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Weekly Macro Outlook

w/c 15 December 2025

The Macro Outlook: Central Bank Decisions – Part 2

The key events for the w/c 15 December 2025: Central Bank Decisions – ECB, BoE, and BoJ, US Fed Waller speech, US data: employment situation, retail sales, & CPI, Global CPI reports, S&P prelim PMIs (Dec)

The Recap from Last Week: Central Banks Find Their Own Path

The central bank decisions last week by the FOMC, the RBA, and the BoC continued to highlight policy divergence in response to local pressures. While a broad theme of caution and pause underlies all three decisions, each bank is responding more to specific national nuances as they approach, and now pause at, respective "neutral" policy levels. With its latest rate cut to further mitigate downside risks to employment, the FOMC signalled a pause after hitting a "plausible" neutral range. In contrast, the RBA stayed on hold, while sounding a warning on upside inflation risks. Finally, the BoC remained on hold, reaffirming that its policy rate was "at about the right level" as it manages the complex structural trade adjustment. These three decisions set the stage for the final key meetings of the year from the BoE, ECB, and BoJ this week.

FOMC: Rate Cut Arrives at a Plausible Neutral Range

Summary: The FOMC cut the FFR by 25bps as expected to 3.5% - 3.75%, and now judges policy as within a range of "plausible estimates of neutral". Chair Powell confirmed that "we've been sort of moving in the direction of neutral", setting up the shift in guidance to signal a pause here "to see how the economy evolves". The primary risk leading up to the next meeting is a deterioration in the labor market. While key US labor market data continues to catch up after the shutdown – and with Oct & Nov data due this week, Fed Chair Powell has warned over the challenge of data distortions.

Detail: The Fed decision was split 9-3 in favour of a cut (one member preferred a 50bps cut, and two preferred to hold, citing inflation and data uncertainty), highlighting the still divided nature of the policy debate.

Given the arrival at a more neutral setting, the cumulative cuts in the cycle so far, and a more constructive outlook for 2026, the key shift was the signal of a pause: "We are well positioned to wait and see how the economy evolves". Guidance shifted to a more neutral bias, while keeping the door open to modest easing over the next two to three years. This marked a shift from the risk management bias ("considering additional adjustments") to more of a data-dependent approach, "judging the extent and timing of additional adjustments" – reflecting less certainty over how many cuts and when.

With the cut, the FOMC continued to manage its dual mandate trade-off by prioritizing the "further cooling" in the labor market over inflation that had come in a "touch lower". Chair Powell noted that he expects unemployment might "kick up one or two more tenths," but that the cuts to date would help to stabilize unemployment, and that he isn't expecting a sharper downturn. This suggests that an unemployment rate exceeding the projected year-end rate of 4.5% by more than two tenths could be a trigger for another cut leading up to the Jan meeting.

While risks to the outlook are still tilted to the downside for unemployment, the projections for 2026 were somewhat more constructive: solid growth, inflation easing, and unemployment easing. Powell stated, "So it looks like the baseline would be solid growth next year."

The outlook for the FFR in the dot plot projects modest easing over the next two to three years, with the long-term (LT) neutral rate unchanged at 3%. Near-term dispersion is notable: the median projection for the FFR in 2026 suggests at least one rate cut, but there are twelve members projecting a lower FFR (by between one and six rate cuts), four see a hold through 2026, and three see potential for a hike. Powell firmly ruled out a hike being on the table at this point.

RBA: Hold With Inflation Risks Tilted to the Upside

Summary: The RBA stayed on hold at this meeting as expected, and it was a unanimous decision. The Board elevated its concern over inflation, noting that recent data suggests "inflation risks have tilted to the upside" – a key shift at this meeting. The primary risk remains the Q4 trimmed mean inflation rate and domestic capacity pressures that could position the Feb meeting as live for a hike.

Detail: Stronger-than-expected inflation, combined with stronger-than-expected activity in Q3, has fuelled concerns over the inflation outlook. The Board noted "uncertainty over the extent to which monetary policy remains restrictive", with the RBA Governor adding that the effects of recent cuts are still to be fully transmitted through the economy, potentially adding further to demand.

The Board did not consider a rate cut at this meeting, "given what's happening with underlying momentum in the economy that it does look like additional cuts are not needed". While the case for a rate rise was not explicitly considered, the Board did discuss how conditions would need to evolve if rates "had to rise again at some point next year" – we'll await the Minutes for details on this discussion.

Guidance shifted to a more near-term, cautious bias, given that it would take a little longer to assess the persistence of inflationary pressures. The Q4 CPI was explicitly noted as a key report leading up to the next meeting, to help answer whether the larger-than-expected Q3 trimmed mean was "due to unrelated, one-off factors, or was it demonstrating some underlying capacity pressures in the economy"? The latest SoMP has the trimmed mean inflation rate lifting to +3.2% in Q4 (from +3% in Q3 – which was higher than the SoMP forecast of +2.7%). A reading above the projected Q4 QoQ trimmed mean inflation of +0.8% could trigger concerns for the RBA, suggesting Feb could be a live meeting for a hike. Current market pricing (12 Dec) has a rate hike priced by around Jul 2026. While the RBA is waiting on the Q4 CPI report, its assessment of inflationary pressure will incorporate broader measures of capacity pressures, labour market tightness, and financial conditions. The latest Nov labor market report was published after the meeting with mixed results, even though the unemployment rate was unchanged at 4.3%.

BOC: Holding at "About the Right Level"

Summary: The BoC kept policy settings unchanged at this meeting as expected. The decision was unanimous. The key signalling was that the Bank continues to see the current policy rate "at about the right level" to keep inflation close to 2% while helping the economy through this period of structural adjustment. Holding the policy rate unchanged at the lower end of the neutral range was seen as appropriate, having already delivered significant policy easing. However, the key risk remains supporting the economy, balancing growth and inflation, through the structural trade adjustment.

Detail: The Bank suggests economic slack, caused by the structural reconfiguration of trade, is acting to "offset" the cost pressures associated with that reconfiguration. The BoC emphasized that "this is more than a cyclical downturn—it's a structural transition. Monetary policy cannot restore lost supply. But it can help the economy adjust **as long as inflation is well controlled**". The current stickiness of core inflation, despite the economic slack, creates some caution for the Bank while it balances support for the Canadian economy amid nascent signs of stabilization. Despite several upside surprises in recent GDP and unemployment data, there remains a great deal of uncertainty over the path of the economy.

Outlook for the week ahead: Central Bank Decisions – ECB, BoE, and BoJ, US Fed Waller speech, US data: employment situation, retail sales, & CPI, Global CPI reports, S&P prelim PMIs (Dec)

To close out the year, it's going to be a big week of central bank decisions, important US data beginning to catch up (non-farm payrolls, CPI, retail sales), global inflation reports (UK, Canada, Euro-area, and Japan), and the prelim S&P PMIs for Dec.

Key factors & events to watch this week:

Key central bank decisions: part 2 and speeches

Bank of England (BoE)

- Expected Action: Markets are expecting the BoE to cut rates by 25bps.
- Decision Focus: After the extremely divided decision at the last meeting, the focus will be on the assessment of the balance of risks (less pronounced inflation risks versus slack building in the economy), as well as any shift in the assessment of policy restrictiveness. The BoE was waiting on additional evidence on the inflation outlook, as well as the budget release, before assessing further rate cuts.
- A further CPI (Nov) and labour market report (3-mth Oct) will be released before the meeting.

European Central Bank (ECB)

- Expected Action: The ECB is expected to keep the Deposit Facility Rate (DFR) unchanged at 2% at this meeting.
- Guidance focus: remains meeting by meeting. ECB President Lagarde recently reaffirmed that "we are in a good place" in regard to activity and policy settings in the Euro area. However, there could be some shift in signalling related to the balance of risks and the inflation and growth outlook, with the release of the latest forecasts.

The Bank of Japan (BoJ)

- Expected Action: Based on speeches over the last several weeks, there is some expectation that the BoJ could hike rates by 25bps as early as this meeting.
- The latest National CPI report for Nov will be released around the time of the meeting.

The US Federal Reserve

- There will be several speeches this week; however, the key speech will be Fed Governor Waller on the Economic Outlook. This will be an important speech outlining Waller's view on the US economy and the appropriate policy approach.

US labor market data catch-up

This week will feature the key employment situation report for Oct & Nov as well as weekly claims data. Note that the US labor market data for Oct & Nov will be released earlier in the week than usual, on Tue 16 Dec. Most of this data will still likely reflect the effects of the US govt shutdown.

- Non-farm payrolls for Nov are expected to increase by 35k, after +119k in Sept.
- The unemployment rate is expected to stay unchanged at 4.4%.
- Initial jobless claims for the week ending 13 Dec are expected to be little changed at 230k (from 236k in the week prior). The trend of continuing claims fell notably in the week ending 29

Nov – likely reflecting the short holiday week as well as normalization after the end of the shutdown.

US Inflation and spending data

- US retail sales for Oct are expected to increase by +0.2%, little changed from +0.2% in Sep. The control group (feeds into the GDP calculation) is expected to increase by +0.2% after falling in Sep. Data is likely to remain subdued as a result of the shutdown.
- US CPI for Nov is expected to increase to +3.2% over the year, up from +3% in Oct. Core CPI is also expected to increase to +3.2% in Nov, from +3% in Oct.

Global CPI reports – Nov

- Canada: headline CPI for Nov is expected to lift back up to +2.4% from +2.2% in Oct. Headline CPI ex gasoline was unchanged at +2.6% in Oct and is expected to remain little changed in Nov. The BoC measures of underlying inflation have shifted lower again and are expected to be unchanged at +2.9% and +3% for the median and trimmed mean, respectively.
- UK CPI core CPI for Nov is expected to be unchanged at +3.4%.
- Euro area CPI (final) for Nov is expected to be confirmed at +2.2% for headline inflation and at +2.4% for core inflation.
- Japan National CPI is expected to be unchanged, with the main BoJ measure of core CPI ex fresh food expected to be +3% in Nov, the same as Oct.

NZ Q3 GDP is expected to increase by +0.9% QoQ, reversing the sharp fall of -0.9% QoQ in Q2.

The prelim S&P PMIs for Dec will be released early this week.

US Treasury Issuance; 15 - 19 December 2025

This week, the US Treasury will auction and settle approx $591bn in ST Bills, Notes, and Bonds, raising approx. $36bn in new money. The US Treasury will also auction the 20-year Bond and 5-year TIPS this week, to settle on 31 Dec.

Approx $9.1bn in 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 %
15-19 Dec	11-Dec	16-Dec	4 week Bill	85			Actual 3.610%	3.680%
	11-Dec	16-Dec	8 week Bill	80			Actual 3.610%	3.620%
	10-Dec	16-Dec	17 week Bill	69			Actual 3.610%	3.620%
				234	270	-36		
	15-Dec	18-Dec	13 week Bill	86			Announced	3.650%
	15-Dec	18-Dec	26 week Bill	77			Announced	3.580%
	16-Dec	18-Dec	6-week Bill	75			Announced	3.650%
				238	245	-7		
	08-Dec	15-Dec	3yr Note	58			Actual 3.614%	3.579%
	09-Dec	15-Dec	10yr Note	39			Actual 4.175%	4.074%
	11-Dec	15-Dec	30yr Bond	22			Actual 4.773%	4.694%
				119	40	79		
		Total - securities settling this week		591	554.999	36		
		Net New Cash Raised Qtr to Date		*6942*	*6381*	*561*		
		Estimated Net Cash to be Raised Q4				*569*		
	Upcoming Auctions			$B				
	17-Jan	31-Dec	20yr Bond	13				
	18-Dec	31-Dec	5yr TIPS	24				
	Reserve Management Purchase Operations			$B				
		15, 17, & 19 Dec	ST Bills	23.1				
	Face value of US Federal Reserve SOMA securities maturing			$B				
		Maturing & reinvestment						
		16-Dec	ST Bills	0.7				
		18-Dec	ST Bills	8.4				
				9.1				

Reserve Management Purchase (RMP) Operations

The commencement of reserve management purchase operations was announced at the 9-10 Dec FOMC meeting. The objective: to "maintain an ample level of reserves through purchases in the secondary market of Treasury bills (or, if needed, of Treasury securities with remaining maturities of 3 years or less)". Operations commenced on 12 Dec 2025. The pace of RMPs will remain elevated for a few months to offset expected large increases in non-reserve liabilities in Apr 2026. After that, the pace of total purchases will likely be significantly reduced in line with expected seasonal patterns in Federal Reserve liabilities. Purchase amounts will be adjusted as appropriate based on the outlook for reserve supply and market conditions. See announcement here. See operation details and announcements here and here.

SOMA Reinvestment – December 2025

The program of Quantitative Tightening (QT), or balance sheet roll-off, has ended as of 1 December. See note here. All principal payments from the Fed's holdings of Treasury securities will be rolled over, and all principal payments from the Fed's holdings of agency securities will be reinvested into Treasury bills through secondary market purchases.

Summary of total SOMA Securities Maturing in Dec		
		Reinvest $Bn
31-Dec-25	Notes & Bonds	23.4
	Bills	42.1
	Total Notes & Bonds	65.5

ST Bill maturity schedule – Dec 2025;

Bill Maturity Schedule - Dec			Weekly Totals $Bn
	Par Value of Bills Maturing	% Maturity by Wk	Bill Reinvestment
2025/12/02	0.79	2%	0.8
2025/12/04	6.42	15%	6.4
2025/12/09	0.73	2%	0.7
2025/12/11	10.26	24%	10.3
2025/12/16	0.73	2%	0.7
2025/12/18	8.40	20%	8.4
2025/12/23	0.74	2%	0.7
2025/12/26	13.24	31%	13.2
2025/12/30	0.79	2%	0.8
	42.1	100%	42.1

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

Recommended US Treasury Financing Q4 2025 and Est Q1 2026

The latest quarterly US Treasury borrowing estimates were released on 3 and 5 Nov 2025. The US Treasury communication noted that it "has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes."

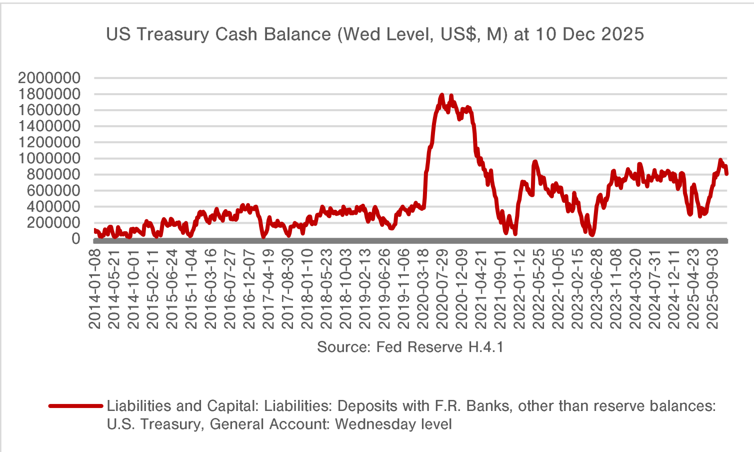
Updated Q4 estimates: Treasury expects to borrow $569 billion in privately held net marketable debt (only -$21bn lower than initially estimated), assuming an end-of-December cash balance of $850 billion.

During the January–March 2026 quarter, the US Treasury expects to borrow $578 billion in privately-held net marketable debt, assuming an end-of-March cash balance of $850 billion.

The latest update of the US Treasury borrowing requirements for Q4 and Q1 2026 (estimate) can be found on the US Treasury website here.

US Treasury Cash Levels (TGA)

As of Wed 10 Dec 2025, the level of the TGA decreased to $806bn (-$103bn compared to the week prior). The TGA balance is now approx. $94bn *higher* than the same week a year ago.



Source: Fed Reserve H.4.1

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

MONDAY 15 DECEMBER (US Eastern Time, unless stated otherwise)

China	F/A Investment, Industrial Production, & Retail Sales (Nov)
Europe	Industrial Production (Oct)
Canada	CPI (Nov)
US	NY Empire State Manufacturing Index (Dec), NAHB Housing Market Index (Dec), Fed speeches: Miran (Inflation Outlook), Williams
Australia	S&P Prelim PMI - Manufacturing & Services (Dec)
Japan	S&P Prelim PMI - Manufacturing & Services (Dec)

TUESDAY 16 DECEMBER

UK	Employment Report (3mths to Oct), S&P Prelim PMI-Manufacturing & Services (Dec)
Europe	Eurozone S&P Prelim PMIs - Manufacturing & Services (Dec)
US	Employment Situation & Non-Farm Payrolls (Oct & Nov), Retail Sales (Oct), S&P Prelim PMI - Manufacturing & Services (Dec)
Japan	Merchandise Trade Balance, Exports, & Imports (Nov)

WEDNESDAY 17 DECEMBER

UK	CPI (Nov)
Europe	Euro area CPI – final (Nov)
US	MBA Mortgage Applications wk ending 13 Dec, Fed speeches; Waller (Economic Outlook), Williams, Bostic
NZ	GDP Q3

THURSDAY 18 DECEMBER

UK	BoE Monetary Policy Meeting
Europe	ECB Monetary Policy Meeting
US	Initial Jobless Claims – wk ending 13 Dec, CPI (Nov), Philadelphia Fed Manufacturing Index (Dec), Kansas City Fed manufacturing Index (Dec)
Japan	National CPI (Nov), BoJ Monetary Policy Meeting

FRIDAY 19 DECEMBER

UK	Retail Sales (Nov)
US	Existing Home Sales (Nov), Michigan Consumer Sentiment – final (Dec)