MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 15 September 2025

The Weekly Macro Outlook: FOMC Expected to Cut (w/c 15 September 2025)

The key events shaping this week: Key central bank meetings, headlined by the FOMC, US retail sales, and global CPI reports.

Recap from last week: The Case for Fed Easing

The latest U.S. inflation data is not likely to derail Fed Chair Powell's signal to cut rates at this week's FOMC meeting. While inflation remains firm and above target, the numbers were consistent with how Powell set up his shift at Jackson Hole, which was to now acknowledge that a "reasonable base case is that (tariff) effects will be relatively short-lived". This has created the scope for the Fed to 'look through' tariff effects, especially as risks to the labor market have increased.

The latest CPI data still paints a picture of broadly steady inflation. This is despite some visible tariff effects, especially in core goods, and some other pockets of firmer inflation. The US headline CPI was higher than expected in Aug and increased to +2.9% from +2.7% in Jul. The monthly pace was higher than expected at +0.4% and has accelerated in each of the last three months. The 3-month annualized rate is now up to +3.5%. Food inflation was a notable increase this month and is back up to +3.2% over the year. Energy prices also firmed.

Importantly, the underlying core measures remained mostly steady. Core CPI came in as expected, remaining unchanged at +3.1% in Aug, despite a further increase in core goods inflation to +1.5% over the year. For context, annual core goods inflation (deflation) averaged -0.33% in the five years prior to the pandemic. The 3-month annualized rate for core goods inflation is now up to +2.8%, reflecting a consistent firming of monthly inflation over the last 3 months. Core services inflation saw little change versus the prior month, remaining +0.35% over the month, and stuck at an annual rate of +3.6% over the last five months. The 3-month annualized rate is now up to +3.9% reflecting some of the near-term firming.

The median and trimmed mean measures indicate that underlying inflation remained mostly steady in Aug. The trimmed mean, removing outliers, edged higher from +3.2% to +3.3% in Aug, suggesting only marginal broadening out of inflation pressures. The median, which is more robust to outliers, stayed unchanged at +3.6% over the year, also suggesting that despite the increase in the headline inflation rate, underlying pressures remained contained.

The PPI was the other important inflation release this week. The PPI measures the average change in the selling prices received by domestic producers for their output. The context for PPI is whether US producers were raising their selling prices due to rising input costs. Headline PPI did not accelerate this month after firming in Jul, and came in much lower than expected. Over the course of the year to date, there has not been a consistent firming in headline PPI, but rather, some pockets of inflation where you might expect to see tariff effects; final demand goods (ex-food & energy) prices are showing a more persistent inflation effect, rising to +2.9% over the year, and the 3-month annualized rate rising to +3.7%. Across services, trade services PPI moved down notably this month, contributing most to the fall in overall PPI services inflation. The fall in trade services PPI mostly reflected a margin squeeze for wholesalers across vehicles and machinery. This is a volatile measure, so we'll have to see how this evolves.

Together, elements of the CPI & PPI indicate how the Fed-preferred PCE inflation measure is likely to evolve (due in several weeks). Core PCE inflation is expected to be unchanged at +2.9% in Aug, with the monthly rate slowing from +0.3% in Jul to +0.2% in Aug. This would still be below the current (June FOMC) median projection for core PCE of +3.1% over the year (end 2025).

While the inflation data provides some room for the Fed to ease, other reports this week added further to the cautious labor market backdrop, possibly adding to the rationale for restarting rate cuts. The latest Conference Board employment trends index continued to fall in Aug, reaching its lowest level since 2021. The report highlighted that while the recent fall was in line with a "post-pandemic normalization", the "degree of weakening in the August components is disconcerting".

Initial claims spiked notably higher last week to 263k. It's unclear whether this is renewed weakness, as most of the increase appears to be attributed to one state, and the report also reflects a shortened holiday week. Continuing claims have remained unchanged at 1.93m.

Finally, the BLS preliminary estimate of its non-farm employment benchmark revision for the year to Mar 2025 showed non-farm employment was revised lower by -911k or -0.6%. For comparison, the BLS notes that "the annual benchmark revisions over the last 10 years have an absolute average of 0.2 percent of total nonfarm employment". This prelim estimate appears to be a larger-than-usual revision and suggests that the labor market may have been notably weaker than survey data had initially indicated.

Ahead of the FOMC this week, US data broadly show a labor market with rising downside risks existing alongside a persistent/steady, but perhaps manageable, inflation situation.

Outlook for the week ahead: Central bank meetings (FOMC, BoC, BoE, and BoJ), US retail sales, global inflation

This will be an important week of central bank meetings, notably the FOMC, together with a broader read on the US economic pulse, as well as global inflation reports.

Key factors & events to watch this week:

The FOMC meeting 16-17 Sept.

- While a 25bps cut is broadly anticipated, there will be several other important points to watch.
- The press conference/decision will be important for highlighting the degree to which the Committee aligns with Powell's shift at Jackson Hole. Dissents may also feature. While the Fed Chair has signaled the rising downside risks to the labor market, it will be important to see how the FOMC guides its approach to balancing the risks to its dual mandate – keeping inflation expectations anchored (it's still elevated and above target) while addressing the risks to the labor market. We'll also watch how the Fed shifts its characterization of the economy, inflation, and the labor market.
- The latest SEP will be released – this will be important to signal changes in the path of rates, as well as growth, inflation, and unemployment projections.
- It's reported that the US Senate is to vote on Stephen Miran's nomination to the Board of Governors on Monday, in time for him to attend the Committee meeting this week. This may affect the dynamic and the discussion on the outlook.

Central bank decisions. There will be several other central bank decisions of note this week.

- The BoC will meet this week, and there is some expectation of a 25bps rate cut, especially given the weakening in the last two labor market reports.
- The BoJ is expected to stay on hold.
- The BoE is also expected to stay on hold.

US data to provide broader input on the economic pulse, covering retail spending, factory output, import and export prices, and key housing reports. This will provide a more comprehensive update to the GDP growth run-rate so far in Q3.

- US retail sales are expected to slow to +0.2% from +0.5% in Jul. Last month, the retail control measure (which feeds into the GDP measure) increased by +0.5%.
- Industrial production is expected to be 0% after falling -0.1% in Jul.
- US export and import price indexes (exclude tariffs) for Aug may provide some insight into whether exporters to the US are, on aggregate, absorbing tariffs or not. The import price index excluding fuel imports will be the key measure to watch.
- Building permits are expected to edge higher to 1.37m (annualized) in Aug, from 1.36m in Jul.
- Housing starts (this gets booked into GDP) are expected to fall to 1.38m (annualized) in Aug, from 1.42m in Jul.
- Initial claims are expected to fall back to 240k last week after increasing to 263k in the prior week. Continuing claims have remained around 1.93m.
- There will also be several regional manufacturing surveys – the NY and Philadelphia Fed surveys, providing an early look at manufacturing conditions in Sept.

Global Inflation and Data; outside of the US, there will be several important CPI releases as well as the latest Aus labor market report.

- Canada's core CPI measures are expected to be unchanged; median +3.1%, trimmed mean +3%.
- UK headline CPI is expected to be unchanged at +3.8%, while core CPI is expected to edge lower to +3.7% in Aug from +3.8% in Jul.
- The final Euro area CPI for Aug is expected to confirm headline inflation at +2.1% and core inflation at +2.3%.
- The BoJ preferred measure of core CPI ex fresh food is expected to slow to +2.7% in Aug from +3.1% in Jul.
- The Aus labor market report is expected to show continued modest employment growth of +21k, while the unemployment rate is expected to be unchanged at 4.2%.

US Treasury Issuance; 15 - 19 Sept 2025

This week, the US Treasury will auction and settle approx. $609bn in ST Bills, Notes, and Bonds, raising approx. $39bn in new money. The US Treasury will also auction the 10-year TIPS and 20-year Bond this week – both will settle on 30 Sep.

<u>QT this week:</u> Approx $7.4bn of ST Bills will mature on the Fed balance sheet and will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
15-19 Sep	11-Sep	16-Sep	4 week bill	100			Actual 4.060%	4.175%
	11-Sep	16-Sep	8 week bill	85			Actual 4.000%	4.100%
	10-Sep	16-Sep	17-week Bill	65			Actual 3.850%	3.965%
				250	300	-50		
	15-Sep	18-Sep	13 week bill	82			Announced	3.940%
	15-Sep	18-Sep	26 week bill	73			Announced	3.730%
	16-Sep	18-Sep	6-week Bill	85			Announced	4.090%
				240	229	11		
	09-Sep	15-Sep	3yr Note	58			Actual 3.485%	3.669%
	10-Sep	15-Sep	10yr Note	39			Actual 4.033%	4.255%
	11-Sep	15-Sep	30yr Bond	22			Actual 4.651%	4.813%
				119	41	78		
			Total - securities settling this week	609	570	39		
			QTR to date totals	**6,673**	**5,672**	**1,001**		
			Estimated Net Cash to be Raised Q3 ($ Bn)			*1,007*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		15-Sep	Notes & Bonds	0.0				
		16-Sep	ST Bills	0.7				
		18-Sep	ST Bills	6.7				
				7.4				
		Maturing & redemption (balance sheet roll-off)						
		15-Sep	Notes & Bonds	0.0				
	Upcoming Auctions			**$B**				
	18-Sep	30-Sep	10yr TIPS	19				
	16-Sep	30-Sep	20yr Bond	13				

Quantitative Tightening Overview – Sep 2025

The cap on US Treasury redemptions was lowered to $5bn effective Apr 2025. In Sep, the face value of Coupons maturing on the Fed balance sheet is approx. $17bn. This is more than the new $5bn monthly cap on Treasury redemptions. So of the $17bn of Coupons maturing in Sep, $5bn will roll off the Fed balance sheet (redeemed) and $12bn will be reinvested. It also means that all ST Bills maturing in Sep will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $5bn redemption cap - Sep			
			$5
		Redeem $Bn	**Reinvest $ Bn**
15-Sep-25	Notes & Bonds	0.0	0.0
30-Sep-25	Notes & Bonds	5.0	11.9
	Bills		33.8
	Total Notes & Bonds	**5.0**	**45.7**

Sep 2025 ST Bill maturity schedule;

Bill Maturity Schedule - Sep			**Weekly Totals $Bn**	
	Par Value of Bills Maturing	**% Maturity by Wk**	**Bill Redemption**	**Bill Reinvestment**
2025/09/02	0.7	2%	0.0	0.7
2025/09/04	5.8	17%	0.0	5.8
2025/09/09	0.7	2%	0.0	0.7
2025/09/11	7.9	24%	0.0	7.9
2025/09/16	0.7	2%	0.0	0.7
2025/09/18	6.7	20%	0.0	6.7
2025/09/23	0.7	2%	0.0	0.7
2025/09/25	9.8	29%	0.0	9.8
2025/09/30	0.7	2%	0.0	0.7
	33.8	100%	0.0	33.8

https://www.newyorkfed.org/markets/treasury-rollover-faq

Recommended US Treasury Financing Q2 2025 and Est Q3 2025

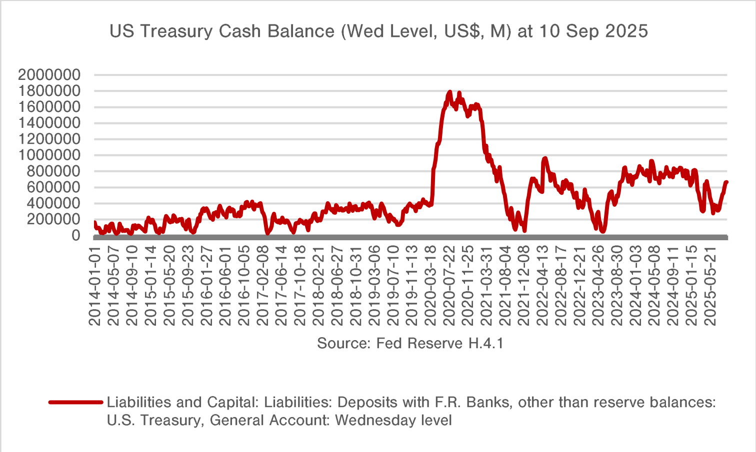
The latest update of the US Treasury borrowing requirements for Q3 and Q4 (estimate) can be found on the US Treasury website here.

There was a notable upward revision to the Q3 net borrowing requirement due to the lower opening cash balance for Q3 - the US Treasury expects to borrow $1.007 trillion in privately held net marketable debt, assuming an end-of-Q3 cash balance of $850 billion.

Est Q4 - the US Treasury expects to borrow $590 billion in privately held net marketable debt, assuming an end-of-December cash balance of $850 billion.

US Treasury Cash Levels (TGA)

As of Wed 10 Sep 2025, the level of the TGA increased to $667bn (+$6bn compared to the week prior). The TGA balance is now approx. $58bn *lower* than the same week a year ago.



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021

QE Program

There are no Treasury or MBS purchase operations scheduled at this time. Links to historical operation schedules: - https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details

https://www.newyorkfed.org/markets/ambs_operation_schedule

CALENDAR W/C 15 September 2025

MONDAY 15 SEPTEMBER (US Eastern Time, unless stated otherwise)	
China	House Price Index, F/A Investment, Industrial Production, Retail Sales (Aug)
US	NY Empire State Manufacturing Index (Sep)

TUESDAY 16 SEPTEMBER	
UK	Labor Market (3mths to Jul)
Europe	Eurozone Industrial Production (Jul)
Canada	CPI (Aug)
US	Export & Import Price Indexes (Aug), Retail Sales (Aug), Industrial Production (Aug)
Japan	Trade Balance, Exports, & Imports (Aug)

WEDNESDAY 17 SEPTEMBER	
UK	CPI (Aug)
Europe	Euro area CPI – Final (Aug)
US	MBA Mortgage Applications wk ending 13 Sep, Building Permits & Housing Starts (Aug), NAHB Housing Market Index (Sep) FOMC Monetary Policy Decision
Canada	BoC Monetary Policy Decision
NZ	GDP Q2
Australia	Labour Market Survey (Aug)

THURSDAY 18 SEPTEMBER	
UK	BoE Monetary Policy Decision
US	Initial Jobless Claims wk ending 13 Sep, Philadelphia Fed Manufacturing Index (Sep)
Japan	National CPI (Aug)

FRIDAY 19 SEPTEMBER	
UK	Retail Sales (Aug)
Canada	Retail Sales (Jul)