Weekly Macro Outlook

w/c 10 February 2025

Key events this week – US CPI & retail sales, Fed Chair Powell testimony, Euro area & UK GDP

Recap from last week: The US labor market remains solid in January.

The Jan jobs data indicates that US labor market conditions remain solid, maintaining a mostly positive signal for the overall economy.

At the last FOMC meeting, Fed Chair Powell characterized the US labor market as “pretty stable and broadly in balance”. He acknowledged that it is a “low hiring environment” but that the unemployment rate had been “pretty stable now for a full half a year”. While data revisions cloud the view, the Jan labor market report shows little change in those conditions.

Payroll growth slowed to +143k in Jan (expecting +154k); Private sector jobs increased by +111k and Govt by +32k. Services-providing industries accounted for all of the private sector job growth in Jan – but slowing from a more sizeable increase of +275k in Dec. The overall annual benchmark revision to the level of payrolls was slightly smaller than expected, but still resulted in the 12-month average payroll growth slowing from +186k to 166k in Dec. The Jan payroll growth remained slightly below this lower average benchmark. However, the upward revision to payroll growth of +100k in the last three months of 2024 suggests some stronger momentum through to the end of last year. The overall hiring rate remained stable at the end of Dec.

The unemployment rate fell to 4% in Jan from 4.1% in Dec. This was a positive development given that both participation and employment (using the employment-to-population ratio) increased in Jan. Other measures of unemployment also reflected slightly more positive, stable conditions.

Several pieces of labor force data stand out and will need to be monitored amid the noisy and heavily revised data this month. The first is the notable 7% fall in job openings at the end of Dec. Because these data are subject to revision, it is unclear whether, combined with slower payroll growth in Jan, they suggest some softening in labor demand.

The second area to be monitored is the further fall in aggregate and average weekly hours worked. Aggregate hours worked in private payrolls have declined in the last two months, falling by -0.2% in Jan (but also fell by -0.5% in Jan a year ago) and by -0.1% in Dec. Average weekly hours also declined in both Jan and Dec. One reason for the fall in Jan aggregate hours worked could be due to the notable increase of 573k people “employed but not at work” due to weather. However, this explanation doesn’t account for the fall in aggregate hours in Dec, which is also not consistent with the upward revision to the Dec payroll growth.

Finally, growth in average hourly earnings was firmer in Jan, increasing by +0.5% in the month from +0.3% in Dec. The annual rate lifted slightly to +4.1%. The Fed will need to watch how this evolves beyond Jan.

US ISM and S&P PMI surveys for Jan shifted back into alignment. Both surveys indicated some improvement in manufacturing activity while the larger services sector, despite staying positive, recorded a notable moderation in momentum. This is also consistent with the slowdown in services payroll jobs in Jan. The Atlanta Fed GDP nowcast of Q1 US GDP growth is currently at +2.9%.

The Global S&P PMIs mirrored that shift in the US, as global manufacturing output PMIs shifted to reflect marginal growth expectations, while services momentum moderated, but stayed positive. While the composite output expansion did moderate in Jan, indicators of future output optimism continued to improve, as did the employment index. Both input and output price indexes also firmed.

The BoE cut rates as expected, albeit with a surprising 7-2 vote (two members preferred a 50bps cut). The Committee cited sufficient disinflation progress as justification for the rate cut. Growth had also been weaker than expected. While higher energy prices pose some upside risk to headline inflation in the outlook, underlying inflation is projected to ease. The BoE will maintain a somewhat restrictive policy stance while inflation risks subside further, following a gradual and cautious path of rate reductions.

Outlook for the week ahead; US CPI & retail sales, Fed Chair Powell testimony

With stable labor market conditions supporting the Fed while it keeps rates on hold, the focus this week shifts to assessing progress on inflation and what it means for the path of US rates. The latest US retail sales and industrial production data will provide a more robust update to the Q1 growth rate. US Fed Chair Powell will also give two days of testimony this week. Outside of the US, Euro area and UK growth data will be in focus.

Key factors to watch this week;

US CPI and PPI for Jan will provide a guide for how the Fed-preferred PCE inflation report for Jan is likely to evolve. The FOMC is looking for further progress on core PCE inflation, particularly year-over-year, before easing policy further. We'll be watching how monthly core inflation compares to the higher readings from last year and importantly what it could mean for the PCE report in two weeks. While a single month's data may not be decisive, the Jan figures follow two more benign core PCE readings from Nov and Dec. These CPI and PPI reports could therefore influence expectations for US policy rates, with softer or firmer data potentially shifting the current market pricing of rate cuts in 2025.

- US headline CPI is expected to increase by +0.3% over the month in Jan, down from +0.4% in Dec. The annual rate is expected to stay unchanged at +2.9%.
- US core CPI is expected to increase by +0.3% in Jan, from +0.2% in Dec. A year ago, core CPI recorded +0.4% over the month in Jan. Annual core CPI is expected to slow to +3.1% in Jan from +3.25% in Dec.
- The headline PPI is expected to be unchanged at +0.2% in Jan. The annual rate is expected to slow to +3.1% in Jan from +3.3% in Dec.
- Core PPI is expected to increase by +0.3% in Jan from 0% in Dec. The annual core PPI rate is expected to slow to +3.3% in Jan from +3.5% in Dec.

Fed speeches;

- Fed Chair Powell will give two days of testimony to the US House of Representatives and the Senate this week. The tone of questioning will be interesting given the change in administration. Chair Powell is likely to reiterate the key themes from his recent FOMC press conference; economy and policy settings in a good place, looking for further progress on inflation, and in wait-and-see mode on tariffs/policy measure impacts on inflation.
- Fed Governor Waller is scheduled to speak on Wed (stablecoins) and may touch briefly on the inflation data/outlook.

Update on US growth at the start of Q1;

- US retail sales for Jan are expected to be flat (0%) after increasing by +0.4% in Dec. The retail control sales result will be the important measure feeding into the GDP calculation – and this increased by +0.7% in Dec.

- US industrial production is expected to increase by +0.3% in Jan, down from +0.9% in Dec.

Tariffs;

- Uncertainty over the effects of US policy on the inflation outlook remains elevated – which includes the impact of budget, tariffs, and regulatory policy. While tariff threats were withdrawn last week, this situation continues to evolve. Late last week, President Trump threatened that reciprocal tariffs may announced this week along with tariffs on all steel and aluminium imports into the US. Tariffs on some Chinese imports are due to go into effect this week with China announcing retaliatory duties.

Outside of the US, Q4 growth data will be in focus for Europe and the UK.

- Euro area GDP for Q4 is expected to be confirmed at a stalled pace of 0% over the quarter and +0.9% over the year. Last week, the Euro area inflation report firmed in Jan as outlined by the ECB in the prior week. Services inflation stayed steady at +3.9%. Reporting by Bloomberg on a research paper by ECB staff regarding the neutral rate published late last week suggests that fewer rate cuts may be required to reach the neutral range (with the usual caveats).
- The UK Q4 GDP is expected to decline by -0.1% over the quarter, from 0% change in Q3.

US Treasury Issuance; 10 - 14 February 2025

This week, the US Treasury will auction and/or settle approx. $490bn in ST Bills raising approx. $30bn in new money.

QT this week: Approx $14.5bn 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 $B		Prior Auction High Rate %
10-14 Feb	06-Feb	11-Feb	4 week Bill	95			Actual 4.250%	4.250%
	06-Feb	11-Feb	8 week Bill	90			Actual 4.240%	4.240%
	05-Feb	11-Feb	17 week Bill	64			Actual 4.205%	4.190%
				249	234	15		
	10-Feb	13-Feb	13 week Bill	84			Announced	4.220%
	10-Feb	13-Feb	26 week Bill	72			Announced	4.155%
	11-Feb	13-Feb	42-Day CMB	85			Announced	4.250%
				241	226	15		
			Total - securities settling this week	490	460	30		
			Net New Cash Raised Qtr to Date	***4056***	***3674***	***382***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***815***		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		11-Feb	ST Bills	0.7				
		13-Feb	ST Bills	13.8				
				14.5				
		Maturing & redemption (balance sheet roll-off)						
			nil					
				0.0				
	Upcoming Auctions			**$B**				
	11-Feb	18-Feb	3yr Note	58				
	12-Feb	18-Feb	10yr Note	42				
	13-Feb	18-Feb	30yr Bond	25				
				125				

Quantitative Tightening Overview – February 2025

In Feb, the face value of Coupons maturing on the Fed balance sheet is approx. $83.1bn. This is more than the $25bn monthly cap on Treasury redemptions. So of the $83.1bn of Coupons maturing in Jan, $25bn will roll off the Fed balance sheet and $58.1bn will be reinvested. It also means that all ST Bills maturing in Feb will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $25bn redemption cap - Feb 2025			
			$25
		Redeem $Bn	Reinvest $ Bn
15-Feb-25	Notes & Bonds	14.8	34.3
28-Feb-25	Notes & Bonds	10.2	23.8
	Bills	0.0	53.7
	Total Notes & Bonds	**25.0**	**111.8**

Feb 2025 ST Bill maturity schedule;

Bill Maturity Schedule - Feb 2025			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/02/04	0.73	1%	0.0	0.7
2025/02/06	12.01	22%	0.0	12.0
2025/02/11	0.74	1%	0.0	0.7
2025/02/13	13.77	26%	0.0	13.8
2025/02/18	0.71	1%	0.0	0.7
2025/02/20	14.52	27%	0.0	14.5
2025/02/25	0.69	1%	0.0	0.7
2025/02/27	10.49	20%	0.0	10.5
	53.7	100%	0.0	53.7

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

Recommended US Treasury Financing Q1 2025 and Est Q2 2025

Details are located on the US Treasury website here. For Q1 2025, the US Treasury expects to borrow $815 billion (revised slightly lower from $823bn) in privately-held net marketable debt, assuming an end-of-Mar cash balance of $850 billion.

> The borrowing estimate is $9 billion lower than announced in October 2024, largely due to a higher beginning-of-quarter cash balance, partially offset by lower net cash flows.

The Q2 2025 borrowing estimate; $123bn in privately-held net marketable debt, assuming an end-of-June cash balance of $850 billion.

These estimates assume a resolution to the debt limit of either a suspension or an increase. Since 21 Jan, the US Treasury has been using extraordinary measures to finance the government on a temporary basis.

There was no change to the composition of Coupon issuance over Q1 and Q2. The 42-Day CMB will transition to a 6-Week Bill (issued weekly) at the 18 Feb auction.

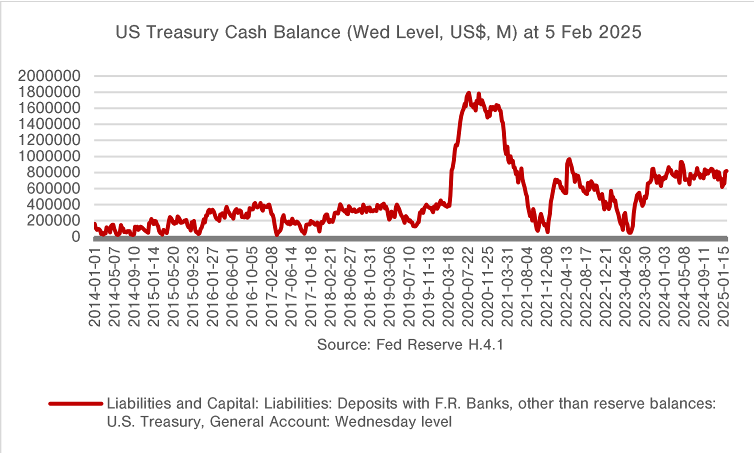
From the Report to the US Treasury from the Borrowing Advisory Committee;

> Members noted elevated uncertainty regarding macroeconomic developments and the fiscal trajectory and observed that current primary dealer assumptions and issuance levels imply a $1.5T cumulative funding shortfall over the next three years. Source: Treasury Borrowing Advisory Committee, 4 Feb 2025

US Treasury Cash Levels (TGA)

As of Wed 5 Feb 2025, the level of the TGA increased to $818bn (+$6bn compared to the week prior).

The TGA balance is approx. $4bn *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

MONDAY 10 FEBRUARY (US Eastern Time, unless stated otherwise)

China	New Loans & Total Financing (Jan)
US	Conference Board Employment Trends Index (Jan)
Australia	Westpac Consumer Sentiment (Feb), NAB Business Confidence & Conditions (Jan)

TUESDAY 11 FEBRUARY

US	NFIB Business Optimism Index (Jan), Fed speeches: Hammack, Bowman, Williams Fed Chair Powell – Testimony Day 1
Australia	Lending Finance Indicators Q4

WEDNESDAY 12 FEBRUARY

US	MBA Mortgage Apps wk ending 8 Feb, CPI (Jan), Fed speeches: Bostic, Waller Fed Chair Powell – Testimony Day 2
Canada	BoC Deliberations

THURSDAY 13 FEBRUARY

Europe	Germany CPI – Final (Jan), Eurozone Industrial Production (Dec)
UK	GDP Q4, Industrial Production (Dec)
US	Initial Jobless Claims wk ending 8 Feb, PPI (Jan)

FRIDAY 14 FEBRUARY

Europe	Eurozone GDP Q4 – Prelim
US	Retail Sales (Jan), Industrial Production (Jan), Export & Import Price Index (Jan), Fed speeches; Logan