The New Governor

Global Daily

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Market comments

The 10 year US treasury yield fell back yesterday afternoon, after a modest rebound earlier in the day after Friday's plunge due to the downward revisions to nonfarm payroll growth that led to President Trump firing the head of the Bureau of Labor Statistics. The US dollar has gained some strength against the euro this morning, and the probability of a September rate cut took a small step back.

In an interview with Reuters, **San Francisco Fed President Mary Daly** said the time is nearing for interest rate cuts given mounting evidence that the job market is softening and there are no signs of persistent tariff-driven inflation. Regarding last week's decision to keep the policy rate unchanged, she said: "I was willing to wait another cycle, but I can't wait forever." Looking ahead to the remaining meetings this year, she added that the two quarter-point interest-rate cuts in the June projections for this year still "look to be an appropriate amount of recalibration." However, she also said: "We of course could do fewer than two (rate cuts) if inflation picks up and spills over or if the labor market springs back ... I think the more likely thing is that we might have to do more than two... we also should be prepared in my judgment to do more if the labor market looks to be entering that period of weakness and we still haven't seen spillovers to inflation." On the labor market, Daly noted that there is "evidence after piece of evidence" that the labor market is softening quite a bit compared to last year. Regarding inflation, she said there's no evidence that tariff-driven price increases are seeping more broadly into inflation. Note that Daly does not vote in the FOMC this year.

On Friday, Adriana Kugler announced that she is stepping down prematurely from the Fed's Board of Governors. Her term formally ends on January 31, 2026. This was supposed to be the vacancy that President Trump could use to insert an external candidate for Fed Chair into the Board. After all, it is still uncertain whether current Fed Chair Powell is stepping down from the Board after his term as Chair ends on May 15, 2026. Treasury Secretary Scott Bessent has urged him to, but at last week's FOMC post-meeting press conference Powell still declined to give an answer. Therefore, it is likely that **the new Governor that is expected to be announced this week** (on Sunday, Trump said "in the next three or four days") will become the Fed Chair in May next year. President Trump's formal nomination may follow later and he would still have the possibility to nominate one of two internal candidates, Waller and Bowman. These two Governors have been trying to get the President's attention by dissenting from the FOMC decision to hold rates steady last week. Kugler's resignation is speeding up the Fed Chair selection process that was supposed to last until the end of the year if we are to believe Bessent's remarks last week. However, it could also accelerate the Fed's cutting cycle. There will now three Governors be pushing for rate cuts. This should increase the probability of a September cut, as well as the probability of a second cut before the end of the year. If September is too early for Powell and the majority of the FOMC, we are likely to see the number of dissents rise to three at that meeting. What's more, there is a good chance that the new Governor will be seen as a Shadow Chair, whose speeches could be interpreted as forward guidance for the post-Powell era that starts at the June 2026 meeting. This could be a very messy final year of Powell's reign over the Fed.

In the Pacific, Japan continues to increase its defense exports after decades of controls to stay out of global conflicts after World War II. **Mitsubishi is going to build a fleet of frigates for the Royal Australian Navy** in the coming years. The first three will be built in Japan, the remainder in Australia, bolstering the defense ties between the two countries. Both are US allies and face a threat from China. Australia aims to increase its surface fleet to its largest size since WWII.

Day ahead

This morning **French industrial production** beat consensus expectations with an impressive 3.8% gain in June, after a 0.7% decline in May. Insee stated that "this is explained by a catch-up on delays accumulated during the quarter and the lifting of supply-chain constraints for certain companies." In the US, trade balance data and the ISM services survey will be published. The **trade balance** took a dive earlier this year as importers were front-loading to increase their stock at pre-tariff prices. However, in April and May this was over and the Bloomberg consensus expectation is an improvement to -$61.3 billion in June from -$71.5 billion in May. The **ISM services index** has trended downward since October last year and dipped slightly below the boom-bust line of 50.0 in May (49.9), before rebounding modestly to 50.8 in June. The Bloomberg consensus expectation is a further increase to 51.5 in July. If we look at the sub-indices, prices paid have been on the rise since March last year, although they took a small step back to 67.5 in June. The services employment index for July is too late in the month, as the nonfarm payrolls already showed last week that services employment growth had picked up to 96K in July, after stalling at 16K in June. This suggests that we should see a rebound in the services employment index today, although the two time series are not perfectly correlated.

Meanwhile, the Wall Street Journal is reporting that President Trump may sign an **executive order** as soon as this week that directs bank regulators to investigate whether financial institutions might have violated the Equal Credit Opportunity Act, antitrust laws or consumer financial protection laws, if they reject customers for political or religious reasons. This is **aimed at banks that are accused of discrimination against conservatives, Christian organizations and crypto companies**. These banks have said that their decisions are based on legal, regulatory and financial risks, including those related to anti-money laundering laws.

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