

Macro Strategy



“Key US Macro Trends”

July 2025

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FOMC July 2025 Salient Points

Fed Maintains Rates, Leaning Toward a Hawkish Narrative



FFR Maintained

As widely expected, the **Fed kept rates at 4.25–4.5%**, citing still-elevated inflation and a solid but softening labor market. Chair Powell signaled a cautious, data-dependent approach given the uncertainties about tariffs and changing inflation trends.

The decision to keep rates unchanged **was not unanimous, as two members, Governor Chris Waller and Fed Vice Chair for Supervision Michelle Bowman, both considered potential candidates for the next Fed Chair, favored a cut.** Most members, however, viewed the current policy stance as appropriately restrictive. A decision to cut rates may ultimately depend on the upcoming data ahead of the September meeting.



3 Key Takeaways

1. **September rate cut remains undecided, but the option is still open.** Powell stated that the Fed will review two more rounds of inflation and jobs data before making a decision. For now, the current policy stance is considered “modestly restrictive” and appropriate.
2. **Tariffs may distort inflation,** with goods prices rising again partly due to new tariffs. Powell views these as likely “one-time” price shifts but acknowledged the risk of broader effects. The Fed won’t overreact for now but stands ready if persistence emerges.
3. **Labor market is stable, but losing steam.** Job gains have slowed, and private hiring looks weaker, yet the unemployment rate remains low due to parallel declines in labor supply. The Fed sees this as balanced, at least for now.

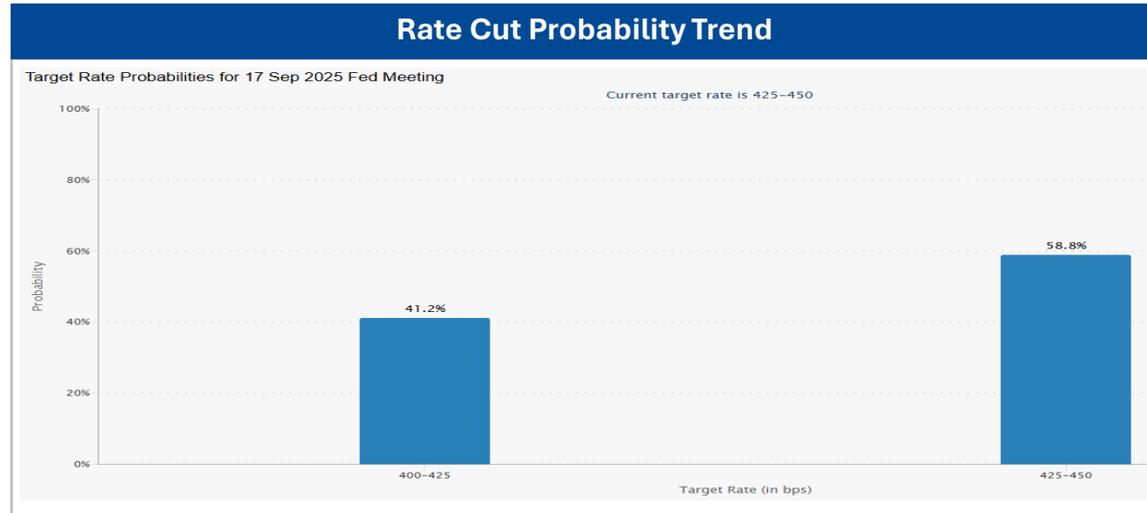


Market Impacts

- Following the more hawkish tone, **markets adjusted with lower expectations for a September rate cut, higher Treasury yields, and the DXY briefly reaching 100.**
- Looking closer, the 2Y UST yield rose by only 6 bps, which we view as a relatively small move, suggesting that market are already **looking beyond 2026, when a potentially more dovish new Fed Chair may be more supportive of rate cuts.**
- **Data releases over the next two months will be closely watched** for their potential impact on the September FOMC decision, with upcoming inflation readings playing a crucial role in shaping the Fed’s tone.

Market Still Expect Rate Cuts

Moderation in DXY in Recent Weeks



Rate Cut Probabilities

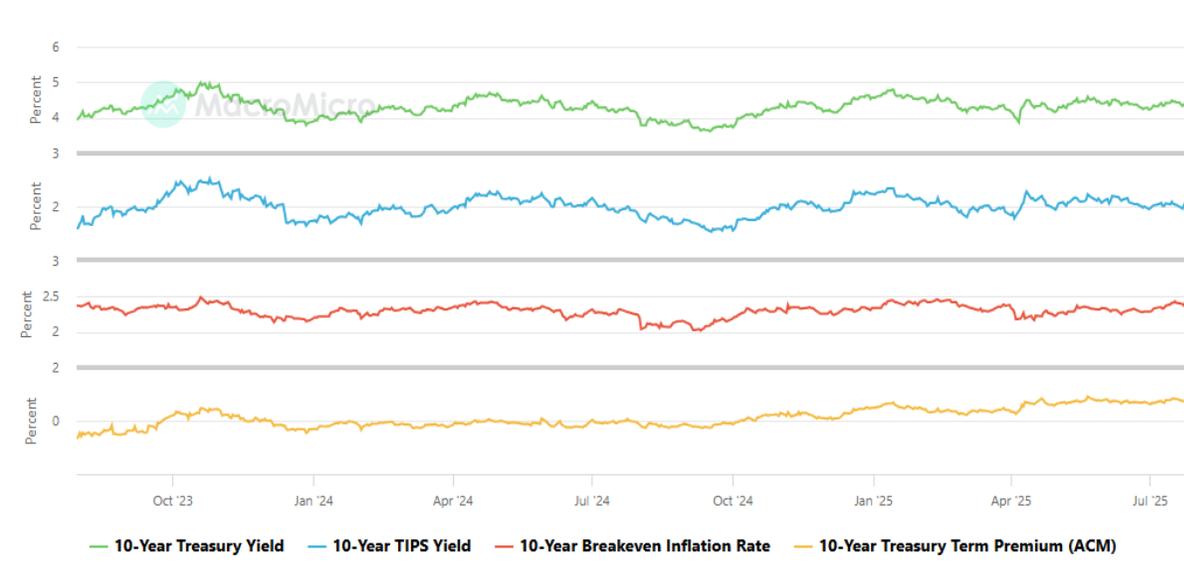
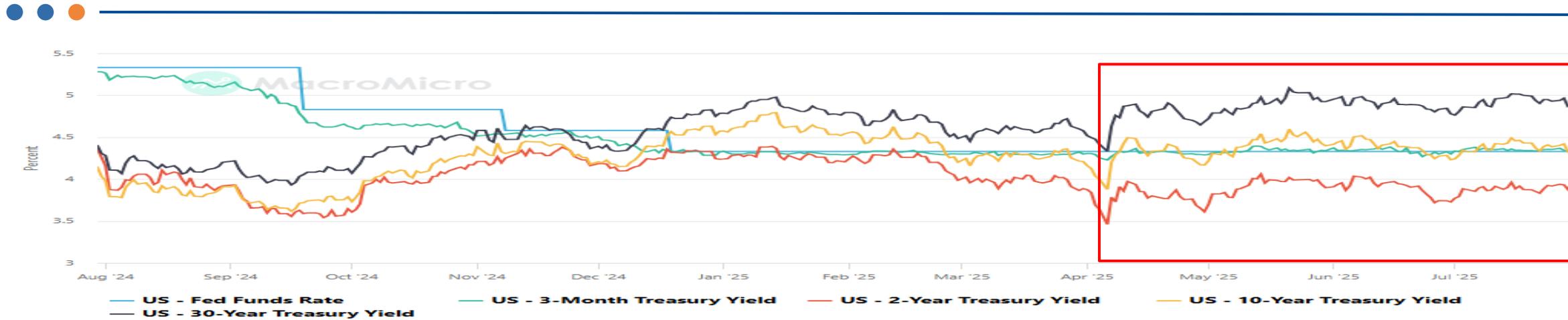
CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES

| MEETING DATE | 200-225 | 225-250 | 250-275 | 275-300 | 300-325 | 325-350 | 350-375 | 375-400 | 400-425 | 425-450 |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 9/17/2025 | | | | | 0.0% | 0.0% | 0.0% | 0.0% | 41.2% | 58.8% |
| 10/29/2025 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 14.5% | 47.4% | 38.0% |
| 12/10/2025 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 9.0% | 34.8% | 41.6% | 14.6% |
| 1/28/2026 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.2% | 18.1% | 37.2% | 32.1% | 9.4% |
| 3/18/2026 | 0.0% | 0.0% | 0.0% | 0.0% | 1.6% | 10.8% | 27.9% | 34.6% | 20.5% | 4.6% |
| 4/29/2026 | 0.0% | 0.0% | 0.0% | 0.5% | 4.4% | 15.9% | 29.9% | 30.4% | 15.8% | 3.2% |
| 6/17/2026 | 0.0% | 0.0% | 0.3% | 2.8% | 11.3% | 24.2% | 30.2% | 21.7% | 8.3% | 1.3% |
| 7/29/2026 | 0.0% | 0.1% | 1.2% | 5.9% | 16.0% | 26.4% | 27.1% | 16.8% | 5.8% | 0.8% |
| 9/16/2026 | 0.0% | 0.6% | 3.1% | 10.1% | 20.3% | 26.7% | 22.8% | 12.2% | 3.7% | 0.5% |
| 10/28/2026 | 0.2% | 1.2% | 4.9% | 12.7% | 21.9% | 25.7% | 20.1% | 10.0% | 2.9% | 0.4% |
| 12/9/2026 | 0.3% | 1.7% | 6.0% | 14.0% | 22.5% | 24.9% | 18.7% | 9.0% | 2.5% | 0.3% |



Yield Curve Steepening Pattern

The Long End Yields Are On The Rise



Source: MacroMicro, BRI Danareksa Sekuritas

July 25 Beige Book: Deteriorating Outlook Continue (published 16 Jul 25)

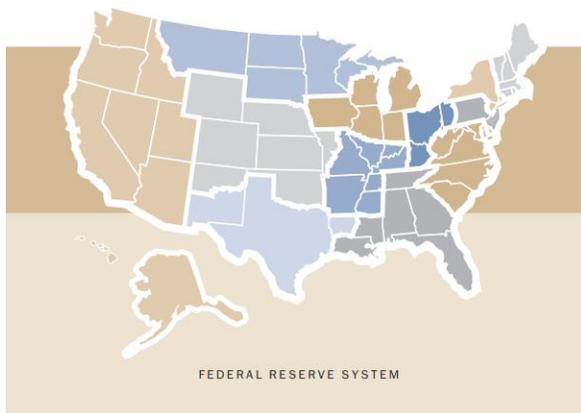
Ongoing Margin Compression on Rising Costs



The Beige Book

Summary of Commentary on
Current Economic Conditions by
Federal Reserve District

July 2025



Economic Conditions: Economic activity increased slightly from late May through early July. Five Districts reported slight or modest gains, five had flat activity, and the remaining two Districts noted modest declines in activity. That represented an improvement over the previous report, in which half of Districts reported at least slight declines in activity. Uncertainty remained elevated, contributing to ongoing caution by businesses. The **outlook was neutral to slightly pessimistic**, as only two Districts expected activity to increase, and other foresaw flat or slightly weaker activity.



Business Activity: Nonauto consumer spending declined in most Districts, **softening slightly** overall. Auto sales **receded modestly on average**, after consumers had rushed to buy vehicles earlier this year to avoid tariffs. Tourism activity was mixed, **manufacturing activity edged lower**, and nonfinancial services activity was little changed on average. Loan volume increased slightly in most Districts. **Construction activity slowed** somewhat, constrained by rising costs in some Districts. **Home sales were flat** or little changed in most Districts, and nonresidential real estate activity was also mostly steady. Activity in the **agriculture sector remained weak**. Energy sector activity declined slightly



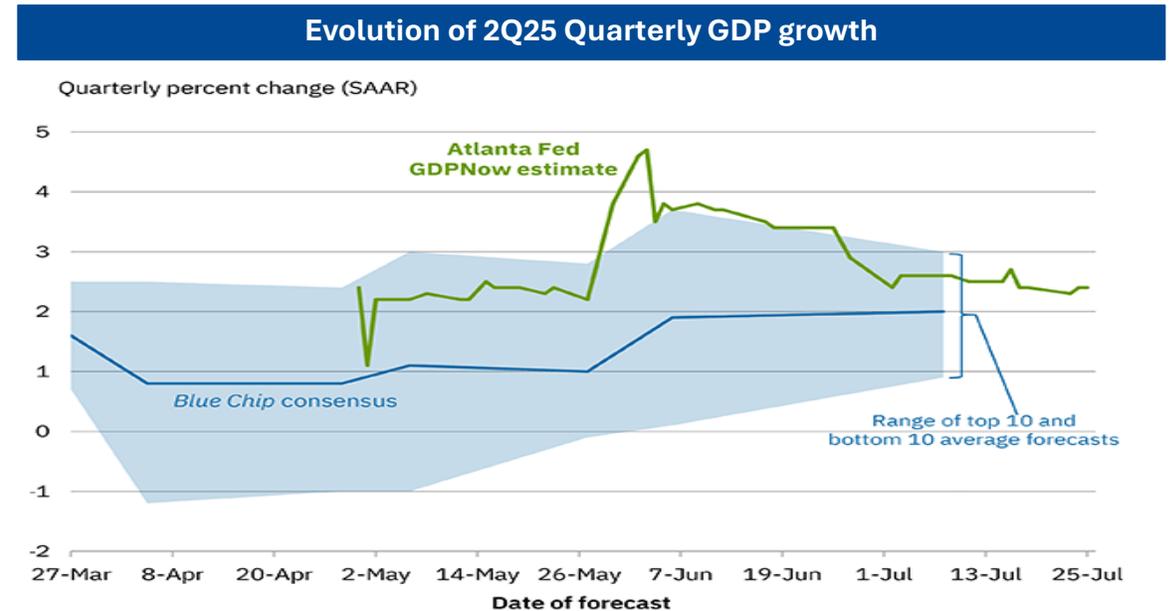
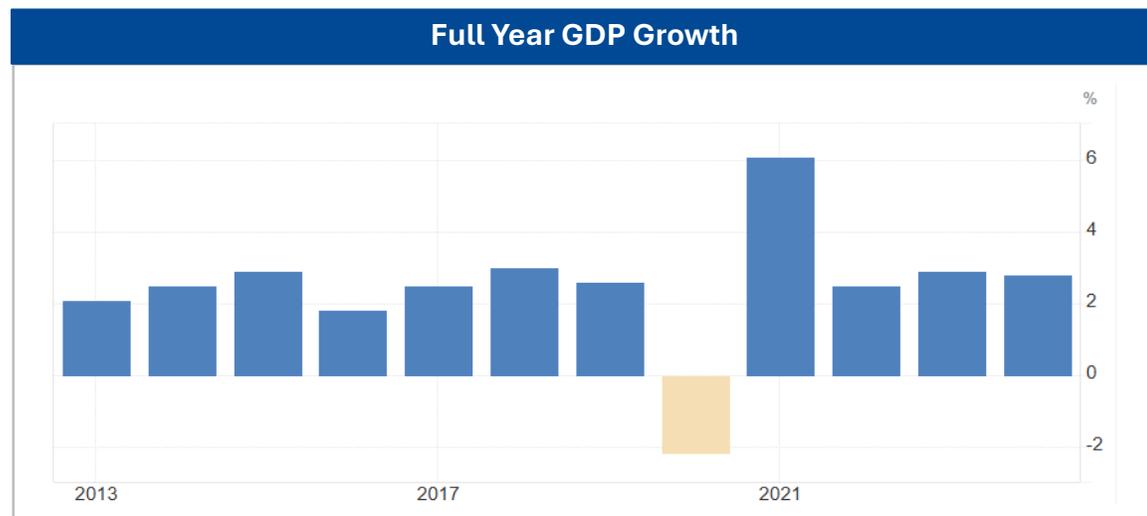
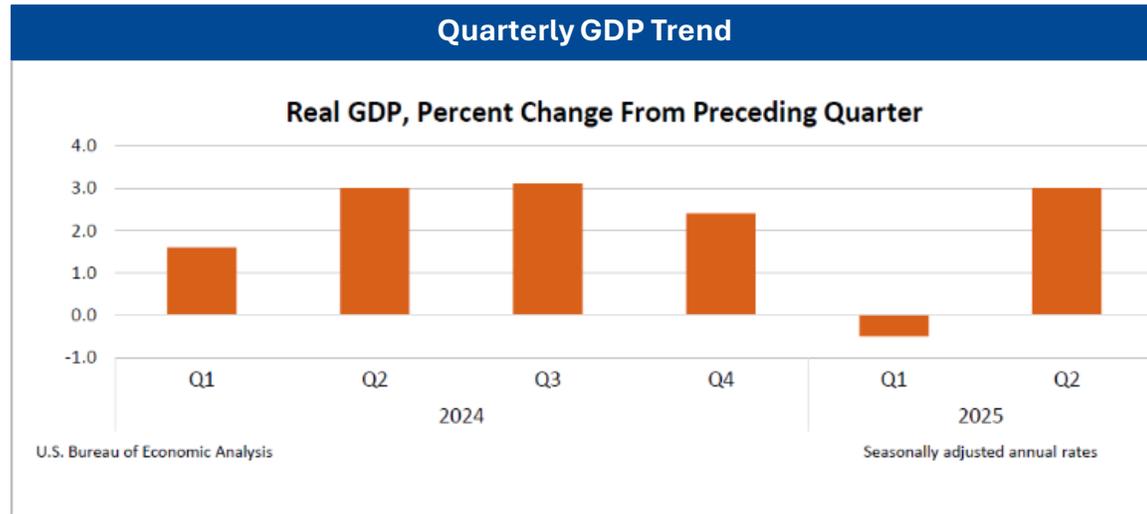
Employment: Employment increased very slightly overall. **Hiring remained generally cautious**, which many contacts attributed to ongoing economic and policy uncertainty. Labor availability improved for many employers, with further reductions in turnover rates and increased job applications. A growing number of Districts cited labor shortages in the skilled trades. Several Districts also mentioned **reduced availability of foreign-born workers**, attributed to changes in immigration policy. Wages increased modestly overall. Looking ahead, many contacts expected to postpone major hiring and layoff decisions until uncertainty diminished.



Inflation: In all twelve Districts, businesses reported experiencing **modest to pronounced input cost pressures** related to tariffs, especially for raw materials used in manufacturing and construction. Rising insurance costs represented another widespread source of pricing pressure. Many firms **passed on at least a portion of cost increases to consumers through price hikes or surcharges**, although some held off raising prices because of customers' growing price sensitivity, resulting in compressed profit margins. Contacts in a wide range of industries expected **cost pressures to remain elevated in the coming months**, increasing the likelihood that **consumer prices will start to rise more rapidly by late summer**.

US Economy State: Solid Growth in 2Q25

Stronger than expected growth of 3.0% in 2Q25



- The **2Q25 forecast** is now at +2.4% (25th Jul), lower than 3.8% forecast (9th Jun), but much higher than forecast of 1.1% (1 May). The 1Q25 GDP growth of -0.3%, was much better than GDPNow's latest figures of -2.2%
- The **US economy grew 3% annualized in 2Q25, rebounding from a 0.5% contraction in 1Q25 and beating the 2.4% estimate.** Growth was driven by a 30.3% plunge in imports after a prior surge from tariff-driven stockpiling, faster consumer spending (1.4% vs 0.5%), and a rebound in government spending (0.4% vs -0.6%). Fixed investment slowed sharply (0.4% vs 7.6%) with declines in structures and housing, while exports fell 1.8%, the steepest drop since Q2 2023. Private inventories subtracted 3.17 percentage points from growth..

Pre-July 25 FOMC Fed Member Comments

Proliferation of Dovish Signals



Michelle Bowman Federal Reserve Governor



“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..”

Austan Goolsbee Chicago Fed President



“The surprise has been that, so far at least, we’ve had three months of inflation data where there hasn’t been much inflation”

“If the dirt is out of the air, then **I think we should proceed.**”

Jerome Powell Chair of The Federal Reserve



“I do not want to point to a particular meeting. **I don't think we need to be in any rush.**” “If we don’t (see the spike in inflation) we are perfectly open to the idea that the pass-through (to consumers) will be less than we think, and if we do **that will matter for policy**”

John Williams Federal Reserve Bank of New York



“**Maintaining this modestly restrictive stance of monetary policy is entirely appropriate** to achieve our maximum employment and price stability goals. I expect tariffs to boost inflation by about 1 percentage point over the second half of this year and the first part of next year.”

Christopher Waller Federal Reserve Governor



“The economy is still growing but its momentum has slowed significantly, and the risks to the FOMC’s employment mandate have increased.”

“I believe **we should cut the policy rate** at our meeting in two weeks.”

Leadership Transitions Have Typically Emphasized Continuity

It Won't Be The Case This Time



Alan Greenspan

13th Fed Chairman
1987 to 2006

*“The Federal Reserve will remain steadfast in its commitment to **price stability** and the control of inflation.”*

---- Alan Greenspan, 1987, during his Senate confirmation hearing



Ben Bernanke

14th Fed Chairman
2006 to 2014

*“My first priority will be to maintain continuity with the policies and policy strategies **established during the Greenspan years.**”*

---- Ben Bernanke, Senate Banking Committee, Nov 2005

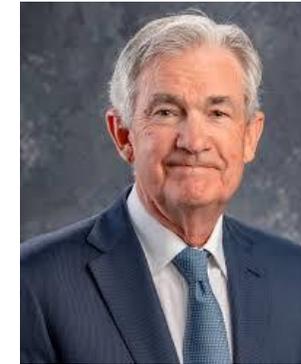


Janet Yellen

15th Fed Chairman
2014 to 2018

*“I strongly support the Federal Reserve’s dual mandate and the policy framework that **Chair Bernanke established to meet those goals.**”*

--- Janet Yellen, Senate testimony, Nov 2013



Jerome Powell

16th Fed Chairman
2018 to 2026

*“The economy is doing very well. The Federal Reserve is **committed to continuing its efforts** to support stable prices and maximum employment.”*

--- Jerome Powell, Feb 2018 inaugural testimony as Chair

Who's Next Fed Chair?

Several Potential Trump's Candidates



A former Morgan Stanley banker and economic adviser to George W. Bush, Warsh joined the Fed board in 2006 at just 35, becoming its youngest member. He **acted as the Fed's liaison to Wall Street during the 2007–08 crisis and stayed until 2011**. Warsh was also a finalist to replace Janet Yellen as Fed Chair in 2018 but ultimately lost to Powell.



Hassett chaired the White House Council of Economic Advisers during Trump's first term, acting as his top economist through major tax, financial, and trade shifts. Now, as director of the National Economic Council, he focuses on **shaping Trump's broad tariff strategy and domestic agenda, including extending key tax cuts from the first term**.



Bessent quickly emerged as Trump's top dealmaker and Wall Street link as the rocky tariff rollout roiled markets. As Treasury secretary, he led during market turmoil, privately urging Trump to focus tariffs on China. Unlike some in the White House, **Bessent has kept his Fed and Powell criticism restrained, respecting the traditional line between Treasury and the central bank**.



Former World Bank President David Malpass was nominated for that position by Trump in 2019. He also served as a senior economic advisor during Trump's first presidential campaign. He **recently said the central bank is "behind the curve on cutting interest rates" and called the Fed's current models "flawed"** because they "depend on slowing growth to avoid overheating the economy."



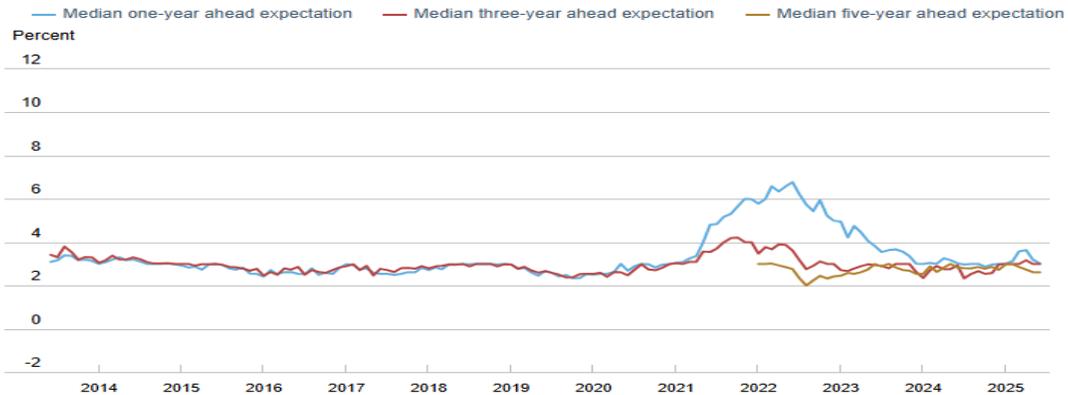
After decades as an economics professor and Fed research chief, Waller joined the Fed board in 2020 on Trump's nomination. Unlike four other Trump picks, he narrowly cleared the Senate before Trump left office. He's mostly aligned with Powell on rates but is **less worried about Trump's tariffs fueling inflation and has floated cutting rates as early as July**.

Inflation Expectation Trends – June-25 Survey

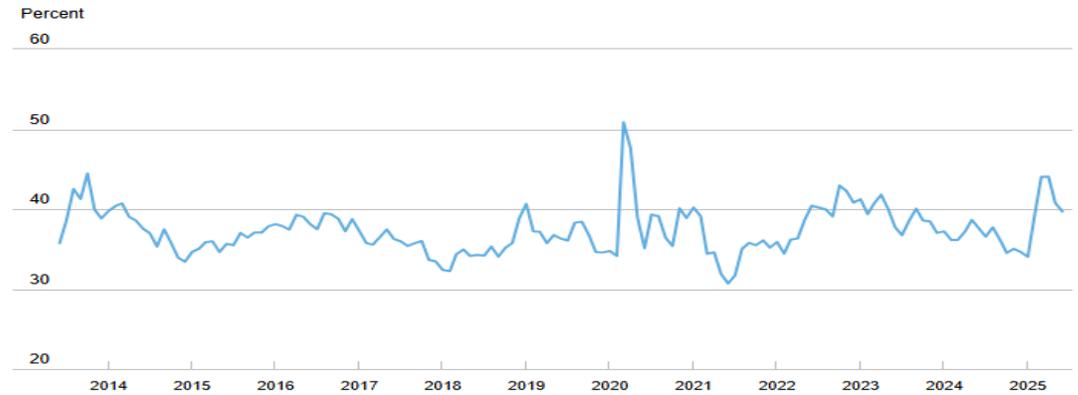
Median inflation expectations relatively unchanged



Inflation Expectation – NY Fed Survey



Expectations of Higher Unemployment – NY Fed Survey



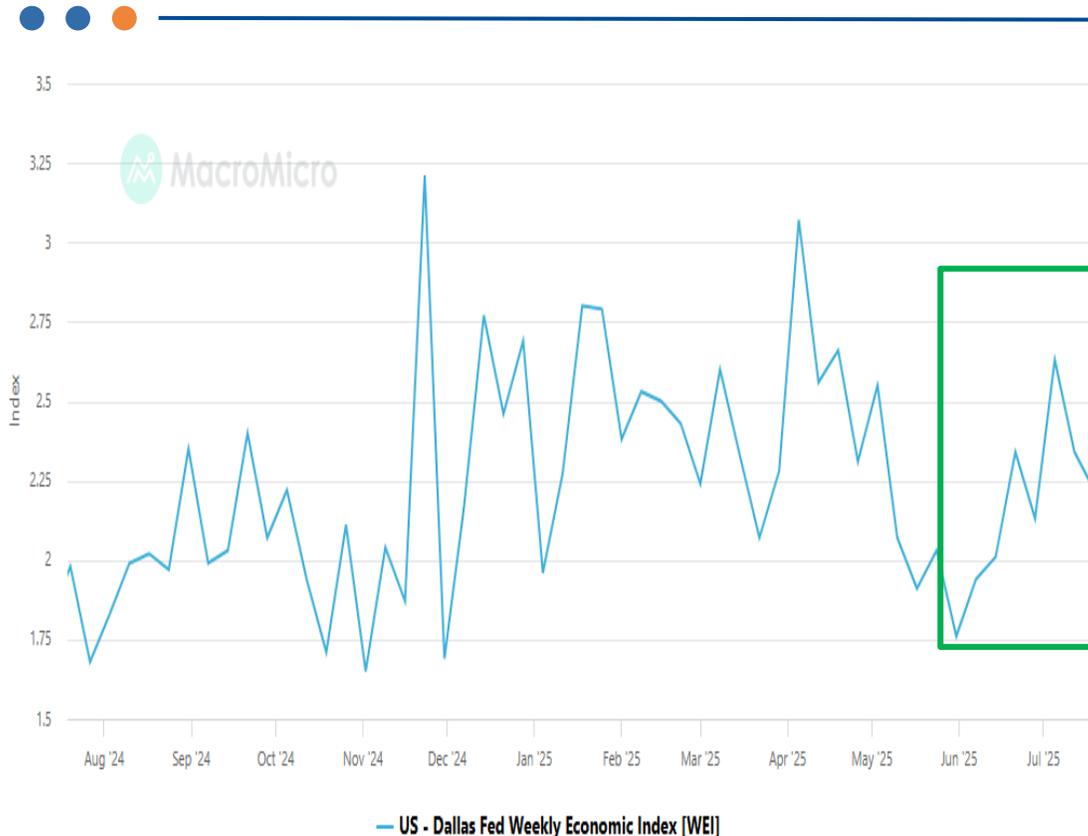
The 5 Year, 5 Year Forward Inflation Expectation Rate



- Median inflation expectations declined by 0.2 ppt to 3.0% at the one-year-ahead horizon, while remaining unchanged at 3.0% and 2.6% for the three- and five-year horizons, respectively.
- Expectations for household financial conditions improved, with more households anticipating better finances and fewer expecting worsening conditions over the next year.
- The mean perceived probability of job loss in the next 12 months fell by 0.8 ppt to 14.0%, the lowest since December 2024, with the decline seen across age and education groups.
- Perceptions of credit access also improved, as fewer households reported tighter credit conditions compared to a year ago, and a smaller share expected access to worsen in the year ahead.

High Freq Data: Weekly Economic Indicator

Recent Rebound in Trends



| Series | Description |
|--|--|
| Consumer Behavior | |
| Redbook Research: Same-store retail sales average | Measures year-over-year same-store sales growth for around 9,000 general merchandise stores in the United States |
| Rasmussen Consumer Index | Constructed with a daily survey of 1,500 American adults, using questions about personal finances and the economy more broadly |
| Labor Market Conditions | |
| Unemployment insurance: Initial claims | Reports the number of people making new unemployment insurance claims from state unemployment offices |
| Unemployment insurance: Continuing claims | Reports the number of people making unemployment insurance claims for a continuing spell of unemployment from state unemployment offices |
| American Staffing Association Staffing Index | Tracks temporary and contract employment with data coming from a large pane of staffing companies |
| Federal withholding tax collections (Booth Financial Consulting) | Measures Treasury receipts of income and payroll taxes withheld from paychecks, filtered and adjusted for policy changes |
| Production | |
| Raw steel production (from American Iron and Steel Institute) | Estimates the weekly production of raw steel from domestic producers |
| Electric utility output: United States ex. Alaska and Hawaii (from Edison Electric Institute) | Measures electricity output for the United Sates, excluding Alaska and Hawaii |
| U.S. fuel sales to end users (our calculations based on underlying data from the U.S. Energy Information Administration) | Estimates gasoline, diesel and jet fuel sales to retailers and end users |
| U.S. railroad traffic | Tracks total freight transported, as reported by railroad companies to the Association of American Railroads |

July 17, 2025: Update

- The WEI is currently 2.37 percent, scaled to four-quarter GDP growth, for the week ended July 12 and 2.63 percent for July 5. The 13-week moving average is 2.21 percent. This is compared with 1.99 percent four-quarter GDP growth through first quarter 2025.

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