Investment Roundup

19 August 2025

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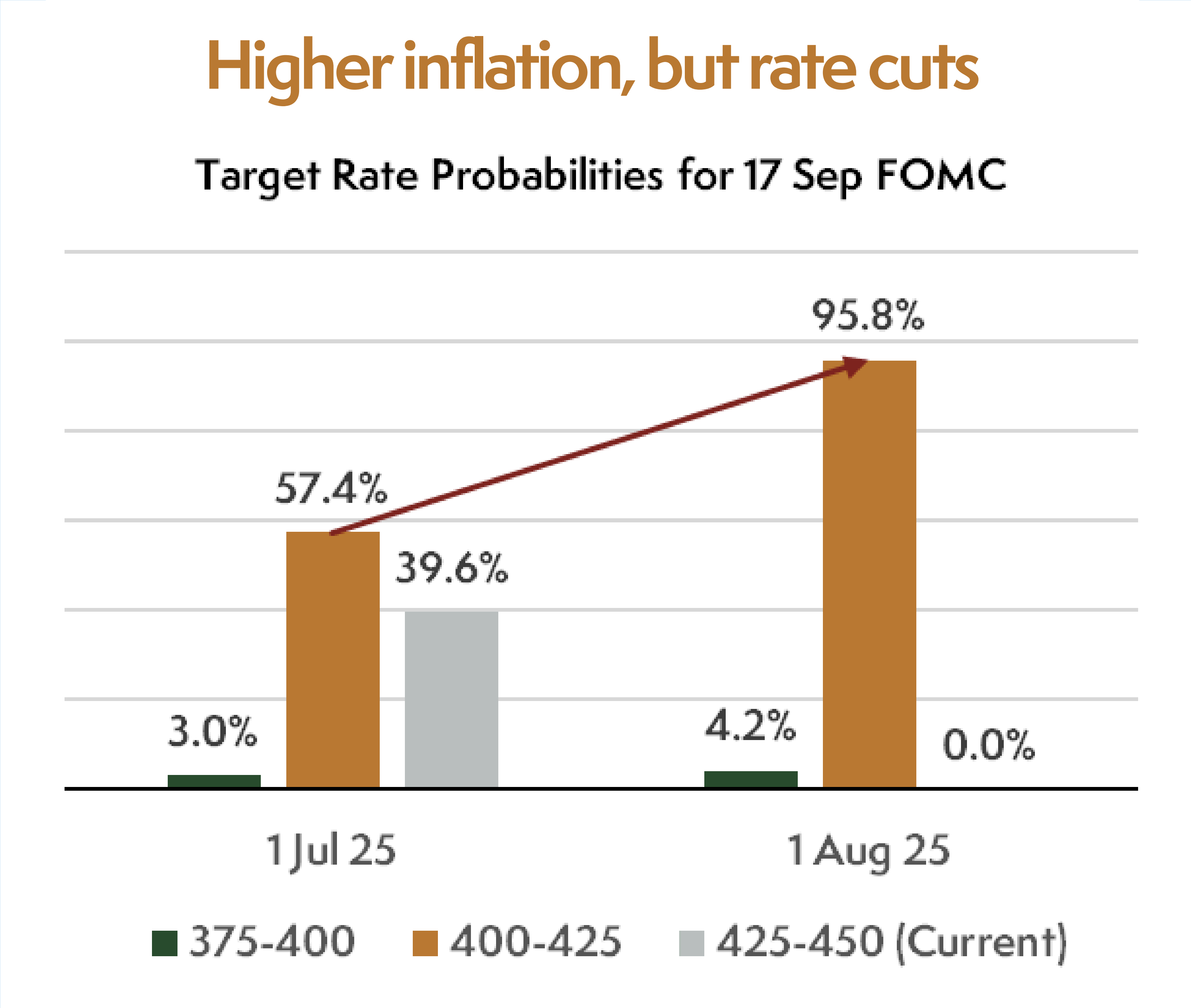
A more dovish Fed may cause the dollar to weaken further. We also remain cautious against any surprise in the pace or size of rate cuts, or unexpected tariff developments, which could quickly trigger another spike in market volatility.

Last week, US stocks gained on growing expectations that the Fed will cut rates in the next month after benign inflation data. Markets are pricing in a 25 bps September cut, with some speculating 50 bps after Treasury Secretary Scott Bessent's comments.



Source: FedWatch, as of 14 August 2025

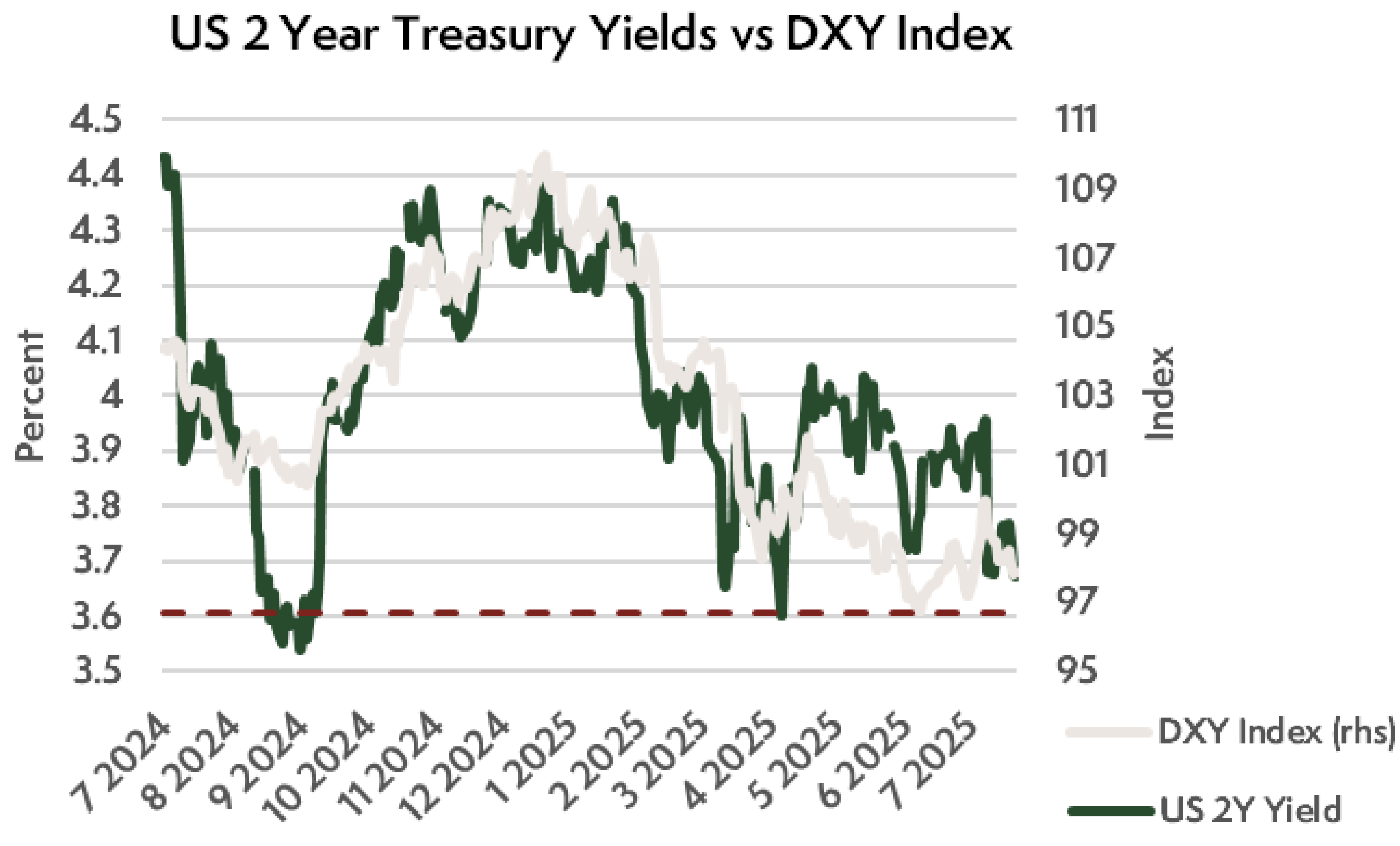
In July 2025, core CPI rose to 3.1% year-on-year, the fastest in five months, and slightly above the 3% forecast. At the same time, nonfarm payrolls rose by just 73K in July, missing expectations of 110K. June's data was also revised down massively — from 147K to 14K. May also saw a 125K cut.

Taken together, this points to a meaningful loss of hiring momentum over the past quarter and paints a more nuanced picture of the US labour market than headline numbers alone suggest.

Job creation is now running below the pace required to absorb new entrants into the workforce though this threshold has itself shifted due to declining US immigration. Historically, robust immigration flows have expanded the labour force and supported higher job creation without overheating wages. This change adds complexity to Fed's assessment.

On one hand, reduced labour supply can keep wage pressures elevated, maintaining some inflationary risk. On the other, slower hiring may be more reflective of constrained supply than weak demand making policy calibration trickier.

Yields may drive UDS lower

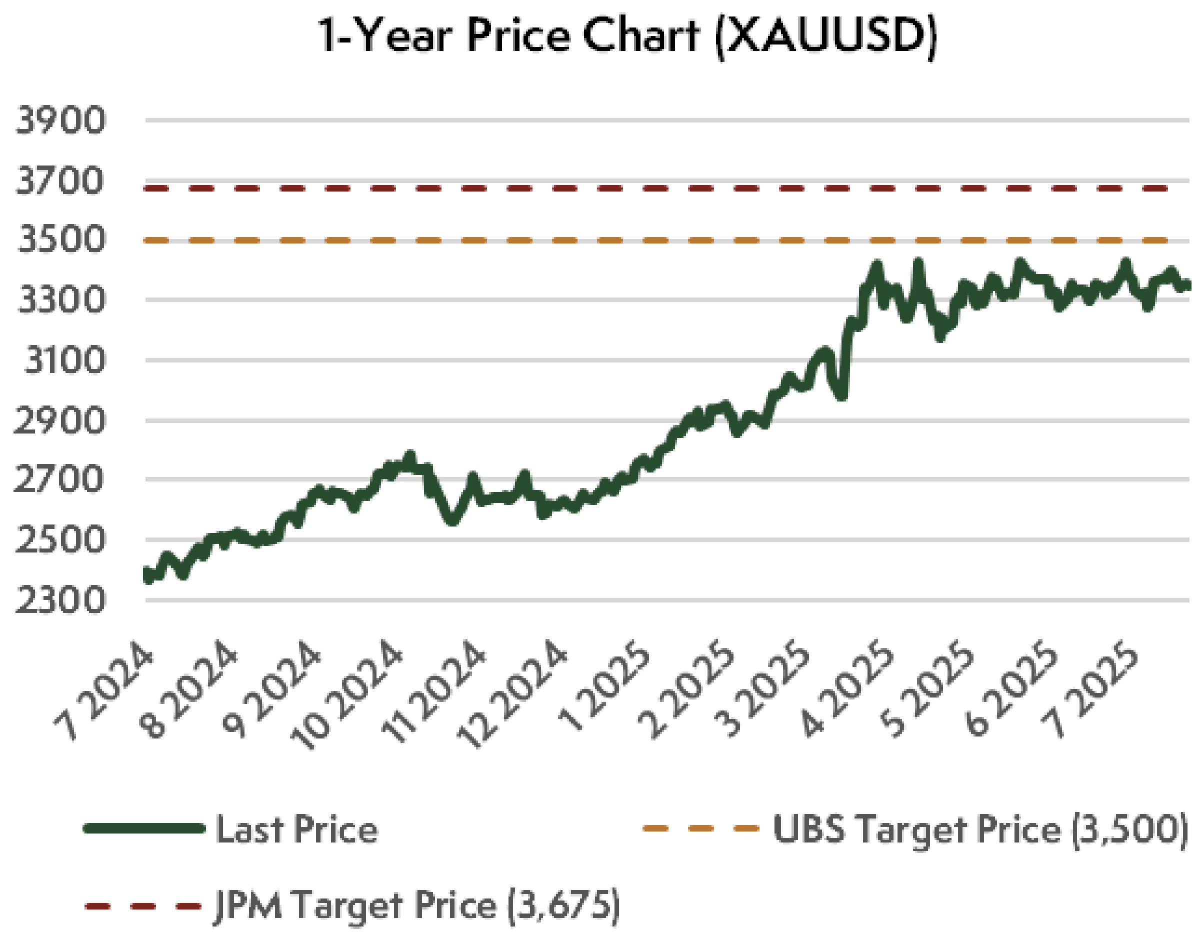


Source: Bloomberg L.P., as of 14 August 2025

Overall, the data has led markets to expect a Fed cut in September. Odds of a 25 bp cut stand at 95.8%, with Treasury Secretary Bessent suggesting a 50 bp cut could be on the table given the labour market weakness.

In 1H 2025, dollar weakness was largely driven by tariff news and a loss in US confidence. In 2H, the drivers could shift to a slowing US economy and/or a more dovish Fed expectations. The market will be watching if the early-year softness in data feeds into the real economy in late 2025 and into 2026. The timing and magnitude of cuts will dictate the scale of further USD weakness from here and retest DXY's June low of 96.7.

Gold demand remains strong



Source: Bloomberg L.P., as of 14 August 2025

That said, lower US rates and a weaker dollar are historically bullish for gold. Economic and geopolitical uncertainty further adds to gold's safe-haven appeal. Central bank & investor demand remain strong at around 710 tonnes per quarter this year. However, the pace of gold gains may moderate given that much of the dovish Fed narrative is already priced in. As such, the near-term bias could be for gold to trade sideways-to-moderately higher, especially if risk sentiment remains mixed and US data continues to soften without collapsing. ●