

# Fed Watcher

**Rate cut – for cause**

HCOB Economics

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## Executive Summary: Rate cut – for cause (I)

- At its upcoming meeting on September 16–17, the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve is very likely to cut interest rates. Around 67% of FOMC members with voting right have signaled a shift toward monetary easing in recent public statements. The Fed will not take this step lightly – but for cause: the U.S. labor market is showing clear signs of weakness.
- The current target range for the Federal Funds Rate (FFR) stands at 4.25–4.50%. Our forecast anticipates two rate cuts of 25 basis points each by year-end, likely to occur at the FOMC meetings in September and December.
- Economic backdrop for the Fed's decision:
  - Producer price inflation declined unexpectedly in August. Both the headline and core rates fell significantly from 3.1% and 3.4% in July to 2.6% and 2.8%, respectively (YoY). These figures suggest that the anticipated price surge from new U.S. import tariffs has not yet materialized in producer prices. In contrast, consumer price inflation rose as expected in August, climbing to 2.9% from 2.7% in July, while the core figure held steady at 3.1%. Thus, no meaningful easing in consumer price inflation has occurred.
  - However, the key question for future price dynamics remains whether the tariffs will trigger a persistent inflationary impulse over the medium term. We have constructed an index that tracks tariff-sensitive goods, which account for roughly 16% of the overall basket. While the index currently shows a relatively low annual inflation rate of 1.8%, it has increased noticeably in recent months (see Slide 11, left-hand chart).
  - Second-quarter GDP growth was notably strong, with the economy expanding at an annualized rate of 3.3%. Domestic demand came in at 1.9% – below the historical average, but still showing solid underlying momentum.
  - Labor market conditions have deteriorated markedly since the July FOMC meeting. The widely watched Nonfarm Payrolls were revised downward significantly for May and June. July and August figures were also disappointing, with only 79,000 and 22,000 new jobs added, respectively. The unemployment rate rose to 4.3% in August, a level we do not yet consider critical, but one that clearly confirms the negative trend.

## Executive Summary: Rate cut – for cause (II)

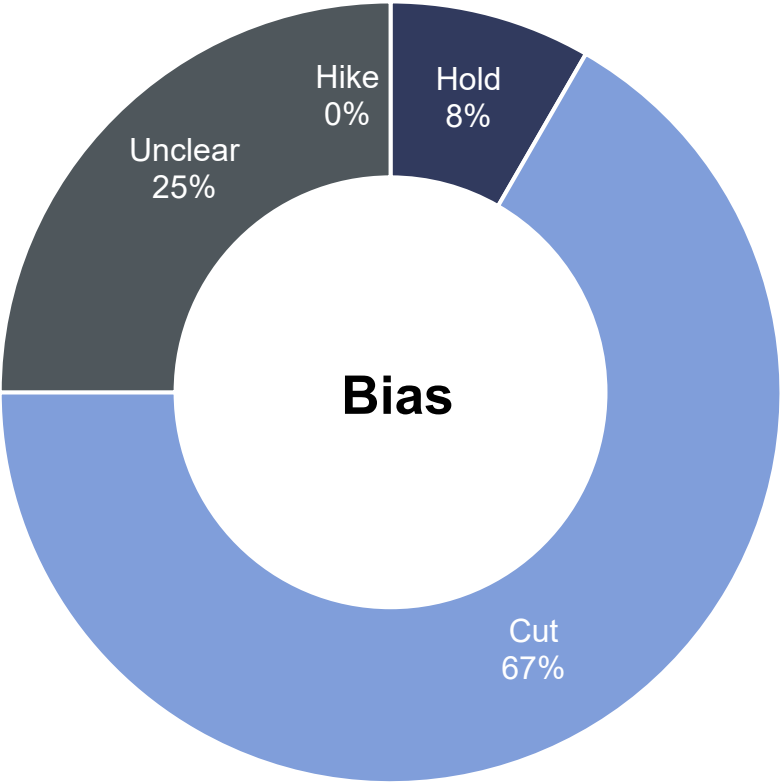
- Additionally, a long-term revision of the Nonfarm Payrolls for the period from March 2024 to March 2025 revealed a total of 911,000 fewer jobs than previously reported. This corresponds to a monthly average of just around 75,000 new jobs. In other words, the labor market has been exhibiting pronounced weakness for quite some time.
- Fed Chair Jerome Powell finds himself in a difficult position. Inflation remains well above the 2% target, and GDP growth is solid, yet developments in the labor market point to a weakening of the broader economy. Powell must now carefully weigh his next steps: while further rate cuts could support employment, they also risk fueling inflation, which could rise anyway due to tariffs.
- The monetary policy debate continues to be overshadowed by President Donald Trump's aggressive attempts to undermine the Fed's independence. His effort to remove Fed Governor Lisa Cook from office has so far failed. A federal court blocked the dismissal and clarified that a president may only remove a Fed member "for cause." The alleged mortgage fraud involving Cook was not deemed sufficient. Cook filed a lawsuit against her dismissal and initially won the case, allowing her to participate in the FOMC meeting on September 17. The U.S. government has announced its intention to appeal the decision. The case is likely to end up before the Constitutional Court.
- Trump's broader strategy appears aimed at securing a majority of loyalists within the FOMC to influence monetary policy. With a 4:3 majority on the Fed's Board of Governors, Trump could effectively control the entire FOMC, as the appointment of the 12 regional Fed presidents (five of whom have voting rights) must be approved by the Board in March 2026.
- In addition to Board members Michelle Bowman and Christopher Waller – who we both see as clear Trump loyalists – Trump has nominated his economic advisor Stephen Miran as Fed Governor, whose Senate confirmation on September 15 is considered highly likely. This would give Trump three votes within the Board. The Trump administration is therefore likely to do everything it can to remove Cook from office in order to secure a 4:3 majority on the Board of Governors before March 2026.

## Executive Summary: Rate cut – for cause (III)

- As potential successors to Fed Chair Jerome Powell, Trump recently shortlisted Kevin Hassett, Kevin Warsh, and Christopher Waller. Powell's term as Chair ends on May 15, 2026, while his term as Governor runs until January 31, 2028. It remains unclear whether Powell intends to stay on the FOMC until 2028. Should he step down in May 2026, Trump could appoint another person loyal to him, further expanding his influence over the Fed. Conversely, if the attempt to remove Cook fails and Powell decides to serve out his full term as Governor, the Fed's independence could be preserved. However, we now expect that Trump will prevail – and that the Fed will pursue an inflationary monetary policy starting next year.
- Our favorite quote comes from Fed Chair Powell's speech at Jackson Hole in late August. With this statement, he signaled for the first time his openness to a rate cut at the upcoming meeting: "Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

**We estimate that around 67% of FOMC members (with voting rights) are likely to support a rate cut at the meeting on September 17.**

Bias for September 17, 2025

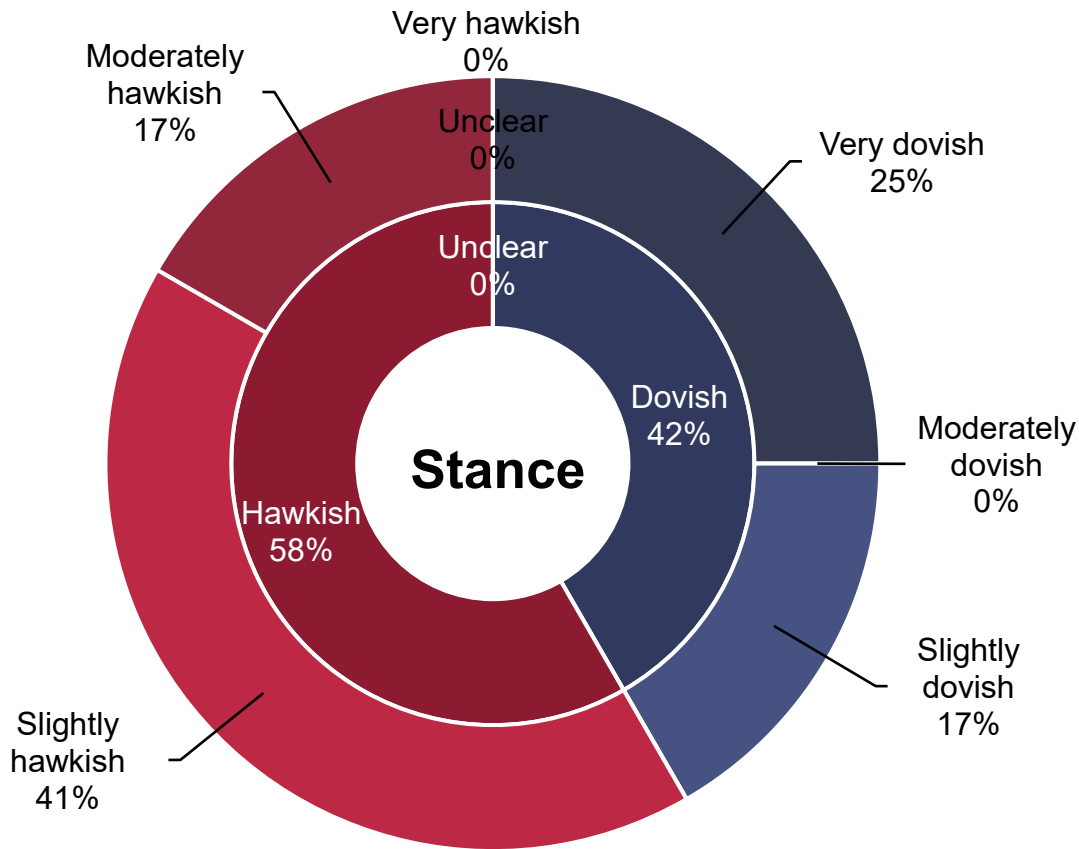


Source: HCOB Economics

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: Should Trump succeed in securing a majority in the FOMC, the Fed is likely to adopt a significantly more dovish stance in the future.

Doves and Hawks in the FOMC



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.

# So far, Trump has three people loyal to him on the Fed's Board of Governors: Bowman, Waller, and Miran.

## Board of Governors



Jerome H. Powell  
*Chair*



Philip N. Jefferson



Michelle W. Bowman



Stephen Miran



Michael S. Barr



Lisa D. Cook



Christopher J. Waller

**T = presumably  
Trump loyalists**

- With a 4:3 majority, Trump could get the entire FOMC Council on his side.
- This is because the appointment of the 12 Fed presidents in March 2026 must be approved by the Board of Governors.
- Powell's term as president ends on May 15, 2026, and as governor on January 31, 2028.

Source: OpenAI

# Overview of the FOMC: Most FOMC members emphasized that a reduction in the key interest rate would be appropriate if the labor market weakened.

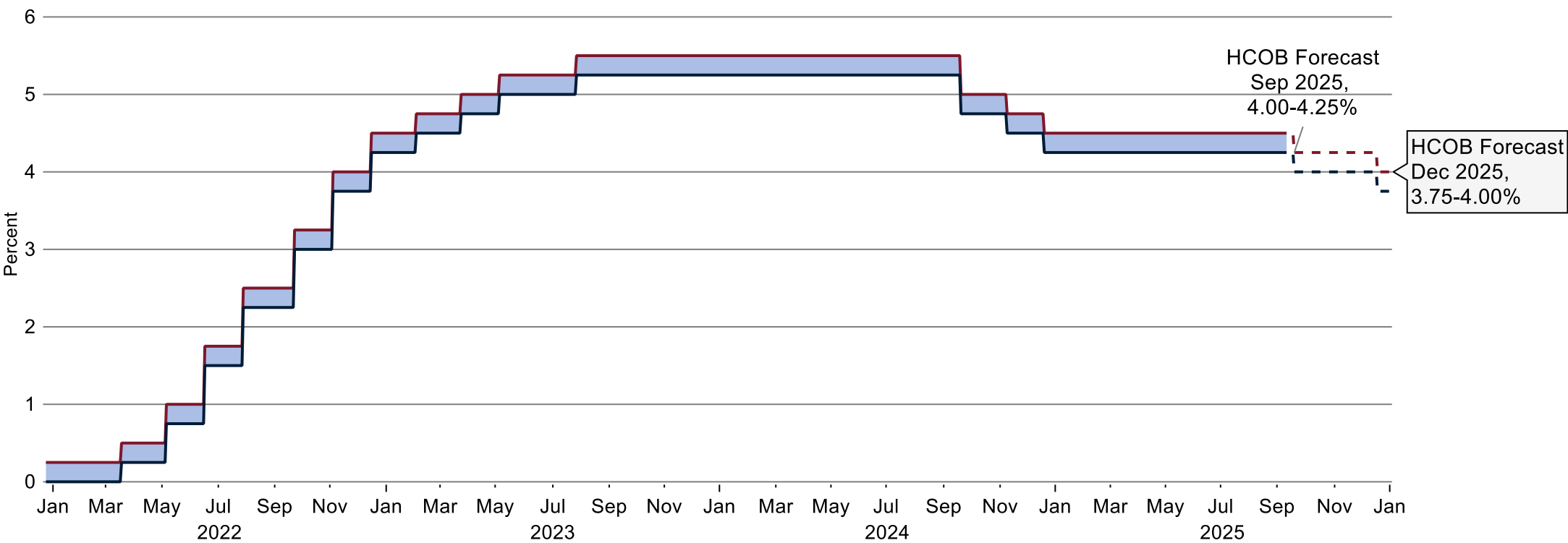
FOMC Member	Position / Regional Bank	General Stance	Bias for Sept. 17, 2025	Voted for Interest Rate Decision at Last Meeting	Voting Right in 2025	Voting Right in 2026
Jerome H. Powell	Board of Governors, Chair	Slightly hawkish	Cut	Yes	Yes	Yes
John C. Williams	New York, Vice Chair of the FOMC	Slightly hawkish	Cut	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	Very dovish	Cut	No	Yes	Yes
Michael S. Barr	Board of Governors	Slightly hawkish	Unclear	Yes	Yes	Yes
Lisa D. Cook	Board of Governors	Slightly dovish	Cut	Yes	Yes	Yes
Stephen Miran	Board of Governors	Very dovish	Cut	—	Yes	Yes
Christopher J. Waller	Board of Governors	Very dovish	Cut	No	Yes	Yes
Susan M. Collins	Boston	Slightly hawkish	Cut	Yes	Yes	No
Austan D. Goolsbee	Chicago	Slightly dovish	Unclear	Yes	Yes	No
Alberto G. Musalem	St. Louis	Moderately hawkish	Cut	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	Cut	—	No	Yes
Lorie K. Logan	Dallas	Moderately hawkish	Unclear	—	No	Yes
Sushmita Shukla	New York, First Vice President	Unclear	Unclear	—	No	No
Thomas I. Barkin	Richmond	Moderately hawkish	Cut	—	No	No
Raphael W. Bostic	Atlanta	Moderately hawkish	Cut	—	No	No
Mary C. Daly	San Francisco	Slightly dovish	Cut	—	No	No

Note: At the time of writing this publication, it remains uncertain whether Stephen Miran will be confirmed in time to participate in the FOMC's September 16–17 meeting as a member of the Board of Governors. We have nonetheless included him in the table; his presence would likely not materially affect the outcome of the voting process.



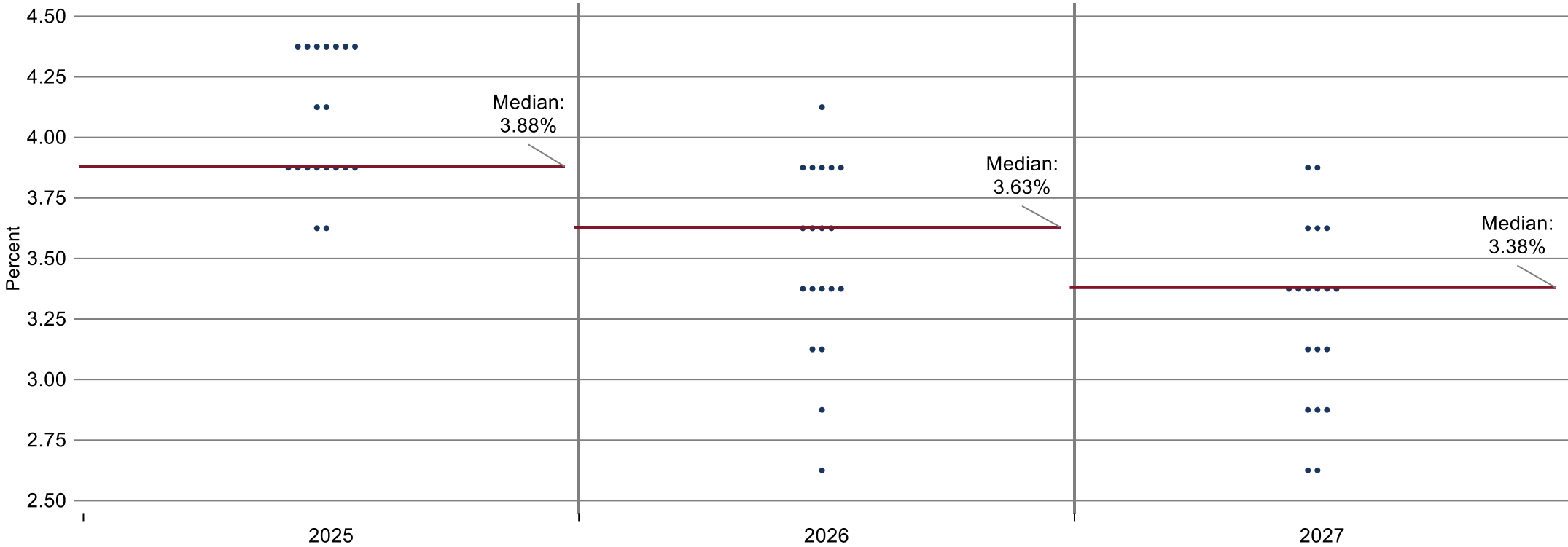
# Interest rate forecast by HCOB Economics: We expect two further interest rate cuts this year, in September and December, each by 25 basis points (bps).

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



# Dot plot of June projections: New estimates will be published at the upcoming FOMC meeting, presumably with lower interest rate forecasts.

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

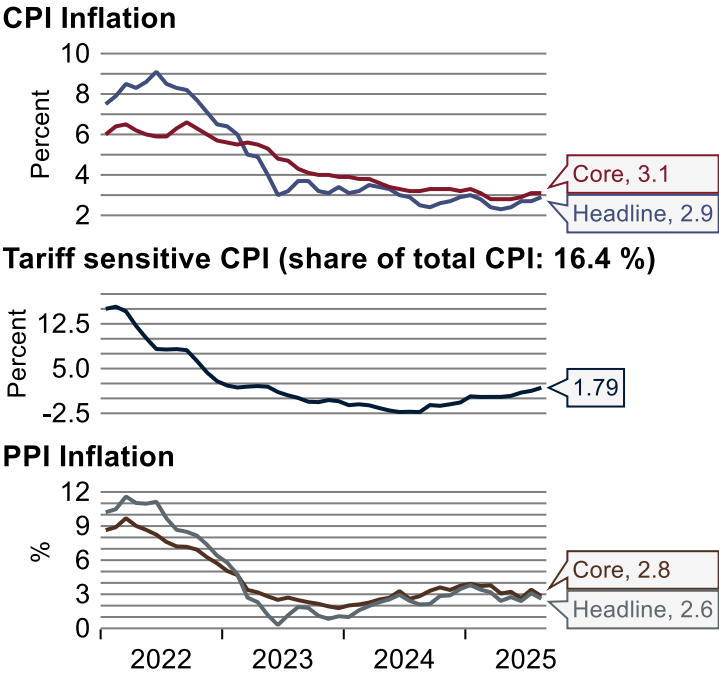


Source: Macrobond, HCOB Economics, Federal Reserve

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.

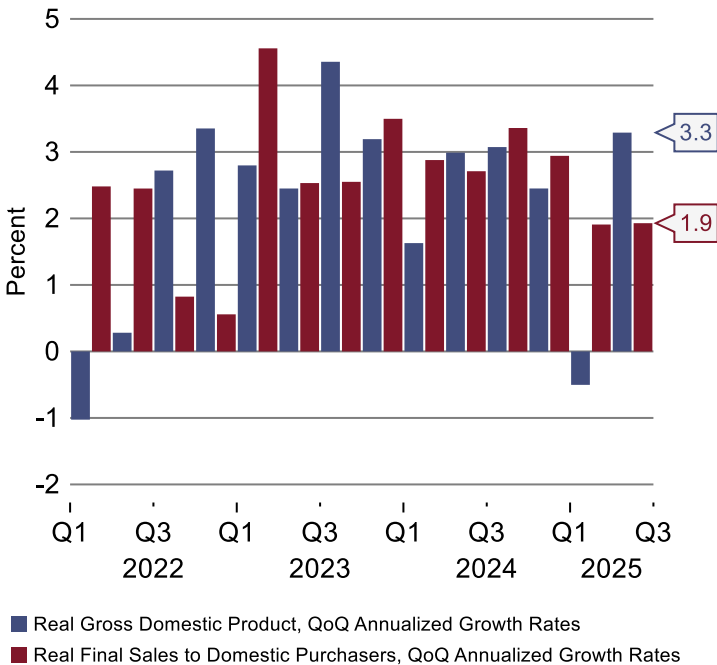
U.S. economy at a glance: Inflation is well above the 2% target, GDP growth remains solid, but the labor market has deteriorated markedly.

USA, CPI and PPI Inflation, YoY, August 2025



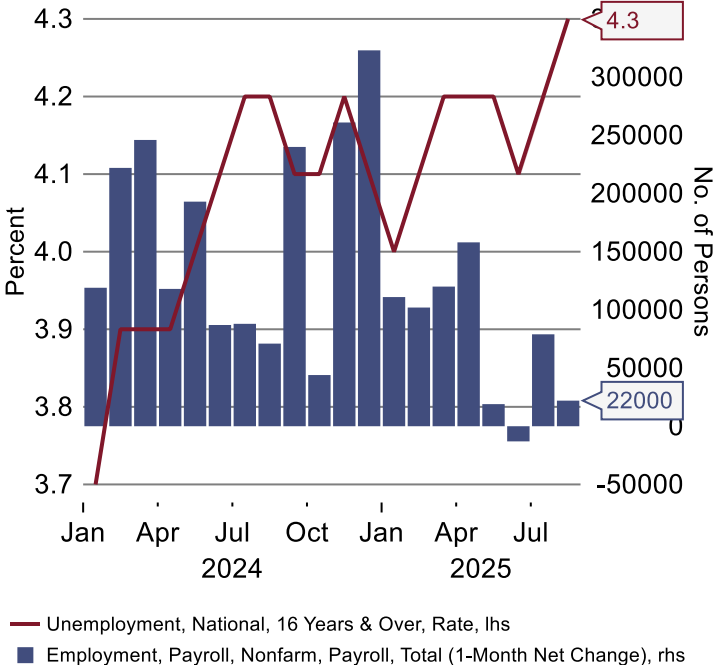
Source: Macrobond, HCOB Economics, U.S. Bureau of Labor Statistics (BLS)

USA, GDP and Domestic Demand, QoQ Annualized Growth, 2025 Q2



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

USA, Unemployment Rate and Nonfarm Payrolls, August 2025



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

# 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 July 29–30, 2025:

- [The Fed - July 29-30, 2025 FOMC Meeting](#)

# Futures implied interest rate expectations: Markets currently expect a 25 bps rate cut at each remaining FOMC meeting this year.

**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
2025-09-17	4.22 %					8.9 %	91.1 %	
2025-10-29	4.05 %				7.0 %	73.9 %	19.0 %	
2025-12-10	3.71 %			6.4 %	68.1 %	23.8 %	1.7 %	
2025-01-28	3.62 %		3.1 %	36.5 %	46.5 %	13.0 %	0.9 %	
2025-03-18	3.45 %	1.8 %	22.1 %	42.2 %	27.4 %	6.1 %	0.4 %	
2026-04-29	3.36 %	8.1 %	28.4 %	37.6 %	20.8 %	4.3 %	0.3 %	
2026-06-17	3.22 %	21.0 %	34.3 %	26.9 %	10.3 %	1.7 %	0.1 %	
2026-07-29	3.13 %	25.3 %	31.9 %	21.5 %	7.5 %	1.2 %	0.1 %	
2026-09-16	3.01 %	27.8 %	27.9 %	16.1 %	5.1 %	0.8 %		

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 September 17, 2025, the implied EFFR is 4.22% (second column). There is a 0% probability (last column) that the rate will remain in the range of 425–450 bps, while there is 91.1% probability (second last column) of a 25-bps rate cut, placing the rate in the range of 400–425 bps, and an 8.9% probability (third last column) of a 50-bps rate cut, which would place the rate in the range of 375–400 bps.

## “One person, one quote”: Quotes made since the last FOMC meeting on July 30, 2025 (I)

- **Jerome H. Powell (Board of Governors, Chair):** “Overall, while the labor market appears to be in balance, it is a curious kind of balance that results from a marked slowing in both the supply of and demand for workers. This unusual situation suggests that downside risks to employment are rising. [...] Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance.”
- **John C. Williams (New York, Vice Chair of the FOMC):** “Looking ahead, if progress on our dual mandate goals continues as in my baseline forecast, I anticipate it will become appropriate to move interest rates toward a more neutral stance over time.”
- **Michelle W. Bowman (Board of Governors, Vice Chair for Supervision):** “I see the risk that a delay in taking action could result in a deterioration in the labor market and a further slowing in economic growth. Taking a proactive approach in moving closer to neutral would avoid an unnecessary erosion in labor market conditions and reduce the chance that the Committee will have to carry out a significantly larger policy correction at a future date.”
- **Lisa D. Cook (Board of Governors):** “[The weaker-than-expected job growth in July and big downward revisions to payroll estimates for May and June two days after the meeting in July are] concerning.”
- **Stephen Miran (Board of Governors):** “My opinions and decisions will be based on my analysis of the macroeconomy and what’s best for its long-term stewardship. The FOMC is an independent group with a monumental task, and I intend to preserve that independence [...]”
- **Christopher J. Waller (Board of Governors):** “With underlying inflation near target and the upside risks to inflation limited, we should not wait until the labor market deteriorates before we cut the policy rate.”

## “One person, one quote”: Quotes made since the last FOMC meeting on July 30, 2025 (II)

- **Susan M. Collins (Boston):** “The importance of preserving the healthy labor market as we continue to bring inflation down is one of the reasons why the timing seems appropriate to me to begin easing.”
- **Austan D. Goolsbee (Chicago):** “I want to get more information. I’m still undecided as we’re going into this. [...] We’ve got to look at the inflation side too.”
- **Alberto G. Musalem (St. Louis):** “If you happen to assess there's risk to the labor market, then that initial policy setting needs to be adjusted. I will be updating my outlook and balance of risks all the way up and until two days, three days before the meeting. Then I’m going to decide.”
- **Jeffrey R. Schmid (Kansas City):** “With the economy still showing momentum, growing business optimism and inflation still stuck above our objective, retaining a modestly restrictive monetary policy stance remains appropriate for the time being.”
- **Beth M. Hammack (Cleveland):** “I don’t want to move us to a place where we’re being accommodative, because I worry that if we’re accommodative, we could reinvigorate the inflationary pressures.”
- **Neel Kashkari (Minneapolis):** “The economy is slowing, and that means in the near term it may become appropriate to start adjusting. [Two quarter-percentage-point rate cuts by the end of the year] seem reasonable to me. [...] How long can we wait until the tariff effects become clear? That's just weighing on me right now.”



## “One person, one quote”: Quotes made since the last FOMC meeting on July 30, 2025 (III)

- **Thomas I. Barkin (Richmond):** “We may well see pressure on inflation, and we may also see pressure on unemployment, but the balance between the two is still unclear. As the visibility continues to improve, we are well positioned to adjust our policy stance as needed.”
- **Raphael W. Bostic (Atlanta):** “Today, I judge policy to be marginally restrictive. I believe that, while price stability remains the primary concern, the labor market is slowing enough that some easing in policy—probably on the order of 25 basis points—will be appropriate over the remainder of this year. That could change, depending on the trajectory of inflation and the evolution of employment markets in the coming months. I am and remain, after all, data dependent.”
- **Mary C. Daly (San Francisco):** “It will soon be time to recalibrate policy to better match our economy. [...] I think tariff-related price increases will be a one-off. It will take time before we know that for certain. But we can't wait for perfect certainty without risking harm to the labor market.”
- **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)
  - Michael S. Barr (Board of Governors)
  - Lorie K. Logan (Dallas)
  - Anna Paulson (Philadelphia)
  - Sushmita Shukla (New York, First Vice President)

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