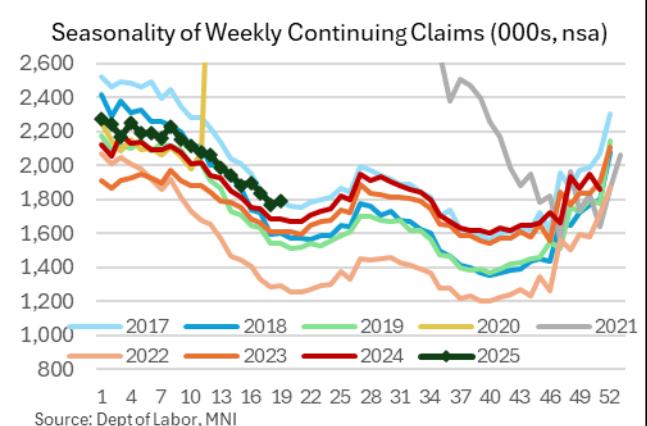
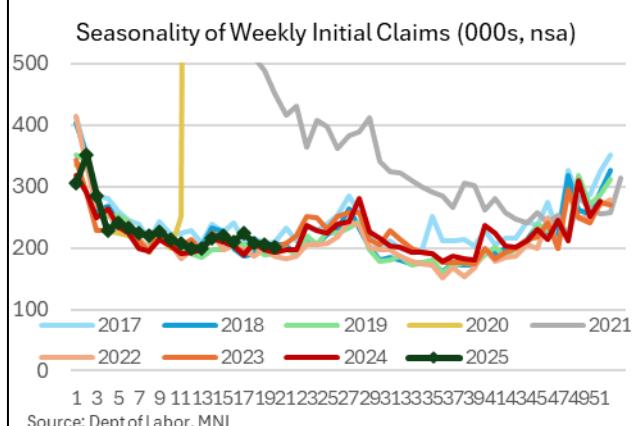
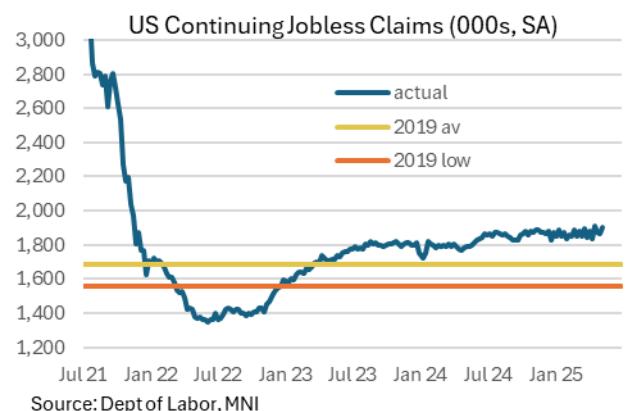
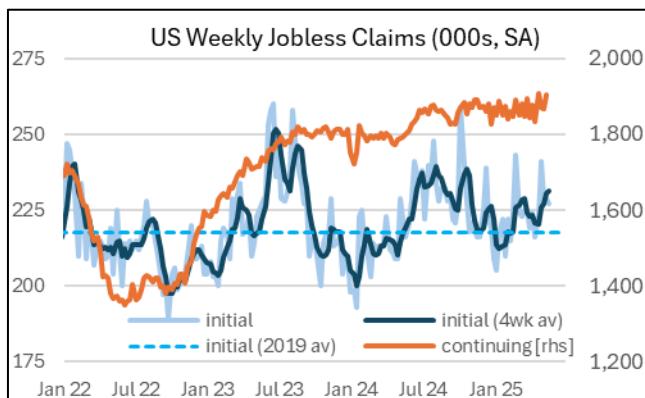


Labor Market: Claims Don't Particularly Move The Needle

Very Mild Trend Rise In Jobless Claims Continues

Weekly jobless claims data show some trend softening in labor market conditions but it's at a slow pace and for now continues to point to a low firing, low hiring environment.

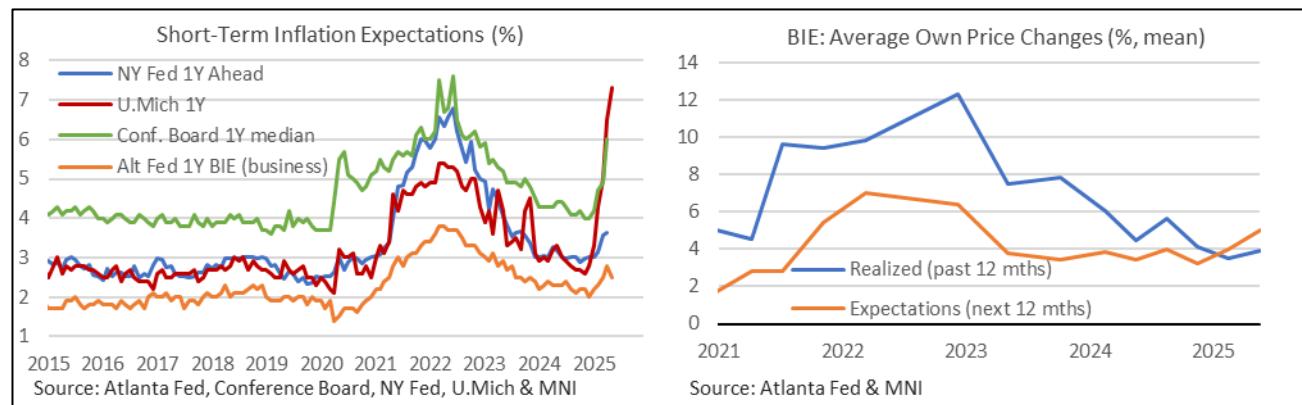
- Initial jobless claims: 227k (sa, cons 230k) in the week to May 17 – a payrolls reference period – after an unrevised 229k in the week prior.
- The four-week average meanwhile ticked 1k higher to 232k, still its highest since Oct 2024. This is, however, the last week it will likely have been biased higher by the later timing of Easter (capturing a 241k print in the week to Apr 26).
- This average is drifting higher but as we often note it's still on the low side historically, having averaged 218k in 2019 (during a tight labor market, and without an adjustment for the increase in population since then).
- Continuing claims: 1903k (sa, cons 1882k) in the week to May 10 after a downward revised 1867k (initial 1881k).
- The surprise pop higher reverses two weeks of improvement seen since breaking above the 1900k level for a fresh 3+ year high back in the week to Apr 19.
- The non-seasonally adjusted data meanwhile show initial claims within typical narrow ranges for the time year whilst continuing claims are right at the top of readings in "normal" years for the time of year (as has been the case for the past month in the latter).



Inflation: Measured Rise In Business Inflation Expectations

Atlanta Fed Business Inflation Expectations Limit Increases

- Atlanta Fed business 1Y inflation expectations dipped back to an average 2.5% in May after the 2.8% in April was the highest since May 2023 (showing expected increases in unit costs).
- The relative levels chime more closely with levelling off in the increase in consumer expectations in the NY Fed survey for April as opposed to the sharper increases in consumer measures from the Conference Board (Apr) and U.Mich (May prelim).
- The quarterly survey saw the average firm's own price inflation of 3.9% over the past twelve months, an acceleration from the 3.5% in the Feb results but apart from that still the lowest since the question started in late 2020.
- Average expectations for the next twelve months meanwhile accelerated further from 4.0% to 5.0% for the firmest since 4Q22.

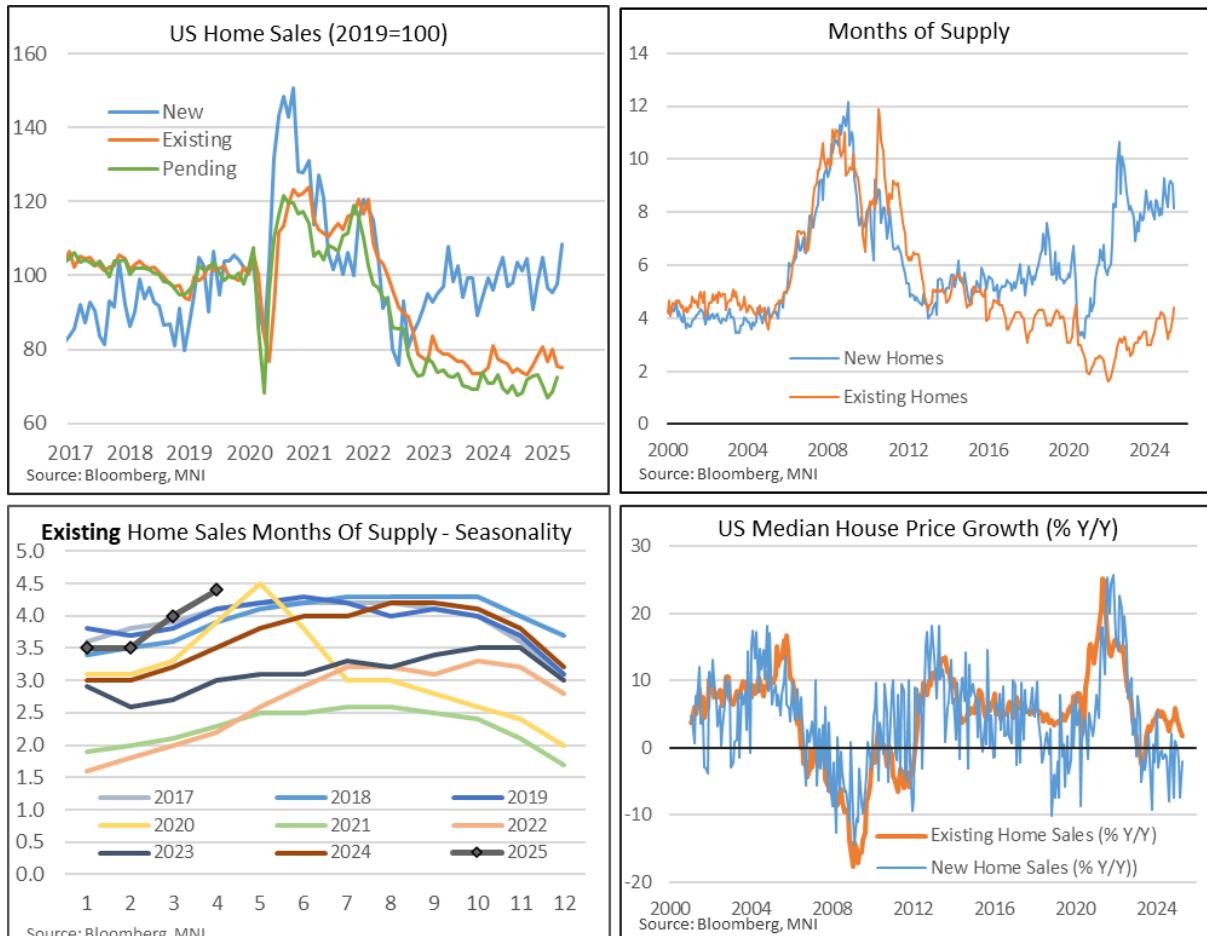


Housing/Credit: Conflicting Sales Data

Existing Home Sales Disappoint And See Highest Relative Supply Since 2016

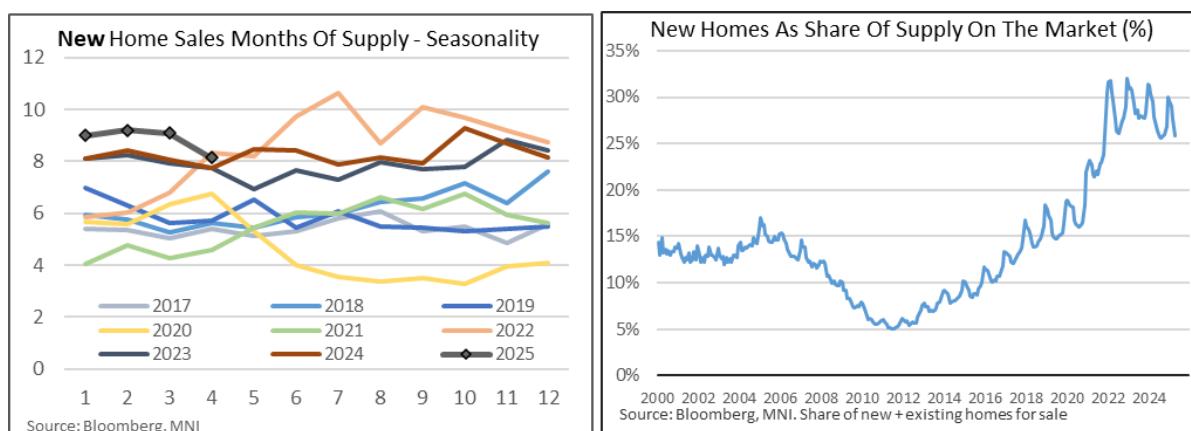
Existing home sales bely prior pick up in pending home sales, chalking up the lowest April since 2009. With inventories also rising, the relative supply of 4.4 months was the highest for an April since 2016.

- Existing home sales disappointed in April at 4.00m (cons 4.10m) after 4.02m, for the lowest seasonally adjusted annualized level since Sep 2024.
- It left a -0.5% M/M decline after the heavy -5.9% in March, confounding expectations of at least some improvement after pending home sales had increased 6.1% M/M in March after 2.1% in Feb following a weak turn of the year.
- It's a weak April release though - the lowest non-seasonally adjusted level of sales for an April since 2009.
- NAR chief economist Yun: "Home sales have been at 75% of normal or pre-pandemic activity for the past three years, even with seven million jobs added to the economy. Pent-up housing demand continues to grow, though not realized. Any meaningful decline in mortgage rates will help release this demand."
- Indeed, new purchase mortgage applications have been running around 60% of 2019 averages in recent weekly data.
- "At the macro level, we are still in a mild seller's market," Yun said. "But with the highest inventory levels in nearly five years, consumers are in a better situation to negotiate for better deals."
- What's more, the 4.4 months of supply in April was the highest specifically for an April since 2016, having averaged 4.0 through April 2017-19.
- Full press release [here](#).



New Home Sales Surprisingly Step Above Recent Ranges

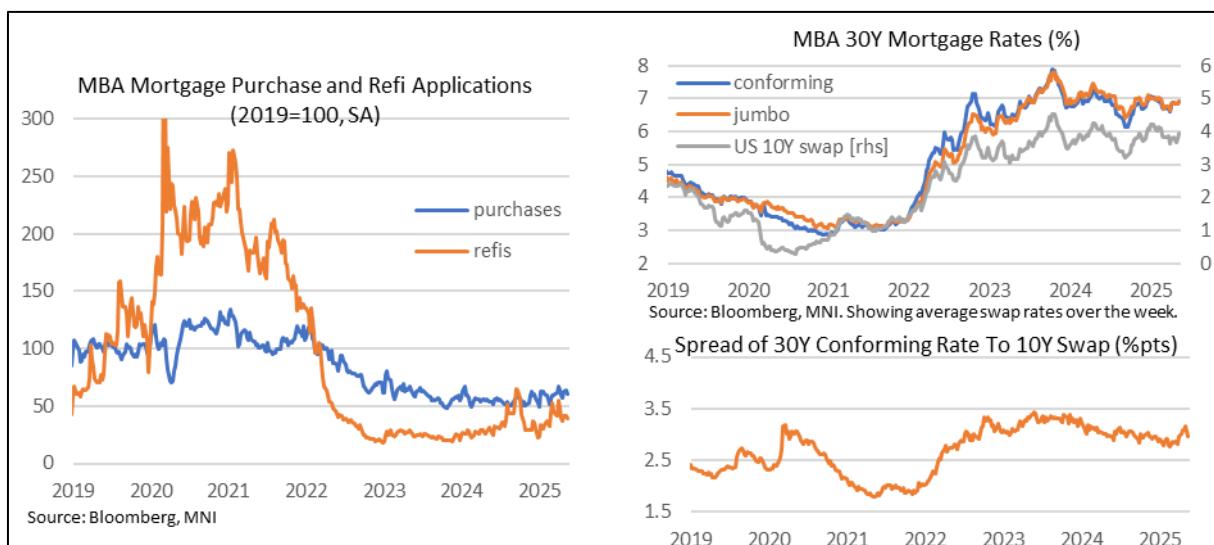
- New home sales were far stronger than expected in April at a seasonally adjusted annualized 743k (cons 695k) as they increased from a downward revised 670k (initial 724k) in March.
- It left a 10.9% M/M bounce vs expectations of -4.0% but the prior 7.4% increase was downgraded to 2.6%. That's a very different profile to existing home sales (-0.5% Apr after -5.9% Mar).
- It's a new recent high for new home sales, last higher in early 2022 and 8.5% above average 2019 levels. In contrast, existing home sales are 25% below 2019 levels.
- Regional details point to typically wide ranges (from 35% M/M for the Midwest to -15% northeast) but three of the four increased and by far the largest, the south, increased by 12%.
- Relative supply fell to 8.1 months after three months in the low 9s although previous strong increases in inventory meant relative supply was the highest for an April since 2022 and before that 2009.



Mortgage Rates Again Spared Full Extent Of Swap Rate Increase

MBA mortgage applications fell 5.1% (sa) last week as mortgage rates increased for a second week although were again spared a sharper increase as mortgage rate to swap spreads narrowed again.

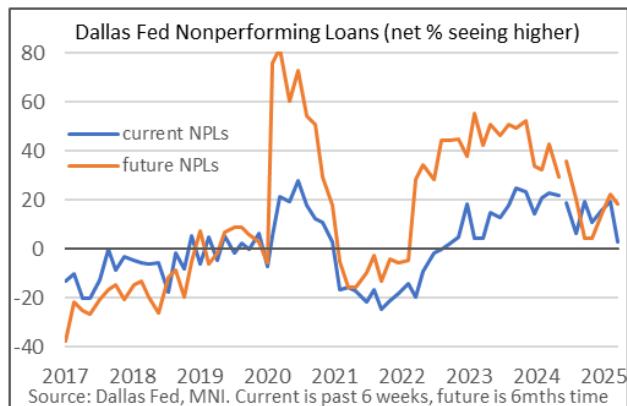
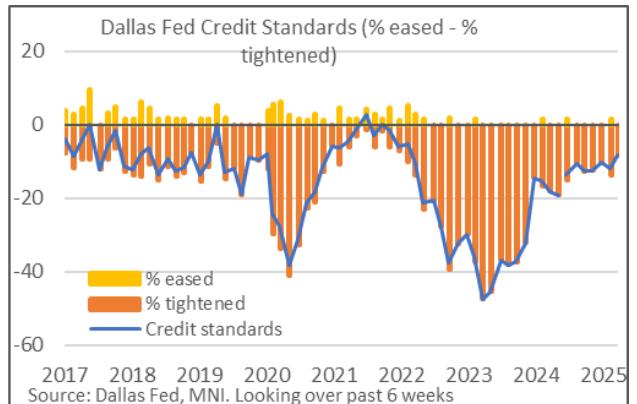
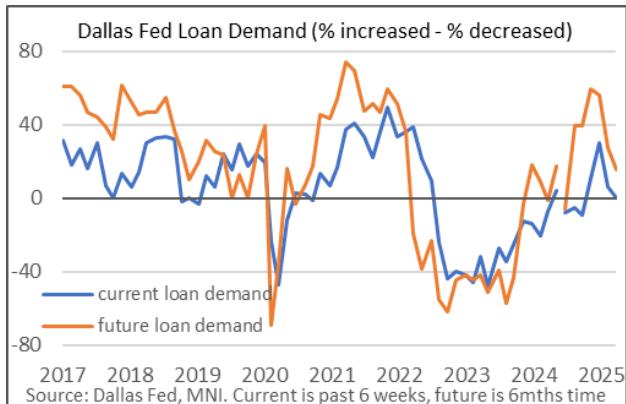
- MBA composite mortgage applications fell 5.1% (sa) last week after a 1.1% increase the week prior. They stand at ~50% of 2019 levels.
- Both new purchases and refis saw similar sized declines, with new purchases at -5.2% after 2.3% (61% of 2019 average) and refis at -5.0% after -0.4% (39% of 2019 average).
- The 30Y conforming rate increased 6bp after a 2bp increase the previous week, with 6.92% the highest since mid-Feb.
- However, mortgage lenders again didn't fully pass through higher swap rates over this period, with the average 10Y swap rate over the week some 16bp higher after an 11bp increase the previous week.
- It sees the mortgage rate to 10Y swap spread at 296bp for a 19bp tightening from the 315bp in early May that had been its widest since Feb 2024.



Breadth Of Credit Standards Tightening Lowest Since 2022 - Dallas Fed

The Dallas Fed banking conditions survey showed slight loan volume growth while loan demand was unchanged in May. The net 8% reported tighter lending standards over the past six weeks followed 14% in April and was its lowest since early 2022.

- The survey was collected May 6-14, and so could have started to capture the impact from a de-escalation in US-China trade policies on May 12 along with a better reflection of policies under reciprocal tariffs after the prior survey was conducted Mar 24-Apr 2. Of course, broader banking regulation and tax policy are likely as much if not more impactful here.
- Interestingly, the net share reporting higher NPLs over the past six weeks improved markedly from the last survey, with just 2.8% vs 19.4% in the April survey for its lowest since late 2022.
- Future NPL expectations over the next six weeks didn't see the same improvement however, dropping from 22.3% to 18.1%.
- That chimes with the rest of the summary in the press release: "Nevertheless, bankers reported a continued contraction in general business activity. Bankers are less optimistic about the outlook. On net, survey respondents still expect an improvement in loan demand and business activity six months from now, but that sentiment is less broad based than in previous months, and loan nonperformance is expected to increase."



Fedspeak: "Really Scary" Supply Chain Tariff Threat, Focus On Hard Data

- Hawks Musalem and Schmid emphasized the signal from hard rather than soft data, implying they might want to wait for longer before making any decision to adjust rates.
- Goolsbee, one of the most dovish FOMC members, reiterated a high bar for rate action whilst uncertainty is high. He sees Friday's EU tariff rate threat as "really scary" for supply chains.
- Speaking the day before Trump's 50% tariff threat, Fed Governor Waller had indicated he envisaged the more benign version of his previously laid out scenarios.

Hawks Musalem And Schmid Emphasize Signal From Hard Over Soft Data (May 23)

St Louis Fed President Musalem (2025 FOMC voter, hawk) spoke alongside fellow 2025 FOMC voter, Kansas City Fed President Schmidt (hawk), at a panel event Friday. While there was almost nothing directly mentioning current monetary policy, it was notable that both appeared to assess "hard" data much more seriously than "soft" survey data. One possible takeaway from this is that the emphasis on incoming hard data means they are likely to want to wait for longer before making any decision to adjust rates.

- Musalem spoke at length about his concerns over inflation expectations amid tariffs, and the need to keep them anchored: "Expectations of inflation are rising for businesses and for consumers...there is also a higher expectation of higher prices going forward for inputs and for outputs. I'm watching that very carefully for consumers and for businesses, because we at the Fed don't want short term inflation expectations to rise to such a level that they could see seep into long term inflation expectations, which would make our job harder in terms of achieving maximum employment and price stability. We're focused on not allowing that to happen." He reiterated his previous view that GDP is very close to potential and the labor market is at or around full employment.
- Both he and Schmid placed emphasis on "hard" data, downplaying the importance of "soft" data in the rate-setting process. Schmidt: "the soft is going to lean more toward the forecasting, whereas hard, you know what you've got... when it comes down to actually making policy for me, you've got this 24 hour market and news cycle and there's so much soft data in that, that you really have to be super careful about how you

use that... we're anchored in the data that we use to try to drive that policy process. And for me, a policy has always been a longer term decision making. And so I think you have to be really careful with that soft data and kind of the reaction theory side of what happens as you do move rates. And I think that's why you'll see the Federal Reserve, at least from me and for our team, lean very hard on in the hard data sets because I think we can do much more effective modeling and make probably better decisions that are less maybe emotional or forecast based when when we actually get to the decision table."

- Musalem said he agreed, noting the analogy with 2020 when consumer sentiment was very low but actual consumption was strong. "We definitely take signals from the soft data. We don't dismiss it. We take signals from it. But we understand that every every forecast, no matter who's doing it, has a margin of error around it. And the soft data all the surveys that we take are basically impressions, opinions, right? ... we get all this survey input, which are just forecasts, and they have error bounds around them. And they're not necessarily going to be reality."

Chicago's Goolsbee: EU Tariff Threat Scary, Still See Lower Rates End-2026 (May 23)

Chicago Fed President Goolsbee (2025 FOMC voter, dove) tells CNBC that the latest tariff threat of 50% rates on the EU is "really scary" for US supply chains, and he reiterates previous language in saying that the bar for adjusting rates remains high so long as uncertainty persists.

- Asked about his current rate cut view, Goolsbee says: "as we went into April 2nd...I thought over the next 12-18 months rates could come down a fair amount toward where the Dot Plot said they would settle". Goolsbee now says that timeline is "10-16 months" - implying that his view that rates would drop to near neutral by late 2026 hasn't really changed.
- On rising Treasury yields and their impact on the economy and thus Fed policy: "To the extent that conditions are getting tighter in long end rates, that does affect investment decisions [earlier in the interview he'd noted that tariff uncertainty had businesses postponing decisions] ... I would think we would want to factor that in, into if there will be a slowdown" - though he notes that, on the other hand with fiscal stimulus, the Fed has to consider that economic impact too.
- Says that amid recent market volatility, financial stability concerns are "overblown"... says if there was really a lack of confidence in the US's fiscal position, "rates would be well higher than they are now" and the move higher in Treasury yields so far has been relatively orderly.

Gov Waller Eyes Relatively Benign Rate Cut Scenario In H2 (May 22)

Fed Gov Waller (permanent voter, one of most dovish FOMC members) reiterates in an interview on Fox Business that he still envisages rate cuts later this year: "if we can get the tariffs down closer to 10% and then that's all sealed, done and delivered somewhere by July. Then we're in good shape for the second half of the year, and then we're in a good position then to kind of move with rate cuts through the second half of the year."

- This is roughly consistent with his previously stated view that we wouldn't see the tariffs' impact on hard data until July. Asked whether he doesn't see rate cuts until after the summer: "we're going to wait and see what these trade deals do. And we're going to have to wait and see what happens with the April 2 tariffs that were postponed until July? We want to see whether those are actually going to be reimposed or not. If they are, they're going to have much bigger impacts on inflation and put more of a handcuff on us in the short term."
- He said he was "much more optimistic now than there was a month ago", suggesting he is eyeing what he previously called a "good news" rate cut scenario with tariff inflation proving transitory, as opposed to a recessionary "bad news" scenario.
- Asked by Fox about the weak 20Y Treasury auction this week, and whether there was a scenario in which the Fed would step in and buy Treasuries, Gov Waller says: "The auction yesterday was ... the markets are watching fiscal policy, and they have some concerns about whether it's going to be reducing the deficit. Ran \$2 trillion deficits the last few years - this is just not sustainable. So the markets are looking for a little more fiscal discipline. They're concerned. Hopefully, as the bill continues to go on... then the markets are just going to demand a premium for this. As far as the Fed, no, we can't step in and buy the primary auctions. Congress set up the rules. We cannot do that."

St Louis's Musalem Eyes Easing, "Balanced", And Steady Approaches To Policy (May 20)

St Louis Fed President Musalem (2025 FOMC Voter, hawk) gave an update on his scenario-based outlook for policy in a speech Tuesday, reiterating that overall he agrees with the "wait-and-see" approach adopted by the Fed amid heightened tariff-related uncertainty. Depending on how tariffs and their impacts play out, Musalem appears to suggest he could support either an easing bias; a "balanced" approach, or holding rates indefinitely. In the meantime, policy "is currently well positioned." (Speech text [here](#))

- "The range of possible economic outcomes for the next few quarters is wide. Economic policy uncertainty is unusually high", and "announced tariffs are higher, have been more broadly applied and have prompted stronger retaliation than I and many others had expected ["even after the de-escalation of May 12" re China-US]... if a cycle of high tariffs and retaliation is sustained, economic activity and employment are likely to moderate meaningfully over the next few quarters, and inflation is likely to rise."
- He notes that while economic activity has "moderated", and survey data suggest it could "slow appreciably", the economy "continues to exhibit underlying strength" with the labor market "at or near full employment. On inflation, while inflation has resumed progress toward 2%, "price pressures appear to be building".
- As such, "should tension between our dual mandate goals arise, I believe a balanced response to both inflation and employment is feasible— provided the public continues to expect inflation will return to 2%." On that note, "while one survey of long term inflation expectations has risen [referring to UMichigan], other measures of longer-term inflation expectations have remained stable".
- He lays out two tariff scenarios, which he says are equally likely to play out: one is a modest/temporary impact on inflation in which a slowdown in activity dampens some of the inflationary pressures - "Under this scenario, a monetary policy of looking through the temporarily higher inflation and possibly easing policy to counter negative effects on employment could be appropriate." Though that carries a risk: "Getting the persistence of inflation wrong could prove costly, especially if persistent inflation leads the public to expect higher inflation to continue over the medium to long term."
- On a second scenario, the inflationary impetus from higher tariffs are more persistent, potentially due to multiple factors: "The pre-tariff starting point for inflation is above target; The recent period of high inflation likely has raised the public's sensitivity to it; Some measures of inflation expectations have risen; and Tariffs apply broadly to intermediate inputs, encouraging rearrangement of global supply chains." In this case, "a balanced monetary policy that is responsive to deviations of inflation from target and to employment shortfalls will be appropriate, provided that longer-term inflation expectations are well anchored."
- He appends a third possibility in which trade tensions de-escalate, putting the US economy back on the path it was previously - in which case, "the current stance of monetary policy...will remain appropriate" (suggesting he would be supportive of a prolonged hold).

Hammack On Three Distinct Scenarios (May 20)

Cleveland Fed's Hammack ('26 voter) told Axios that the White House tax bill or its deregulatory efforts complicates forecasts amidst "tremendous uncertainty". She had said May 10 that there is a strong case for holding mon pol steady and that it will take time for hard data to show govt policy changes.

- "There are a number of other policies that are still yet to be implemented that could have offsetting effects" on trade policy.
- "We don't want to overreact to trade — that's certainly the topic of conversation right now — because there are other policies that are coming into play".
- On the upcoming SEP projections to be submitted at the Jun 17-18 FOMC meeting: "I'm grateful that I have four weeks to work on coming up with a modal case, because right now I haven't really been operating with a base case [...] I've been operating in a couple different scenarios." "To come up with a modal case that you have a lot of confidence in, I think at this particular moment is going to be really challenging,"
- She talks on three scenarios, which can be found in the full Axios piece, [here](#).

Fed Scenarios May Not Offer Clarity, Officials Say [following Hammack's above remarks to Axios]

Three Federal Reserve officials said Tuesday a proposal for the FOMC to publish economic scenarios and reaction functions in a quarterly report may be confusing and difficult to accomplish practically. Former Fed Chair Ben Bernanke presented the idea at a Fed conference on its policymaking framework last week.

- The 19-member FOMC would have to agree on specific scenarios and potentially the probabilities attached to each, and that would be hard to do, said Fed presidents Mary Daly, Beth Hammack and Raphael Bostic in an Atlanta Fed panel in Amelia Island, Fla. Even if the FOMC published scenarios, the public "may not be able to process it, they may not be able to understand," Hammack said, adding, "But I'm open to ideas about how to be more transparent in our process."
- "We want to make sure information is actually information and not add to the mix of things just floating around," Bostic said.
- Hammack said she is thinking about economic developments in terms of three scenarios: if tariffs are a one-time price level move, if tariffs are more persistently inflationary and if the Fed is challenged by both higher inflation and higher unemployment. (See: MNI INTERVIEW: Limits To Comms Benefits From Fed Scenarios)

Bostic Notes Potential Downgrade Ripple But Still Sees Just One Cut (May 19)

Atlanta Fed's Bostic (non-voter) said to CNBC early on Monday that Friday's Moody's downgrade of the US could have a ripple through the economy but he still leans "much more" to just one rate cut this year.

- ****BOSTIC: US DOWNGRADE COULD HAVE A RIPPLE THROUGH THE ECONOMY"**
- ***BOSTIC: TREASURY MARKETS ARE STILL FUNCTIONING QUITE WELL" - bbg**

"*BOSTIC: I'M LEANING MUCH MORE INTO ONE RATE CUT THIS YEAR" - bbg This is a repeat of his prior view, having reiterating just last week that he sees only one rate cut this year, but we're repeating here following the earlier comment on the US downgrade potential ripple effect.

- ****BOSTIC: HAVE TO WAIT 3-6 MONTHS TO SEE HOW UNCERTAINTY SETTLES**
- ***BOSTIC: IF TARIFF TRANSITION LONGER, MAY IMPACT CONS. BEHAVIOR**
- ***BOSTIC: I WORRY A LOT ABOUT THE INFLATION SIDE OF OUR MANDATE**
- ***FED'S BOSTIC: NOT HEARING THAT LARGE LAYOFFS ARE IMMINENT**
- ***BOSTIC: AS THINGS GET MORE EXPENSIVE, IT WILL AFFECT INVESTMENT**
- ***BOSTIC: TARIFFS ON CHINA ARE STILL ECONOMICALLY SIGNIFICANT" - bbg**

Recall Friday's remarks (taken from a Bloomberg Odd Lots podcast interview conducted Wed): "Our policy is going to have to anticipate - and to some extent - potentially push against those inflationary forces to the extent that we see them, so that will put a limit on where our current policy stance is". He also said last week that he expects slower growth now but for the US to avoid recession with growth of 0.5-1% this year.

Dallas Fed's Logan Advocates For Standing Repo Enhancement As Reserves Shrink (May 19)

Dallas Fed Pres Logan, formerly the head of the Fed's SOMA portfolio at the NY Fed, continued to advocate for banks to use Fed facilities including the standing repo facility and discount window in times of stress.

- Logan: "Depository institutions have greatly improved their operational readiness to borrow from the discount window. We should continue to reinforce the value of operational readiness so firms maintain these gains. And readiness is a partnership. At the Federal Reserve Banks, we are working to enhance our capacity to serve customers efficiently when they come to borrow...We should also continue to emphasize that borrowing from the window is an appropriate way for healthy banks to meet short-term funding needs—not something investors, ratings agencies or supervisors should criticize or question."
- "We can also enhance the SRF. As Roberto [Perli, current SOMA manager] described in his recent speech, experiments and market outreach by the New York Fed's Open Market Trading Desk have found that conducting and settling the SRF operation in the morning, in addition to the current afternoon timing,

makes the facility more effective by addressing intraday funding needs. I'm pleased that...the Desk plans to soon introduce regular early-settlement SRF operations. Central clearing of SRF operations would also make the facility more attractive and enhance rate control. That's because central clearing would allow bank-affiliated dealers to net down their balance sheets when they borrow from the SRF and lend onward to other firms."

- Commentary at the panel discussion chaired by Logan was also noteworthy in pointing out that the Fed should look at a wide array of rates to signal reserve scarcity. Wrightson ICAP's Crandall noted that the Fed funds effective rate could be late in providing a signal: "The last way you want to measure the availability of liquidity in the overnight market is the fed funds market...the rate will eventually respond to changes in market conditions but it may very well be the last rate to do that."
- Logan said (quoted by Bloomberg): "In my view, rate control is not just about keeping the fed funds rate in the target range...the fed funds market is small. And the FOMC's desired stance of monetary policy must transmit smoothly into larger and broader markets — especially the repo market."
- Of course, using the SRF and discount window are ways of ensuring market functioning while reserves shrink, allowing the Fed balance sheet to wind down further.

STIR: 50% EU Tariff Threats Shake Up What Had Been A Steady Week

- What had been a narrow range for Fed Funds implied rates for 2025 meetings this week was widened notably on Friday with President Trump's threat of a 50% tariff on the EU that is set to go on June 1st citing a lack of progress made in trade talks under the current 90-day pause in reciprocal tariffs at 10%.
- That leaves very little time for any material progress in trade talks in the interim, with a trading bloc that accounts for the largest share of US imports.
- The recovery off lows for Fed implied rates was helped by a bounce in cash equities with the open, mostly reversing the initial tariff hit whilst rates for near-term meetings have pushed above pre-headline levels.
- Cumulative cuts from 4.33% effective: 1bp Jun, 6.5bp Jul, 18bp Sep, 31bp Oct and 47bp Dec.
- The 47bp of cuts for 2025 is its most hawkish since February.
- However, terminal rate expectations are at the low end of the range for the past two weeks as growth concerns mount, currently at 3.305% (SFRZ6) for a little over 100bp of cuts for the cycle still.



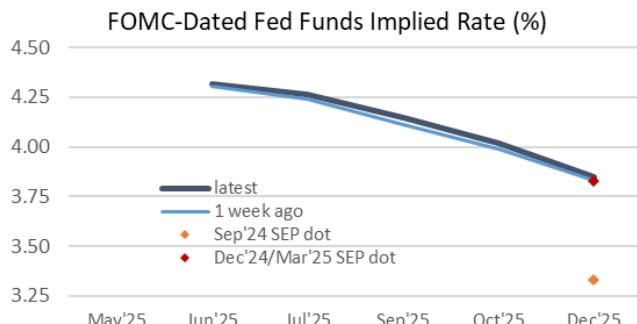
Implied Fed Funds effective rate for Dec 2025 FOMC. Source: Bloomberg (Times as BST)

FOMC-dated Fed Funds futures implied rates

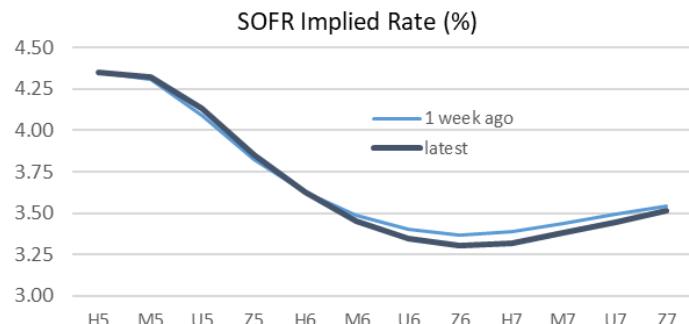
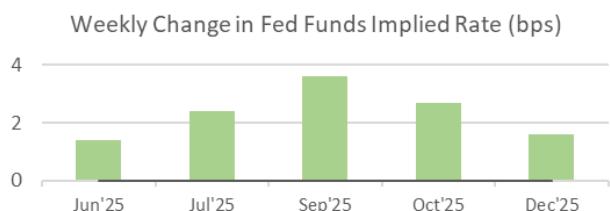
Meeting	Latest			pre PMIs (May 22)			chg in rate bp	pre CPI (May 13)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.33			4.33				4.33			
Jun'25	4.32	-1.1	-1.1	4.32	-1	-1.5	0.4	4.31	-3	-3	1.4
Jul'25	4.26	-5.7	-6.8	4.25	-7	-8.3	1.5	4.22	-8	-11	4.0
Sep'25	4.15	-11.6	-18.4	4.11	-14	-22.2	3.8	4.06	-16	-27	8.5
Oct'25	4.02	-12.9	-31.3	3.96	-15	-36.7	5.4	3.92	-14	-41	9.5
Dec'25	3.85	-16.9	-48.2	3.79	-18	-54.3	6.1	3.76	-16	-57	8.7

Source: Bloomberg, MNI.

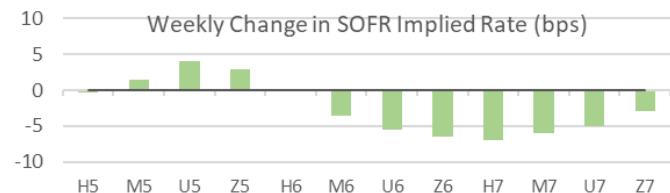
Week-on-week hawkish reaction again concentrated in front rates with 2026/27 contracts rallying:



Source: Bloomberg, MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg, MNI.



Analyst Fed View Changes:

Danske Push Next Fed Cut To Sept On More Front-Loaded Fiscal (May 20)

- Danske Bank are the latest analysts we've seen push back the timing of the next Fed rate cut.
- However, it is fiscal-led rather than being driven by latest week's de-escalation in US-China trade policies.
- "The budget reconciliation bill contains even more front-loaded stimulus support than we expected. The US fiscal policy stance could turn expansionary from Q1 2026 after only a brief tariff-driven tightening in Q2-Q4 2025. Budget deficits could reach 7.0% of GDP in 2026-2027."
- They look for a next cut in September (from June previously) but maintain their terminal rate view at 3.00-3.25%, reached in Sep 2026 vs Jun 2026 previously.
- Their EUR/USD call is unchanged with a target of 1.20. "The USD has become increasingly insensitive to Fed repricing in recent months, and we believe macro and structural drivers are now more decisive for the pair's trajectory."
- Last week saw TD Securities delay their call for a next cut to October (from July) whilst lifting the terminal to 2.75-3.00% by 4Q26 from 2.25-2.50% previously. Barclays and JPMorgan meanwhile pushed back their next rate cut call to December from July and September respectively, with both eyeing a terminal 3.25-3.50%.

The US Macro Week Ahead: GDP (Upward?) Revisions and Monthly PCE

The week's data is backloaded, with the second GDP/PCE release for Q1 on Thursday before Friday's PCE report for April. Real GDP growth 'surprised' with -0.3% annualized last month's advance release for Q1, as whilst it appeared close to the -0.2% consensus, it was better than the -0.8% median from 26 analysts who had updated forecasts following March advance trade data just a day beforehand plus the Atlanta Fed's GDPNow of -1.5%. Large swings in trade and inventories in Q1 on tariff front-running has made it harder to get a sense of underlying momentum in the economy. However, one notable finding in the advance release was that final private domestic purchases was robust at 3.0% annualized in Q1 after 2.95% in Q4 and an average 3.0% in 2024. It was helped by a surge in non-residential investment (9.8%, adding 1.3pp to GDP growth) plus consumption growth at a softer but still relatively healthy 1.8% vs an expected 1.2%. This of course was likely boosted by tariff front-running as well. Powell on the matter as this month's FOMC press conference, including his expectation of upward revisions, with this week's release offering a first look at these revisions: "So that could, in the second quarter, be reversed so that we have, you know, an unusually large [negative] contribution to—unusually positive. That's very likely as imports drop sharply. You could also have—you know, very likely you'll have restatements of the—of the first quarter. It'll

turn out that consumer spending was higher. It will turn out that inventories were higher. And so you'll see—you'll see those data revised up. It may actually go into the third quarter, too. And so I think it's going—this whole process is going to, a little bit, make it harder to make a clean assessment of U.S. demand."

Friday's PCE report will then offer a first look at broad consumer behavior in April after the pulling forward of spending before the touted reciprocal tariffs. Control group retail sales disappointed in April at a nominal -0.2% M/M (cons 0.3) after 0.5% M/M in March. Consumer sentiment indicators have been particularly weak in recent months but it hasn't translated to hard data to date (there has "not been a strong like at all" in Powell's words). Powell did however offer a dovish caveat that "we haven't had a move of this speed and size [in consumer sentiment]. So it wouldn't be the case that we are looking at this and just completely dismissing. But it's another reason to wait and see." Another month without meaningful weakness in hard data would likely further bolster the FOMC's belief that there isn't a rush to cut rates. On the inflation side, CPI and PPI details point to subdued core PCE inflation, with unrounded estimates averaging 0.13% M/M in April. It follows what is currently just 0.03% M/M in March but which is likely to be revised solidly higher.

Date	ET	Impact	Event
25/05/2025	1440		Fed Chair Jerome Powell Baccalaureate remarks
27/05/2025	0400		Minneapolis Fed's Neel Kashkari
27/05/2025	0830	**	Durable Goods New Orders
27/05/2025	0900	**	S&P Case-Shiller Home Price Index
27/05/2025	0900	**	FHFA Home Price Index
27/05/2025	0900	**	FHFA Quarterly Price Index
28/05/2025	0400		Minneapolis Fed's Neel Kashkari
28/05/2025	0700	**	MBA Weekly Applications Index
28/05/2025	0855	**	Redbook Retail Sales Index
28/05/2025	1000	**	Richmond Fed Survey
28/05/2025	1030	**	Dallas Fed Services Survey
28/05/2025	1400		FOMC Minutes
28/05/2025	2000		New York Fed's John Williams
29/05/2025	0830	***	Jobless Claims
29/05/2025	0830	***	GDP
29/05/2025	0830		Richmond Fed's Tom Barkin
29/05/2025	1000	**	NAR Pending Home Sales
29/05/2025	1400		Fed Governor Adriana Kugler
29/05/2025	1600		San Francisco Fed's Mary Daly
29/05/2025	2025		Dallas Fed's Lorie Logan
30/05/2025	0830	***	Personal Income and Consumption
30/05/2025	0830	**	Advance Trade, Advance Business Inventories
30/05/2025	0942	***	MNI Chicago PMI
30/05/2025	1000	***	U. Mich. Survey of Consumers
30/05/2025	1000	**	University of Michigan Surveys of Consumers Inflation Expectation