# MARS CAPITAL PARTNERS

# Weekly Macro Outlook

w/c 10 March 2025

## Key events this week – US CPI and PPI Feb, Bank of Canada meeting

### Recap from last week: Data remains solid, but rising uncertainty clouds the outlook.

While U.S. data remained solid last week, rising uncertainty, fuelled by erratic tariff news and spending cuts, is clouding the economic outlook and souring sentiment.

At the end of the week, US Fed Chair Powell's speech aimed to look through the noise of the news flow. Most important was Chair Powell's signaling on the path of rates given concerns over rising inflation pressure. He reiterated that if inflation does not continue to move sustainably toward the 2% target, i.e. if it starts to firm, then the likely policy response would be to maintain the current policy restraint for longer. There was no mention that rate hikes were on the table at this stage. Alternatively, rate cuts would be appropriate if labor market conditions weaken, or if inflation falls faster than expected. He reinforced that conditions were still such that the Fed doesn't need to be in a hurry and can wait for greater clarity to understand the "net effect" of policy changes.

Fed Governor Waller's speech a day earlier also had a 'wait and see' approach regarding the impacts of tariffs and other policy measures. He pushed back on any easing at the next meeting, noting that he wanted to see Feb inflation data. He felt cuts would come later in the year.

> But Waller did acknowledge recent data that points to rising weakness, and he said he's **waiting to see if it translates into broader-based government data**. Source: Reuters 6 Mar 2025

For now, the question is whether some of this "rising weakness" will translate into "hard data".

Given all the news, labor market data was surprisingly solid for Feb. While there were a few weak points, conditions could still be seen within the context of a gradually cooling labor market. Growth in non-farm payrolls came in around expectations at +151k (expecting +160k) versus +125k in the prior month (revised lower from +143k). The 6-month average increased to +191k jobs. The average workweek remained near its recent low of 34.1 hours, however, growth in aggregate hours did rebound in Feb. The average hourly earnings were lower than expected in Feb at +4% over the year, as Jan was revised lower to +3.9%. One weak spot was the employment-to-population ratio which continued to drift lower – and this will be something to watch. While the unemployment rate did edge higher to 4.1%, it remains within the recent range.

It's worth noting that, the cut-off date for the labor market data was early Feb – and as such may not fully reflect the ramp-up in cuts to government spending and headcounts through the month. The Challenger report for Feb provided a darker view of the outlook for the labor market with a notable jump in layoff announcements to 172k in Feb from 49k in Jan. The DOGE cuts accounted for the single largest reason for layoff announcements (62k). However, there were large increases in layoff announcements across a broad range of industries, attributable to market/economic conditions, bankruptcy, restructuring, and closing – with these four reasons alone accounting for 92k of the job cut announcements in Feb.

Other survey data, such as the PMIs did not highlight weakness in employment in Feb. The Beige Book anecdotes also reflected more stable employment conditions in Feb compared to early Jan.

For now, data is likely consistent with the Fed's characterization of the labor market as "remaining solid", though risks exist.

The same survey data provided further anecdotal evidence that tariff threats are coinciding with more widespread pricing pressures. A key theme in both the ISM and S&P PMI surveys in Feb was that input cost pressures increased. Output prices also increased in Feb, though the Beige Book noted that some firms reported difficulty in passing on higher input costs. This week, the focus will be on whether these rising inflation pressures will be reflected in CPI and PPI data for Feb.

From a growth and momentum perspective, the US PMIs for Feb reflected manufacturing and services activity/output moderating, especially manufacturing orders. Employment indicators suggested little change in conditions from the prior month. Across most surveys, the overriding theme was tariffs and the uncertainty surrounding them.

The Atlanta Fed GDP nowcast model still shows the US GDP run rate contracting at a notable pace so far in Q1. However, the release of the more detailed international trade report revealed that a large contributor to the increase in imports was non-monetary gold (i.e. not reflecting changes in economic activity). Analysis by the Atlanta Fed suggests that adjusting for the gold imports, the US Q1 growth run rate likely improved (as a result of the data released last week) to +0.4% annualized.

Outside of the US, the ECB cut its deposit facility rate by 25bps to 2.50% - now just above the upper bound of what it might consider the 'neutral range'. Inflation forecasts were revised slightly higher on rising energy prices while risks to growth remain tilted to the downside. New fiscal priorities were likely to support the growth outlook, though details of spending would be important. For now, disinflation remains on track, policy is becoming meaningfully less restrictive, and uncertainty is elevated.

> Some people have used the adjective "phenomenal" uncertainty, and we debated as to whether it was high, high and rising, but suffice to say that it is all over – so we have risks all over, uncertainty all over. Source: ECB Press Conference Q&A, 6 Mar 2025

From China's NPC, "Premier Li Qiang declared on Wednesday that "vigorously boosting consumption" was the government's top priority in 2025 as it strives to hit an ambitious growth target of "about 5%," the same as the past two years" (source: Bloomberg, 6 Mar 2025). Measures were announced to restructure and support these policy goals – though did not include any direct stimulus. The latest data still pointed to tepid economic conditions. Annual CPI and PPI for Feb returned to deflation. Trade data also pointed to weaker than expected demand with export growth slowing to +2.3% over the year from +11% in Dec and imports declining by -8% in Jan/Feb from +1% in Dec.

## Outlook for the week ahead; US CPI and PPI, BoC monetary policy meeting, and tariff headline risk

US economic outlook concerns stem largely from worsening survey data, especially rising inflation pressures. That's why the US CPI and PPI data for Feb will be important this week – to see whether concerns begin to translate into hard data. Like the labor market data, it may still be too early to see a widespread impact.

**Key factors to watch this week;**

US CPI and PPI for Feb. While CPI is not the Fed's preferred inflation gauge, both the CPI and PPI will provide a guide for the PCE inflation result for Feb. This will be an important input for the Fed meeting next week.

- Headline CPI is expected to ease to +2.9% over the year in Feb, from +3% in Jan. Over the month, CPI is expected to slow to +0.3% in Feb, down from +0.5% in Jan.

- Core CPI is expected to slow to +3.2% over the year in Feb, from +3.3% in Jan. Over the month, core CPI is expected to slow to +0.3% in Feb from +0.4% in Jan.
- Headline PPI is expected to slow to +3.3% in Feb, from +3.5% in Jan. The monthly PPI rate is expected to slow to +0.3% over the month in Feb, from +0.4% in Jan.
- Core PPI is expected to remain unchanged at +3.6% in Feb, versus +3.6% in Jan. The monthly core PPI rate is also expected to be unchanged at +0.3% over the month in Feb, versus +0.3% in Jan.

The US JOLTS data for Jan lags the broader labor market releases this month. Job openings are expected to increase to 7.7m in Jan, up from 7.6m in Dec. Potential weakness from recent DOGE cuts are not expected to show up in the JOLTS data for Jan.

It's the blackout week for Fed speeches ahead of the FOMC meeting next week.

The Bank of Canada will meet this week and is expected to cut rates again. Guidance was suspended at the last meeting as the threat of tariffs and a trade war created notable uncertainty over the growth outlook. News on this front has been less than positive for Canada, with both the US and China imposing tariffs on Canadian exports, with more tariff news expected. The Canadian labour market report last week was also mixed. The unemployment rate remained unchanged at 6.6% but employment growth disappointed at only +1k net for the month.

Further news on tariffs for China, Canada, and Mexico is expected this week – and headline risk remains elevated. This week, steel and aluminum tariffs are expected to be implemented, while the Trump administration continues to work towards the 2 Apr deadline for a broader tariff announcement.

## US Treasury Issuance; 10 – 14 March 2025

This week, the US Treasury will auction and/or settle approx. $424bn in ST Bills, with a net paydown of -$61bn. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond – all to settle next week.

<u>QT this week:</u> Approx $2.9bn 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 $B | | Prior Auction High Rate % |
|---|---|---|---|---|---|---|---|---|
| 10-14 Mar | 06-Mar | 11-Mar | 4 week Bill | 75 | | | Actual 4.230% | 4.235% |
| | 06-Mar | 11-Mar | 8 week Bill | 75 | | | Actual 4.220% | 4.235% |
| | 05-Mar | 11-Mar | 17 week Bill | 60 | | | Actual 4.180% | 4.200% |
| | | | | 210 | 249 | -39 | | |
| | 10-Mar | 13-Mar | 13 week Bill | 76 | | | Announced | 4.210% |
| | 10-Mar | 13-Mar | 26 week Bill | 68 | | | Announced | 4.135% |
| | 11-Mar | 13-Mar | 6-week Bill | 70 | | | Announced | 4.240% |
| | | | | 214 | 236 | -22 | | |
| | | | **Total - securities settling this week** | 424 | 485 | -61.0 | | |
| | | | **Net New Cash Raised Qtr to Date** | ***6269*** | ***5886*** | ***383*** | | |
| | | | *Estimated Net Cash to be Raised Q1 ($ Bn)* | | | ***815*** | | |
| | **Face value of US Federal Reserve SOMA securities maturing** | | | **$B** | | | | |
| | | **Maturing & reinvestment** | | | | | | |
| | | 11-Mar | ST Bills | 0.7 | | | | |
| | | 13-Mar | ST Bills | 2.2 | | | | |
| | | | | 2.9 | | | | |
| | | **Maturing & redemption (balance sheet roll-off)** | | | | | | |
| | | | Nil | | | | | |
| | | | | 0.0 | | | | |
| | **Upcoming Auctions** | | | **$B** | | | | |
| | 11-Mar | 17-Mar | 3yr Note | 58 | | | | |
| | 12-Mar | 17-Mar | 10yr Note | 39 | | | | |
| | 13-Mar | 17-Mar | 30yr Bond | 22 | | | | |
| | | | | 119 | | | | |

## Quantitative Tightening Overview – March 2025

In Mar, the face value of Coupons maturing on the Fed balance sheet is approx. $33.3bn. This is more than the $25bn monthly cap on Treasury redemptions. So of the $33.3bn of Coupons maturing in Mar, $25bn will roll off the Fed balance sheet and $8.3bn will be reinvested. It also means that all ST Bills maturing in Mar will be reinvested.

| Summary of Total Coupons to Redeem at the $25bn redemption cap - MAR | | | |
|---|---|---|---|
| | | | **$25** |
| | | **Redeem $Bn** | **Reinvest $ Bn** |
| 15-Mar-25 | Notes & Bonds | 6.0 | 2.0 |
| 31-Mar-25 | Notes & Bonds | 19.0 | 6.3 |
| Mar-25 | ST Bills | 0.0 | 9.9 |
| | **Total Notes & Bonds** | **25.0** | **18.3** |

Mar 2025 ST Bill maturity schedule;

| **Bill Maturity Schedule - MAR** | | | **Weekly Totals $Bn** | |
|---|---|---|---|---|
| | **Par Value of Bills Maturing** | **% Maturity by Wk** | **Bill Redemption** | **Bill Reinvestment** |
| 2025/03/04 | 0.71 | 7% | 0.00 | 0.71 |
| 2025/03/06 | 1.67 | 17% | 0.00 | 1.67 |
| 2025/03/11 | 0.73 | 7% | 0.00 | 0.73 |
| 2025/03/13 | 2.15 | 22% | 0.00 | 2.15 |
| 2025/03/18 | 0.71 | 7% | 0.00 | 0.71 |
| 2025/03/20 | 0.74 | 7% | 0.00 | 0.74 |
| 2025/03/25 | 0.71 | 7% | 0.00 | 0.71 |
| 2025/03/27 | 2.49 | 25% | 0.00 | 2.49 |
| | 9.92 | 100% | 0.00 | 9.92 |

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. In 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.

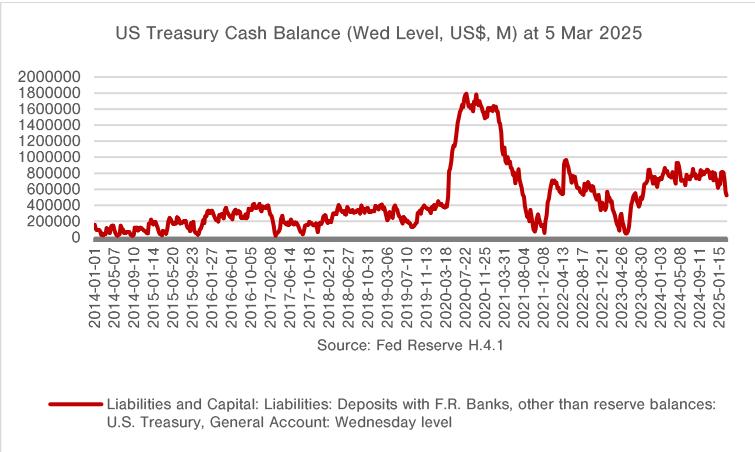
The Q2 2025 borrowing estimate is $123bn in privately-held net marketable debt, assuming an end-of-June cash balance of $850 billion. At this stage, there has been no change to the composition of Coupon issuance over Q1 and Q2.

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.

## US Treasury Cash Levels (TGA)

As of Wed 5 Mar 2025, the level of the TGA decreased again to $523bn (-$46bn compared to the week prior).

The TGA balance is approx. $238bn *lower* than the same week a year ago and this is the lowest level of the TGA since Sept 2023.




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 MARCH (US Eastern Time, unless stated otherwise)

| | |
|---|---|
| Europe | Germany Industrial Production (Jan) |
| US | Conference Board Employment Trends Index (Feb) |
| China | New Loans (Feb) – tbc |
| Australia | Westpac Consumer Confidence (Feb), NAB Business Conditions & Confidence (Feb) |
| Japan | GDP Q4 – Final Est |

## TUESDAY 11 MARCH

| | |
|---|---|
| US | NFIB Business Optimism (Feb), JOLTS (Jan) |
| | |

## WEDNESDAY 12 MARCH

| | |
|---|---|
| Europe | ECB President Lagarde speech |
| US | MBA Mortgage Apps wk ending 8 Mar, CPI (Feb) |
| Canada | BoC Monetary Policy Meeting |

## THURSDAY 13 MARCH

| | |
|---|---|
| Europe | Eurozone Industrial Production (Jan) |
| US | Initial Jobless Claims wk ending 8 Mar, PPI (Feb) |

## FRIDAY 14 MARCH

| | |
|---|---|
| UK | Monthly GDP (Jan) |
| US | Michigan Consumer Sentiment – Prelim (Mar) |
| | |