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04 September 2026

Macro & Markets: Jackson Hawk or Jackson Bluff?

Marketing communication

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Jackson Hole is behind us, but the decisive signal for FX may still lie ahead

A dense US data calendar precedes the FOMC decision on 16 September: nonfarm payrolls today, PPI on 10 September and CPI on 11 September. With inflation still too high, we expect the Fed to hike unless payrolls weaken materially or the upcoming inflation data show a clear easing in price pressures. Yet with pricing near a coin flip, the decision itself is a live source of volatility. The more important question for the dollar is whether the Fed signals that September marks the start of a tightening cycle or merely a one-off adjustment. Our base case is the former, which would create near-term upside risks for the dollar against the euro without altering our longer-term bearish view.

The hawk case

The strongest argument for a September hike is that inflation remains too high, reinforced by concerns over Fed credibility and pressure at the long end of the Treasury curve. The US Treasury's larger bond buybacks, effective from 9 September, should improve liquidity and may ease some market pressure. But buybacks cannot change the underlying fiscal, growth or inflation outlook, nor can they anchor inflation expectations. With the midterm elections only two months away, meaningful fiscal tightening is not a realistic near-term option. That leaves monetary policy as the only realistic near-term lever to address inflation and restore credibility at the long end.

The near-term risk is asymmetric. If the Fed stays on hold despite firm activity and inflation data, investors may demand larger inflation and credibility premia, pushing long-term yields higher and steepening the curve, as after the July meeting. The resulting tightening in financial conditions would do part of the Fed's work while reinforcing the impression that policy is behind the curve. This outcome would carry its own risk for the Fed, however: if it became clear that the rise in yields reflected credibility and inflation-risk premia rather than improving growth prospects, that would itself signal eroding confidence in the Fed’s resolve on inflation, an outcome the Fed would presumably also want to avoid. A September hike would avoid that credibility cost. If accompanied by a higher projected policy path, short-end yields would probably rise more

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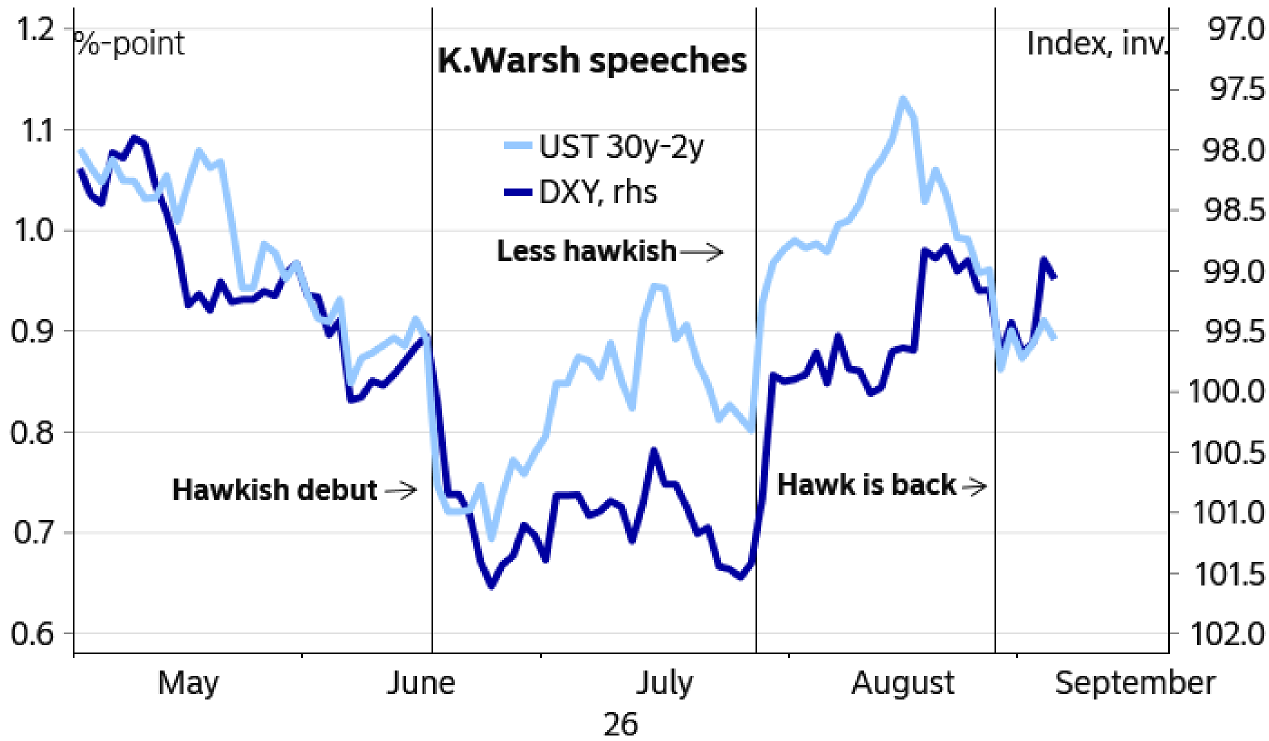
than long-end yields, flattening the curve. Long-end yields could even fall if the compression in inflation-risk and credibility premia outweighs the effect of a higher expected terminal rate.

US Treasury curve reaction after June, July FOMC meetings and Jackson Hole speech



Source: Nordea and Macrobond

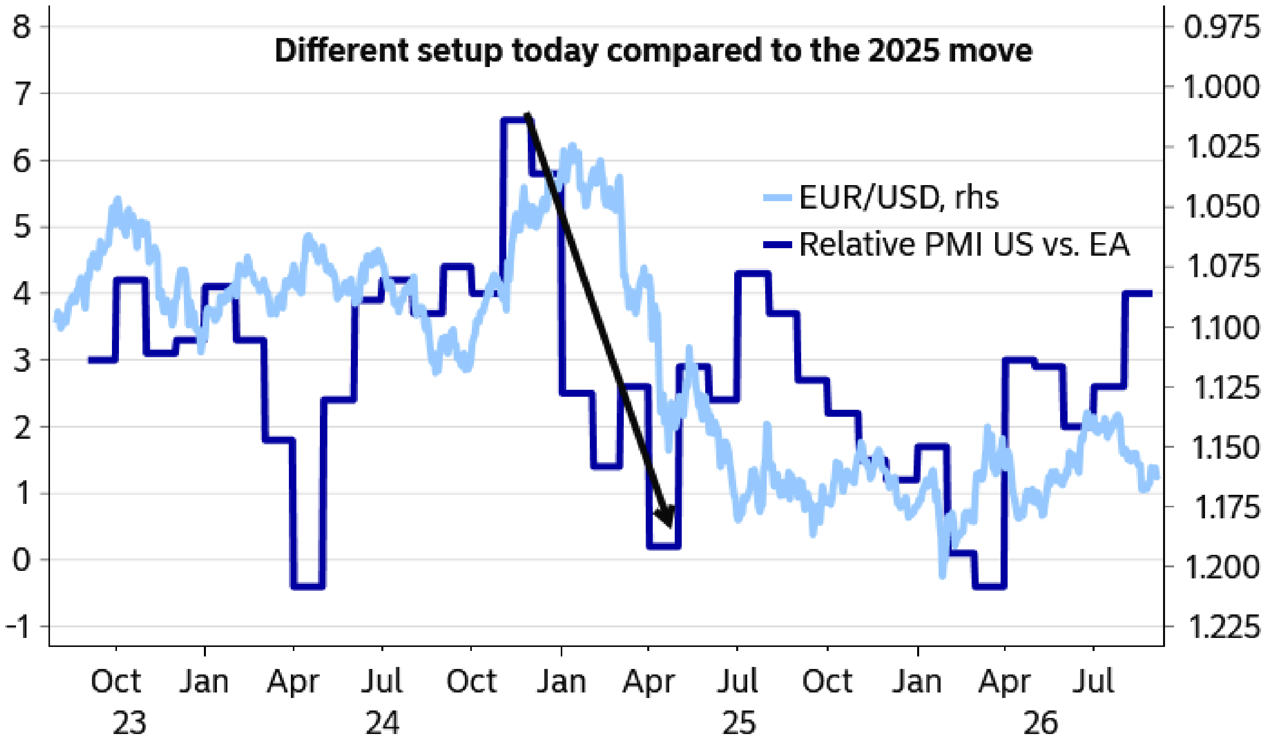
Why 2025 matters, and why today's setup is different

The dollar's sharp decline in the first half of 2025 reflected an unusually one-sided reversal in the US narrative. US exceptionalism had driven substantial dollar and equity outperformance into early 2025. That positioning became vulnerable when the new administration prioritised trade policy over pro-cyclical measures, policy uncertainty rose, relative growth momentum shifted toward Europe, and Germany's fiscal package reinforced the European recovery story. Concerns over US policy credibility amplified the move. The dollar later stabilised as policy noise faded and the US economy proved more resilient than expected.

Some structural dollar negatives remain, notably the fiscal outlook, a rising term premium and questions over US policy credibility. They underpin our longer-term bearish view. The near-term narrative is less one-sided, however. US exceptionalism is no longer heavily priced, while relatively firm European data and softer US releases have already supported the euro. The relative data impulse could turn if US activity reaccelerates. Euro-area flash inflation also surprised to the upside, and we expect ECB to deliver a rate hike at the September meeting. Europe also faces renewed energy risks: high natural gas prices and seasonally low inventories could weigh on growth.

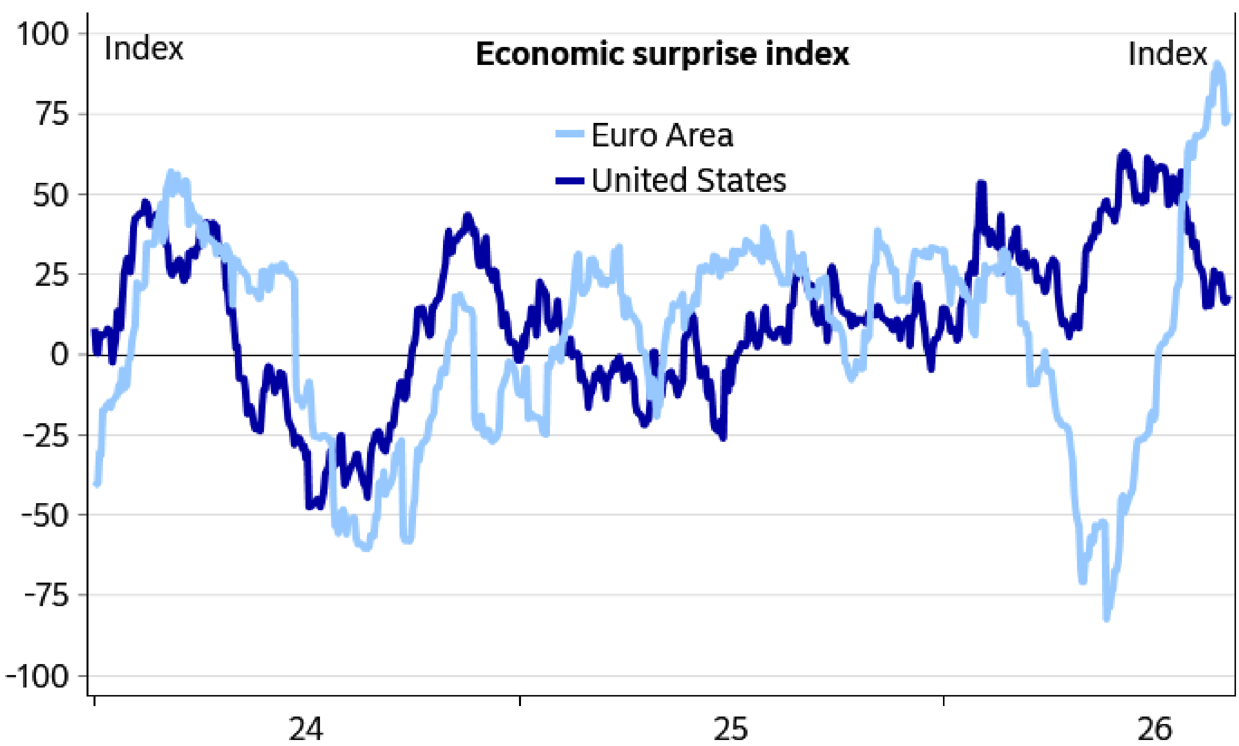
US exceptionalism builds into 2024 election, holds through inauguration

Relative growth momentum shifted toward the euro area



Source: Nordea and Macrobond

EA data has recently surprised to the upside, while US data has surprised to the downside



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The signal matters more than the hike

Fed funds futures assign around a 50% probability to a September hike, making the decision itself a genuine coin toss and a live source of near-term volatility. Even so, we think the dollar's medium-term path will depend more on the signal that accompanies whichever way the Fed moves than on the decision itself. In his Jackson Hole keynote on 28 August, Warsh again declined to commit to explicit forward guidance, arguing that summer's softer inflation prints do not yet signal meaningfully improved underlying trends and that policy should stay biased toward higher rates if progress stalls. Given that stance, the Summary of Economic Projections is likely to provide the clearest guide to the policy path. But a hike also requires sufficiently broad support across the FOMC, making the key centrist bloc an important decision-making hinge rather than leaving the outcome dependent on Warsh alone.

Hawk scenario: the Fed hikes and raises its projected policy path. This would signal that September is the start of a tightening cycle rather than a one-off adjustment. It would create the clearest near-term upside risk for the dollar against the euro.

Credibility hike: the Fed hikes but leaves the projected path broadly unchanged. This would suggest that the move is primarily intended to restore credibility rather than establish a tightening cycle. It would create a more limited near-term upside risk for the dollar, with any initial support likely to be less durable.

Bluff scenario: the Fed holds and leaves its projected policy path unchanged or lowers it, while Warsh downplays the need for further tightening despite elevated inflation. That would indicate that the Jackson Hole message was aimed more at managing the long end than at preparing markets for a hike. A bluff could reflect either a genuinely more cautious read of the data or a political calculation: avoiding a hike headline two months before the midterms even as inflation stays elevated. Given Warsh's stated focus on price stability, we see the data-driven explanation as more likely, though the political read cannot be ruled out. It would create near-term downside risks for the dollar and leave long-term yields more exposed to inflation and credibility premia.

Payrolls, PPI and CPI are the immediate swing factors. They are not only market catalysts; they will help determine whether tightening-biased but still unconvinced centrists become sufficiently confident to support a hike. A renewed acceleration in job growth would ease the trade-off between the Fed's employment and price-stability mandates and create room for further tightening. Firm PPI and CPI readings would reinforce the case for a hike, while materially weaker payrolls or a clear easing in price pressures would be the strongest challenge to our base case.

Risks to the call

The principal downside risk is a softer data sequence that allows the Fed to hold without incurring a large credibility cost. Fed Governor Christopher Waller's remarks yesterday illustrate that risk: he flagged signs of disinflation and said he would back holding rates steady if next week's CPI shows further progress toward target. A second risk is that a hike is interpreted as confirmation of a more persistent inflation problem rather than a credible policy response. That could drive long-end yields sharply higher and tighten financial conditions enough to cloud the dollar response. Geopolitical escalation is an upside risk to the dollar in either

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policy scenario: weaker risk sentiment would strengthen safe-haven demand, while higher energy prices would favour the US over the euro area through the terms-of-trade channel.

Bottom line

The hike itself is close to a coin flip, but markets are already pricing a longer tightening run. Our own call is slightly more hawkish, with two hikes priced by year-end and a further hike in the first quarter of 2027, putting us a touch ahead of the market's own path. A September move accompanied by higher policy-rate projections would signal the start of a Fed tightening cycle and create a near-term upside risk for the dollar against the euro. We therefore read Jackson Hole as more hawk than bluff.

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