

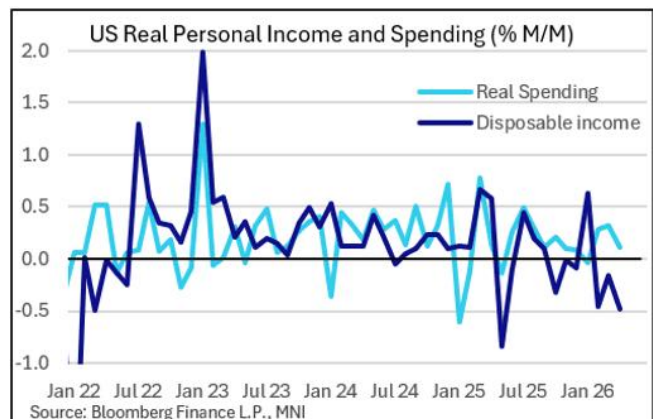
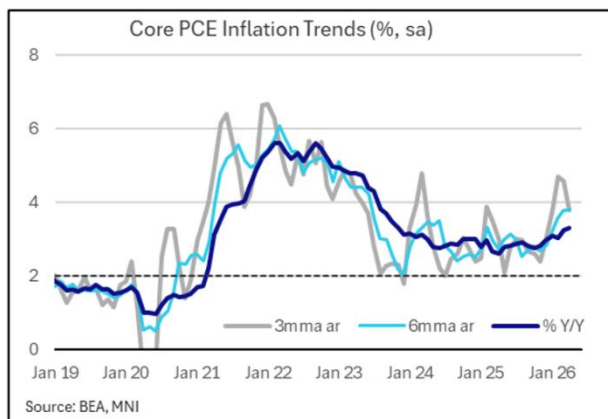
MNI U.S. Macro Weekly

MNI View: Mixed Readings Ahead Of Payrolls

May 29, 2026 – By Tim Cooper and Chris Harrison

Executive Summary

- While cautious optimism prevailed on a near-term US-Iran ceasefire extension deal going into the weekend, the latest data flow did little to ease the Fed’s inflation concerns even if the latest PCE readings came in a touch softer than feared, and activity indicators were mixed.
- April core PCE rose 0.24% M/M, below the median unrounded expectation of 0.28%, but the broader message remained one of stubborn inflation: recent 3- and 6-month annualized core PCE run rates remain around 3.8%, underscoring that inflation is still running comfortably above a pace consistent with target.
- Elsewhere, the macro picture was mixed but still resilient. Real personal spending rose 0.1% in April, with services continuing to hold up, but real disposable income fell 0.5% M/M for a third straight decline and the savings rate dropped to 2.6%, highlighting the squeeze from higher prices.
- Q1 GDP was revised down to 1.62% annualized, mainly because inventories contributed less than first estimated, though AI-related investment remained a major support.
- Core capital goods orders pulled back in April after two very strong months though overall still point to robust capex momentum. Business surveys were mixed but generally solid on activity, with the MNI Chicago PMI surging and Richmond Fed manufacturing posting its strongest reading in years, even as some regional service-sector details stayed soft.
- Housing remained a clear weak spot, with new home sales falling 6.2%, mortgage applications down again, and mortgage rates rising to their highest since August 2025.
- Labor indicators as usual continued to suggest a stable labor market: jobless claims remain low, ADP’s weekly data implies firmer May private payroll growth, and the Chicago Fed estimates May’s unemployment rate steady at around 4.3%.
- Fed communication continued to lean cautious-to-hawkish. Jefferson said policy is well positioned but flagged upside inflation risks; Cook said she is prepared to hike if disinflation does not resume in a timely manner; Musalem argued real rates are below neutral and that risks are tilted more toward inflation than jobs; and Schmid warned against too readily looking through the recent energy shock, saying policy is not very restrictive. Kashkari maintained hawkish rhetoric but stopped short of endorsing imminent hikes.
- By contrast, Williams and Bowman still emphasized that tariffs and energy may have mainly one-off effects, with Williams saying policy is “right where we want it to be” and Bowman still seeing a temporary energy inflation shock, albeit with growing concern about persistence.
- Even so, market pricing turned modestly more dovish over the week, moving from fully pricing a 25bp hike by end-2026 to something closer to a 50/50 call, driven largely by improved prospects for a U.S.-Iran deal and, at the margin, softer-than-feared data including the GDP revision and core PCE.
- Looking ahead, next week’s focus is squarely on May payrolls, with Bloomberg consensus at 93k and the unemployment rate seen at 4.3%, alongside ISM Manufacturing and Services, JOLTS, jobless claims, and a busy Fed speaker slate including Waller, Powell, Hammack, Kashkari, Barr, Logan, Barkin and Daly.

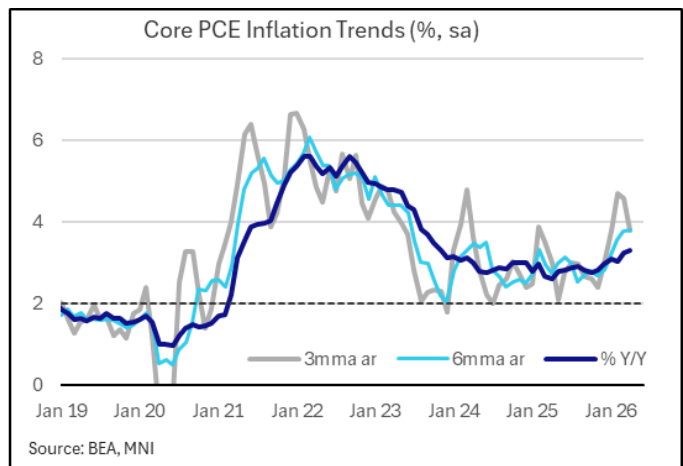
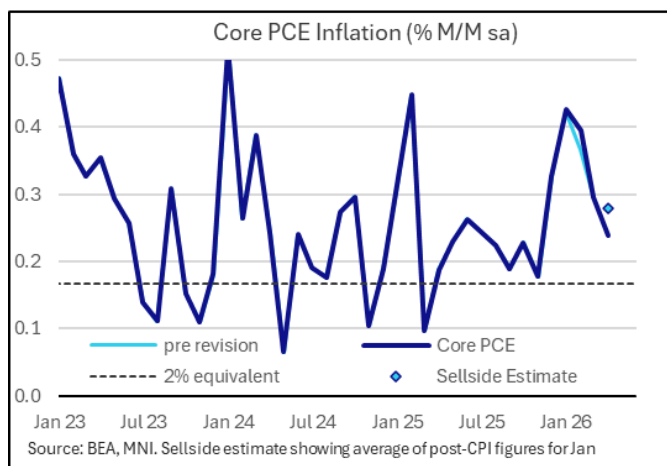


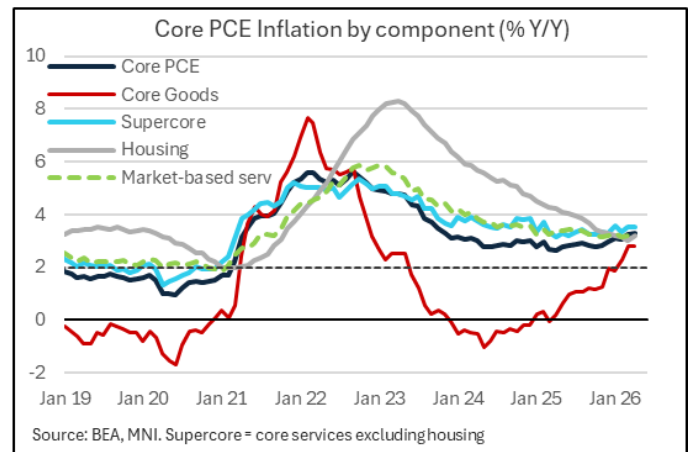
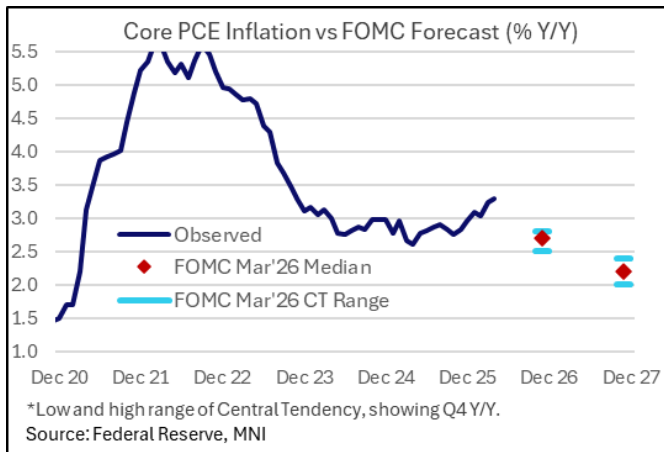
Inflation

PCE Inflation Not Quite As High As Expected But No Relief For The Fed...

Core PCE inflation was on the soft side of expectations in April but there isn't much relief for the Fed within the details. Headline PCE accelerated to 3.77% Y/Y for its strongest since May 2023 whilst core PCE accelerated to 3.29% Y/Y for its strongest since Nov 2023. The latter is only a modest acceleration although with recent run rates at a stubbornly strong 3.8% annualized. Recall that the median FOMC forecast at the March SEP was revised 0.2pps higher to 2.7%.

- Core PCE inflation was softer than expected in April at 0.24% M/M vs the median unrounded estimate we'd seen of 0.28% (range 0.25-0.31%).
- Revisions were modest for March and January although there was a ~3bp uptick to February which we imagine was mostly expected after the PPI details.
- The latest profile sees monthly core PCE inflation at its softest since November, although it's still comfortably stronger than a monthly pace equivalent to the 2% inflation target and follows four months averaging a particularly robust 0.36% M/M through Dec-Mar (including a peak of 0.43% M/M in January).
- Core goods PCE inflation accelerated to 0.30% M/M in April after 0.21% in March although remains softer than the booming 0.84% M/M of February.
- Core services PCE inflation on the other hand moderated from 0.32% to 0.22% M/M in April for its softest since Sept 2025.
- Non-housing services played a role here, with the supercore easing to 0.12% M/M for its softest since Apr 2025 after four strong months also averaging 0.36% M/M through Dec-Mar.
- In trend terms, core PCE inflation firmed from 3.24% to a new recent high of 3.29% Y/Y (cons 3.3) for its highest since Nov 2023. Recent run rates continue to run stronger with both the three- and six-month rates at 3.8% annualized.
- Core goods inflation accelerated marginally to a fresh recent high from 2.78% to 2.80% Y/Y (highest since Dec 2022) whilst core services firmed a little more from 3.38% to 3.45% Y/Y (highest since Jan).
- For some alternate services metrics, core services ex-housing continued its recent re-acceleration to 3.53% Y/Y, still off the recent high of 3.57% of Jan but nevertheless its second strong reading since early 2025 having bottomed at 3.2% in Apr 2025.
- Separately, market-based services at 3.2% Y/Y continues to see little recent moderation (it has averaged 3.2% since September) and also continues to see stronger recent trends with three- and six-month run rates of 3.6% annualized.
- In broadest terms, headline PCE inflation came in at 0.40% M/M whilst the Y/Y accelerated from 3.525% to 3.77% for its fastest since May 2023.

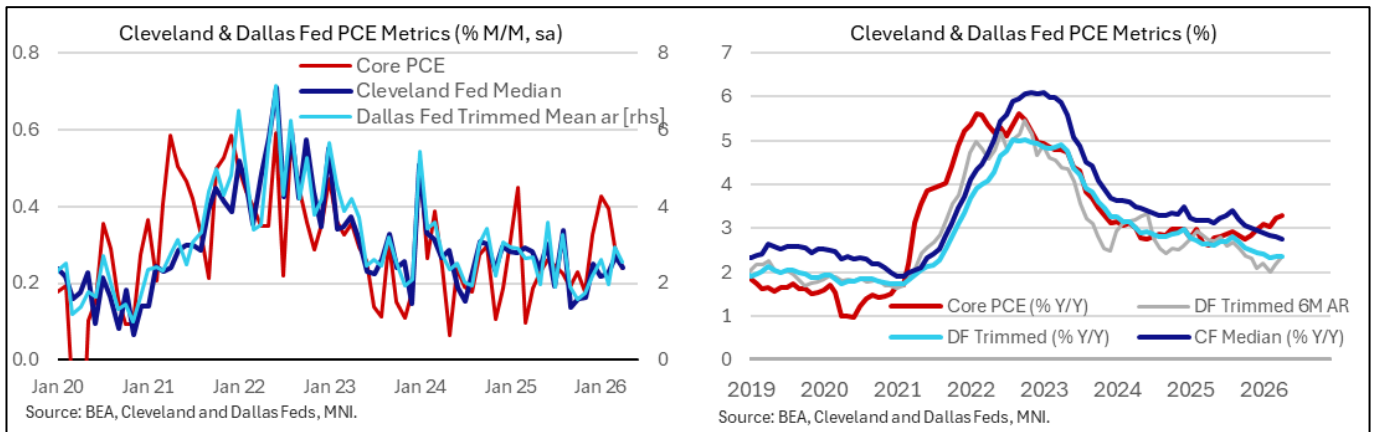




... Although Alternate PCE Inflation Metrics Running Softer Than Headline and Core

Main PCE inflation measures such as headline and core accelerated further in April although median and trimmed mean metrics haven't shown the same upward trajectory in recent months. Whilst they are still above the 2% target, more notably so for the median, the relatively softer inflation rates are of note with new Fed Chair Warsh looking to trimmed mean series.

- Specifically, headline PCE inflation accelerated from 3.525% to 3.77% Y/Y (fastest since May 2023) whilst core PCE accelerated from 3.24% to 3.29% Y/Y (highest since Nov 2023) and had recent run rates stronger still at 3.8% annualized.
- However, the Cleveland Fed's median inched lower from 2.81% to 2.76% Y/Y for technically its softest since Aug 2021 having averaged 2.84% through Jan-Mar.
- Alternatively, the Dallas Fed's trimmed mean held steady at 2.35% Y/Y after 2.36% in March, having plateaued at an average 2.38% Y/Y since December.
- Recall Warsh's comments from his Senate Banking Committee testimony: "We used to use core PCE measures, so we'd exclude food and energy, because it was sort of a rough swag as to what was going on. We don't have to do a rough swag anymore. What I'm most interested in is, what's the underlying inflation rate. Not what's the one time change in prices because of a change in geopolitics or a change in beef, but what's the underlying generalized change in prices in the economy? And my broad sense is that these inflation risks and the inflation damage the last several years is improving somewhat. It has improved somewhat in the last year. The measures I prefer are looking at things that are called trimmed averages, where we take out all of the tail risks, all of the one off items, and we ask ourselves whether the generalized change in prices is having second order effects on the economy. Again, they're not where they should be, but I think that the trend is quite favorable."
- He added "Among the projects I would hope to undertake as one of the first reforms at the Fed is a data project where we would go off and we would evaluate with the public sector and the private sector, including the Bureau of Labor Statistics, a survey of a billion prices. And what I'm really most interested Senator, is, what's the change of that 500,000,001 price? Because that's inflation, that's a change in the generalized level. In a market economy, prices change all the time, and I don't want to be confused by that. I want to know what inflation really is. And I still think there's some work to do."

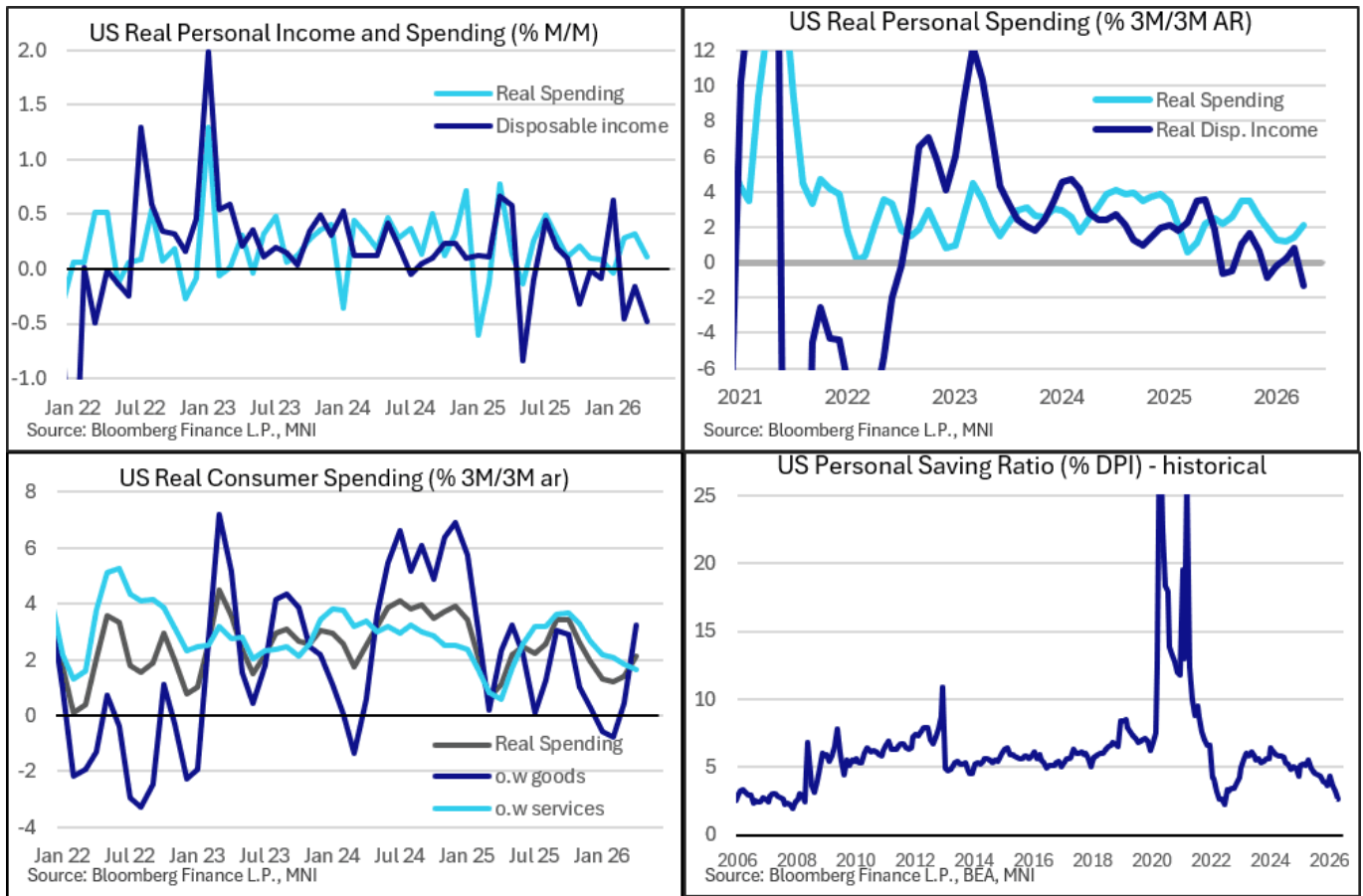


Consumption

Services Spending Holds Up, But Inflation Taking Toll On Real Incomes

April's Personal Income and Outlays report maintained the recent themes of elevated nominal spending but softer in volume terms, alongside weak real income growth. Services spending remains the key driver of overall spending, with a brief burst in real goods purchases now appearing to abate. April's readings were largely as expected so the report shouldn't alter pre-existing perceptions of the health of the US consumer, but they offer a note of caution on the state of US household finances at a time of elevated inflation.

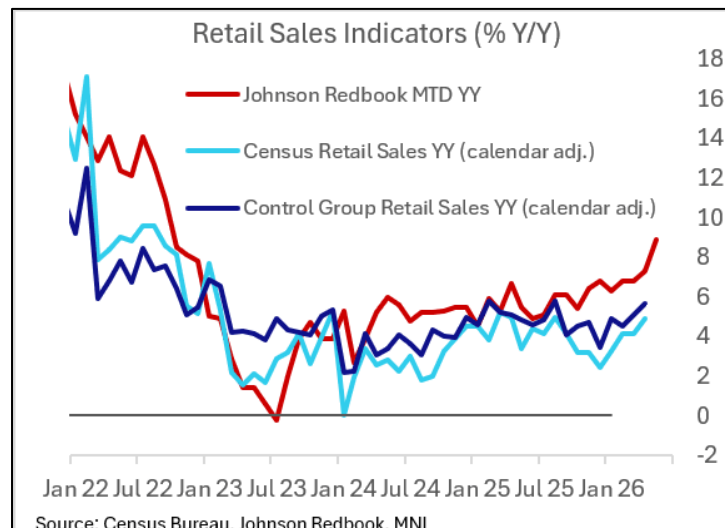
- Personal spending rose in April in line with consensus at 0.5% (0.5% expected, 1.0% prior rev from 0.9%); translated into real terms, spending rose just 0.1%, again in line (0.1% expected, 0.3% prior rev from 0.2%).
- In real terms, goods purchases slowed after two robust months, falling 0.1% M/M after +0.8% in each of February and March, but remain growing at a 3.2% 3M/3M annualized (ie quarterly pace) thanks to the prior 2 months. Though to illustrate the inflation effect here, the Y/Y nominal growth was a 42-month high 5.6% but in real terms just 1.2%.
- Services continued to underpin overall spending, posting a 5th consecutive positive reading in real terms at 0.2% M/M (0.1% prior) and apart from a very small unrounded negative reading last November have risen for 14 consecutive months (up 2.5% Y/Y and 1.7% 3M/3M ann.). Our rough proxy of "discretionary" services spending (Ex Healthcare, Insurance, Utilities) was up 0.4% M/M in real terms for a 2nd consecutive month, the 4th straight at 0.3% or above which is a healthy dynamic though of course higher gasoline purchases continue to dominate overall consumption.
- However, the income portion of the report continues to look soft. Employee compensation continues to rise at a decent rate in nominal terms (0.2% after 0.3%) but overall income growth was flat (due to a decrease in farm proprietors' income) vs 0.5% prior. And with the tax take picking up again, disposable income fell for the 2nd month in 3 (-0.1% after +0.5%). This left real disposable income down 0.5% M/M, the 3rd consecutive fall (and unrounded, the biggest since May 2025) and now contracting 1.1% Y/Y and 1.4% 3M/3M annualized. As such,
- The household savings ratio, despite being prone to large revisions, fell to 2.6% which is the lowest since the 2.2% nadir in June 2022. Both episodes were characterized by spiking inflation and it's evident that once again, higher prices (and again, led by energy) are taking a toll on household finances. In 2022, spending held up; that said, the current period is not one in which households are able to spend down a Covid stimulus savings buffer.



Redbook Continues To Point To Strong May Nominal Retail Sales

Retail sales were up 9.0% Y/Y in the week ending May 23, per the Johnson Redbook Index - an acceleration from 8.1% in the previous week. That brings the month-to-date rise to 8.9% Y/Y, which would be the strongest for a full month since September 2022 - though these are in nominal figures and like the Census Bureau series appear to be boosted by higher prices.

- Control Group sales were up 5.7% Y/Y in April vs 7.3% for Redbook; it's too early for consensus for May Census Retail Sales (Jun 17) but even a flat M/M reading would keep Control Group gains above 5.0% Y/Y.
- The anecdotes point to typical Memorial Day weekend dynamics: "Sales results were slightly up as we approached Memorial Day weekend, driven by heavy promotional activities. Demand for a wide variety of summer, home and garden, and seasonal apparel products was the main focus for most consumers. Retailers noted increased activity in school graduation-related items, including women's wear, men's wear, footwear, and women's accessories. Additionally, discounters reported strong business in the grocery division in anticipation of the long Memorial Day weekend."



Broader Activity

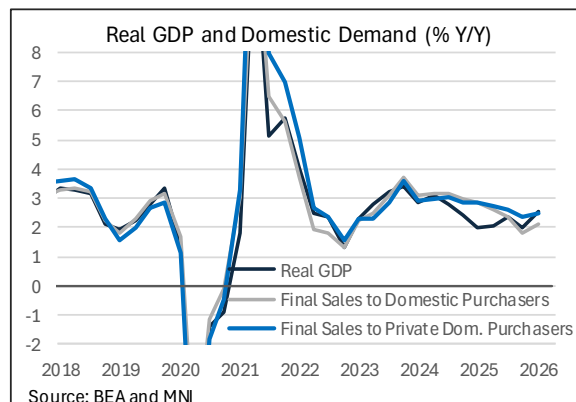
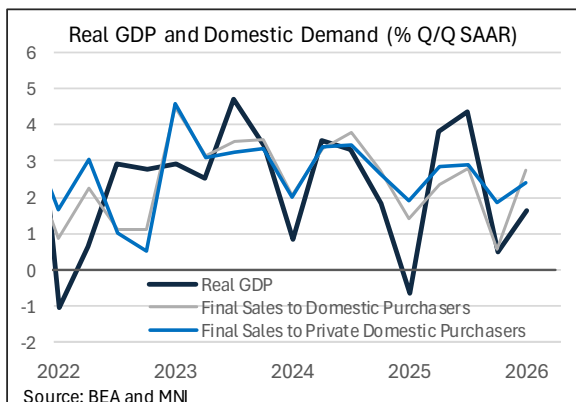
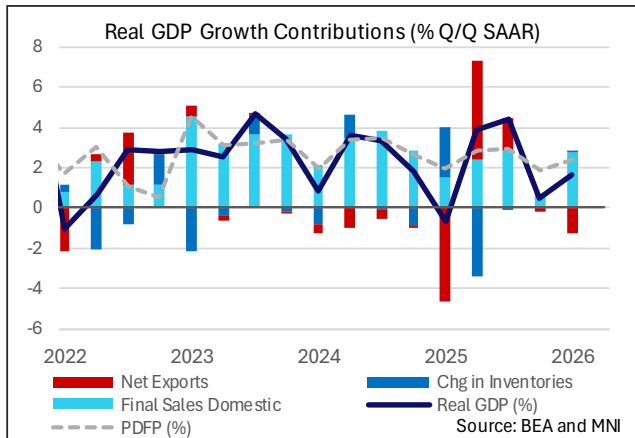
Real GDP Revised Lower In Q1 Mainly On Smaller Inventories Boost

- Real GDP growth was revised down to 1.62% annualized vs the 1.99% in the advance estimate for Q1, after 0.48% in Q4.
- Revisions: PDPF contributed -0.10pp to the -0.37pp downward revision, with personal consumption leading it, but the main revision came from a smaller than first thought boost from changes in inventories (-0.32pp of revision).
- Latest growth rates:
 - PDPF: 2.42% vs the 2.54% in the advance estimate, after 1.84% in Q4.
 - Personal consumption: 1.40% for a surprise downward revision from the 1.59% in the advance estimate, after 1.93% in Q4.
 - AI/data center demand remained a major factor on the quarter, with non-residential fixed investment revised down only slightly to a still extremely strong 10.1% annualized in Q1 (10.4% in the advance). That added 1.35pp to quarterly GDP growth (1.39pp in advance) after 0.3pp in Q4.
- Latest contributions to real GDP growth: PDPF 2.06pp, inventories 0.08pp and net exports -1.25pps.

US Real GDP Growth and Contributions (%Q/Q SAAR, pps)

	3Q25	4Q25	1Q26		
			prior	latest	rev
Real GDP	4.4	0.5	1.99	1.62	-0.37
Final Sales Dom. Purchasers	2.9	0.6	2.89	2.79	-0.10
(of which Private)	2.5	1.6	2.16	2.06	-0.10
Personal Cons	2.3	1.3	1.08	0.95	-0.13
Gov Cons + Invt	0.4	-1.0	0.73	0.73	0.00
Fixed Invt	0.2	0.3	1.08	1.11	0.03
non-resi	0.4	0.3	1.39	1.35	-0.04
resi	-0.3	-0.1	-0.31	-0.24	0.07
Chgin Inventories	-0.1	0.14	0.40	0.08	-0.32
Net Exports	1.6	-0.2	-1.30	-1.25	0.05
Exports	1.0	-0.4	1.32	1.34	0.02
Imports	0.6	0.1	-2.62	-2.59	0.03

Source: BEA, Bloomberg Finance L.P., MNI

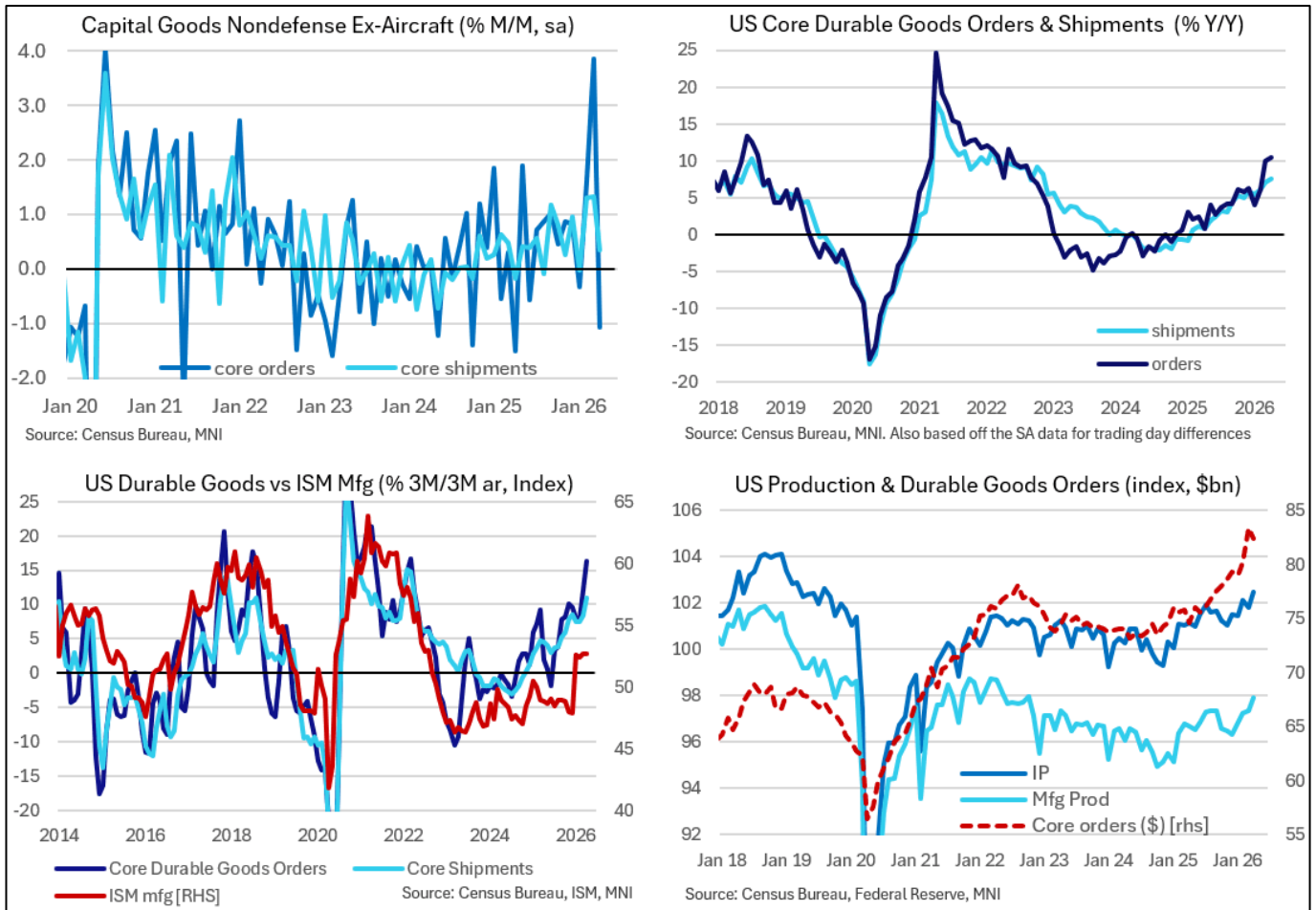


Core Durable Orders Pull Back In April, But Momentum Still Robust

April's durable goods report was somewhat mixed, but even with a weak monthly core orders figure, the data don't yet imply a reversal in the continued momentum of business investment going into Q2.

- Overall durable goods orders growth was much stronger than anticipated at 7.9% M/M (4.0% expected, 1.3% prior rev from 0.8%), but as usual this was heavily skewed by volatile aircraft orders (a 166% M/M rise owing to soaring Boeing orders; after -23% in March).

- Conversely, core capital goods orders (nondefense ex-aircraft) disappointed at -1.1% (0.4% expected, though 3.9% prior was rev from 3.4%).
- That was the worst monthly reading for core orders in a year, but looks more like a pullback from two extremely strong months than a trend reversal.
- On a 3M/3M seasonally-adjusted annualized basis, core capital goods orders rose at a 16.3% pace in April, and 10.4% Y/Y, representing respectively 49- and 47-month bests.
- Multiple categories from machinery to computers orders are growing in double-digits on a Y/Y basis. And with flash manufacturing PMI printing a 48-month high and regional Fed surveys pointing to strong factory activity in May, there's scant evidence of a near-term slowdown in business capex.



Q2 Atlanta Fed GDPNow Est Dips To 3.8% On PCE, Inventories

The Atlanta Fed's GDPNow estimate for Q2 has fallen to 3.8% Q/Q SAAR in the latest update, vs 4.3% a week earlier (and 1.6% actual in Q1).

- The main driver of the downgrade is a weaker private consumption growth outlook, with real PCE now seen at 2.6% (vs 2.9% in the prior update, 1.4% actual in Q1) and thus contributing 0.2pp less to overall GDP in the quarter than previously foreseen. That comes following a surprise downgrade to Q1 PCE in the 2nd GDP estimate, as well as April monthly PCE data which were largely in line.
- Multiple other categories were also seen slightly slower though to a lesser degree (inventories now seen contributing 0.18pp less to GDP than previously envisaged, which follows a 0.32pp downward revision to CIPI in Q1).

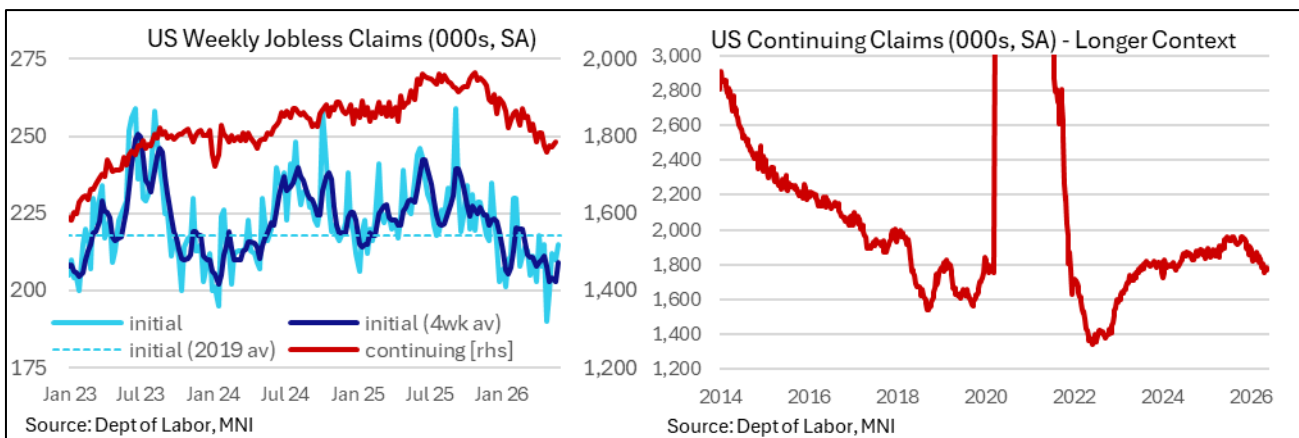
Atlanta Fed GDPNow estimates for 2026: Q2, growth rates and changes

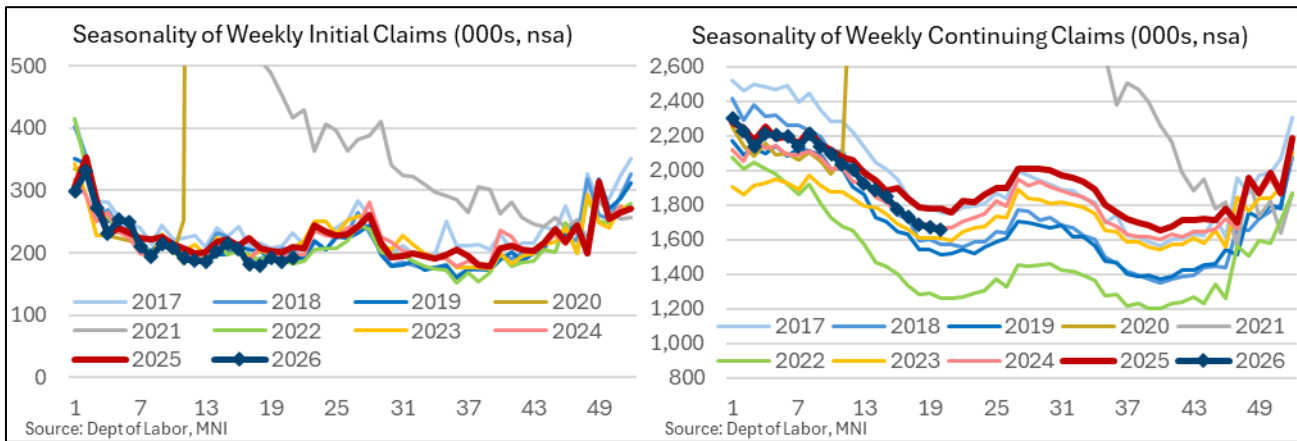
Date	Major Releases	GDP	PCE	Equip-ment	Intell. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
28-May	Latest BEA estimate for 25:Q4	0.5	1.9	4.3	5.4	-6.5	-1.7	-5.6	-3.2	-1.0	-13	8
28-May	Latest BEA estimate for 26:Q1	1.6	1.4	17.2	11.6	-5.4	-6.2	4.4	13.1	21.1	-95	-10
30-Apr	Initial GDPNow 26:Q2 forecast	3.7	2.7	6.8	6.7	1.3	0.6	1.5	4.7	3.3	1	40
1-May	ISM Manufacturing Index	3.5	2.5	6.5	6.6	1.3	0.4	1.5	4.5	3.1	2	39
4-May	M3-2 Manufacturing, Auto sales	3.7	2.6	8.5	6.6	1.3	0.4	1.5	4.6	3.1	1	39
5-May	Int. trade, New-home sales, ISM Services	3.7	2.7	8.6	6.6	1.3	0.3	1.5	3.7	2.4	2	39
7-May	Construction spending	3.7	2.7	8.6	6.6	-1.8	0.6	1.6	3.7	2.4	2	39
8-May	Emp. situation, Wholesale trade	3.7	2.6	8.6	6.4	-1.8	0.7	1.5	3.7	2.4	3	46
11-May	Existing-home sales	3.8	2.6	8.6	6.4	-1.8	2.2	1.5	3.7	2.4	3	46
12-May	CPI, Monthly Treasury Statement	3.8	2.6	8.6	6.4	-1.8	2.2	1.6	3.7	2.4	3	46
13-May	Producer Price Index	3.8	2.6	8.6	6.4	-1.8	2.1	1.6	3.7	2.4	3	45
14-May	Retail sales, Import and export prices	4.0	2.7	8.6	6.4	-1.8	2.3	1.6	3.8	2.4	3	52
15-May	Industrial production	4.3	2.9	9.4	6.4	-1.3	2.7	1.6	4.1	2.7	2	61
21-May	Housing starts	4.3	2.9	9.4	6.4	-1.3	1.6	1.6	4.1	2.7	2	61
28-May	GDP (Q1 2nd est.), Pers. Inc., NIPA underlying detail tables, Adv. Census manuf. (M3-1), New-home sales	3.8	2.6	9.1	6.3	-1.3	2.3	1.6	4.0	3.0	-2	50
15-May	Maximum forecast of real GDP growth Industrial production	4.3	2.9	9.4	6.4	-1.3	2.7	1.6	4.1	2.7	2	61
1-May	Minimum forecast of real GDP growth ISM Manufacturing Index	3.5	2.5	6.5	6.6	1.3	0.4	1.5	4.5	3.1	2	39

Labor Market

Jobless Claims Tick Up But Still Point To A Stable Labor Market

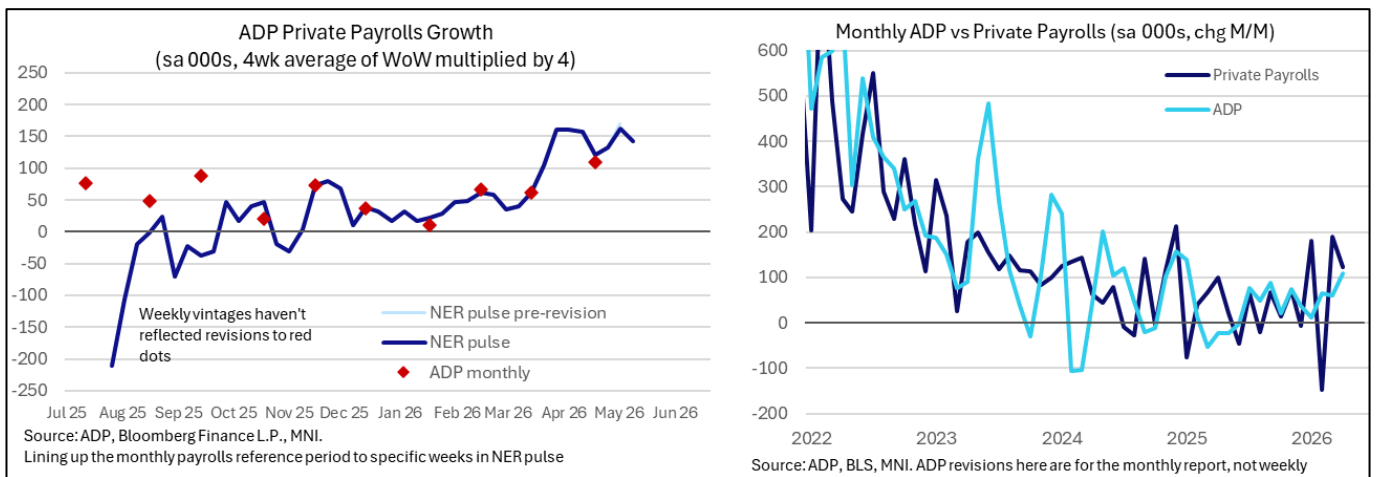
- Initial jobless claims were a little higher than expected at 215k (sa, cons 211k) in the week to May 23 after a marginally upward revised 210k (initial 209k)
- The four-week average increased 6k to 209k as a historically low 190k in the week to Apr 25 dropped out (lowest single week since 1969) but that's still an impressively low reading in its own right.
- Continuing claims meanwhile were very close to expected at 1786k (sa, cons 1784k) in the week to May 16, a payrolls reference period, after a downward revised 1771k (initial 1782k).
- We suspect this 1786k could be revised closer to the 1776k from the April payrolls reference period with next week's update. For now though it sits a little higher than a month ago in contrast to recent months of generally lower readings each reference period including 1816k in March and 1827k in February after readings in the 1900k's through 2H25.
- The non-seasonally adjusted level of continuing claims holds its recent decline away from levels seen last year to those closer to previous years - see chart.





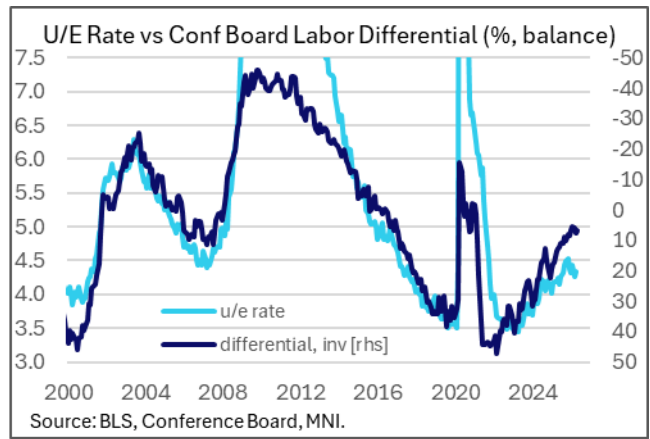
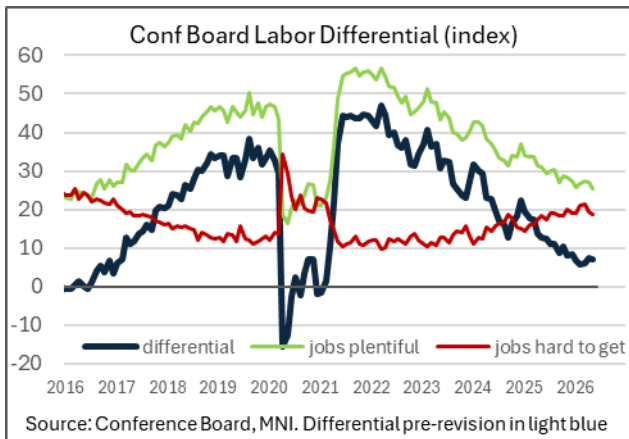
ADP Holds Onto Improvement Seen Since Late March

- ADP employment increased an average 35.75k per week in the four weeks to May 9 after a slightly downward revised 40.75k the week prior (initially 42.25k).
- This week stops just short of the reference period for the monthly report (the week including the 12th day of the month) due next week for May.
- It is currently tracking at an equivalent of 143k vs the 109k in last month's April update (the weekly series was a little stronger at 121k) and 61k in March.
- The latest vintage for this weekly series sees private jobs growth still running at a strong clip compared to monthly equivalents averaging closer to 30-40k through Dec-Feb.



Labor Differential Softens In May But Doesn't Alter Recent Picture

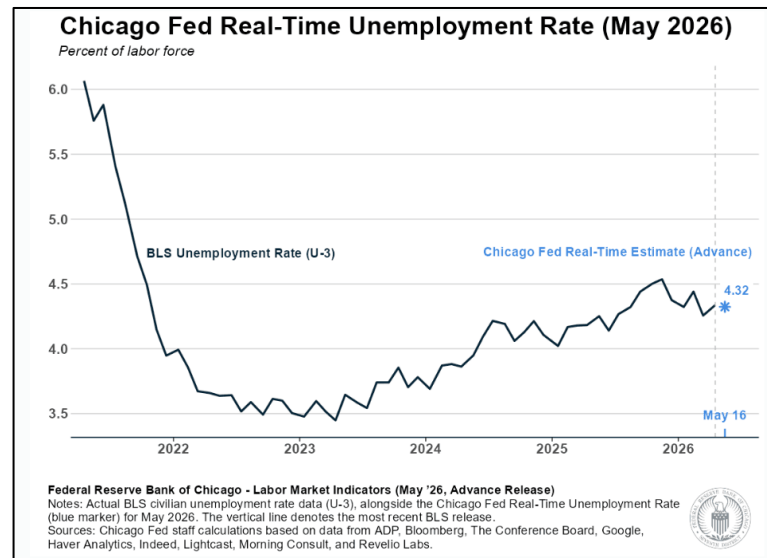
- The Conference Board labor differential was little changed in May, at 6.9 after 7.5 in April and 6.1 in March.
- It continues to point to a trend increase in the unemployment rate but it has also been relatively more pessimistic than the realized unemployment rate for some months now.
- The 5.7 in Feb 2026 remains the lowest since Feb 2021, with the index having broadly stabilized since last year having averaged 7.1 since November.
- The small decline on the month came as jobs plentiful (25.5 after 26.9) fell by more than jobs hard to get (18.6% after 19.4%).
- It leaves a strange combination, with the perception of jobs being plentiful at a fresh recent low - last lower Feb 2021 - but jobs hard to get also pulling back for a second month to its lowest since January after the 21.3 in March was its highest also since Feb 2021.



Chicago Fed Eyes Small Downtick In Unrounded May Unemployment

The Chicago Fed's preliminary estimate for May's unemployment rate (out next Friday) is 4.32%.

- Nonetheless, the Chicago Fed Labor Market Indicators release notes that risks to the unrounded reading are to the upside (ie 4.4% as opposed to 4.3%), likely given that the unrounded figure is above 4.3%; "The current forecast implies 30% odds of a decrease, 28% odds of no change, and 42% odds of an increase."
- And "This forecast is mostly a product of a small decline in separations as measured by the Chicago Fed's Layoffs and Other Separations Rate."
- Looking back at April's report, the final Chicago Fed forecast was 4.24%, vs actual 4.337%, which was an uptick from the 9-month low 4.256% in March.



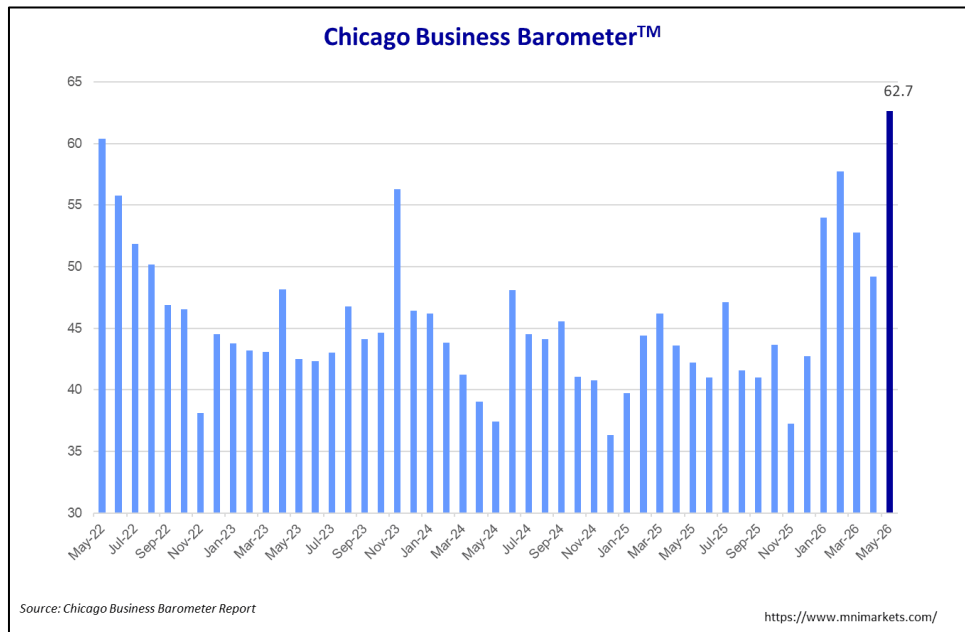
Business Sentiment

Chicago Business Barometer™ - Climbed to 62.7 in May

The Chicago Business Barometer, produced with MNI, climbed 13.5 points to 62.7 in May. The Barometer is now at its highest since January 2022, and back in expansionary territory after one month below the neutral 50 mark. This was the joint second-largest monthly increase in the Barometer since its inception in February 1967 (only July 2020 saw a bigger monthly jump).

- The rise was driven by increases in New Orders, Production, Order Backlogs and Supplier Deliveries. A decline in Employment provided some marginal offset.
- New Orders jumped 18.2 points to the highest level since January 2022. Although there was a notable rise in the proportion of respondents reporting more new orders relative to April, the panel noted that in some cases this only represented a slight increase.

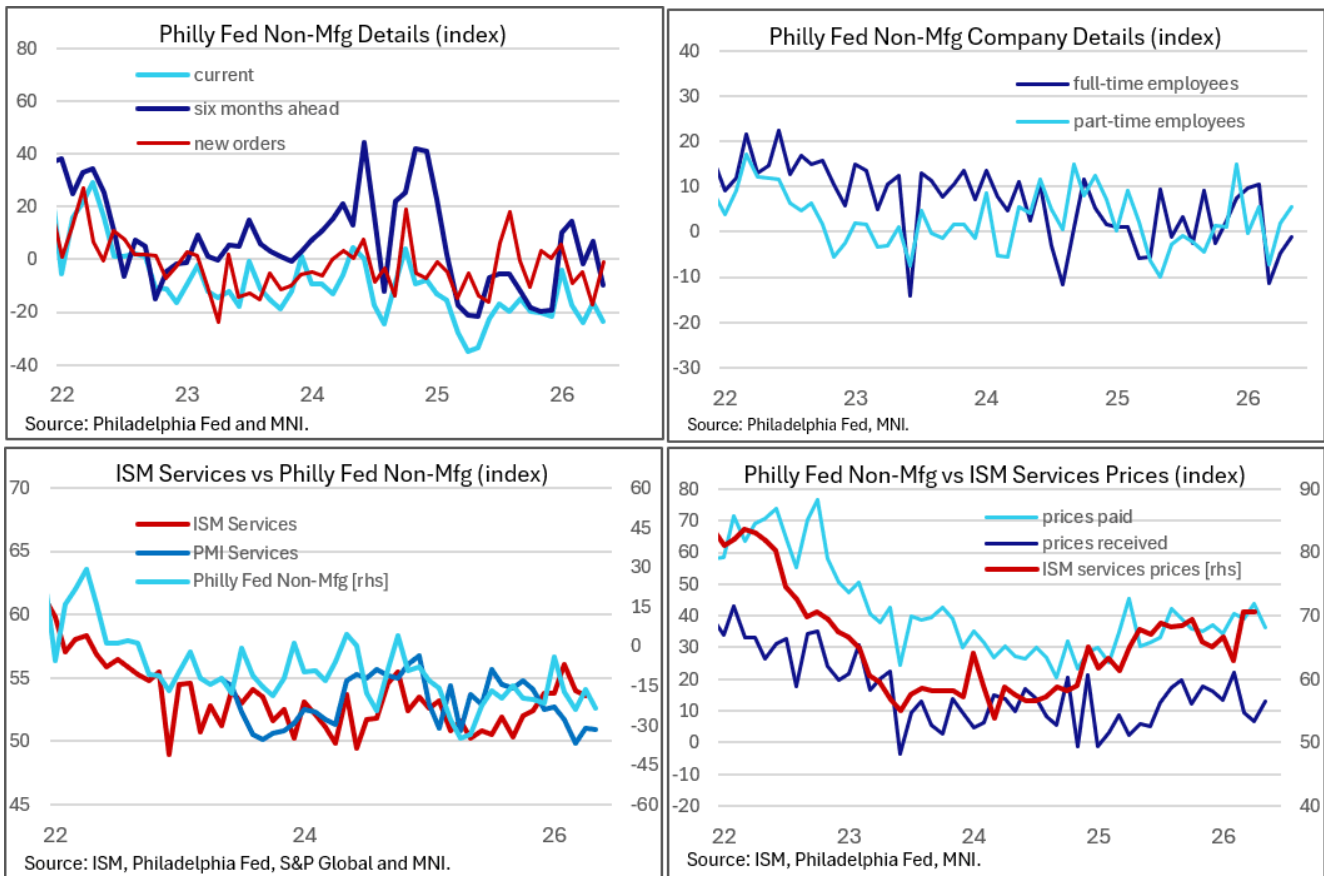
- Production advanced 11.9 points, marking five months in expansionary territory and the highest level since July 2021 (albeit only slightly above that of February 2026).
- Order Backlogs grew 9.4 points, back in expansionary territory but still below the March level.
- Supplier Deliveries extended 3.6 points, almost completely unwinding April's fall.
- Employment dipped 1.3 points, but remains above the level seen in March.
- Prices Paid increased 3.5 points to the highest since May 2022. Respondents continue to highlight oil prices and transport fuel surcharges pushing up costs.
- Inventories recovered 2.9 points.
- The survey ran from May 1 to May14.



Details Better Than Pullback In Philly Services Index Suggests

The Philadelphia Fed's Nonmanufacturing Business Outlook Survey showed a reversion in activity in May after April's bounce, with the headline regional general activity index falling to -23.6 from -16.5 prior (consensus: -13.0). This was merely a 2-month low (March was -23.9) but that means the two weakest prints since the height of tariff concerns in April-May 2025. That said, this report should probably be downplayed in terms of national importance: the Philly manufacturing survey was very weak in comparison to neighboring New York, and this survey's sub-categories all suggested better conditions than the headline suggested.

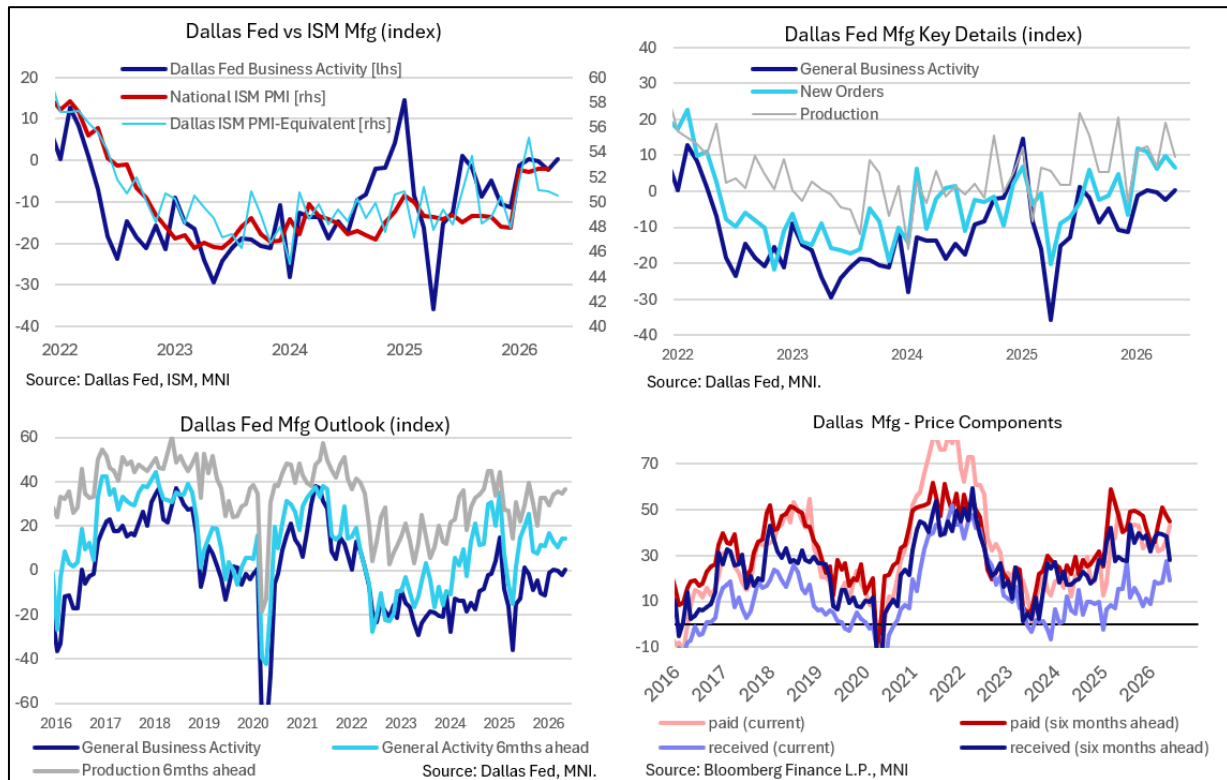
- In an uneven report, key categories picked up sharply: new orders to -0.8 from -16.9, and both full- and part-time employment rose about 3 points to 3-month highs (though full-time remained in contractionary territory). The firm-level diffusion index rose to -3.8 from -4.5, albeit still negative. And even prices paid moderated sharply, to a 4-month low 36.5 from 43.9 (12-month high).
- Less positive: the 6-month outlook for activity plummeted to -9.6 from +6.7 for a 5-month low (though again the firm-level optimism was 6 points higher), while sales/revenues fell to -7.6 from +2.5.
- Capex was mixed, with physical plant jumping 14+5 points to 14.5 but equipment/software down 8+ points to 6.0.



Dallas Fed Manufacturing Activity Picks Up In May, But Details Soft

The Dallas Fed Texas Manufacturing survey's general business activity index picked up to 0.4 in May (0.0 expected, -2.3 prior), but with the details leaning to the soft side in the latest in an overall mixed set of regional Fed manufacturing surveys for the month.

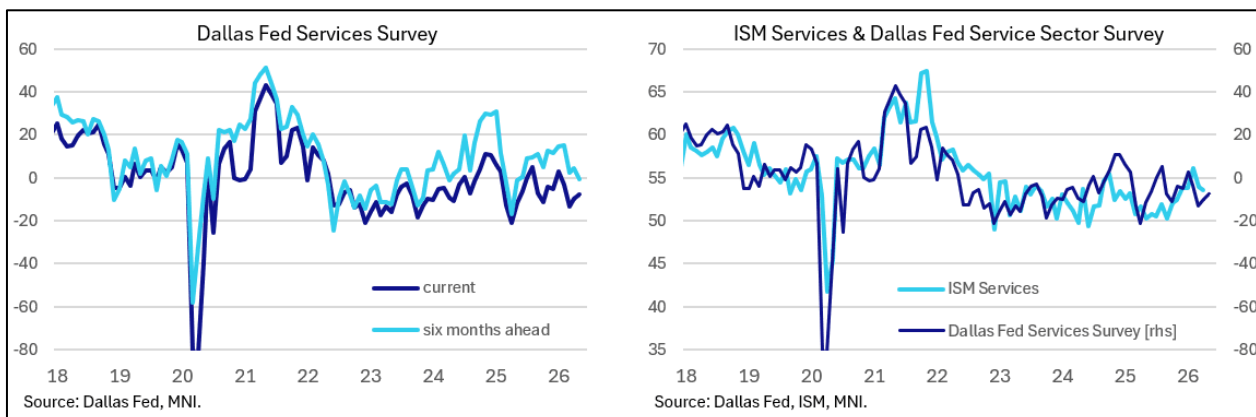
- New orders (3.5 points to 6.4) and production (9.6 points to 9.4) dipped in the Texas survey though 6-month sentiment and employment picked up slightly.
- Overall the national ISM-weighted Dallas index dipped slightly to 50.5 from 50.9, still above the 50.0 expansion mark but a 5-month low.
- Current prices paid headed higher for a 4th consecutive month, jumping to an 8-month high 42.7 from 37.0 - however prices received retreated 9 points with 6-month-ahead anticipated prices also falling.
- The anecdotal comment section indicated concerns over pipeline inflation as well as general uncertainty stemming from the war in the Middle East, but there didn't seem to be widespread concern over demand despite the weaker new orders reading.

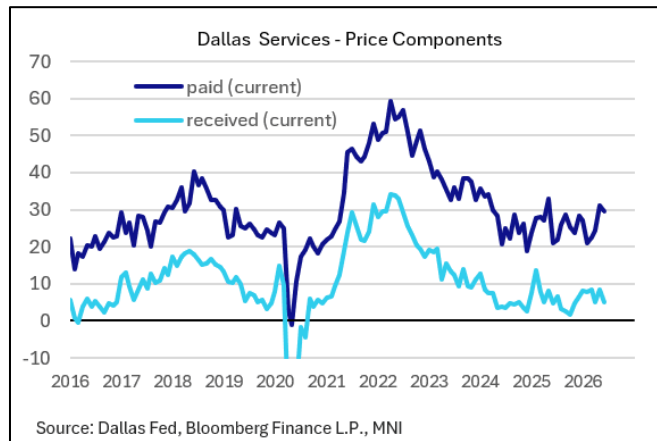


Texas Service Sector Sees Modest Activity Rise, Weak Details

The Dallas Fed's Texas Service Sector Outlook Survey showed a modest tickup in general business activity (-7.7 from -9.9) in May, but that was enough to beat the -6.0 consensus for a 3-month high, while the revenue index ("a key measure of state service sector conditions") was relatively steady at 5.0. In sum, the report was relatively soft - with a notable increase in pessimism.

- The broad theme was similar to that in the Texas manufacturing survey: a pickup in the headline activity index but with the details leaning to the weaker side. If anything, the anecdotes appeared more pessimistic than that those included in the manufacturing survey, particularly on the demand side.
- "Labor market measures suggested a slight decline in employment in May and no change in workweeks", while capex was flat.
- Looking ahead, future revenues fell 3 points though were still in "solid positive territory" at 28.9; conversely general activity was seen weaker in 6 months with a -0.7 index, the first negative reading in 12 months.
- That came despite current prices paid ticking lower to 29.7 from April's 12-month high 31.2, still elevated but appearing to stabilize (something we've seen in most regional Fed surveys this month). Prices received receded to 5.0 from 8.3.

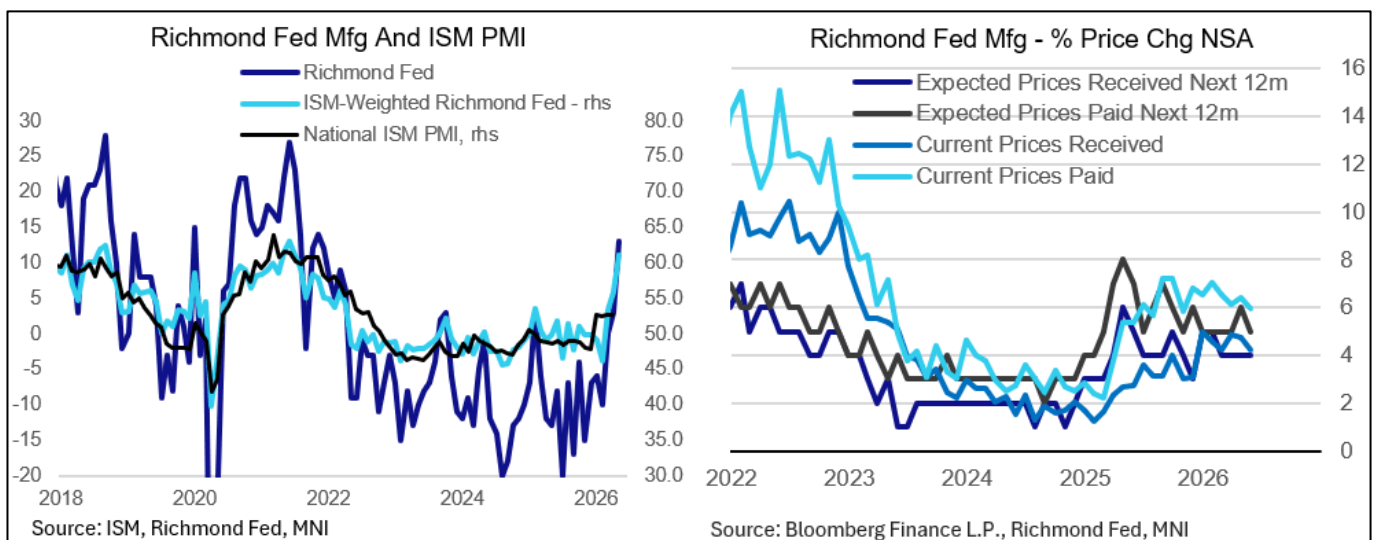




Richmond Fed Survey Sees Strongest Manufacturing In Years In May (1/2)

The Richmond Fed's Fifth District industry surveys were better than expected in May, with manufacturing enjoying its strongest readings in years in the region (Washington D.C., Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia). There is no anecdotal commentary included with these reports but the softening in inflationary gauges suggests some improvement in private sector optimism following the initial Middle East war-induced energy price spike.

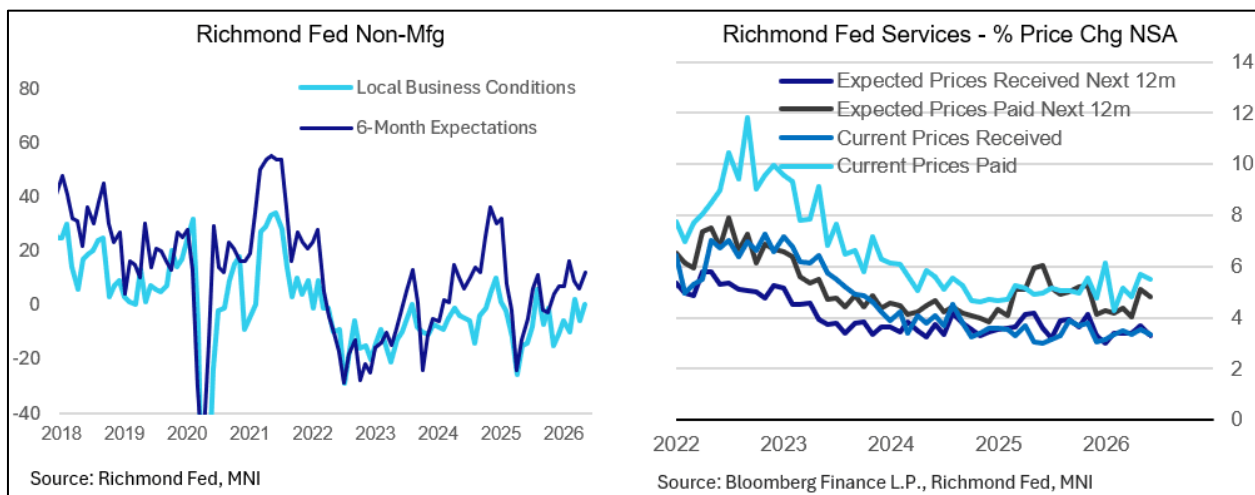
- The manufacturing survey composite index jumped to 13 (3 prior, 4 expected), with the non-manufacturing local business conditions index rising to 0 (-6 prior, -5 expected).
- While just a 2-month high for non-manufacturing, that's a 54-month best for the manufacturing gauge - with all three of its component indexes notably higher (shipments to 16 from -2, new orders to 17 from 8, and employment to 3 from 0) for some of the best readings in years. And manufacturing expectations also jumped.
- On an ISM-weighted basis, the manufacturing index jumped to a 58-month high 61.0 from 55.8 (in addition to new orders, shipments, and employment above, delivery times were steady, inventories a little lower)
- And this came with a pullback in inflation gauges. The Richmond Fed reports 12-month back-looking indices, with prices paid dipping to a 7-month low 6.0% (6.4% prior) and prices received down to a 6-month low 4.2% (4.7% prior). Those are well down from 2026 peaks of 7.1% and 4.9%, respectively.
- In a sign of relatively anchored expectations, expected prices paid and received (12-months ahead) were relatively steady at 5.0% and 4.0%.



Solid Richmond Fed Non-Mfg Sees Better Activity, Softer Inflation (2/2)

While just a 2-month high in the Richmond Fed non-manufacturing survey's main index (0 from -6), this is still a solid reading (compared with routinely negative readings over the past year), and details of the report were solid.

- First and foremost, 6-month expectations rose to 12 from 6, a 3-month high and the 2nd highest reading since the start of 2025. The revenues index rose to 14 from 9 with demand up to 15 from 10. On a slightly sourer note, employment fell to -1 in May from 6 prior.
- Like the Richmond manufacturing survey, there was a moderation in price pressures that appears to have helped spur an uptick in optimism. On a 12-month lookback basis, prices paid fell to 5.5% from April's 4-month high 5.7%, with received ticking down to 3.4% from 3.5%.
- And as with manufacturers, non-manufacturer inflation expectations appear to be stabilizing, with expected prices paid down to 4.8% from April's 6-month high 5.1% and received down to a 5-month low 3.3% (3.7% prior).

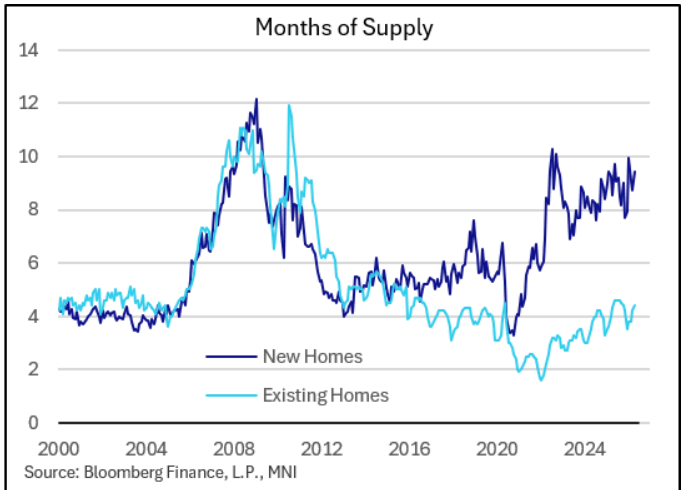
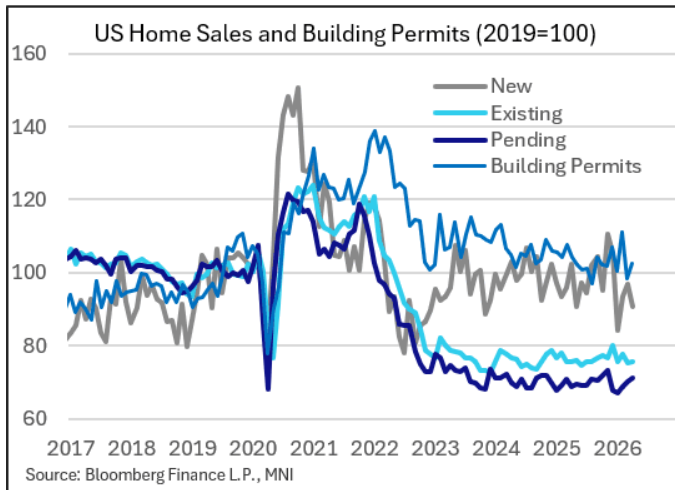


Housing

April Drop Suggests Renewed Headwinds For New Home Sales

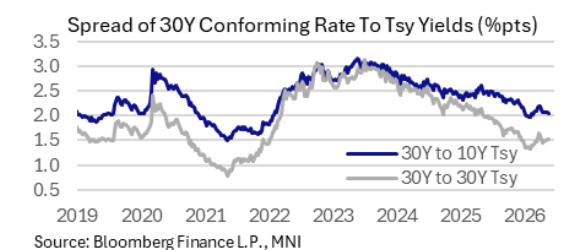
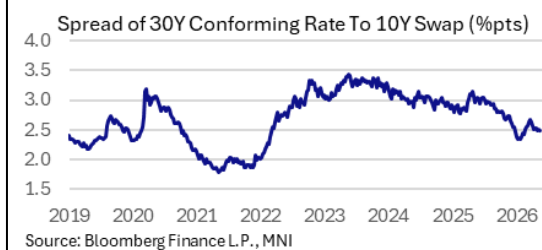
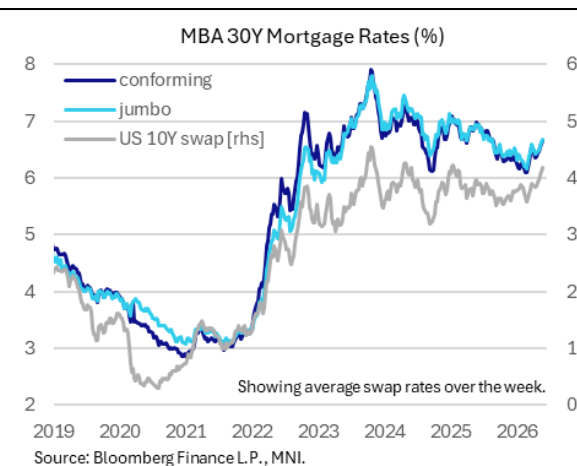
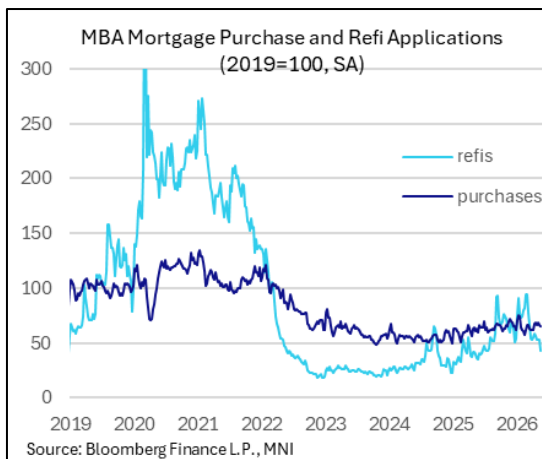
New home sales dropped more than expected in April, falling 6.2% to 622k (660k expected, on a seasonally-adjusted annualized basis) from a downwardly-revised 663k in March. For perspective, that means April was one of the 5 weakest months for new home sales since the start of 2023.

- Sales are now equivalent to 9.4 months of supply, up from 8.7 prior and the 2nd highest since June 2025, remaining well-elevated by a historical standard. Even so, price gains were positive Y/Y (2.2%) for the first time in 4 months.
- April's NAHB homebuilder sentiment survey marked a 6-month low after a bit of a pickup between October and March. That mirrors moves in mortgage rates, which have picked up sharply in the last couple of months amid the war in the Middle East, seeing mortgage applications and affordability drop.
- Building permits continue to trend lower and with inventory as well as mortgage rates remaining elevated, a meaningful recovery in residential investment activity continues to look elusive.



Mortgage Applications Slip With Another Rise In Rates

- MBA composite mortgage applications slipped 8.5% last week (sa) for a fourth decline in the past five weeks and a cumulative drop of 14%.
- It was led by refis sliding -18% to their lowest level since July 2025 (43% of 2019 average) whilst new purchase applications only inched -0.4% lower for their lowest since April (66% of 2019 average).
- New purchase applications, a better gauge of near-term housing market activity, have plateaued in recent months after giving back gains seen earlier in the year.
- Composite applications came under pressure as 30Y conforming mortgage rates climbed another 9bps after the 10bps the week prior to 6.65%, the highest since Aug 2025.
- Mortgage spreads tightened slightly to help limit what could have been a sharper uptick, with the spread to the average 10Y swap rate narrowing to 247bp (tightest since Feb 2026 but still off a pre-Iran war low of 233bp) whilst the spread to the 10Y Treasury yield ticks down to 206bps (also tightest since Feb 2026 vs a pre-Iran war low of 198bp).

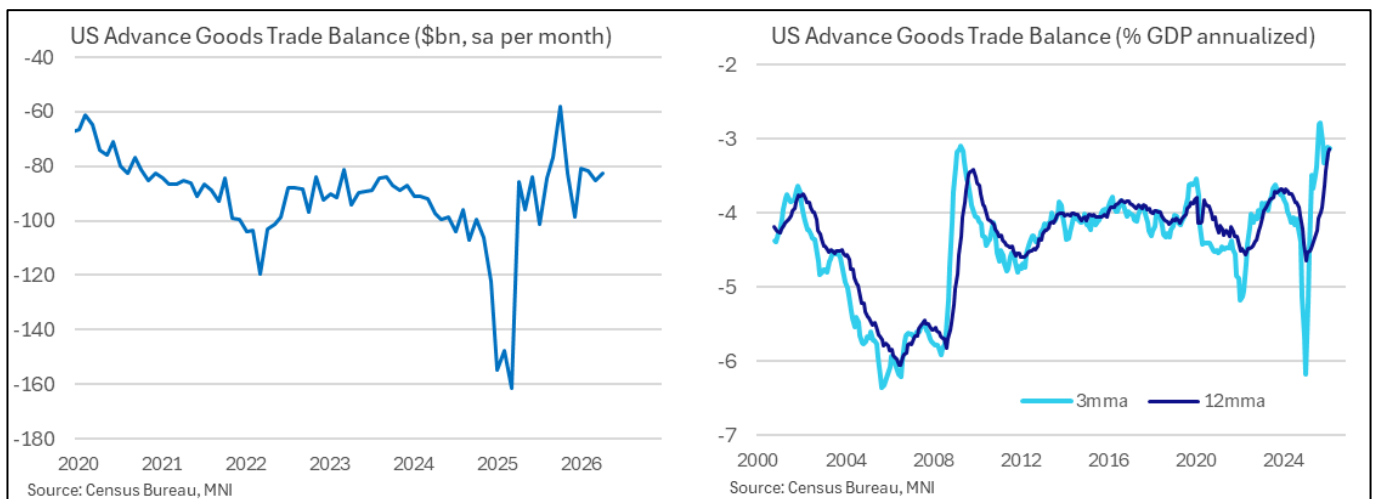


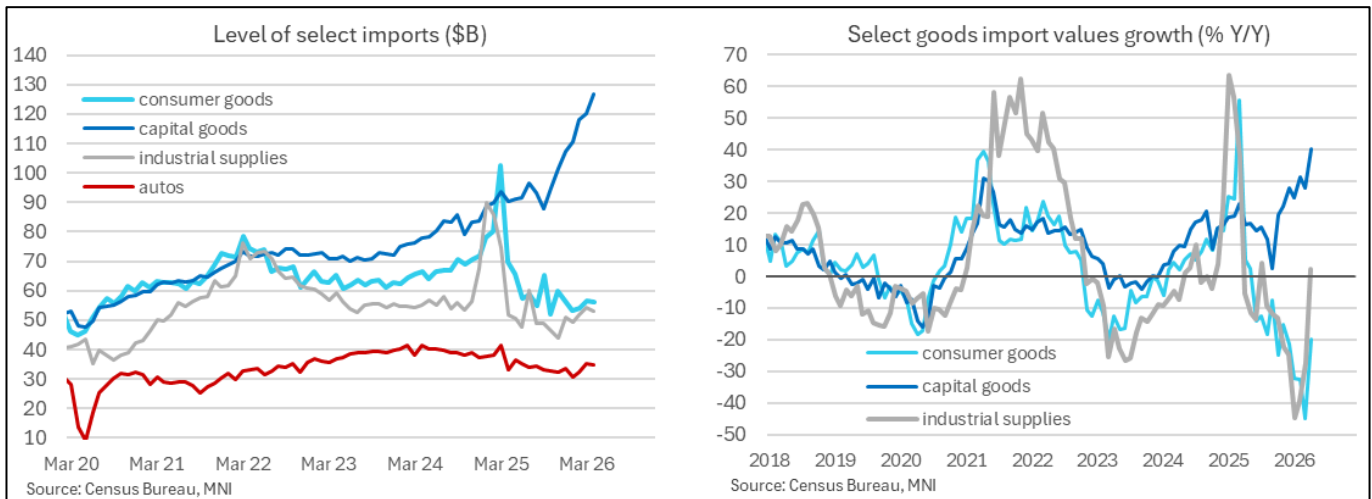
External

Trend Narrowing In Goods Trade Deficit Continued In May Advance

The advance goods trade deficit was smaller than expected in April and likely improves Q2 GDP tracking, albeit possibly only marginally, considering limited details don't appear to suggest any notable distortion from gold this month. Capital goods imports continue their rapid expansion (40% Y/Y), probably a continuation of the tech-led surge on the data center build-out although we have to wait until the full report on Jun 9 to know for sure.

- The advance goods trade deficit was smaller than expected in April at \$82.4bn (cons \$87bn) after a downward revised \$85.3bn (initial \$87.9bn) in March.
- The narrowing in the deficit was led by stronger than expected exports (4.0% M/M vs 2.5% expected) whilst imports were broadly as expected (1.9% vs 1.8%). We note the limited survey size here with only 4 estimates in the Bloomberg surveys vs 35 for the trade balance.
- It left the three-month rolling deficit unchanged at 3.1% GDP after March was revised a tenth lower, whilst the twelve-month rolling deficit narrowed a tenth to 3.1% GDP for a fresh low since the 1990s.
- For context, this twelve-month rolling deficit most recently peaked at 4.6% GDP in Mar 2025 on tariff front-running having averaged 4.0% GDP in 2024 and 3.7% in 2023.
- Export strength was led by capital goods (\$71.3bn vs \$66.3bn, 7.5%) and consumer goods (\$22.8bn vs \$21.1bn, 7.8%).
- Import strength was led by capital goods (\$126.7bn vs \$120.0bn, 5.6%) and other (\$14.2bn vs \$13.2bn, 7.5%) although with the latter potentially to be redistributed to other categories in due course.
- The limited nature of this advance release means we don't know the exact driver of capital goods strength but we think it's safe to assume it was helped by a continuation of the surge in tech/semiconductor trade amid the huge data center build-out.
- Capital goods imports were up 40% Y/Y in nominal terms in April vs -20% Y/Y for consumer goods and 2% Y/Y for industrial supplies (which are still overlapping periods of tariff front-running from 2025 although to less degree than was the case when they were -45% Y/Y in March and January respectively).
- Again, a lack of details means we can't be sure but the relatively limited shift in the industrial supplies category on the month suggests little impact from gold this month, meaning that the narrowing in the trade deficit should mostly feed through to an improvement in GDP tracking (with the Atlanta Fed's GDPNow already at 3.8% annualized for Q2). That might be limited though with the \$82.4bn deficit in April comparing to the \$82.65bn in Q1.





Fedspeak: Further Noting Of Upside Inflation Risks But Bowman and Williams Still See Temporary Impact

- Vice Chair Jefferson sees Fed policy as well positioned, notes upside inflation risk
- Governor Cook says she is ready to hike if disinflation isn't timely
- Vice Chair Williams however affirmed his position as one of the more dovish FOMC members, by not bringing up the potential for tightening and noting that his base case is tariffs and energy prices will have only "one off effects".
- VC Supervision Bowman sees energy inflation shock as temporary but appears wary of growing risks
- Minneapolis Fed's Kashkari ('26 voter) maintains hawkish rhetoric although too early to commit to hikes
- St Louis Fed's Musalem (non-voter) warns that real rates are below neutral with risks tilted to inflation versus jobs
- KC Fed's Schmid (non-voter) warns on looking through energy shock with policy not very restrictive
- SF Fed's Daly says the FOMC should keep trying to bring inflation back to target while ensuring employment and economic growth are not unduly damaged

SF's Daly Says Fed Must Balance Dual Mandate Goals (May 29)

(From MNI Policy Team – Washington): The Federal Reserve should keep trying to bring inflation back to target while ensuring employment and economic growth are not unduly damaged, San Francisco Fed President Mary Daly said Friday.

- "What's important for the Federal Reserve to continue to do is manage to get price stability restored, but recognize that we can't do that at the expense of harming the economy in a way that now gets them price stability but it takes everything else that they have, because we're trying to get that equation at balance right," she said in a panel discussion.
- Daly said she's optimistic about productivity gains from AI but added that seeing is believing. "I'm bullish but I want to see some more evidence that this is actually picking up durable, sustained gains in productivity. But I see all the green shoots there."

Gov Bowman: Energy Inflation Shock Temporary, But Wary Of Growing Risks (May 29)

Fed Gov Bowman's speech Friday ([link](#)) suggests that while she maintains her overall lean toward making further cuts due to her belief that recent upside price pressures are only temporary, she is becoming increasingly open to accepting the removal of the FOMC's easing bias due to the rising risk of persistently high energy prices spilling over into broader inflation. Recall that she eyed 3 cuts in 2026 in the March Dot Plot, but here she sounds less emphatic on easing prospects given those rising risks.

- She highlights that she backed the retention of the easing bias in the April statement (which was already evident from the fact that she didn't dissent at the meeting): "As I think about the path forward for monetary policy, I would like to have more clarity on the economic impacts from the conflict in the Middle East and the durability of those effects. In this regard, I appreciated and supported keeping the language from the March post-meeting statement about additional policy rate adjustments. It is appropriate to look through temporarily elevated inflation readings largely due to higher energy prices, provided that we remain credible in our commitment to achieve our inflation goal and one-off tariff effects wane, as I expect."
- In describing her framework for approaching policy (the main subject of her speech), Bowman says "looking through temporary inflation shocks may be appropriate to achieve optimal policy, as long as doing so does not affect our credibility to bring inflation back to 2 percent. The tricky part is understanding what may or may not have persistent effects on inflation."
- As that framework relates to the current situation, Bowman says "Reacting to temporarily elevated energy price inflation would add unwarranted policy restraint, weighing unnecessarily on economic activity and labor market conditions....our moderately restrictive policy stance is intended to help maintain stable labor market conditions while allowing inflation to resume its downward trend toward 2 percent once the effects of tariffs and oil prices dissipate. But the longer the conflict persists, the more we should consider the effects on inflation in our outlook. In particular, the more persistent higher oil prices are-or if we start to see broader effects of higher energy prices on PCE inflation-the more likely I will consider shifting my approach to thinking about the balance of risks. Before our next meeting in June, we will have received one additional month of employment and inflation data. In the meantime, I will continue to evaluate the incoming data and to assess the risks to the outlook as conditions evolve."
- On inflation she still sounds cautiously optimistic: "progress on lowering inflation appears to have stalled, with measures of PCE inflation moving up recently" but after removing some "one-off" factors, "core PCE inflation would have continued to hover only a bit above 2 percent, reflecting no pressures from the labor market and weakness in market rents."
- On current growth and labor market conditions, "the surge in AI-related investment may be exerting some supply chain pressures, but strong productivity growth may put some downward pressure on inflation because of lower production costs in the medium term. Supportive supply-side policies, including less restrictive regulations and lower business taxes, will also likely favor these conditions." And "while the labor market appears to have become more stable in recent months, there are still signs of fragility."

Schmid Warns On Looking Through Energy Shock, Policy Not Very Restrictive (May 29)

Kansas City Fed's Schmid (non-voter, hawk) stuck to typically hawkish rhetoric in prepared remarks ([link](#)) at an economic conference in Iceland, warning on looking through the recent energy shock. We view Schmid as possibly the most hawkish member of the FOMC with a chance he was the member who pencilled in a 2027 rate hike back in the March SEP.

- "My primary concern is inflation, which is too hot and has been above target for too long. I place little stock in assuming that the most recent runup in prices is transitory within an acceptable time horizon. As such, my focus remains on inflation in setting the correct course for policy,"
- "I believe the labor market is in balance, notwithstanding the potential, though yet unrealized, disruptions of AI. I expect healthcare to be a steady source of employment growth and a source of labor market stability."
- "With inflation running above the Fed's 2% definition of price stability for over five years, now is not the time to let down our guard. We must continue to signal our commitment to price stability and our willingness to take the actions necessary to achieve our mandate".
- He added in Q&A that current policy is not very restrictive (echoing an increasing number of FOMC members) and that the Fed needs the option to go up or down with interest rates (again, behind the push for increasingly open guidance in the statement after hawkish dissents from three voting members to the April easing bias language).

Kashkari Maintains Hawkish Rhetoric Although Too Early To Commit To Hikes (May 29)

Speaking at a moderated town hall event in Seoul, Minneapolis Fed's Kashkari ('26 voter, hawkish dissenter) maintained his hawkish rhetoric although said it's too early to say if the Fed needs to raise rates soon. That unwillingness to conclude on the need for a hike shouldn't be too surprising seeing as his hawkish dissent at last

month's meeting, along with two others, was to the easing bias within the language rather than the rate decision itself.

- “*FED'S KASHKARI: IRAN WAR IS CLOUDING INFLATION OUTLOOK
- *KASHKARI: RISK OF PROLONGED INFLATION IN BEST OR WORST CASE
- *KASHKARI: RISK OF INFLATION EXPECTATIONS BECOMING UNANCHORED
- “*KASHKARI: TOO EARLY TO CONCLUDE FED NEEDS TO RAISE RATES SOON” – bbg

These remarks follow his comments on late Wednesday that inflation remains the top priority and that the labor market is "in decent shape".

NY's Williams: Productivity's Impact On Real Rates... Depends (May 28)

NY Fed President Williams has little to say on current monetary policy in prepared remarks for an economic conference in Iceland Thursday - his speech ([link](#)) is titled "Productivity Growth and the Challenge of Real-Time Policymaking" and largely takes an academic look at the policy implications of shifts in productivity growth on interest rates, drawing on historic episodes.

- "History-informed by economic theory and evidence-teaches us that the macroeconomic effects of a shift in productivity growth depend on the nature and expected duration of the shift. Although each historical episode is unique, they also share regularities.
- "First, real-time identification of structural change is extraordinarily difficult, and expectations of future growth tend to adjust gradually to changes in underlying productivity growth. As a result, in the initial stages following a shift, the economy is likely to behave more like a temporary increase in productivity growth than a permanent one.
- "Second, an increase in trend productivity growth raises real interest rates in the long run. However, the path of real interest rates depends critically on three factors: how quickly the shift is recognized by households and businesses; the nature of the shift in productivity and its implications for the relative responses of demand and supply during the transition; and the speed of adjustment of wages and prices.
- "Third, shifts in productivity growth are relatively infrequent and inherently highly uncertain. The confidence bands around any estimates are large. Therefore, as in the case of any type of structural change, robust policy approaches have an especially favorable cost-benefit calculus."

NY's Williams: Policy Slightly Restrictive, "Right Where We Want It To Be" (May 28)

Asked in Q&A how he sees Fed rates moving over the coming months, NY Fed President Williams is typically noncommittal in terms of his outlook. But in not bringing up the potential for tightening - unlike many of his colleagues in recent weeks - and noting that his base case is that tariffs and energy prices will have only "one off effects", he affirms his position as one of the more dovish FOMC members.

- He says that "right now, monetary policy for the Fed is right where we want it to be - in my view, is slightly restrictive, taking a longer view... and we are well positioned to continue to learn what happens with the conflict with other data before we need to make any decision. So I personally think that the position of policy today is about right. Where do we go in coming months? I think it's just got to be driven by the data. And honestly, I think that ... it really depends on how this this all plays out. I think the good news again, is that inflation expectations have remained very well anchored, in my view. I think as long as we keep the labor market in good balance ... I am somewhat optimistic that the tariff effects will end up being one off effects on the price level. Hopefully the same with oil prices, but that's that's an assumption right now in a forecast. So we just have to see the actual data."
- He does mention when asked about what conditions would warrant a hike if that longer-term inflation expectations pick up, or inflation remains persistently above target, that could warrant higher rates but he emphasizes that's not his current outlook. "I think [if] inflation is persistently high ...I think you do need to have higher, somewhat higher real rates. But again, this is not where we are today."

- Indeed, on inflation he says the peak impact of energy and tariff inflation is probably going to be in the next couple of months. "So I think in the next few months we're going to see continue to see a very elevated inflation with PCE inflation around, you know, close to four, around 4%, core inflation above 3%, like we're seeing today. But hopefully as the tariff effects kind of becoming more into the rear view mirror in terms of effects on inflation and hopefully with the energy price effects also not adding to inflation, and we start seeing inflation turn a bit."
- On the labor market, he says "I would argue in the US the labor market is pretty balanced...we're not seeing anything in the wage data that suggests inflationary pressures."

St Louis's Musalem: Rates Below Neutral, Risks Tilted To Inflation Vs Jobs (May 28)

St Louis Fed President Musalem says in a Q&A in Iceland Wednesday that "right now my view is that the risks have tilted more towards the inflation side than to the labor market side." Similar to previous commentary, he discusses scenarios for hikes or cuts. He doesn't vote on the FOMC this year or next but he's one of the more hawkish-leaning members, and would very likely support a removal of the Fed's easing bias in the statement in June.

- He says: "I think there is a scenario where the economy might require a rate increase. What does that scenario look like? It looks like disinflation not reasserting itself in the next 2 to 3 quarters, two 1 to 2 quarters. Okay. So if we don't see disinflation in the next 1 to 2 quarters, that would concern me. If I see inflation expectations continuing to drift higher or remain elevated, that would concern me. If I see a labor market that remains robust, that would tell me that the risks have really shifted or tilted towards inflation, not so much towards the real economy. There is also a scenario, just to argue the other side of it, where after the fiscal stimulus that is now going through the through the pipeline - towards the second half of the year, and after consumers and businesses go through six months of real income squeezes or real profit margin squeezes - we could see a slowdown in growth and we could see the labor market cool some more. And if that were to happen and if inflation begins to fall because the impact of energy prices falls off, and or the tariff impact fades, you could say, well, we're back on a disinflationary trend. There's more risk on the on the on the real side of the economy. And, you know, you could envision rate cuts. But right now my view is that the risks have tilted more towards the inflation side than to the labor market side."
- The Q&A comes after a speech ([link](#)) in which he was skeptical about the potential for productivity increases from the ongoing AI investment boom to reduce inflation pressures to a point that the Fed could ease rates.
- "With the real policy rate sitting below the FOMC's notion of long-run neutral, inflation running meaningfully above target, longer-term inflation expectations drifting higher and the labor market remaining stable, I believe it would be risky to rely on the prospect of higher productivity growth in the future to solve our inflation problem today. I'm prepared to adjust my position if the evidence becomes clear that higher productivity growth is pushing inflation lower to target. But for now, I believe a vigilant focus on returning inflation to target will best ensure success in achieving both maximum employment and price stability for the American people."

MNI: Jefferson Sees Fed Well Positioned, Upside Inflation Risk (May 27)

- Federal Reserve Vice Chair Philip Jefferson said Wednesday the current stance of monetary policy is well placed to respond to both downside risks for the labor market and upside risks to inflation, adding that he is keeping an open mind going into the June FOMC meeting.
- Maintaining the fed funds rate at 3.5%-3.75% "leaves us well positioned to respond to economic developments based on the incoming data, the evolving outlook, and the balance of risks," he said in remarks prepared for a Bank of Japan conference.
- "I have not prejudged the next meeting and look forward to engaging with my colleagues about the policy necessary to best achieve our dual-mandate goals."
- U.S. disinflation stalled over the past year largely because of tariffs and inflation moved higher in recent months due to higher energy costs, he said, adding that he is watching whether higher energy prices will start to weigh on consumer spending.

- "I expect inflation to decline later this year as the effects of tariffs and the energy shock wane, but I view risks around my inflation outlook as tilted to the upside," he said.
- Risks to the labor market are "somewhat skewed to the downside" though the labor market is broadly stable, he said. (See: MNI INTERVIEW: Hard To Justify Fed Cuts Anytime Soon-Lacker)

MNI: Fed's Cook Says Ready To Hike If Disinflation Not Timely (May 27)

- Federal Reserve Governor Lisa Cook said Wednesday she favored holding interest rates steady but is prepared to raise rates if disinflation does not appear in a timely manner as expected.
- "I see elevated risks to both sides of our mandate, and from a risk-management perspective, I currently believe that the right course of action is to hold rates steady," she said in prepared remarks.
- But Cook stressed that the risks remain tilted toward higher inflation. "In my baseline forecast, disinflation should resume in upcoming months without having to raise rates. Similarly, I expect the labor market will remain stable without having to lower rates," she said in a speech at Stanford University.
- "After five years of above-target inflation, I am particularly attuned to the risk that elevated inflation will become embedded in price- and wage-setting behavior. As such, I am prepared to raise rates, if the expected disinflation does not appear in a timely manner." (See: MNI INTERVIEW: Iran Risks Tilt Toward Persistent- Ex-Fed Evans)
- "Likewise, I will continue to monitor labor-market developments, as well, and would be prepared to adjust my policy stance downward should the labor market deteriorate," she added.
- Even temporary and short-lived shocks could influence inflation over the medium term and substantial AI-related investment remains in the pipeline, suggesting further price pressures, Cook said.
- The downside risks to the labor market are elevated, said Cook, who is optimistic about economic growth. "One factor is heightened uncertainty about output due to the Middle East conflict. A softening in demand could lead to a softening in the labor market."

STIR: Dovish Adjustment With Another Shift Closer To US-Iran Deal

The week has seen a dovish trend to Fed pricing, shifting from fully pricing a 25bp hike by end-2026 at the end of last week after Governor Waller also looked for more two-sided Fed guidance for risks to rates to currently closer to a 2026 hike being a 50/50 call. The move has primarily been linked to improved prospects of a US-Iran deal, helped by Thursday's Axios report that an agreement is within reach and only awaits President Trump's approval. A potential deal would extend the ceasefire by 60 days and guarantee 'unrestricted' shipping through the Strait of Hormuz. Trump has since said he is meeting in the Situation Room "now" to "make a final determination" on Iran – presumably referring to the MOU between the two parties. Data has also helped the week's dovish shift although that's more at the margin, including a downward revision to Q1 GDP growth (caveated by being driven by changes in inventories) and core PCE inflation not quite as strong as expected.



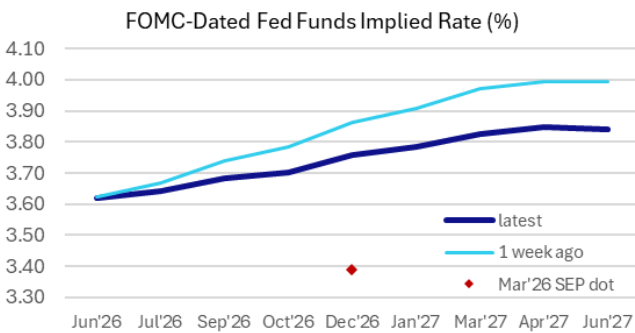
Expected change in Fed Funds effective rate with Dec 2026 FOMC
Source: Bloomberg Finance L.P.

FOMC-dated Fed Funds futures implied rates

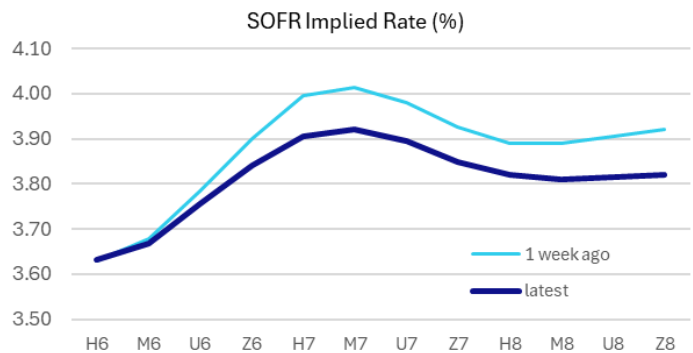
Meeting	Latest			pre Waller/U.Mich (May 22)			chgin rate bp	pre FOMC decision (Apr 29)			chgin rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	3.64			3.64				3.64			
Jun'26	3.62	-2.1	-2.0	3.63	-1	-1.3	-0.7	3.64	0	0	-2.1
Jul'26	3.64	2.2	0.2	3.66	4	2.2	-2.0	3.63	-1	-1	1.4
Sep'26	3.68	4.1	4.3	3.73	7	8.8	-4.5	3.63	0	-2	5.8
Oct'26	3.70	2.0	6.3	3.76	3	11.7	-5.4	3.62	0	-2	8.1
Dec'26	3.76	5.6	11.9	3.83	7	18.6	-6.7	3.63	1	-1	12.7
Jan'27	3.78	2.4	14.3	3.87	4	22.8	-8.5	3.66	3	2	12.5
Mar'27	3.83	4.3	18.6	3.92	6	28.4	-9.8	3.69	3	5	14.0
Apr'27	3.85	2.2	20.8	3.96	3	31.7	-10.9	3.71	2	7	14.1
Jun'27	3.84	-0.6	20.2	3.95	0	31.4	-11.2	3.70	-1	6	14.5

Source: Bloomberg Finance L.P., MNI. Assuming same EFFR-target lower bound spread from latest fix going ahead

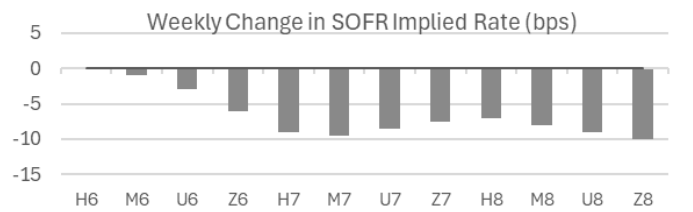
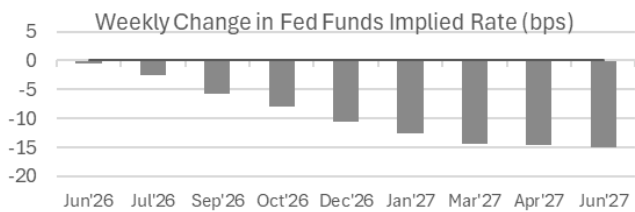
Weekly changes:



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.



Fed View Changes:

Natixis Defer Timing Of Fed Rate Cut Call (May 28)

Natixis think the Fed will "remain in wait and see mode and will require evidence that the energy shock has not contaminated core inflationary pressure before it resumes cuts". As a result, they have "less conviction about the timing of cuts than the directionality (hikes are a long shot in our view), but for now we believe the Fed will reduce its policy rate in December and January (from September and December previously)".

- They note that "the ongoing conflict in the Middle East and expectations of higher energy prices for longer are prompting us to delay our call for the Fed's next cut. Though our underlying assumptions about economic growth, inflation or the jobs market haven't changed much, we believe the Fed's reaction function has".

The US Macro Week Ahead: ISM Manufacturing and Services Reports Before Payrolls

The **May nonfarm payrolls** report follows two surprisingly strong reports for March and April in developments that have seen a growing number of FOMC members increasingly concerned with the inflation outlook whilst the labor market looks stable. Bloomberg consensus currently estimates nonfarm payrolls growth of 93k in May after 115k in April or a three-month average of 48k, whilst private payrolls could tell a slightly stronger story with 100k in May after 123k in April or a three-month average of 55k. These estimates are likely supported by more timely indicators of jobs growth such as the weekly ADP pulse suggesting this improved momentum continued into early May. The recovery in payrolls growth since the -9k averaged in the three months to Aug 2025 has been impressive considering estimates of the breakeven payrolls growth rate had started to drift towards zero for 2026. That said, the broad stabilization in the unemployment rate since last summer suggests ex post that these dwindling breakeven estimates might have been overly pessimistic. Consensus currently sees the unemployment rate at 4.3% after it almost surprised higher with 4.34% in April. The rate has recently swung between 4.54% in Nov 2025 (shutdown distortion worth circa +0.1pp) and 4.26% in Mar 2026 but it's currently at a similar level to the 4.34% averaged in 3Q25 prior to the shutdown. As then Fed Chair Powell noted at the April FOMC press conference, a 4.3% unemployment rate is low and "pretty close to mainstream estimates of the natural rate." Broader measures of slack should also be watched, after the underemployment rate rose two tenths to a four-month high of 8.2% in April although remained below the recent high of 8.7% high in November.

The coming week also sees the ISM Manufacturing and Services reports for May. The Manufacturing PMI is expected to bring yet another expansionary reading, with largely solid if mixed details alongside high inflation, ticking up to 53.1 from 52.7 prior, with improvements in both New Orders (54.5 after 54.1) and Employment (48.5 after 46.4). Prices Paid are seen remaining elevated (85.0 after 84.6).

Early consensus for ISM Services PMI is for a similar gain to 53.9 from 53.6 prior, with Employment improving (48.5 after 48.0) though New Orders are seen slipping slightly (53.0 after 53.5) and Prices Paid seeing a sizeable gain (72.0 after 70.7).

Date	ET		Impact	Event
31 May	0830			Fed Governor Chris Waller
31 May	0830			Fed Governor Jerome Powell
01 Jun	0945	***		S&P Global Manufacturing Index (final)
01 Jun	1000	***		ISM Manufacturing Index
01 Jun	1000	*		Construction Spending
02 Jun	0830			Cleveland Fed's Beth Hammack
02 Jun	0855	**		Redbook Retail Sales Index
02 Jun	1000	***		JOLTS
02 Jun	1350			Minneapolis Fed's Neel Kashkari
03 Jun	0700	**		MBA Weekly Applications Index
03 Jun	0900			Fed Governor Michael Barr
03 Jun	0945	***		S&P Global Composite & Services Index (final)
03 Jun	1000	***		ISM Non-Manufacturing Index
03 Jun	1000	**		Factory New Orders
03 Jun	1600			Dallas Fed's Lorie Logan
04 Jun	0830	**		Non-Farm Productivity (f)
04 Jun	0830	***		Jobless Claims
04 Jun	0830			Richmond Fed's Tom Barkin
04 Jun	1310			San Francisco Fed's Mary Daly
05 Jun	0830	***		Employment Report