NEWSQUAWK PREVIEW: Fed Chair Powell to speak at Jackson Hole on Friday, August 26th at 15:00BST/10:00EDT

FOCUS: Chair Powell's speech at the Jackson Hole symposium Friday will be gauged for clues on the Fed's rate path after the July FOMC and minutes saw the case made for a slowing of the pace of tightening – a case strengthened after the softer-than-expected July CPI and PPI data.

HIKE SIZE: A focal point will be guidance on the size of the rate hike at the September FOMC, with markets priced between 50bps and 75bps, but Powell will likely refrain from any explicit guidance, with the Fed chair will likely continue to frame the central bank's reaction function on incoming data; ahead of the September gathering, data releases include August's CPI, NFP, and ISM. Powell can be expected to reaffirm the Fed's commitment to price stability, balancing that message against its guidance for a reduction in the tightening pace.

HAWKISH TILT: There has been chatter that Powell will look to affirm hawkish signalling after the July FOMC and accompanying minutes saw some balanced comments, noting a risk of overtightening, which saw a subsequent easing of financial conditions as markets priced a greater likelihood of a Fed 'pivot' and moved away from 75bps September hike pricing.

RECENT MINUTES: While the Fed will have found the market reaction to the minutes as unhelpful, it's worth noting that easing has already pared - Fed Speak in wake of the minutes has looked to push back on dovish expectations. Furthermore, given the dip in the August Flash PMIs and other US survey data, Powell could be cognizant not to "over hawk" the speech as economic leading indicators begin to turn, with housing data already seeing notable declines.

MARKET PRICING: Current market pricing, as of August 24th, has a 75bps September hike c. 60% priced in vs 40% for 50bps, whilst year-end Fed Funds are priced at 3.62% with the terminal rate priced at 3.79% in March 2023. On how the market could react, SGH Macro's Tim Duy believes, "market participants would like to take on a solid, one direction trade as they return from summer breaks, and if they want to focus on the hawkish messaging, they can take short term rates higher."

TERMINAL: Additionally, traders will be looking for any views on the terminal rate; more specifically, where officials estimate it is (the June SEP forecast 3.75-4.0%; markets priced in the 3.75-4% range), when we will get there (before the end of the year is possible), and how long will the Fed be able to hold rates at terminal as they claim they will. BMO Capital Markets offer us some historical context, noting that the Fed has typically stayed at terminal for between 3-15 months, with the average being around 6.5 months. The upshot is that if terminal is achieved by year-end, it could imply a rate cutting cycle will begin in H2-2023.

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