MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 22 December 2025

The Macro Outlook: Final Central Bank Decisions of 2025

The key events for the w/c 22 December 2025: Christmas Holiday week, US Q3 GDP, RBA Minutes

The Recap from Last Week: ECB, BoE, and BoJ Decisions

The final three major central bank decisions of the year reinforced the theme of policy divergence as policymakers navigate specific domestic pressures. The ECB maintained a “watchful neutral” stance, while the BoE delivered a fragile cut – a move that underscores a shift to more gradual easing, with future decisions likely to remain a “closer call”. Meanwwhile, the outlier Bank of Japan hiked rates to a 30-year high as it continued to normalise policy after decades of excess accommodation.

As we look to 2026, the path of Fed rate policy - the key global anchor - will remain important for markets. The question of 'more or fewer cuts' in 2026 is contingent on a labor market already testing the Fed’s 'line in the sand', inflationary crosscurrents from a new trade regime, fiscal stimulus, and a change in Fed leadership.

The final three decisions: ECB, BoE, and BoJ

ECB: A Watchful Neutral – The Governing Council delivered a unanimous hold, keeping the deposit facility rate at 2%. While growth forecasts were revised slightly higher, services inflation is likely to remain sticky. With settings at a roughly neutral level, the ECB remains cautious, citing an uncertain international environment. Forward guidance remained suspended as ECB President Lagarde noted that it was also a “unanimous decision to keep all optionalities on the table and stick to a meeting-by-meeting approach” due to the high degree of global uncertainty.

BoE: A Fragile Cut – In another razor-thin 5-4 decision, the BoE cut the Bank Rate by 25bps to 3.75%, with Governor Bailey acting as the swing voter. While upside risks to persistent inflation have eased, the risk to medium-term inflation from weaker demand has remained. Recent inflation reports have come in lower, while demand remains subdued and slack is building in the labor market. Inflation is expected to fall back target more quickly in the near-term. Guidance shifted - while the bias to cutting remained, further easing is likely to progress on a gradual path, with decisions becoming a “closer call”, and conditional on the inflation outlook.

BoJ: Removing Excess Accommodation - The BoJ hiked by 25bps to 0.75%, a 30-year high. This unanimous decision reflects rising confidence in achieving the 2% inflation target. Importantly, the bridge between inflation and growth – the wages outlook – is expected to be maintained. However, the Spring wage negotiations remain the key risk to the outlook. Policy settings are seen as remaining accommodative – with the BoJ noting that the “significantly negative” real interest rate level is still supporting the economy. Guidance set up a clear bias toward further hikes, conditional on achieving inflation and growth outcomes, while “the chances of that happening are increasing”. While this was a more hawkish decision and tone, the immediate market reaction was a selloff in long JGB’s (the 10-year breaching 2%) and the further weakening of the Yen, which suggested markets may have expected more.

US Data - Setting the Tone for 2026

While these central bank decisions illustrate a global landscape of policy divergence, the FOMC remains the key anchor for markets in the year ahead. This week, markets were focused on the catch-up of key US labor market and inflation data – and importantly, what it could mean for the Fed's rate path. Despite the weaker labor market data and softening CPI, market pricing for the FFR remained little changed over the week. This suggests that markets were looking past some of the distortions and waiting on the Dec data to help decipher temporary shutdown-related noise from a more fundamental cyclical shift.

1. The Labor Market: Mixed Signals and Shutdown Echoes

In our assessment of the Dec FOMC decision, Fed Chair Powell seemed to indicate that an uptick of more than two tenths in the unemployment rate (to 4.7%) could be a line in the sand for the Fed leading up to the Jan meeting. In the Nov labor market report, the unemployment rate started to approach that threshold, ticking up to 4.6% – higher than expected. Some of the uptick in unemployment appeared to be due to "temporary" layoffs, suggesting that this higher unemployment rate may not be enduring. While the increase in the unemployment rate was partly the result of higher participation, slower employment growth also contributed. The employment to population ratio for the 16yrs+ group fell to a post-pandemic low of 59.6%, while conditions in the core working-age group also seemed to soften.

Payroll growth rebounded in Nov to +64k after the notable fall of -157k in Oct, distorted by the shutdown and the deferred falls in government payrolls. Private payroll growth has remained positive over the last three months, and increased to +69k in Nov (with the 3-month avg now up to +75k). The private payroll diffusion index improved to >50 (reaching 55.2), suggesting some positive broadening in payroll growth across industries.

Another bright spot was the continued solid growth in aggregate hours worked. Hours worked increased by +0.3% over the month, and remained fairly steady over the year at +0.8% growth. This pace of aggregate hours suggests some stability in activity underlying the labor market noise.

2. US CPI Catch-Up

The inflation data, while lacking a month-on-month trend due to the Oct gap, showed a notable deceleration. Headline CPI slowed to +2.7% (down from 3% in Sept), and Core CPI dropped to +2.6%. While the Fed will likely remain sceptical of this data until the gaps are cleared, the downward trajectory was notable.

Further delays in inflation data could mean that the Fed may not have a clearer inflation picture until the Mar meeting. The PPI for Nov is postponed until 14 Jan, which means the Fed-preferred PCE inflation report for Nov will also be delayed – awaiting an updated release date. At this stage, the next complete PCE inflation report for Dec is not scheduled until 31 Jan, after the next Fed meeting on 27-28 Jan 2026.

3. The US prelim S&P PMIs Dec – Momentum Slows amid price pressures

The Dec PMI survey shows composite output momentum slowing, but the expansion remaining moderate. That said, there were several points of caution in the report, starting with a smaller increase in orders and a pullback in confidence. Marginal employment growth, led by the previously stronger services sector, was notable, constrained by concerns over costs, lacklustre demand, and uncertainty over the economic outlook. The PMI report also noted that price pressures "intensified noticeably" and services inflation was "the steepest in three years" – which was also reflected in rising selling prices.

Outlook for the week ahead: Christmas Holiday week, US Q3 GDP, RBA Minutes

It will be a shorter week this week, with the Holiday season now upon us.

There will still be several key US data releases – including the delayed US Q3 GDP.

Key factors & events to watch this week:

US data

- The delayed Q3 GDP will be released this week, and growth is expected to edge lower to a still elevated +3.2% annualized rate, down from +3.8% in Q2.
- Durable Goods Orders for Oct will be released this week, expecting a +0.4% increase over the month.
- Industrial Production for Oct & Nov will be released this week.
- The Conference Board Consumer Confidence survey for Dec should capture any rebound/shift in sentiment after the end of the government shutdown.
- Initial jobless claims for the week ending 20 Dec are expected to be little changed at 225k (from 224k in the week prior).

The RBA minutes of the Dec meeting will be released. Of particular interest will be the detail of the discussion noted in the press conference around how conditions would need to evolve if rates "had to rise again at some point next year".

US Treasury Issuance; 22 - 26 December 2025

This week, the US Treasury will auction and settle approx $545bn in ST Bills and FRNs with a paydown of $18bn. The US Treasury will also auction the 2-year, 5-year, and 7-year Notes this week, to settle on 31 Dec.

Approx $14bn 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 %
25 Dec - Christmas Day Holiday								
22 - 26 Dec								
	18-Dec	23-Dec	4 week bill	80			Actual 3.580%	3.610%
	18-Dec	23-Dec	8 week bill	80			Actual 3.585%	3.610%
	17-Dec	23-Dec	17 week Bill	69			Actual 3.540%	3.610%
				229	270	-41		
	22-Dec	26-Dec	13 week bill	86			Announced	3.560%
	22-Dec	26-Dec	26 week bill	77			Announced	3.495%
	23-Dec	26-Dec	6 week bill	75			Announced	3.625%
	23-Dec	26-Dec	52 week bill	50			Announced	3.460%
				288	293	-5		
	24-Dec	27-Dec	2yr FRN	28			Announced	0.205%
				28		28		
			Total - securities settling this week	545	563	-18		
			Net New Cash Raised Qtr to Date	*7487*	*6944*	*543*		
			Estimated Net Cash to be Raised Q4			*569*		
	Upcoming Auctions			$B				
	22-Dec	31-Dec	2yr Note	69				
	23-Dec	31-Dec	5yr Note	70				
	24-Dec	31-Dec	7yr Note	44				
				183				
			Reserve Management Purchase Operations	$B				
		22-Dec	ST Bills	6.8				
			Face value of US Federal Reserve SOMA securities maturing	$B				
		Maturing & reinvestment						
		23-Dec	ST Bills	0.7				
		26-Dec	ST Bills	13.2				
				14.0				

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. 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

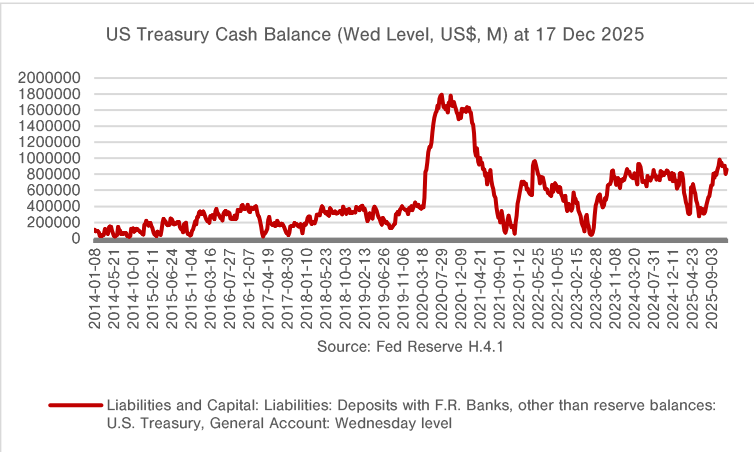
The latest quarterly US Treasury borrowing estimates were released on 3 and 5 Nov 2025. The US Treasury communication noted that it "has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes." The latest update of the US Treasury borrowing requirements for Q4 and Q1 2026 (estimate) can be found on the US Treasury website here.

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.

US Treasury Cash Levels (TGA)

As of Wed 17 Dec 2025, the level of the TGA increased to $861bn (+$55bn compared to the week prior). The TGA balance is now approx. $57bn *higher* than the same week a year ago.



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

CALENDAR W/C 22 December 2025

MONDAY 22 DECEMBER (US Eastern Time, unless stated otherwise)

UK	GDP Q3 – Final
Australia	RBA Minutes

TUESDAY 23 DECEMBER

US	ADP Employment Change – 4-weekly avg, GDP Q3, Durable Goods Orders (Oct), Industrial Production (Oct & Nov), CB Consumer Confidence (Dec), Richmond Fed Manufacturing Survey (Dec)
Canada	Monthly GDP (Oct), BoC Summary of Deliberations

WEDNESDAY 24 DECEMBER

US	MBA Mortgage Applications wk ending 20 Dec, Initial Jobless Claims – wk ending 20 Dec

THURSDAY 25 DECEMBER

	Christmas Day Holiday

FRIDAY 26 DECEMBER

Japan	Tokyo CPI (Dec), Industrial Production – prelim (Nov), Retail Trade (Nov)