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Weekly Macro Outlook

w/c 26 January 2026

The Macro Outlook: FOMC Preview – Resilient Growth, Stalled Hiring, & Cautious Inflation Outlook

The key events for the w/c 26 January 2026: FOMC & BoC Meetings, Aus Q4 CPI, Euro area GDP Q4

As the FOMC prepares to meet this week, U.S. data continued to reflect resilient activity through the latter half of 2025. Paradoxically, this activity has not yet fuelled a hiring rebound, even as unemployment remains low. Meanwhile, the catch-up release of the Fed's preferred PCE inflation measures suggests a growing trend of underlying disinflation, providing a more constructive, if cautious, backdrop for policymakers.

The US PCE Catch Up: The "Tail" Effect

On the surface of the Oct and Nov PCE reports, progress on disinflation appears to have stalled. Both headline and core PCE inflation edged up to +2.8% in Nov (from +2.7% in Oct). While core PCE has slowed marginally from its 3% rate a year ago, headline inflation is still running slightly ahead of last year's levels.

However, developments in the trimmed mean and median inflation measures suggest that the underlying inflation conditions have cooled. While the larger improvement in both of these measures in the last two months could be related to the restart of the data collection, there is still a broader trend in place.

- Trimmed Mean PCE: This rate slowed to +2.5% over the year in both Oct and Nov (from +2.7% in Sept), falling notably below the core PCE inflation rate. This suggests that outlier results are likely keeping core PCE inflation "sticky". The weighted average inflation rate of the 'top tail' of items excluded in the trimmed mean was +10.6% in Nov, with the bigger items consisting of healthcare, utilities, and financial services. The weighted average inflation rate of items excluded in the bottom tail was -5.1%, providing a much smaller deflationary offset. The asymmetric nature of this inflationary impulse shows that while inflation in the middle of the distribution has cooled, inflation is not yet out of the woods.
- Median PCE Inflation: Helping to confirm this trend, the median inflation rate also slowed notably over the last two months to +2.9% in Nov – the first time below +3% in this cycle. The median measure is more robust to outliers, and the fall in the median rate indicates that inflation through the middle part of the distribution moved lower and has slowed.

While this is developing into a more constructive backdrop for the Fed, the tariff shadow remains. The Fed will consider anecdotes from the latest Beige Book over 'pre-tariff' inventory depletion leading to risks of price increases, as well as the seasonal corporate price increases through the start of 2026.

US Growth Resilience and Stalled Hiring

Growth through the back half of 2025 remained resilient. Last week, the second estimate of US GDP growth in Q3 was revised slightly higher to +4.4% (annualized). The updated Atlanta Fed GDP nowcast for Q4 growth also edged higher to +5.4% last week, still with large net export distortions.

Much of the small boost to Q4 tracking came from positive construction spending, while positive personal spending and income data for Oct and Nov was largely in line with expectations and made no change to the PCE contribution to growth.

Looking early into 2026, the US S&P flash PMI suggested a more sustained, albeit moderate expansion compared to the faster expansion at the start of Q4. In Jan, manufacturing output improved while services remained steady, though new order growth softened. Firms continued to cite political uncertainty, weak demand, and higher costs as "brakes" on hiring. For the FOMC, the message is clear: resilient growth is not yet translating into a hiring rebound.

Global Flash PMIs Jan 2026 – Mixed Momentum

The Jan PMIs were mixed. The Eurozone recovery remains “feeble” with momentum largely unchanged. Both the UK and Australia saw improved momentum. The UK expansion was led by services and manufacturing, though firms continued to cut costs, weighing on labor demand. Australia saw a notable jump in services activity alongside moderating output prices.

The other notable improvement in conditions was in Japan. The output index reached a 1.5-year high, as manufacturing shifted back to expansion and exports rose for the first time since 2022. While hiring was the strongest since 2019, future output optimism faded as firms noted rising costs, labour shortages, global uncertainty, and an aging demographic.

The BoJ – Tactical Hold

These themes of cost pressures and aging demographics were prevalent in the latest BoJ decision. The BoJ kept its policy rate unchanged at 0.75% as expected – one member dissented for a back-to-back 25bps hike. This was a tactical pause, rather than a change in direction, and maintained the shift towards a more hawkish bias. The Board sees policy settings as remaining accommodative, given “real interest rates are at significantly low levels”. Guidance followed that if the outlook for activity and prices continues to be realised, then the BoJ will increase policy interest rates. Other strategic observations from the decision;

- Growth and inflation forecasts were revised higher in fiscal year 2026, and modestly so in fiscal year 2027, due to rising confidence that the “virtuous cycle” is becoming embedded, as well as expansionary government policy measures.
- The BoJ identified that firms are becoming more comfortable passing on price and wage increases – behaviour that is expected to become more widespread. This is an important signal highlighting a fundamental shift in firms' price-setting behaviour. In this context, Gov Ueda emphasised sensitivity over currency weakness impacting imported inflation, even from smaller currency moves now. This doesn't signal a shift in the *cadence* of hikes, but it does elevate the Yen’s role as a driver of underlying inflation and inflation expectations, distinct from, and in addition to, the now expected underlying domestic wage and output gap drivers.
- The Feb-Apr Window: The Board maintained flexibility on the timing of further rate hikes with no clear commitment to a cadence of rate hikes. Comments in the press conference suggest post-April could be the next possible window for assessment, allowing time to digest the policy implications of the snap election in Feb, as well as Shunto wage negotiations and the seasonal corporate price changes around the Apr period.

Outlook for the week ahead: FOMC & BoC Meetings, Aus Q4 CPI, Euro area GDP Q4

It will be a quieter data week, with the focus shifting back to central bank decisions as the FOMC and BoC meet this week on monetary policy. The Q4 CPI release in Aus will be important for the upcoming RBA meeting next week.

Key factors & events to watch this week:

FOMC Meeting and US Data

- FOMC Decision: Markets are expecting no change to policy settings at the meeting this week. At this stage, markets are not pricing in another cut until Jul (source: CME Fedwatch).
- We continue to expect dissents at this meeting.
- US data this week: Advance Durable Goods Orders for Nov (expecting +0.5% over the month) & Final Factory Orders (Nov), the Conference Board Consumer Sentiment Index for Dec, and the International Trade report for Nov (final) – leading to an update of Q4 growth tracking.
- Also out this week will be the catch-up of the US PPI for Dec, which is currently lagging the CPI reporting. Headline PPI is expected to remain at +0.2% over the month and result in PPI slowing to +2.6% over the year in Dec. Core PPI is expected to stay at +0.3% and result in core PPI slowing to +2.85% in Dec.

Bank of Canada Meeting

- Decision: The BoC is expected to keep policy settings unchanged at 2.25% this meeting.
- The latest CPI report, while reflecting the expected choppiness around prior year base effects, did continue to show easing in the BoC measures of underlying inflation in Dec, with the average of the three measures falling to +2.66% in Dec (from +2.8% in Nov).
- The latest labour market data showed steady employment conditions as the employment rate remained unchanged, but the unemployment rate increased, as more people entered the labour force.
- The Q4 Business Outlook Survey was somewhat downbeat. While conditions had stabilized, firms were only expecting business activity "to improve slightly" going forward, and the majority of businesses were planning to "maintain or decrease current staffing levels".

Australia CPI – Q4

- Q4 CPI will be an important report for the RBA as it prepares updated forecasts for its next meeting on 3 Feb 2026. There was a notable shift in expectations for the cash rate after the last RBA meeting (from cuts to 'on hold', and now to hikes) based on recent firmer inflation and now another fall in the unemployment rate. At the last meeting, the Board discussed the upside surprise to the Q3 CPI report, along with other indicators, suggesting the economy is still operating with some degree of "excess demand".
- The current RBA inflation forecasts (from Nov 2025) show headline inflation is expected to finish the year at +3.3% and trimmed mean/core inflation at +3.2%.
- The main Q4 trimmed mean (core) rate is expected to increase by between +0.8% and +0.9% over the quarter, keeping the annual rate elevated at around +3.2-3.3% at year's end.
- After the stronger labour market report for Dec and the notable fall in the Aus unemployment rate last week, market expectations for a rate hike at the Feb meeting increased, though it is not fully priced at this stage.
- Also out this week will be the NAB business conditions and confidence indicators for Dec. These reports include a 'capacity utilisation' measure, which was noted by the RBA at the last meeting.

Euro area – prelim GDP for Q4 is expected to increase by +0.3%, with the annual rate slowing to +1.2% (from +1.4% in Q3) – this would end the year below the latest ECB growth projections of +1.4% for the full year 2025.

US Tariff Uncertainty and Legal Rulings: Continued delays in the Supreme Court's tariff rulings are expected to keep firms on edge.

Fed Governance and Leadership: Markets await the announcement of a new Fed Chair nominee, which could be as early as this week. Fed Governor Miran's term ends on 31 Jan 2026, but could stay on until a new appointment for the seat is confirmed.

US Treasury Issuance; 26 - 30 January 2026

This week, the US Treasury will auction and settle approx. $546bn in ST Bills and 10-year TIPS, raising approx. $82bn in new money. The US Treasury will also auction the 2-year, 5-year, and 7-year Notes this week, which will settle early next week. Approx $13bn 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 $B		Prior Auction High Rate %
26-30 Jan	22-Jan	27-Jan	4 week Bill	105			Actual 3.630%	3.595%
	22-Jan	27-Jan	8 week Bill	95			Actual 3.630%	3.600%
	21-Jan	27-Jan	17 week Bill	69			Actual 3.580%	3.560%
				269	230	39		
	26-Jan	29-Jan	13 week Bill	89			Announced	3.590%
	26-Jan	29-Jan	26 week Bill	77			Announced	3.520%
	27-Jan	29-Jan	6-week Bill	90			Announced	3.630%
				256	234	22		
	22-Jan	30-Jan	10yr TIPS	21			Actual 1.940%	1.843%
				21	0	21		
			Total - securities settling this week	546	464	82		
			Net New Cash Raised Qtr to Date	***2392***	***2299***	***93***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***578***		
	Upcoming Auctions			**$B**				
	28-Jan	02-Feb	2yr FRN	30				
	26-Jan	02-Feb	2yr Note	69				
	27-Jan	02-Feb	5yr Note	70				
	29-Jan	02-Feb	7yr Note	44				
				213				
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		27-Jan	ST Bills	0.7				
		29-Jan	ST Bills	11.8				
				12.6				
			Reserve Management Purchase Operations	**$B**				
		26 & 29 Jan	ST Bills	16.6				

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

Recommended US Treasury Financing Q4 2025 and Est Q1 2026

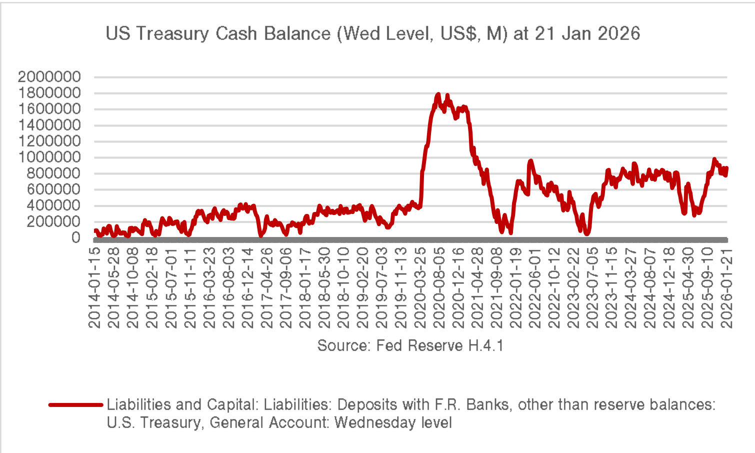
The next update will be on 2 and 4 Feb 2026. At the last meeting, the US Treasury noted that it "has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes." The latest update of the US Treasury borrowing requirements for Q4 and Q1 2026 (estimate) can be found on the 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 21 Jan 2026, the level of the TGA increased to $871bn (+$94bn compared to the week prior). The TGA balance is now approx. $205bn *higher* than the same week a year ago.



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CALENDAR W/C 26 January 2026

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

US	Chicago Fed National Activity Index (Nov), Advance Durable Goods Orders (Nov), Dallas Fed Manufacturing Index (Jan)
Australia	NAB Business Conditions & Confidence (Dec)

TUESDAY 27 JANUARY

US	Case/Shiller House Price Index (Nov), Conference Board Consumer Confidence (Dec), Richmond Fed Manufacturing Index (Jan)
Australia	CPI Q4, Monthly CPI (Dec)

WEDNESDAY 28 JANUARY

Canada	BoC Monetary Policy Meeting
US	MBA Mortgage Applications wk ending 24 Jan FOMC Monetary Policy Meeting

THURSDAY 29 JANUARY

US	Initial Jobless Claims – wk ending 24 Jan, Goods & Services Trade Balance (Dec), Final: Non-Farm Productivity & Unit Labor Costs (Q3), Factory Orders (Nov)
Japan	Tokyo CPI (Jan), Unemployment Rate, Prelim Industrial Production, Retail Sales (Dec)
Australia	Private Sector Credit (Dec), PPI (Q4)

FRIDAY 30 JANUARY

Europe	Euro area GDP – Prelim (Q4)
Canada	Monthly GDP (Dec)
US	PPI (Dec), Chicago PMI (Jan), Fed speeches: Musalem, Bowman
China	NBS Manufacturing & Non-Manufacturing PMI (Jan)