

Dollar hit and bonds steepen as Trump fires Fed Governor Cook

- **SNAPSHOT:** Equities up, Treasuries steepen, Crude down, Dollar down.
- **REAR VIEW:** Trump fires Fed's Cook, but debate remains whether it is legal; Durable Goods declines less than expected; US consumer confidence impresses; Trump notes furniture tariff will be done pretty quickly and will be very substantial; Strong US 2yr auction; T to acquire Spectrum Licenses from SATS for USD 23bln; IBKR to join the S&P 500; XOM reportedly held secret talks with Rosneft about going back to Russia; UNH criminal probe to cover more than Medicare.
- **COMING UP:** **Data:** Australian CPI (Jul) **Speakers:** Fed's Barkin **Supply:** Australia, UK, US **Earnings:** NVIDIA, Snowflake, CrowdStrike, HP Inc., Kohl's.

MARKET WRAP

Stocks ultimately closed green with outperformance in Industrials, Financials and Tech, while Consumer Staples, Real Estate and Communication lagged. Stocks had initially pared from highs into the closing bell ahead of a last minute rally. Note, today is the effective data for the MSCI August 2025 Index review balance which was announced on August 7th which might explain some of the volatility. Elsewhere, focus was largely on Trump v the Fed, with the US President announcing he is firing Cook, albeit she refused and stated she will challenge the decision by Trump. This saw the Dollar sold and the Treasury curve steepen on prospects of a more dovish Fed, which benefited low-yielding currencies like the Franc and Yen. Oil prices consistently moved lower throughout the session on no clear driver with eyes on inventory data after-hours, although amid potential profit taking after four straight days of gains for the crude complex. Gold prices moved higher in response to the Cook news. US data saw Durable Goods and Consumer Confidence beat expectations, but eyes remain on the 2nd estimate of GDP on Thursday and PCE on Friday. Elsewhere, UnitedHealth (UNH) took a hit in late trade on reports from Bloomberg that the ongoing criminal probe is broader than Medicare.

US

DURABLE GOODS: Headline Durable Goods fell 2.8% in July, extending the decline from the 9.4% drop in June, but not as much as the expected 4.0% reduction. Ex-transport, however, Durable goods were strong, rising 1.1%, well above the prior 0.3%, the 0.2% consensus and the highest analyst estimate of 0.5%, and showing that the headline drop was primarily due to aircraft orders. Ex-defence fell by 2.5% vs the prior -9.5% but still above the -3.6% consensus. The Nondefense capital good ex aircraft orders rose 1.1%, above all analyst forecasts and the prior being revised up to -0.6% from -0.8%, while nondefense capital goods shipments ex-aircraft rose by 0.7%, accelerating from the prior 0.4%. Oxford Economics highlights that business equipment investment is on track to post another gain in Q3, albeit smaller than in Q2.

RICHMOND FED: Richmond Fed in August saw Revenues and Demand rise to 4 (prev. 2) and 13 (prev. 5), respectively, while the outlook indices for the future both rose. Local Business Conditions soared to 6 from -8, and also saw an improvement looking ahead. The current employment index edged lower to -1 from 0, while the forward-looking index increased notably to 20 from 4. The wages index increased to 24, and firms continued to expect to increase in wages over the next six months. On the inflationary footing, prices paid were more or less unchanged while prices received rose. Ahead, the future index for prices paid fell, but for received it increased.

CONSUMER CONFIDENCE: US consumer confidence printed 97.4, above the expected 96.2 – the prior month was revised higher to 98.7 from 97.2. In commentary, consumers' assessments of current business conditions improved slightly in August, while views of the labour market continued to deteriorate. The share saying that jobs are plentiful edged down to 29.7% (prev. 29.9%), while the share saying they are hard to get increased to 20.0%, the highest since February 2021. Pantheon Macroeconomics says, the resulting net balance dropped to 9.7% from 11.0%. The consultancy adds, it leaves the balance consistent with a first estimate of payroll growth of 50K, likely about 25K after revisions, and a renewed rise in the unemployment rate. Consumers were less pessimistic about future business conditions, and a bit more worried about the labour market outlook. On the inflationary footing, the report notes references to high prices and inflation, including food and groceries, which rose again in August. Consumers' average 12-month inflation expectations picked up after three consecutive months of easing and reached 6.2% in August—up from 5.7% in July but still below the April peak of 7.0%.

FED: US President Trump ordered the removal of **Fed Governor Lisa Cook (voter)**, alleging false mortgage statements, but Cook rejected his authority to do so and vowed not to resign. **Williams (voter)** said the US neutral interest rate may remain close to pre-pandemic levels, as structural factors like global demographics and productivity trends that kept rates low have not changed, indicating the low neutral-rate era "appears far from over." **Logan (2026 voter)** warned money markets may see temporary pressure around September's tax date and quarter-end, but said the Fed still has scope to keep reducing its balance sheet. **Barkin (2027 voter)** said he expects a modest adjustment in interest rates, given he expects little variation in economic activity over the rest of the year, but this could be subject to change.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 7 TICKS HIGHER AT 109-04

T-Notes steepen as Trump fires Fed Governor Cook, but questions remain whether it is a legal move . At settlement, 2-year -5.3bps at 3.677%, 3-year -5.6bps at 3.619%, 5-year -4.9bps at 3.738%, 7-year -3.7bps at 3.967%, 10-year -1.9bps at 4.256%, 20-year +1.0bps at 4.869%, 30-year +1.9bps at 4.908%.

INFLATION BREAKEVENS: 1-year BEI +0.1bps at 3.291%, 3-year BEI +1.1bps at 2.801%, 5-year BEI +1.0bps at 2.523%, 10-year BEI +0.9bps at 2.414%, 30-year BEI +1.2bps at 2.302%.

THE DAY: T-Notes sold off overnight before rallying in the US session, with the curve steepening with focus on Fed board composition. US President Trump announced that he is firing Fed Governor Cook, effective immediately. Cook, however, said no cause exists for her to be fired, and she will not resign; she will file a lawsuit challenging the attempted firing. On the matter, Trump later said that they will soon have a majority on the Fed board, and reiterated his calls for rates to come down, and that he has someone in mind for Cook's replacement. The prospects of a more dovish Fed saw front-end yields fall, but longer-end yields rose as a more dovish Fed raises inflation expectations. It also brings into question Fed independence, which may see participants demand more term premium, also supporting longer-end rates. On Fed speak, Barkin said that his forecast is for a modest adjustment in interest rates, but warned this could change depending on the economy. Elsewhere, on data, Durable Goods were not as bad as feared, with the downside in the headline primarily led by the volatile aircraft components. US Consumer Confidence declined in August, but beat expectations, with the 12-month inflation expectation picking up after three consecutive months of easing, rising to 6.2% from 5.7% in July.

SUPPLY

T-Notes/Bonds

- **2yr:** Overall, a strong auction. The US Treasury sold USD 69bn of 2yr notes at a high yield of 3.641%, lower than the prior 3.92% yield, but still stopping through the when issued by 1.5bps - the largest stop through since November 2024. The bid-to-cover of 2.69x was above the prior 2.62x and the average of 2.59x. The breakdown of demand saw direct's little changed at 33.2%, but well above the 23% average. Indirect demand surged to 68.95% from 55.3%, well above the 66.1% average. This left dealers with just 9.7% of the auction, lower than the prior and average. US to sell USD 28bn of 2-yr FRN and USD 70bn of 5-year notes on August 27th, and USD 44bn 7-yr notes on August 28th; all to settle on Sept 2.

Bills:

- US sold USD 85bn of 6-week bills at a high rate of USD 4.210%, B/C 2.93x
- US to sell USD 85bn in 8-week bills and USD 100bn of 4-week bills on August 28th, and USD 65bn in 17-week bills on August 27th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 21bps (prev. 20bps), Oct 34bps (prev. 33bps), Dec 54bps (prev. 53bps).**
- NY Fed RRP op demand at USD 29bn (prev. 48bn) across 16 counterparties (prev. 23)
- EFR at 4.33% (prev. 4.33%), volumes at USD 113bn (prev. 114bn) on August 25th
- SOFR at 4.37% (prev. 4.36%), volumes at USD 2.825tn (prev. 2.738tn) on August 25th
- Treasury Buyback (Liquidity support, 5-7yr): Accepted USD 1.4bn of USD 6.672bn offered; accepts 5 of 26 eligible issues. Offer to cover ratio: 4.77x.

CRUDE

WTI (V5) SETTLED USD 1.55 LOWER AT 63.25/BBL; BRENT (X5) SETTLED USD 1.52 LOWER AT 66.70/BBL

The crude complex saw losses and sold off through the duration of the US session amid potential profit taking on a lack of a headline driver. Highlighting this, WTI and Brent have seen four straight sessions of gains, prior to today. There was little energy-specific newsflow on Tuesday, and on the E3/EU-Iran talks, WSJ's Norman said the readout is that the meeting produced no conclusive result, and he understood Iran did put some promises on the table but they lacked detail/substance. Note, expectations of concrete results were low going into the meeting. On Ukraine/Russia, FT, citing EU and Ukraine officials, reported the US has said it is prepared to provide intelligence assets and battlefield oversight to any Western security blanket for post-war Ukraine and take part in a European-led air defence shield for the country. Any Ukraine/Russia deal still seems a way off, for the record. Meanwhile, US President Trump expects oil prices to fall below USD 60/bbl soon. After-hours is the weekly private inventory data, whereby expectations are (bbls): Crude -1.9m, Distillate +0.9m, and Gasoline -2.2m.

EQUITIES

CLOSES: SPX +0.40% at 6,465, NDX +0.43% at 23,525, DJI +0.30% at 45,418, RUT +0.81% at 2,358.

SECTORS: Industrials +1.03%, Financials +0.76%, Health +0.55%, Technology +0.53%, Consumer Discretionary +0.42%, Materials +0.41%, Utilities +0.22%, Energy -0.20%, Communication Services -0.27%, Real Estate -0.32%, Consumer Staples -0.46%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.19% at 5,342, Dax 40 +0.00% at 24,193, FTSE 100 -0.06% at 9,096, CAC 40 +0.44% at 7,743, FTSE MIB +0.56% at 41,624, IBEX 35 +0.91% at 14,825, PSI +0.23% at 7,780, SMI +0.15% at 11,867, AEX -0.13% at 891.

STOCK SPECIFICS:

- **Interactive Brokers Group (IBKR):** To join the S&P 500
- **Echostar (SATS): AT&T (T)** to acquire Spectrum Licenses from SATS for ~ USD 23bn.
- **Boeing (BA):** Korean Air agreed on a USD 36bn deal with Boeing for 103 aircraft.

- **Eli Lilly (LLY)**: Cos. oral GLP-1, orforglipron is successful in third Phase 3 trial.
- **Apple (AAPL)**: Has no intention of slowing down India investment
- **AMD (AMD)**: Upgraded at Truist.
- **Apple (AAPL)**: Reportedly internally discussed possible acquisitions of Mistral and Perplexity, according to The Information. In other news, Apple announces a special Apple Event on September 9th, where the iPhone 17 is expected to be announced.
- US President Trump said **Cracker Barrel (CBRL)** should go back to its previous logo.
- **UnitedHealth (UNH)** ongoing criminal probe is broader than Medicare, according to Bloomberg.
- **Kohl's (KSS)** seeks more time to pay vendors amid turnaround effort, according to Bloomberg

FX

The Dollar was lower on Tuesday, paring some of Monday's strength, in typical holiday trading conditions as participants await NVDA earnings (Wed), GDP (Thurs), and PCE (Fri) later in the week. The most notable story out of the US, was President Trump overnight posting a letter on Truth removing Fed's Cook from her position with immediate effect; Cook responded and said no cause exists for her to be fired and she will not resign. On the data front, Durables Goods declined less than expected, while Consumer Confidence also impressed.

G10 FX saw slight gains across the board and largely profited off of the floundering Buck; for the Pound, BoE's Hawk Mann said a more persistent hold on Bank Rate is appropriate right now – as a reminder, she voted for a hold at the latest August confab. Cable traded between 1.3435-3493. **EUR** remained stable despite an unfavourable EZ risk backdrop over the past day or so. As a reminder, French politics is back in the headlines after French PM Bayrou called for a vote of confidence on his government's fiscal plans on September 8th. EUR/USD saw a low of 1.1603 against a high of 1.1665.

Antipodeans saw gains but were capped amid the souring risk sentiment. The Aussie saw little move on RBA Minutes overnight; they stated the board saw a strong case for a 25bps cut in the Cash Rate and judged that some further reduction in the Cash Rate is likely needed over the coming year. USD/JPY hit an earlier low of 147.00 after the Fed Cook news, but the Yen was unable to hold onto the bulk of the gains seen.

EMFX was mixed. HUF firmed against the Buck, but little move was seen in wake of the NBH rate decision – rates were left unchanged, as expected, and in commentary, the bank noted a careful and patient approach to monetary policy is needed. Restrictive policy supports financial market stability and CPI may reach target in early 2027. In LatAm FX, Brazilian IPCA-mid month CPI the M/M figure declined less than anticipated, while the Y/Y metric was slightly above consensus.

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