MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 30 June 2025

Key events this week: US non-farm payrolls, ISM surveys, ECB Forum on Central Banking, US Independence Day Holiday

Recap from last week: US Growth Cools while the Inflation Path Remains Unclear

After a period of elevated geopolitical anxieties, this week's economic spotlight shifted firmly back onto the health of the US economy. Last week's activity, spending, and inflation data for May provided a crucial snapshot of the growth trajectory and momentum of the US economy as firms and households adjust to the new tariff and policy regime.

Following a broad range of US economic data releases last week, the Atlanta Fed GDP nowcast growth run rate for Q2 saw a modest step down from +3.4% to +2.9% after the May data. This deceleration reflects a continued reduction in the contribution from personal spending, alongside a slightly larger drag from falling residential investment spending and from the change in inventories. These effects were only partially offset by a larger positive contribution from net exports, as tariff-led distortions on exports and imports continue to reset. Excluding the contributions from net exports and the change in private inventories, the proxy for domestic final sales slowed, edging from +1.7% growth to +1.6% (annualized over the quarter). The slowing momentum in Q2 comes on the back of Q1 GDP contracting at a slightly faster pace of -0.5%. This revision lower was led by slower/stalled growth in personal spending in Q1.

Drilling deeper into the drivers of this softening activity in May, last week's data in particular sheds some light on a nuanced consumer landscape. While the underlying footing of labor market income for personal spending still looks solid, several headwinds, including subdued sentiment, could be dampening spending activity for now.

Consumer sentiment, as measured by both the Michigan and Conference Board surveys, has remained at subdued levels. Measures of consumer expectations for both the economic and inflation outlook have borne most of the negative brunt of not only this tariff episode, but also other policy measures such as government job cuts. While the recent easing of tariff rhetoric has brought some stabilization to the negative trends, still subdued sentiment indicates that consumers remain concerned about inflation, the labor market, and slowing growth, likely providing a negative backdrop for spending intentions.

Importantly, despite the fall in overall personal income this month, the income indicators reflecting labor market conditions remained solid in May. This suggests a still solid underlying footing for consumers and households. Headline personal income was softer than expected, falling by -0.4% in May versus +0.7% in April. The decline in May was primarily driven by two factors: a fall in proprietors' income from the farm sector, which is relatively small share of overall income, but accounted for nearly 40% of the fall in aggregate income for the month, and a decline in transfer receipts after last month's back-payment spike. Importantly, indicators reflecting labor market conditions remained solid in May. Wages and salaries growth remained at a solid +0.4% for the private sector, while wages and salaries growth slowed to +0.3% for the government sector, consistent with the slower growth in government payrolls flagged last month.

The recent increase in initial claims has raised concerns over a softening labor market, potentially impacting incomes. Last week, initial claims did ease, while continuing claims (lagging by a week) moved higher again, remaining above 1.9m and reflecting this slower hiring environment. We'll get a more comprehensive update on the US labor market for June this week to see the degree to which this recent rise in claims and continuing claims is manifesting in unemployment and how that may impact the outlook for household spending and income.

The final piece of the puzzle was the more pervasive sign of slower consumer spending. In real terms, personal spending fell by -0.3% in May after a more subdued increase of +0.1% in April. While tariff distortions are visible in goods spending, we also noted slower growth in spending on services, which slowed to 0% in May – a slowing that was reflected across most services expenditure categories. It remains to be seen if this is temporary. There are, however, several headwinds to consumption growth that can't be ignored, including slowing payrolls, led by government job cuts, notable uncertainty over the outlook/subdued sentiment, and falling immigration.

Looking at the latest survey data, the prelim US S&P PMI for Jun indicated that activity likely remained moderate in the final month of Q2. The composite output indicator suggested that activity continued to grow, though it did ease slightly. Falling exports across manufacturing and services acted as a drag on growth, but were offset by another round of (reportedly) tariff-led inventory building. Backlogs continued to increase, and firms expanded employment. Tariff-led price pressures persisted – the price indexes rose at an especially sharp and increased rate in manufacturing, but also continued to rise steeply in services.

This evolving economic backdrop, particularly the dynamics of slowing growth and cautious consumer activity, along with inflation concerns stemming from tariffs, remains central to the Fed's policy considerations. While expectations of tariff effects on inflation are on the Fed's radar, the latest PCE inflation report for May again showed little tariff impact so far. Headline PCE inflation came in as expected at +2.3% in May, while the rate in April was revised higher to +2.2%. Core PCE inflation came in higher than expected over the month at +0.2% and by +2.7% over the year, with the prior annual rate also revised higher. Core goods PCE inflation has stayed firmer year-to-date, while the overall slower monthly readings have been driven by an easing in core services inflation. Housing disinflation continues to progress consistently. Super core services excluding housing also showed signs of slowing, yet the annual rate remained unchanged at +3.1% (still below +3.5% from a year ago) in May.

Despite the more benign monthly inflation readings recently, the annual rates of PCE inflation have remained little changed, cycling over slower readings from a year ago. This will be important as we head into the June and July inflation readings. Fed Chair Powell's testimony last week flagged that the June and July inflation reports would be important, as inflation impacts from tariffs were expected to begin to show up. Chair Powell noted he was open to the idea that these tariff effects could be less than anticipated, reiterating that a wide set of outcomes was still possible. He did not buy into the timing debate for when Fed rate cuts may restart, but did acknowledge that if inflation was weaker or if the labor market deteriorates, the Fed could cut rates sooner. Chair Powell stated there was a case to cut rates now, but emphasized that data is backward-looking and expectations for inflation to move higher due to tariffs cannot be ignored. So far, markets are pricing in two, with a possible third rate cut in the second half of this year (source: CME Fed Watch).

Outside of the US, the suite of prelim PMIs showed that activity stabilized across both manufacturing and services sectors in Jun. While there was a broad, modest uptick in overall economic activity (largely service-led), the global picture remains one of heightened uncertainty driven by geopolitical tensions and tariff policies, which are impacting exports and causing inflation trends to diverge (price spikes in the US due to tariffs, but moderation elsewhere). The labor market generally reflects this cautious outlook, with either slowing job creation or outright cuts in some regions.

Outlook for the week ahead: US non-farm payrolls, ISM surveys, Global PMIs, ECB Forum on Central Banking, US Independence Day Holiday

The week ahead will feature a broad range of important US economic reports, including the crucial payrolls and labor market data for June, the full suite of global PMIs for June, and the ECB Forum on Central Banking. The passage of the US budget reconciliation bill – the One Big, Beautiful, Bill Act - is expected to be completed this week and signed in time for the Independence Day Holiday deadline on July 4. News of progress on trade deals is expected to increase as the July 9 reciprocal tariff deadline approaches.

Key factors & events to watch this week;

A broad update on the US labor market for June. This is important given the recent weakening in the initial claims data, as well as what it may mean for a softer spending outlook. NOTE that the key labor market data will be released a day earlier than usual on Thurs, 3 July.

- US non-farm payrolls are expected to increase by +120k in Jun, after a +139k increase in May.
- The unemployment rate is expected to increase to 4.3% from 4.2% in May.
- Average weekly hours are expected to be unchanged at 34.3hrs.
- Average hourly earnings are expected to be unchanged at +3.9% growth over the year.
- Job Openings for May (lags by a month) are expected to increase slightly to 7.4m from 7.39m in April.
- Challenger Job Cut Announcements for Jun are expected to remain elevated. In May, job cut announcements came in at 93.8k.
- Initial jobless claims for the week ending 28 Jun are expected to remain little changed at 239k versus 236k in the prior week.

US economic activity reports will be important for gauging momentum into the final month of Q2.

- The ISM PMIs for June are expected to show some marginal improvement. The contraction in manufacturing activity is expected to abate slightly to 48.8 in Jun from 48.5 in May. Services activity is expected to expand from 49.9 to 50.8 in June. The price indexes in both of these surveys have been reflecting more widespread increases in prices, and it will be important to see if that continues.
- The final goods trade balance for May will be released and is expected to remain close to the -$96bn deficit reported last week.
- US Factory Orders for May are expected to increase by +8% after falling by -3.7% in April.

ECB Forum on Central Banking – Sintra

- While the forum goes for several days, the key event will be a policy panel on Tue 1 July with US Fed Chair Powell, ECB President Lagarde, BoE Governor Bailey, BoJ Governor Ueda, and Bank of Korea Governor Rhee Chang-Yong.
- The full schedule can be found HERE.

Europe

- The prelim Eurozone headline CPI for Jun is expected to increase slightly to +2% in Jun from +1.9% in May. Core CPI is expected to be unchanged at +2.3%.
- The latest ECB minutes will be released.

The broader suite of global S&P PMIs for Jun will be released this week.

US Treasury Issuance; 30 Jun – 4 Jul 2025

This week, the US Treasury will auction and/or settle approx. $652bn in ST Bills, Notes, Bonds, and TIPS, raising approx. $121bn in new money. Of this amount, only $5bn in new money will fall into Q3.

The US Treasury announced the first of a series of Cash Management Bills (CMB) to manage debt limit-related constraints. Starting this week, the US Treasury expects to issue a series of CMBs for up to $250bn in aggregate, to mature in the second half of Sep 25. More details HERE.

QT this week: Approx $36bn of ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx $4.6bn in Notes and Bonds will mature on the Fed balance sheet and be redeemed.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
Fri 4th July - National Independence Day Holiday								
30 Jun - 4 Jul	26-Jun	01-Jul	4 Week Bill	60			Actual 4.000%	4.060%
	26-Jun	01-Jul	8 Week Bill	50			Actual 4.390%	4.470%
0.724	25-Jun	01-Jul	17-Week Bill	63			Actual 4.195%	4.235%
	26-Jun	01-Jul	77-Day CMB	60			Actual 4.250%	n/a
				233	210	23		
	30-Jun	03-Jul	13 week bill	79			Announced	4.195%
	30-Jun	03-Jul	26 week bill	71			Announced	4.120%
13.493	01-Jul	03-Jul	6-week Bill	50			Announced	4.420%
				200	218	-18		
	16-Jun	30-Jun	20 yr Bond	13			Actual 4.942%	5.047%
	17-Jun	30-Jun	5yr TIPS	23			Actual 1.650%	1.702%
	24-Jun	30-Jun	2yr Note	69			Actual 3.786%	3.955%
	25-Jun	30-Jun	5yr Note	70			Actual 3.879%	4.071%
	26-Jun	30-Jun	7yr Note	44			Actual 4.022%	4.194%
				219	103	116		
			Total - securities settling this week	652	531	121		
			Net New Cash Raised Qtr to Date	***652***	***531***	***5***		
			Estimated Net Cash to be Raised Q3 ($ Bn)			*554*		
			QT: Face value of SOMA securities maturing	**$B**				
			Maturing & reinvestment					
		30-Jun	Notes & Bonds	21.8				
		01-Jul	ST Bills	0.7				
		03-Jul	ST Bills	13.5				
				36.0				
			Maturing & redemption (balance sheet roll-off)					
		30-Jun	Notes & Bonds	4.6				
				4.6				

Quantitative Tightening Overview – July 2025

The cap on US Treasury redemptions was lowered to $5bn effective Apr 2025. In Jul, the face value of Coupons maturing on the Fed balance sheet is approx. $36bn. This is more than the new $5bn monthly cap on Treasury redemptions. So of the $36bn of Coupons maturing in Jul, $5bn will roll off the Fed balance sheet (redeemed) and $31bn will be reinvested. It also means that all ST Bills maturing in Jul will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $5bn redemption cap - Jul			
			$5
		Redeem $Bn	**Reinvest $ Bn**
15-Jul-25	Notes, Bonds, and TIPS	2.3	14.1
31-Jul-25	Notes, Bonds, and FRN's	2.7	16.8
	ST Bills	0.0	63.7
	Total Notes & Bonds	**5**	**95**

July 2025 ST Bill maturity schedule;

Bill Maturity Schedule - Jul			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/07/01	0.72	1%	0.00	0.72
2025/07/03	13.49	21%	0.00	13.49
2025/07/08	0.72	1%	0.00	0.72
2025/07/10	14.68	23%	0.00	14.68
2025/07/15	0.70	1%	0.00	0.70
2025/07/17	9.18	14%	0.00	9.18
2025/07/22	0.70	1%	0.00	0.70
2025/07/24	9.05	14%	0.00	9.05
2025/07/29	0.44	1%	0.00	0.44
2025/07/31	14.04	22%	0.00	14.04
	63.7	100%	0.0	63.7

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

Recommended US Treasury Financing Q2 2025 and Est Q3 2025

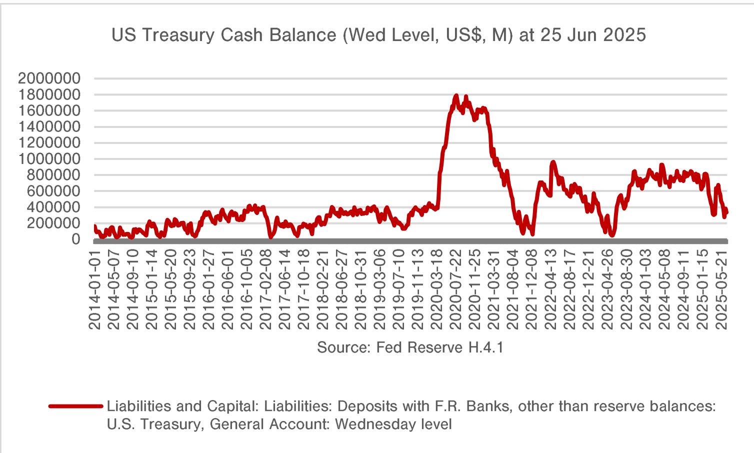
The latest update of the US Treasury borrowing requirements for Q2 and Q3 (estimate) can be found on the US Treasury website here.

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 25 Jun 2025, the level of the TGA decreased to $334bn (-$49bn compared to the week prior). The TGA balance is approx. $409bn *lower* than the same week a year ago. Next week's report should provide a closer estimate of the final cash balance for Q2. The expected cash balance for the end of Q2 was $850bn, and the current TGA balance is well below that level. The next Treasury quarterly refunding meeting will be at the end of July.



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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 30 JUNE (US Eastern Time, unless stated otherwise)

UK	GDP Q1 - Final
US	Dallas Fed Manufacturing Index (Jun), Chicago PMI (Jun), Fed speeches: Bostic, Goolsbee

TUESDAY 1 JULY

Europe	Euro area CPI – prelim (Jun) ECB Forum on Central Banking 2025 - Policy Panel; US Fed Chair Powell, ECB President Lagarde, BoE Governor Bailey, BoJ Governor Ueda, and Bank of Korea Governor Rhee Chang-Yong
US	S&P Manufacturing PMI (Jun), ISM Manufacturing PMI (Jun), JOLTS (May), Vehicle Sales (Jun) – tbc
Australia	Retail Sales (May)

WEDNESDAY 2 JULY

US	MBA Mortgage Applications wk ending 28 Jun, Challenger Job Cut Announcements (Jun), ADP Employment Change (Jun)

THURSDAY 3 JULY

Europe	ECB Minutes
US	Initial Jobless Claims wk ending 28 Jun, Non-farm Payrolls & Labor Market Survey (Jun), Goods Trade Balance – Final (May), S&P Services PMI (Jun), ISM Services PMI (Jun), Factory Orders (May), US Fed speeches; Bostic

FRIDAY 4 JULY

US	Independence Day Holiday
Europe	Germany Factory Orders (May)