mni

All Signal, No Noise

MARKET ANALYSIS

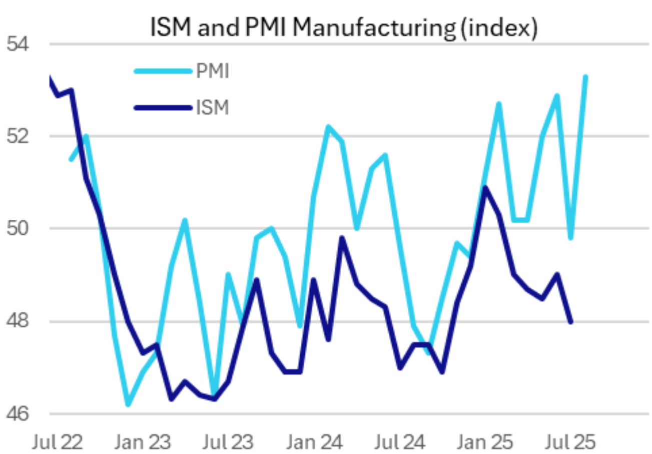
MNI U.S. Macro Weekly

MNI View: Powell Widens Door To September Cut

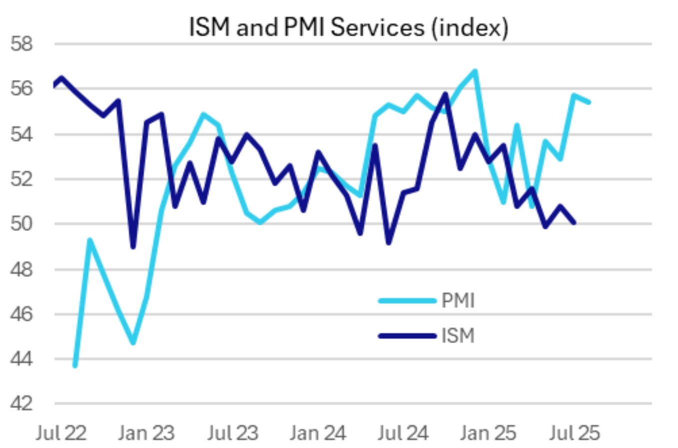
Aug 22, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- A dovish Powell at Jackson Hole acknowledged that "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance". Further, the risks appear to have shifted since the July meeting ("The balance of risks appears to be shifting"), as "downside risks to employment are rising".
- It follows what had been a succession of on balance patient Fedspeak from FOMC members, including Cleveland Fed's Hammack ('26 voter) explicitly saying she doesn't see a cut next month.
- President Trump's attack on the Fed has continued, saying he will fire Fed Governor Cook (in a permanent voting role through to 2038) if she doesn't resign after FHFA accusations of mortgage fraud.
- The most notable data release of the week was a far stronger than expected flash PMI round for August, especially for manufacturing. That included composite service price inflation at a three-year high. There have however been large discrepancies with more subdued ISM readings in recent months.
- It was a relatively quiet week elsewhere for data. Weekly jobless claims data suggested a still "low fire" labor market but one that is arguably lower hire as continuing claims drift to fresh highs in recent weeks.
- Soft residential construction data point did however also drag latest GDPNow tracking for Q3, from 2.55% to 2.26% for real GDP growth.
- The CBO estimates that "changes in tariffs will reduce total deficits by $4.0 trillion altogether," over ten years. That compares to previous estimates from early June that it could decrease primary deficits by $2.5tn and interest outlays by $0.5tn.
- Powell's remarks have seen Sept cut odds rise 3.5bp to 22bp and cumulative Dec cut odds rise 7.5bp to 55.5bp for little near-term change on the week after a hawkish shift mid-week. Dovish moves are more pronounced further out the curve however.
- Next week sees Q2 GDP/PCE revisions and the July PCE report in focus. Consumer spending is expected to see a reasonable increase for the start of Q3 whilst core PCE inflation should continue its above target stabilization.



Source: ISM, S&P Global, MNI



Source: ISM, S&P Global, MNI

Business Sentiment: Flash PMIs Surprise As Manufacturing Jumps

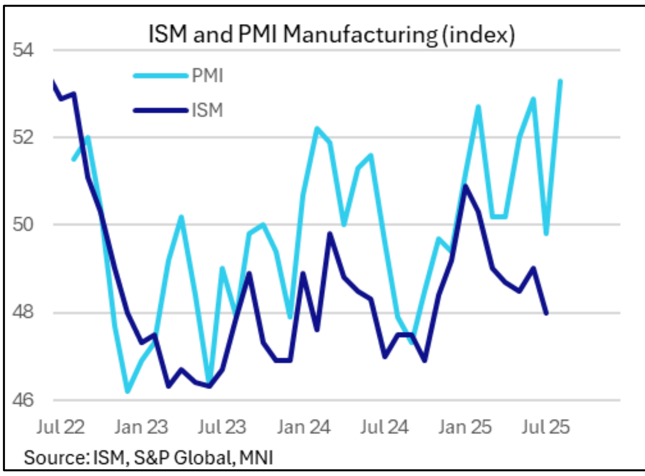
Flash PMIs Jump Along With Highest Selling Price Inflation In Three Years

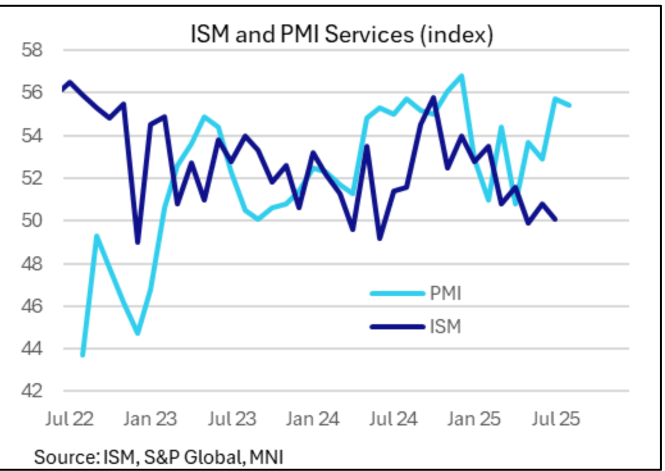
The flash August PMIs were firmly stronger than expected, with the strongest rate of activity growth so far this year and selling price inflation reaching a three-year high. It does however have the notable caveat that there has been a large discrepancy with the separate ISM surveys.

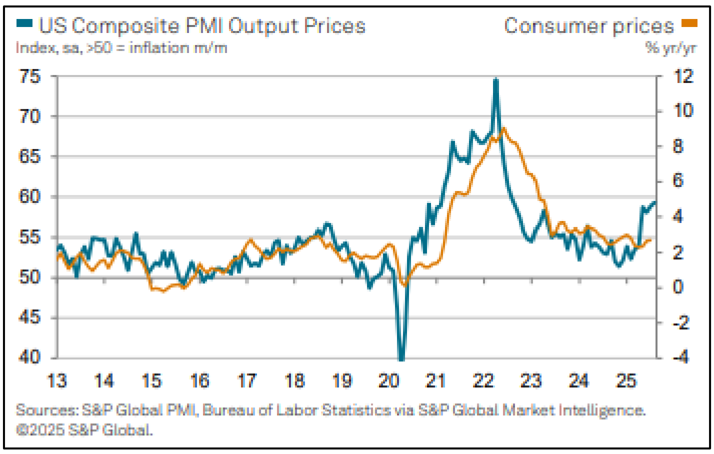
- Manufacturing PMI: 53.3 (cons 49.7) in Aug prelim after 49.8 in July. The ISM mfg index was 48.0 in July.
- Services PMI: 55.4 (cons 54.2) in Aug prelim after 55.7 in July. The ISM services index was 50.1 in July for the return of a very large discrepancy.
- Composite PMI: 55.4 (cons 53.5) in Aug prelim after 55.1 in July

Highlights from today's S&P Global press release:

- "US business activity grew at the fastest rate recorded so far this year in August, according to early 'flash' PMI data, adding to signs of a strong third quarter.
- Growth was seen across both manufacturing and service sectors of the economy. Hiring also picked up. Job creation reached one of the highest rates seen over the past three years as companies reported the largest build-up in uncompleted work since May 2022.
- Business confidence in the outlook meanwhile improved but remained much weaker than seen at the start of the year as companies reported ongoing concerns over the impact of government policies, especially in relation to tariffs.
- Tariffs were again widely cited as the principal cause of sharply higher costs, which in turn fed through to the steepest rise in average selling prices recorded over the past three years."





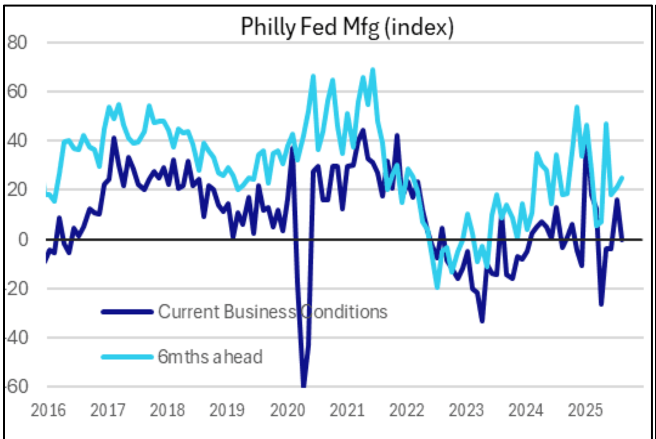


Source: S&P Global – press release link above

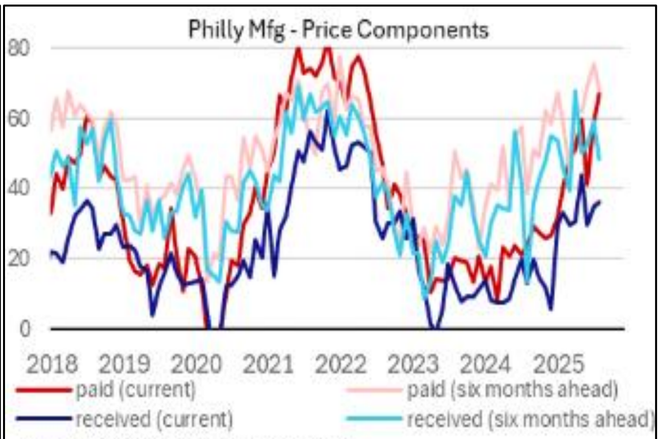
Weak Philly Fed Mfg Activity With Higher Prices, But Outlook Brightens

The Philadelphia Fed's Business Outlook survey showed a bigger-than-expected relapse in regional manufacturing activity in August, along with a continued surge in prices paid - making for a largely stagflationary report, albeit with some improvement in forward-looking indicators.

- The -0.3 for current general business conditions (6.5 expected, 15.9 prior) brought it back negative where it had been for 4 consecutive months amid tariff-related concerns, before jumping to a 5-month high in July.
- The internals for current activity were poor. New orders were negative for the first time in 4 months, falling to -1.9 from +18.4 (suggesting a decline in orders). Shipments fell to a 3-month low 4.5 from 23.7, while employment also slipped, to 5.9 from 10.3 - these suggest growth but much weaker than prior.
- One saving grace on the activity front was that the outlook improved, with 6-month ahead sentiment up to 25.0 from 21.5, for the highest reading in 3 months. future new orders and future shipments rose to the highest in 3 months, with future capex more than doubling to 38.4, highest since January (the latter has historically been seen as a leading indicator of national non-residential investment).
- However, there were very pronounced price pressures in the survey: current prices paid rose to 66.8 from 58.5, with prices received not keeping pace, up to a 39-month high 36.1 from 34.8. Again, the outlook was the silver lining, with 6-month-ahead prices paid dipping to 68.4 from 75.3, and received to 48.5 to 59.4.
- Philly Fed's survey echoed that of the neighboring district covered by the NY Fed in the price pressure department, but its decline in activity stood out versus Empire's.
- That leaves it a little early to tell what the readthrough of the regional surveys is for the national manufacturing picture, though this should become clearer with August PMI, Dallas Fed, and Richmond Fed data through early next week.



Source: Philadelphia Fed, MNI.

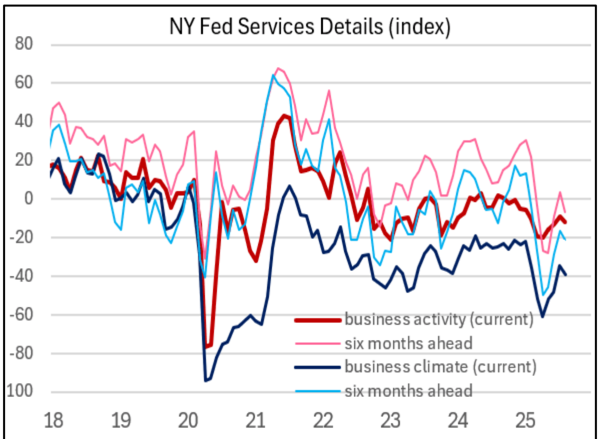


Source: Bloomberg Finance L.P., MNI

NY Fed Services Activity Sags As Sellers Hike Prices To Buoy Margins

The NY Fed's survey of regional services firms' business leaders showed a deterioration in activity and forward-looking sentiment in August, with inflation pressures remaining prevalent.

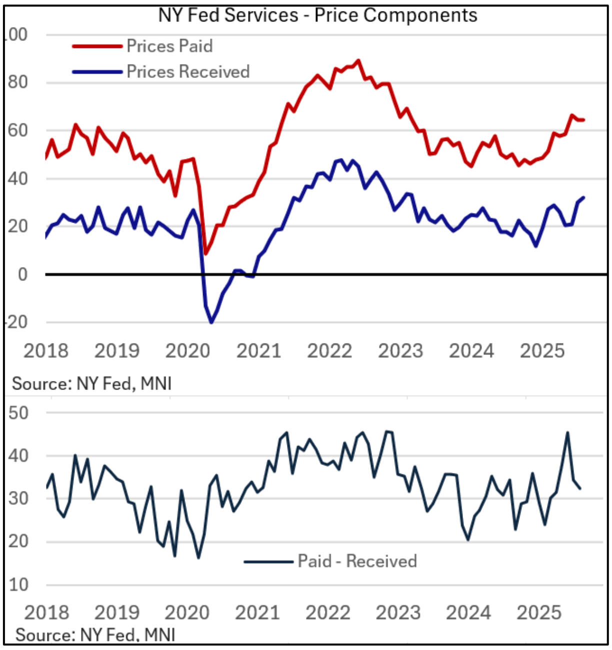
- The current general activity index fell for the first time since March, to -11.7 from -9.3 prior, with the business climate likewise worsening to -39.3 from -34.6. These are still better than the historically bad readings in April's survey amid heightened sensitivity to tariff-related news, but firmly negative by historical standards.
- The survey also showed that inflation pressures remained strong: prices paid did dip for a 2nd consecutive month, by 0.2pp to 64.3, but this is only slightly below the 2-month high 66.5 set in June.
- In a sign that services firms may be pushing up prices to clients to maintain margins, prices received ticked up for a



Source: NY Fed Business Leaders Survey, MNI.

3rd consecutive month to 32.0 from 30.1 prior - the highest in 29 months. The paid-received differential fell to the narrowest since April, back to more normal territory vs June's implied margins which were the least favorable for regional services firms (ie high prices paid vs received) since 2022.

- The corresponding NY Fed Empire Manufacturing showed surprising strength in current activity in August, but as with services, still-stubborn price pressures - the latter therefore being a common theme.
- Other services indicators were mixed: forward (6-month) general activity and business climate outlooks retraced in August after 6-month bests in July, including on capital spending; that said, current capital spending plans were the best since January albeit still negative (-2.9).
- Per the report: "Employment held steady, and wage growth was modest. Supply availability continued to worsen. The pace of input price increases remained moderate, and selling price increases remained significant. Firms turned pessimistic about the outlook."

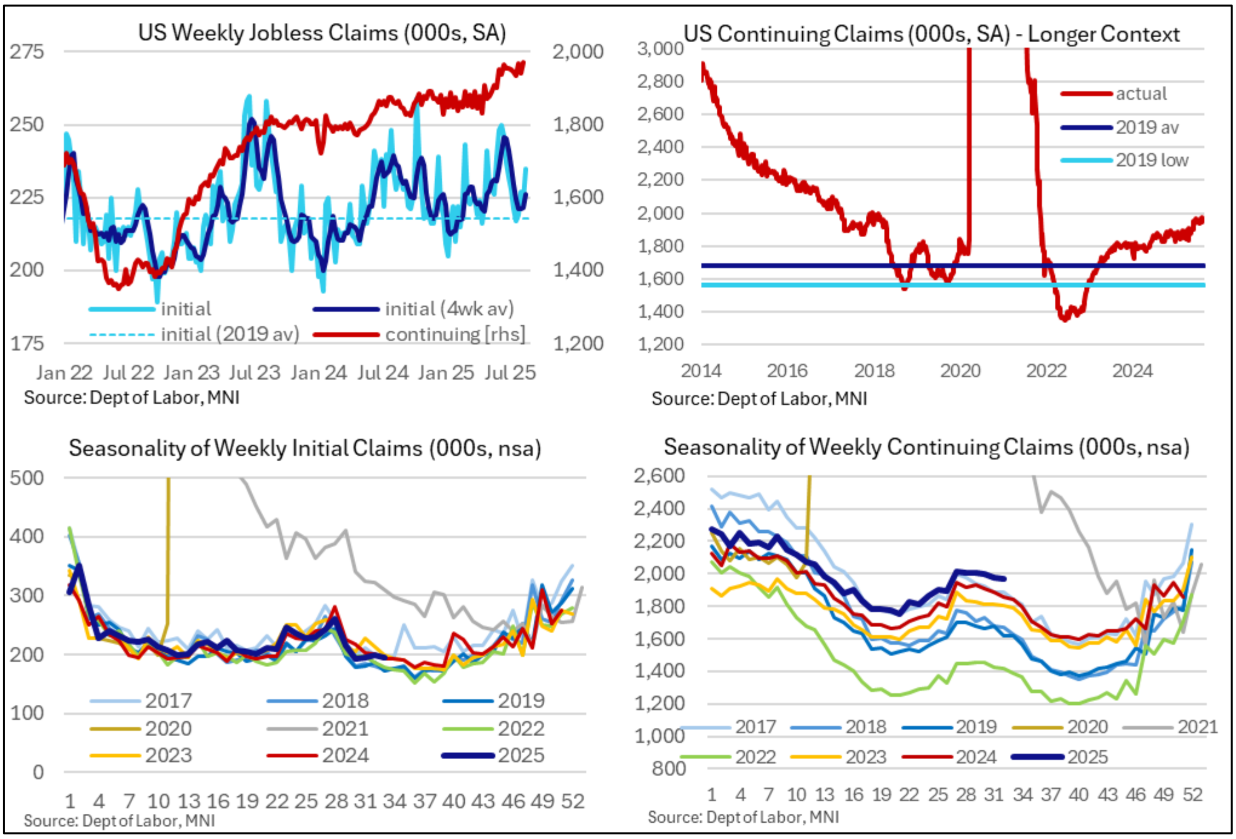


Labor Market: A Little Softer But Nothing Concerning

Claims Suggest Still Low Fire But Slightly Lower Hire Labor Market

Jobless claims were higher than expected in latest data for both initial and continuing claims. Initial claims are still relatively low historically and show little sign of worrying layoffs whilst continuing claims continue to point to tougher re-hiring prospects but not particularly worse than recent months. The latter is especially true when considering a sustained pattern of downward revisions.

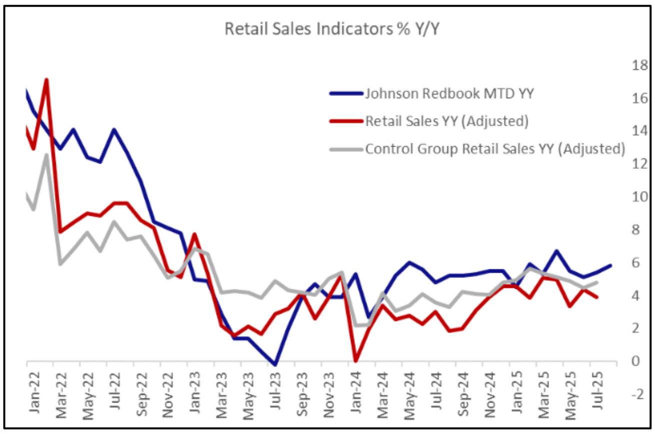
- Initial claims increased to 235k (sa, cons 225k) in the week to Aug 16 - a payrolls reference period - after an unrevised 224k.
- It's the highest single week since the week to Jun 21 after some particularly low readings, leaving mixed comparison to recent payroll reference periods with just 221k in the July period after 246k in June.
- The four-week average increased 4k to 226k for its highest since the first half of July but that's still close to the 218k through 2019 when comparing with a historically tight labor market (especially when considering the covered employment pool is some 5.5% higher since then).
- Continuing claims meanwhile also surprised higher with 1972k (sa, cons 1960k) in the week to Aug 9 after a downward revised 1942k (initial 1953k).
- This is technically a fresh high since late 2021 but we again warn about the puzzling trend of downward revisions to continuing claims data. At least the fifteen previous weekly reports were revised lower, including two weeks ago when continuing claims were first reported at 1974k before 1968k, still a recent high but only a small increase over the 1964k in June.
- As such, we'd classify the seasonally adjusted continuing claims data as suggesting a similar pace of deterioration to the past couple months rather than anything more meaningful, although the NSA data suggest a more notable cooling over the past month when comparing non-pandemic years.
- Taking a step back with a historical comparison, initial claims are averaging 8k above the 218k in 2019 when the u/e rate averaged 3.67% whilst continuing claims are close to the 2017 average of 1957k when the u/e rate averaged 4.36%. The latest u/e rate stood at 4.25% in July but remains close to the 4.15% averaged for over a year now.



Growth: Consumer Spending Looks Solid, Housing Mixed

Redbook Retail Sales Remain Solid Through Mid-August

Retail sales as measured by the Johnson Redbook index rose 5.9% Y/Y in the week ending August 16, up from 5.7% the prior week and bringing the month-to-date rise to 5.8%.

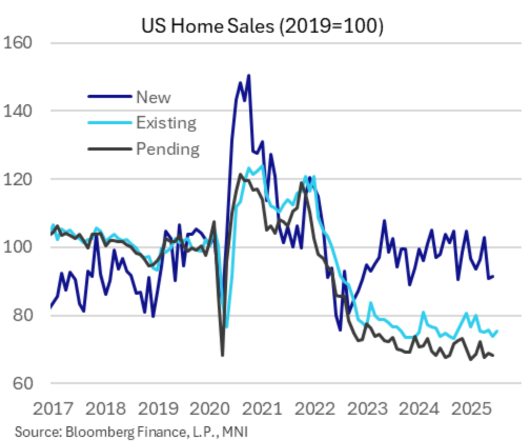


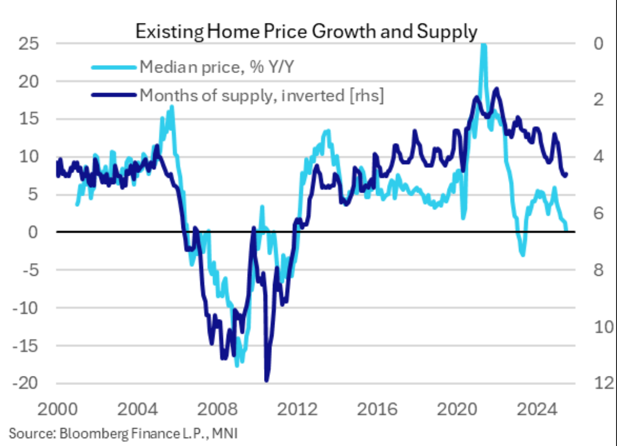
- That's very solid outright, albeit somewhat below retailers' targeted 6.2% gain. Per the report's anecdotes: "Early back-to-school sales results have generally fallen short of expectations. Some markets, particularly in the Midwest and Southeast, have already begun their back-to-school season, while others have not yet started. Additionally, the tail-end of state tax-free holidays in Florida, Maryland, Massachusetts, Ohio, and Texas has contributed to increased traffic and sales. Due to regional differences in school calendars and variations in merchandising schedules, the rollout of new seasonal programs has varied from store to store; it is still too early to gauge consumer reactions to these programs. Many major retailers are set to report their second-quarter earnings this week and next week, which may provide insights into how tariffs are affecting value-conscious consumers and consumer spending overall."
- On a Y/Y basis, Census Bureau retail sales came in at 3.9% overall in July, down from 4.4% prior, though control group sales picked up to 4.8% from 4.5%. While the Johnson Redbook has tended to "over-estimate" Census Bureau sales on this basis, sustained growth continues to suggest solid consumption dynamics through the middle of Q3 (with the usual caveat that these are in nominal and not price-adjusted terms).

Existing Home Sales Pick Up In July, But Activity And Prices Soft

Existing home sales picked up in July, to 4.01M (seasonally adjusted, annual rate), from 3.93M prior and vs expectations of a slight decline (3.92M). This brings the pace of sales back up above the 4M mark after June's 9-month low.

- Months of supply (inventory vs the current pace of sales) fell slightly (4.6 vs 4.7) though remains at elevated levels, suggesting the loosest housing market conditions in a decade. As such, median price growth slowed to slow: at $422.4k (median, NSA), growth was just 0.2% Y/Y, weakest since the declines of Q2 2023.
- Sales improved in 3 of 4 regions (theh Midwest was the exception), with the northeast rebounding 8.7% M/M after June's 8.0% fall.
- Overall the US housing market remains in stasis, with high mortgage rates continuing to restrain activity. Pending home sales suggest little improvement in existing sales figures in coming months, while prices are likely to remain subdued at best amid higher supply.

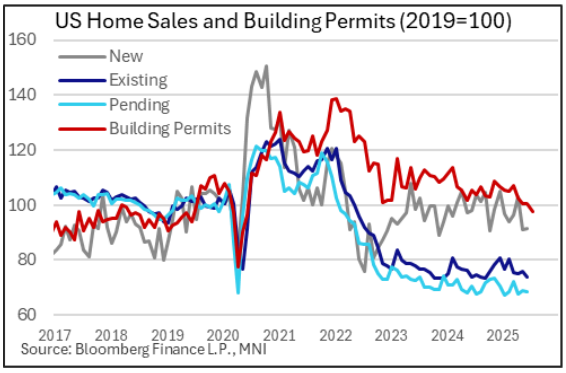


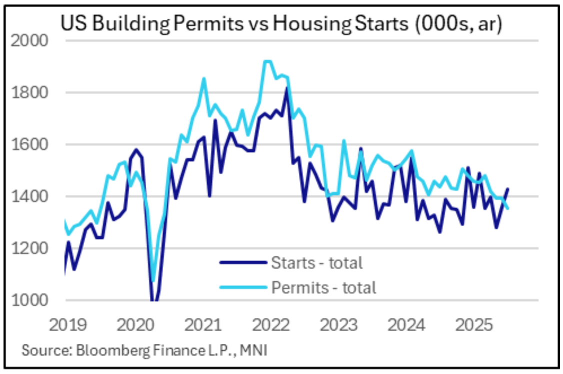


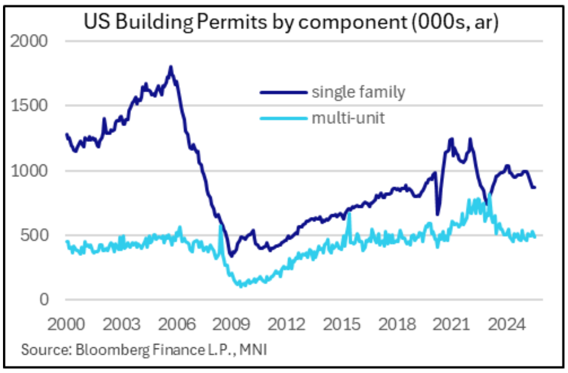
Building Permits Downtrend Extends

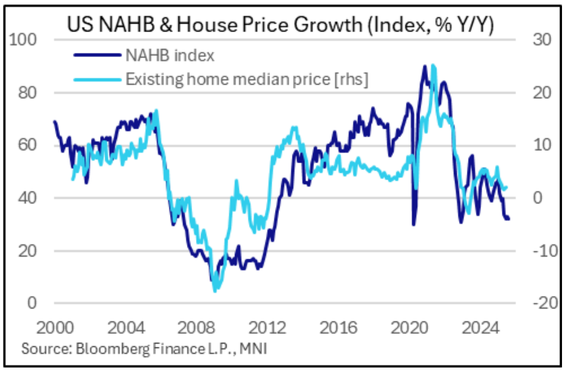
Housing starts and building permits data for July offered firmly conflicting signs of housing activity but with the less weather-sensitive permits series pointing to a clearer downtrend that chimes more closely with NAHB homebuilder sentiment.

- Housing starts were far stronger than expected in July at 1428k (saar, cons 1297k) after an upward revised 1358k (initial 1321k) in June.
- It left starts rising 5.2% M/M (cons -1.8%) after a stronger than first thought 5.9% (initial 4.6%) as they bounced after a -8.3% M/M decline in May (also revised from -9.7%).
- This series continues to be heavily driven by multi-units, which increased 10% M/M after 34% in June and -26% in May. Single family starts meanwhile increased 2.8% M/M after -3.8% and 0.1%.
- However, building permits are less volatile and disappointed as they continued to show a clear downtrend, slipping to 1354k (saar, cons 1386k) in preliminary July data after 1393k in June.
- That left permits -2.8% M/M after briefly pausing in June following two heavier declines in April and May. Permits have only increased in one of the past eight months and are currently at their lowest since Jun 2020
- Within this, single family permits at least stopped falling after some heavy declines, rising 0.5% M/M after a cumulative 13% from Feb to June. The ever-volatile multi-units drove the latest weakness with -8.2% M/M after a 6.5% increase that had left them at their highest since Nov 2024.
- For a better sense of trends, housing starts are up 12.9% Y/Y (and 111% of 2019 levels) yet building permits paint a much weaker picture at -5.7% Y/Y (98% of 2019 levels).









Residential Activity Drags On Q3 GDPNow Estimate

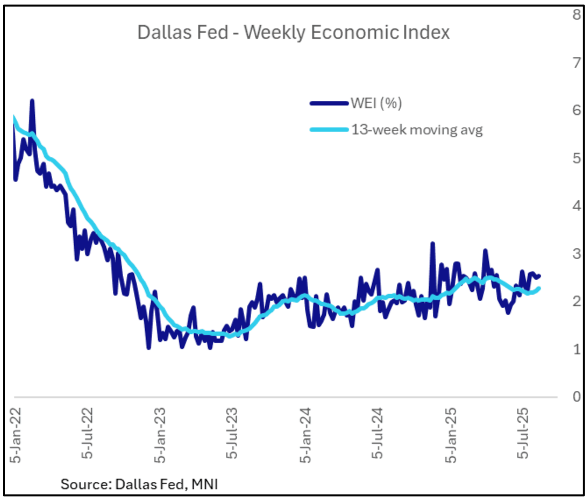
There was a decent pullback in the Atlanta Fed's Q3 GDPNow estimate today to 2.26% from 2.55% in the Aug 15 update. This comes entirely on the back of a shift in the expectation for residential investment growth in the quarter: now seen at -5.9% Q/Q SAAR, vs 1.1% in the prior estimate (and -4.6% in Q1).

- That equates to a 0.24pp subtraction from GDP from residential investment in the quarter, vs +0.04pp in the prior est.
- This reflects a big miss in today's building permits data (-2.8% in July vs -0.5% expected), and is reflective of weakness in a housing sector that increasingly looks like it will continue to be a drag on growth through year-end.

Atlanta Fed GDPNow estimates for 2025: Q3, growth rates and changes

Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
30-Jul	Latest BEA estimate for 25:Q1	-0.5	0.5	23.7	6.0	-2.4	-1.3	-0.6	0.4	38.0	-306	152
30-Jul	Latest BEA estimate for 25:Q2	3.0	1.4	4.8	6.4	-10.3	-4.6	0.4	-1.8	-30.3	333	-187
31-Jul	Initial GDPNow 25:Q3 forecast	2.3	1.9	2.6	5.5	-2.3	1.8	1.7	7.8	8.5	-26	36
1-Aug	Employment report, ISM Manufacturing Index, Construction spending	2.1	1.6	2.0	5.0	-3.4	1.9	1.4	7.6	8.3	-25	43
4-Aug	M3-2 Manufacturing, Auto sales	2.5	1.9	3.7	5.0	-3.3	2.0	1.4	7.6	8.4	-25	44
5-Aug	International trade, ISM Services	2.5	2.0	3.5	5.0	-3.3	1.9	1.4	7.1	8.4	-29	44
7-Aug	Wholesale trade	2.5	2.0	3.5	5.0	-3.3	2.1	1.4	7.1	8.4	-29	47
12-Aug	CPI, Monthly Treasury Statement	2.5	2.0	3.5	5.0	-3.4	2.1	1.4	7.1	8.4	-29	47
14-Aug	Producer Price Index	2.5	2.0	3.5	5.0	-3.3	2.1	1.4	7.1	8.4	-29	47
15-Aug	Retail trade, Industrial production, Import/Export Prices	2.5	2.2	3.7	5.0	-3.5	1.1	1.4	7.2	8.4	-29	43
19-Aug	Housing starts	2.3	2.2	3.7	5.0	-3.5	-5.9	1.4	7.2	8.5	-29	43

Dallas Fed's Weekly Growth Index Continues To Edge Up



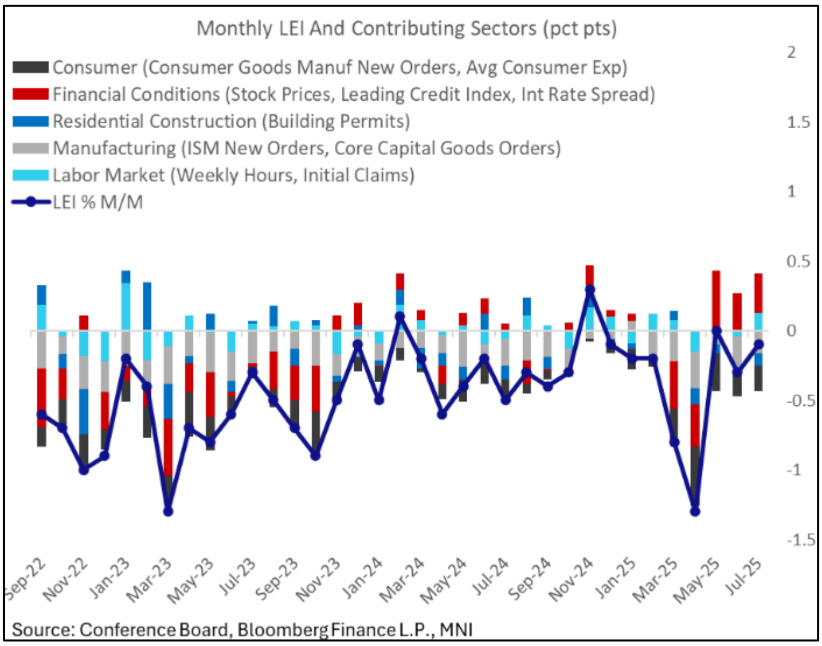
The Dallas Fed's weekly economic index (WEI) for the week ended Aug 16 remained relatively stable at 2.54% vs 2.50% the week prior (the figures are scaled to 4-quarter GDP growth).

- But continued stabilization above 2.50% in recent weeks (vs sub-2% in May) brought the 13-week moving average up to 2.28% from 2.23% prior, a 4th-consecutive weekly acceleration for the highest since end-May.
- The latest estimates are consistent with steady growth or potentially a modest pickup in Q3 vs Q2, when 4-quarter GDP growth posted 2.0%.

LEI Continues To Reflect March/April Activity Trough

July's Conference Board US Leading Economic Index (LEI) fell 0.1% M/M as expected. That's an improvement from -0.3% in June, but means the index hasn't risen since November 2024 (and before that, February 2024). Indeed the LEI has contracted in the vast majority of months the last few years, making it a questionable measure of actual overall leading economic activity indicators.

- We do however see it as a decent measure of manufacturing momentum given its composition (extremely heavily weighted toward cyclicality in manufacturing), and as such shows that the weakness in March/April amid tariff concerns appears to have largely abated. On the other hand, it's also heavily weighted toward financial conditions, which have improved since that time.
- Our recategorization of LEI elements points to the labor market being the biggest sequential driver of growth (best since November 2024, taking into account weekly hours and initial claims), with financial conditions remaining the single largest overall contributor for the 3rd consecutive month (0.28pp after 0.27pp prior). Otherwise, we see negative contributions from actual manufacturing (ISM New Orders, core capital goods orders), residential construction (building permits), and consumption (as measured by consumer sentiment and consumer goods manufacturing new orders).
- Overall it suggests an improvement in economic momentum since early Q2.

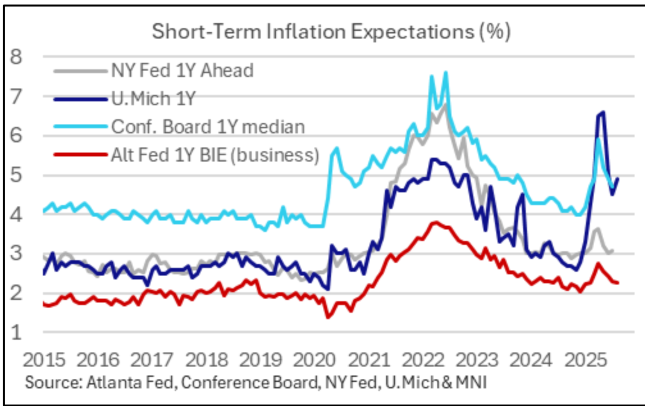


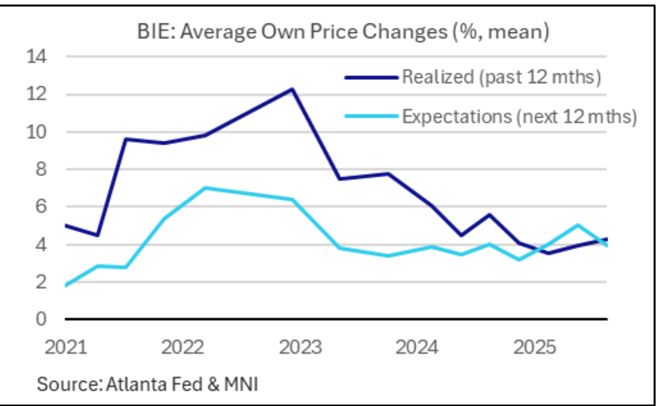
Inflation: Business Inflation Expectations Hold Recent Moderation

Firms' Unit Cost Expectations Hold Recent Cooling – Atlanta Fed

The Atlanta Fed's Business Inflation Expectations survey saw a second month having pared but not fully reversed tariff-driven increases whilst firms' own-price expectations reversed a sizeable increase seen the previous quarter.

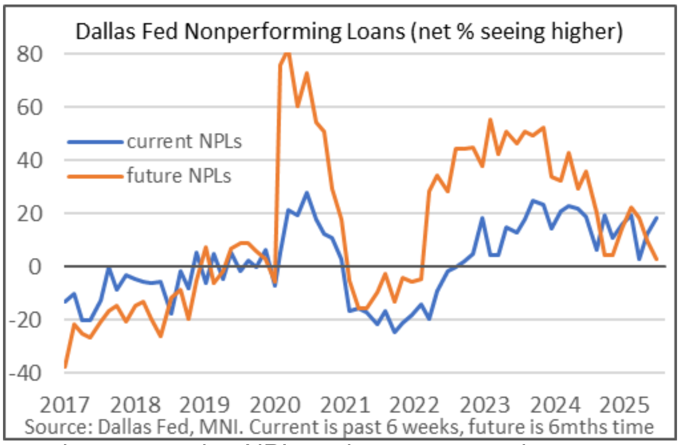
- 1Y ahead inflation expectations from the regular monthly survey, defined as the mean expected change in unit costs, were near unchanged in August at 2.26% after 2.29% in July. That's after easing in the three previous months from a recent peak of 2.76% in April.
- It remains a little above the 2.04% seen in December or the 1.94% averaged in 2019.
- A separate quarterly question meanwhile saw mixed developments for firms' own price expectations, with a firming in realized inflation over the past twelve months but softer expectations ahead.
- Specifically, realized own price inflation stood at 4.3% Y/Y after 3.9% in the May survey, its highest since Aug 2024, whilst expectations cooled from 5.0% (highest since Dec 2022) to 3.9% (lowest since Nov 2024 survey).
- Away from inflation expectations, the summary notes that "Sales levels and profit margins "compared to normal" increased".



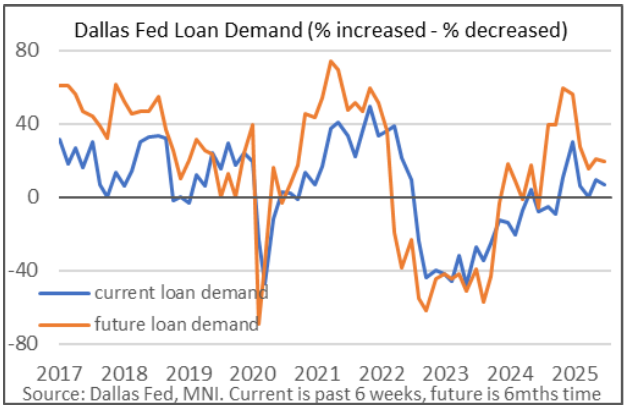


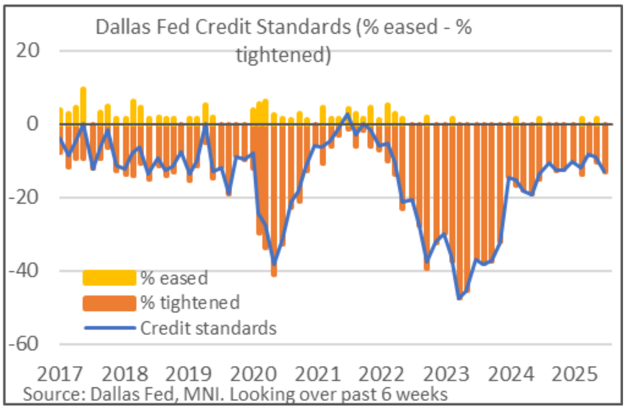
Credit/Household Finances: NPL Expectations Pleasantly Low

Firms' NPL Expectations Lowest Since 2022 – Dallas Fed Survey



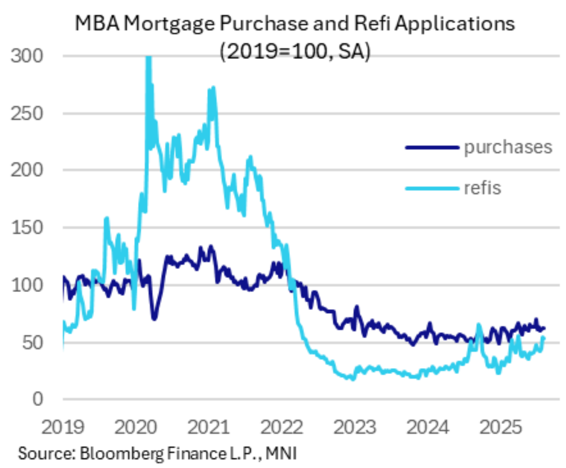
- The Dallas Fed's banking conditions survey showed loan volume and demand increased in August while credit tightening continued.
- It's a regionally narrow look at credit conditions but with the survey being collected through Aug 5-13, it's far timelier than the broader Federal Reserve SLOOS published two weeks ago for Q2.
- Loan demand sits towards the middle of the range for the past couple years, more subdued than strength seen in 2H24 in particular but avoiding the net declines seen in 2022 through early 2024. Credit standards meanwhile continue to tighten on net at a similar pace to the past year.
- The press release notes that "Across all loan types, loan performance deteriorated" but we'd point out that the net share expecting NPLs to increase over the next six months was its lowest since 2022 at 3%.
- That lends support to some recent stabilization in transition rates into delinquency in latest NY Fed data across most lending categories except for another sharp rise in student loan rates as data collection continues (US DATA: Delinquency Rates Rise Again On Student Loans, Broadly Flat Elsewhere – Aug 5).
- Still, most of these delinquency transition rates were above pre-pandemic levels so the lack of a sharper increase in this Dallas Fed survey is at least encouraging.

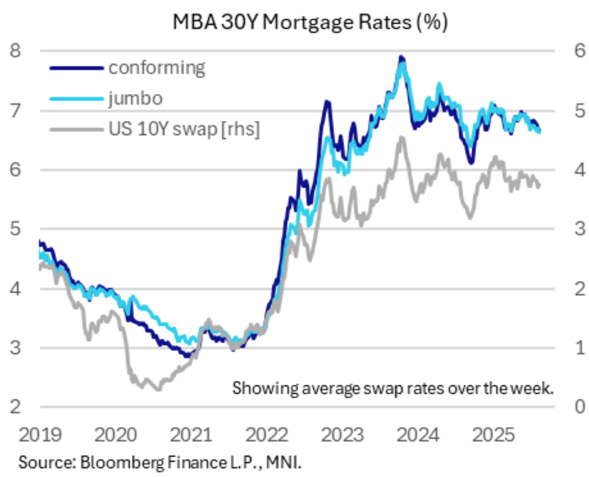


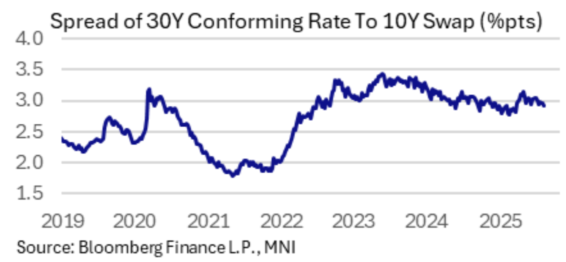


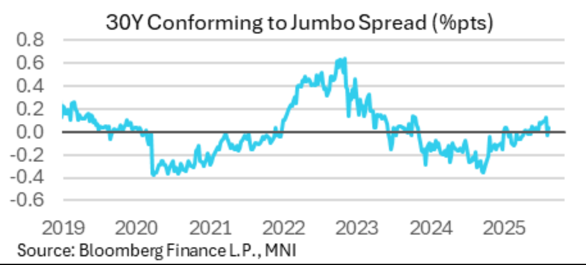
Mortgage Applications Hold Onto Most Of Refi Boost

- MBA composite mortgage applications edged -1.4% (sa) lower last week to hold onto most of its refi-driven 11% increase the week prior.
- Indeed, new purchase applications increased 0.1% after 1.4% whilst refis dipped -3.1% after 23.0%.
- Levels relative to 2019 averages: composite 59%, new purchases 62% and refis 53%.
- The 30Y conforming rate was near unchanged on the week at 6.68% (+1bp) after the 6.67% the week prior was the lowest since early April.
- Coupled with a 5bp rise in the average 10Y swap rate over the week and the 30Y mortgage to 10Y swap spread fell below its range of 300bp +/-5bp seen mostly since reciprocal tariff announcements in April vs 285bps averaged in Q1. That is however just one week.
- Jumbo loan rates meanwhile have reverted to trading inside conforming rates again at a 6bp decline to 6.64%. The regular to jumbo spread of 4bp compares with -3bp the week prior and +12bp the week before that at what was its highest since Oct 2023.









Fiscal: CBO Sees Larger Deficit Reduction From Tariffs Than Previously

CBO Estimates Tariffs Could Reduce Deficit By USD$4T Over 10 Years

The Congressional Budget Office has issued a **statement** updating its estimate for the deficit implications of President Donald Trump's tariff policies. The CBO estimates that "changes in tariffs will reduce total deficits by $4.0 trillion altogether," over ten years.

- The CBO notes: "Because of recent changes in tariffs, those estimates are larger than the $2.5 trillion decrease in primary deficits and $0.5 trillion reduction in interest outlays that we projected in early June in a report that examined the effects of the tariffs implemented between January 6 and May 13, 2025."
- The CBO cautions in a rundown of its methodology that the ad hoc nature of tariff implementation makes forecast modeling difficult: "When the Administration modifies tariffs through an administrative action, we assume that the tariffs then in effect will continue permanently without changes. ... Thus, our projection of revenues from tariffs in effect as of August 19, 2025, does not include the changes in tariff rates announced in an August 21 joint statement with the European Union, the scheduled August 27 increase in the tariff rate on imports from India (by an additional 25 percent), or the August 29 suspension of duty-free entry for commercial shipments of less than $800."

Trump Administration Deliberations

- Trump initially urges Fed Governor Cook to resign after accusations of mortgage fraud from FHFA's Pulte
- The WSJ subsequently reports sources saying he's considering firing her before Cook pushes back
- Trump subsequently says he will fire her if she doesn't resign
- Trump believes every sign is pointing to a major interest rate cut

Trump Says He'll Fire Fed's Cook If She Doesn't Resign (Aug 22)

"I'll fire her if she doesn't resign," Trump told reporters on Friday.

Fed's Cook Says She Won't Be Bullied Into Stepping Down – Bloomberg (Aug 20)

Federal Reserve Governor Lisa Cook signaled her intention to remain at the central bank, defying calls for her resignation by President Donald Trump over allegations of mortgage fraud.

"I have no intention of being bullied to step down from my position because of some questions raised in a tweet," Cook said in an emailed statement via a Fed spokesperson. "I do intend to take any questions about my financial history seriously as a member of the Federal Reserve and so I am gathering the accurate information to answer any legitimate questions and provide the facts."

See the full Bloomberg story here.

Trump Considering Firing Fed's Cook for Cause, According to WSJ Sources (Aug 20)

"*TRUMP CONSIDERING FIRING LISA COOK FOR CAUSE: WSJ" - bbg

"President Trump has told aides he is considering attempting to fire a Biden-appointed Federal Reserve governor after one of his housing officials accused her of mortgage fraud, according to a senior White House official and another person familiar with the matter.

"The Justice Department is probing similar fraud claims against two of the president's most vocal Democratic critics, opening investigations into New York Attorney General Letitia James and Sen. Adam Schiff of California. Attorney General Pam Bondi authorized Ed Martin, head of a working group tasked with reviewing cases against Trump, to use grand juries in Virginia and Maryland to probe separate allegations of mortgage fraud involving Schiff and James, according to a person familiar with the matter."

Trump Presses Fed's Cook to Quit After Mortgage Fraud Allegation - Bloomberg (Aug 20)

(Bloomberg) -- President Donald Trump called on Federal Reserve Governor Lisa Cook to resign after a staunch ally called for an investigation of the board member's mortgages, intensifying his campaign on the central bank.

Federal Housing Finance Agency Director Bill Pulte urged Attorney General Pam Bondi to investigate Cook over a pair of mortgages, the latest in a series of moves by the Trump administration to increase legal scrutiny of Democratic figures and appointees. Cook was nominated to the Fed by former President Joe Biden.
Trump said Wednesday that Cook "must resign now," citing Pulte's allegations, while the FHFA head posted on social media that the accusations give Trump "cause to fire" her.

See the full Bloomberg story here.

Trump - Every Sign Is Pointing To A Major Rate Cut (Aug 19)

US President Trump has posted on Truth Social, stating that every sign is pointing to a major interest rate cut, he also renews his criticism of Fed Chair Powell:
"Could somebody please inform Jerome "Too Late" Powell that he is hurting the Housing Industry, very badly? People can't get a Mortgage because of him. There is no Inflation, and every sign is pointing to a major Rate Cut. "Too Late" is a disaster!"

* It came ahead of Powell's speech on the economic outlook at the Jackson Hole Economic Policy Symposium.

Fedspeak: Patience Preached Before A Dovish Powell

- Powell plays up employment risks in eyeing a potential policy adjustment
- Collins ('25 voter) doesn't see a September rate cut as a done deal
- Goolsbee ('25) hopes "dangerous" services inflation was a blip
- Schmid ('25) and Bostic (non) also don't appear to be pushing for a September cut
- Hammack ('26) explicitly doesn't see a case for a September rate cut
- July FOMC minutes are on balance more cautious on inflation risks than those from the labor market
- New monetary policy statement ends flexible average inflation targeting

Powell Plays Up Employment Risks In Eyeing Potential Policy Adjustment

The major near-term policy signal takeaway from Fed Chair Powell's Jackson Hole keynote (link) is that he only acknowledges that "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance", but also that the risks appear to have shifted since the July meeting ("The balance of risks appears to be shifting"), as "downside risks to employment are rising".

- "while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers. This unusual situation suggests that downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment."
- That said this isn't a million miles away from what he said at the July FOMC press conference, when he also flagged up "downside risk" to the labor market as "the fact that it's getting into balance due to declines in both supply and demand". The difference is that with the July employment report in hand, he seems to be suggesting that the "shifting" balance of risks is tilting toward the need for an adjustment:
- "Our policy rate is now 100 basis points closer to neutral than it was a year ago, and the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance. Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."
- Note that the mention of "balance of risks" is also a key policy signal because it's in the Fed's Statement as as part of the forward guidance sentence ("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.")

- Note also that Gov Waller's case for making a cut also largely adopted this rhetoric, saying in mid-July that the labor market was "on the edge" and saying that "with hiring already low...a larger and more sudden reduction in payrolls and an increase in the unemployment rate are a risk." So it seems Powell's outlook is moving in that direction.

New Monetary Policy Statement Ends Flexible Average Inflation Targeting (Aug 22)

Also in Fed Chair Powell's speech (link) is a discussion of the changes to the Federal Reserve's Statement on Longer-Run Goals and Monetary Policy Strategy as part of the latest framework review (the last was in 2020, when the economic landscape looked very different). There don't appear to be any major surprises, as the review's conclusions have been well-telegraphed - below are Powell's explanation of all of the major changes, and the reasoning behind them. Below, we include a graphic comparing the new to the previous Statement on Longer-Run Goals and Monetary Policy Strategy (the new statement is available here).

- "First, we removed language indicating that the [effective lower bound of interest rates] was a defining feature of the economic landscape. Instead, we noted that our "monetary policy strategy is designed to promote maximum employment and stable prices across a broad range of economic conditions." The difficulty of operating near the ELB remains a potential concern, but it is not our primary focus. The revised statement reiterates that the Committee is prepared to use its full range of tools to achieve its maximum-employment and price-stability goals, particularly if the federal funds rate is constrained by the ELB."
- "Second, we returned to a framework of flexible inflation targeting and eliminated the "makeup" strategy. As it turned out, the idea of an intentional, moderate inflation overshoot had proved irrelevant. There was nothing intentional or moderate about the inflation that arrived a few months after we announced our 2020 changes to the consensus statement, as I acknowledged publicly in 2021." [Re the previous "FAIT" framework, Powell says: in 2020 "we adopted flexible average inflation targeting—a "makeup" strategy to ensure that inflation expectations would remain well anchored even with the ELB constraint. In particular, we said that, following periods when inflation had been running persistently below 2 percent, appropriate monetary policy would likely aim to achieve inflation moderately above 2 percent for some time.""]
- "Third, our 2020 statement said that we would mitigate "shortfalls," rather than "deviations," from maximum employment...Instead, the revised document now states more precisely that "the Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability." Of course, preemptive action would likely be warranted if tightness in the labor market or other factors pose risks to price stability."
- "Fourth, consistent with the removal of "shortfalls," we made changes to clarify our approach in periods when our employment and inflation objectives are not complementary. In those circumstances, we will follow a balanced approach in promoting them. The revised statement now more closely aligns with the original 2012 language. "

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from ~~the~~ Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

The Committee's monetary policy strategy is designed to promote maximum employment and stable prices across a broad range of economic conditions. Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The Committee's primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate. ~~The Committee judges that the level of the federal funds rate consistent with maximum employment and price stability over the longer run has declined relative to its historical average. Therefore, the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past. Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that downward risks to employment and inflation have increased.~~ The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals, particularly if the federal funds rate is constrained by its effective lower bound.

~~The maximum level of employment is a broad-based and inclusive goal that~~Durably achieving maximum employment fosters broad-based economic opportunities and benefits for all Americans. The Committee views maximum employment as the highest level of employment that can be achieved on a sustained basis in a context of price stability. The maximum level of employment is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the ~~shortfalls~~maximum level of employment ~~from its maximum level~~, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments.

Price stability is essential for a sound and stable economy and supports the well-being of all Americans. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee ~~has the ability to~~can specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory ~~mandate.~~maximum employment and price stability mandates. The Committee judges that longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances. ~~In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time~~The Committee is prepared to act forcefully to ensure that longerterm inflation expectations remain well anchored.

Monetary policy actions tend to influence economic activity, employment, and prices with a lag. ~~In setting monetary policy, the Committee seeks over time to mitigate shortfalls of employment from the Committee's assessment of its maximum level and deviations of inflation from its longer-run goal.~~ Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, its mediumterm outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The Committee's employment and inflation objectives are generally complementary. However, ~~under circumstances in which~~if the Committee judges that the objectives are not complementary, it ~~takes~~follows a balanced approach in promoting them, taking into account the ~~employment shortfalls and inflation deviations~~extent of departures from its goals and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate. The Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability.

The Committee intends to review these principles and to make adjustments as appropriate at its annual organizational meeting each January, and to undertake roughly every 5 years a thorough public review of its monetary policy strategy, tools, and communication practices.

Boston's Collins: September Cut Not A Done Deal (Aug 22)

Boston Fed's Collins (2025 FOMC voter) sounded in Friday morning's Bloomberg TV interview at Jackson Hole as though she is increasingly concerned about the labor market as opposed to her earlier fears that inflation expectations could become unanchored amid tariff increases (echoing WSJ interview comments published Thursday evening).

- Nonetheless it also sounds like she will have to see more evidence of labor market deterioration to support easing, and says that a September cut is not a "done deal".
- Recall that this summer she suggested that her base case for rates was one cut by year-end as part of an "actively patient" policy.
- Collins: "The risks on the two sides have come into rough balance. So, that is a really complex context for monetary policy, when you could see the unemployment rate rising and you could see higher inflation. You know, my baseline is not one that is as concerned about inflation expectations rising at the moment. Earlier in the year I had more concerns about that. I would say that at the moment monetary policy is modestly restrictive. That is actually appropriate for a period where inflation is elevated. We have not brought back price stability, which I am totally committed to. But at the same time there are those risks with the slower employment growth that could lead unemployment rates to rise and balancing those risks. I think at the moment where we are is appropriate, but if we start to see worsening labor market risks relative to inflation, and starting to dial back the restrictiveness."

- She says re the September meeting that the Committee is going to see data between now and than, and the decision will be about balancing risks to the two sides of the Fed's mandate. Asked what is the harm in cutting 25bp or 50bp in September, she says, "it is about the balance... I would say it is not a done deal in terms of what we do at the next meeting. But a range of possibilities is on the table and we are going to get more data between now and then."
- "On the labor market side, while the job growth has slowed, at the same time a number of those indicators are quite healthy. And so, on that side of it, I think there are arguments for taking a bit more time. But I am very focused on how those downside risks are evolving. And then on the inflation side what I'm hearing is that it is early days in terms of the impact of tariffs coming through enterprises over time."

Cleveland's Hammack: Don't See Case For September Cut With Current Data (Aug 21)

Cleveland Fed President Hammack (non-2025 FOMC voter but votes in 2026; hawk) echoes earlier commentary today from the sidelines of Jackson Hole from KC's Schmid (a fellow hawk) in casting doubt on the necessity of a September rate cut. Going into Jackson Hole, we thought she was one of 10 (of 18) FOMC members that sounded open-minded enough in previous commentary to be persuadable on a September cut - but now the balance on the Committee clearly tips to 4 in favor/9 undecided/5 opposed.

- Hammack says: "I think that there's a lot of data we're going to get between now and September. And I walk into every meeting with an open mind about what the right thing to do is. But with the data I have right now, and with the information I have, if the meeting was tomorrow, I would not see a case for reducing interest rates."
- In short, Hammack sees inflation risks exceeding those of missing on the employment side of the mandate: "my biggest concern is that inflation has been too high for the past four years, and right now it's been trending in the wrong direction and so I think it's really important that we stay modestly restrictive to make sure that we can bring inflation back under control... When I take the balance of things, there's a lot to be focused on the labor side, but the inflation side is is right now giving us a place where we're not at our target. We're at our target on the employment side. We're worried that maybe possibly that could break down, but we know we're missing on the inflation side, and to me, we need to stay laser focused on that to make sure we can bring inflation down."
- On neutral rates: "I don't think we're very far. I don't disclose my dot, but I think we're right around."
- Asked how she would regards another weak jobs report (with negative revisions), Hammack repeats arguments heard from others on the FOMC that overall payrolls growth may not be the best indicator of a weakening labor market, given a reduction in immigration (ie labor supply): "with the changes that have happened in immigration policy, it's not clear that that headline growth number is going to be as informative as things like the unemployment rate, the vacancies to unemployed ratio, other things that we're looking at on the employment side of the mandate, and that's because we've seen a massive shift ... so yes labor demand may be coming down but labor supply has come down pretty dramatically as well. And so our goal of maintaining employment around maximum needs to look at both sides of that, and it could be that even though we're seeing much slower headline job growth numbers, it could be that the labor market is still in balance and so we'll need to look at that closely."
- She says that the inflationary impact of tariffs is yet to really bite. Re PPI, "wholesale prices were going up more significantly, but not necessarily being passed on to consumers. That tracks with what I'm hearing when I'm out traveling in the district and I'm hearing from manufacturers that they're trying to buffer these price pressures as much as they can, but that's not going to last forever, and so some of these price pressures that are coming into the PPI and coming into the wholesale space will eventually make their way into the consumer space".
- That means it could be several months before the Fed can get a read on the inflationary impact of tariffs: "It's just now I think that we're starting to see some of those impacts play through into the economy. It usually takes three to four months for to start seeing the early impacts of tariffs, and so we're just at that point right now, just past that three to four month mark. I do expect from the conversations I've had that we're not going to see the full impact of tariff pass through until sometime next year...it could be that we're still continuing to see some of these impacts in Q1 and Q2 in terms of whether tariffs are going to be a one time price level impact or more persistently inflationary."

Goolsbee Says He Hope Dangerous Inflation Data Was A Blip – Bloomberg (Aug 21)

Speaking late on Thursday, Chicago Fed's Goolsbee ('25 voter, dove) warned on recent services inflation:

(Bloomberg) -- Federal Reserve Bank of Chicago President Austan Goolsbee said while some recent inflation readings have come in better than expected, he hopes one "dangerous" data point is just a blip.

"We've had some inflation reports that came in milder than we expected, and I was feeling good," Goolsbee said Thursday in an interview with Bloomberg Television on the sidelines of the Fed's annual conference in Jackson Hole, Wyoming.

"The last inflation report that came in, where you saw services inflation — which is probably not driven by the tariffs — really start shooting up," he said. "It's a dangerous data point, I'm hoping that that's bit of a blip."

See the full Bloomberg write-up here.

Schmid And Bostic Not Pushing For A September Cut (Aug 21)

KC Fed President Schmid - speaking ahead of the Jackson Hole symposium which his regional Fed is hosting - sounds like he could dissent to a decision to cut in September unless something surprising emerges in the data between now and then. Cumulative 2025 Fed Funds cut pricing edges to the lowest since just after the July Employment Report (Aug 1), showing a little under 52bp of total cuts (about 1bp less following his comments).

- In comments to Bloomberg TV, Schmid (2025 FOMC voter, hawk) said that the Fed is "on a good path", with policy currently "modestly restrictive". He said "As you get closer to the optimum dual mandate numbers it actually becomes more difficult to make decisions on the margins relative to where that policy rate should go", and that the Fed would be watching upcoming inflation data".

Overall he says the inflation rate is "trending closer to 3 than 2", and that inflation is a bigger risk to the Fed's goals than employment. He also told a Bloomberg podcast that the above-consensus PPI data "was a bit eye-opening".

- Meanwhile Atlanta Fed President Bostic (non-2025/26 voter) reiterated in a scheduled appearance that his base case was one cut this year, while adding that the Fed should be able to bring policy closer to neutral next year.
- He makes comments regarding the payroll "replacement rate" echoing yesterday's July meeting minutes in which some FOMC participants suggested that slower nonfarm payrolls growth is not necessarily a sign of weakening in the labor market in and of itself - but instead that both demand and supply (via reduced immigration) is declining. This could be a component of Powell's speech Friday which of course comes at the Jackson Hole symposium whose theme this year is the labor market.
- The minutes: "Some participants remarked, however, that slower output or employment growth was not necessarily indicative of emerging economic slack because a decline in immigration was lowering both actual and potential output growth as well as reducing both actual payroll growth and the number of new jobs needed to keep the unemployment rate stable."
- Powell said similar in his post-July meeting press conference, suggesting downside risks: " demand for workers in the form of, let's call it—say—just say, payroll jobs—that number has come down, but so has the breakeven number, kind of in tandem. So, you know, as long as the—that puts the labor market in, in balance. The fact that it's getting into balance due to declines in both supply and demand, though, I think does—it is suggestive of downside risk."

July FOMC Minutes: Cautious On Inflation Risks (1/3)

In keeping with a divided Committee, the **July meeting minutes** contained slightly mixed messages about the FOMC's view of the outlook for inflation, labor market, and ultimately policy. But overall the minutes were more cautious about inflation than the labor market, and the key passage - which appears to have generated a slightly hawkish market reaction - is "participants generally pointed to risks to both sides of the Committee's dual mandate, emphasizing upside risk to inflation and downside risk to employment. A majority of participants judged the upside risk to inflation as the greater of these two risks, while several participants viewed the two risks as roughly balanced, and a couple of participants considered downside risk to employment the more salient risk."

- Given that, it's no surprise the minutes more broadly paint a cautious outlook on inflation, though it's not far removed from what we've heard from various members including Chair Powell at the press conference. Per the minutes: "with regard to the outlook for inflation, participants generally expected inflation to increase in the near term. Participants judged that considerable uncertainty remained about the timing, magnitude, and persistence of the effects of this year's increase in tariffs. In terms of timing, many participants noted that it could take some time for the full effects of higher tariffs to be felt in consumer goods and services prices."
- In these minutes, "a couple" almost certainly refers to dissenting Governors Bowman and Waller. They also saw inflation trends as more benign than the majority ("Many" participants saw inflation remaining "somewhat above" target with tariffs becoming "more apparent in the data"), and close to target ex-tariffs. So this small minority saw little to worry about on the inflation front, but plenty to be concerned about on the jobs front.
- Same as in the June meeting, only "a few" had a "transitory" base case view of tariffs' impact on inflation.
- But compared with June's meeting minutes, which said "**most** participants noted the risk that tariffs could have more persistent effects on inflation", the outlook on inflation persistence appeared to be a little more mixed in July. For instance, "a few participants stressed that current demand conditions were limiting firms' ability to pass tariff costs into prices." And just "a few" remarked "that tariff-related factors, including supply chain disruptions, could lead to stubbornly elevated inflation and that it may be difficult to disentangle tariff-related price increases from changes in underlying trend inflation."
- Despite that seemingly more mixed set of opinions, overall there clearly was concern by the majority over longer-term inflation issues stemming from tariffs that kept many on the Committee cautious: "Several participants emphasized that inflation had exceeded 2 percent for an extended period and that this experience increased the risk of longer-term inflation expectations becoming unanchored in the event of drawn-out effects of higher tariffs on inflation....Regarding upside risks to inflation, participants pointed to the uncertain effects of tariffs and the possibility of inflation expectations becoming unanchored."

July FOMC Minutes: Little Concern Over Labor Market; Rates (2/3)

At the same time, the July minutes suggested labor market concerns were relatively muted for most on the FOMC: "participants observed that the unemployment rate remained low and that employment was at or near estimates of maximum employment".

- To be sure, "regarding the outlook for the labor market, some participants mentioned indicators that could suggest a softening in labor demand" and "a number of participants noted that softness in aggregate demand and economic activity may translate into weaker labor market conditions, as could a potential inability of some importers to withstand higher tariffs."
- But there was no panic evident in the minutes, and "some participants" noted (in line with comments by Powell and others) "that slower output or employment growth was not necessarily indicative of emerging economic slack because a decline in immigration was lowering both actual and potential output growth as well as reducing both actual payroll growth and the number of new jobs needed to keep the unemployment rate stable."
- The weak July employment data released 2 days after this meeting are seen as a key reason to expect a September cut, so that's an important line of reasoning that - if repeated by Chair Powell on Friday - could signal that it will take more conclusive evidence of labor market deterioration for a majority to decide on a rate cut.
- On that front, the minutes repeated the June minutes' line that "several participants commented that the current target range for the federal funds rate may not be far above its neutral level", and noted that "almost all participants agreed that, with the labor market still solid and current monetary policy moderately or modestly restrictive, the Committee was well positioned to respond in a timely way to potential economic developments."
- We had wondered whether the minutes would include any insight at all on rate cut timing, though here the language was as vague as expected, pointing to potential for an informed assessment of the tariff situation to be made in the coming months. Participants "noted that it would take time to have more clarity on the magnitude and persistence of higher tariffs' effects on inflation. Even so, some participants emphasized that a great deal could be learned in coming months from incoming data, helping to inform their

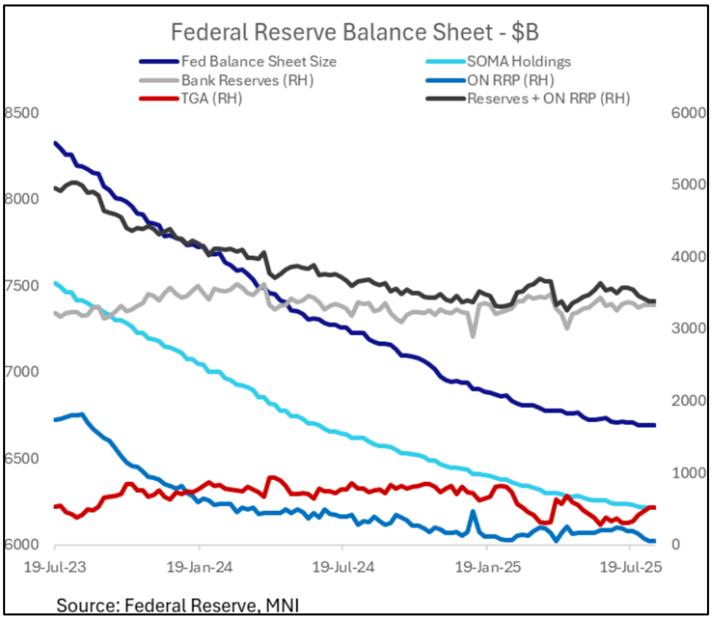
assessment of the balance of risks and the appropriate setting of the federal funds rate; at the same time, some noted that it would not be feasible or appropriate to wait for complete clarity on the tariffs' effects on inflation before adjusting the stance of monetary policy."

- Echoing what Chair Powell has said, participants saw policy as well-positioned, allowing the Committee in the case of tariff-related inflation / expectation pressures to "maintain a more restrictive stance of monetary policy than would otherwise be the case, especially if labor market conditions remained solid". Though they could also "establish a less restrictive stance" "if labor market conditions were to weaken materially or if inflation were to come down further and inflation expectations remained well anchored". And as previously stated, were both sides of the dual mandate to be at risk simultaneously, participants would assess the distance of each from target and act accordingly.

July FOMC Minutes: Reserves "Abundant", Quarter-End SRF Takeup Eyed (3/3)

The July meeting devoted some discussion to the ongoing drawdown in reserves amid the Treasury cash rebuild. Overall, the Committee seem to be comfortable with the trajectory of reserves, despite some caution that reserves could be headed into "ample" from the current "abundant" territory.

- With regard to near-term funding pressures, namely potential for the mid-September tax date and Q3 quarter-end posing risks, the minutes suggest that while there may be some temporary acute liquidity issues, they can be resolved by takeup of the standing repo facility.
- As such, there was no real discussion of a shift in balance sheet management policy, particularly with QT proceeding "smoothly" and reserves remaining "abundant", though vigilance of money market conditions would continue to be important.
- SOMA Manager Perli: "Market indicators continued to suggest that reserves remained abundant; however, ongoing System Open Market Account (SOMA) portfolio runoff, a substantial expected increase in the TGA balance, and the depletion of the ON RRP facility were together likely to bring about a sustained decline in reserves for the first time since portfolio runoff started in June 2022. Against this backdrop, the staff would continue to monitor indicators of reserve conditions closely. The manager also noted that there would be times—such as quarter-ends, tax dates, and days associated with large settlements of Treasury securities—when reserves were likely to dip temporarily to even lower levels. At those times, utilization of the SRF would likely support the smooth functioning of money markets and the implementation of monetary policy."
- And the broader FOMC: "Several participants remarked on issues related to the Federal Reserve's balance sheet. Of those who commented, participants observed that balance sheet reduction had been proceeding smoothly thus far and that various indicators pointed to reserves being abundant. They agreed that, with reserves projected to decline amid the rebuilding of the TGA balance following the resolution of the debt limit situation, it was important to monitor money market conditions closely and to continue to evaluate how close reserves were to their ample level. A few participants also assessed that, in this environment, abrupt further declines in reserves could occur on key reporting and payment flow days. They noted that, if such events created pressures in money markets, the Federal Reserve's existing tools would help supply additional reserves and keep the effective federal funds rate within the target range. A couple of participants highlighted the role of the SRF in monetary policy implementation—as reflected in increased usage at the June quarter-end—and expressed support for further study of the possibility of central clearing of the SRF to enhance its effectiveness."



STIR: Dovish Powell More Than Reverses The Week's (Relatively) Hawkish Set-Up

Powell's remarks have seen Sept cut odds rise 3.5bp to 22bp and cumulative Dec cut odds rise 7.5bp to 55.5bp for little near-term change on the week after a hawkish shift mid-week. Pre-Powell near-term pricing had been its more hawkish since after the Aug 1 payrolls report with its huge downward revisions.

Dovish moves are more pronounced further out the curve however, with SOFR futures seeing low double digit gains on the day for 2026 contracts after Powell. That leaves similar gains for the week, translating to a fairly consistent ~10bp decline in implied yields from mid-2026 to end-2027 on the week. Within that, the terminal yield of 3.00% (SFRH7) is currently on track to nudge to a fresh post-payrolls low. It also breaks through what has been a rough range of 125bps +/-5bp of cuts from current levels priced since that Aug 1 payrolls report.

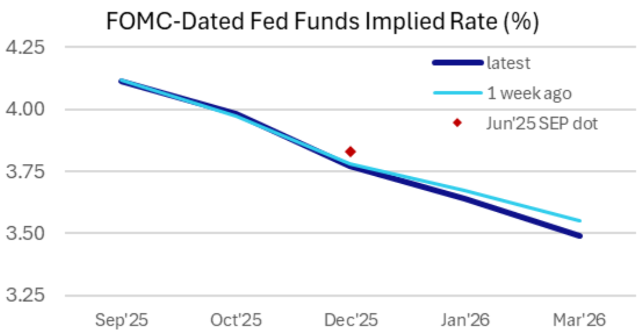
Cumulative Fed cuts by end-2025 (%pt) (Bloomberg Finance L.P.)

FOMC-dated Fed Funds futures implied rates

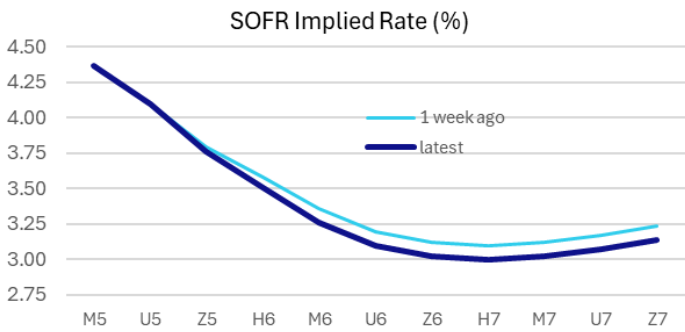
Meeting	Latest			pre Powell (Aug 22)			chg in rate	pre PPI (Aug 14)			chg in rate
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	bp	%	step (bp)	cum. (bp)	bp
Effective	4.33			4.33				4.33			
Sep'25	4.11	-21.8	-21.8	4.15	-18.1	-18.1	*-3.7*	4.08	-25.5	-25.5	*3.7*
Oct'25	3.98	-12.9	-34.7	4.03	-12	-29.8	*-4.9*	3.91	-16	-42	*7.1*
Dec'25	3.77	-21.0	-55.7	3.85	-19	-48.4	*-7.3*	3.71	-21	-63	*6.8*
Jan'26	3.64	-13.5	-69.2	3.73	-11	-59.7	*-9.5*	3.58	-12	-75	*5.6*
Mar'26	3.49	-14.6	-83.8	3.60	-13	-72.9	*-10.9*	3.44	-14	-89	*4.9*

Source: Bloomberg Finance L.P., MNI.

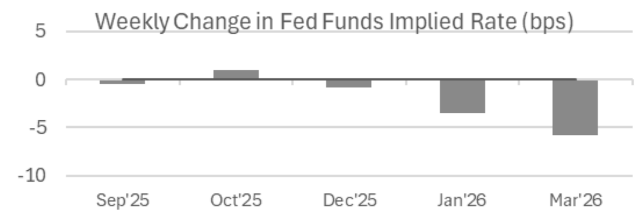
Week-on-week moves:

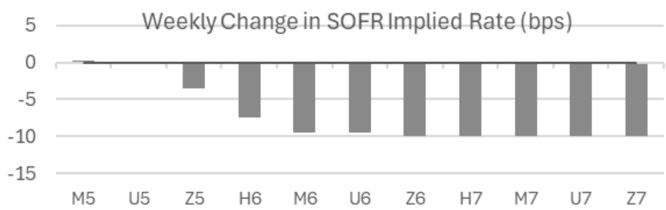


Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.





Analyst Fed View Changes

Deutsche Pulls Forward Next Cut Expectation To September From December

Deutsche analysts have updated their Fed call following Chair Powell's Jackson Hole speech: saying that it "leaned more dovish than we expected", taking it overall "as a reasonably strong signal that Chair Powell is leaning towards a 25bps reduction in September."

- They now see a 25bp September cut "as most likely.", with 25bp cuts in Dec and March, to Deutsche's estimate of longer-run neutral (3.625% Fed funds midpoint). Previously they'd seen the next cut in December, followed by 2x cuts in Q1 2026 to neutral.
- However, they think Powell carefully chose language to stave off expectations of consecutive cuts: "While a sequential path is possible if upcoming data reinforces worries around the labor market, we think Powell signaled a more cautious approach by noting: “the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance.”

The US Macro Week Ahead: GDP Q2 2nd Release and Monthly PCE

Thursday sees the second estimate for Q2 national accounts, offering revisions to real GDP growth of 3.0% annualized having surprised stronger in the flash release (consensus 2.6%, GDPNow 2.9%) after -0.5% in Q1. Smoothing the tariff-distorted quarters out, the average of 1.2% annualized in 1H25 was a clear slowdown from the 2.5% in 2024. Domestic demand will continue to be watched for signs of underlying economic strength after PDFP slowed to 1.2% in Q2 for its slowest quarter since 4Q22. Similarly, the 1.6% in 1H25 followed 3.0% in 2024. Residential investment was a sizeable drag within private domestic demand with a -0.2pp contribution as the housing market remains under pressure. Core PCE inflation revisions for Q2 can also give hints as to what to expect in Friday’s monthly release.

On that note, Friday sees the PCE and incomes report for July for a useful update on consumer momentum early in Q3. Early days for Bloomberg consensus points to a 0.3% M/M increase in real spending, helped by a solid (nominal) retail sales report that also included upward revisions. Income growth has been playing a strong role here and is expected to continue to do so, seen rising a 0.5% M/M after 0.3% M/M and preventing a decline in the saving ratio. Core PCE inflation meanwhile is seen somewhat centered on a 0.3% M/M print although perhaps more likely to be in the high 0.2s than low 0.3s. This would mark the fourth consecutive monthly acceleration, including 0.26% M/M in June prior to any revisions, and would leave year-ago inflation at ~2.9% Y/Y as it consolidates a stabilization in core inflation at above target rates.

Date	ET	Impact	Event
25/08/2025	1000	***	New Home Sales
25/08/2025	1030	**	Dallas Fed manufacturing survey
25/08/2025	1515		Dallas Fed's Lorie Logan
25/08/2025	1915		New York Fed's John Williams
26/08/2025	0830	**	Durable Goods New Orders
26/08/2025	0830	**	Philadelphia Fed Nonmanufacturing Index
26/08/2025	0855	**	Redbook Retail Sales Index
26/08/2025	0900	**	S&P Case-Shiller Home Price Index
26/08/2025	0900	**	FHFA Home Price Index
26/08/2025	1000	***	Conference Board Consumer Confidence
26/08/2025	1000	**	Richmond Fed Survey
26/08/2025	1030	**	Dallas Fed Services Survey
27/08/2025	0700	**	MBA Weekly Applications Index
28/08/2025	0830	***	Jobless Claims
28/08/2025	**0830**	***	**GDP / PCE Quarterly**
28/08/2025	1000	**	NAR Pending Home Sales
28/08/2025	1100	**	Kansas City Fed Manufacturing Index
28/08/2025	1800		Fed Governor Christopher Waller
29/08/2025	**0830**	***	**Personal Income and Consumption, PCE**
29/08/2025	0830	**	Advance Trade, Advance Business Inventories
29/08/2025	0942	***	MNI Chicago PMI
29/08/2025	1000	***	U. Mich. Survey of Consumers