MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 17 February 2025

Key events this week – FOMC minutes, RBA & RBNZ meetings, CPI; Japan, UK, & Canada, Prelim S&P PMIs Feb

Recap from last week: US CPI firms, but PPI offers hope for softer core PCE inflation.

The US CPI and PPI releases for Jan offer key insights into the likely trajectory of the Fed's preferred PCE inflation measure, due out on 28 Feb. While there wasn't much to like about the firmer CPI results, the picture of US PCE inflation for Jan became a little more constructive after the PPI report.

The headline and core CPI results for Jan all came in higher than expected across both monthly and annual timeframes. Annual headline CPI increased to +3% while core CPI increased to +3.3% in Jan, both higher than in Dec. Monthly headline and core inflation accelerated to +0.5% in Jan, on par with the high readings from a year ago, adding further weight to the concern that progress on disinflation may have stalled. One positive from the report was that annual shelter inflation continued to slow. The PPI results for Jan were also higher than expected with headline PPI increasing to +3.5% over the year (expecting +3.1%). PPI inflation accelerated in the latter half of 2024. While not as high as in 2021/22, many PPI measures are now higher than they were a year ago.

Importantly, the increase in the individual PPI components that feed into the Fed's preferred PCE inflation measure was more moderate in Jan. Together with the CPI result, suggests that the Fed-preferred annual core PCE is likely to decelerate in Jan. The FOMC is looking for further progress on annual core PCE inflation before it can continue cutting rates. Progress on core PCE inflation had mostly stalled through 2024, slowing to +2.6% through the middle of the year, then remaining at +2.8% for the last three months. Using the Cleveland Fed CPI nowcast for core PCE in Jan of +0.37%, and assuming no revisions, annual core PCE would slow to +2.66% in Jan. While this represents some progress, a monthly reading on core inflation of +0.37% would be elevated for the Fed, especially after more benign readings in Nov and Dec. The details of the report will be important.

During his testimony last week, US Fed Chair Powell noted that the Fed still has more work to do, and remains in no rush to lower rates.

"Last year, inflation was 2.6% — so great progress — but we're not quite there yet,"
Source: Bloomberg, 13 Feb 2025

The FOMC also wants to understand and assess the potential impact of new policy measures on inflation and the economy. The inflation outlook is still clouded by some uncertainty over the form of tariffs and other policy measures.

The US GDP growth run rate has moderated so far in Q1. The Atlanta Fed GDP nowcast for Q1 growth slowed to +2.3% at the end of last week. The slowdown from the prior week was mostly due to the sharper-than-expected fall in US retail sales of -0.9% for Jan, led by notable falls in motor vehicles and non-store sales. For now, the fall in Jan retail sales follows the stronger retail sales growth in the back half of 2024. US industrial production growth slowed in Jan as manufacturing and mining output declined, and was partially offset by a notable increase in the output of utilities, due in part to cooler weather.

The prelim Q4 GDP growth for the Euro area came in slightly better than expected at +0.1% over the quarter (expecting 0%). This was still a step down from the somewhat more moderate pace of growth in Q3 of +0.4%.

UK GDP growth for Q4 was also better than expected at +0.1% over the quarter (expecting a fall of -0.1%) after no growth in Q3. The detail painted a less optimistic picture as household expenditure growth stalled, while business investment and net trade declined. This was offset by a positive contribution from the change in inventories and growth in government expenditure.

Outlook for the week ahead; FOMC minutes, RBA & RBNZ meetings, CPI; Japan, UK, & Canada, Prelim S&P PMIs Feb

This week, the focus shifts back to central bank decisions and key data. In the US, housing data for Jan will feed into a further update on the trajectory of growth so far in Q1. The prelim S&P PMIs for key developed markets in Feb will also provide a broader view of growth momentum and private sector sentiment through to the middle of Q1.

Key factors to watch this week;

The RBA and RBNZ will meet for the first time this year. The minutes of the Jan FOMC meeting will be released.

- The RBA is expected to cut rates for the first time in this cycle from 4.35% to 4.1%. The latest Q4 CPI report was positive for the RBA, with core CPI slowing further towards the top of the target range. At the last meeting, there had been a notable shift in the RBA outlook on inflation, with the Board "gaining confidence that inflationary pressures are declining". So far, the labour market has remained solid, retaining most of the pandemic gains in terms of higher employment, lower unemployment, and higher participation. Given the strength in labour market conditions, the guidance provided by the Board will be important for the outlook on the path to further rate cuts. The Aus labour market report for Jan will also be released this week.
- The RBNZ is expected to cut rates by 50bps at its meeting this week. While inflation remained in the RBNZ target range for the second quarter in a row in Q4, growth, and labour market conditions continued to deteriorate. GDP in Q3 contracted by -1% over the quarter (including revisions) while the unemployment rate increased to 5.1% in Q4, from 4.8% in Q3.
- The minutes of the FOMC meeting on 29 Jan will be released.

Central bank speeches;

- US Fed; Several speeches are worth watching this week, most notably Governor Waller's address on the US economic outlook. Others include Governor Bowman (including brief remarks on the economy), Governor Kugler (navigating inflation), and Fed Vice Chair Jefferson (Household balance sheets).

US data releases this week will primarily focus on housing, but will also include the first regional manufacturing surveys for Feb. The housing starts data will feed into another update on the pace of GDP growth through Q1 so far.

- US new housing permits are expected to ease slightly in Jan to a 1.46m annualized pace from 1.48m in Dec. New housing starts are expected to slow to a 1.39m annualized pace in Jan from 1.5m in Dec. Existing home sales are expected to ease to 4.13m units annualized in Jan.

CPI data for Japan, the UK, and Canada will provide important input for these central banks ahead of the next round of meetings in Mar.

- The National CPI in Japan is expected to remain firm in Jan. The BoJ preferred measure of core CPI ex fresh food is expected to increase in Jan to +3.1% over the year from +3% in Dec.

The BoJ increased rates at the last meeting, citing progress on inflation and positive developments in wage growth. Recent speeches continue to hint at further hikes as long as inflation and growth evolve according to the outlook, though the prospect of tariffs remains a key uncertainty. GDP in Q4 came in higher than expected at +0.7% over the quarter, or a +2.8% annualized rate (expecting +1%).

- UK inflation and labour market data this week will provide an update for the BoE as it balances firming inflation with a slow growth backdrop. Headline CPI is expected to increase to +2.8% in Jan, up from +2.5% in Dec. Core CPI is expected to increase to +3.7% from +3.2% in Dec. At its last meeting, the BoE noted that headline inflation was expected to move up through the first half due to higher energy prices while underlying inflation was expected to wane. The Dec (rolling 3mth) UK labour market report will also be released this week, and the unemployment rate is expected to increase to 4.5%, up from 4.4% in Nov.
- Canadian CPI for Jan will be released this week. The monthly decline of -0.4% in Dec was partially the result of a temporary break in the GST. This is also expected to be reflected in stronger retail sales in Dec. Annual inflation is expected to be little changed from +1.8% in Dec, with monthly inflation remaining flat at 0%. The BoC core measures are also expected to be little changed with the trimmed mean remaining at +2.5%. The BoC core measures averaged +2.3% in Dec.

Finally, the S&P prelim PMIs for the G4 plus Aus will be released later this week.

US Treasury Issuance; 17 - 21 February 2025

This week, the US Treasury will auction and/or settle approx. $640bn in ST Bills, Notes, and Bonds raising approx. $18bn in new money.

<u>QT this week:</u> Approx $50bn of ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx $15bn in Notes and Bonds will mature on the Fed balance sheet and will be redeemed/roll off the balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
17 Feb - President's Day Holiday								
17-21 Feb	13-Feb	18-Feb	4 week Bill	90			Actual 4.250%	4.250%
	13-Feb	18-Feb	8 week Bill	85			Actual 4.240%	4.240%
	12-Feb	18-Feb	17 week Bill	62			Actual 4.230%	4.205%
				237	234	3		
	18-Feb	20-Feb	13 week Bill	80			Announced	4.225%
	18-Feb	20-Feb	26 week Bill	70			Announced	4.185%
	18-Feb	20-Feb	6-week Bill	80			Announced	4.260%
	18-Feb	20-Feb	52 week Bill	48			Announced	4.025%
				278	282	-4		
	11-Feb	18-Feb	3yr Note	58			Actual 4.300%	4.332%
	12-Feb	18-Feb	10yr Note	42			Actual 4.632%	4.680%
	13-Feb	18-Feb	30yr Bond	25			Actual 4.748%	4.913%
				125	106	19		
			Total - securities settling this week	640	622	18		
			Net New Cash Raised Qtr to Date	***4696***	***4296***	***400***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***815***		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		18-Feb	ST Bills	0.7				
		20-Feb	ST Bills	14.5				
		15-Feb	Notes & Bonds	34.3				
				49.6				
		Maturing & redemption (balance sheet roll-off)						
		15-Feb	Notes & Bonds	14.8				
	Upcoming Auctions			**$B**				
	19-Feb	28-Feb	20yr Bond	16				
	20-Feb	28-Feb	30yr TIPS	9				
				25				

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 is $123bn in privately-held net marketable debt, assuming an end-of-June cash balance of $850 billion.

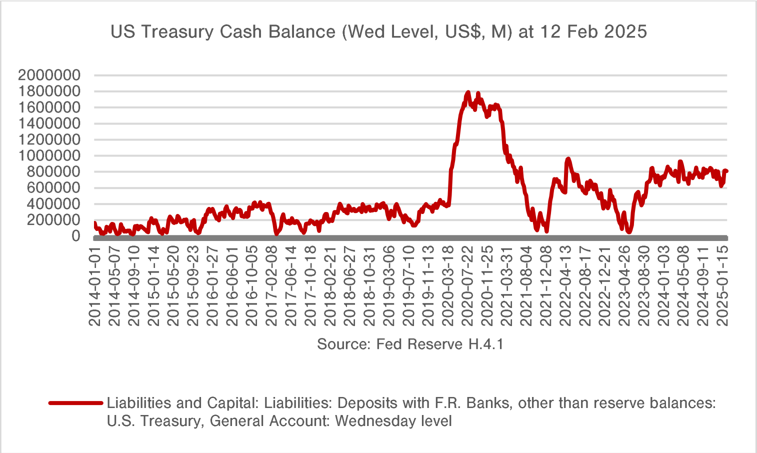
These estimates assume a resolution to the debt limit of either a suspension or an increase. Since 21 Jan, the US Treasury has been using extraordinary measures to finance the government on a temporary basis.

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 (this week).

US Treasury Cash Levels (TGA)

As of Wed 12 Feb 2025, the level of the TGA increased to $809bn (-$9bn compared to the week prior).

The TGA balance is approx. $23bn *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 17 FEBRUARY (US Eastern Time, unless stated otherwise)

Japan	GDP Q4, Industrial Production – final (Dec)
US	Presidents Day Holiday, Fed speeches: Gov Waller, Bowman, Harker
Australia	RBA Monetary Policy Meeting

TUESDAY 18 FEBRUARY

UK	Labour Market (3mths Dec)
Canada	CPI (Jan)
US	NY Empire State Manufacturing Index (Feb), NAHB Housing Market Index (Feb), Fed speeches; Daly, Barr
Australia	Wage Price Index Q4
NZ	RBNZ Monetary Policy Meeting

WEDNESDAY 19 FEBRUARY

UK	CPI (Jan)
US	MBA Mortgage Apps wk ending 15 Feb, Building Permits & Housing Starts (Jan), FOMC Minutes, Fed speeches: Vice Chair Jefferson
Australia	Labour Force (Jan)

THURSDAY 20 FEBRUARY

US	Initial Jobless Claims wk ending 15 Feb, Philadelphia Fed Manufacturing Index (Feb), Fed speeches; Goolsbee, Barr, Musalem, Kugler
Australia	S&P Prelim Manufacturing & Services PMI (Feb)
Japan	National CPI (Jan), S&P Prelim Manufacturing & Services PMI (Feb)

FRIDAY 21 FEBRUARY

Europe	Eurozone S&P Prelim Manufacturing & Services PMI (Feb)
US	S&P Prelim Manufacturing & Services PMI (Feb), Existing Home Sales (Jan), Michigan Sentiment – Final (Feb), Fed Vice Chair Jefferson speech