MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa

Warsh's Hawkish Speech in Jackson Hole Makes Fed Hikes More Likely

The trepidation preceding Kevin Warsh's first Jackson Hole speech was of his own manufacture. Asked in July what he intended to say, the Chairman called the text a blank sheet of paper — read by markets, fresh from a presser judged muddled on both the inflation metric and the Fed's principal tool, as evasion.

Three propositions carried Friday's speech. First, the 2 per cent PCE objective is firm and fixed and short-term rates remain the predominant tool. Second, responsibility for sixty-five months of elevated inflation sits squarely with the central bank: no tariff alibi, no energy alibi. Third, and operative: with credit markets showing few signs of restraint and lending standards among the easiest on record, he would be hard pressed to call broad financial conditions restrictive. In July he had called them uneven; in August he withdrew that concession. Therefore 3.50–3.75 per cent is not, on his own diagnosis, leaning against inflation of 3.7 per cent.

Markets completed the syllogism. Implied odds of a 25 basis point increase on 16 September were roughly 35 per cent on Thursday; they sit near 58 per cent this morning. The two-year yield moved from 4.20 to 4.36 per cent, its highest in a month, while the ten-year rose five basis points and the thirty-year, at 5.21 per cent, barely moved — the flattening of a market expecting tightening to be delivered and to work.

Four forces explain the re-rating. First, Warsh refused to read the better-than-expected summer prints as improvement in underlying trends. Second, oil: US forces struck Iranian launchers on Larak Island on Sunday, frustrating a renewed attempt to mine Hormuz, Iran retaliated against American bases in Jordan, and Brent trades above $90. A central bank that has just claimed ownership of its inflation record cannot look through a supply shock in its sixth month.

Third, the dollar. The ECB moved to 2.25 per cent in June with September nearly fully priced, and the BoJ is at 1 per cent with four-in-five odds on 18 September. The mechanism is not peer pressure but the exchange rate: if Frankfurt and Tokyo tighten and Washington does not, Friday's dollar gains reverse, and a softer dollar into $90 oil is imported inflation atop domestic inflation.

Fourth, and binding, the Committee. The proposition that a hold is itself discipline is spent. July split 9–3, with Hammack, Kashkari and Logan voting to hike — the most hawkish dissent since September 2016. Should September pass without a move and without data justifying inaction, that bloc grows; and a Chairman who has renounced forward guidance has no instrument for managing dissent in advance. The tail risk is not that Warsh hikes, but that he is outvoted, unseen since Eccles in 1939.

With the long end near 2007 levels and the Treasury's buybacks having failed to hold the rally they bought, a hike would also compress the inflation risk premium there, purchasing lower thirty-year yields with higher two-year ones. Against all this stands the labour market: the economy shed 23,000 jobs in July, and housing and agriculture are straining, as Warsh conceded. August payrolls land on Friday and CPI the week after; a weak print would collapse the 58 per cent within an hour. The bar has shifted — September now requires a reason to abstain rather than a reason to move — but the outcome is not settled.

The harder question is what follows the first move, and Warsh has made it unanswerable. A central banker who renounces the management of expectations fights with one hand tied, because most of the job is anticipation rather than delivery: Draghi's three words in 2012 were followed by an OMT programme that never bought a single bond. If payrolls hold and CPI does not surprise downward, the Fed hikes to 3.75–4.00 per cent. One thing is certain: if the FOMC skips September, the next option to hike becomes October, right before the mid-term election – Mission Impossible! Waiting until December also seems unrealistic.

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Looking Ahead

The Week Ahead: EZ Headline Inflation To Rise; US NFP To Resume Growth; PMIs To Rise In DMs

In the US, in August, unemployment rate is expected to remain unchanged at 4.1%. NFPs are seen rising by 58K (*p:* -23K). In August, S&P Global Manufacturing PMI is likely to edge down to 53.2 (*p*: 53.9), while Services PMI is seen staying edging up to 56.8 (*p:* 54.6). Composite PMI is expected to increase to 56.0 (*p:* 54.5).

In the EZ, in August, headline inflation rate is expected to rise to 3.3% y-o-y (*p:* 2.9%), while core inflation is expected to remain at 2.5% y-o-y. In July, unemployment rate is seen remaining at 6.3%. In August, S&P Global Manufacturing PMI is likely to edge up to 52.9 (*p*: 51.9), while Services PMI is seen staying unchanged at 51.7. Composite PMI is expected to increase marginally to 52.1 (*p:* 52.0). Among the largest EZ economies, according to the final estimates, in Q1, the GDP growth rate is expected to advance marginally by 0.2% q-o-q (*p:* 0.3%) and by 1.0% y-o-y (*p:* 0.8%) in Italy.

In the UK, in August, S&P Global Manufacturing PMI is likely to edge down to 51.5 (*p*: 51.9), while Services PMI is seen staying edging up to 52.8 (*p:* 52.1). Composite PMI is expected to increase to 52.5 (*p:* 52.2).

The Quarter Ahead: US-Iran Exchange Strikes; Brent Tops $90 On Middle East Tensions; BoE Warns Of AI Cyber Risks

The US and Iran exchanged strikes for the first time since July, marking a renewed escalation. US forces struck Iranian rocket launchers on Larak Island, prompting Iranian missile and drone attacks on US bases in Jordan. President Trump also threatened Iran's Kharg Island oil hub. Renewed supply concerns pushed Brent crude above $90 per barrel.

BoE Governor Andrew Bailey warned that advanced AI models could amplify cyber risks and threaten global financial stability by increasing the speed and scale of attacks. He called for stronger financial-sector safeguards, particularly against disruptions affecting multiple firms or shared technology providers.

Last Week's Review

Real Economy: QoQ GDP Decelerated In US and Germany And Stall In France

In the US, in Q2, according to the second estimate, GDP growth rate decelerated to 1.5% q-o-q (*c:* 1.5%; *p:* 2.1%). In July, PCE and core PCE price index remained at 3.7% y-o-y (*c:* 3.6%) and 3.3% y-o-y as expected respectively. In August, Michigan Consumer Sentiment declined to 51.07(*c:* 51.0; *p:* 55.2).

In the EZ, in August, consumer confidence rose to -15.5 (*c:* -15.5; *p*: -15.9). Among the largest EZ economies, in Q2, the GDP growth: *i)* decelerated to 0.3% q-o-q (*c:* 0.2%; *p:* 0.4%) and 1.0% y-o-y (*c:* 0.9%; *p:* 0.7%) in Germany; *ii)* staled q-o-q (*c*: 0.2%; *p:* -0.2%) and 0.7% y-o-y (*c*: 0.7%; *p:* 0.8%) in France.

Financial Markets: Stock Prices Increased; Yields Were Mixed; Dollar Was Up; Oil And Gold Prices Decreased

Market Drivers: Major U.S. equities were mixed, with the S&P 500 and Nasdaq gaining while smaller-cap indexes declined. Strong NVIDIA earnings and lower oil prices supported sentiment. Fed Chair Warsh struck a hawkish tone at Jackson Hole, citing a resilient economy and persistent inflation. Two-year Treasury yields rose as markets increased bets on a near-term rate hike. In Europe, stocks were broadly flat as investors weighed mixed economic data and Middle East developments

Global Equities: rose *w-o-w* (MSCI ACWI, +0.3%, to 1,153.16). The US S&P 500 index increased (+0.4% w-o-w, to 7,722.00). In the EZ, share prices were up (Eurostoxx 50, +0.4% w-o-w, to 6,485.67) In EMs, equity increased (MSCI EMs, +0.0%, to 1,722.14). Volatility fell to 16.94 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: *w-o*-w, the 10-year US Treasury yields were down (-2 bps to 4.72%). The 2-year US Treasury yields increased (+12 bps to 4.35%). The German 10-year bund yields edged up (+1 bps to 3.27%).

FX: *w-o-w,* the US Dollar Index increased (DXY, +0.9%, to 99.70; EUR/USD -0.8%, to 1.16). In EMs, currencies increased (MSCI EM Currency Index, +0.4% w-o-w, to 1,925.16).

Commodities: *w-o-w,* oil prices declined (Brent, -4.9% to 88.1 USD/b). Gold rose decreased w-o-w (-3.2% to 4,529.90 USD/Oz).

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The picture in the first page was taken from this website.

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year