

## The Macro Outlook: Setting the Tone for 2026

The key events for the w/c 5 January 2026: US non-farm payrolls, ISM PMIs, S&P PMIs for Dec

The new year opens with a focus on reorientation as the US catches up on delayed data releases over a mostly quiet holiday period. We start the year, however, with further developments in the geopolitical backdrop as the US has now moved to depose the Venezuelan leader over the weekend. These developments warrant observation for their potential impact on broader market stability. Nevertheless, the primary task for markets this week is building out the final view of US economic activity for the close of 2025.

There are several important updates in the week ahead.

### US Labor Market Dec: FOMC Implications

The updated suite of US labor market data for Dec will arguably be the most important input in the lead-up to the FOMC meeting at the end of the month. At the time of writing, markets are leaning toward a hold in Jan, with a slight skew to a cut in Mar (Source: [CME FedWatch](#)). The Fed's sensitivity to a weakening labor market remains high. If the unemployment rate continues to increase beyond 4.7%, then we could see rate-cut expectations brought forward. The latest FOMC minutes reiterated the importance of managing the downside risks around the labor market.

### Assessing the US Growth Trajectory: Q3 Resilience

The US data catch-up continues this week with housing data for Sept and Oct, alongside US trade figures. Looking back, US Q3 growth demonstrated resilience, with headline GDP accelerating to an annualized +4.3% (up from +3.8% in Q2). This growth was driven by higher personal spending growth, helping to offset a slowdown in fixed investment and continued weakness in the residential sector. While government spending provided a tailwind in Q3, the outlook for Q4 remains clouded by the government shutdown. We expect a dip in the final quarter of 2025, followed by a Q1 rebound.

The data catch-up also means that the [Atlanta Fed GDP nowcast](#) will be updated for Q4. So far, and based on [limited data](#), the nowcast for the Q4 GDP growth run rate has started at +3%. The nowcast for Q4 GDP growth is expected to be finalized at the end of Jan.

### Global Momentum: PMIs and Global Manufacturing Wanes

As we close out 2025, this week's US ISM and final S&P Global PMIs will provide some insight into year-end momentum. Early data suggests that while global manufacturing momentum remains in positive territory, the pace of expansion waned during the final two months of Q4. The focus now shifts to whether services can maintain the heavy lifting.

### Australian Inflation Pulse and the RBA

Outside of the US, the Aus monthly CPI for Nov will be important. While the RBA remains focused on the quarterly CPI result for Q4 (due 28 Jan), the new monthly series may offer an important directional guide. The RBA is navigating concerns that inflation risks may be tilting to the upside;

however, the recent minutes emphasized that it was still too early to determine whether this recent uptick in inflation would be persistent. Expectations for the policy rate have shifted to a hold in the near-term, but are now skewed towards potential hikes in the outlook (Source: [ASX Rate Tracker](#) at 2 Jan 26).

#### Policy Watch: A New Era at the Fed

Finally, the transition in FOMC leadership is front-of-mind as we move forward in 2026. The announcement of a new Federal Reserve Chair is imminent, and markets should be prepared for the potential shift in priorities, communication style, and culture that a change at the top may bring.

#### Key factors & events to watch this week:

##### US labor market data for Dec

A quick recap: the Nov labor data showed some further softening in conditions, though the data was mixed. Some of the larger-than-expected increase in the unemployment rate could be attributed to temporary layoffs; however, slower employment growth was also a factor.

- Non-farm payroll growth is expected to remain modest at 57k in Dec, little changed from 64k in Nov.
- The unemployment rate is expected to edge back down to 4.5% after increasing notably in Nov to 4.6%.
- Participation is expected to be little changed at 62.5%, while average weekly hours worked is expected to be unchanged at 34.3.
- Job openings at the end of Nov are expected to be 7.65m, down slightly from 7.67m in Oct.
- The Challenger Job Cut Announcements survey for Dec is expected to show little change from the 71k announcements in Nov.
- Initial jobless claims for the week ending 3 Jan are expected to increase to 216k (from 199k in the week prior). Continuing claims have been moving lower in the weeks since the end of the US government shutdown, falling to 1.866m in the latest week ending 20 Dec.

##### US Q4 growth inputs: ISM PMIs Dec, housing data catch-up, trade

- The manufacturing and services PMIs are expected to be little changed in Dec at 48.3 and 52.3, respectively. Key indicators in focus will be the direction of demand/orders, employment, and prices.
- Housing data catch-up (Sept & Oct): New housing permits are expected to come in around 1.34m on an annualized basis in Oct – remaining subdued. New housing starts are also expected to remain subdued at 1.31m in Oct.

##### Aus monthly CPI for Nov

This is now the second release of the new, complete monthly CPI series. It's still early in the transition from the quarterly CPI series to the monthly series, so the RBA will continue to use the quarterly report.

- The uptick in monthly headline inflation in Oct to +3.8% was notable, up from +3.6% in Sept. The core/trimmed mean also increased to +3.3% in Oct from +3.2% in Sept. We'll be looking for the direction of movement in Nov to see how it impacts the quarterly outlook. The latest RBA forecast has Q4 trimmed mean CPI running at +3.3% over the year, which, so far, aligns with the monthly core inflation for Oct.

Euro area CPI – prelim for Dec

- Headline CPI for the Euro area is expected to remain unchanged at +2.1% in Dec, and core CPI is also expected to remain unchanged at +2.4% in Dec.

Canada labour market Dec

- The recent improvement in labour market conditions is expected to stall this month. Employment growth is expected to fall by -5k in Dec, after rising by +53.6k in Nov. The unemployment rate is expected to edge higher to 6.7% in Dec (from 6.5% in Nov).

S&P Global PMIs: The final composite and services PMIs for Dec will be released early this week.

## US Treasury Issuance; 5 – 9 January 2026

This week, the US Treasury will auction and settle approx \$467bn in ST Bills with a paydown of \$25bn. 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 %
5-9 Jan	31-Dec	06-Jan	4 week Bill	80			Actual 3.590%	3.570%
	31-Dec	06-Jan	8 week Bill	80			Actual 3.580%	3.585%
	31-Dec	06-Jan	17 week Bill	69			Actual 3.540%	3.555%
				229	250	-21		
	05-Jan	08-Jan	13 week Bill	86			Announced	3.570%
	05-Jan	08-Jan	26 week Bill	77			Announced	3.500%
	06-Jan	08-Jan	6-week Bill	75			Announced	3.575%
				238	242	-4		
			<b>Total - securities settling this week</b>	<b>467</b>	<b>492</b>	<b>-25</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>705</b>	<b>740</b>	<b>-35</b>		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			<b>578</b>		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		06-Jan	ST Bills	0.7				
		08-Jan	ST Bills	12.3				
				13.0				
			<b>Reserve Management Purchase Operations</b>	<b>\$B</b>				
		6 & 8 Jan	ST Bills	16.3				

## 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		
		<b>Reinvest \$ Bn</b>
15-Jan	TIPS (incl Comp)	34.7
31-Jan	Notes & Bonds	15.9
	Bills	61.9
	<b>Total</b>	<b>112.6</b>

## Recommended US Treasury Financing Q4 2025 and Est Q1 2026

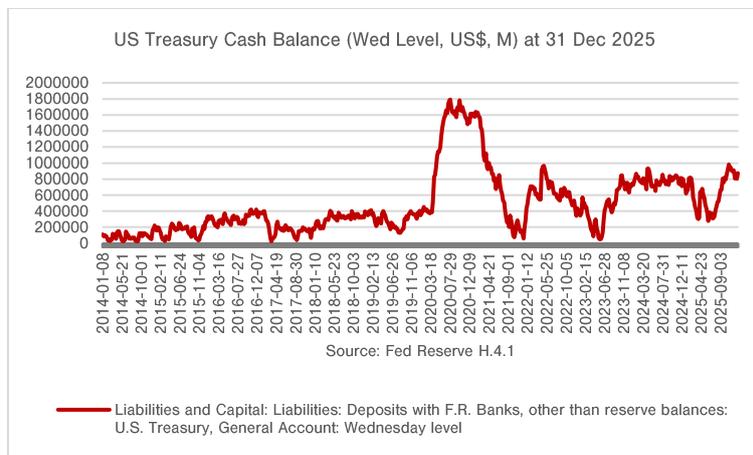
The latest quarterly US Treasury borrowing estimates were released on 3 and 5 Nov 2025. The US Treasury communication noted that it “has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes.” The latest update of the US Treasury borrowing requirements for Q4 and Q1 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. The next update will be late Jan 2026.

## US Treasury Cash Levels (TGA)

As of Wed 31 Dec 2025, the level of the TGA increased to \$873bn (+\$71bn compared to the week prior). The TGA balance is now approx. \$150bn *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 5 January 2026

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### MONDAY 5 JANUARY (US Eastern Time, unless stated otherwise)

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US	ISM Manufacturing PMI (Dec), Total Vehicle Sales Dec (tbc)
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### TUESDAY 6 JANUARY

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Europe	Eurozone S&P Composite & Services PMI – Final (Dec)
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US	S&P Composite & Services PMI – Final (Dec)
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Aus	Monthly CPI Series (Nov)
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### WEDNESDAY 7 JANUARY

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Europe	Euro area CPI - Prelim (Dec)
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US	MBA Mortgage Applications wk ending 3 Jan, ADP Employment Change (Dec), Factory Orders (Oct), ISM Services PMI (Dec), JOLTS (Nov), Fed speeches: Bowman
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China	Trade Balance, Exports, & Imports (Dec)
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### THURSDAY 8 JANUARY

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Europe	Germany Factory Orders (Nov)
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US	Initial Jobless Claims – wk ending 3 Jan, Challenger Job Cut Announcements (Dec), Non-Farm Productivity & Unit Labor Costs (Q3), Consumer Credit Change (Nov)
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China	CPI & PPI (Dec)
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### FRIDAY 9 JANUARY

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Europe	Germany Industrial Production (Nov)
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Canada	Labour Market Survey (Dec)
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US	Employment Situation (Dec), Building Permits & Housing Starts (Sep & Oct), Michigan Consumer Sentiment – prelim (Jan), Fed speeches: Barkin
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