newsquawk

Week Ahead: 10-14th March 2025

Highlights include US CPI, UoM, BoC, UK GDP and Norwegian CPI

- **MON**: Eurogroup Meeting, Norwegian CPI (Feb), EZ Sentix Index (Mar), Japanese GDP (Q4)
- **TUE**: EIA STEO
- **WED**: 25% US tariff on all imports of steel and aluminium comes into effect, BoC Announcement, ECB Wage Tracker, OPEC MOMR, US CPI (Feb)
- **THU**: IEA OMR, EU-South Africa summit, Swedish CPIF (Feb), EZ Industrial Production (Jan), US PPI (Feb)
- **FRI**: UK GDP Estimate (Jan), University of Michigan Prelim Survey (Mar)

NORWEGIAN CPI (MON): January's metrics came in a little hotter than forecast and while there is no newswire consensus for the February number, SEB looks for this to once again be the case with CPI-ATE seen at 2.9% Y/Y (prev. 2.8%) and above the Norges Bank's 2.7% forecast. For the Norges Bank, the data will help to determine if the guidance from January that "the policy rate will likely be reduced in March" still holds, with markets currently pricing in just under an 80% chance of a 25bps cut. Despite the hot January release and expectations for another tick up in February, the Norges Bank may choose to look through this and take cues from recent reports of easing inflation expectations. However, hotter inflation data, wage growth tracking slightly higher than the Norges Bank had forecast and the economy showing some signs of picking up point to a hawkish revision to the rate path in March. The path currently points to three 25bps cuts in 2025; the scale of any revision to the rate path may be dictated by the February inflation report.

BOC ANNOUNCEMENT (WED): The Bank of Canada is likely to cut rates by a further 25bps, taking the target for the overnight rate to 2.75%. A 25bps rate cut is currently priced with a c. 70% probability, with a 30% probability for rates to be left unchanged. The BoC's main focus right now is on the impact of tariffs from the US, and although inflation has been ticking up recently (BoC eyed measure at 2.53%, prev. 2.36%), the economic slowdown expected ahead from the impact of tariffs is the clear focus of the BoC. Governor Macklem acknowledged that if US tariffs are long-lasting and broad-based, there will not be a bounce back in the Canadian economy. He noted that the updated BoC model shows Canadian output would fall almost 3% over two years if the US imposed tariffs, all but wiping out growth forecasts for 2025 and 2026. It also shows that exports would fall 8.5% in the year after tariffs took effect. As it stands, Trump has delayed the fentanyl related tariffs by one month until 2nd April on all products that comply with the USMCA trade agreement, but those that are not compliant, are still subject to tariffs. However, from April 2nd, if Trump is not satisfied with progress on reducing the flow of fentanyl into the US, the tariffs will go ahead, alongside the planned reciprocal tariffs that are set to be enforced from the same date. The prior BoC meeting saw the bank cut by 25bps to 3.00% as expected, it also announced the end of QT and removed forward guidance, leaving future decisions open to a pause or cut, depending on the information available to them at the time.

US CPI (WED), PPI (THU): Analysts expect US CPI to rise +0.3% M/M in February (prev. +0.5%), while the core rate is seen rising +0.3% M/M (prev. +0.4%). Meanwhile, headline producer prices are seen rising +0.3% M/M in February (prev. +0.4%), while the core rate of PPI is seen rising +0.3% M/M, matching the January figure. Price proxies have been somewhat hawkish recently, with the ISM manufacturing report seeing its Prices Paid component spiking to 62.4 from 54.9, while the services ISM's prices sub-index rose to 62.6 from 60.4, with respondents stating that "incoming tariffs are causing our products to increase in price." The Fed's most recent Beige Book also reported moderate price increases across regions, with some areas seeing faster inflation; businesses expect potential tariffs to drive further price hikes, with some firms raising prices preemptively due to tariff uncertainties and input costs. The CPI data comes ahead of the full impact of US tariffs, so may not fully show that fallout just yet. That said, Fed officials are also becoming wary of inflation progressing towards target; NY Fed's Williams this week noted that there will be some impact on inflation from the tariffs, and he is watching inflation expectations closely, adding that talk of tariffs is affecting how people are thinking about near-term inflation; Williams suggested keeping an eye on the University of Michigan inflation expectations components within its monthly consumer sentiment report, and also noted that the NY Fed's gauge of consumer inflation expectations has been more stable. Meanwhile, Treasury Secretary Bessent has dismissed concerns that the Trump tariff hikes would trigger sustained inflation. Bessent suggested the Fed should view them as one-time price adjustments, aligning with his view that tariffs' inflationary impact is temporary, not a long-term economic concern. It is also worth noting that traders focus seems to be pivoting more towards growth dynamics, with some disappointing data released recently sending GDP tracking estimates for Q1 into negative territory. Further weaker data may embolden traders' betting on Fed rate cuts, with money markets now discounting three 25bps reductions this year, tilting more dovishly vs the two that it was fully pricing just a week ago.

UK GDP (FRI): Expectations are for M/M GDP in January to print at 0.2%, slowing from the 0.4% pace seen in December, which brought the Q4 Q/Q rate to 0.1% vs. the Q3 outturn of no growth. As a reminder, the prior release was bolstered by a 0.4% increase in services (which accounts for around 80% of output), as opined by Investec. This time around, economists at Pantheon hold a below consensus view of -0.1% M/M on account of "payback" from the "sharp rise in GDP in December". More specifically, PM notes services should be hampered by consumers' decision to stay away from pubs in January, whilst manufacturing "output should fall only 0.3% month-to-month...as a jump in car production offsets weakness elsewhere". That being said, when looking through the volatility of monthly GDP releases, PM thinks "the economy is holding up well in the face of a barrage of punches, from payroll-tax hikes to tariff threats and geopolitical uncertainty". From a policy perspective, the next 25bps cut from the BoE is not fully priced until the August meeting. A soft outturn could see expectations of further easing brought forward. However, a more aggressive repricing in BoE easing bets would likely require inflation to play ball.

US UNI OF MICHIGAN (FRI): Prelim University of Michigan for March is released next Friday, March 14th, whereby focus will centre around the headline metrics for whether it shows the continued trend of soft data out of the US, further illustrating ongoing growth concerns, but attention will also be on inflation expectations. On the former, and amid the recent deteriorating data, Atlanta Fed GDPnow currently forecasts Q1 GDP at -2.4%, and the influential Fed Governor Waller said he is seeing some signs of softer data, but have to respond to hard data. Meanwhile, and maybe adding greater importance to the UoM figures, NY Fed President Williams said it is worth watching UoM inflation expectations data, and he watches expectations very closely. Note, UoM inflation expectations can be distorted amid differing opinions from Democrats and Republicans who take part in the survey, which can be extreme after times of an administration switch. In the Feb print, 1yr printed 4.3%, while the longer-term 5yr rose to 3.5%, as they rose for Independents and Democrats alike, but fell slightly for Republicans.