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Weekly Macro Outlook

w/c 22 September 2025

The Weekly Macro Outlook: Fed Cuts & the Policy Path (w/c 22 September 2025)

The key events shaping this week: US PCE Inflation, Fed speeches including Fed Chair Powell, S&P Prelim PMIs September

Recap from last week: Central Banks & Signalling

Central bank decisions last week were largely as expected. The decision by the Fed to cut policy rates was well telegraphed, led by rising downside risks to the labor market. The central bank decisions outside of the US, the BoC and BoE, also reflected concern over weakness in domestic growth and labor market outlooks. The exception was the BoJ, which, despite remaining on hold, maintained a bias towards policy normalization.

The FOMC cut the FFR by 25bps as expected. There was one dissenting vote – Governor Miran, who preferred a 50bps cut at this meeting. As outlined at Jackson Hole, the reason for the Fed cut was due to the shift in the balance of risks.

> Accordingly, we judged it appropriate at this meeting to take another step toward a more neutral policy stance. Source: FOMC Decision 17 Sep 2025

In the context of the Fed's dual mandate, near-term risks to inflation are tilted to the upside, while risks to employment are tilted to the downside. Though the balance between the two risks is not yet at parity, Fed Chair Powell stressed that it was the faster deterioration in labor market conditions that necessitated the rate cut. The Committee acknowledged this change by removing the word "solid" from its characterization of the labor market, with Powell noting, "overall, the marked slowing in both the supply of and demand for workers is unusual."

On inflation, the FOMC decision reflected the view that the impulse from tariffs would be "relatively short-lived, and a one-time shift in the price level." This framing is consistent with the sentiment of Governors Waller and Bowman, and as signalled by Powell's shift at Jackson Hole. This provides the rationale to 'look through' current firm readings on inflation. However, the SEP hinted at persistence, reflecting expectations that inflation will ease more slowly into next year. Powell indicated that while short-term inflation expectations had moved up, "beyond the next year or so," measures of long-term inflation expectations remain consistent with the 2% inflation target.

The main focus of the decision shifted to the nuance in the guidance regarding the path of the FFR. The main question was over whether this cut was the start of a series of rate cuts to bring the policy rate to neutral rather than just one cut 'toward neutral". The FOMC seems to have retained optionality here – possibly a necessary approach for navigating the tension in its dual mandate.

Guidance clearly reflected a shift in the Fed bias toward cutting, though it was tempered by Chair Powell reinforcing that "policy is not a preset path" and that the Fed remained data dependent. In the press conference, Powell even agreed that this could be viewed as a risk management cut – especially given that participants had still upgraded median growth and inflation outlooks for both this year and next. But then later, Powell also acknowledged that a single 25bps cut wouldn't make a huge difference to the economy – instead suggesting that the signalling of the path of rates was more important. The SEP reflected that shift in the trajectory of the near-term policy rates amid labor market risks (more cuts this year); however, the longer-term destination for the FFR remained unchanged/anchored at 3%.

Powell will be speaking again this week and may elaborate further on the decision and outlook. For now, if the economy falters or labor market conditions continue to weaken, then the Fed has clearly signalled its willingness to cut in a series of cuts, aligned with market expectations. The longer run projections remain unchanged.

US data last week reflected the mixed picture on the economy as presented by the Fed Chair. However, retail spending growth firmed more than expected in Aug, while measures of residential housing activity were weaker than expected. The latest Atlanta Fed GDP nowcast remained at an elevated pace of +3.3% so far in Q3. In a tentative positive sign for the labor market, there was a further moderation in the level of continuing claims, now down to 1.92m (edging lower and not worsening), while the spike in initial claims in the prior week was reversed.

The Fed wasn't alone in recognizing a shift in its domestic risk balance. Its most exposed trade partner, Canada, was instead responding to the external threat of tariff-driven growth and labor market weakness, leading the BoC to cut rates by 25bps. Since Jul, the balance of risks had shifted. The labour market had weakened further with job losses concentrated in trade-sensitive industries, employment growth had slowed in the rest of the economy, and the unemployment rate had increased to 7.1%. At the same time, upward pressure on underlying inflation had diminished. The decision to remove retaliatory tariffs also reduced the upside risk to domestic inflation. While guidance remained suspended, the decision noted a “clear consensus to lower our policy rate for the first time since Mar”.

The BoE stayed on hold at this meeting. This was a 7-2 decision in favour of a hold; two members voted for a 25bps cut. The BoE stayed on hold in line with its guide for a gradual and careful approach to reducing restrictiveness of policy – balancing still upside inflation risks with subdued growth, a loosening labour market, and a margin of slack emerging in the economy. The decision noted that “upside risks around medium-term inflationary pressures remain prominent in the Committee’s assessment of the outlook”. The two dissenters highlighted weakness in domestic demand and emerging slack, together with recent developments pointing to downward risks to global growth. They argued that a less restrictive policy was required to insure against an increased risk of recession, below-target inflation, and a further deterioration in supply capacity.

Finally, the BoJ kept its policy rate on hold as expected. The normalization bias remained in place, signalled by two developments. First, the BoJ announced that it would continue to normalize its balance sheet by commencing sales of its ETF holdings, at a pace that would “avoid introducing destabilising effects on markets”. Second, the 7-2 vote to hold was a surprise, with two members preferring a rate hike at this meeting. Governor Ueda did not guide on expectations of a hike at the Oct meeting, instead noting that the BoJ will still assess the impact of tariffs on the economy.

Outlook for the week ahead: US PCE Inflation, Fed speeches including Fed Chair Powell, S&P Prelim PMIs September

With questions over the persistence of inflation, the degree of weakening in labor market conditions, and the near-term path of policy rates, US data will remain firmly in focus. This week will remain US-centric with the Fed-preferred PCE inflation date for Aug, key spending and activity data, and a notable number of Fed speeches, including Fed Chair Powell.

The latest preliminary S&P PMIs for Sept will be released this week, providing a further update on the broader global growth momentum into the final month of Q3.

Key factors & events to watch this week:

US PCE inflation and the tariff narrative.

This week, the Fed-preferred PCE inflation gauge will be released for Aug, with markets already anticipating inflation measures to be little changed, but remain firm over the year. For now, we can continue tracking tariff and non-tariff effects on inflation. Last week's import price data still suggests that tariffs are, on aggregate, being absorbed by US importers/firms, as well as by US consumers.

- Headline PCE inflation is expected to increase by +0.2% over the month in Aug, the same pace as in Jul. The annual rate is expected to increase by +2.7% in Aug, up from +2.6% over the year in Jul. The latest SEP sees the median headline PCE inflation rate ending the year at +3%.
- Core PCE is expected to increase by +0.2% over the month in Aug, down from +0.3% in Jul. The annual rate is expected to be unchanged at +2.9%. The latest SEP sees the median core PCE inflation rate ending the year at +3.1%.

Manufacturing and labor market pressure points.

While there is little specific labor market data this week, there will be several activity releases and the regular initial claims data to track momentum in activity.

- Activity surveys for Sept: The prelim S&P PMIs across manufacturing and services, as well as several other regional manufacturing surveys, will offer the latest view of any changes in growth momentum, forward-looking expectations, hiring sentiment, and pricing.
- Durable goods orders for Aug are expected to fall by -0.4%, after a -2.8% fall in Jul.
- Labor: Initial and Continuing Jobless Claims provide a high-frequency check on the labor market. Initial claims are expected to remain firm at 240k, up from 231k in the prior week. Last week, continuing claims continued to edge lower to 1.92m.

Q2 GDP growth and tracking of Q3 consumer spending, income, and sentiment.

- The second estimate for US Q2 GDP growth will be released, and is expected to confirm growth of +3.3% annualized in Q2.
- The prelim advanced economic indicators for Aug will be released, providing an important first view of the goods trade balance for the month, which will be an important input for the Q3 growth tracking. Last month, the goods trade balance (deficit) widened back out to -$103.9bn.
- PCE personal spending is expected to increase by +0.5% in Aug, after a similar +0.5% increase in Jul.
- PCE personal income is expected to increase by +0.3% in Aug, slowing slightly from +0.4% in Jul.
- US housing: New home sales are expected to remain little changed in Aug at a 0.65m annualized rate. Existing home sales are expected to ease slightly in Aug to 3.98m annualized, from 4.01m in Jul.

Unifying the US Fed's messaging.

According to the calendars, there will be at least ten Fed officials speaking this week. There will be several speeches of note on the economic outlook, including Fed Chair Powell. We'll be looking for any further color related to last week's Fed decision to cut and the outlook for policy.

- US Fed Chair Powell is scheduled to speak on Tues, 23 Sept, on the economic outlook.

- Newly appointed Fed Governor Miran will give a speech titled “Non-Monetary Forces and Appropriate Monetary Policy” at the Economic Club of NY on Mon. Miran was the dissenting vote at this last meeting, so he may provide further insight into that dissent.
- Vice Chair for Supervision Bowman will give several speeches throughout the week, including her views on the economic outlook.

Finally, the prelim S&P PMIs for the key developed markets will be released this week.

US Treasury Issuance; 22 - 26 Sept 2025

This week, the US Treasury will auction and settle approx. $518bn in ST Bills and the 2-year FRN, with a net paydown of $16bn. This week, the US Treasury will also auction the 2-year, 5-year, and 7-year Notes – and will settle, together with the 20-year Bond and 10-year TIPS, on 30 Sep next week, together raising approx. $93bn in new money.

<u>QT this week:</u> Approx $10.5bn 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 $B		Prior Auction High Rate %
22-26 Sep	18-Sep	23-Sep	4 week bill	100			Actual 4.040%	4.060%
	18-Sep	23-Sep	8 week bill	85			Actual 3.965%	4.000%
	17-Sep	23-Sep	17-week Bill	65			Actual 3.815%	3.850%
				250	305	-55		
	22-Sep	25-Sep	13 week bill	82			Announced	3.905%
	22-Sep	25-Sep	26 week bill	73			Announced	3.715%
	23-Sep	25-Sep	6-week Bill	85			Announced	4.040%
				240	229	11		
	24-Sep	26-Sep	2yr FRN	28			Announced	
				28		28		
			Total - securities settling this week	518	534	-16		
			QTR to date totals	**7,191**	**6,206**	**985**		
			Estimated Net Cash to be Raised Q3 ($ Bn)			*1,007*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		23-Sep	ST Bills	0.7				
		25-Sep	ST Bills	9.8				
				10.5				
		Maturing & redemption (balance sheet roll-off)						
			Nil					
				0.0				
	Upcoming Auctions			**$B**				
	23-Sep	30-Sep	2yr Note	69				
	24-Sep	30-Sep	5yr Note	70				
	25-Sep	30-Sep	7yr Note	44				
				183				

Quantitative Tightening Overview – Sep 2025

The cap on US Treasury redemptions was lowered to $5bn effective Apr 2025. In Sep, the face value of <u>Coupons</u> 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

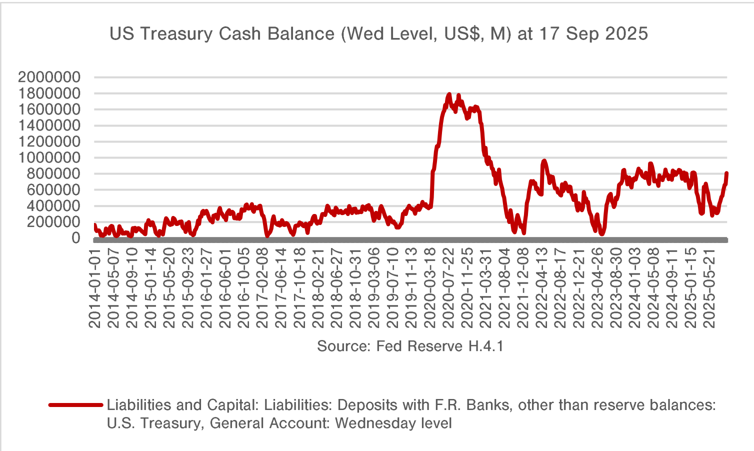
The latest update of the US Treasury borrowing requirements for Q3 and Q4 (estimate) can be found on the US Treasury website here.

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 17 Sep 2025, the level of the TGA increased to $807bn (+$139bn compared to the week prior). The TGA balance is now approx. $32bn *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 22 September 2025

MONDAY 22 SEPTEMBER (US Eastern Time, unless stated otherwise)	
Australia	RBA Governor Bullock speech
US	Fed speeches: Williams, Miran, Musalem, Barkin, Hammack
UK	BoE Governor Bailey speech
Australia	S&P Prelim PMI – Manufacturing & Services (Sep)

TUESDAY 23 SEPTEMBER	
Europe	Eurozone S&P Prelim PMI – Manufacturing & Services (Sep)
UK	S&P Prelim PMI – Manufacturing & Services (Sep)
US	S&P Prelim PMI – Manufacturing & Services (Sep), Richmond Fed Manufacturing Index (Sep), Fed speeches: Fed Chair Powell, Bowman, Bostic
Canada	BoC Governor Macklem speech
Japan	S&P Prelim PMI – Manufacturing & Services (Sep)
Australia	CPI – Monthly Series (Aug)

WEDNESDAY 24 SEPTEMBER	
US	MBA Mortgage Applications wk ending 20 Sep, New Home Sales (Aug), Fed speeches: Daly

THURSDAY 25 SEPTEMBER	
Switzerland	SNB Monetary Policy Decision
US	Initial Jobless Claims wk ending 20 Sep, GDP Q2 – Second Est, Durable Goods Orders (Aug), Goods Trade Balance – prelim (Aug), Existing Home Sales (Aug), Kansas City Fed Manufacturing Index (Sep), Fed speeches: Williams, Bowman, Barr, Daly.
Japan	Tokyo CPI (Sep)

FRIDAY 26 SEPTEMBER	
US	PCE Price Inflation (Aug), Personal Spending & Income (Aug), Michigan Consumer Sentiment – final (Sep), Fed speeches: Bowman, Barkin