

Daily Dose of Macro & Markets 31st July 2025: “Hawkish Fed – More (Data) Evidence of Tight Money”

The ‘Daily Dose of Macro & Markets’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Fed Watch

“No question consumer has slowed, watching it closely”; “inflation is further from our goal than employment”;

Source: Chair Powell press conference, 30th July 2025 (post monetary policy announcement)

The Fed left interest rates unchanged yesterday*, using its dual mandate as justification. As Powell put it in the press conference: “Fed remains squarely focused on (our) dual mandate goals”; “Inflation is further from our goal than employment”; and further emphasising the point: “tariff pass through to prices may be slower than we thought”; “by many statistics labour market is still in balance”.

The market took its cue and reduced the probability of a rate cut at the September meeting, despite Powell’s acknowledgement that the ‘consumer has slowed (see quote above)’ and that there’ll be two more sets of inflation and payrolls data before the next Fed meeting. The newspaper headlines also mostly reflected that tone, as well as Powell’s ‘defiance of Trump’s call for a cut (FT)’.

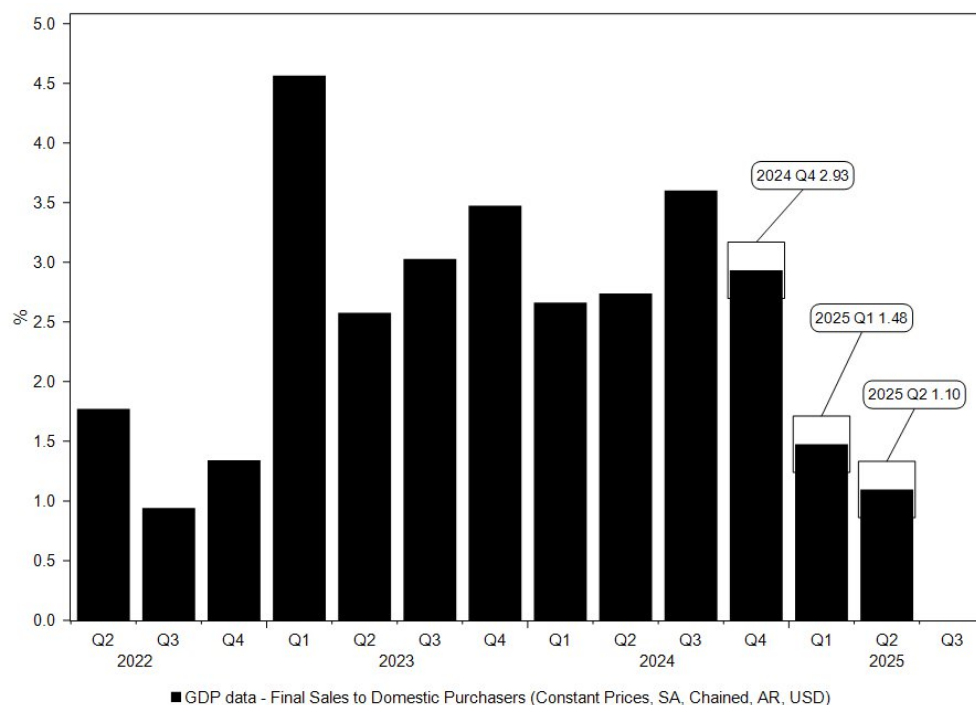
Reflecting that, both 1 and 2 year US bond yields moved higher. One year yields closed 5bps higher (at 4.12%), while 2 year yields were 8bps higher (closing at 3.94%). The probability of a September rate cut moved below 50% (to 43.0%), with no change in rates in September now the market’s central expectation (at 57.0%). As FIG 2 shows, the rate cut probability has moved markedly in the past month from a 75.0% chance of a cut at the September meeting (one month ago) to 43.0% today.

Looking further out to the end of next year (i.e. December 2026), the market expects a further 78bps of cuts in 2026, with the Fed rate currently priced at 3.23% by end 2026 (as per Dec 2026 Fed Fund futures). The distribution of likely outcomes by that Dec ‘26 meeting are shown below in FIG 3 (derived from CME Fed Watch). The most likely outcome is 100bps of cuts, with a probability of 24.8% (i.e. a target Fed Funds range of 325 – 350 by Dec 2026). One more cut by Dec 2026 (i.e. 125bps of cuts and a target range of 300 – 325bps) is priced at a 22.9% probability; while one less (i.e. 75bps) is 18.1% (FIG 3).

Despite Powell’s comments about the labour market being ‘in balance’ the **evidence for ‘tight money’ continues to grow**. Yesterday, US Q2 GDP data was released. Whilst the headline number (+3.0%) was strong (reflecting import/export & tariff related ‘funnies’), the underlying detail was more troubling. Consumer spending grew by 1.4% (saar, Q2) after 0.5% in Q1 (and compared to 2.8% in 2024); business investment was only 1.9% in Q2 (after a strong 10.3% in Q1); while ‘final sales to domestic purchasers’ slowed to 1.1% (Q2) from 1.5% (Q1) and 3.0% growth in 2024

(FIG 1). Final sales to ‘private’ domestic purchasers similarly slowed (i.e. with this one excluding government, as well as exports).

Fig 1: US GDP data → Final sales to domestic purchasers (q-o-q%, saar)



Source: Longview Economics, Macrobond

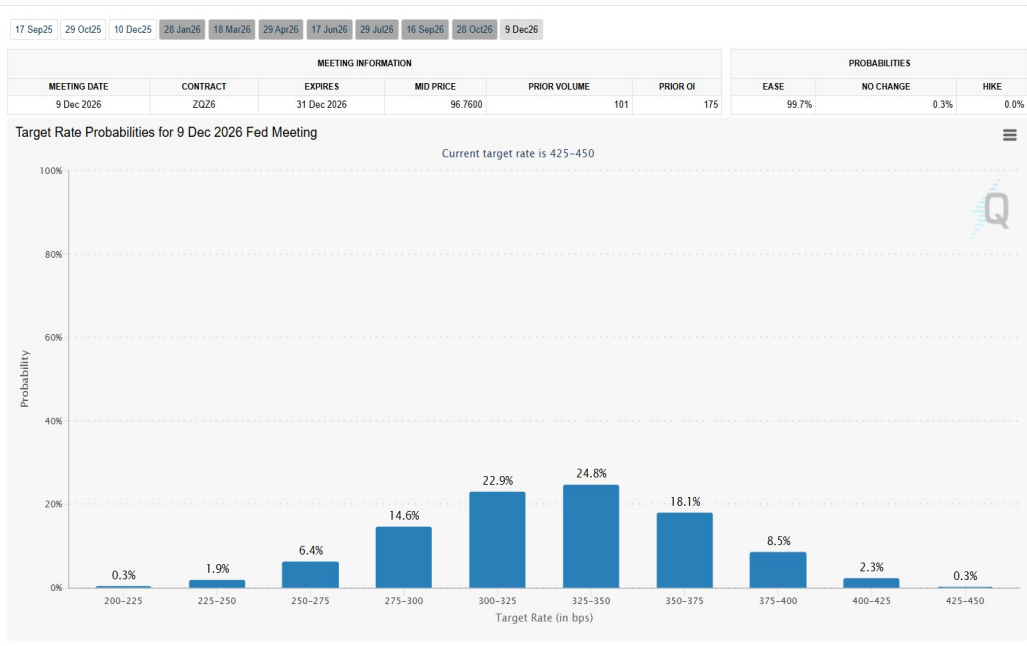
*Although both Waller and Bowman dissented and voted for a cut (NB both had already made it clear in recent speeches that they thought a cut was appropriate).

Fig 2: Probabilities for a rate cut at the September 2025 ‘Fed’ meeting



Source: CME Fed Watch

Fig 3: Probabilities and expected quantity of rate cuts by the December 2026 ‘Fed’ meeting



Source: CME Fed Watch