

Markets chop to dovish Fed & SEP but hawkish Powell

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up
- **REAR VIEW:** Fed cuts by 25bps, as expected, Miran votes for 50bps; Dovish SEPs, with median FFR seeing 50bps of cuts this year (exp. 25bps); Hawkish Fed Chair Powell in presser; BoC cuts rates by 25bps, as expected; UK Services CPI eases more than expected; EIA crude stocks draw more than anticipated; China's CAC reportedly tells firms not to buy NVDA AI chips.
- **COMING UP: Data:** Australian Jobs (Aug), Jobless Claims, New Zealand Trade Balance (Aug). **Events:** BoE Announcement, Norges Bank Announcement, SARB Announcement. **Speakers:** ECB's Lagarde, de Guindos, Nagel, Schnabel; US President Trump & UK PM Starmer press conference. **Supply:** Spain, France, US. **Earnings:** FedEx, Lennar

MARKET WRAP

Two-way action was seen following the FOMC, SEPs and Chair Powell's presser. A dovish reaction was seen after the Fed cut rates by 25bps, as expected, which was accompanied by dovish SEPs, as 50bps of further rate reduction is now seen in 2025, against the prior, and expected, 25bps of additional cuts. Do note, it was a tight call as 10/19 saw 50bps (or more) of cuts, while the other 9 saw 25bps (or less). The Fed also adjusted its guidance to signal a clearer path of easing ahead. In reaction, the Dollar was sold while Equities and Treasuries saw upside; however, the moves had started to pare as participants awaited the Powell presser. In the press conference, he was notably more hawkish than the statement and SEPs implied, which saw these moves reversed. The Fed Chair said he doesn't feel the need to move quickly on rates, and that you could think of today's cut as a risk management cut, and that decisions will be taken on a meeting-by-meeting approach. Elsewhere, the crude complex was choppy, but settled lower in thin newsflow despite bullish weekly EIA data. Sectors were mixed, as Financials and Consumer Staples sit atop of the pile, while Technology lagged and was weighed on by NVIDIA (-2.6%) weakness after China shunned NVDA chips from Chinese tech companies. As mentioned, the Dollar eventually gained to the detriment to G10 FX peers in the wake of Powell, with the CAD little moved on BoC earlier in the day. For the record, spot gold hit another ATH above USD 3.7k/oz in the wake of the FOMC statement, but fell back beneath the level as Powell spoke.

North America

FED: The Fed cut rates by 25bps to 4.00-4.25%, citing a shift in risk balance. Bowman and Waller joined consensus, calling for a 25bps reduction; new Governor Miran dissented, preferring a 50bps cut. Nine of 19 officials see two additional cuts in 2025, two see one cut, six see no more reductions. Adjusts guidance to state that "in considering additional adjustments to the target range for the federal funds rate..." from "in considering the extent and timing of additional adjustments". In its statement, it also tweaked its labour market view, downgrading language (no longer 'solid', unemployment has edged up but 'remains low' and adds that 'job gains have slowed'). This years unemployment rate forecast, PCE and core PCE were unchanged; for next year, unemployment was revised lower, PCE and core PCE were raised (the statement notes that inflation has moved up, and remains 'elevated').

FED CHAIR POWELL: Fed Chair Powell was more hawkish than the statement and dot plots implied. He reiterated the usual SEP language that this is not a set path of rates. He also mentioned the close split on the dot plot for this year (10 see two or more rate cuts, 9 see fewer than that), and to look at projections through the lens of probabilities. The Fed Chair also exclaimed that the Fed does not feel the need to move quickly on rates, and that you could think of today's cut as a risk management cut. He also said that he does not think a quarter-point cut will have a great impact, and also said there was no widespread support for a 50bps rate cut. Looking ahead, he did not want to commit to a policy path but said decisions will be made on a meeting-by-meeting basis, and they will be looking at the data. He highlighted that downside risks to the labour market have increased, while he noted that he sees inflation rising this year as goods prices rise from tariffs, but reiterated that he expects it to be a one-time rise. It is clear that the labour market concerns are the priority at the moment. Powell spoke several times of the downside risks to employment and noted it is the risks to the labour market that were the focus of today's decision. He added it is clear the labour market breakeven rate has come down significantly, but could say the breakeven rate is between 0 and 50k. Powell noted that policy had been skewed towards inflation, but is now moving in the direction of a more neutral policy, which will be better for the labour market. On the balance sheet, he said they are still in an abundance of reserves, but he does not think it would have a macro effect.

HOUSING STARTS/BUILDING PERMITS: US building permits fell 3.7% in August to 1.312mln from 1.362mln, beneath the expected 1.37mln, continuing to indicate that the softness in housing starts will persist in the near-term. Within the dataset, single-family authorizations also dipped 2.2% to 856k. Housing starts plunged 8.5% to 1.307mln from 1.429mln, again shy of the forecasted 1.365mln, with single-family housing starts falling 7% to 890k. Looking ahead, Oxford Economics expects housing construction to improve in 2026 as the economy gets on firmer footing, the Fed lowers interest rates, and the benefits of the Republican budget bill kick in.

BOC: The Bank of Canada cut interest rates by 25bps to 2.50%, in line with expectations. This takes rates 25bps below the midpoint of the BoC's neutral rate estimate from the July MPR. Governor Macklem said there was a clear consensus to cut rates, while the statement noted that the reduction was appropriate given the weaker economy and fewer upside risks to inflation (like the removal of most retaliatory tariffs on imported goods from the US). It also felt a cut was appropriate to better balance the risks. On the labour market, the statement noted that job losses have largely been concentrated in trade-sensitive sectors while employment growth in the rest of the economy has slowed, reflecting weak hiring intentions. It also acknowledged the 7.1% unemployment rate in August, while wage growth has continued to ease. On inflation, it noted on a monthly basis that the upward momentum seen earlier this year

has dissipated, while a broader range of indicators continue to suggest underlying inflation is running around 2.5%. It removed its language from July that in the event of a weakening economy, and if inflation pressures are contained, "there may be a need for a reduction in the policy interest rate". Instead, acknowledging how the "Governing Council is proceeding carefully, with particular attention to the risks and uncertainties." It acknowledged that the disruptive effects of shifts in trade will continue to add costs even as they weigh on economic activity. Looking ahead, ING suggests today's cut shouldn't be the last one, noting how, despite no forward guidance, the central bank is keeping options open, and the assessment on inflation, growth, and the labour market points to another Q4 cut. ING expects a cut in December, but can't exclude October and even further easing beyond that, noting that the CAD should remain unattractive.

BOC GOVERNOR MACKLEM: Governor Macklem's text largely echoed the statement, but he warned that Chinese tariffs on canola, pork and seafood, new US tariffs on copper, and higher US tariffs on softwood lumber, will spread the direct impacts further. He also noted the BoC will continue to assess the risks, but look over a shorter horizon than usual, and be ready to respond to new information. He explained that three developments shifted the balance of risks since July: First, the labour market has softened further; second, recent data, albeit with some mixed signals, suggest upward pressures on underlying inflation have diminished; and third, with the removal of most retaliatory tariffs by Canada, there is less upside risk to future inflation. In the press conference, he said the inflation picture has not changed much since January. He also expressed that the BoC is ready to take further action if risks accelerate, but decisions will be made meeting-by-meeting. The Governor also noted how they are a long way from even contemplating QE, and that they are not expecting a recession, with growth of 1% expected in H1. Senior Deputy Governor Rogers, meanwhile, said they are not contemplating any change in the deposit rate now.

FIXED INCOME

T-NOTES (Z5) SETTLED 13+ TICKS LOWER AT 113-04

T-Notes were ultimately lower and saw two-way action in wake of Fed, amid a dovish decision and a hawkish presser. At settlement 2-year +3.5bps at 3.545%, 3-year +5.3bps at 3.528%, 5-year +6.3bps at 3.646%, 7-year +6.2bps at 3.832%, 10-year +5.0bps at 4.076%, 20-year +3.9bps at 4.647%, 30-year +3.3bps at 4.679%.

INFLATION BREAKEVENS: 1-year BEI +1.5bps at 3.273%, 3-year BEI +1.9bps at 2.728%, 5-year BEI +1.7bps at 2.466%, 10-year BEI +1.4bps at 2.368%, 30-year BEI +1.2bps at 2.261%.

THE DAY: T-Notes had been selling off into the Fed rate decision, with moves led by the front-end, indicating it was likely some profit taking after the recent upside as participants positioned for a dovish Fed amid a deteriorating labour market. In wake of the Federal Reserve rate decision, Treasuries saw upside and rose to session highs of 113-25+ from 113-10, amid the dovish details. The Fed cut by 25bps, as expected, new board member Miran dissented (in favour of a 50bps cut), while the median FFR SEP now sees 50bps of cuts in 2025, against the prior, and expected, 25bps of cuts forecasted. GDP growth was revised higher over '25, '26, and '27, while the unemployment rate was revised lower for '26 and '27. While Treasuries soared after the dovish decision, this had started to pare ahead of the press conference, but lows were seen as Powell's said he doesn't feel the need to move quickly on rates, could think of today's cut as a risk management cut, and that decisions will be taken on a meeting-by-meeting-approach. As such, Treasuries saw troughs off 113-02, and settled around these levels, but upside was seen post-settlement with Powell continuing to take focus on the downside risks in the labour market.

SUPPLY

T-Notes/Bonds

- US Treasury to sell USD 19bln in 10yr TIPS on September 18th; all to settle Sept. 30th.

Bills:

- US to sell USD 85bln in 8-week bills and USD 100bln in 4-week bills on September 18th; all to settle September 23rd.
- US sold USD 85bln of 6-wk bills at a high rate of 4.040%, B/C 2.82x.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing:** Oct 23bps (prev. 21bps), Dec 44bps (prev. 43bps), January 58bps (prev. 57bps). (Prior's have been adjusted for today's 25bps rate cut)
- NY Fed RRP op demand at USD 14bln (prev. 19bln) across 14 counterparties (prev. 16).
- EFR at 4.33% (prev. 4.33%), volumes at USD 98bln (prev. 91bln) on September 16th.
- SOFR at 4.39% (prev. 4.51%), volumes at USD (prev. 2.830tln) on September 16th

CRUDE

WTI (V5) SETTLED USD 0.47 LOWER AT 64.05/BBL; BRENT (X6) SETTLED USD 0.52 LOWER AT USD 67.95/BBL

The crude complex was choppy, albeit within thin ranges amid light newsflow on Wednesday as participants awaited the pivotal FOMC throughout the day. Despite saying that, in wake of the rate decision whereby the Fed cut by 25bps, as expected, but in a dovish decision, benchmarks saw little move. Prior to the Fed, WTI and Brent saw two-way action with no clear headline driver. In the weekly EIA data, crude saw a much larger than anticipated draw, gasoline had a surprise draw, while distillates saw a chunky build. Overall, crude production fell 13k W/W to 13.482mln. Regarding positioning, SocGen notes that hedge funds have decreased their bullish position this week on WTI to the lowest level on record (since disaggregated data was first released in 2006), and the level coincides with the OPEC+ decision to boost production, combined with a consensual view that the market will fall into a hefty surplus through 2026. For the record, WTI and Brent traded between USD 63.83-64.67/bbl and 67.79-68.59/bbl, respectively.

EQUITIES

CLOSES: SPX -0.10% at 6,600, NDX -0.21% at 24,224, DJI +0.57% at 46,018, RUT +0.18% at 2,407

SECTORS: Technology -0.70%, Industrials -0.45%, Consumer Discretionary -0.31%, Real Estate -0.06%, Communication Services -0.06%, Health +0.24%, Energy +0.28%, Utilities +0.29%, Materials +0.36%, Consumer Staples +0.90%, Financials +0.96%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.00% at 5,372, Dax 40 +0.08% at 23,347, FTSE 100 +0.14% at 9,208, CAC 40 -0.40% at 7,787, FTSE MIB -1.29% at 41,955, IBEX 35 -0.24% at 15,127, PSI -0.10% at 7,730, SMI -0.17% at 11,999, AEX +0.36% at 915.

STOCK SPECIFICS

- **NVIDIA (NVDA):** China reportedly told Cos., such as BABA & ByteDance, to terminate their testing & orders of RTX Pro 6000D.
- **Apple (AAPL):** iPhone sales in China -6% Y/Y in the July-August period; Chinese smartphone sales -2% Y/Y over the same period.
- **Workday (WDAY):** Activist Investor Elliott has taken a stake >USD 2bln.
- **JPMorgan (JPM):** Raised quarterly dividend to USD 1.50/shr (prev. 1.40).
- **Lyft (LYFT):** Partnered with Alphabet's (GOOGL) Waymo to expand autonomous mobility to Nashville in 2026; Uber (UBER) was weighed by the news.
- **Astrazeneca (AZN):** Asthma drug missed primary endpoint.
- **General Mills (GIS):** EPS and revenue topped expectations, but FY26 adj. EPS guidance was maintained, where a decline of 10-15% is seen.
- **Roivant (ROIV):** Roivant and Privant say skin drug brepocitinib succeeded in trial, STAT News reports.
- **New Fortress Energy (NFE):** Finalised a 7yr deal worth \$4bln to supply LNG to Puerto Rico.
- **Paramount Group (PGRE):** Rithm Capital (RITM) to acquire PGRE for USD 1.6bln, namely, USD 6.60/shr.
- **Eli Lilly (LLY):** Announced GLP-1 pill, orforglipron, showed superiority over **Novo Nordisk's (NVO)** in a diabetes study.
- **Kroger (KR):** Upgraded to 'Buy' from 'Neutral' at Roth Capital.
- **Zillow Group (ZG):** Upgraded to 'Outperform' from 'Market Perform' at Bernstein.
- **Reddit (RDDT):** Reportedly in talks to strike next AI content pact with Google (GOOGL), according to Bloomberg.
- **Google (GOOGL) and PayPal (PYPL)** forget multiyear partnership to revolutionise commerce; PYPL to process card payments for Google products.

FX

The Dollar heads into APAC broadly firmer which comes after the Fed's decision to cut interest rates by 25bps, as expected, SEP's and Powell presser. Recapping, USD was initially sold as the decision was accompanied by an unexpected dovish turn in the Fed's median FFR view by year-end, namely, the Fed now seeing two further cuts against expectations for just one more. Despite some expecting Waller and Bowman to remain dovish outliers, they joined the consensus for 25bps, while newcomer Miran opted for 50bps, an unsurprising move. The statement highlighted increased risks towards the labour market, omitting the "solid" description of the labour market and removed the "extend and timing" language used to describe extra considerations the Fed has when taking into account additional adjustments, a signal they are more confident of further easing. Thereafter, Chair Powell leaned hawkish in the press conference, paving the way for a reversal in US yields to the upside, and as such, a USD rebound. Powell feels they don't need to move quickly on rates, arguing for further data needed to ensure that higher inflation from tariffs is a one-time rise. There was also a theme of uncertainty/caution voiced by the Chair. Powell called the cut a risk management cut amid the labour market concerns, although he doesn't know if it will make a huge difference. DXY now sits in the upper end of its daily range of 96.224-96.994.

G10 FX was largely weaker against the dollar on a hawkish Powell. Sterling outperformed modestly after a largely in-line CPI report for August. Headline CPI matched expectations; meanwhile, Services CPI Y/Y eased slightly more than expected. Expectations for BoE easing by year-end grew slightly, but ultimately, the first clear case for the next cut remains in March/April 2026. Pantheon Macroeconomics thinks "inflation will peak at 4.0% in September, in line with the MPC's forecast, helping to keep rate setters on hold in November".

CAD finished the day lower on the aforementioned USD strength. Prior to FOMC, the BoC cut rates by 25bps to 2.5% as expected, citing a weaker economy and less upside risk to inflation. The GC judged that the decision would better balance risks. Governor Macklem, in the press conference, said the inflation picture has not changed much since January; they are a long way from considering Q3, not expecting a recession, but growth of ~1% in H2. USD/CAD was largely muted in response to the BoC, with direction dominated by the USD/Fed. As it stands, USD/CAD sits at ~1.3770 from earlier lows of 1.3727, with BoC pricing forecasting ~18bps of further easing by year end.

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