Week Ahead - 3rd-7th February 2025

Highlights include US, Canada and NZ Jobs, US ISMs, BoE, EZ CPI, BoJ SOO, JMMC

- **MON**: Chinese New Year (Market Holiday - Mainland Closed, Hong Kong Open), BoJ Summary of Opinions, OPEC+ JMMC Meeting, Chinese Final Caixin Manufacturing PMI (Jan), EZ/UK/US Final Manufacturing PMI (Jan), EZ Flash CPI (Jan), US ISM Manufacturing PMI (Jan)
- **TUE**: Chinese New Year (Market Holiday - Mainland Closed, Hong Kong Open), Riksbank Minutes
- **WED**: ECB Wage Tracker, US JOLTS (Dec), New Zealand Labour Market Report (Q4), South Korean CPI (Jan), EZ/UK/US Final Services & Composite PMI (Jan), US ADP (Jan), US ISM Services PMI (Jan),
- **THU**: BoE Announcement and MPR, NBH Announcement, Banxico Announcement, Chinese Final Caixin Services PMI (Jan), Swedish CPIF (Jan)
- **FRI**: RBI Announcement, German Industrial Output (Dec), US Jobs Report (Jan), Canadian Jobs Report (Jan), University of Michigan Prelim (Feb)

BOJ SUMMARY OF OPINIONS (MON): Participants will scrutinise the Summary of Opinions from Friday 24th January for hints of the bank's thinking on future monetary policy. As a reminder, the BoJ raised its short-term interest rate by 25bps to 0.50%, as expected. The central bank signalled further hikes if economic conditions and inflation align with forecasts, aiming for a sustainable 2% inflation target. Inflation expectations have risen, and firms are planning solid wage hikes. However, the decision was not unanimous, with Nakamura dissenting. The Outlook Report showed higher Core CPI forecasts but a lower Real GDP projection for 2024, disappointing those hoping for a dovish hike. During the press conference, Governor Ueda initially struck a hawkish tone, citing strong wage growth. However, his later comments—stating there is no pre-set plan for future rate hikes—triggered a dovish market reaction, as investors were expecting clearer guidance on the timing of the next hike.

EZ FLASH CPI (MON): Expectations are for headline Y/Y HICP to hold steady at 2.4% with the super-core metric seen slipping to 2.6% from 2.7%. As a reminder, the prior report saw headline Y/Y HICP rise to 2.4% from 2.2% on account of rising energy prices, core Y/Y hold steady at 2.7% and services inflation nudge higher to 4.0% from 3.9%. Ahead of the upcoming report, regional releases have seen German Y/Y HICP print in-line at 2.8%, French Y/Y HICP hold steady at 1.8% and Spanish Y/Y HICP tick higher to 2.9% from 2.8% amid an increase in energy inflation. For the Eurozone-wide release, analysts at Investec look for the headline rate to hold steady at 2.4%, a downtick in core to 2.6% and a cooling in services inflation, noting that "generally, the monthly trends hint at less momentum in services prices over the past few months when compared with the first half of 2024". The desk adds that it is "worth bearing in mind that January's data include the usual annual change in weights for the various items included in the HICP basket. This introduces an extra element of uncertainty to forecasts". From a policy perspective, policymakers at the ECB continue to expect that inflation will return to target throughout the course of the year and as such, markets near-enough fully price a 25bps cut in March. What comes thereafter is less certain given that source reporting has suggested that policymakers could drop their classification of policy being restrictive in March and an April cut is not a done deal. Note, markets next week will get the ECB's latest estimate of the neutral rate on February 7th.

US ISM MANUFACTURING (MON): The ISM Manufacturing PMI is expected to tick up to 49.6 from 49.3 in January. As a basis for comparison, S&P Global's flash PMI data for January showed the headline manufacturing PMI rising to a seven-month high of 50.1 from the 49.4 in December, while the manufacturing output index rose to a six-month high of 50.2 from 47.7 in December. But it noted that inflationary pressures intensified to a four-month high in the composite data, with both input costs and selling prices rising at increased rates across both manufacturing and services. Still, manufacturers reported the first (modest) rise in new orders for seven months, which S&P said reflected improved domestic demand and a softening rate of loss of export orders. "Manufacturing confidence surged higher, reaching the highest since March 2022 after posting the largest monthly improvement since November 2020," S&P said, adding that "rising optimism is most notable in the manufacturing sector, where expectations of growth over the coming year have surged higher as factories await support from the new policies of the Trump administration."

JMMC MEETING (MON): On Monday, the Joint Ministerial Monitoring Committee (JMMC) will convene to take stock of market fundamentals. This is not an official policy-setting meeting, with the group only mandated to make recommendations to the policymaking body. The meeting comes against the backdrop of US President Trump urging OPEC+ to lower oil prices, followed by communication with Saudi. Despite his request, Bloomberg sources OPEC+ intends to stick to its plan of gradually restoring oil production starting in April, citing concerns over weak demand from China and ample supply from the Americas. Analysts also suggest OPEC+ is unlikely to respond to Trump's demands, given past experiences with US oil policies under his leadership. Analysts at RBC suggest "OPEC+ seemingly has no appetite to put additional barrels on the market". Other factors to keep in mind under a Trump administration include new sanctions on Russia, potential renewed pressure on Iran, and Trump's pledge to boost US oil production. "So far we're seeing no indications from OPEC that they are willing to backstop any sanctions on Iran, Venezuela or Russia," according to JPM.

NEW ZEALAND LABOUR MARKET REPORT (WED): New Zealand's Q4 Labour Market report is expected to show a rise in the unemployment rate to 5.0% (vs 4.8% in Q3). Analysts at Westpac suggest that while monthly job figures improved toward the end of the year, they were slightly down for the quarter overall, reflecting a softening labour market. Wage growth is also expected to slow further, with the Labour Cost Index for the private sector forecasted to rise by 0.6%, bringing the annual rate down to 3.0%. Public sector wage growth may remain stable for longer. The desk suggests that forecasts are only slightly better than the RBNZ expectations and are unlikely to be enough "to shake its strong conviction for another 50bp OCR cut in February", according to the desk.

US QUARTERLY REFUNDING (WED): The next quarterly refunding announcement will take place on Wednesday, February 5th, with financing estimates released on Monday, February 3rd. At the prior refunding, the Treasury maintained its guidance that the "Treasury does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters." Whether this guidance is maintained will once again be the focus of the upcoming refunding. We will also get the updated buyback schedule, last quarter it said it expects to purchase up to USD 30bln for liquidity support and USD 22.5bln for cash management purposes for Q4, so we will be looking to see if these sizes are maintained or adjusted. However, one wild card in the quarters ahead will be any spending implications from US President Trump's policies, while we also have a new Treasury Secretary, Scott Bessent. However, Bank of America expects the announcement to be relatively uneventful despite the change in leadership, as they do not expect Bessent to make any significant shifts at his first quarterly refunding meeting. The desk expects the Treasury to hold nominal auction sizes constant at the Feb refunding, and expect nominal coup auction sizes holding steady through FY25 and the first coupon increase in November 2025. Any shift in language, potentially to the "next couple quarters", or a complete removal of the language entirely, would signal an earlier increase in coupon sizes vs. BofA's November 2025 base case.

US ISM SERVICES PMI (WED): The ISM Services PMI headline is expected to tick up to 54.3 from 54.1 in January. As a basis for comparison, S&P Global's flash PMI data for January showed the headline slowing to a nine-month low of 52.8 from 56.8 in December. S&P said that while inflows of new business into the service sector remained robust, the rate of increase waned to a three-month low amid the first fall in overseas (export) orders since last June, with adverse weather reported as a drag on activity by some. "Service sector confidence lost some of the shine from December's one-and-a-half year high, but remained the second-highest recorded over the past year," the data compiler noted. On inflation, higher costs were passed on to customers, with average prices charged for services rising at the fastest rate since last September, the report said. "Higher input cost and selling price inflation was broad-based across goods and services and, if sustained, could add to worries that a combination of robust economic growth, a strong job market, and higher inflation could encourage a more hawkish policy approach from the Fed." Nevertheless, it added that service providers were entering 2025 in good spirits.

BOE ANNOUNCEMENT (THU): All analysts surveyed by Reuters expect the BoE to cut the Bank Rate by 25bps to 4.5% with markets assigning a circa 85% chance of such an outcome. The economic backdrop to the upcoming meeting is one clouded by a disappointing outturn for growth with M/M GDP falling short of expectations in the past three releases. Survey data has continued to underscore the downbeat mood in the UK with the latest Composite PMI report noting “the first indicators of business conditions in 2025 add to the gloom about the UK economy”. On the inflation front, headline Y/Y CPI slipped to 2.5% from 2.6%, core CPI declined to 3.2% from 3.5% with the services print slipping to 4.4% from 5.0% (MPC forecast 4.7%). In the labour market, the unemployment rate in the 3M period to November rose to 4.4% from 4.3%, whilst employment growth slowed and headline wage growth picked up. In the aftermath of the prior meeting, Governor Bailey remarked that market pricing for a February cut was “in a reasonable place”. At the dovish end of the spectrum, external member Taylor has noted that his base case is for around 100bps of cuts this year. Elsewhere, notable interjections from the MPC have been lacking. Overall, given the growth outlook and the view that policy is still restrictive, a 25bps cut seems inevitable with consensus expecting the decision to be made via a 7-2 vote split with hawkish dissent from Mann and another (unclear who) expected to back an unchanged rate. In terms of guidance, it is expected that the policy statement will maintain phrasing that suggests the Bank will adopt a “gradual approach” to lowering rates and policy will remain “restrictive for sufficiently long”. Beyond the upcoming meeting, markets don’t fully price another cut until August with a total of 72bps of easing seen by year-end. In the accompanying MPR, Pantheon Macro expects the MPC “to raise its near-term inflation forecasts but to cut its growth forecasts and two-year-ahead inflation projection, to 1.9% from 2.1%”

SWEDISH CPIF (THU): December’s Y/Y CPIF remained at 1.5%, as markets expected but market shy of the Riksbank’s 1.8% view, while the ex-energy Y/Y figure came in at 2.0% shy of the market’s 2.1% forecast and the Riksbank’s 2.2% forecast. Prints which played a role in the Riksbank’s decision to cut by 25bps in January. January’s inflation print is pertinent in the discussion around whether the Riksbank will ease again (Governor Theeden implied we are at terminal; however, a number of desks look for a move at either March’s MPR or if not at the May meeting). However, more timely input via the February inflation release will be available before the March MPR. Furthermore, the January release is often a volatile one due to annual price adjustments and adjustments to the basket, adjustments which have historically weighed on CPIF by 0.15pp but are expected to have little impact this time due to data vendor updates, according to SEB. For January, SEB looks for the ex-energy Y/Y to tick up to 2.1% Y/Y (prev. 2.0%), while an increase this would still be shy of the Riksbank’s 2.4% forecast for the period.

BANXICO ANNOUNCEMENT (THU): Banxico is expected to cut rates by 25bps to 9.75%, albeit there risks to a larger 50bps cut given language in the prior statement suggesting "larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance". The threat of tariffs may also be a reason for Banxico to cut by 50bps. Deputy Governor Heath also said that at the February monetary policy decision the board may discuss a rate cut between 25 and 50bps, and the size of the cut would depend on policy announcements by Trump, inflation and unforeseen shocks. Heath touted the decision might not be unanimous, but he does see the benchmark rate likely to end 2025 between 8-8.5%, but many factors could influence that. Note, with February 1st the deadline for an announcement on tariffs on Canada and Mexico, expectations may shift after this upcoming weekend. Ahead of the Banxico rate decision, Oxford Economics highlights that the central bank is signalling larger cuts in Q1 than they and the consensus expected, given the high policy uncertainty environment. Banxico has increased its focus on the weakening economy, a shift in its reaction function, which adds downside risk to the consultancy’s year-end 8.25% forecast. In terms of the magnitude, Oxford expects two 25bps rate cuts in Q1 to reach 9.5%, as the uncertainty around tariffs and a less dovish Fed limits the space for cuts. However, the desk adds the Banxico Board highlighted its preference for larger cuts at its December meeting and the monetary programme for this year. Attention for the Peso watchers will reside around the impact of potential Trump tariffs, whereby 25% tariffs take place from February 1st, unless a last-minute agreement is reached. Peso traders will also be cognizant of any governance challenges under the first year of Mexican President Sheinbaum.

RBI ANNOUNCEMENT (FRI): The RBI will conduct its latest policy meeting next week where the central bank is expected to cut the Repurchase Rate from the current 6.50% level as a recent Reuters poll showed 45 out of 62 economists surveyed anticipate the RBI to cut the Repo Rate by 25bps to 6.25% and the remaining 17 economist expect rates to be kept unchanged, while it will also be the first policy meeting under the stewardship of Sanjay Malhotra who was appointed as the RBI Governor in December and previously held the positions of Revenue Secretary and Financial Services Secretary under the Ministry of Finance. As a reminder, the RBI kept its Repurchase Rate unchanged at 6.50% at the last meeting in December which was the final meeting with former Governor Das at the helm and it also maintained a neutral stance with the decision to stand pat on rates voted for by 4 out of 6 in the MPC with external members Dr. Nagesh Kumar and Professor Ram Singh the dissenters as both voted for a 25bps cut, while the decision to maintain the neutral stance was made unanimously. This suggests it could only take one more vote for a cut to occur as long as it was the Governor who would have the deciding vote in an evenly split decision. The central bank provided some hawkish-leaning comments on inflation at that last meeting as it noted the last mile of inflation is prolonged and that headline inflation is likely to be elevated in Q3, while it also stated the near-term inflation and growth outlook has turned somewhat adverse but added that a further alignment to the target is likely. Furthermore, it announced to cut the Cash Reserve Ratio by 50bps to 4% which would infuse liquidity of INR 1.16tln, as well as introduced a new benchmark called the secured overnight rupee rate and increased interest rate ceilings on FCNR-B deposits in order to attract more capital inflows. Since then, the RBI has been active with measures including frequent FX interventions to support the rupee, while it also recently purchased government bonds through open market operations for the first time in nearly four years and conducted longer-tenure variable rate repo auctions which boost funds in the banking system and pressures bond yields which suggest the central bank want to bring money market rates down and supports the view that it could be gearing up for a looming reduction in the Repurchase Rate.

US JOBS REPORT (FRI): The January Jobs report is expected to show 170k jobs added to the economy. The December data surprised to the upside, printing 256k; that took the headline payrolls average over the last three-months to 170k/per month, 165k/month over the last six-months, and 186k/month over the last 12-months. The unemployment rate is expected to be unchanged at 4.1%. In December, the unemployment rate fell to 4.1% from 4.2%; the FOMC's December SEP forecast the jobless rate will rise to 4.3% in 2025, where it is expected to stay over its forecast horizon. This week, Fed Chair Powell, speaking after the FOMC policy announcement, stated that labour market conditions remain solid, and were broadly balanced, reiterating that it was not a source of inflation pressures, adding that job creation was at a level that would hold the unemployment rate steady, despite the rate of job creation easing. On wages, the current consensus expects average hourly earnings to rise by 0.3%, maintaining the December pace. Meanwhile, Capital Economics notes that the January jobs data is subject to more uncertainty given the BLS will incorporate into the data both the annual benchmark revision to the payroll figures, as well as the annual adjustments to the population control used in the household survey. CapEco explains that the revision to past payroll figures is based on a universal count of unemployment insurance records taken from the Quarterly Census of Employment and Wages which is more accurate than the normal monthly survey, and covers around one-third of all employees. It says that the revision should correct for any deficiencies in the normal monthly survey, such as the failure to accurately pick up the birth and death of firms or any other distortions within the sample. "The preliminary estimate issued by the BLS last August (but not yet incorporated into the data) suggested that the level of non-farm payrolls in the year to March 2024 will be revised down by a cumulative 818,000," it writes, "this implies that monthly non-farm payroll gains from April 2023 to March 2024 averaged around 174k per month, rather than the 242k that the current data show." The consultancy adds that the QECW data suggests a sharper slowdown in employment growth in Q2 2024 than currently believed too.

CANADIAN JOBS REPORT (FRI): The Canadian Jobs data for January will be used to help determine when the BoC continue with their easing process. The BoC removed guidance on future rate decisions at its meeting in January with Governor Macklem noting it was due to huge uncertainty ahead with looming Trump tariffs, as further details are expected to be confirmed next week. US President Trump, the day after the BoC, announced he will be putting 25% tariffs on Canada and Mexico due to the flows of fentanyl into the US, which has seen officials scrambling to come up with a fix before the February 1st deadline. Tariffs are the main focus in Canada right now, and for the Loonie, so although the data will be important to assess the strength of the economy after the BoC's easing (200bps from 5% to 3%, with rates now seen within the neutral estimate 2.25-3.25%), data is likely to play second fiddle to tariff updates. The overhang of tariffs on Canada has seen USD/CAD rise to test 1.46 at the peaks from 1.38 at the time of the US Presidential election.

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