

Key events this week; US PCE inflation & prelim goods trade balance, FOMC minutes, & RBNZ meeting

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

We pick up on a similar theme to last week as we continue to navigate the economic landscape amid the crosscurrents of evolving trade policy. The economic landscape remains subject to the immediate and unpredictable element of trade policy, a reality sharply underscored by renewed tariff threats late last week – which have, for now, been postponed. This week, we examine how preliminary PMI data for May reflects business responses to this highly uncertain environment, analyze the mixed inflation picture, and assess how global central banks are attempting to balance their mandates against the unpredictable tariff wildcard.

We again lean heavily on the leading S&P prelim PMIs for May to provide an up-to-date picture of how businesses and countries are responding to this uncertain backdrop. Broadly, the prelim PMIs for May did show that the tariff reprieves have indeed provided a boost to business confidence and sentiment in future output growth. However, in the US especially, underlying concern about future tariff issues, supply chain disruptions, and rising prices persisted.

The improvement in US manufacturing activity hints at some contribution from tariff front-running – with the headline PMI higher due to increasing lead times and a notable increase in inventories. Output growth increased from a stalled pace driven by domestic demand while new export orders contracted. The increase in new orders was driven by a combination of tariff front-running and reports of switching from new domestic customers. This helped to offset the drag from another fall in employment. In the US services PMI, output activity rebounded from the fall in Apr, but there was an especially sharp fall in services new export orders. Across both sectors, the PMIs indicate that pricing pressure continued to intensify in May – and extended to manufacturing selling prices this month. The fall in both US services and manufacturing payrolls, plus inventory stocking among manufacturers, reflects the still subdued optimism and caution in the outlook.

Weaker activity and sentiment due to trade uncertainty are still evident in Japan and to a lesser extent in Australia. The Eurozone's weakness was driven more by weaker services, but the data acknowledges the potential for tariff-related "front-running" to have helped stabilize manufacturing output.

Global CPI reports provided a mixed view of the inflation picture – but had a similar theme; stickier underlying inflation.

The Euro Area headline inflation was stable at +2.2% in Apr with falling energy prices offsetting higher food price inflation. Core inflation jumped to +2.7% (from +2.4% in Mar), as services inflation accelerated back up to +4% in Apr.

The UK CPI report for Apr came in higher than expected – with expectations already higher due to annual increases in the energy/utilities price cap, a rise in the vehicle excise duty, Easter calendar effects, and the introduction of the new payroll tax. While some contributions are considered "one-off," the immediate impact is higher inflation. Headline UK CPI increased by +3.5% over the year in Apr, up from +2.6% in Mar. Core CPI jumped to +3.8% in Apr from +3.4% in Mar.

Japan's measures of inflation accelerated in Apr – across both annual and monthly measures. The BoJ preferred core CPI ex fresh food accelerated further in Apr to +3.5% from +3.2% in Mar – led by food excluding fresh food, housing, fuel/light/water, and culture & recreation, including a +3.1% increase in energy prices over the month. The fall in Education prices (reduction in public high school fees) offset some of these increases. While core inflation measures are still above the recently revised BoJ forecasts, the BoJ expects underlying inflation readings to moderate in the second half – in line with notably reduced growth forecasts. At the last meeting, the BoJ stayed on hold until the effect of tariffs and trade negotiations on prices and activity became clearer.

Canada's headline CPI slowed to +1.7% in Apr due to falling energy prices (including the removal of the consumer carbon price). However, underlying inflation accelerated; both the trimmed mean and median measures increased to their highest levels in over six months, with the two measures averaging +3.1% in Apr, up from +2.8% in Mar.

After seeing disinflationary progress from higher rates, underlying inflation pressures have remained sticky in April – and it's unclear how persistent this will be. Confronted with a highly uncertain shock from tariffs, central banks are striving to balance their mandates of price stability and full employment. Last week's decisions (RBA, ECB minutes) reflected a consistent approach to that challenge: either cutting rates as insurance against downside growth risks, or waiting (as with the Fed) to observe tariff (and broader policy) developments, yet still favoring cuts.

The RBA cut the cash rate by 25bps as expected last week, citing easing inflation supported by low unemployment, and a pre-emptive element against a highly “unpredictable” tariff and trade backdrop. Growth and inflation forecasts were revised lower, while the unemployment rate was forecast to edge higher in the medium term. Governor Bullock noted that the Board had determined that “global trade developments will overall be disinflationary for Australia”, an important context for the RBA view on the impact of tariffs. The current monetary policy stance was deemed as “somewhat less restrictive,” which suggests that there is scope for further cuts, amid the highly uncertain environment.

The ECB minutes confirmed the details of the recent decision to cut rates, citing confidence in the disinflationary process, effective transmission of policy, and “insurance against negative economic outcomes stemming from escalating US tariff proposals.” The outlook remained cautious given that retaliatory tariffs and fiscal spending could push prices higher, and the overall unpredictability of global trade policy is also weighing on growth. The ECB reiterated its data-dependent approach, maintaining full optionality, and stressing the need for agility to react quickly if necessary.

In an [interview last week](#), Fed Governor Waller noted that rate cuts were still possible if tariff rates settled at the lower end of the range.

Outlook for the week ahead; US PCE inflation & prelim goods trade balance, FOMC minutes, & the RBNZ meeting

As the new trade and tariff regime continues to take hold, data releases this week will offer insights into shifts in US sentiment, economic performance, and inflation dynamics.

Key factors & events to watch this week;

The Fed-preferred PCE inflation for Apr is expected to be little changed – based on the latest [Cleveland Fed PCE inflation nowcast](#) for Apr, though there is a range of forecasts;

- Headline PCE inflation is expected to increase by +0.19% over the month in Apr, up from 0% in Mar. Assuming no revisions in the prior month, the annual rate would increase by +2.2%, down from +2.3% in Mar.
- According to the Cleveland Fed nowcast, core PCE inflation is expected to increase by +0.21% over the month in Apr, up from 0% in Mar. Assuming no revisions to Mar, the annual rate would

remain at +2.6% over the year in Apr. Other estimates suggest that the increase in core PCE inflation over the month will be lower at +0.1% - and in this case, the annual rate would slow to +2.5% in Apr, from +2.65% in Mar.

US Growth Inputs – there will be various data releases that will feed into a more robust update of the Atlanta Fed US Q2 GDP growth [nowcast](#) – currently sitting at +2.4% for Q2

- One of the most awaited data releases will be the prelim goods trade balance for Apr. This has widened notably in Q1, and especially in Feb and Mar, as firms have front-run expected tariff increases. The goods trade balance is expected to narrow to -\$141bn from -\$163 in Mar.
- Personal spending for Apr is expected to slow to +0.2% over the month from +0.7% in Mar.
- Personal income growth is expected to slow to +0.3% in Apr from +0.5% in Mar.
- Durable goods orders for Apr are expected to fall by -7.9%, reversing the stronger increase in Mar of +7.5%.
- The second prelim estimate of US Q1 GDP is expected to confirm the -0.3% decline in GDP over the quarter.
- The Conference Board and Michigan (final) consumer sentiment surveys for May are expected to show a slight improvement in sentiment though remaining subdued.

Central Banks

- The FOMC minutes of the latest meeting on 7 May will be released. The FOMC kept policy settings unchanged at this meeting and reiterated its wait-and-see mode due to the high degree of uncertainty over the “final” version of tariffs, and how that will play out in terms of inflation, the labor market, and growth.
- There will be numerous speeches this week - see the Fed calendar for details – [HERE](#).
- The RBNZ is expected to cut rates by 25bps at its meeting this week.

US Treasury Issuance; 26 - 30 May 2025

This week, the US Treasury will auction and/or settle approx. \$679bn in ST Bills, Notes, Bonds, TIPS, and FRNs, raising approx. \$134bn in new money.

QT this week: Approx \$40bn of ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx \$1.9bn in Notes and Bonds will mature on the Fed balance sheet and be redeemed and 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 %
26 May - Memorial Day Holiday								
26-30 May 2025	22-May	27-May	4 week bill	85			Actual 4.220%	4.220%
	22-May	27-May	8 week bill	75			Actual 4.235%	4.235%
	21-May	27-May	17 week Bill	60			Actual 4.230%	4.240%
				220	224	-4		
	27-May	29-May	13 week bill	76			Announced	4.285%
	27-May	29-May	26 week bill	68			Announced	4.140%
	27-May	29-May	6-week Bill	70			Announced	4.235%
				214	243	-29		
	28-May	30-May	2yr FRN	28			Announced	
	22-May	30-May	10yr TIPS	18			Actual 2.220%	1.935%
	21-May	02-Jun	20yr Bond	16			Actual 5.047%	4.810%
	27-May	02-Jun	2yr Note	69			Announced	3.795%
	28-May	02-Jun	5yr Note	70			Announced	3.995%
	29-May	02-Jun	7yr Note	44			Announced	4.123%
				245	104.542	140		
			Total - securities settling this week	679	572	107		
			Net New Cash Raised Qtr to Date	4852	4718	134		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			514		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		27-May	ST Bills	0.7				
		29-May	ST Bills	12.1				
		31-May	Notes & Bonds	27.2				
				40.0				
			Maturing & redemption (balance sheet roll-off)					
		31-May	Notes & Bonds	1.9				

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
	Total Notes & Bonds	5.0	151.5

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	15.8
2025/05/06	0.74	1%	0.00	0.7
2025/05/08	12.97	16%	0.00	13.0
2025/05/13	0.72	1%	0.00	0.7
2025/05/15	23.00	29%	0.00	23.0
2025/05/20	0.71	1%	0.00	0.7
2025/05/22	13.38	17%	0.00	13.4
2025/05/27	0.72	1%	0.00	0.7
2025/05/29	12.05	15%	0.00	12.1
	80.1		0.00	80.1

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

Recommended US Treasury Financing Q2 2025 and Est Q3 2025

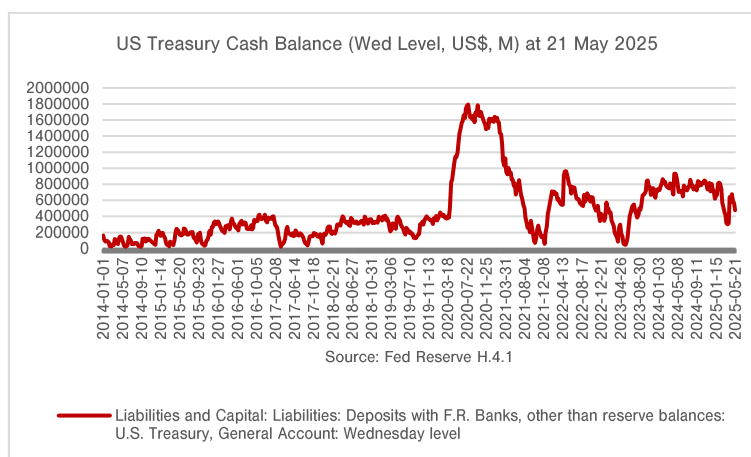
The latest update of the US Treasury borrowing requirements for Q2 and Q3 (estimate) can be found on the US Treasury website [here](#).

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. The estimated cash balance at the end of Q2 is expected to be \$850bn.

In Q3, 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 21 May 2025, the level of the TGA decreased to \$476bn (-\$86bn compared to the week prior). The TGA balance is approx. \$235bn 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

CALENDAR W/C 26 May 2025

MONDAY 26 MAY (US Eastern Time, unless stated otherwise)

US	Memorial Day Holiday
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TUESDAY 27 MAY

US	Durable Goods Orders (Apr), Cash-Shiller House Price Index (Mar), CB Consumer Confidence (May), Dallas Fed Manufacturing Index (May), Fed speeches; Kashkari, Williams, Waller
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Australia	Construction Work Done Q1, Monthly CPI (Apr)
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NZ	RBNZ Monetary Policy Decision
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WEDNESDAY 28 MAY

US	MBA Mortgage Applications wk ending 24 May, Richmond Fed Manufacturing Index (May), FOMC Minutes, Fed speeches; Williams, Kashkari
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Australia	Private Sector Capex Q1
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THURSDAY 29 MAY

US	Initial Jobless Claims wk ending 24 May, GDP Q1 – second prelim est, Pending Home Sales (Apr), Fed speeches; Goolsbee, Kugler, Daly, Barkin, Logan
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Japan	Tokyo CPI (May), Unemployment Rate (Apr), Industrial Production – Prelim (Apr), Retail Trade (Apr)
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Australia	Private Sector Credit (Apr), Retail Sales (Apr)
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FRIDAY 30 MAY

Europe	Germany Retail Sales (Apr), Germany CPI – Prelim (May)
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Canada	GDP Q1
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US	Goods Trade Balance – Prelim (Apr), PCE Price Inflation (Apr), Personal Spending & Income (Apr), Wholesale Inventories – Prelim (Apr), Chicago PMI (May), Michigan Consumer Sentiment – Final (May), Fed speeches: Bostic
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China	NBS Manufacturing & Non-Manufacturing PMI (May)
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