Fed Watcher

Fed resists political pressure

HCOB Economics

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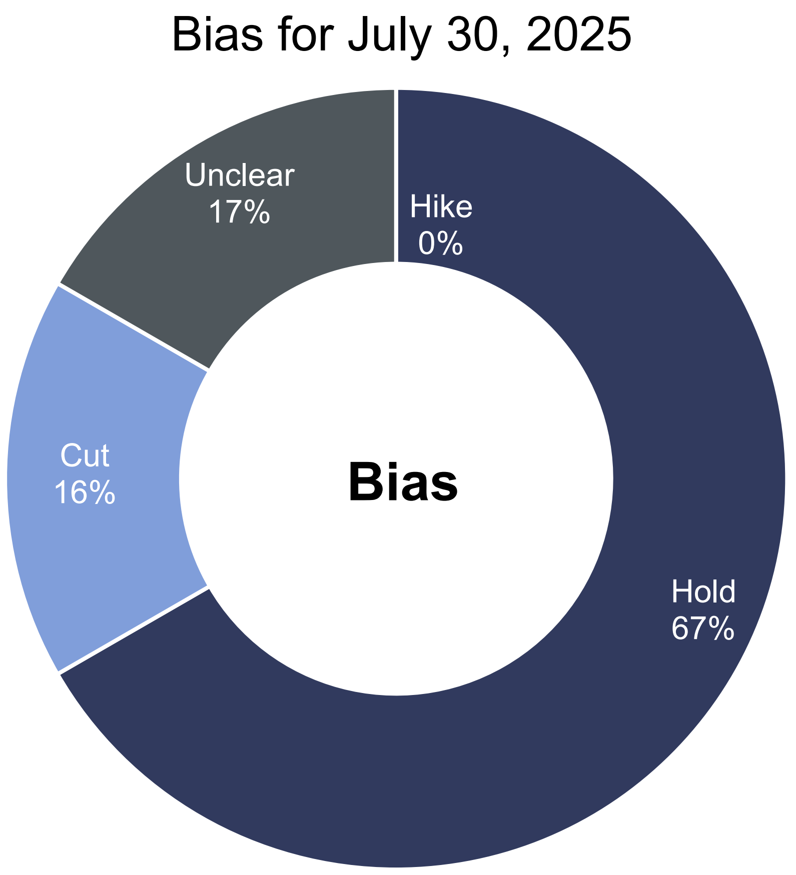
Executive Summary: Fed resists political pressure (I)

- On July 29–30, the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve will convene for its next monetary policy meeting. Based on our analysis of recent speeches and interviews by FOMC members, we expect the Fed to leave interest rates unchanged. Roughly two-thirds of voting members have expressed – either explicitly or implicitly – a preference for maintaining the current rate level. Only two members signaled openness to a rate cut at the July meeting. Overall, the tone among committee members has been remarkably consistent and closely aligned with recent statements by Fed Chair Jerome Powell.
- Since December 2024, the Fed has held the federal funds rate (FFR) in a range of 4.25%–4.50%. Our forecast anticipates two rate cuts of 25 basis points each by year-end, bringing the FFR to a range of 3.75%–4.00%. This view is consistent with the June FOMC dot plot and current market expectations.
- We identify several factors supporting the Fed's wait-and-see approach:
  - First, inflation remains a central issue in the U.S. economy. Although price pressures have eased somewhat, inflation has remained above the Fed's 2% target for four consecutive years. Measures such as the deportation of undocumented immigrants could lead to upward pressure on wages and, in turn, inflation. The tariffs already enacted have likely not yet fully passed through to consumer prices. Additional tariffs are scheduled to take effect on August 1. In June, U.S. CPI inflation rose to 2.7% (headline, YoY) and 2.9% (core, YoY). It remains unclear whether these figures already reflect tariff effects. Nonetheless, uncertainty surrounding U.S. trade policy remains high.
  - Second, the labor market is sending mixed signals. The official June jobs report (Non-Farm Payrolls) showed a solid gain of +139,000 jobs. However, alternative indicators such as the ADP report and the ISM index point to a slowdown in momentum. While initial jobless claims have declined recently, continuing claims have reached their highest level since 2021. On balance, the U.S. labor market remains relatively resilient.
  - Third, the new Republican budget package ("One Big Beautiful Bill") includes corporate tax cuts and consumer incentives. Measures such as the proposed tax exemption for tips could further support domestic demand.

Executive Summary: Fed resists political pressure (II)

- The monetary policy debate is also being shaped by political pressure on the Fed. President Donald Trump has repeatedly called for swift rate cuts and accused the central bank of causing unnecessary costs in the hundreds of billions of dollars due to excessively high interest rates. According to media reports, the White House is even considering replacing Powell before the end of his term as Fed Chair, which officially runs until May 2026. Potential successors include former FOMC member Kevin Warsh, Treasury Secretary Scott Bessent, and Trump's economic advisor Kevin Hassett. Trump has made it clear that any successor must be committed to lowering interest rates – effectively making it a de facto job requirement.
- In his speech at the central bank forum in Sintra, Portugal, in early July, Powell strongly defended the Fed's independence and firmly rejected political interference. He received support from international central bankers, including ECB President Christine Lagarde and Bank of England Governor Andrew Bailey. Most FOMC members have also made it clear in recent statements that they are committed to defending the Fed's mandate and will not be guided by political considerations. In our view, this sends a strong signal of unity behind Powell to both markets and policymakers.
- Two FOMC members, however, deviated from the consensus: Christopher Waller and Michelle Bowman openly expressed support for a rate cut as early as July. While Waller pointed to easing inflation, Bowman emphasized risks to the labor market. Whether these positions also reflect strategic considerations regarding a potential succession to Powell remains unclear – but the timing of their remarks is noteworthy. Bowman, in particular, had previously been considered traditionally hawkish, making her recent stance all the more striking.
- Our favorite quote comes from Fed Chair Jerome Powell, who reaffirmed the Fed's independence at the Sintra central banking forum: "I'm very focused on just doing my job. The things that matter are using our tools to achieve the goals that congress has given us, maximum employment, price stability, financial stability. And that's what we focus on, 100%. […] If we're going to do that successfully, we need to do it in a completely non-political way, which means we don't take sides."

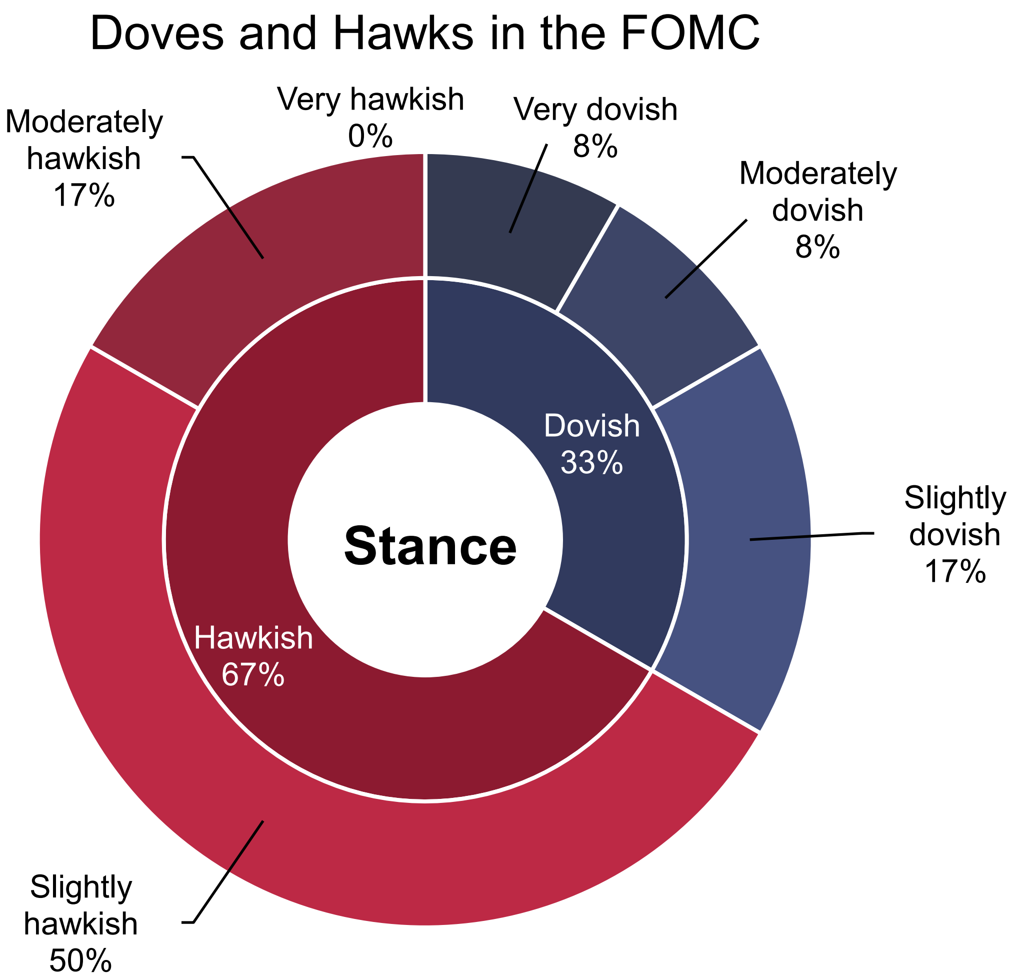
We estimate that approximately 67% of the FOMC members (with voting rights) are likely to support maintaining rates at the current level at the meeting on July 30.



Source: HCOB Economics

Note: We take the following into account when assessing an FOMC member's bias: Statements since the last FOMC meeting, previous statements, general stance, group dynamics, and the current economic situation of the US. Only members with a voting right are considered.

General stance of the FOMC: We classify two-thirds of the FOMC members as hawkish and the remaining one-third as dovish.



Source: HCOB Economics

Definition of “dovish”: certain tolerance when exceeding the inflation target.

Definition of “hawkish”: very limited tolerance when exceeding the inflation target.

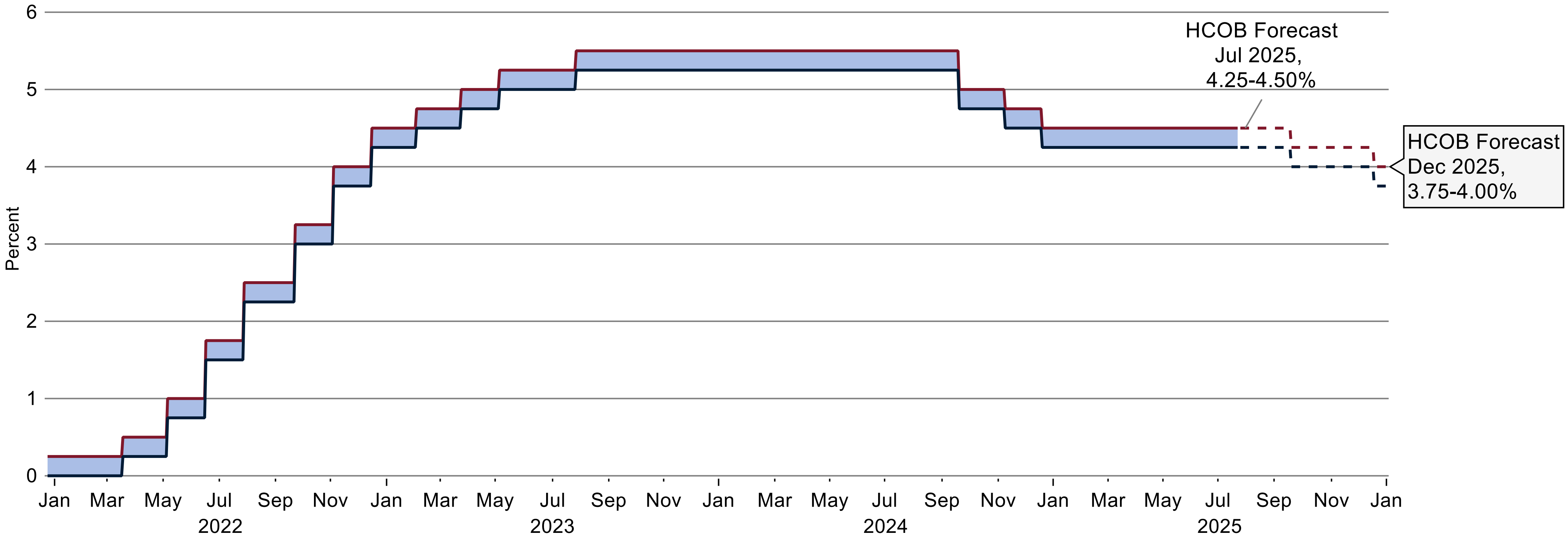
Note: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each FOMC member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered in this figure.

Overview of the FOMC: Bowman and Waller were the only ones who advocated for a rate cut in their speeches for the upcoming meeting.

FOMC Member	Position / Regional Bank	General Stance	Bias for July 30, 2025	Voted for Interest Rate Decision at Last Meeting	Voting Right in 2025	Voting Right in 2026
Jerome H. Powell	Board of Governors, Chair	Slightly hawkish	**Hold**	Yes	Yes	Yes
John C. Williams	New York, Vice Chair of the FOMC	Slightly hawkish	**Hold**	Yes	Yes	Yes
Philip N. Jefferson	Board of Governors, Vice Chair of the Board	Slightly hawkish	**Unclear**	Yes	Yes	Yes
Michelle W. Bowman	Board of Governors, Vice Chair for Supervision	Moderately dovish	**Cut**	Yes	Yes	Yes
Michael S. Barr	Board of Governors	Slightly hawkish	**Hold**	Yes	Yes	Yes
Lisa D. Cook	Board of Governors	Slightly dovish	**Unclear**	Yes	Yes	Yes
Adriana D. Kugler	Board of Governors	Slightly hawkish	**Hold**	Yes	Yes	Yes
Christopher J. Waller	Board of Governors	Very dovish	**Cut**	Yes	Yes	Yes
Susan M. Collins	Boston	Slightly hawkish	**Hold**	Yes	Yes	No
Austan D. Goolsbee	Chicago	Slightly dovish	**Hold**	Yes	Yes	No
Alberto G. Musalem	St. Louis	Moderately hawkish	**Hold**	Yes	Yes	No
Jeffrey R. Schmid	Kansas City	Moderately hawkish	**Hold**	Yes	Yes	No
Beth M. Hammack	Cleveland	Very hawkish	**Hold**	—	No	Yes
Anna Paulson	Philadelphia	Unclear	**Unclear**	—	No	Yes
Neel Kashkari	Minneapolis	Slightly hawkish	**Hold**	—	No	Yes
Lorie K. Logan	Dallas	Moderately hawkish	**Hold**	—	No	Yes
Sushmita Shukla	New York, First Vice President	Unclear	**Unclear**	—	No	No
Thomas I. Barkin	Richmond	Moderately hawkish	**Hold**	—	No	No
Raphael W. Bostic	Atlanta	Moderately hawkish	**Hold**	—	No	No
Mary C. Daly	San Francisco	Slightly dovish	**Hold**	—	No	No

Interest rate forecast from HCOB Economics: We expect two rate cuts of 25 basis points (bps) each by the end of the year.

Target Range of the Federal Funds Rate and Forecast of HCOB Economics



Source: Macrobond, HCOB Economics, Federal Reserve

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Dot plot of the June projections: The median of the interest rate forecasts is 3.88%, indicating a possible easing of a total of 50 bps by the end of 2025.

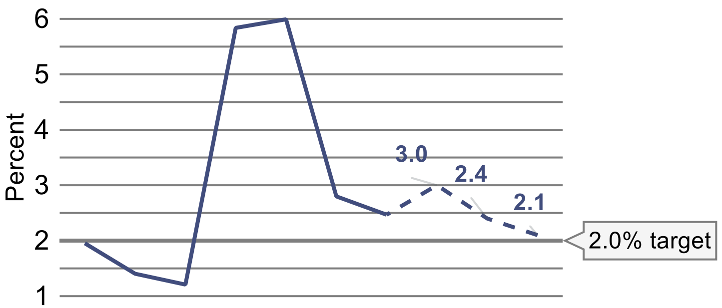
Dot Plot: FOMC Members’ Projections for the Federal Funds Rate (Midpoint of Target Range)

Source: Macrobond, HCOB Economics, Federal Reserve

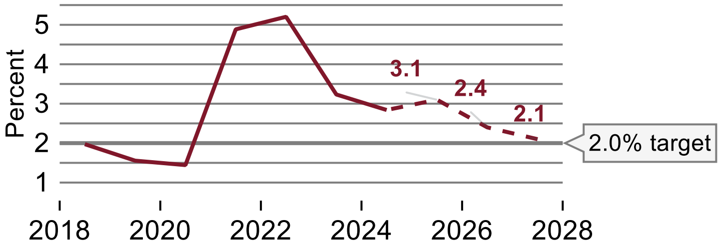
How to read this plot: The dot plot shows each FOMC member’s projection for the value of the midpoint of the projected appropriate target range of the federal funds rate at the end of each year. Each dot represents one member’s forecast. The vertical axis shows the interest rate (in percent p.a.), while the horizontal axis shows the forecast years (2025, 2026, and 2027). Multiple dots at the same level indicate that several members share the same view. A red line indicates the median projection for each year. Note that the dot plot reflects individual opinions, not a consensus or official forecast.

Further projections from the FOMC from June: The FOMC members expect inflation to remain above the target of 2% until 2027.

USA, PCE Headline Inflation YoY and FOMC Economic Projections

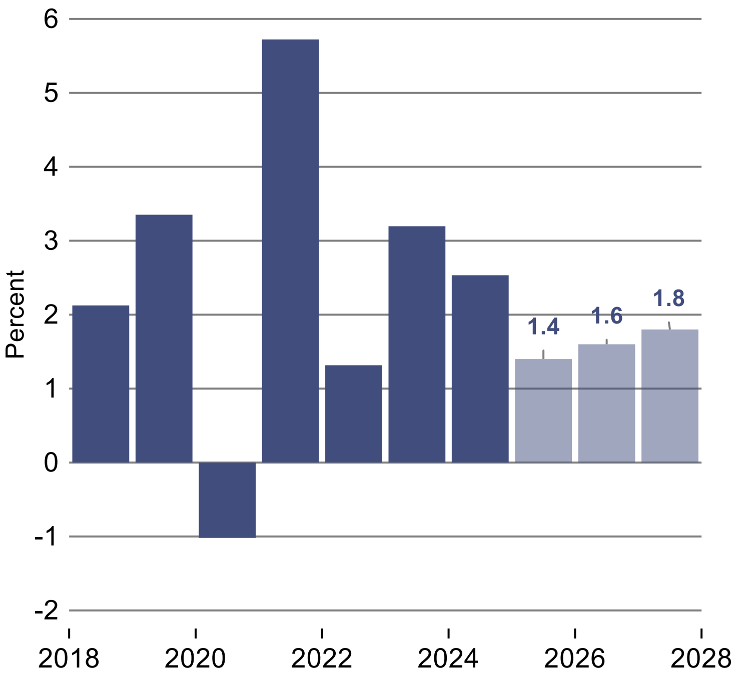


USA, PCE Core Inflation YoY and FOMC Economic Projections



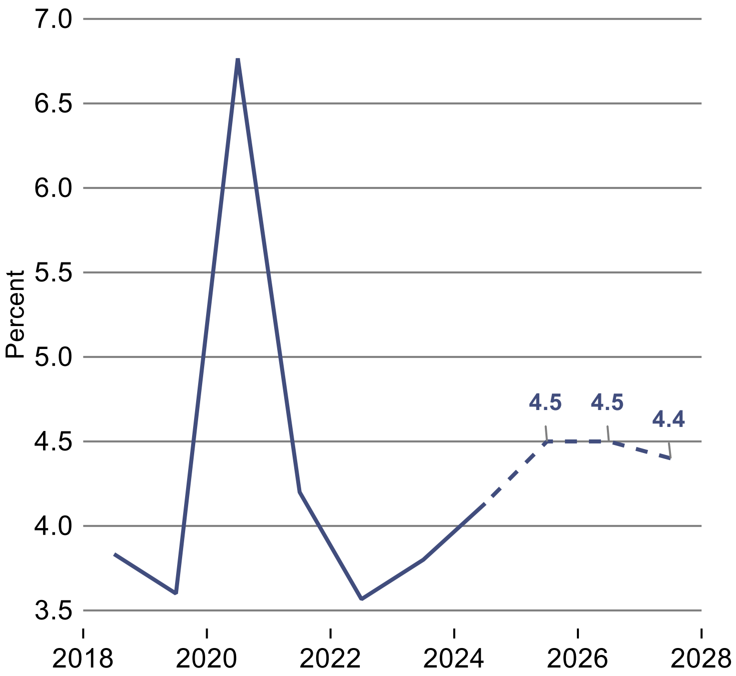
Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA), Federal Reserve

USA, GDP YoY Percentage Change and FOMC Economic Projections



Source: Macrobond, HCOB Economics, U.S. Bureau of Economic Analysis (BEA), Federal Reserve

USA, Civilian Unemployment Rate and FOMC Economic Projections



Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS), Federal Reserve

Note: Realizations and projections for both measures of inflation as well as of change of real gross domestic product (GDP) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Personal consumption expentitures (PCE) inflation and core PCE inflation are percentage rates of change in, respectively, the price index for PCE and the price index for PCE excluding food and energy. Projections for the unemployment rate are the average for the civilian unemployment rate in the fourth quarter of the year indicated. Each FOMC member's projections are based on his or her assessment of appropriate monetary policy. The values shown in the figures represent the medians of these individual projections.

Appendix

- Monetary policy instruments of the Fed and link to the last meeting
- Futures implied interest rate expectations
- “One person, one quote”

Monetary policy instruments of the Fed and link to the last meeting

The key monetary policy instruments of the Fed at a glance:

Instrument	Function	Current rate / measure	Effective from
Federal Funds Rate	Short-term interbank interest rate	4.25–4.50%	December 19, 2024
Interest on Reserve Balances	Interest on bank balances at the Fed	4.40%	December 19, 2024
Primary Credit Rate	Interest rate for short-term loans to banks	4.50%	December 19, 2024
Overnight Reverse Repurchase Agreement Facility	Short-term liquidity provision through the purchase of securities	Minimum bid rate: 4.50% Limit: $500 billion	December 19, 2024
Overnight Reverse Repo Facility	Short-term liquidity absorption through the sale of securities	4.25% Limit: $160 billion per counterparty/day	December 19, 2024
Quantitative Tightening	Reduction of the central bank's balance sheet through limited reinvestments	Treasuries: max. $5 billion/month not reinvested Agency-MBS: max. $35 billion/month not reinvested	April 1, 2025

Link to the documents from the last FOMC meeting, which took place on June 17–18, 2025:

- The Fed - June 17-18, 2025 FOMC Meeting

Futures implied interest rate expectations: The markets currently expect two more rate cuts of 25 bps each. One in September and one in December.

Effective Federal Funds Rate (EFFR): Futures Implied Probabilities

FOMC meeting	Implied EFFR	275-300 bps	300-325 bps	325-350 bps	350-375 bps	375-400 bps	400-425 bps	425-450 bps
2025-07-30	4.33 %						4.1 %	95.9 %
2025-09-17	4.26 %					2.3 %	56.0 %	41.7 %
2025-10-29	4.17 %				1.2 %	31.0 %	48.3 %	19.4 %
2025-12-10	3.93 %			0.8 %	21.4 %	42.7 %	28.7 %	6.3 %
2025-01-28	3.86 %		0.4 %	10.0 %	30.9 %	36.5 %	18.8 %	3.5 %
2026-03-18	3.69 %	0.2 %	6.0 %	22.3 %	34.2 %	26.1 %	9.8 %	1.4 %
2026-04-29	3.60 %	2.3 %	11.7 %	26.5 %	31.4 %	20.4 %	6.8 %	0.9 %
2026-06-17	3.44 %	7.9 %	20.5 %	29.4 %	24.8 %	12.3 %	3.3 %	0.4 %
2026-07-29	3.36 %	12.5 %	23.7 %	27.7 %	20.3 %	9.0 %	2.2 %	0.2 %

Source: Macrobond, HCOB Economics, CME Group

How to read this table: This table presents market expectations for the future effective federal funds rate (EFFR), derived from 30-day federal funds futures. The first column shows the dates of upcoming FOMC meetings. The second column displays the implied EFFR based on futures pricing. The remaining columns represent the probabilities that the EFFR will fall within specific target ranges (e.g., 275–300 bps, 300–325 bps, etc.). Example (first row): For the FOMC meeting on July 30, 2025, the implied EFFR is 4.33% (second column). There is a 95.9% probability (last column) that the rate will remain in the 425–450 bps range, while there is 4.1% probability (second last column) of a 25 bps rate cut, placing the rate in the 400–425 bps range.

“One person, one quote”: Quotes made since the last FOMC meeting on June 18, 2025 (I)

- **Jerome H. Powell (Board of Governors, Chair):** “We’re simply taking some time. As long as the U.S. economy is in solid shape, we think that the prudent thing to do is to wait and learn more and see what those effects [of tariffs] might be.”

- **John C. Williams (New York, Vice Chair of the FOMC):** “Maintaining this modestly restrictive stance of monetary policy is entirely appropriate to achieve our maximum employment and price stability goals.”

- **Michelle W. Bowman (Board of Governors, Vice Chair for Supervision):** “Should inflation pressures remain contained, I would support lowering the policy rate as soon as our next meeting in order to bring it closer to its neutral setting and to sustain a healthy labor market.”

- **Michael S. Barr (Board of Governors):** “Monetary policy is well positioned to allow us to wait and see how economic conditions unfold.”

- **Adriana Kugler (Board of Governors):** “Given the stability in the employment side of our mandate, with the unemployment rate still at historically low levels, elevated short-run inflation expectations, and goods inflation rising due to the upward pressure from tariffs, I find it appropriate to hold our policy rate at the current level for some time.”

- **Christopher J. Waller (Board of Governors):** “[…] I believe it makes sense to cut the FOMC’s policy rate by 25 basis points two weeks from now.”

- **Susan M. Collins (Boston):** “[…] continued overall solid economic conditions enable the Fed to take the time to carefully assess the wide range of incoming data. Thus, in my view, an ‘actively patient’ approach to monetary policy remains appropriate at this time.”

“One person, one quote”: Quotes made since the last FOMC meeting on June 18, 2025 (II)

- **Austan D. Goolsbee (Chicago):** “I don’t like tying our hands before we get all the data and before I’ve heard what my colleagues say. The most important thing at the FOMC gatherings and for a central banker is to figure out the through line. […] And in periods of uncertainty, you just got to be a little careful moving certain ways and then finding out that you’re in the wrong spot.”

- **Alberto G. Musalem (St. Louis):** “There’s a scenario where we could be in Q4 this year, or Q1 or Q2 of next year where tariffs are still working themselves into the economy. […] The economy is in a good place, with labor market at or near full employment. […] It’s critical for the Fed to keep long-term inflation expectations anchored.”

- **Jeffrey R. Schmid (Kansas City):** “With all this uncertainty, the current posture of monetary policy, which has been characterized as ‘wait-and-see,’ is appropriate.”

- **Beth M. Hammack (Cleveland):** “We’re pretty close to where the neutral rate is and so I see an economy that’s resilient, I see one that’s working really well, and I don’t see a need to really reduce (interest rates) unless we see material weakening on the labor side.”

- **Neel Kashkari (Minneapolis):** “[At the last meeting, I] maintain[ed] my outlook for two cuts over the remainder of 2025, implying a possible first cut in September, barring some surprising development before then.”

- **Lorie K. Logan (Dallas):** “My base case is that we’ll need to keep interest rates modestly restrictive for some time to complete the work of returning inflation sustainably to the 2 percent target. But it’s also possible that some combination of softer inflation and a weakening labor market will call for lower rates fairly soon.”

“One person, one quote”: Quotes made since the last FOMC meeting on June 18, 2025 (III)

- **Thomas I. Barkin (Richmond):** “At our last meeting, the FOMC held the federal funds rate steady. The fog is dense for us too, and there is little upside in heading too quickly in any one direction.”

- **Raphael W. Bostic (Atlanta):** “The headline number moved away from our target, not towards it. [In June, we’ve] seen the highest increase in prices that we’ve seen all year. […] We are seeing things underlying in the economy that suggest inflation pressures are up, and that’s really a source of concern.”

- **Mary C. Daly (San Francisco):** “I see two cuts [this year] as a likely outcome. [But there is still a lot of uncertainty around that outlook. I am eyeing a possible easing in the fall.] The economy is in a good place. You can look at growth, it's solid. You can look at the labor market, it’s solid. And then you look at inflation, it’s coming back to our 2% target [, although it isn’t all the way to where it needs to be.]”

- **The following FOMC members made no relevant public statement with respect to monetary policy since the last FOMC meeting:**
  - Philip N. Jefferson (Board of Governors, Vice Chair of the Board)
  - Lisa D. Cook (Board of Governors)
  - Anna Paulson (Philadelphia)
  - Sushmita Shukla (New York, First Vice President)

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