

*Market Monitor – United States*

## Rate cuts expected at September FOMC meeting

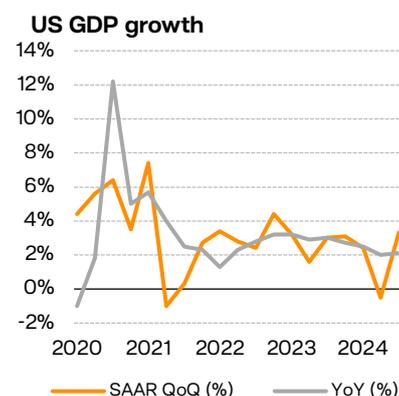


- US economic growth in Q2 2025 was revised up to 3.3% SAAR.
- The US-China tariff truce was extended, while tensions between the US and India persist.
- The Fed is expected to cut rates in September, as the labour market weakened further.

### The economy expanded faster than initially estimated

**The second estimate of US GDP growth for Q2 showed faster growth than the advance estimate.** The recent update indicated that US real GDP grew at a seasonally adjusted rate (SAAR) of 3.3% in Q2 2025, 0.3 percentage points (ppts) higher than the advance estimate. The upward revision was driven by stronger private consumption and a softer decrease in investment. On a year-on-year (YoY) basis, GDP growth for Q2 was also revised up by 0.1 ppts to 2.1%. This outcome signals more resilience than previously expected despite trade volatility. Overall, we continue to expect growth to moderate in 2H amid trade policy uncertainty, softer job creation, and slower private demand.

**Business surveys indicated improved sentiment.** In August, the Institute of Supply Management (ISM) manufacturing PMI rose to 48.7, indicating a slower pace of contraction, while the services PMI increased to 52.0, signalling a firmer expansion in the services sector. Meanwhile, the S&P manufacturing PMI rose to 53, showing improved conditions as demand and output rose, while its services PMI remained in expansion at 54.5, despite a slight moderation.



## Economic Research

### Tariff policy remains highly volatile

**A US appeals court ruled that most of Trump's reciprocal tariffs are illegal.** The decision considered that the International Emergency Economic Powers Act does not give the president "unlimited authority to impose" the relevant tariffs. The court allowed the tariffs to remain in place until 14<sup>th</sup> October, giving the Trump administration time to file an appeal to the Supreme Court. Meanwhile, the Trump administration extended the 50% steel and aluminium tariffs to another 407 different product types that contain the metals, such as auto parts, chemicals, plastics, and furniture components. The expanded coverage would not only raise tariff costs but also create significant compliance costs for firms as they determine which tariff rates apply.

**Ongoing trade negotiations progressed at differing paces.** The US and China extended their tariff truce for another 90 days until 10<sup>th</sup> November, easing near-term shock risks. While both sides are expected to continue trade talks, uncertainty persists. Meanwhile, trade tensions with India intensified, as the US doubled India's tariff rate to 50% effective from 27 August. The steep tariffs were imposed following the failure to reach a trade deal and as a penalty for India's purchases of Russian oil.

**Tariff revenues have surged.** Tariff revenues in August exceeded USD 30 billion, the highest monthly figure in 2025. This brings total tariff revenues for January to August 2025 to USD 158 billion, over 60% higher than the full-year tariff revenues in 2024. In August, the Congressional Budget Office (CBO) projected that the tariffs implemented up until 19<sup>th</sup> August could cut the primary deficit by USD 3.3 trillion over 2025-2035 if current high tariff levels persist.

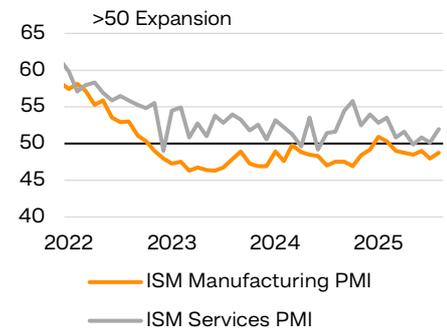
### The labour market weakened further

**US core PCE inflation ticked up in July.** Headline PCE inflation rose 2.6% YoY in July, unchanged from June. Core PCE inflation, which excludes food and energy, edged up 0.1 ppts to 2.9% YoY. On a monthly basis, headline PCE increased 0.2% month-on-month (MoM) in July, 0.1 ppts slower than June, while core PCE rose 0.3%, matching the previous month. The uptick in core PCE inflation underscored persistent underlying price pressures.

**The US labour market weakened further.** The US added just 22,000 jobs in August, as the labour market slowdown persisted amid ongoing business pressures. This comes after job gains in July were revised up slightly to 79,000, while job gains in June were revised down to a loss of 13,000 jobs. This was the first time nonfarm payroll employment was negative since December 2020. The unemployment rate edged up by 0.1 ppts to 4.3% in August, the highest since October 2021. Average hourly earnings rose 3.7% YoY in August, down from 3.9% in July. On a monthly basis, wages increased by 0.3% MoM, matching the pace seen in July. The latest jobs report reflects a continued weakness in the US labour market, reinforcing expectations that the Fed will cut rates.

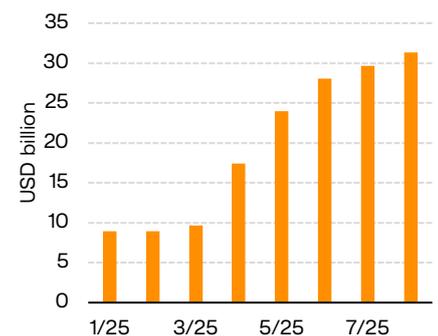
## September 2025

### ISM Manufacturing & Services PMI



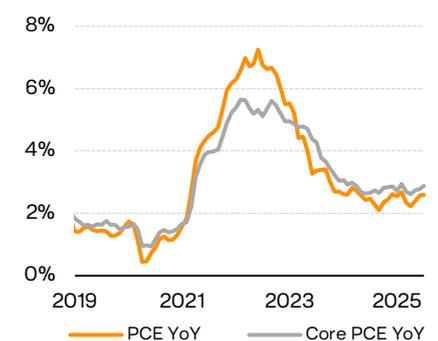
Source: Bloomberg, data as of 05/09/2025

### US Tariff Revenues



Source: Bloomberg

### US PCE Inflation



Source: Bloomberg, data as of 31/08/2025

**Fed Chairman Powell exhibited a dovish tilt at Jackson Hole**

**Fed Chairman Powell signalled a resumption of rate cuts at the Jackson Hole Symposium.** At the summit, Powell's speech was widely interpreted by market participants as dovish, in particular his remark on a shift in the balance of risks towards a slowdown in the labour market. Powell also outlined the conclusion of the Fed's policy framework review that the Fed would return to a strategy of flexible inflation targeting, replacing the previous flexible average inflation targeting. The change highlights a notion that maximum employment can be achieved on a sustained basis in a context of price stability. Together, these changes have boosted market expectations for a rate cut decision in September.

**US stock markets reached new highs in August**

**Major US stock markets continued their upward trends in August.** The S&P 500, Nasdaq, and Dow Jones all rose by 1.9%, 1.6%, and 3.2% in August, respectively. Notably, all three indices reached record highs during the month, supported by technology leadership and solid corporate earnings. US 10-year treasury yields fell slightly to 4.23% by end-August. After rising in July, the US dollar index fell by 2.2% to 97.771 in August, reflecting rising expectations of a September rate cut.

**US Equity Indices**


Source: Bloomberg, data as of 29/08/2025

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