

Key events this week – US PCE inflation, durable goods orders, Q4 GDP, and ECB minutes

Recap from last week: Navigating the push and pull of US policy uncertainty.

The Jan FOMC minutes revealed several key themes, but prominent was the underlying uncertainty surrounding US policy and its potential impact on the inflation outlook. The Committee had kept rates unchanged at the last meeting after cutting 100bps at the prior three meetings. The Committee noted that it was “well positioned” to take time to assess the evolving outlook for economic activity, the labor market, and inflation. Labor market conditions and economic activity were seen mostly in a positive light. The main theme repeated in various ways throughout the minutes was that inflation remains somewhat elevated, with upside risks to the inflation outlook. Upside risks stemmed from 1) core PCE ending 2024 at a higher than projected level despite some better monthly results in Nov and Dec and, 2) other factors;

However, other factors were cited as having the potential to hinder the disinflation process, including the effects of potential changes in trade and immigration policy as well as strong consumer demand. Source: [FOMC Minutes 28-29 Jan 2025](#)

There was also some difference in views over the degree of restrictiveness of current policy settings. Finally, there was a discussion about how the resolution of the debt ceiling could impact reserves and that it could be appropriate to pause quantitative tightening (QT).

The effect of the push and pull from the evolving US policy outlook also emerged in last week's data. The most notable impact was in the S&P Prelim PMIs for Feb with services activity/output slipping markedly into a slight contraction for the first time in several years. The manufacturing output index reflected continued expectations of growth. The overall US composite output index slumped to a near-stall pace of 50.4 in Feb;

New order growth also weakened sharply and business expectations for the year ahead slumped amid growing concerns and uncertainty related to federal government policies. The upturn in manufacturing output was also in part linked to the front-running of tariffs, hinting at merely a temporary boost. Source: [S&P US Flash PMI – Feb 2025](#)

In the latest S&P PMI survey, optimism in the outlook fell to the lowest level in over two years due to increased uncertainty for business from spending cuts and tariffs, concerns over higher prices, and “broader geopolitical developments”. It will be important to see how this survey result aligns with the upcoming ISM surveys for Feb and also how it translates into ‘hard data’.

The Michigan consumer sentiment survey also recorded a marked fall in sentiment in Feb. The falls in sentiment differed across party affiliations – unchanged for Republicans with falls recorded among Democrats and Independents. Again, it will be important to see how this aligns with the Conference Board consumer sentiment results this week.

Aligning with the prelim manufacturing PMI, the US regional manufacturing surveys continued to indicate positive conditions. Housing data reflected ongoing lackluster conditions. New home builder sentiment fell notably across all regions. Growth in the issue of new permits remained flat. New housing starts fell back in Jan after a stronger Dec, with the largest falls recorded in the South (likely weather-related). Existing home sales also fell notably in Jan, across all regions. For

now, news of wide-ranging government job cuts has yet to broadly impact initial jobless claims, though claims in the DC area have ticked up. Initial jobless claims remain at the 12-week average.

The updated [Atlanta Fed GDP nowcast](#) for US Q1 growth was unchanged at +2.3% last week (based only on the addition of housing starts data for Jan). However, the path of the FFR did evolve last week – with conditional probabilities now reflecting two possible cuts this year (at the time of writing; Jun and Dec cuts) (Source: [CME Fedwatch](#)).

The RBA reduced the cash rate for the first time in this cycle, citing faster-than-expected progress on underlying inflation. However, there is a high degree of caution on prospects for further easing and more detailed guidance was suspended. The Board noted that upside and downside risks to inflation remain and that policy needs to remain restrictive to ensure that disinflation progress does not stall. The Jan labour market results remained strong with above-average employment growth. The unemployment rate increased slightly due to the increase in participation to another new all-time high.

The RBNZ cut rates by 50bps as expected. The Board noted that while inflation remained within the target band, ‘significant spare capacity in the economy’ indicated that a further reduction in the OCR was appropriate.

More broadly, the S&P prelim PMIs for Feb continued to reflect shifting momentum. The prelim PMI release covers the US, UK, Germany, France, Japan, the broader Eurozone, and Aus. The prelim manufacturing PMIs improved across most countries, except in the UK. Despite the improvement, manufacturing activity remained in contraction, albeit to a lesser extent, across most countries except in the US and Aus. The recent stronger momentum across services slowed in Feb – led by marked falls in the US, France, and Germany to a lesser extent.

Outlook for the week ahead; US PCE inflation, durable goods orders, and Q4 GDP, ECB minutes

The focus this week shifts to assessing progress on US PCE inflation and growth data and what they mean for the path of US rates.

Key factors to watch this week;

US annual PCE inflation is expected to ease in Jan.

- Using the latest [Cleveland Fed PCE nowcast](#) for PCE inflation, headline PCE inflation is expected to increase over the month to +0.38% in Jan from +0.26% in Dec. While lower than the same month a year ago (+0.42%), inflation at this monthly pace is still not consistent with the 2% target. The annual PCE inflation rate is expected to slow from +2.55% to +2.51%.
- Core PCE inflation is expected to increase over the month to +0.37% in Jan from +0.16% in Dec. This would still be slower than the same month a year ago (which was +0.5% in Jan 2024). Annual core PCE inflation is expected to ease to +2.66% in Jan, from +2.8% in Dec.
- The FOMC projections in Dec 2024 showed core PCE slowing to +2.5% by the end of 2025.
- Of concern for the Fed has been core PCE inflation stalling at +2.8% for the last three months of 2024, having slowed to a low of +2.63% in Jun 2024.

Central banks;

- ECB minutes of the latest meeting will be released this week.
- US Fed speeches will be limited this week. Vice Chair for Supervision Barr will give several speeches on financial stability and supervision. Governor Bowman will give a speech on community banking. See the calendar for other speeches.

US data releases this week will primarily focus on production, spending, and income growth for Jan.

- The second estimate for US GDP in Q4 is expected to be unchanged at +2.3% annualized.
- US durable goods orders are expected to increase by +2% in Jan, up from -2.2% in Dec.
- Personal income growth is expected to slow to +0.3% in Jan from +0.4% in Dec.
- Personal spending growth is expected to slow to +0.2% in Jan from +0.7% in Dec.
- New home sales are expected to slow to a 0.677m annualized pace in Jan, from 0.698m in Dec. Pending home sales are expected to fall by -1.3% in Jan after a -5.5% fall in Dec.

Data outside of the US will focus on inflation and growth.

- The final Eurozone CPI for Jan is expected to confirm annual headline inflation at +2.5% and annual core inflation at +2.7%. Euro area country-level prelim CPI's for Feb will begin to be released this week also.
- There will be several Euro-area GDP reports to be finalized for Q4; both Germany and France's results are expected to confirm a contraction in GDP in Q4 of -0.2% and -0.1% respectively. German election results will likely stay in focus through the week, along with broader European geopolitical events.
- The Aus monthly CPI series (different from the comprehensive quarterly report) is expected to show headline inflation unchanged at +2.5% in Jan.
- Tokyo CPI will provide a preview of broader Japanese inflation for Feb. Tokyo CPI ex-fresh food is expected to slow to +2.3% over the year, from +2.5% in Jan. Last week Japanese national core CPI ex-fresh food came in higher than expected over the year, firming to +3.2% in Jan from +3% in Dec.

US Treasury Issuance; 24 - 28 February 2025

This week, the US Treasury will auction and/or settle approx. \$680bn in ST Bills, Notes, FRNs, TIPS, and Bonds raising approx. \$50bn in new money.

QT this week: Approx \$35bn of ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx \$10bn 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 % |
|-------------|--------------|-----------------|--|---------------------------|---------------------|---------------|---------------|---------------------------|
| 24 - 28 Feb | 20-Feb | 25-Feb | 4 week Bill | 85 | | | Actual 4.245% | 4.250% |
| | 20-Feb | 25-Feb | 8 week Bill | 80 | | | Actual 4.235% | 4.240% |
| | 19-Feb | 25-Feb | 17 week Bill | 60 | | | Actual 4.215% | 4.230% |
| | | | | 225 | 294 | -69 | | |
| | 24-Feb | 27-Feb | 13 week Bill | 76 | | | Announced | 4.255% |
| | 24-Feb | 27-Feb | 26 week Bill | 68 | | | Announced | 4.220% |
| | 25-Feb | 27-Feb | 6-Week Bill | 75 | | | Announced | 4.270% |
| | | | | 219 | 236 | -17 | | |
| | 26-Feb | 28-Feb | 2-yr FRN | 28 | | | Announced | 0.098% |
| | 24-Feb | 28-Feb | 2yr Note | 69 | | | Announced | 4.211% |
| | 25-Feb | 28-Feb | 5yr Note | 70 | | | Announced | 4.330% |
| | 26-Feb | 28-Feb | 7yr Note | 44 | | | Announced | 4.457% |
| | 19-Feb | 28-Feb | 20yr Bond | 16 | | | Actual 4.830% | 4.900% |
| | 20-Feb | 28-Feb | 30yr TIPS | 9 | | | Actual 2.403% | 2.055% |
| | | | | 236 | 100.1 | 136 | | |
| | | | Total - securities settling this week | 680 | 630 | 50 | | |
| | | | Net New Cash Raised Qtr to Date | 5376 | 4926 | 450 | | |
| | | | <i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i> | | | 815 | | |
| | | | Face value of US Federal Reserve SOMA securities maturing | \$B | | | | |
| | | | Maturing & reinvestment | | | | | |
| | | 25-Feb | ST Bills | 0.7 | | | | |
| | | 27-Feb | ST Bills | 10.5 | | | | |
| | | 28-Feb | Notes & Bonds | 23.8 | | | | |
| | | | | 35.0 | | | | |
| | | | Maturing & redemption (balance sheet roll-off) | | | | | |
| | | 28-Feb | Notes & Bonds | 10.2 | | | | |
| | | | | 10.2 | | | | |

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 |
| | | | Reinvest \$ Bn |
| | | 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 of the latest TBAC meeting 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.

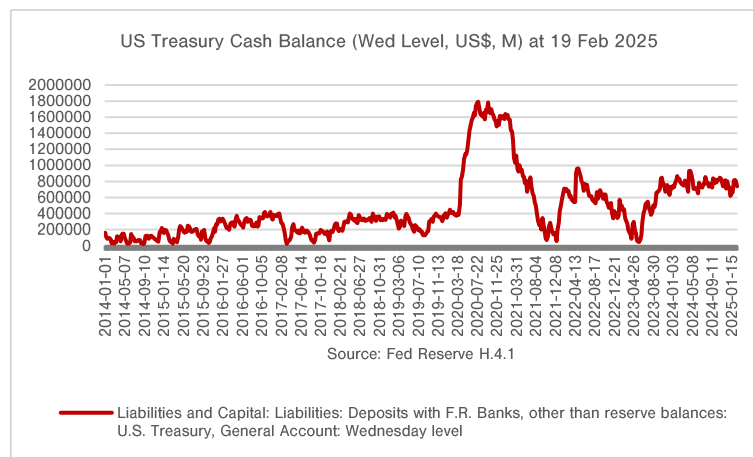
The Q2 2025 borrowing estimate is \$123bn in privately-held net marketable debt, assuming an end-of-June cash balance of \$850 billion.

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. At this stage, there has been no change to the composition of Coupon issuance over Q1 and Q2.

US Treasury Cash Levels (TGA)

As of Wed 19 Feb 2025, the level of the TGA decreased to \$739bn (-\$70bn compared to the week prior).

The TGA balance is approx. \$50bn 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/ams_operation_schedule

CALENDAR W/C 24 February 2025

MONDAY 24 FEBRUARY (US Eastern Time, unless stated otherwise)

| | |
|--------|---|
| Europe | Eurozone CPI – Final (Jan) |
| US | Dallas Fed Manufacturing Index (Feb), Chicago Fed National Activity Index (Jan) tbc |

TUESDAY 25 FEBRUARY

| | |
|-----------|--|
| Europe | Germany GDP (final) Q4, Eurozone Negotiated Wage Rates Q4 |
| US | Case-Shiller House Price Index (Dec), Conf Board Consumer Confidence (Feb), Richmond Fed Manufacturing Survey (Feb), Fed speeches; Barr, Barkin, Logan |
| Australia | Construction Work Done Q4, CPI Monthly Inflation (Jan) |

WEDNESDAY 26 FEBRUARY

| | |
|-----------|--|
| US | MBA Mortgage Apps wk ending 22 Feb, New Home Sales (Jan), Fed speeches; Bostic, Barkin |
| Australia | Private Sector Capex Q4 |

THURSDAY 27 FEBRUARY

| | |
|-----------|---|
| Europe | ECB Minutes |
| US | Initial Jobless Claims wk ending 22 Feb, Durable Goods Orders (Jan), GDP Q4, Pending Home Sales (Jan), Kansas City Fed Manufacturing Index (Feb), Fed speeches; Barr, Bowman, Harker, Hammack |
| Japan | Tokyo CPI (Feb), Industrial Production – prelim (Jan), Retail Sales (Jan) |
| Australia | Private Sector Credit (Jan) |

FRIDAY 28 FEBRUARY

| | |
|--------|--|
| Europe | Germany CPI – prelim (Feb), France Q4 GDP |
| Canada | GDP Q4 |
| US | PCE Price Index (Jan), Personal Spending & Income (Jan), Chicago Fed Manufacturing Index (Feb), Fed speeches: Goolsbee |
| China | NBS Manufacturing & Non-Manufacturing PMI (Feb) |
