

Key events this week – FOMC, ECB, and BoC meetings, PCE inflation, and Q4 growth

Recap from last week: Shifting PMIs and the BoJ hikes.

The first prelim S&P PMIs for 2025 signaled a shift in momentum. Manufacturing weakness showed some signs of easing, though the sector remained in contraction in key economies, including Australia, the Eurozone, Japan, and the UK. Meanwhile, the services sector continued to expand modestly with little change in momentum across major economies, including Australia, Japan, the UK, and the Eurozone.

The prelim US PMIs painted a mostly positive picture of US activity at the start of 2025. The US manufacturing PMI strengthened and shifted into marginal expansion for the first time in six months. Firms continued to cite concerns over slow manufacturing sales though. The stronger US services sector recorded a marked slowdown to a more modest pace of growth – the slowest of the past eight months. However, firms broadly maintained stronger optimism in the growth outlook, alongside faster expansion in services employment. The PMI survey noted a resumption of inflation pressure across both input and output/selling prices.

The first central bank meetings of 2025 began last week. The BoJ increased rates by a further 25bps to 0.50%, noting that “the likelihood of realizing the outlook has been rising”. The BoJ assessed positive developments on wage growth – which has been an important feature as it looks to foster the development of that ‘virtuous cycle’. Real rates are to remain “significantly negative” to continue to support the moderate recovery in the Japanese economy. Further hikes and adjustments to the degree of monetary accommodation are to be expected if the economy continues to evolve as per the outlook forecast. Inflation forecasts have been upgraded.

Data last week was important to upcoming central bank meetings. Canada’s CPI edged lower in Dec to +1.8% – as the sales tax break came into effect mid-month. Importantly, the BoC measures of core inflation resumed easing with the average over the three core measures slowing to +2.3% in Dec. The BoC Business Outlook survey showed business sentiment remaining subdued, but some optimism emerging in the outlook for sales growth as interest rate reductions work through the economy and in anticipation of rate cuts ahead. The BoC meets this week. At the last meeting, the BoC signaled that, after cutting rates by 50bps at each of the last two meetings, it would return to a more gradual pace of monetary easing. The BoC is expected to cut rates again by 25bps this week.

The unemployment rate in the UK increased in the 3 months to Nov as payroll jobs fell and the employment rate also edged slightly lower. Vacancies continued to fall. However, wage growth stayed firm. The BoE meets on the 6 Feb.

Outlook for the week ahead; FOMC, ECB, and BoC meetings, inflation, and Q4 growth.

It will be an important week with more key central bank meetings, inflation data for the US and Aus, and growth indicators for the US and Europe.

Key factors to watch this week;

The first central bank meetings of 2025 will continue this week;

- The FOMC is expected to keep rates unchanged. At its last meeting, the FOMC cut rates by 25bps, citing the decision to cut as a “closer call”. The decision signaled a shift away from the process of recalibrating rates to a more cautious and gradual pace as policy rate settings approached neutral levels. Fed Chair Powell noted slower progress on inflation and elevated uncertainty over the impact of new administration policies on growth and inflation. With some mixed inflation data out since the last meeting, we will look for any shifts in the Fed's view of the outlook. The Dec PCE inflation data will be released at the end of the week.
- The BoC is expected to cut rates by 25bps at this meeting. At its last meeting, the BoC signaled a shift to a more gradual pace of policy easing. Last week, [Bloomberg](#) reported a speech by BoC Deputy Governor Gravelle that the BoC plans to end its QT program in the first half of 2025. The BoC may begin to outline these changes at upcoming meetings.
- The ECB is expected to cut rates by 25bps at this meeting. At its last meeting the ECB cut rates by 25bps – based on its view that the disinflation process was continuing. The Governing Council noted that concerns remained elevated over a weaker growth outlook, the policy uncertainty in its two largest economies, and the potential impact of US trade policy. Since then, inflation data has been little changed, with underlying CPI staying around +2.7%. Growth is expected to slow in Q4.

Inflation data this week will be important for the path of policy rates;

- US PCE inflation for Dec will be released at the end of the week. The Fed preferred core PCE inflation is expected to firm slightly over the month to +0.2% in Dec from +0.1% in Nov. This would leave the annual core PCE inflation rate unchanged at +2.8% over the year and in line with the upgraded FOMC projection of +2.8% for the full year 2024. A softer core PCE reading would be supportive of the disinflation narrative for the FOMC. Using the [Cleveland Fed nowcast for PCE inflation in Dec](#), the headline rate is expected to increase by +0.3% over the month, up from +0.1% in Nov. This would raise the annual rate to +2.6% over the year in Dec (higher than the FOMC year-end projection of +2.4%). The broader inflation narrative will be challenged over the next few months as we cycle over the higher readings from the start of 2024.
- Also important for the FOMC view on inflation will be the Employment Cost Index for Q4. This is expected to increase by +1% over the quarter in Q4, up from +0.8% in Q3. This would keep the annual ECI unchanged at +3.7% in Q4.
- The Aus quarterly CPI for Q4 will be released this week. This will be crucial for the upcoming RBA meeting in Feb given that the Board shifted its signaling at the last meeting to reflect that the Board is gaining confidence that inflation is moving sustainably to the target. The RBA has yet to commence cutting rates. Annual headline inflation in Q4 is expected to ease to +2.5% from +2.8% in Q3. The RBA-preferred trimmed mean measure of core inflation is expected to slow to +3.3% in Q4, down from +3.6% in Q3. This would put the core measure just outside of the RBA target band of 2-3%.

The first view of US and Euro area growth data for Q4 will be released this week – this will also be important for the broader central bank outlook.

- The advance release of US GDP for Q4 will be released this week. Annualized growth is expected to slow slightly to +2.7%, from +3.1% in Q3. The [Atlanta Fed GDP nowcast](#) has Q4 US growth tracking at around +3% annualized. The latest FOMC projections had upgraded the end-of-year growth projection to +2.5% for the end of 2024.

- Prelim growth data for Europe in Q4 will be released. The Euro area growth rate is expected to slow to +0.1% in Q4, from +0.4% in Q3. Over the year, growth is expected to be +1% at the end of Q4, up slightly from +0.9% in Q3. The latest ECB projections have GDP growth at +0.7% at the end of 2024.

Now that US President Trump has been inaugurated, policy details and directives have begun to emerge. The threat of tariffs remains a key issue for trading partners – especially for, but not limited to, Canada, Mexico, China, Japan, and the EU. A broader trade review is due by the incoming US Trade Representative on 1 Apr – and this will likely set the scene for the broader trade policy and tariff direction.

US Treasury Issuance; 27 - 31 January 2025

This week, the US Treasury will auction and/or settle approx. \$736bn in ST Bills, Notes, Bonds, TIPS, and FRNs raising approx. \$128bn in new money.

QT this week: Approx \$30bn of ST Bills, Notes, Bonds, and FRNs will mature on the Fed balance sheet and will be reinvested. Approx \$8.6bn in Notes, Bonds, and FRNs will mature and 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 %
27-31 Jan	23-Jan	28-Jan	4 week Bill	95			Actual 4.265%
	23-Jan	28-Jan	8 week Bill	90			Actual 4.250%
	22-Jan	28-Jan	17 week Bill	64			Actual 4.205%
				249	227	22	
	27-Jan	30-Jan	13 week Bill	84			Announced 4.215%
	27-Jan	30-Jan	26 week Bill	72			Announced 4.165%
	28-Jan	30-Jan	42-Day CMB	85			Announced 4.250%
				241	216	25	
	28-Jan	31-Jan	2yr FRN	30			Announced 0.140%
	27-Jan	31-Jan	2yr Note	69			Announced 4.335%
	27-Jan	31-Jan	5yr Note	70			Announced 4.478%
	28-Jan	31-Jan	7yr Note	44			Announced 4.532%
	23-Jan	31-Jan	10yr TIPS	20			Actual 2.243%
	22-Jan	31-Jan	20yr Bond	13			Actual 4.900%
				246	165	81	
			Total - securities settling this week	736	608	128	
			Net New Cash Raised Qtr to Date	3076	2769	307	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			823	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		28-Jan	ST Bills	0.7			
		30-Jan	ST Bills	15.4			
		31-Jan	Notes, Bonds, and FRNs	13.7			
				29.8			
			Maturing & redemption (balance sheet roll-off)				
		31-Jan	Notes, Bonds, and FRNs	8.6			
				8.6			

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

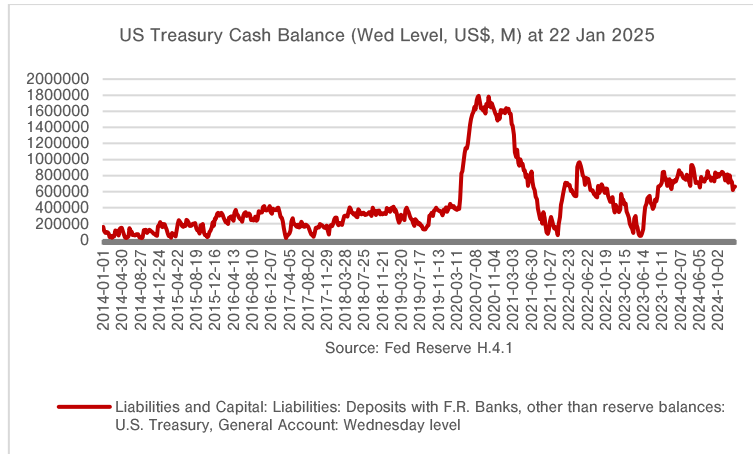
The latest [US Treasury quarterly refunding and financing estimates](#) for Q1 2025; The US Treasury expects to borrow \$823 billion in privately-held net marketable debt, assuming an end-of-Mar cash balance of \$850 billion. The next scheduled update will be on 3 and 5 Feb 2025 – after the new administration 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 22 Jan 2025, the level of the TGA increased to \$665bn (+\$14bn compared to the week prior).

The TGA balance is approx. \$149bn *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 27 JANUARY 2025

MONDAY 27 JANUARY (US Eastern Time, unless stated otherwise)

China	NBS Manufacturing and Non-Manufacturing PMI (Jan)
US	New Home Sales (Dec)
Australia	NAB Business Confidence and Conditions Survey (Dec)

TUESDAY 28 JANUARY

US	Durable Goods Orders (Dec), Case/Shiller House Price Index (Nov), Richmond Fed Manufacturing Index (Jan), Dallas Fed Manufacturing Index (Jan)
China	Chinese New Year
Australia	CPI Q4, Monthly CPI series (Dec)

WEDNESDAY 29 JANUARY

Canada	BoC Monetary Policy Meeting
US	MBA Mortgage Apps wk ending 25 Jan FOMC Monetary Policy Meeting

THURSDAY 30 JANUARY

Europe	Euro area Flash GDP Q4 ECB Monetary Policy Meeting
US	Initial Jobless Claims wk ending 25 Jan, GDP – Advance Q4, Pending Home Sales (Dec)
Japan	Tokyo CPI (Jan)

FRIDAY 31 JANUARY

Europe	Germany CPI – Prelim (Jan)
US	PCE Price Index (Dec), Personal Spending & Income (Dec), ECI Q4, Chicago PMI (Jan), Fed speeches; Bowman
