Week Ahead - 10-14th February 2025

Highlights include Fed Chair Powell Testimonies, US, China and Swiss CPI, US Retail Sales, UK GDP and NZ Inflation Forecasts

- **SUN**: Chinese Inflation (Jan)
- **MON**: Norwegian CPI (Jan) and GDP (Q4/Oct), EZ Sentix Index (Feb), UK GDP (Q4)
- **TUE**: EIA STEO
- **WED**: OPEC MOMR, US CPI (Jan)
- **THU**: IEA OMR, NZ Inflation Forecasts (Q1), UK GDP (Dec), Swiss CPI (Jan), EZ Industrial Production (Dec), PPI Final Demand (Jan)
- **FRI**: CBR Announcement, EZ Flash GDP Estimate (Q4), US Retail Sales (Jan)

US-CHINA TARIFFS: One of the biggest macro drivers next week could be an escalation or easing in US and China trade tensions, with the Chinese levies on the US set to take effect. As a reminder, the US' new 10% tariff on all Chinese exports to the US took effect after the deadline passed on February 4th. In retaliation, China imposed 15% tariffs on US coal & LNG, and 10% tariffs on US oil, agricultural machines, and some autos, set to take effect on February 10th. Furthermore, China imposed restrictions on tungsten, tellurium, bismuth, molybdenum and indium, but did not target a specific country - restrictions which could disrupt global supply chains, particularly in technology, energy, and defence sectors. US President Trump was expected to speak to Chinese President Xi at some point this week, although that call did not take place, with Trump later stating that he would speak to Chinese President Xi at the appropriate time and was in no rush when he responded 'that's fine' when asked about China's retaliatory tariffs.

CHINESE INFLATION (SUN): Chinese CPI Y/Y is expected to tick up to 0.4% for January (vs prev. 0.1%), M/M seen at 0.8% (prev. 0.0%), and PPI Y/Y expected at -2.1% (prev. -2.3%). Using the commentary within the Caixin PMI as a proxy, the release noted "Price pressures persisted. Both input costs and output prices increased, though the growth was modest. Costs rose, driven by increases in wages and raw material prices, which was reflected in slight increases in selling prices", whilst adding that "The stimulus policies introduced since September 2024 have delivered tangible results, enabling China to achieve its economic growth target for the year." Meanwhile, analysts at ING are "expecting a modest uptick in the year-on-year number to around 0.4% YoY, as we expect food inflation to see an uptick from the Lunar New Year effect, but non-food inflation is likely to remain weak as price competition remains cutthroat. The People's Bank of China is also set to publish January's credit activity data sometime in the next week."

NORWEGIAN CPI/GDP (MON): There are currently no newswire expectations for the Norwegian CPI. Taking a look at SEB, the bank sees CPI-ATE M/M printing at -0.1% and the Y/Y figure to print in-line with Norges Bank's view at 2.6%. As a reminder, in December, CPI-ATE Y/Y came in at 2.7%, a touch shy of expectations; although cooler, the figure still remains at elevated levels, and as such, the Bank opted for a pause at the January meeting – but did note that the rate will likely be reduced in March. As it stands, money markets price in a 70% chance of a cut in March, so the inflation print could have an impact on pricing; however, SEB suggests that given the clear guidance at the prior meeting, inflation figures will be more pertinent to meetings post-March.

FED CHAIR POWELL TESTIMONIES (TUE/WED) : In Chair Powell's semi-annual testimony, he is likely to repeat what he said in wake of the latest FOMC rate decision. Since the FOMC, we have had the January PCE and tariff updates from US President Trump. Recapping, Trump initially imposed tariffs on Canada, Mexico, and China whilst sending a warning to Europe, but later delayed tariffs on the former two by 30-days after chatting with their leaders. On China, he announced an additional 10% tariff on top of existing levies on China, with no exclusions. On data, December PCE data was in line with expectations on both headline and core while the consumption data was above the consensus. However, the data likely did little to alter the view of the Fed with Chair Powell largely stressing a no rush approach to future policy changes, particularly with uncertainty ahead due to new Trump policies. On Trump, participants will continue to see how, and if, they affect the Fed and its policy decisions and if Powell has anything new to add, but he will likely continue to reiterate uncertainty ahead. However, despite Trump continually pressing for lower rates, he did say the Federal Reserve was right to pause its rate-cutting path in its decision last week. Further to this, US Treasury Secretary Bessent said he met with Powell and had a very constructive discussion, so participants may look to see if the Chair makes any comments on this meeting. As a reminder, at the latest meeting the FOMC kept rates unchanged, as expected, with the statement removing the language that "inflation has made progress" towards the 2% goal, although Powell later claimed it was a language clean-up, used to shorten the sentence, and was not meant to be viewed as a policy shift. The Fed still sees inflation as "somewhat elevated". As a reminder, Powell said that the Fed does not need to be in a hurry to adjust the policy stance and policy is not on a preset course, something he reiterated throughout the Q&A, even when asked about a March cut. Further, Powell said the Fed got two good inflation readings in a row but still wants to see further progress, but he thinks the Fed can see the pathway for that to happen, particularly as shelter inflation is coming down pretty steadily.

US CPI (WED): US consumer prices are seen rising +0.3% M/M in January (prev. +0.4% M/M in December), while the core rate of inflation is expected to rise +0.3% M/M, picking up from the +0.2% M/M reported in December. Wells Fargo says the data is likely to show that inflation remained stubbornly strong at the start of 2025. "We expect some lingering issues around residual seasonality to buoy January's core reading, but we think this dynamic will be less pronounced than last year," Wells writes, "seasonal adjustment factors will be updated with the upcoming release to reflect the most recent year's price movements." It notes that the incorporation of 2024 figures should lead the seasonal factors to 'expect' more strength in January and February. The bank's projections are in line with the consensus view, and it says that if realised, "more moderate price increases at the start of this year would unlock favourable base effects and lead to a slowing in the Y/Y rate of inflation in Q1," though it expect the 12-month rate of inflation to move sideways through the remainder of the year, as further services disinflation is offset by higher goods inflation now that additional tariffs are in the works. Meanwhile, from the Fed's perspective, its January policy statement did not include language that inflation had made progress to its 2% goal, as was stated in the December update, albeit Powell stressed this was not meant to send a signal and it was rather just a language clean up. The central bank still says that inflation remains 'somewhat elevated' and that risks to achieving its employment and inflation goals are "roughly in balance". Fed Chair Powell reaffirmed that view, adding that the central bank is focussing on real progress on inflation (or weakness in labour markets) before making further rate cuts, noting that policy rates remained meaningfully restrictive; he added that he sees further progress ahead (he added that the Fed does not need to wait for inflation to fall to exactly 2% before it can resume rate reductions).

NZ INFLATION FORECASTS (THU): The release will be watched to see how longer-term inflation expectations have been affected by the recent concerns surrounding the global outlook alongside the sharp depreciation of the NZD, “which will be an important consideration in the RBNZ’s upcoming policy deliberations”, Westpac reinforces. The desk adds that “While there were a few swings in the previous Survey of Expectations, the results still pointed to inflation expectations remaining comfortably close to the 2% midpoint of the RBNZ’s target band. Since the last survey, inflation has remained steady at 2.2%”. Currently, money markets price a 69.7% chance of a 25bps cut at the 19th Feb meeting alongside a 30.3% chance of a deeper 50bps reduction.

SWISS CPI (THU): The December figure printed in-line with the newswire consensus at 0.6% Y/Y; however, this meant the Q4 average was at just 0.63% and as such shy of the 0.7% projection for the period that the SNB announced alongside the December decision (50bps cut), a forecast which was already cut from their view of 1.0% at the September meeting. For Q1, the SNB forecasts an average of just 0.3% and look for this to moderate further to 0.2% in Q2 before picking up modestly into end-2025. In recent days, Chairman Schlegel has stuck to these forecasts saying they expect inflation to be “relatively low” in 2025 and notably remarked that “monthly inflation data may dip below zero”. In terms of policy, the SNB has kept the door open to a return to negative rates, though has made clear this is not their preference. For policy expectations, another softer-than-forecast inflation print could see the odds of easing creep up from the current 80% chance of a 25bps move in March, and potentially see discussion around another 50bps move. Though, barring a significantly softer print, participants will likely wait to see how February’s CPI comes in before making any determination on March; with the CHF’s haven status, in the context of US tariffs for instance, and growth indicators (gov’t forecasts were revised lower in December) also of note.

UK DEC GDP (THU): Expectations are for M/M GDP in December to rise to 0.2% from 0.1%. As a reminder, the prior release saw November M/M GDP of just 0.1% vs. Exp. 0.2% which was the third consecutive miss on expectations for UK growth. Digging into the details of the release, manufacturing output declining for the fourth time in five months, acted as a drag, according to Capital Economics. This time around, Investec looks for a consensus print of 0.1% which would translate “into zero GDP growth on the quarter, avoiding contraction only by a whisker” (assuming there are no backward revisions). The desk adds that “there are few signs that December was immune to the subdued economic conditions experienced in the rest of the second half of last year”, whilst highlighting soft retail sales data for December and a likely disappointing outturn for production. Looking beyond the upcoming release, the desk does “not see a stark change of affairs in the immediate future, with only modest growth pencilled in for much of the first half of this year”. From a policy perspective, as the dust settles on the recent “dovish cut” from the MPC, a soft outturn could see markets solidify their expectations for further easing this year given that there is room for the market to move closer to 75bps of cuts vs. the current 60bps that is priced. That being said, getting closer to 75bps would also likely require inflation to play ball in the coming months.

US RETAIL SALES (FRI): Regarding the state of the Consumer in January, the Conference Board's gauge of consumer confidence fell 5.4 points in January to 104.1, the present situation index fell sharply, while the expectations index also fell. It wrote that "consumer confidence has been moving sideways in a relatively stable, narrow range since 2022 - January was no exception." That said, it also reported that consumer views of their current financial situation were more positive, and six-month expectations for family finances reached a new series high; the number of consumers anticipating a recession over the next 12 months was stable near the series low, and consumers also remained bullish about the stock market. Writing in January, Bank of America said as we begin 2025, the consumer continues to benefit from a supportive labour market with after-tax wage and salary growth up at the end of last year. "Consumers appear to believe it’s a good time to buy durables ahead of potentially higher prices, though in Bank of America data we see little evidence that these concerns were spurring them to spend more in this area over the last few months of 2024," adding that "changes in consumer sentiment do not always translate into action."