Week Ahead - 27-31st January 2025

Highlights include FOMC, ECB, BoC, US PCE, EZ GDP, Tokyo and Australian CPI

- **MON**: Chinese Industrial Profit (Dec), German Ifo (Jan), US New Home Sales (Dec)
- **TUE**: ECB BLS (Q1); US Durable Goods (Dec), Richmond Fed (Jan), Tech Earnings
- **WED**: FOMC, Riksbank, BoC & BCB Policy Announcements; Australian CPI (Dec), German GfK (Feb), EZ M3 (Dec)
- **THU**: ECB & SARB Policy Announcements, CBRT Minutes (Jan), RBA Bulletin; EZ Flash Prelim. GDP (Q4), US Jobless Claims (w/e 25th), US PCE/GDP (Q4), Japanese Unemployment (Dec)
- **FRI**: Chinese Caixin/NBS PMIs (Jan), German Retail Sales (Dec), Unemployment (Jan), Prelim. CPI (Jan), US PCE (Dec), Employment Costs (Q4), Chicago PMI (Jan), Canadian GDP (Nov)

CHINESE INDUSTRIAL PROFITS (MON): There are currently no expectations for industrial profits. ING suggests the release is likely to show a Y/Y decline in 2024. The data will be watched for domestic consumption and any effects of the economic measures announced last year. As a recap, China's industrial profits fell 7.3% in November, a smaller decline than October's 10% drop, suggesting that government stimulus measures are starting to take effect. Despite this improvement, 2024 is likely to record the steepest annual profit decline in over two decades due to weak domestic consumption, a housing market downturn, and trade uncertainties, according to desks.

CHINESE PMIS (MON): Chinese official PMIs for January will be released on Monday – the survey will be the first released with US President Trump back in the White House. The Caixin release meanwhile has been pushed to February 3rd from the earlier release date of January 31st – likely amid the Chinese holiday (more below). Nonetheless, the official Manufacturing Metric is forecast to remain at 50.1 in January, according to a Reuters poll of 18 economists – analysts at ING forecast an uptick to 50.3. Note, the survey period for the PMIs likely does not encapsulate US President Trump's latest remarks in which he noted the conversation with Chinese President Xi went fine and responded he could, when asked if he could make a deal with China, while he added would rather not have to use tariffs over China in a pre-taped interview with Fox News. Chinese activity data released on 22nd January set the stage for more constructive sentiment across survey respondents, as a reminder Industrial Production & Retail Sales beat expectations with China's economy growing 5.4% Y/Y (exp. 5.0%) in Q4 and by 5.0% (exp. 4.9%) for 2024 but the data was accompanied by commentary from the stats bureau which noted the impact of external environment changes is deepening, domestic demand is not sufficient, and economical operations still face many difficulties and challenges but also stated that positive factors will outweigh negative factors for China's economy in 2025. For reference, Chinese markets will be closed from Tuesday 28th January through to February 4th amid the Chinese New Year.

FOMC ANNOUNCEMENT (WED): The FOMC is expected to hold rates at between 4.25-4.50% at its January 29th confab, according to all 103 economists surveyed by Reuters. Since the last policy meeting in December, incoming economic data has generally been positive, where the BLS jobs data surprised to the upside, while inflation has cooled. A hold will also allow officials to consider the policies of the new US administration, where risks include tariffs, tax cuts, and the deportation of some immigrants. The central bank is expected to trim rates by 25bps in March, according to 61 of the 103 surveyed, while money markets price in just 7bps of easing at the March meeting, implying a 28% probability of a 25bps rate cut. Currently, money markets are fully pricing just one rate cut in 2025, with the first one likely to come by July. Through the end of the year, money markets are pricing in 40bps of easing, implying a 60% probability for a second rate cut. The Reuters survey found that 65 of the 102 surveyed expect two or fewer rate cuts this year, taking the Fed Funds Rate to 3.75-4.00%. This is in fitting with the Fed's own projections by the end of this year. On inflation the Fed does not see core inflation falling back to target until 2027; analysts have suggested that there are inflationary risks from the policies of the new administration, and 40 of 49 who answered the question in the Reuters survey see risks that inflation is higher than they expected, rather than lower. "If they deliver anything close to what they promised on the tariff front, then we are going to probably see a stalling of disinflationary pressures, where the Fed is not going to be cutting," Barclays said, adding that "at minimum not as rapidly as they did last fall, but also the possibility that they could be on hold for quite a while."

RIKSBANK ANNOUNCEMENT (WED): The Riksbank is expected to deliver a 25bps cut to 2.25%; as it stands, money markets fully price in such a move. It can be noted that there are some risks of a hold, given that SEK continues to remain at weak levels and some positive developments in economic sentiment and housing activity. As a reminder, the Riksbank cut rates by 25bps as expected, and was a little hawkish on the margin, given the comment that monetary policy affects the economy with a lag, which argues for a more tentative approach. The rate path indicated that the policy rate will be cut again during H1-25; the minutes of that meeting highlighted that Deputy Jansson believed the "2025 cut needs to come quite early in the year, in January or possibly at the meeting after that in March"; Governor Thedeen took a more data-dependent approach. In terms of data, inflation in December printed 0.2% below the Riksbank's forecast for Core CPIF Y/Y, a result which argues for a cut in January and potentially presents downside bias to the policy path. And finally on FX, EUR/SEK has been trading sideways since the last meeting, with traders ultimately awaiting updates regarding Trump tariffs; ING posits that this uncertainty should allow the Riksbank to lean dovishly.

BOC RATE DECISION AND MPR (WED): The Bank of Canada is expected to cut rates by 25bps to 3.00% on Wednesday 29th January, according to 25 out of 31 analysts, with the rest expecting a pause. The poll was conducted before December data, which saw soft inflation metrics and a subdued BoC business outlook survey. However, the survey was conducted between 7-27th November 2024 - therefore it is quite dated and conducted before the BoC's 50bps rate cut in December. Nonetheless, the December inflation data was softer than expected with the average of the three BoC core measures at 2.3%, within the 1-3% target range, and close to the centre - which will be a welcome sign for the BoC. Although a soft report, analysts highlighted the details suggest a higher-than-expected proportion of the GST break was captured by the data. Overall, cooling inflation and a slowing economy support the case for more easing, although there is tremendous uncertainty with the threat of Tariffs from US President Trump overhanging the economy, to which Canada has vowed to respond with tit-for-tat measures. At the prior meeting, alongside a 50bps rate cut, the BoC signalled a slowdown of easing ahead, which makes sense given the current rate of 3.25% matches the upper-end of the BoC's own estimate of the neutral rate, 2.25-3.25%. At the upcoming meeting, we will also see the updated MPR, which could see an update to the neutral rate estimate, as well as economic forecasts to incorporate the potential impact of US President Trump's proposed 25% tariffs for Canada and Mexico. In terms of reaction, ING highlights that the BoC plays a secondary role for the loonie, with the focus all on Trump tariffs. The desk writes "Should Trump scale back the tariff threat, then there is an approximate 2% downside room to cover for USD/CAD. Should tariffs be imposed in the near term, we expect a dovish repricing in BoC expectations to compound with a greater risk premium and take USD/CAD well above 1.45."

BCB ANNOUNCEMENT (WED): The BCB is expected to hike rates by 100bps to 13.25% on 29th January, according to all 38 economists surveyed by Reuters. Looking ahead, analysts expect rates to hit 14.25% in March, and then to peak at 15% in Q2 25. At the December meeting, the BCB hiked its Selic rate by 100bps to 12.25% in a unanimous decision, in what was a greater than the expected 75bps hike, in light of a more adverse inflation scenario. In the accompanying statement, the committee said it sees hikes of the same magnitude at the next two meetings, so as such the central bank is expected to hike by another 100bps next week. Within Brazil, there is conflict between the monetary and fiscal side, as there is the loose fiscal side of President Lula, and a spokesman for him said the decision to hike rates in December goes against what the nation needs. In addition to the 100bps rate hike, it also then conducted USD 30bln in spot FX market intervention through reserves to try and support the BRL. In recent data, on Jan 16th Brazil's seasonally adjusted economic activity index, the IBC-BR, rose 0.1% M/M in November (exp. 0.0%). Given it is a rough monthly proxy for GDP, Pantheon Macroeconomics note it is now indicating that activity in Q4 2024 lost momentum, due mostly to the drag from tighter financial conditions, and high inflation, despite the resilience of the headline numbers. Moreover, Pantheon thinks the Brazilian economy won't be able to defy the drag from external and domestic shocks, and that industrial sentiment and consumer confidence are rolling over, due to weakening domestic fundamentals and an uncertain external outlook. Ahead, PM expects growth momentum to continue to ease in 2025, to about 2.0%, down from 3.5% in 2024, as higher interest rates, unfavourable financial conditions and reduced fiscal stimuli will be key drags.

AUSTRALIA CPI (WED): Q4 CPI Q/Q is seen ticking higher to 0.3% from 0.2% with the Y/Y at 2.5% from 2.8%. The Trimmed Mean Q/Q is seen at 0.6% (prev. 0.8%) with the Y/Y at 3.3% (prev. 3.5%). Weighted Median Q/Q is expected at 0.6% (prev. 0.9%) and Y/Y at 3.5% (prev. 3.8%). Desks suggest that various cost-of-living measures, such as energy rebates and public transport subsidies, have significantly reduced headline inflation, bringing it to the midpoint of the RBA's 2-3% target band. Analysts at Westpac, on the Trimmed Mean, say "Unlike the headline CPI, cost of living assistance will, at most, shave just 0.1% from the December quarter Trimmed Mean estimate and the annual pace to December. The decline in dwelling prices is far more important to the moderation in core inflation". The desk also suggests underlying inflation momentum remains subdued, with risks of further softening, with policymakers continuing to address inflation challenges with targeted interventions, yet uncertainties around demand and housing persist.

ECB ANNOUNCEMENT (THU): Expectations are for the ECB to deliver a 25bps cut in the Deposit Rate to 2.75%, according to all analysts surveyed by Reuters; markets assign a 96% chance of such an outcome. The economic backdrop to the upcoming meeting has seen an expected uptick in headline Y/Y inflation to 2.4% from 2.2%, core Y/Y hold steady at 2.7% and services inflation nudge higher to 4.0% from 3.9%. At this stage, policymakers have looked through the uptick in inflation and continue to expect a return to target in 2025. Greater concern remains on the growth outlook. However, on a mildly encouraging footing, flash PMI data for January saw the Composite metric move back into expansionary territory. The accompanying report noted "The private sector is back in cautious growth mode after two months of shrinking". Note, that Q4 GDP data is not available until the morning of the announcement. Clouding the economic outlook at this stage is the looming threats of EU tariffs from the Trump administration with the President declaring that the US will straighten out the deficit with the EU through tariffs or by buying US oil and gas. At this stage, President Lagarde has refrained from drawing any conclusions from the prospect of tariffs on the EU, according to remarks at Davos. However, policymakers are cognizant of the looming risks to the growth outlook. In the immediacy, there is little pushback from members of the GC on whether a 25bps cut will be enacted next week given that policy is currently still viewed as restrictive. Looking beyond the upcoming meeting, markets see an additional 63bps of loosening by year-end with the terminal rate seen at around 2%; a level which some desks view as neutral. A further deterioration in the growth outlook and a moderation in inflation could see pricing slip closer to 1.50-1.75%. ING posits that such levels could also come to fruition in the event of a more dovish Fed.

EZ GDP (THU): Prelim Q4 Q/Q EZ GDP is expected to slow to 0.1% from the 0.4% pace seen in Q3 with the Y/Y rate seen at 1.0% vs. prev. 0.9%. As a reminder, growth was positive in the first three quarters of 2024. However, it is worth noting that growth in Q3 was driven by volatile data from Ireland and French growth which was lifted by the Olympics (i.e. one-off factors) as opined by ING at the time. Furthermore, Investec noted that GDP growth was "hardly stellar" in Q1-Q3, running at an average annualized rate of 1.2% with growth unevenly distributed across the Eurozone (Spain did a lot of the heavy lifting for the area). This time around, Investec expects a consensus print of 0.1% with their economists noting "we already know from an initial estimate by its statistics office that German GDP shrank by 0.1% over that period, and the unwind of the boost the Olympics had given to French GDP in Q3 will have weighed on output here too". Furthermore, Investec notes that "survey evidence also points to a lack of momentum in both manufacturing and services in the Euro area". From a policy perspective, the January ECB rate decision hits just a few hours after the release. Expectations are nailed on for a 25bps cut and therefore the release is unlikely to place much weight on immediate market pricing. Even if the release comes in soft, it's worth noting that more timely PMI survey data for January saw a more encouraging outturn for the Eurozone.

JAPANESE TOKYO CPI (THU): Japanese Tokyo Core CPI is seen ticking higher to 2.5% in January from 2.4% in December 2024. The Tokyo metrics are seen as a leading indicator for the nationwide release due February 21st – the last nationwide CPI release before the March 19th BoJ announcement, with the CPI report after that due two days after the BoJ's confab ends. Some desks expect headline CPI to dip to 2.6% in January from 3.0% in December on the back of the government resuming its utility subsidy programme. Senior economist at Shinkin Central Bank Research Institute suggested "Electricity and gas prices remained high and gains in gasoline prices likely pushed up inflation". Services prices are expected to increase amid improved household income. From a BoJ standpoint, the press conference from the January meeting suggested a data-depending approach with no pre-set idea of future adjustments. Furthermore, on future inflation dynamics, BoJ Governor Ueda said the Board has judged that spring wage talks will result in strong hikes again this year, with a growing number of firms expressing intentions to continue increasing wages steadily.

JAPANESE ACTIVITY DATA (THU): Japan will also release a slew of month-end activity data, with December Retail Sales forecast at +3.2% (prev. +2.8%), Industrial Output is expected at +0.3% (prev. -2.2%), Unemployment Rate expected at 2.5% (prev. 2.5%), and with the job/applications ratio seen steady at 1.25. Some desks suggest factory output was likely propped up by production machinery such as chip manufacturing equipment and transport machinery. Meanwhile, Retail Sales were likely supported by sales of heating devices during winter months. Analysts at ING suggest "On the activity side, industrial production is expected to rise 2.6% month-on-month in December, mainly due to a technical payback from motor vehicle production, and a solid increase in core machinery orders suggests a rebound in machinery production. Meanwhile, retail sales growth is likely to gain, but at a slower pace, in December."

US PCE (FRI): In December, headline CPI rose +0.4% M/M, above the expected +0.3% (unrounded, it was 0.393%); core CPI, meanwhile, rose +0.2% M/M, in line with expectations (unrounded: 0.225%), and cooling from the November rate of +0.3% M/M. Meanwhile, PPI prices rose +0.2% M/M, undershooting expectations for +0.3%, while core PPI was unchanged (below expectations for +0.3%). In the wake of these reports, Morgan Stanley estimated December headline PCE at 0.26% M/M and core PCE at 0.16% M/M. Most Fed officials do not seem too concerned about inflation; the influential Governor Waller said he was optimistic about inflation, believing it will fall towards target, and stickiness will dissipate. Fed's Goolsbee has pointed out that over the last six months, PCE inflation has been running close to the Fed's 2% target, while he also noted continued progress on bringing prices under control. However, some voices have sounded more alarming: Fed Governor Bowman said inflation was elevated, and she sees upside risks, arguing that progress on inflation has stalled. Indeed, the Fed's December meeting minutes stated that "some" participants said there was merit in keeping rates unchanged given higher risks of persistently elevated inflation. Morgan Stanley notes that "the last CPI/PCE prints were well aligned with our view that the Fed will deliver 25bps cuts in March and June," and looking ahead, on a Q4/Q4 basis, MS forecasts core PCE inflation slows from a rate of 2.8% Y/Y last year to 2.5% Y/Y this year, and then further down to 2.4% Y/Y in 2026. "We think tariffs stall, but not reverse, disinflation trends," MS said.

CANADIAN GDP (FRI): Canadian GDP is expected to decline 0.1% M/M in November vs the prior 0.3% growth. Within the October report, Statscan noted that advance information indicates that real GDP decreased 0.1% in November. It noted that "Decreases in mining, quarrying, and oil and gas extraction, transportation and warehousing, and finance and insurance were partially offset by increases in accommodation and food services and real estate and rental and leasing". The data follows the BoC rate decision and MPR on Wednesday, which will see updated GDP projections. However, there is tremendous uncertainty in the Canadian economy with the election of US President Trump and his 25% tariff threats on Canada from 1st February 2025. ING highlights that the US is the most important trading partner to Canada, taking in 76% of Canada's exports with the value equivalent to around 20% of Canadian GDP. ING also points out "There is the prospect that US importers try to front-run tariffs and that boosts the very near-term Canadian export story. Meanwhile, the potential for retaliatory tariffs on US exports into Canada – around 65% of Canadian imports come from the US – may push up price levels for Canadian consumers and prompt faster inflation."