Week Ahead: 24-28th February 2025

Highlights include US PCE, NVDA earnings, German election, China NPC, PBoC MLF, ECB Minutes, Australian and Tokyo CPI

- **SUN**: German National Election
- **MON**: Bank of Israel Announcement, German Ifo (Feb), EZ HICP Final (Jan)
- **TUE**: PBoC MLF, NBH Announcement, BoK Announcement, German GDP Detailed (Q4), US CaseShiller (Dec), US Richmond Fed (Feb)
- **WED**: Australian CPI (Jan)
- **THU**: ECB Minutes, Spanish Flash CPI (Feb), Swiss GDP (Q4), German Unemployment (Feb), EZ Sentiment Survey (Feb), US GDP 2nd Estimate (Q4), Japanese Tokyo CPI (Feb)
- **FRI**: German Retail Sales (Jan), French/German Flash CPI (Feb), US PCE (Jan), Canadian GDP (Q4), US Chicago PMI (Feb)

GERMAN NATIONAL ELECTION (SUN): The election on Sunday, February 23rd is expected to result in another coalition government but one that is headed by CDU/CSU with Merz as the Chancellor. The most likely outcome is a ‘Grand’ coalition headed by CDU/CSU with SPD as the junior partner, which would be seen as pro-growth and theoretically received favourably. However, the focus then turns to whether two or more of Die Linke, FDP and BSW meet the constitutional criteria to enter the Bundestag. If they do, then the prospect of debt-brake reform is much less likely (this is also the case in the scenario of the particularly strong performance of AfD, at the expense of Greens) as a two-thirds majority of seats is required for constitutional change. If debt brake reform is possible, then Bunds will likely come under pressure with the most bearish scenario in the case of a ‘Kenya’ coalition (CDU/CSU, SPD and Greens) given the similarities in views on the debt brake between the SPD and Greens. For the Euro and stocks the reaction will be favourable in the case of a pro-growth coalition, though the magnitude of this will be dependent on the exact configuration, whether constitutional reform of the debt break is possible, how far the government is willing to push this, plans for the proceeds and what combination of expansionary measures are drawn from the respective manifestos of involved parties i.e. how pro-growth it is. Overall, the knee-jerk reaction will be drawn from the strength of CDU/CSU, how close a grand coalition is to a majority and then if the two-thirds seat threshold for constitutional reform is possible or not. For this, look to see if Die Linke, FDP and/or BSW meet the threshold for Bundestag entry. Particularly, if FDP enters the Bundestag as they align more closely with CDU/CSU on areas such as the debt break and could be the preferred third party in a coalition from Merz’s perspective; their inclusion would limit the likelihood of debt brake reform given their opposition to it (a stance which effectively collapsed the traffic-light coalition) and the slim prospect of such a coalition hitting the two-thirds threshold. A CDU/CSU, SPD & FDP government would be a ‘Germany’ coalition. Voting is open from 07:00GMT to 17:00GMT on Sunday, February 23rd. The first exit polls should drop just after 17:00GMT. Thereafter, districts will begin to posit initial results around 30-60 minutes later. Typically, this provides an idea as to the broad composition of the Bundestag and possible coalitions, but the seat distribution is unlikely to be clear until the early hours of Monday.

CHINA NPC STANDING COMMITTEE (MON/TUE): China’s National People’s Congress (NPC) Standing Committee, the top legislature, will hold its 14th session in Beijing on February 24th-25th. The meeting, chaired by NPC chairman Zhao Leji, will focus on preparations for the third session of the 14th NPC in March, according to a proposed agenda. According to Chinese press Xinhua, lawmakers will review reports on the NPC’s work, draft agendas, and personnel appointments. Xinhua added that key legislative topics include the draft private economy promotion law, revisions to the civil aviation law, and assessments of NPC deputies’ qualifications, and additional reviews will cover fiscal budget measures and public complaint handling in 2024.

PBOC MLF (TUE): The medium-term lending facility (MLF) is now less of note after last year’s PBoC policy review suggesting the MLF will play less of a role in guiding markets, although desks expect a transition phase of at least a year in total. “The MLF will likely fade into the background, and at one point may cease to exist,” said HSBC after the policy review. ING at the time suggested, “The focus is not about rushing to phase out the MLF but rather directing more attention toward the short-term rate as a main policy tool”. That being said, many desks are of the view the PBoC could cut its main policy rate, the 7-day Reverse Repo Rate (RRR) by some 40-50bps in 2025. ING still expects a 7-day RRR cut in Q1, albeit likely after the annual parliamentary meeting in March. “Given the pivot to the 7-day reverse repo rate as the primary policy rate, we don’t expect any change to the MLF this month,” says the Dutch desk.

BOK ANNOUNCEMENT (TUE): The Bank of Korea is expected to cut rates with a recent Reuters poll showing 35 out of 36 economists surveyed forecast the BoK to cut its base rate by 25bps to 2.75%. As a reminder, the BoK surprised markets at last month’s meeting where it defied expectations for a 25bps cut and instead kept its base rate at 3.0%, while it announced it is to expand the cap on the temporary special loan for small to medium businesses to KRW 14tln. Despite the surprise pause, the language from the central bank was dovish as BoK Governor Rhee said the need for further cuts is higher now that downside risks to economic growth have heightened. Furthermore, all board members said a rate cut would be necessary but took consideration of dollar-won FX rates fluctuating due to political turmoil, while he emphasised that the rate decision was not because dollar-won rates were at a certain level, but because political uncertainties have been impacting the FX rates. Rhee also stated that six board members said they are open to rate cuts in the three-month ahead window, as well as noted it would be appropriate to wait until domestic political turmoil stabilises and some certainty comes from the new US administration before changing policies. Furthermore, the BoK said it will determine the timing and pace of any further base rate cuts to mitigate downside risks to economic growth and acknowledged consumption weakened and construction investment has been sluggish. The language clearly points to incoming rate cuts, while recent key data releases also support the argument for a cut after GDP in Q4 missed forecasts with the advanced GDP Q/Q at 0.1% vs. Exp. 0.2% (Prev. 0.1%) and Y/Y at 1.2% vs. Exp. 1.4% (Prev. 1.5%).

AUSTRALIAN CPI (WED): Weighted CPI Y/Y for January is expected at 2.5% (prev. 2.5%), with the data of utmost importance for the RBA after the central bank delivered a widely expected 25bps rate cut to lower the Cash Rate to 4.10% - which was the central bank's first rate reduction since 2020. RBA also said the board is more confident that inflation is moving toward the midpoint of the 2–3% target range but added that upside risks remain and the central bank remains cautious on prospects for further policy easing. Furthermore, RBA Governor Bullock provided some hawkish-leaning remarks at the post-meeting press conference where she stated that it is clear high rates have worked and cannot declare victory on inflation yet, as well as noted that the strength of the jobs market has been surprising and further rate cuts implied by the market are not guaranteed. In terms of the upcoming data, analysts at Westpac suggest “annual growth in the Monthly Indicator had been declining ahead of the quarterly CPI for several months before stabilising and aligning more closely with the quarterly CPI”, with the desk forecasting a 2.4% Weighted CPI Y/Y metric. Westpac flags historical declines in household goods, clothing, footwear and holiday travel, whilst an extension to the Commonwealth government rebates raises the risk of further declines in electricity prices.

NVIDIA EARNINGS PREVIEW (WED): The AI darling Nvidia reports quarterly earnings on Wednesday, February 26th, at 21:20GMT/16:20EST. Ahead of the metrics, KeyBanc believes NVDA's strong results should alleviate any concerns that DeepSeek could derail near-term AI capex intensity. KeyBanc adds, despite prior concerns regarding constraints associated with the ramp of GB200 NVL servers, it anticipates it will solidly beat, and to guide Q1 conservatively and moderately higher than consensus. In addition, KeyBanc does believe that manufacturing constraints are limiting shipments of GB200 NVL server racks but believes it will be more than offset by numerous factors: 1) given lower initial manufacturing yields of GB200 NVL, believes customers have been able to push out orders of GB200 and backfill with HGX-based B200 servers with x86 head nodes 2) DeepSeek, in addition to limited supply of Huawei's Ascend AI ASIC, has created a surge in demand for H20 GPUs from China cloud service providers (CSPs) 3) believes NVDA's customers, particularly CSPs, are financing its inventory at Electronic Manufacturing Services (EMS) providers, so effectively sell-in shipments from NVDA to EMS are recognized as revenues. Separately, Susquehanna is expecting a beat/raise, but more in-line than the past few reports given near-term noise/concerns around GB200 delays and pushouts. Nvidia Q4 EPS is expected at USD 0.83 with revenue seen coming in at USD 35.08bln. The consensus for the revenue breakdown shows Data Center at USD 30.77bln, Gaming at 3.28bln, Professional Visualization at 486mln, and Automotive at 449mln. Regarding some other key metrics, the gross profit margin is expected at 73.5% and operating expense at 3.4bln. In terms of forward guidance, next quarter (Q1) revenue is seen at USD 55.93bln, with EPS of USD 1.25.

ECB MINUTES (THU): As expected, the ECB pulled the trigger on another 25bps rate cut, taking the Deposit Rate to 2.75%. The policy statement saw the GC reiterate that it will retain its meeting-by-meeting and data-dependent approach whilst not pre-committing to a specific policy path. Despite the easing, policymakers still saw policy as "restrictive". In terms of the economic assessment, the statement noted that the economy is still facing headwinds but demand should pick up over time. Elsewhere, inflation was seen as "high" but has developed in line with expectations and the disinflation process is well on track. At the follow-up press conference, the overall lack of overtly dovish signals from Lagarde in her opening remarks elicited a hawkish reaction within the marketplace. However, as the Q&A segment got underway, this move faded as Lagarde noted the decision was unanimous and there was no discussion of the terminal rate. Elsewhere, Lagarde noted that the debate about neutral rates is "entirely premature" and cannot say if rates will go below neutral. As always, given the time lag between the meeting and the publication of the account, the markets will deem the release as somewhat stale. However, markets will be on the lookout for any clues to see if there is a growing view on the Governing Council that aligns with recent comments from Germany's Schnabel that the Bank is getting closer to the point at which it needs to look at whether and how much further it can cut interest rates.

JAPANESE TOKYO CPI (THU): Core Tokyo CPI is expected to tick down to 2.3% in February from 2.5% in January, with the Tokyo metrics seen as a leading indicator for the nationwide release. Desks suggest that rising fresh food costs and higher service-sector prices, particularly in dining, are likely offset by declining energy prices amid subsidies. From a policy perspective, the BoJ will monitor whether rising food costs are passed on to consumers, according to ING. As pricing stands, the BoJ is not expected to make another 25bps move until September, with pricing for the March meeting at 97% for a hold and 3% for a 25bps hike. BoJ Governor Ueda recently suggested the rise in long-term interest rates reflects a modest economic recovery and a rising price trend.

US PCE (FRI): The January PCE is expected at 0.3% M/M and 2.5% Y/Y, vs the prior 0.3% and 2.6%. The core metrics are expected to rise 0.3% M/M vs the prior 0.2%, with Y/Y expected at 2.6% (prev. 2.8%). January's core CPI was up +0.45% M/M (exp. +0.3%, prev. 0.4%), while the annual rate ticked up to 3.26% Y/Y (exp. 3.1%, prev. 3.2%). Within the data, used cars and airfares components drove the upside for the headline, while car insurance also contributed to the upside, though analysts note that these have been noisier in recent years, and ahead, premiums are expected to slow. Goldman Sachs said it did not see any evidence that the LA wildfires had a noticeable impact on the data. Meanwhile, January's PPI data rose +0.4% M/M (exp. 0.3%, prev. 0.5%); core producer prices increased by more than expected, and the ex-food/energy, and the ex-food/energy/trade services both increased. "However, the components relevant for January core PCE were softer on net," GS says. Following the CPI and PPI releases, GS estimates that core PCE rose +0.3% M/M in January (vs +0.2% M/M in December). Speaking at his dual testimonies to Congress in February, Fed Chair Powell said the FOMC can maintain policy restraint for longer if the economy remains strong and inflation does not move towards 2% Y/Y. He said that while the Fed still wants to make more progress on inflation, price pressures have moved closer to its goal, with the central bank 'close but not there' yet. He explained that the Fed was holding rates at current levels as it awaits further evidence that inflation is coming down. At the time of writing, money markets are not fully pricing a Fed rate cut until September, although there is a decent chance that it could be seen from June onwards; through the end of the year, markets have discounted around 40bps of rate reductions (implying that one rate cut has been fully priced, with the chance of another around 60%).

CANADIAN GDP (FRI): The December and Q4 GDP growth will be released on Friday, consensus expects the annualised Q/Q print of 1.7% for Q4, a touch beneath the BoC's estimate of 1.8%. The BoC notes that Growth in final domestic demand has been solid and is estimated to have climbed to about 3.5% in the fourth quarter. “This recent strength reflects continued robust growth in consumer spending and a pickup in residential investment. In contrast, business investment remains weak” while government spending is expected to ease in Q4. On trade, the BoC MPR says “Export growth is estimated to have risen sharply to around 4.6% in the fourth quarter, mostly reflecting a surge in the exports of gold and pharmaceuticals, which tend to be highly volatile”. While for imports, growth is estimated +2.9% in Q4, reflecting a rebound in motor vehicle imports, partially offset by weak imports of machinery and equipment, which are restrained by subdued business investment. Looking ahead, the BoC remains cautious due to uncertainty around new policies from US President Trump, mainly around tariffs. The central bank notes that “this uncertainty is weighing on consumer and business confidence and on investment intentions.”

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