Week Ahead: 13-17th January 2025

Highlights include US CPI & Retail Sales, China Activity & Trade Data, UK CPI, GDP & Retail Sales, Aussie jobs, ECB Minutes

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- **MON**: N/A
- **TUE**: EIA STEO; CBR Policy Announcement; Indian WPI (Dec), US PPI (Dec)
- **WED**: IEA OMR, UK CPI (Dec), EZ Industrial Production (Nov), US CPI (Dec), NY Fed Manufacturing (Jan)
- **THU**: ECB Minutes (Dec), BoK Policy Announcement; Australian Employment (Dec), UK GDP (Nov), EZ Trade Balance (Nov), US Import/Export Prices (Dec), Jobless Claims (w/e 11th), Retail Sales (Dec)
- **FRI**: UK Retail Sales (Dec), US Building Permits/Housing Starts (Dec), Chinese Activity Data (Dec) and GDP (Q4)

CHINESE TRADE BALANCE (SUN): December Trade Balance is expected to have widened to USD 99.80bln from November's USD 97.44bln, with imports seen -1.5% (prev. -3.9%) and exports +7.3% (prev. +6.7%). The data will be watched for signs of economic weakness, particularly regarding domestic demand, whilst exports are likely to be underpinned ahead of Trump tariff policies as firms stockpile ahead of expected levies. Using the latest Caixin PMI as a gauge of sentiment, the release suggested "Market optimism weakened. The indicator for expectations of future activity stayed in expansionary territory, but fell by more than 3 points compared with the previous month, leaving it just above September's four-and-a-half-year low. Competitive markets together with uncertainties over global trade were the main concerns of the surveyed businesses."

UK CPI (WED): Expectations are for headline Y/Y CPI to tick higher to 2.7% from 2.6% with the core rate expected to nudge lower to 3.4% from 3.5%. As a reminder, the prior release saw headline inflation rise to 2.6% from 2.3%, as expected. Core Y/Y rose to 3.5% from 3.3% and services inflation held steady at the stubborn level of 5.0%. ING noted at the time, that if you were to strip out airfares and other volatile categories, core services inflation actually ticked higher. This time around, analysts at Investec expect another uptick in headline inflation, noting that "similar to November's increase, we do not single out one particular factor behind the rise. Instead our forecast reflects the confluence of various upward influences, including base effects once again". The desk adds that one source of uncertainty comes in the form of whether or not businesses have opted to front-run increases in labour costs (changes to NICs and NLW) by starting to increase prices. Looking beyond the upcoming release, Investec expects "inflation to remain above the 2% target for the entirety of 2025, but the core measure to make further progress lower from the spring". As always, beyond the headline, markets will be looking to see if any progress is made on services inflation. However, fluctuations in this metric are often driven by volatile components. From a policy perspective, a February rate cut is priced at around 65% with a total of 48bps of easing seen by year-end.

US CPI (WED): Headline US CPI is expected to rise +0.3% M/M in December, matching the November reading. Some gauges of price pressures have been rising recently, causing some concern among analysts: the ISM Services PMI showed its prices index rising to 64.4 in December from 58.2, the first time the index has registered over 60 since January; the ISM Manufacturing PMI showed prices rising to 52.5 from 50.3 in November. Meeting minutes for the FOMC's December meeting revealed that although participants expect inflation to keep moving towards 2%, the effects of potential trade and immigration policy changes suggest that the process could take longer than previously seen; some said there was merit in keeping rates unchanged in December given the higher risks of persistently elevated inflation. This tone has been reflected in official Fedspeak too: the outlook for US rates will hinge on inflation progress, Fed Governor Waller has since said, base effects are likely to improve inflation dynamics this year; Fed Governor Bowman noted a lack of progress on inflation (she argued that the Fed should be cautious in considering changes to rates, and said that she supported the December rate cut as 'final step' in policy recalibration); while Fed's Schmid warned the last stage of getting prices back to 2% could be the most challenging for monetary policy; Fed's Collins, meanwhile, now expects more inflation relative to the recent past. Money markets have dialled back expectations of further cuts too, with only one cut fully priced for 2025, though it still assigns a decent chance of a second cut.

ECB MINUTES (THU): As expected, the ECB delivered a 25bps cut to the deposit rate, taking it to 3.0%. The main takeaway from the policy statement was the Governing Council's decision to drop the reference to "keep policy rates sufficiently restrictive for as long as necessary". Elsewhere, the ECB stated it will continue to follow a data-dependent and meeting-by-meeting approach. The accompanying macro projections saw a reduction in the HICP forecasts for 2024 and 2025 with the 2026 forecast held below target at 1.9%, whilst growth forecasts were cut across the horizon. At the follow-up press conference, Lagarde was careful to note that the GC is not yet declaring victory on inflation, whilst later adding that risks to inflation are two-sided. With regard to the policy decision, Lagarde noted that all members agreed with the policy proposal. Adding that a 50bps move was discussed, however, this failed to gain any traction. The President stated that whilst not pre-committing to a specific policy path, the direction of travel is clear. Lagarde also refused to engage in discussions of where the GC sees the neutral rate, stating that it was not discussed at the meeting. As ever, the account of the meeting will likely be deemed as stale by the market.

BOK POLICY ANNOUNCEMENT (THU): There are mixed views on whether the central bank will continue to cut rates with a third consecutive 25bps rate cut or maintain the Base Rate at the current 3.00% level. As a reminder, the BoK surprised markets at the last meeting in November by delivering a 25bps rate cut which many were not expecting given that it had just cut rates a month before at the October meeting, however, the decision by the BoK to deliver a second consecutive rate cut was not unanimous as board members Chang Yong-Sung and Ryoo Sang-Dai dissented, while BoK Governor Rhee noted that three of the seven board members were open to rate cuts in the three months ahead and that those members said gradual easing looks appropriate. The data since that meeting has been mixed as CPI for December printed firmer than expected but the latest Industrial Production data disappointed, while the domestic political situation in South Korea remains uncertain with President Yoon impeached after briefly declaring martial law in December. As such, BoK Governor Rhee has pledged to be flexible on future rate cuts while closely monitoring risks amid the political turmoil and economic uncertainty.

AUSTRALIAN EMPLOYMENT (THU): December employment is expected to show the addition of 10k jobs (prev. +35.6k), whilst the Unemployment Rate is expected to tick higher to 4.0% (prev. 3.9%) and participation is seen remaining steady at 67%. Analysts at Westpac suggested "Employment [remains] solid but off Q3's robust pace; some scope for a bounce-back in participation, risking an uptick in U/E." From an RBA perspective, the Board's focus tilts a little bit more towards inflation, whilst the latest meeting minutes suggested "The Labour market is resilient, but service inflation more persistent…Wages had slowed more than expected, which could mean the labour market is not as tight as thought." Meanwhile, the latest monthly inflation data from Australia in which the Weighted CPI printed firmer than expected but the annual trimmed mean CPI softened from the previous. Capital Economics noted the data increases the risk that the RBA will begin rate cuts earlier than May. ANZ said it now forecasts the RBA to cut rates in February. Following the inflation data, money markets are pricing around a 66% likelihood of a 25bps cut at the February meeting.

UK GDP (THU): Expectations are for M/M GDP in November to have expanded by 0.2% vs. prev. -0.1%. As a reminder, the prior release saw an unexpected M/M contraction in October's UK GDP at -0.1%, matching the outturn for September. At the time, Pantheon Macroeconomics pinned the weakness on "global tariff threats, uncertainty from the Budget, a weak month for consumer spending and volatile sectors". This time around Pantheon expects 0.2% M/M growth which would "bring GDP back above its May level after stagnant growth over the past five months". The consultancy suggests that "GDP in November was lifted by a reversal in a number of volatile sub-sectors that fell in October". PM adds that if its forecast is met, it would be "in contrast to the grim outlook signalled by the PMI, which we think overplays growth weakness" and "would also mean that quarter-to-quarter growth in Q4 will likely exceed the MPC's expectation of no growth". From a policy perspective, inflation data released the prior day will likely be of greater importance to the MPC.

UK RETAIL SALES (FRI): Expectations are for retail sales to have risen 0.3% M/M in December vs. the prior 0.2%. In terms of recent retail indicators, BRC retail sales for December printed at 3.1% Y/Y vs. the prior -3.4% with the accompanying release noting "Following a challenging year marked by weak consumer confidence and difficult economic conditions, the crucial 'golden quarter' failed to give 2024 the send-off retailers were hoping for. Non-food was particularly hard-hit, with sales contracting from the previous year". Elsewhere, the Barclaycard Consumer Spending report noted "overall Retail spending fell -0.2% in December 2024, although this was an improvement compared to the decline in November 2024 (-2.0%). This comes in the wake of Black Friday and Cyber Monday, as gift shopping and seasonal discounts spurred growth of 1.6% at General Retailers, following a -1.7% decline in November 2024". As a word of caution, Investec noted that "December's figures are typically particularly difficult to predict accurately due to technical issues with seasonal adjustment, notably shifting shopping patterns in and around the festive season".

US RETAIL SALES (THU): US retail sales are expected to rise +0.5% M/M in December (prev. +0.7%), while the ex-autos measure is seen rising +0.4% M/M (prev. +0.2%). Bank of America's December card data saw spending +2.2% Y/Y, noting consumers finished the year strong, while seasonally-adjusted card spending per household rose 0.7% M/M. The report also notes that "As we kick off 2025, the consumer continues to benefit from a supportive labour market with after-tax wage and salary growth up 3% YoY in December." BofA says consumers appear to believe it's a good time to buy durables ahead of potentially higher prices, though in Bank of America data it sees little evidence that these concerns were spurring them to spend more in this area over the last few months of 2024. According to Mastercard's Spendingpulse data, US retail sales increased by 3.8% during the 2024 holiday season, with e-commerce leading growth (+6.7% Y/Y), while in-store sales were up +2.9%. Meanwhile, Adobe forecasts US online sales reached USD 240.8bln for the 2024 holiday season (note: this is for the period from November 1st through December 31st), marking 8.4% Y/Y growth; it said mobile shopping is likely to have hit USD 128.1bln, while Cyber Week was expected to drive USD 40.6bln in sales. Adobe noted that the holiday shopping season has shifted, with earlier purchases driven by ongoing discounts; the trend has led some consumers to trade up to previously higher-priced goods, boosting US retail growth.

CHINESE ACTIVITY DATA/GDP (FRI): Chinese GDP Q/Q for Q4 is forecast at 1.7% (prev. 0.9%) with the Y/Y seen at 5.1% (prev. 4.6%). Desks will be on watch if the CCP's "around 5%" GDP target is met ahead of expected challenges from the incoming US President, with Trump tariff hikes weighing on growth prospects for 2025. Reuters sources reported at the end of December that China plans to raise its 2025 budget deficit to 4% of GDP (vs 3% in 2024) while maintaining a 5% growth target to counter US tariff threats. The increase includes off-budget bonds and reflects a more proactive fiscal policy amidst economic challenges, according to Reuters sources. Aside from GDP, desks will also see the release of Retail Sales (exp. 3.5%, prev. 3.0%) and Industrial Output (exp. 5.4%, prev. 5.4%), although the immediate focus will likely be on the GDP metrics. On Industrial Production, the Caixin PMIs suggested "Manufacturing production in China increased for a fourteenth successive month in December. That said, the rate of expansion decelerated to a marginal pace as new order growth slowed." For Retail Sales, the anecdotal commentary from the PMIs suggested that "according to service providers, promotional efforts and better underlying demand supported the latest increase in new sales. Sales growth was notably supported by higher domestic demand as new export business declined for the first time since August 2023 amid softening foreign interest." Analysts at World Bank recently raised their forecasts for Chinese economic growth in 2024 (to 4.9% from 4.8%) and 2025 (to 4.5% from 4.1%), but warned that subdued household and business confidence, along with headwinds in the property sector, would keep weighing growth down in 2025. Analysts at ING, on sentiment surrounding China, suggested that "Given the lull after September's monetary easing flurry, markets understandably remain cautious, but signs are that policymakers stand ready to respond to potential shocks in 2025."

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