

The Macro Outlook: Economic Steadying Amid Sentiment Risks

The key events for the w/c 19 January 2026: US PCE inflation, Q3 GDP (second est), BoJ meeting, key global CPI reports, prelim S&P PMIs Jan

As data flows normalise, the picture reveals a U.S. economy that is largely steadying, though not yet out of the woods, following the end of the government shutdown, significant trade upheaval, and elevated geopolitical risks. While growth remains resilient and the labor market shows signs of stabilising, these conditions remain sensitive to an environment of heightened geopolitical volatility. A more immediate concern is the potential for renewed uncertainty, especially around tariffs again, to upend fragile business and household sentiment just as momentum may be building.

US inflation: Persistence without Acceleration

While the inflation data catch-up is still underway, the trajectory is one of steady consumer inflation, some pockets of rising input prices for producers, and lingering tariff pass-through risks.

Headline CPI for Nov came in as expected at +2.7%, unchanged from Oct, while core CPI edged up slightly to +2.7%. Although monthly rates showed a notable acceleration, this likely reflects distortions from the restart of data collection and a low Oct base. Importantly, the six-month annualised rates are little changed from the annual rates across most measures, suggesting that while inflation has remained persistent, it has not accelerated recently. Other measures of underlying inflation, such as the trimmed mean and the median, have slowed recently, reflecting some easing in inflation through the middle of the distribution.

The PPI for Oct and Nov showed some pressure on input prices for producers. Headline PPI increased to +2.95%, driven by goods prices increasing further to +3.1% (including energy) and construction costs rising to +2.7%. While services PPI remained stable at +2.9%, it has slowed through the year. Importantly, this week we will see how the CPI and PPI flow through into the Fed-preferred PCE inflation measure for Nov. Core PCE is expected to ease slightly to +2.7% in Nov, remaining within the year-end projection of +2.9%.

Ahead of the FOMC meeting next week, the most recent Beige Book for Jan highlighted some inflation risks in the outlook. The last four reports have reported inflation pressure not only from tariffs, but also from higher energy, utility, and insurance costs. While previous reports were mixed regarding the degree of pass-through, the Jan edition flagged risks of rising costs passing through to consumers as pre-tariff inventories are depleted and/or margin pressures mount.

Resilient Economic Activity

While inflation remains steady, yet persistent, it is doing so against a backdrop of surprisingly robust economic output. The latest [Atlanta Fed GDP nowcast](#) for the Q4 growth run-rate increased marginally to +5.3% by the end of last week. It's important to note that just under half of this growth stems from distortions to net exports data (accounting for approx. 2% pts of the overall 5.3% run rate so far this quarter); however, even excluding net exports still leaves a respectable growth picture. The rebound in retail sales in Nov made only a modest, yet positive contribution to personal spending growth, while

residential investment saw no net change (a small rise in existing home sales offset the fall in new home sales). Currently, residential investment is detracting -0.2% pts from Q4 growth. This ongoing weakness in the housing market was reflected in a further fall in the NAHB housing market sentiment for new home builders to 37 in Jan, the equal low of this cycle.

The Fed's Beige Book commentary reflected an improved tone on economic activity in Jan. Regional reports have evolved from "neutral-mixed" in Sep to a "negative" low point in Nov during the shutdown. The latest report reflects slightly positive conditions and an improved outlook, though the view remains bifurcated by industry: consumer spending is being led by higher-income earners in a potential "holiday rebound," while manufacturing remains mixed across districts.

Labor market stabilization versus fragility

Notably, this resilience in US growth is not translating into a revitalisation of hiring. While the broad labor market data for Dec was somewhat positive, given the fall in the unemployment rate, the [Conference Board Employment Trends Index](#) (ETI) for Dec continues to signal underlying weakness. The overall ETI fell in Dec, "reflecting low labor market confidence in the outlook for hiring and job-finding".

The last four Fed Beige Book reports on the labor market highlighted weaker demand and elevated economic uncertainty affecting hiring decisions. This trend persisted in Jan, though the trend stabilised after the notably negative report in Nov. In Jan, the focus shifted from cutting to operational flexibility; terms like "backfilling vacancies" and "temporary workers" replaced the mentions of "layoffs" seen in the Nov report – a subtle, but positive shift.

Implications for the FOMC

US labor market conditions are likely to remain at the core of the debate for the FOMC next week. The two key Fed speeches last week reflect the current divide among FOMC members.

Fed Vice Chair Jefferson, who supported cuts last year, noted that the labor market appears to be stabilising, and that current policy is consistent with the neutral rate. He signalled a likely 'hold' for the next meeting, stating that "the current policy stance leaves us well positioned to determine the extent and timing of additional adjustments to our policy rate".

Conversely, Vice Chair (Supervision) Bowman was more cautious. She noted that the labor market is still fragile and that policy is still restrictive, suggesting room for more cuts to reach neutral. Bowman argued that the FOMC should avoid signalling a pause until it has identified that labor market conditions have changed, and wants to maintain an "intentionally proactive and forward-looking" approach to policy setting. With markets pricing in [a hold at the Jan meeting](#), Bowman may again dissent at the Jan meeting.

Broader Risks to Sentiment

The start of 2026 has been marked by significant volatility on the political front. President Trump's weekend escalation regarding new tariff threats against the EU, linked to Greenland negotiations, adds a fresh layer of headline risk as he prepares to speak at Davos this week. These renewed threats may exacerbate general uncertainty for firms, risking a shift from a "fragile" sentiment to a defensive posture that could stall the momentum built in late 2025.

Outlook for the week ahead: US PCE inflation, Q3 GDP (second est), BoJ meeting, key global CPI reports, prelim S&P PMIs Jan

It will be a short week in the US due to the Martin Luther King Holiday on Monday.

The key focus in the US this week will be PCE inflation, spending, and income data for Nov and the second estimate for Q3 GDP. We are now in the blackout period ahead of the next FOMC meeting next week. Beyond the data, headline risk remains high regarding President Trump's tariff threats and the ongoing geopolitical friction stemming from his proposal to negotiate the purchase of Greenland.

The BoJ kicks off global central bank meetings for 2026 this week.

Global CPI reports will feature this week: Canada, Japan, the UK, the Euro area (final), and NZ.

Key factors & events to watch this week:

US PCE inflation, spending, and income data for Nov, GDP Q3: Now that both the CPI and PPI for Nov have been released, the Fed's preferred PCE inflation measure will be updated for Oct and Nov.

- US headline PCE inflation for Nov is expected to increase by +0.2% over the month in Nov. The most recent PCE inflation reading for Sep had increased to +2.8%, and is likely to ease in Nov.
- Core PCE is also likely to ease to +2.7% in Nov, from +2.8% at the last reading in Sep.
- Personal spending in Nov is expected to increase by +0.5% in Nov, while personal income is expected to increase by +0.4% over the month in Nov.
- The second estimate for US Q3 GDP is expected to be confirmed at +4.3% (annualised).

Bank of Japan Meeting

- The BoJ is expected to keep policy settings unchanged at the latest meeting, after increasing its policy rate by 25bps to 0.75% at the Dec meeting.

Global CPI reports

- Canada CPI is expected to decline by -0.4% over the month in Dec, while the headline rate is expected to stay unchanged at +2.2% over the year. The BoC core measures of CPI – trimmed mean and median are both expected to slow from +2.8% in Nov to +2.7% in Dec.
- Euro area headline CPI is expected to be confirmed at +2% over the year in Dec, and core CPI is expected to be confirmed at +2.3% over the year in Dec.
- Both the UK headline and core CPI are expected to increase to +3.3% over the year in Dec, from +3.2% in Nov.
- Japanese National core CPI (ex-fresh food) is expected to ease to +2.4% over the year in Dec, from +3% in Nov.
- NZ for Q4 is expected to slow to +0.5% over the quarter, from +1% in Q3. Headline inflation is expected to stay unchanged at +3%.

The prelim suite of S&P PMIs for key developed markets will be released later in the week, providing the first look at momentum and sentiment at the start of 2026.

Geopolitical and Political Context

Outside of the hard data, several significant political events will shape the broader macro environment.

Davos and Diplomatic Friction: President Trump is scheduled to attend and speak at the World Economic Forum in Davos this week. While he is expected to talk about US domestic housing policy, his appearance comes on the heels of renewed threats to purchase Greenland, citing "national security" reasons. This is likely to dominate discussions on the sidelines of the summit.

Tariff Uncertainty and Legal Rulings: Continued delays in the Supreme Court's tariff rulings are expected to keep firms on edge. This legal uncertainty now extends to recent tariff threats levied against European nations.

Fed Governance and Leadership: The Supreme Court is also expected to hear arguments this week relating to whether President Trump can fire Fed Governor Lisa Cook. This decision could have long-term implications for the central bank, potentially redefining legal standards for the removal and tenure of board members. Meanwhile, the market awaits the announcement of a new Fed Chair nominee; notably, reports suggest that Kevin Hassett, previously a leading contender, may have been ruled out.

US Treasury Issuance; 19 - 23 January 2026

This week, the US Treasury will auction and settle approx \$555bn in ST Bills, raising approx. \$34bn in new money. The US Treasury will also auction the 10-Year TIPS and 20-Year Bond this week. Approx \$34bn 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 %
19 Jan - National Martin Luther King, Jr Day								
19-23 Jan	15-Jan	20-Jan	4 week Bill	95			Actual 3.595%	3.550%
	15-Jan	20-Jan	8 week Bill	90			Actual 3.600%	3.540%
	14-Jan	20-Jan	17 week Bill	69			Actual 3.560%	3.510%
				254	240	14		
	20-Jan	22-Jan	13 week Bill	89			Announced	3.570%
	20-Jan	22-Jan	26 week Bill	77			Announced	3.490%
	20-Jan	22-Jan	6-week Bill	85			Announced	3.585%
	20-Jan	22-Jan	52 week Bill	50			Announced	3.380%
				301	281	20		
			Total - securities settling this week	555	521	34		
			Net New Cash Raised Qtr to Date	1846	1835	11		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			823		
Upcoming Auctions				\$B				
	22-Jan	30-Jan	10yr TIPS	21				
	21-Jan	02-Feb	20yr Bond	13				
				34				
Face value of US Federal Reserve SOMA securities maturing				\$B				
Maturing & reinvestment								
		20-Jan	ST Bills	0.7				
		22-Jan	ST Bills	13.1				
				13.8				
Reserve Management Purchase Operations				\$B				
		20 & 22 Jan	ST Bills	15.2				

Reserve Management Purchase (RMP) Operations

Operations commenced on 12 Dec 2025. See announcement [here](#). See operation details and announcements [here](#) and [here](#).

SOMA Reinvestment – Jan 2026

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 Coupons & Bills to Reinvest - Jan 2026			
			Reinvest \$ Bn
15-Jan	TIPS (incl Comp)		34.7
31-Jan	Notes & Bonds		15.9
	Bills		61.9
	Total		112.6

US Treasury Financing Q4 2025 and Est Q1 2026

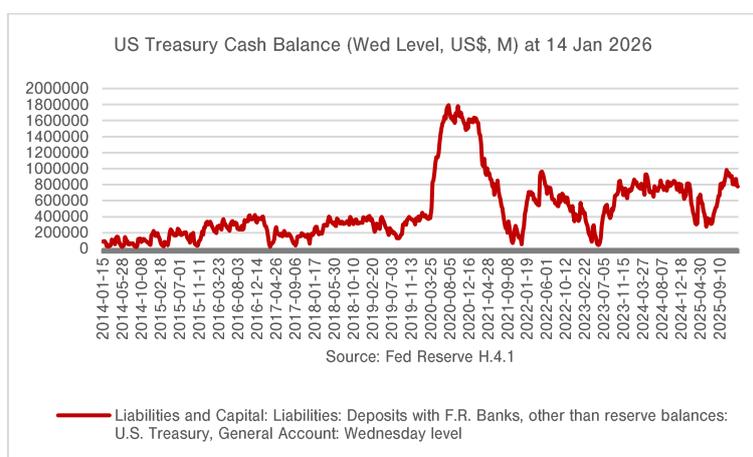
The next update will be on 2 and 4 Feb 2026. At the last meeting, US Treasury communication noted that it “has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes.” The latest update of the US Treasury borrowing requirements for Q4 and Q1 2026 (estimate) can be found 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 14 Jan 2026, the level of the TGA decreased to \$777bn (-\$6bn compared to the week prior). The TGA balance is now approx. \$125bn *higher* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

CALENDAR W/C 19 January 2026

MONDAY 19 JANUARY (US Eastern Time, unless stated otherwise)

China	(Sunday night) GDP Q4, Industrial Production, Retail Sales, F/Asset Investment (Dec)
US	Martin Luther King Jr Holiday
Europe	Euro Area CPI – Final (Dec)
Canada	CPI (Dec), BoC Business Outlook Survey

TUESDAY 20 JANUARY

UK	Labour Market Survey (3mth Nov)
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WEDNESDAY 21 JANUARY

UK	CPI (Dec)
US	MBA Mortgage Applications wk ending 17 Jan, Pending Home Sales (Nov) US President Trump's speech - Davos
Japan	Merchandise Trade Balance, Exports, and Imports (Dec)
Australia	Labour Market Survey (Dec)

THURSDAY 22 JANUARY

Europe	ECM Meeting Minutes
US	Initial Jobless Claims – wk ending 17 Jan, GDP Q3 – second est, PCE Price Index (Oct & Nov), Personal Spending & Income (Oct & Nov), Kansas City Fed Manufacturing Index (Jan)
NZ	CPI Q4
Australia	S&P Prelim Manufacturing & Services PMI (Jan)
Japan	National CPI (Dec), S&P Prelim Manufacturing & Services PMI (Jan) BoJ Monetary Policy Meeting & Outlook

FRIDAY 23 JANUARY

UK	S&P Prelim Manufacturing & Services PMI (Jan), Retail Sales (Dec)
Europe	Eurozone S&P Prelim Manufacturing & Services PMI (Jan)
US	S&P Prelim Manufacturing & Services PMI (Jan), Michigan Consumer Sentiment – Final (Jan)
