newsquawk

US Market Wrap - 20th August 2025

Markets chop to Fed Cook criticisms and FOMC Minutes

- **SNAPSHOT**: Equities down, Treasuries flat/up, Crude up, Dollar down
- **REAR VIEW**: Trump calls on Fed Governor Cook to resign; FOMC Minutes show hawkish commentary on inflation, but likely stale after poor July NFP report; Average US 20yr bond auction; EIA crude stocks draw more than expected; RBNZ cuts as expected with dovish dissent; China's 1- & 5yr LPRs held as expected; Hotter-than-expected UK CPI; Riksbank holds rates as expected.
- **COMING UP**: **Data:** Global Flash PMIs, UK PSNB, US Weekly/Continued Jobless Claims, Philly Fed Index, EU Consumer Confidence. **Event:** Jackson Hole (21st-23rd). **Speakers:** Fed's Bostic. **Supply:** France, US, Spain (Cancelled). **Earnings:** Walmart.

MARKET WRAP

Stocks saw two-way action on Wednesday but ultimately closed mixed with a downward bias. The big-tech weakness continued to weigh on indices, while the equal-weight S&P was marginally lower. Elsewhere, T-notes were firmer for a lot of the session but ultimately settled with little change. The initial upside was led by the front-end after Trump called on Fed Governor Cook to resign, with reports suggesting he is considering firing her amid alleged mortgage fraud. However, the upside had faded into the FOMC minutes and pushed lower thereafter. The minutes leaned hawkish, with the majority of participants more concerned about risks to inflation over the labour market. Albeit, the minutes do not incorporate the latest NFP data with chunky two-month revisions. This saw the Dollar pare some of its earlier weakness while T-notes pushed lower back to the near-unchanged mark. Stocks briefly sold off before paring in response. Elsewhere, oil prices were bid after chunky crude draws, while there was punchy rhetoric from Russia against Europe regarding the Ukraine peace talks. Meanwhile, in the Middle East, Israel has begun its offensive in Gaza, calling up 60k reservists. In FX, the NZD lagged after a dovish RBNZ, which cut by 25bps as expected, but with two 50bps dissenters. Attention turns to Flash PMIs on Thursday, as well as weekly jobless claims, ahead of Fed Chair Powell on Friday at Jackson Hole.

FOMC MINUTES REVIEW

Overall, the minutes had hawkish elements, but it is worth stressing that the minutes do not incorporate the latest NFP or CPI/PPI reports - so some views on the economy have since changed. Therefore, we will look to Fed Chair Powell on Friday to gather expectations for September, with money markets pricing in a 25bps rate cut with an 84% probability. There is still another NFP and CPI report due before the next FOMC meeting on September 17th.

Highlights:

- **Rates:** Several viewed the current target range as not far above neutral. Some noted it would not be feasible or appropriate to wait for complete clarity on the effects of tariffs before adjusting policy.
- **Risks:** Meanwhile, on the balance of risks, participants assessed downside risk to employment had meaningfully increased. However, a majority judged that upside risks to inflation were the greater risk when compared to the labour market. Several viewed the two risks as roughly balanced, and a couple considered the downside risk to employment the more salient risk.
- **Prices:** Several expect companies would increasingly have to pass on tariff costs to consumers, but a few said methods are being undertaken to avoid fully passing on the tariff cost to the consumer. A few stressed demand conditions were limiting firms' ability to pass on tariff costs into prices. A few expect higher tariffs to lead only to a one-time increase in prices, but a few said it could lead to stubbornly elevated inflation.
- **Labour market:** Participants observed that the unemployment rate remained low and that employment was at or near estimates of maximum employment. Several noted that the low and stable unemployment rate reflected a combination of low hiring and low layoffs. Some participants observed that their contacts and business survey respondents had reported being reluctant to hire or fire amid elevated uncertainty. Regarding the outlook for the labour market, some participants mentioned indicators that could suggest a softening in labour demand.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 3 TICKS HIGHER AT 11-27+

T-Notes see two-way action as Trump calls on Fed Governor Cook to resign while minutes lean hawkish. At settlement, 2-year -1.0bps at 3.744%, 3-year -1.3bps at 3.697%, 5-year -1.2bps at 3.810%, 7-year -1.3bps at 4.023%, 10-year -0.5bps at 4.297%, 20-year -0.2bps at 4.878%, 30-year +0.2bps at 4.904%.

INFLATION BREAKEVENS: 1-year BEI -1.3bps at 3.198%, 3-year BEI +1.1bps at 2.696%, 5-year BEI +0.2bps at 2.423%, 10-year BEI -0.6bps at 2.340%, 30-year BEI -0.5bps at 2.247%.

THE DAY: T-notes moved higher throughout the first half of the session on Wednesday, with the move led by the front-end, seeing the curve steepen. The steepening was in reaction to a further attack against Fed independence, with FHFA Director Pulte calling on

Fed Governor Cook to resign over alleged mortgage fraud, which Trump later supported. If Cook were to resign or be fired, another vacancy on the Fed board would open up, giving Trump three potential nominees to the Fed board (Miran/Kugler replacement, Powell replacement and Cook replacement). The diminishing Fed independence has seen the front-end yields fall more aggressively due to dovish Fed policy prospects, with the long-end yields more anchored on higher inflation expectations (as a result of dovish policy) and also investors demanding a higher term premium if Fed credibility is questioned. The 2s30s spread widened to c. 117.8bps from c. 113.4bps throughout the day amid the Administration's criticism of Cook. However, these moves had started to pare into the FOMC minutes, before extending thereafter. The Minutes leaned hawkish, noting a majority saw inflation risks greater than labour market risks, albeit given the recent jobs report, this is likely stale. This saw T-notes sell off further, again led by the front-end, seeing spreads ultimately little changed. Elsewhere, there was no US data released aside from the weekly MBA mortgage data, which saw applications fall 1.4% vs the prior 10.9% gain, with the 30-year mortgage rate at 6.68%, little changed from the prior 6.67%. The 20-year bond auction was relatively in line with averages, but not as strong as the prior (more below). Attention turns to the Jackson Hole symposium and the speech from Fed Chair Powell on Friday to see if he confirms a September rate cut like money markets are pricing, or whether he reiterates his data-dependent stance ahead of the next CPI and NFP reports before the next Fed meeting, which will also see an updated Summary of Economic Projections.

SUPPLY

T-notes/Bonds

- **20YR:** US Treasury sold USD 25bln of 20-year bonds. Overall, a relatively average auction. The high yield of 4.876% was below the prior 4.935%, stopping through the when issued by 0.1bps, vs the prior stop through of 1.6bps. However, it is more aligned with the six-auction-average stop through of 0.2bps. The bid-to-cover was below the prior and six-auction-average at 2.54x (prev. 2.79x, avg. 2.63x). The breakdown of bidders saw a jump in direct demand to 26.47% from the prior 21.9%, well above the 18.3% average, albeit indirect demand fell to 60.6% from 67.4%, below the 67.6% average. This left dealers with a below-average 12.88%, but above the prior 10.7%.

Bills:

- US sold USD 65bln of 17-wk bills at a high rate of 4.050%, B/C 3.14x
- US to sell USD 100bln of 4-wk bills and USD 85bln of 8-wk bills on August 21st

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 21bps (prev. 22bps), Oct 35bps (prev. 35bps), Dec 54bps (prev. 54bps).**
- NY Fed RRP op demand at USD 35bln (prev. 22bln) across 18 counterparties (prev. 29).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 109bln (prev. 112bln) on August 19th.
- SOFR at 4.33% (prev. 4.34%), volumes at USD 2.760tln (prev. 2,810tln) on August 19th.

CRUDE

WTI (V5) SETTLED USD 0.94 HIGHER AT USD 62.71/BBL; BRENT (V5) SETTLED USD 1.05 HIGHER AT 66.84/BBL

The crude complex was firmer on Wednesday, driven by the weekly EIA crude stock draw. Benchmarks ground higher throughout the US session, albeit seemingly not on one single headline driver, as a Russia/Ukraine breakthrough seems not closer as traders await the Jackson Hole symposium. Despite saying this, the energy space saw some upside, which seemingly coincided with BBG reporting that Italy PM Meloni offers a plan to aid Ukraine in a day if Russia resumes war. In the weekly EIA data, crude saw a larger draw than expected (in fitting with the private figures), while gasoline also saw a greater than anticipated draw, and distillates saw a larger than forecasted build. Overall, crude production rose 55k bbls W/W. For the record, WTI and Brent saw lows of USD 61.83/bbl and 65.81/bbl, respectively, against later highs of 63.01 and 67.05.

RUSSIA/INDIA: White House Trade Advisor Navarro said the perception that India needs Russian oil is wrong, and this morning whereby the Russian Embassy in India said that despite the political situation, approximately the same level of oil will be imported by India; India-Russia trade is expected to grow 10% annually. As a reminder, Washington slapped India with a 25% penalty linked to oil purchases. Later on in the session, Russia's Deputy PM sees potential for LNG exports and expanded nuclear energy cooperation with India.

EQUITIES

CLOSES: SPX -0.24% at 6,396, NDX -0.58% at 23,250, DJI +0.04% at 44,938, RUT -0.32% at 2,269

SECTORS: Consumer Discretionary -1.18%, Technology -0.77%, Communication Services -0.56%, Industrials -0.09%, Utilities +0.12%, Materials +0.19%, Real Estate +0.34%, Financials +0.51%, Health +0.60%, Consumer Staples +0.80%, Energy +0.86%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.22% at 5,471, Dax 40 -0.60% at 24,277, FTSE 100 +1.08% at 9,288, CAC 40 -0.08% at 7,973, FTSE MIB -0.36% at 42,865, IBEX 35 -0.08% at 15,292, PSI +0.29% at 7,986, SMI +0.47% at 12,270, AEX +0.76% at 909.

STOCK SPECIFICS:

- **Lowe's Companies (LOW):** Profit beat and lifted FY sales guidance.
- **Estee Lauder (EL):** Skin care revenue sales fell with miss driven by APAC weakness.
- **Micron (MU):** Jefferies, on Samsung passing HMB4 qualification for Nvidia (NVDA), say if they start mass producing in November, it will be incrementally more negative for Micron (MU), but later says the story is a rumour.
- **Target (TGT):** CEO to be replaced by COO, a long-term Co. exec; note, earnings were solid and affirmed guidance.
- **Analog Devices (ADI):** Top and bottom-line surpassed expressed with a strong next quarter outlook.

- **Dayforce (DAY):** In advanced talks with Thoma Bravo over USD 70/shr offer; note, on Mon. BBG reported Thoma Bravo was in advanced talks with Co.
- **Hertz (HTZ):** To sell used cars via Amazon.
- **Avis Budget Group (CAR):** Double downgraded at Bank of America.
- **Aspen Insurance Holdings (AHL):** Sompo is reportedly in talks to acquire the company as it prepares to deploy windfall capital.
- **Alcon (ALC):** Top-line light, cut FY revenue and operating margin view.
- **Intel (INTC)** reportedly in discussions to raise equity infusion at a discount, via CNBC.
- **Microsoft (MSFT)** curbed early access for Chinese firms to cyber flaws, according to Bloomberg.
- **PlayStation (SONY)** to raise RRP for PS5 consoles in US starting on August 21st; PS5 will cost USD 549.99, PS5 digital edition USD 499.99, PS5 Pro USD 749.99.
- **PepsiCo (PEP)** to hike US carbonated soft drinks concentrate prices to mitigate concentrate and aluminium tariffs, according to Beverage-Digest.
- **Google (GOOGL):** Launched Pixel 10 lineup of smartphones with "proactive" AI features; announces new versions of smartwatch, Pixel Watch 4, and wireless earbuds, Pixel Buds 2a; no new version of Pixel Buds Pro.
- Leading municipalities in China are reportedly seeking to achieve at least 70% self-sufficiency in AI chips by 2027, looking to redraw a national supply chain dominated by **Nvidia (NVDA),** according to Nikkei.

FX

The Dollar Index was marginally weaker on Wednesday as recent strength took a breather, but with losses limited by a hawkish FOMC Minutes. While the Minutes from the FOMC July meeting took place before the July NFP (and US CPI/PPI), which marked the third month of slowing job growth, members' views on inflation still sparked a hawkish reaction. Namely, a majority of participants judged the upside risk to inflation as the greater of these two risks. Given CPI was largely in line with expectations while PPI was way above, the question now surrounding the Fed is how much of a slowdown in the labour market will prompt members to at least view risks towards the labour market as in balance with their inflation goals. Additionally, several participants commented that the current target range for the FFR may not be far above its neutral level, a view that Fed's Schmid (2025 voter), Hammack (2026 voter) have floated recently. Downside risks on the day facing the buck were the continued questions over Fed independence. In this instance, FHFA Director Pulte sparked the concern with a letter to AG Bondi concerning possible mortgage fraud committed by Fed Governor Cook. US President Trump thereafter called for Cook's resignation, with the WSJ reporting that Trump has told aides he is considering firing Cook if she doesn't resign. DXY now heads into overnight trade at ~ 98.20 from earlier highs of 98.44, with Thursday's focus on US data; S&P Global Flash PMIs, Existing Home Sales, and Initial Claims are due.

CHF, NOK, and **JPY** outperformed their major peers against the dollar. Highlights in the G10 space included rate decisions at the RBNZ and Riksbank. The former cut the OCR by 25bps to 3.00% as expected, but was accompanied by two dovish dissents in favour of a 50bps cut, who cited declining inflationary pressure and significant spare capacity. Moreover, OCR projections through December 2026 were all lowered. Ahead, the committee expects to lower the OCR further, contingent upon medium-term inflation pressures continuing to ease in line with the committee’s central projection. NZD was the notable underperformer on the day, leaving NZD/USD lower at ~0.5830 from earlier highs of 0.5903.

The Riksbank maintained rates at 2.0% as expected and repeated that there is still some probability of a further interest rate cut this year. Governor Theeden said they talked about the possibility of an H2 25 cut in the June forecasts, but a cut in the future is far from certain. EUR/SEK was little bothered at the time of the decision. Now it trades modestly firmer at ~ 11.17.

Sterling's strength on hotter-than-expected UK CPI faded as participants looked through the report. A surge in airfares triggered the larger-than-expected services CPI reading, with ONS attributing some of this to the timing of school holidays. ING's Economist James Smith writes that the rise in services inflation, largely driven by airfares, is a component the BoE is less concerned about when it comes to overall inflationary pressure. "The BoE is more concerned about food inflation, which hasn't changed much in today's release". Taking this into account and the last BoE rate decision (hawkish dissent), last week's stronger-than-expected GDP print and "not as bad as feared" jobs report, markets will likely further cement expectations that the BoE will slow down the current quarterly cadence of rate cuts. Cable now sits around 1.3450.

In China, the state council is to approve a new Yuan internationalisation plan later this month, according to Reuters sources. China is mulling the usage of Yuan-backed stablecoins to boost wider adoption of its currency globally. Meanwhile, PBoC left its 1 and 5-year LPR rates on hold at 3.00% and 3.50%, respectively.