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Is Fed About to Shock the World?

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The Fed’s Next Move: 25 or 50 bps?

This week could decide the **fate of the dollar and the Fed’s next move.** With inflation data around the corner, traders are asking one question: **Will the Fed play it safe with a 25 bps cut or shock markets with 50?**

As **politics**, **geopolitics**, and **data** collide, global markets are holding their breath. Here’s what you need to know this week:

1. U.S. Dollar Steady

The **dollar held its ground** as traders await critical inflation data this week. These numbers will help determine whether the Fed opts for a 25 bps or 50 bps cut in its September meeting.

2. Fed Expectations

Markets are almost **certain about a 25 bps cut**, while assigning only a 5% chance to a bigger 50 bps reduction. Investors expect around 66 bps of easing for 2025.

3. Inflation Watch

- **Producer Price Index (PPI)** → Wednesday
- **Consumer Price Index (CPI)** → Thursday

These will shape how aggressively the Fed cuts rates into year-end.

4. Market Voices

Analysts warn that a **50 bps move is unlikely** unless inflation shows a clear downside surprise. With sticky services prices, the Fed is more inclined toward gradual cuts.

5. Global Currencies Moves

- **Euro:** Flat at $1.1711
- **Sterling:** $1.3534
- **Yen:** 147.41 per dollar
- **Aussie:** Near 7-week high at $0.6606

The **Dollar Index remains steady at 97.8,** down 10% in 2025 as trade policies and rate cuts dent its appeal.

6. Political Overhang

Markets are watching a **court ruling that blocks Trump from removing Fed Governor Lisa Cook**. This rare legal battle could challenge the independence of the Federal Reserve.

7. Geopolitical Spotlight

Poland and **NATO** scrambled air defenses after Russian drone attacks in Ukraine, reminding markets that geopolitics can quickly shift sentiment.

8. Labor Market Reality Check

Revisions show the **U.S. created 911,000 fewer jobs** in the past year than thought. Despite cracks in the labor market, traders remain focused on the Fed's easing path rather than backward-looking data.

9. Global Political Risks

- **Japan:** Leadership transition after Shigeru Ishiba.
- **France:** 5th prime minister in 2 years amid fiscal strain.
- **Indonesia:** Finance Minister Sri Mulyani’s removal spooked markets, raising fears of fiscal loosening.

25 vs 50 bps: What It Means for Markets

Financial Instrument	25 bps Cut (Base Case)	50 bps Cut (Aggressive)
U.S. Dollar (DXY)	Mild weakness as easing begins, but limited downside.	Sharper decline; markets may view it as Fed panic.
Treasuries	Yields drift lower, curve remains relatively stable.	Yields drop sharply; risk of curve steepening.
US Indices	Gradual support from lower rates, sentiment steady.	Short-term rally, but risks of volatility if seen as desperation.
Gold	Supported near highs, modest upside from softer dollar.	Strong upside; safe-haven flows intensify.
Oil	Little direct impact; growth concerns keep rangebound.	Dollar weakness could offer support, but demand fears persist.

Key Takeaway:

Markets face a defining moment. Upcoming **inflation data** will not only guide the Fed's September decision but also frame the trajectory of monetary policy into 2026. While a **25 bps cut remains the base case**, the broader question is how deep and sustained the easing cycle will be.

At the same time, political dynamics, both in Washington and abroad, add an additional layer of uncertainty. For traders, the message is clear: the path forward will be shaped as much by policy signals as by geopolitical undercurrents.

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