Key events this week – US CPI, PPI, & retail sales, China GDP, Trump cabinet confirmation hearings start

Recap from last week: FOMC minutes and a better-than-expected US jobs report.

The Dec minutes show the FOMC navigating a shifting balance between increased upside risks to the inflation outlook and some diminishing downside risks to the labor market. The committee decided to cut rates by 25bps at the Dec meeting, but some Fed members noted that there was “merit” in keeping the FFR unchanged. The “finely balanced" decision aimed to maintain strength in the economy and the labor market while continuing to support progress on inflation.

Regarding the outlook though, the Committee indicated that the pace of future rate cuts would likely slow down. If data comes in as expected with inflation continuing to move down to 2%, and the economy remaining near max employment, it would be appropriate to move gradually to a more neutral stance over time. Although inflation had eased over the last two years, members noted recent elevated inflation readings, slower progress on disinflation through the latter half of 2024, strength in spending, some easing in downside risks for the labor market, and importantly, “increased upside risks to the outlook for inflation”. After 100 bps of rate cuts, monetary policy was seen as "significantly less restrictive" and the FFR closer to its neutral value. Amid this backdrop of firmer inflation, a solid labor market, robust growth, and some Fed easing already in place, the high degree of uncertainty regarding the scope and impact of new trade and immigration policies on growth and inflation also supported a more gradual approach toward neutral policy settings.

The Dec US jobs report likely helped to alleviate any concerns over a near-term weakening in the labor market. Non-farm payroll growth for Dec exceeded expectations, increasing by 256k jobs, building further on the rebound from the weak Oct report. Revisions for Oct and Nov were minimal. The detail of the payroll report was positive, with growth in total non-farm payrolls led by the private sector. The split between private goods-producing and services-providing jobs growth reflected the broader trends in the US economy; weaker conditions in manufacturing jobs were offset by stronger growth among service industries.

The unemployment rate fell to 4.1% in Dec, easing from its near-term peak of 4.2% in Nov. The lower unemployment rate was the result of a rebound in employment growth after two months of declines. The LFPR was unchanged in Dec but has edged lower in recent months. Of note was a further fall in the participation rate within the core working age group. After peaking at 83.9% in Aug 2024, the participation rate for 25-54yrs has fallen back to 83.3% in Dec. This is still just above the pre-pandemic level of 83% (Dec 2019), but it has lost some of the more notable pandemic-era gains. The rising participation rate has likely been an important contributor to improved labor supply, as well as helping to underpin income and consumption growth.

Growth in hours worked was in line with payroll growth. Average hourly earnings increased in line with expectations at +3.9%. There was a solid rebound in job openings in the Nov JOLTS report, indicating some increase in labor demand.

The next FOMC meeting is on 28-29 Jan. If inflation progress remains little changed/stalled in Dec, this labor market report likely supports no action from the Fed in Jan. At the time of writing, market pricing for rate cuts has been pushed out later into H2 2025 (source: CME FedWatch).

As expected, other US data last week helped to firm the growth run rate for Q4. The Atlanta Fed GDPNowcast for Q4 GDP growth edged higher from +2.4% to +2.7%. Growth in auto sales for Dec and the stronger momentum in the ISM services PMI contributed to a firming in the Q4 growth run rate.

More broadly, the S&P global composite PMI for Dec showed a further improvement in global private sector growth momentum at the end of 2024. This was led by a further increase in global service sector business activity that more than offsetting the renewed, yet slight, contraction in global manufacturing output.

Outlook for the week ahead; Focus on US CPI, PPI, retail sales, and Senate confirmation hearings.

It will be another important week for the outlook on US inflation, growth, and what it means for the near-term path of rates ahead of the next FOMC meeting. The focus will be on US CPI and PPI, together with a solid range of US spending, housing, and output data for Dec.

We may also start to gain some sense of the incoming administration priorities ahead of the inauguration of US President-elect Trump next week. Senate confirmation hearings for President-elect Trump's cabinet nominees will begin this week with some notable hearings including the US Treasury Secretary. This may come with some headline risk.

With the labor market remaining solid, the latest US inflation data will be an important input ahead of the next Fed meeting on 28-29 Jan. This will also depend on how both the CPI and PPI results track back into the Fed-preferred PCE inflation measure. The next PCE inflation report will be released 31 Jan.

This will also be the final week of Fed speeches before the blackout period ahead of the next FOMC meeting.

Key factors to watch this week:

- The week kicks off with US PPI for Dec; US headline PPI for Dec is expected to increase by +3% over the year, unchanged from +3% in Nov. The increase in monthly PPI is expected to be unchanged at +0.3%. Annual core PPI is expected edge lower to +3.2% in Dec, from +3.4% in Nov. The monthly increase in core PPI is expected to be unchanged at +0.2% in Dec.
- US headline CPI is expected to increase slightly to +2.8% over the year from +2.7% in Nov. The monthly increase in CPI is expected to remain unchanged at +0.3% in Dec. Core CPI is expected to ease slightly to +3.2% over the year in Dec, from +3.3% in Nov. The increase in monthly core CPI is also expected to ease to +0.2% in Dec from +0.3% in Nov.
- US retail sales for Dec are expected to increase by +0.5%, from +0.7% in Nov. In Nov, growth in the retail control measure (feeds into GDP consumption calculations) was +0.4%.
- US industrial production is expected to increase by +0.3% in Dec after falling by -0.1% in Nov. The first regional Fed manufacturing surveys for Jan will be released this week.
- US housing data is expected to be little changed. New permits in Dec are expected to edge lower to 1.46m (annualized) from 1.49m in Nov. Housing starts are expected to increase to 1.33m (annualized pace) from 1.29m (annualized) in Nov.
- The US Fed Beige Book will be released, providing a summary of regional insights into economic activity ahead of the FOMC meeting at the end of the month.

Outside of the US, the focus shifts to UK and Euro area inflation, the Aus labour market update, and important data on Chinese growth.

- The final version of the Euro area CPI for Dec will be released this week. Last week, the Euro area prelim CPI for Dec came in as expected at +2.4% in Dec, up from +2.2% in Nov. Core CPI was unchanged at +2.7%. Services inflation firmed to +4%, and increased by +0.8% over the month.

- The ECB minutes will be released this week.
- UK CPI is likely an important data release for the BoE outlook. The decision not to cut at its most recent meeting reflected the need to ‘squeeze remaining inflationary pressures from the economy’ amid some weakening in near-term activity. The increase in UK headline CPI is expected to be unchanged at +2.6% in Dec. Core CPI is expected to ease slightly to +3.4% in Dec, from +3.5% in Nov. One of the key inflation measures to watch will be services inflation – which had stalled at +5% in both Oct and Nov.
- The Aus labour market data for Dec will be released this week. Net employment growth is expected to slow to +10k in Dec while participation is expected to remain unchanged at 67%. The unemployment rate is expected to edge higher to 4% in Dec, up from 3.9% in Nov.
- There will be a notable range of Chinese economic data out this week. Growth in Q4 is expected to lift to +1.7% over the quarter, from +0.9% in Q3. Annual GDP growth is expected to reach +5% over the year in Q4, up from +4.6% in Q3. Fixed asset investment (exp +3.3%), industrial production (exp +5.4%), and retail sales (exp +3.5%) growth in Dec are expected to be little changed from Nov.

US Treasury Issuance; 6 - 10 January 2025

This week, the US Treasury will auction and/or settle approx. $609bn in ST Bills, Notes, and Bonds raising approx. $34bn in new money.

QT this week: Approx $36bn of ST Bills, Notes, Bonds, and TIPS will mature on the Fed balance sheet and will be reinvested. Approx $16.4bn of Notes, Bonds, and TIPS will mature on the Fed balance and will be redeemed/roll off the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
13-17 Jan	09-Jan	14-Jan	4 week Bill	95			Actual 4.245%	4.265%
	09-Jan	14-Jan	8 week Bill	90			Actual 4.240%	4.240%
	08-Jan	14-Jan	17 week Bill	64			Actual 4.190%	4.195%
				249	230	19		
	13-Jan	16-Jan	13 week Bill	84			Announced	4.205%
	13-Jan	16-Jan	26 week Bill	72			Announced	4.110%
	14-Jan	16-Jan	42-Day CMB	85			Announced	4.245%
				241	226	15		
	06-Jan	15-Jan	3yr Note	58			Actual 4.332%	4.117%
	07-Jan	15-Jan	10yr Note	39			Actual 4.680%	4.235%
	08-Jan	15-Jan	30yr Bond	22			Actual 4.913%	4.535%
				119	119.3	0		
			Total - securities settling this week	609	575	34		
			Net New Cash Raised Qtr to Date	***1737***	***1664***	***73***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***823***		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		14-Jan	ST Bills	0.7				
		16-Jan	ST Bills	9.0				
		15-Jan	Notes, Bonds, and TIPS	26.2				
				35.9				
		Maturing & redemption (balance sheet roll-off)						
		15-Jan	Notes, Bonds, and TIPS	16.4				
				16.4				

Quantitative Tightening Overview – January 2025

In Jan, the face value of Coupons maturing on the Fed balance sheet is approx. $64.8bn. This is more than the $25bn monthly cap on Treasury redemptions. So of the $64.8bn of Coupons maturing in Jan, $25bn will roll off the Fed balance sheet and $39.8bn will be reinvested. It also means that all ST Bills maturing in Jan will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $25bn redemption cap - Jan 2025			
			$25
		Redeem $Bn	Reinvest $ Bn
15-Jan-25	Notes, Bonds, and TIPS	16.4	26.2
31-Jan-25	Notes, Bonds, and FRNs	8.6	13.7
	Bills		56.1
	Total Notes & Bonds	25.0	95.9

Jan 2025 ST Bill maturity schedule;

Bill Maturity Schedule - Jan 2025			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/01/02	9.25	16%	0.0	9.2
2025/01/07	0.73	1%	0.0	0.7
2025/01/09	8.38	15%	0.0	8.4
2025/01/14	0.73	1%	0.0	0.7
2025/01/16	9.00	16%	0.0	9.0
2025/01/21	0.72	1%	0.0	0.7
2025/01/23	11.14	20%	0.0	11.1
2025/01/28	0.72	1%	0.0	0.7
2025/01/30	15.42	27%	0.0	15.4
	56.1	100%	0.0	56.1

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.

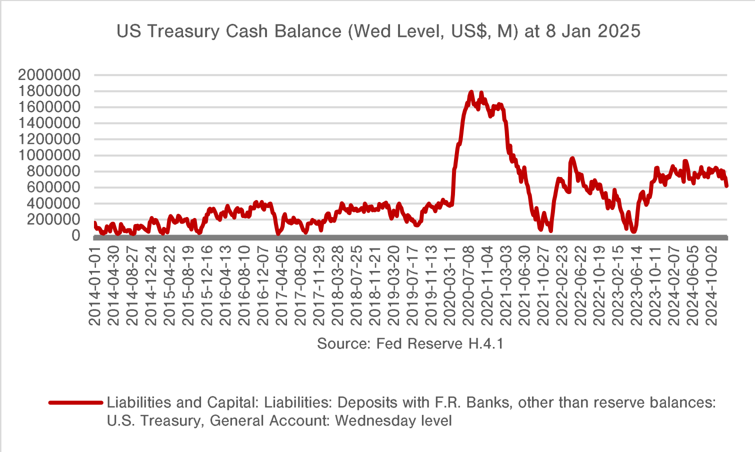
The estimated Q1 2025 borrowing requirement; The US Treasury expects to borrow $823 billion in privately-held net marketable debt, assuming an end-of-Mar cash balance of $850 billion.

The next scheduled update will be on 3 and 5 Feb 2025 – after the new administration takes office.

US Treasury Cash Levels (TGA)

As of Wed 8 Jan 2025, the level of the TGA decreased to $620bn (-$101bn compared to the week prior).

The TGA balance is approx. $107bn lower 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

CALENDAR W/C 13 JANUARY 2025

MONDAY 13 JANUARY (US Eastern Time, unless stated otherwise)

China	Trade Balance, Exports, and Imports (Dec)
US	CB Employment Index (Dec)
Australia	Westpac Consumer Sentiment (Jan) - tbc

TUESDAY 14 JANUARY

US	PPI (Dec), Fed speeches; Schmid, Williams

WEDNESDAY 15 JANUARY

UK	CPI (Dec)
Europe	Eurozone Industrial Production (Nov)
US	MBA Mortgage Apps wk ending 11 Jan, CPI (Dec), NY Empire State Manufacturing Index (Jan), Fed Beige Book, Fed speeches; Goolsbee, Williams, Barkin
Japan	PPI (Dec)
Australia	Labour Market Survey (Dec)

THURSDAY 16 JANUARY

Europe	ECB Minutes
US	Initial Jobless Claims wk ending 11 Jan, Retail Sales (Dec), Export & Import Price Index (Dec), Philadelphia Fed Manufacturing Index (Jan), NAHB Housing Market Index (Jan)
China	GDP Q4, F/A Investment, Industrial Production, and Retail Sales (Dec), New Loans (Dec tbc)

FRIDAY 17 JANUARY

UK	Retail Sales (Dec)
Europe	Euro Area CPI – Final (Dec)
US	Building Permits & Housing Starts (Dec), Industrial Production (Dec)