Rate Cuts Near as Fed Dove Count Grows

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The next FOMC meeting is a little less than six weeks away. As of yesterday, the bond market had fully priced in a 25 basis point cut, but whether Fed officials reinitiate the easing campaign that has been on pause since last December will depend primarily on two catalysts – accelerating labor market weakness and generally contained inflationary pressure.

The last employment report, including both a tepid July payroll gain, and more importantly a huge downward revision to the previous two months, has prompted a sudden rethink of labor market health. The next employment report from the Trump-tarnished Bureau of Labor Statistics (BLS) is scheduled for release on September 5. If August payrolls disappoint less than two weeks before the FOMC meeting, odds of additional cuts should increase. If his previous response is any indication, President Trump will question the validity of the soft jobs report data and once again demand that the Fed cut rates immediately. *The irony here is that labor market weakness is exactly what would prompt the Fed to ease.*

Assuming that inflation doesn't surge over the next six weeks, September is a safe bet for a quarter point reduction. If labor weakness further accelerates, a larger 50 bp cut isn't out of the question – *the Fed cut 50 bps last September.*

Next Tuesday's CPI release is expected to show a slight increase in both the monthly and annual core consumer inflation rate. Since the BLS is responsible for compiling the CPI data, higher than expected July price pressure would raise questions and anger the president. Unlike job market weakness, warming inflation data makes it tough for Fed officials to ease policy … *unless committee members believe the tariff-related price increases will prove temporary*. Given the Fed's misguided assumption in 2021 that pandemic-related price pressure would prove "transitory," the committee will err on the cautious side. However, there is some latitude within the caution as most committee members acknowledge that current monetary policy is restrictive, i.e., the overnight funds target is more than a percentage point over the current inflation rate.

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A number of Fed officials seem to be turning more dovish in recent weeks. On Monday, San Francisco Fed president Mary Daly said, "although the two quarter point cuts this year look to be appropriate, it's possible the committee could cut more if labor market weakness continues, and tariffs don't spill over into inflation." The following day, Minneapolis Fed President Neel Kashkari said, "a slowing of the U.S. economy may make a near term cut appropriate." But yesterday, Atlanta Fed president Raphael Bostic said he still expects just one cut this year and sees reasons to expect that the inflation effects of the tariffs might not be temporary.

Also on Thursday, President Trump announced that Stephen Miran, the current chair of the Council of Economic Advisors, would replace Adriana Kugler on the Board of Governors. Although projected as a stop-gap filling Kugler's remaining term through next January, and unlikely to be approved by the Senate in time to vote at the

September meeting, Miran is expected to join Fed Governors Chris Waller and Michelle Bowman in calling for more aggressive reductions while filling the seat.

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Market Indications as of 12:52 P.M. Central Time

DOW	Up 246 to 44,215 (HIGH: 45,014)
NASDAQ	Up 195 to 21,438 (NEW HIGH)
S&P 500	UP 46 to 6,386 (HIGH: 6,390)
1-Yr T-bill	current yield 3.92%; opening yield 3.90%
2-Yr T-note	current yield 3.76%; opening yield 3.72%
3-Yr T-note	current yield 3.72%; opening yield 3.68%
5-Yr T-note	current yield 3.83%; opening yield 3.79%
10-Yr T-note	current yield 4.28%; opening yield 4.25%
30-Yr T-bond	current yield 4.85%; opening yield 4.82%