

## **Key events this week – S&P Prelim PMIs May, RBA meeting, CPI: Japan, UK, Canada, and the Euro area**

### **Recap from last week: Navigating the Economic Crosscurrents: Tariffs, Inflation, Growth, and Sentiment**

We continue to navigate shifts in the economic landscape amid the crosscurrents of evolving trade policy. This past week offered a crucial snapshot of the US economy's early Q2 growth and inflation performance under the nascent trade and tariff regime. The shifting tariff goalposts have created uncertainty for businesses, consumers, and policymakers. Meanwhile, the impact on and outlook for inflation remain uncertain, but initial hard data for US Q2 growth has largely shown resilience, yet is still challenged by pockets of weakness and downbeat sentiment.

The inflation picture at the start of Q2 continues to be shaped by concerns over above-target inflation, coupled with uncertainty about the impact of tariffs on inflation. Both [Fed Vice Chair Jefferson](#) and [Governor Kugler's](#) speeches built on the FOMC's acknowledgment that risks to both sides of the dual mandate have increased. Both speeches underscored the concern that, given inflation remains above target, tariffs pose an upside risk to inflation. There is still uncertainty over the scope and level of tariffs, the degree to which they will be passed through, and importantly how persistent inflation from tariffs may be. Governor Kugler quoted a Dallas Fed survey that found that 55% of Texas business executives expect to pass through most or all of the costs from higher tariffs to customers. Of those, 64% expect this pass-through to occur within the first three months after the tariffs take effect. That would suggest that tariff-related price increases may be observed soon (Source: [Gov Kugler speech](#)).

The impact on prices will hinge on the path and settlement of tariff rates. In the interim, the announcement of a 90-day reprieve from the significantly higher US-China tariffs generated optimism this past week. Tariffs between the US and China will remain at a reduced level during this truce. With the 90-day pause on reciprocal tariffs nearing its midpoint, trade talks have been prioritized among some countries. However, adding to the evolving landscape, US President Trump announced that his administration would begin to set the reciprocal tariff rates for other countries "over the next two to three weeks" (source: [Bloomberg](#)).

With the more tangible impact of tariffs on inflation likely still on the horizon, the Apr US CPI offered a slightly cooler reading than expected over the month. The annual headline rate also eased by slightly more than anticipated. Core goods prices continued to make a positive contribution to the change in headline inflation between Apr and Mar, while core services made the largest contribution to the deceleration in annual inflation, along with food and energy categories. Measures of underlying inflation – indicating where inflation might be headed – show a mixed picture. The trimmed mean continues to show progress on disinflation; however, the trend indicates that the underlying pace of disinflation has been slowing. PPI inflation over the month surprised notably to the downside to -0.5% over the month and there was a larger upside revision to the monthly rate in Mar (revised up from -0.4% to 0% in Mar). PPI services were the main contributor to the downside surprise in Apr (portfolio mgt fees & airline fares fell). Together, the CPI and PPI provide a guide for the important PCE inflation result. The [Cleveland Fed Inflation Nowcast](#) of PCE inflation over the month in Apr (as of 16 May) shows headline PCE inflation growth of +0.19% and core +0.21% over the month. Core PCE would stay at +2.6% over the year.

The first view of important Q2 growth data showed signs of resilience. The [Atlanta Fed GDP Nowcast](#) for US Q2 growth edged higher to +2.4% after data releases. This is still an early reading on growth and will continue to evolve over the coming weeks. There was a positive contribution from retail sales and industrial production. US nominal retail sales growth slowed to +0.1% in Apr after a strong, upwardly revised +1.7% in Mar. While this reflects at least sustained spending after the strong Mar result, there is a risk that the pull-forward of demand (notably in autos) may reverse as demand normalizes in the near term, with tariff impacts as a key variable. Industrial production was flat in Apr after falling Mar – as declines in manufacturing and mining output were offset by growth in utilities output. The first US regional manufacturing surveys for May generally showed demand conditions had stabilized, with improvements in future output expectations (not including the response to the US-China tariff reduction reprieve), though input price pressures persisted. There was a small negative contribution to Q2 growth from housing starts, which came in a little lower than expected but increased slightly from the weaker result in Mar. New home builder sentiment fell notably in May.

US consumer sentiment indicators edged lower across most measures in the prelim report for May. However, the survey did capture some early reactions to the news of the 90-day reprieve/reduction on tariffs between the US and China – which seemed to be positive for sentiment. The final reading for May should reflect a broader reaction to the news.

### **Outlook for the week ahead; S&P Prelim PMIs May, RBA meeting, CPI: Japan, UK, Canada, and the Euro area**

As the new trade and tariff regime continues to take hold, data releases will continue to offer an early glimpse into shifts in sentiment, economic performance, and inflation dynamics. While it will generally be a lighter data week, there will be several releases of interest, including the S&P prelim PMIs for May. Other highlights include US existing and new home sales and important inflation data for Japan, the UK, Canada, and the Euro area. The RBA meets and the ECB minutes will be released this week. The tariff backdrop should remain positive with hints of further trade agreement frameworks to be announced in the coming weeks.

### **Key factors & events to watch this week;**

#### **S&P Prelim PMI's May**

The S&P Prelim PMIs for May should provide one of the first reactions to last week's announcement of the US-China reduced tariff reprieve. This reaction is likely to show up in the future output expectations and sentiment components. The May prelim report should also have a more robust business reaction to the reciprocal tariff pause (back on the 9 Apr). The Apr PMIs reflected a slowdown in growth momentum against a backdrop of the initial tariff and reciprocal tariff announcements, rising prices, and weakening sentiment. Therefore, this week's PMI data will be crucial in determining if these trends persisted into May and if the various tariff reprieves resulted in a boost to activity and business outlook.

#### **Central Banks**

- The RBA meets this week and is expected to cut rates by 25bps for only the second time in this cycle. The last meeting was on 1 Apr, just before the 'Liberation Day' tariff announcement amid a heightened sense of uncertainty in the outlook. In considering the path of rates, the Board needed confidence that inflation would continue to move in the right direction. The Q1 CPI helped to confirm the continued progress on disinflation with core CPI easing back to the upper target band, while last week's labour market survey for Apr recorded strong employment growth and a continuing trend of low unemployment.
- The ECB Minutes of the last meeting will be released this week.

- US Fed speeches; there will be numerous speeches this week, several of which are scheduled Commencement or Baccalaureate speeches (Fed Chair Powell). See the Fed calendar for details – [HERE](#).

#### Global inflation data – CPI for Apr

- Euro area CPI for Apr (final) is expected to confirm headline inflation at +2.2% over the year and core inflation at +2.7% over the year.
- Canada's CPI for Apr is expected to slow to +1.6% over the year from +2.3% in Mar. Monthly inflation is expected to increase by +0.5% in Apr, up from +0.3% in Mar.
- UK headline CPI is expected to increase by +3.3% over the year in Apr, up from +2.6% in Mar. Core CPI is also expected to increase by +3.6% in Apr, up from +3.4% in Mar.
- Japan's National CPI is also expected to increase. The BoJ-preferred core CPI – ex fresh food, is expected to increase by +3.5% in Apr, up from +3.2% in Mar.

#### US data – housing & regional manufacturing surveys

- US existing home sales are expected to increase to 4.15m (annualized) in Apr, up from 4.02m in Mar.
- New home sales are expected to remain lackluster, slowing to 0.696m (annualized) in Apr, from 0.724m in Mar.
- The Kansas City Fed Manufacturing Index for May will be released this week.

Next Monday is the US Memorial Day Holiday.

## US Treasury Issuance; 19 - 23 May 2025

This week, the US Treasury will auction and/or settle approx. \$434bn in ST Bills, with a paydown of approx. \$12bn. The US Treasury will also auction the 20-year Bond and 10-year TIPS this week – both will settle at the end of the month.

QT this week: Approx \$14.1bn 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 %
19-23 May	15-May	20-May	4 week bill	85			Actual 4.220%	4.225%
	15-May	20-May	8 week bill	75			Actual 4.235%	4.225%
	14-May	20-May	17 week Bill	60			Actual 4.240%	4.200%
				220	224	-4		
	19-May	22-May	13 week bill	76			Announced	4.300%
	19-May	22-May	26 week bill	68			Announced	4.105%
	20-May	22-May	6-week Bill	70			Announced	4.245%
				214	222	-8		
			<b>Total - securities settling this week</b>	<b>434</b>	<b>446</b>	<b>-12</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>4173</b>	<b>4146</b>	<b>27</b>		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			514		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		20-May	ST Bills	0.7				
		22-May	ST Bills	13.4				
				14.1				
			<b>Upcoming Auctions</b>	<b>\$B</b>				
	21-May	02-Jun	20yr Bond	16				
	22-May	30-May	10yr TIPS	18				
				34				

## Quantitative Tightening Overview – May 2025

The cap on US Treasury redemptions was lowered to \$5bn effective Apr 2025. In May, the face value of Coupons maturing on the Fed balance sheet is approx. \$76.4bn. This is more than the new \$5bn monthly cap on Treasury redemptions. So of the \$76.4bn of Coupons maturing in May, \$5bn will roll off the Fed balance sheet (redeemed) and \$71.4bn will be reinvested. It also means that all ST Bills maturing in May will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$5bn redemption cap - May			
			\$5
		Redeem \$Bn	Reinvest \$ Bn
15-May-25	Notes & Bonds	3.1	44.1
31-May-25	Notes & Bonds	1.9	27.2
	ST Bills		80.1
	<b>Total Notes &amp; Bonds</b>	<b>5.0</b>	<b>151.5</b>

May 2025 ST Bill maturity schedule;

Bill Maturity Schedule - MAY		Weekly Totals \$Bn	
Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/05/01	15.81	20%	0.00
2025/05/06	0.74	1%	0.00
2025/05/08	12.97	16%	0.00
2025/05/13	0.72	1%	0.00
2025/05/15	23.00	29%	0.00
2025/05/20	0.71	1%	0.00
2025/05/22	13.38	17%	0.00
2025/05/27	0.72	1%	0.00
2025/05/29	12.05	15%	0.00
	80.1		0.00

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

## Recommended US Treasury Financing Q2 2025 and Est Q3 2025

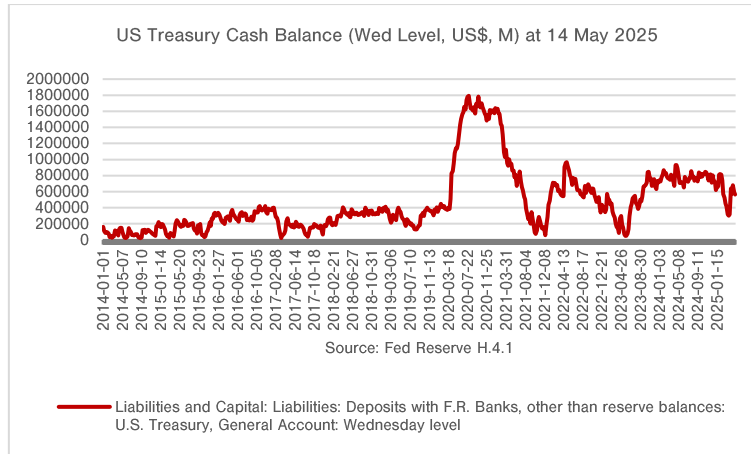
The latest update of the US Treasury borrowing requirements for Q2 and Q3 (estimate) was released last week - details on the US Treasury website [here](#).

The Q2 net borrowing requirement was revised sharply higher from an estimated \$123bn to \$514bn. The increase of \$391bn was due to a lower end of Q1 cash balance (expecting \$850bn, actual \$406bn) and projected lower net cash flows. We had estimated the TGA cash balance on Wed 26 Mar at \$316bn. The estimated cash balance at the end of Q2 is expected to be \$850bn.

Q3 estimated net borrowing requirement; The US Treasury is expected to borrow \$554bn in privately held net marketable debt, assuming an end of Q3 cash balance of \$850bn. The end-of-June and end-of-September cash balances assume the enactment of a debt limit suspension or increase.

## US Treasury Cash Levels (TGA)

As of Wed 14 May 2025, the level of the TGA decreased to \$562bn (-\$33bn compared to the week prior). The TGA balance is approx. \$143bn *lower* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheet&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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## CALENDAR W/C 19 May 2025

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### MONDAY 19 MAY (US Eastern Time, unless stated otherwise)

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China	Fixed Asset Investment, Industrial Production, Retail Sales (Apr), PBoC meeting (tbc)
Europe	Euro area CPI – final (Apr)
US	Fed speeches; Bostic, Jefferson, Williams, Logan, Kashkari

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### TUESDAY 20 MAY

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Australia	RBA monetary policy meeting
Canada	CPI (Apr)
US	Fed speeches; Barkin, Musalem, Kugler, Daly, Hammack, Bostic, Collins
Japan	Merchandise Trade, Exports, and Imports (Apr)

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### WEDNESDAY 21 MAY

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UK	CPI (Apr)
US	MBA Mortgage Applications wk ending 17 May, Fed speeches: Barkin
Australia	S&P Manufacturing & Services PMI Prelim (May)
Japan	S&P Manufacturing & Services PMI Prelim (May)

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### THURSDAY 22 MAY

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UK	S&P Manufacturing & Services PMI Prelim (May)
Europe	S&P Eurozone Manufacturing & Services PMI Prelim (May), ECB Minutes
US	Initial Jobless Claims wk ending 17 May, S&P Manufacturing & Services PMI Prelim (May), Existing Home Sales (Apr), Kansas City Fed Manufacturing Index (May), Fed speeches: Williams
NZ	Retail Sales Q1
Japan	National CPI (Apr)

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### FRIDAY 23 MAY

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Europe	Germany Q1 GDP
UK	Retail Sales (Apr)
Canada	Retail Sales (Mar)
US	New Home Sales (Apr), Fed speeches: Cook

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