

Key events this week – US Fed rate decision, BoJ & BoE meetings, key data releases; US PCE inflation & retail sales, global CPI reports, and S&P prelim PMIs

Recap from last week: Implication of US inflation on Fed rate cut expectations.

Last week's firmer US CPI & PPI reports did not change the expectations for a Fed Dec rate cut this week. Markets had mostly priced in a rate cut before the data and this probability edged up after the US CPI & PPI data was released (source; [CME Fedwatch](#)).

Firmer headline CPI was driven by larger contributions from food and energy inflation. Progress on core CPI has stalled at around +3.3% for the last four months. However, there were some positive developments within core CPI. Notably, inflation had eased in previously persistent categories such as shelter, core services, and "super core" inflation. The Fed has been anticipating further progress in these areas. Conversely, the deflationary impact of core goods inflation has weakened in recent months. With inflation showing some improvement in specific areas like shelter and core services, the FOMC is likely to maintain confidence in its path toward the 2% target. Nevertheless, the Fed is likely to acknowledge that inflation remains elevated and that achieving the target may take longer than anticipated.

The PPI came in slightly higher than expected. However, markets have focused on the implications of CPI and PPI for the Fed's preferred PCE inflation measure. Some expectations are for core PCE to round down to a +0.1% rate in Nov and be unchanged at +2.8% over the year. The [Cleveland Fed PCE Nowcast](#) suggests a higher expected PCE and core PCE rate for Nov. The broader expectation is for +0.2% core PCE over the month. The FOMC will make its decision this week ahead of the release of the PCE inflation data.

It was the first of two weeks of key central bank decisions to conclude the year. So far, we continue to see a shift towards a less restrictive stance of policy with neutral rate settings as the target, cautious optimism on inflation progress, and some country-specific weakening in the growth outlook.

The first cab off the rank turned out to be China, with the Politburo announcing that it would "embrace a "moderately loose" policy strategy next year" (source: [Bloomberg](#) 9 Dec 2024), the first adjustment of its monetary policy stance in over a decade. Further detail is still expected on fiscal programs to support consumer spending and growth in the broader economy.

The RBA kept policy settings on hold. There was a notable shift in its view on inflation and guidance. The Board is now "gaining some confidence that inflationary pressures are declining" but that "risks remain". The Board is seeing some of the softer data recently, including slower growth, as positive for the inflation outlook. The RBA shifted its guidance; removing reference to needing to be "sufficiently restrictive" on policy, and is no longer "not ruling anything in or out" regarding the next move on rates. Governor Bullock was specific about watching data over the next month. The Aus labour market data for Nov was firmer with the unemployment rate falling back to 3.9%. While employment growth rebounded from a flat month in Oct, the fall in total unemployed persons was also the result of another fall in the participation rate. The firmer labour market conditions remain in contrast to the slower growth environment but are at least supporting the RBA to stay on hold while inflation comes down.

The BoC cut rates by 50bps as expected. The Board noted that, after a “substantial” reduction in rates since Jun, those cuts need some time to flow through to the economy. The policy rate is likely approaching neutral, so the BoC is signaling that it would be moving to a more gradual approach to monetary policy, “evaluating the need for further cuts, one decision at a time”.

The ECB reduced its Deposit Facility Rate by 25bps as expected. The decision was based on its updated assessment of the inflation outlook – that, overall, the disinflation process is continuing. There was a shift in its guidance also; removing reference that “it will keep policy rates sufficiently restrictive for as long as necessary” and removing mention of “restriction” or “duration of restriction”. There was a downbeat view of growth, with the pace of economic recovery slower than expected. From the press conference, the ECB did discuss a 50bps cut at this meeting but deemed the 25bps cut more appropriate, given they still want to see further progress on inflation.

The [SNB](#) cut rates by 50bps. The Governing Board noted inflation pressure had decreased again in this quarter, more than expected. The SNB has forecast inflation to average only +0.3% over 2025 – with a high degree of uncertainty over this forecast, and “the development of the Swiss franc is still an important factor”. Without the 50bps rate cut at this meeting, the “conditional inflation forecast would have been lower”. Growth was “only modest” in Q3 and there was a further slight rise in unemployment.

Outlook for the week ahead; Fed's rate decision amidst key economic releases.

It will be another pivotal week of central bank meetings and key economic data. The Fed is expected to cut rates again and provide a broad context for its policy outlook in 2025. A range of US economic data, including the Nov PCE inflation report, global CPI reports, and S&P prelim PMIs will also be released.

Key factors to watch this week:

- US Fed rate decision; the Fed is expected to cut rates by 25bps at this meeting. The decision details will be a key focus, especially for how the Fed is reading current labor market conditions and inflation firmness. We continue to expect a cautious approach, dependent on labor market conditions remaining positive. This should set the stage for any change in guidance on cuts through 2025. The focus will then shift to the key projections for the broader outlook period (the SEP). This should specifically address changes in the projected path of inflation, growth, unemployment, and the outlook for policy rates.
- Other central banks; The BoJ are expected to keep policy rates unchanged this month, despite recent speeches indicating that “rate hikes are nearing”. Guidance in speeches has been guarded, only noting that there was still a large amount of new data to consider in the lead-up to this meeting, suggesting it could be a live meeting. Similarly, the BoE is expected to keep policy settings unchanged.
- US core PCE Inflation for Nov is expected to increase by +0.2% over the month down from +0.3% in Oct. This would result in core PCE inflation increasing to +2.9% over the year from +2.8% in Oct.

A broad range of US data for Nov that will feed into a robust update on the US Q4 GDP run rate. Currently, the [Atlanta Fed GDP nowcast](#) has US Q4 growth running at +3.3%.

- US retail sales are expected to increase by +0.5% over the month in Nov, up slightly from +0.4% in Oct. The Oct retail control was mostly flat at -0.1% - and this is expected to rebound in Nov.
- The PCE personal spending report for Nov is also expected to show a further lift in consumer spending of +0.5% in Nov, up from +0.4% in Oct. Personal income growth is expected to increase by +0.4% after increasing by +0.5% in Oct.
- US housing starts are expected to rebound in Nov to 1.35m annualized, from 1.31m in Oct. Industrial production is expected to increase by +0.2% in Nov after a -0.3% fall in Oct. The first Dec regional manufacturing surveys will be released this week.

Global inflation reports will be in focus this week.

- In Canada, CPI inflation is expected to be +0.1% in Nov, down from +0.4% in Oct. The annual pace should ease from +2%. The BoC core measures of inflation averaged +2.4% in Oct and are expected to ease to +2.3% (avg) in Nov.
- UK headline CPI is expected to increase to +2.6% in Nov from +2.3% in Oct. Core CPI is expected to edge higher to +3.6% in Nov, from +3.3% in Oct. The Oct UK CPI report reflected somewhat broader inflation pressure. The BoE will be looking for some improvement on that this month and will be meeting after the release of this data.
- Japan's National CPI had been a little firmer in Oct, specifically over the month. The BoJ preferred core CPI ex fresh food is expected to increase to +2.6% over the year in Nov, from +2.3% in Oct. This data will be released after the BoJ meeting announcement.
- The final Euro area CPI for Nov is expected to confirm headline CPI fell by -0.3% over the month and increased by +2.3% over the year. Core CPI is expected to be confirmed at +2.7% over the year in Nov.

Finally, the S&P prelim PMIs for Dec (key G4 developed markets + Aus) will be released early in the week. This will provide some insight into growth momentum in the final month of the year. There is some expectation for a recovery in manufacturing activity in the short term. The Nov PMIs for this group had shown manufacturing continuing to contract, while services growth slowed. The notable exception had been the continued stronger expansion of the US services sector.

US Treasury Issuance; 16 - 20 December 2024

This week, the US Treasury will auction and settle approx. \$437bn in ST Bills, with a net paydown of -\$34bn. The 20-year Bond and 5-year TIPS will be auctioned this week, to settle on 31 Dec.

QT this week: Approx \$1.3bn of ST Bills will mature on the Fed balance sheet and will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
16-20 Dec	12-Dec	17-Dec	4 week Bill	80			Actual 4.240%	4.400%
	12-Dec	17-Dec	8 week Bill	75			Actual 4.260%	4.350%
	11-Dec	17-Dec	17 week Bill	64			Actual 4.240%	4.315%
				219	245	-26		
	16-Dec	19-Dec	13 week Bill	81			Announced	4.300%
	16-Dec	19-Dec	26 week Bill	72			Announced	4.200%
	17-Dec	19-Dec	42 Day CMB	65			Announced	4.320%
				218	226	-8		
			Total - securities settling this week	437	471	-34		
			Net New Cash Raised Qtr to Date	6984	6198	786		
		<i>Estimated Net Cash to be Raised Q4</i>			546			
		Face value of US Federal Reserve SOMA securities maturing		\$B				
		Maturing & reinvestment						
	17-Dec		ST Bills	0.7				
	19-Dec		ST Bills	0.6				
				1.3				
		Maturing & redemption (balance sheet roll-off)						
				Nil				
				0.0				
		Upcoming Auctions		\$B				
	17-Dec	31-Dec	20yr Bond	13				
	19-Dec	31-Dec	5yr TIPS	22				

Quantitative Tightening Overview – December 2024

In Dec, the face value of Coupons maturing on the Fed balance sheet is approx. \$28bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$28bn of Coupons maturing in Dec, \$25bn will roll off the Fed balance sheet and \$3bn will be reinvested. It also means that all ST Bills maturing in Dec will be reinvested.

Summary of total Coupons & Bills to redeem at the \$25bn redemption cap - Dec				
			\$25	
			Redeem \$Bn	
			Reinvest \$ Bn	
15-Dec-24	Notes & Bonds		7.1	0.9
31-Dec-24	Notes & Bonds		17.9	2.1
	Bills			12.3
Total Notes & Bonds			25.0	15.3

Dec 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Dec			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/12/03	0.73	6%	0.0	0.7
2024/12/05	1.65	13%	0.0	1.6
2024/12/10	0.75	6%	0.0	0.7
2024/12/12	2.45	20%	0.0	2.4
2024/12/17	0.75	6%	0.0	0.7
2024/12/19	0.60	5%	0.0	0.6
2024/12/24	0.69	6%	0.0	0.7
2024/12/26	3.94	32%	0.0	3.9
2024/12/31	0.71	6%	0.0	0.7
	12.3	100%	0.00	12.3

<https://www.newyorkfed.org/markets/treasury-rollover-faq>

Recommended US Treasury Financing – Q4 2024 & Q1 2025

The latest US Treasury quarterly refunding and financing estimates for Q4 2024 and Q1 2025;

Updated Q4 borrowing requirement: The US Treasury expects to borrow \$546bn (previously \$565bn) in privately held net marketable debt, assuming an end-of-Dec cash balance of \$700 billion.

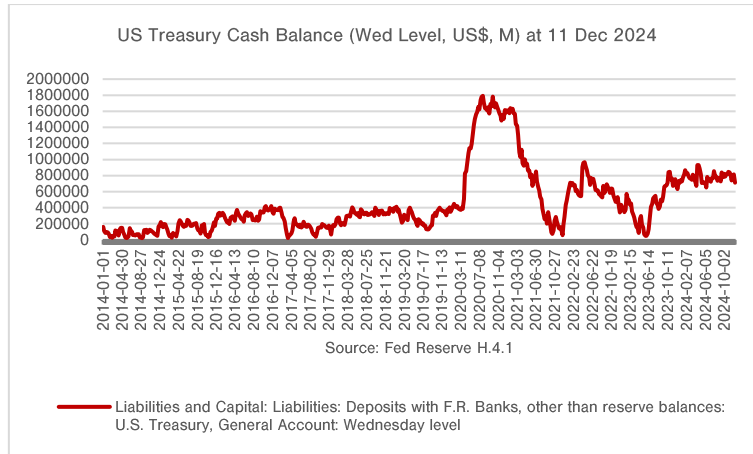
The borrowing estimate is \$19 billion lower than announced in July 2024, largely due to a higher beginning-of-quarter cash balance partially offset by lower net cash flows.

The estimated Q1 2025 borrowing requirement: The US Treasury expects to borrow \$823 billion in privately-held net marketable debt, assuming an end-of-Mar cash balance of \$850 billion.

US Treasury Cash Levels (TGA)

As of Wed 11 Dec 2024, the level of the TGA decreased to \$711bn (-\$103bn compared to the week prior).

The TGA balance is approx. \$80bn *higher* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

QE Program

There are no Treasury or MBS purchase operations scheduled at this time. Links to historical operation schedules; -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ombs_operation_schedule

CALENDAR W/C 16 DECEMBER 2024

MONDAY 16 DECEMBER (US Eastern Time, unless stated otherwise)

Australia	S&P Prelim Manufacturing & Services PMI (Nov)
Japan	S&P Prelim Manufacturing & Services PMI (Nov)
China	House Prices, Fixed Asset Investment, Industrial Production, & Retail Sales (Nov)
Europe	ECB Lagarde speech, Eurozone S&P Prelim Manufacturing & Services PMI (Nov)
US	NY Empire M'facturing Index (Nov) S&P Prelim Manufacturing & Services PMI (Nov)
Canada	BoC Governor Macklem – annual speech

TUESDAY 17 DECEMBER

UK	Labor market (3mths Oct)
Canada	CPI (Nov)
US	Retail sales (Nov), Industrial Production (Nov), NAHB Housing Market Index (Dec)
Japan	Merchandise Trade Balance, Exports, and Imports (Nov)

WEDNESDAY 18 DECEMBER

UK	CPI (Nov)
Europe	Euro area CPI – Final (Nov)
US	MBA Mortgage Apps wk ending 14 Dec, Building Permits & Housing Starts (Nov) FOMC Monetary Policy Meeting
Japan	BoJ Monetary Policy Meeting

THURSDAY 19 DECEMBER

UK	BoE Monetary Policy Decision
US	Initial Jobless Claims wk ending 14 Dec, GDP Q3 – final, Philadelphia Fed & Kansas City Fed Manufacturing Index (Dec), Existing Home Sales (Nov)
Japan	National CPI (Nov)
China	PBoC Meeting

FRIDAY 20 DECEMBER

UK	Retail Sales (Nov)
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Canada	Retail Sales (Oct)
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US	PCE Price Index (Nov), Personal Spending & Income (Nov), University of Michigan Consumer Sentiment – Final (Dec)
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