MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 23 December 2024

Key events this week – US durable goods orders, RBA & BoJ minutes

Recap from last week: Fed signals shift to a cautious approach to further rate cuts.

The FOMC decision last week signaled a more hawkish shift in the Fed's stance. Even the decision to cut rates by 25bps last week was described as a “closer call” by Fed Chair Powell. There was one dissenting vote - Beth Hammack preferred to keep policy settings unchanged.

The Fed’s Dec decision reflected a shift away from ‘recalibrating policy’, to being “at or near a point at which it will be appropriate to slow the pace of further adjustments”. After 100bps of cuts over the last three meetings, the Fed signaled that it is now “significantly closer” to the neutral policy rate, and it will be moving cautiously on further rate cuts. The SEP reflected fewer rate cuts for 2025 – with 50bps of cuts penciled in at this stage.

> “Nonetheless, we see ourselves as still on track to continue to cut.” Fed Chair Powell, Press Conference 18 Dec 2024

This shift partly stems from a change in the Fed's view on the upside risk to inflation. While the Fed maintains its belief in the disinflationary trend, it acknowledges that more work needs to be done to bring inflation down. PCE inflation is likely to end the year higher than expected, and FOMC members now project higher headline inflation at the end of 2025, with a longer path back to the 2% target according to the latest SEP. The stalling progress on inflation was firmly acknowledged at this meeting;

> “So you've got, you had two months of higher inflation, September and October, as I mentioned November is back on track but once again we've -- we've had a year-end projection for inflation and it's kind of fallen apart as we've approached the end of the year.”

> “…inflation has once again underperformed relative to expectations.” US Fed Chair Powell, Press Conference 18 Dec 2024

However, the slower rate cut path also considered that the growth outlook is likely to remain stronger and unemployment stable, while near-term, policy uncertainty remains elevated. New guidance reflected this firmer growth backdrop and slower progress on inflation, emphasizing the need to carefully consider the "extent and timing" of further rate cuts. Fed Chair Powell noted that the FOMC will be looking for further progress on inflation and continued strength in the labor market before considering additional rate cuts.

The Nov PCE inflation report showed some improvement on a monthly basis, with headline inflation moderating to +0.1%. However, the annual inflation rate increased from +2.3% in Oct to +2.4% in Nov, highlighting the Fed's ongoing concerns. While headline inflation was +2.7% a year ago, most of the 0.26 percentage point decline since then occurred in the first half of the year. Moreover, the projection for headline PCE inflation in 2025 has been revised upward to +2.5%, exceeding the +2.1% projected in Sept.

Core PCE inflation has remained firm, posing a challenge for the Fed. While acknowledging this, Fed Chair Powell highlighted progress in certain areas. In Nov, core PCE inflation remained unchanged at +2.8% year-over-year, with the monthly rate easing to +0.1%. A year ago, core PCE was at +3.2%, with most of the 0.4 percentage point decline occurring in the first five months.

This context informs the Fed's 2025 projection. Core PCE is projected to reach +2.5% by the end of 2025, representing a decrease of only 0.3 percentage points from the November 2024 level. This slower pace of deceleration compared to earlier in the year underscores the challenge for the Fed. Despite this, Fed Chair Powell emphasized that a decline to +2.5% core PCE inflation by the end of 2025 would still represent "significant progress."

> "So we and most other forecasters still feel that we're on track to – to get down to 2 percent it might take another year or two from here, but I'm confident that that's the path we're on." US Fed Chair Powell, Press Conference 18 Dec 2024

Both measures of PCE inflation were projected to be at 2% at the end of 2026, as recently as the September projections. The projection of 2% inflation has now been pushed out to the end of 2027.

There was a varied emphasis regarding the other central bank decisions last week.

The BoE kept rates unchanged as expected, however, that decision was based on a 6-3 majority. There seems to be a narrowing path for the BoE; inflation is firm and domestic price pressures are "resolving more slowly" than expected, while near-term activity has been weakening. This is against a backdrop of elevated levels of policy uncertainty based on the Autumn budget measures, geopolitical uncertainties, and trade policy uncertainty.

The BoJ also kept policy rates unchanged and tended to emphasize maintaining more accommodative settings for now. Accommodative financial conditions are aiding the recovery, while inflation is forecast to reach the price stability target in H2 2025. Risks and uncertainty over trade policy remain elevated. Governor Ueda's press conference seemed to be setting up for a later rate hike;

> Ueda said more information on Japan's wages and the policies of US President-elect Donald Trump is needed before the BOJ can decide on a rate hike. Source: Bloomberg

Outlook for the week ahead; Holiday week, US durable goods orders, and RBA/BoJ minutes.

It will be a short week with a quiet data calendar. US data highlights will be limited to the advance durable goods orders and new home sales – both of which will add to a further update to the Atlanta Fed GDP nowcast for Q4 growth. Several central banks will release minutes this week.

Key factors to watch this week:

- US Durable goods orders for Nov are expected to fall by -0.4% in Nov after increasing by +0.3% in Oct.
- New home sales are expected to increase at an annualized rate of +0.66m in Nov, up from 0.61m in Oct.

This data will top up the robust update on the US Q4 GDP run rate from last week. The Atlanta Fed GDP nowcast has the US Q4 growth run rate currently at +3.1%.

- The Tokyo CPI for Dec will provide an advance read on Japanese inflation for Dec. Tokyo core CPI ex fresh food is expected to increase to +2.5% in Dec, up from +2.2% in Nov.

There will be several central bank minutes released this week;

- The BoC will release the summary of deliberations for its 11 Dec meeting.

- The RBA will release the minutes of its latest meeting in Dec. This should provide some further background behind the shift from a restrictive outlook to a more dovish tone.
- The BoJ will release the minutes of the Oct meeting.

US Treasury Issuance; 23 - 27 December 2024

This week, the US Treasury will auction and settle approx. $513bn in ST Bills and FRNs, with a net paydown of -$42bn. The 2-year, 5-year, and 7-year Notes will be auctioned this week and will settle on 31 Dec.

QT this week: Approx $4.6bn 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 $B		Prior Auction High Rate %
25 Dec - Christmas Day Holiday								
23 - 27 Dec								
	19-Dec	24-Dec	4 week bill	80			Actual 4.230%	4.240%
	19-Dec	24-Dec	8 week bill	75			Actual 4.230%	4.260%
0.691	18-Dec	24-Dec	17 week Bill	64			Actual 4.220%	4.240%
				219	245	-26		
	23-Dec	26-Dec	13 week bill	81			Announced	4.250%
	23-Dec	26-Dec	26 week bill	72			Announced	4.160%
	23-Dec	26-Dec	42 Day CMB	65			Announced	4.270%
3.936	23-Dec	26-Dec	52 week bill	48			Announced	4.190%
				266	310	-44		
	24-Dec	27-Dec	2yr FRN	28			Announced	0.205%
				28		28		
			Total - securities settling this week	513	555	-42		
			Net New Cash Raised Qtr to Date	***7497***	***6753***	***744***		
			Estimated Net Cash to be Raised Q4			*546*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		24-Dec	ST Bills	0.7				
		26-Dec	ST Bills	3.9				
				4.6				
		Maturing & redemption (balance sheet roll-off)						
			Nil					
	Upcoming Auctions			**$B**				
	23-Dec	31-Dec	2yr Note	69				
	24-Dec	31-Dec	5yr Note	70				
	26-Dec	31-Dec	7yr Note	44				
				183				

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.

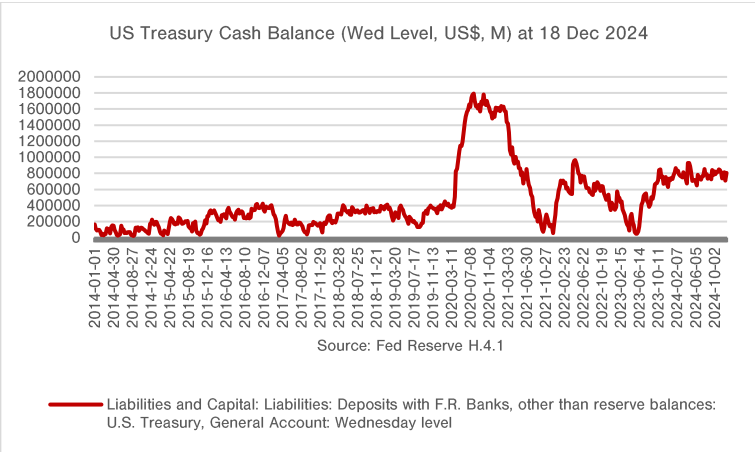
> The borrowing estimate is $19 billion lower than announced in July 2024, largely due to a higher beginning-of-quarter cash balance partially offset by lower net cash flows.

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 18 Dec 2024, the level of the TGA increased back to $804bn (+$104bn compared to the week prior).

The TGA balance is approx. $71bn *higher* than the same week a year ago.



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&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/ambs_operation_schedule

MONDAY 23 DECEMBER (US Eastern Time, unless stated otherwise)

UK	GDP Q3
US	Chicago Fed National Activity Index (Nov) – tbc
Japan	BoJ Minutes
Australia	RBA Minutes

TUESDAY 24 DECEMBER

US	Advance Durable Goods Orders (Nov), New Home Sales (Nov), Richmond Fed Manufacturing Index (Dec)

WEDNESDAY 25 DECEMBER

	Christmas Day Holiday

THURSDAY 26 DECEMBER

US	Initial Jobless Claims wk ending 21 Dec, MBA Mortgage Apps wk ending 21 Dec
Japan	Tokyo CPI (Dec), Industrial Production – Prelim (Nov), Retail Sales (Nov)

FRIDAY 27 DECEMBER