

Key events this week – Inauguration, central banks, and S&P prelim PMIS for Jan 2025

Recap from last week: US inflation concerns ease, growth momentum lifts.

Markets generally took comfort from the US CPI and PPI reports last week. The headline and core CPI rates were actually little changed in Dec compared to Nov, even firming slightly in the case of headline inflation, which increased to +2.9%. These topline results still indicate some risk of stalled progress on disinflation. However, the test of the disinflation narrative will likely emerge in the first few months of 2025 as inflation data cycles over the elevated readings from last year. This will happen alongside the unfolding detail of the policy direction of the new Trump administration and its implications for inflation.

While there wasn't a clear downshift in US CPI this month, there were some signs that the path of underlying inflation continues to ease – especially in some of the services categories where inflation has been more persistent. Core services inflation was still high at +4.5% year-over-year in Dec (down from +4.6% in Nov), but the more recent annualized rates, +3.6% on a 3-month annualized basis and +3.2% on a 1-month annualized basis, suggest that the rate may continue to slow. Of note was the further progress on shelter price inflation – something that Fed officials have been expecting. The core services less shelter CPI measure also showed a similar improvement. This may give the FOMC some comfort that the underlying disinflation story remains intact.

However, despite slowing in the most recent month, some of these more near-term annualized rates remain elevated. Other measures of underlying inflation also suggest that more progress is needed. The trimmed mean CPI, also a consistent measure of the behavior of underlying inflation, has been little changed over the last five months at +3.2% and as of Dec, there is little difference among the annual, 6mth, or 3mth annualized inflation rates – suggesting little progress in near-term underlying inflation.

From here, it depends on how this CPI and PPI report translates into the Fed's preferred PCE inflation measure for Dec. The Nov PCE inflation report did show more progress, especially over the month in Nov with core PCE coming in lower at +0.1% over the month. Fed Governor Waller also noted this in a [recent speech](#). Another soft reading on the PCE indicator would help support the ongoing disinflation story. The latest [Cleveland Fed PCE inflation nowcast](#) for the PCE deflator for Dec indicates a possibly slightly firmer monthly core reading. The Dec PCE inflation report is due after the FOMC meeting next week.

US consumption, output, and housing data in Dec remained broadly positive. US retail sales growth was slightly lower than expected at +0.4%, but the Nov increase was revised higher. The retail control measure (feeds into the GDP consumption component) was notably stronger at +0.7% in Dec. US industrial production recorded a strong rebound in growth. The latest Fed Beige Book also noted an improvement in conditions from Nov through Dec among the twelve Federal Reserve Districts. The [Atlanta Fed GDP nowcast](#) for Q4 growth run rate lifted back up to a solid +3% by the end of last week. Leading up to the FOMC meeting next week, economic conditions remain generally positive in the US. Markets currently expect the FOMC to stay on hold at the Jan meeting and have, at the time of writing, moved back to [pricing in one rate cut this year](#) (CME FedWatch).

Other data from last week will be important ahead of the first central bank meetings of the year.

UK inflation for Dec was more constructive with headline and core inflation slightly lower than expected. The story of underlying inflation also improved, especially with the more persistent services inflation taking a notable step down to +4.4% in Dec (from +5%). This will be good news for the BoE. The BoE did not cut at the last meeting reflecting the need to “squeeze remaining inflationary pressures from the economy” amid “sluggish demand and a weakening labour market”. This weaker backdrop was partly reflected in data last week with falls in industrial production, retail sales, and modest growth in the monthly GDP indicator for Nov. The latest UK labor market data will be out this week, ahead of the BoE meeting in several weeks.

The Aus labour market report recorded surprisingly strong employment growth in Dec. The unemployment rate still increased slightly as the labour force participation rate increased to another new all-time high. The continued growth in employment will be welcomed by the RBA, given sluggish overall economic growth. The RBA has only just started to signal that the Board is gaining confidence that inflation is moving sustainably to the target. The crucial quarterly CPI report for Q4 will be released next week. At this stage, markets are [pricing around Apr for the first cut](#).

Euro area headline inflation for Dec was confirmed at +2.4%, with core inflation remaining unchanged at +2.7%. Services inflation remained at +4% over the year and rose by +0.8% over the month. ECB officials reaffirmed confidence in expectations that inflation would return to the 2% target in 2025. Minutes noted that the “last step towards achieving the inflation target would be a moderation in services inflation”, which was projected to decrease noticeably H1 2025, and that “it cannot let its guard down in the final stretch of disinflation”. Concerns remained elevated over the growth outlook, policy uncertainty in its two largest economies, and the potential impact of US trade policy especially amid sluggish/uneven growth. The ECB meets next week.

Outlook for the week ahead; Inauguration, central banks, and the first S&P prelim PMIS for Jan 2025

The main event this week will be the inauguration of US President Trump for his second term in office. In the first hours and days of the Trump Presidency, global markets and key stakeholders will be awaiting direction from announcements relating to major campaign promises, especially on trade, tariffs, and immigration policy. Later in the week, President Trump will also address the [WEF Davos](#) annual forum (20-24 Jan) via video link.

Key factors to watch this week;

With limited US data out this week, there won't be an update to the GDP nowcast until the end of next week. Existing home sales for Dec are expected to increase slightly to 4.19m (annualized pace), up from 4.15m in Nov. The Michigan Consumer Sentiment for Jan is expected to be unchanged.

This week is the blackout period for US Fed speeches ahead of the FOMC meeting next week.

More broadly, the S&P Prelim PMIs for Jan will be released later this week. This will provide the first view of growth momentum among key G4 nations (and Aus) coming into 2025. The prior year ended with rising momentum in services activity helping to offset some lackluster manufacturing conditions.

The first central bank meetings of 2025 will begin this week – with most major central banks meeting over the next few weeks. Data this week will feed into those decisions.

The first meeting will be the Bank of Japan this week, with its policy announcement/decision expected on 24 Jan. The BoJ kept rates unchanged at its last meeting in Dec. In his [press conference after that meeting](#), BoJ Governor 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". Yet with limited resolution on those sticking points, speeches and interviews over the last few weeks have raised market expectations for a hike by the BoJ later this week. Governor Ueda indicated that a hike may be under consideration at this meeting, and also noted some early positive developments on wage negotiations. The key National CPI report for Dec will be released at around the same time as the BoJ meeting. The BoJ-preferred core CPI measure ex fresh food is expected to lift from +2.7% in Nov to +3% in Dec.

Canada's CPI for Dec is expected to ease. Headline CPI is expected to slow to +1.7% in Dec from +1.9% in Nov. Measures of core inflation are also expected to slow further. The BoC Business Outlook survey will also be released this week, providing a broad view of activity leading up to the BoC meeting next week.

NZ CPI for Q4 is expected to ease further to +0.5% over the quarter, down from +0.6% in Q3. The annual rate is expected to slow to +2.1% in Q4 from +2.2% in Q3.

US Treasury Issuance; 20 - 24 January 2025

This week, the US Treasury will auction and/or settle approx. \$603bn in ST Bills raising approx. \$106bn in new money. The US Treasury will also auction the 10-year TIPS and 20-year Bond this week – both to settle at the end of the month.

QT this week: Approx \$12bn 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 %
20 Jan - National Martin Luther King, Jr Day								
20-24 Jan	16-Jan	21-Jan	4 week Bill	95			Actual 4.240%	4.245%
	16-Jan	21-Jan	8 week Bill	90			Actual 4.235%	4.240%
	15-Jan	21-Jan	17 week Bill	64			Actual 4.210%	4.190%
				249	230	19		
	21-Jan	23-Jan	13 week Bill	84			Announced	4.225%
	21-Jan	23-Jan	26 week Bill	72			Announced	4.180%
	21-Jan	23-Jan	42-Day CMB	85			Announced	4.240%
	22-Jan	23-Jan	33-Day CMB	65			Announced	
	21-Jan	23-Jan	52 week Bill	48			Announced	4.070%
				354	267	87		
			Total - securities settling this week	603	497	106		
			Net New Cash Raised Qtr to Date	2340	2161	179		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			823		
			Face value of US Federal Reserve SOMA securities maturing		\$B			
			Maturing & reinvestment					
		21-Jan	ST Bills	0.7				
		23-Jan	ST Bills	11.1				
				11.9				
			Maturing & redemption (balance sheet roll-off)					
			Nil	0.0				
				0.0				
			Upcoming Auctions		\$B			
	23-Jan	31-Jan	10yr TIPS	20				
	22-Jan	31-Jan	20yr Bond	13				
				33				

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
2025/01/02	9.25	16%	0.0
2025/01/07	0.73	1%	0.0
2025/01/09	8.38	15%	0.0
2025/01/14	0.73	1%	0.0
2025/01/16	9.00	16%	0.0
2025/01/21	0.72	1%	0.0
2025/01/23	11.14	20%	0.0
2025/01/28	0.72	1%	0.0
2025/01/30	15.42	27%	0.0
	56.1	100%	0.0

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

Recommended US Treasury Financing – Q4 2024 & Q1 2025

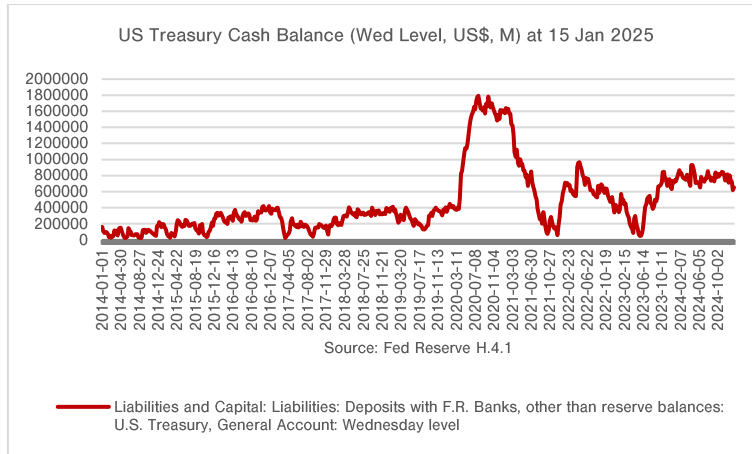
The latest [US Treasury quarterly refunding and financing estimates](#) for Q1 2025; The US Treasury expects to borrow \$823 billion in privately-held net marketable debt, assuming an end-of-Mar cash balance of \$850 billion. The next scheduled update will be on 3 and 5 Feb 2025 – after the new administration takes office.

On 17 Jan 2025, outgoing [US Treasury Secretary Yellen advised](#) that the US Treasury would begin using extraordinary measures on 21 Jan 2025 to avoid breaching the new debt limit. The debt limit will need to be increased or suspended. The extraordinary measures could last several months, and resolution will rest with the incoming administration.

US Treasury Cash Levels (TGA)

As of Wed 15 Jan 2025, the level of the TGA increased to \$651bn (+\$31bn compared to the week prior).

The TGA balance is approx. \$122bn *lower* 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 20 JANUARY 2025

MONDAY 20 JANUARY (US Eastern Time, unless stated otherwise)

Japan	Industrial Production – Final (Nov)
US	MLK Birthday – Holiday, US President Trump Inauguration
Canada	BoC Business Outlook Survey
Switzerland	WEF/Davos Forum – 20-24 Jan

TUESDAY 21 JANUARY

UK	Labor Market Survey (3mth to Nov)
Canada	CPI (Dec)
NZ	CPI Q4

WEDNESDAY 22 JANUARY

US	MBA Mortgage Apps wk ending 18 Jan
Japan	Merchandise Trade Balance, Exports, and Imports (Dec)

THURSDAY 23 JANUARY

Canada	Retail Sales (Nov)
US	Initial Jobless Claims wk ending 18 Jan, Kansas City Fed Manufacturing Index (Jan)
Australia	S&P Manufacturing & Services PMI – Prelim (Jan)
Japan	National CPI (Dec), S&P Manufacturing & Services PMI – Prelim (Jan) Bank of Japan Policy Meeting

FRIDAY 24 JANUARY

Europe	Eurozone S&P Manufacturing & Services PMI – Prelim (Jan)
UK	S&P Manufacturing & Services PMI – Prelim (Jan)
US	S&P Manufacturing & Services PMI – Prelim (Jan), Existing Home Sales (Dec), Michigan Consumer Sentiment – Final (Jan)
