Week Ahead: 24th-28th March 2025

Highlights include US PCE, Global PMIs, UK CPI and Spring Statement, Australian & Tokyo CPI, BoJ SoO

- **MON**: EZ/UK/US Flash PMIs (Mar)
- **TUE**: PBoC MLF Announcement, NBH Announcement, German Ifo Survey (Mar), US Richmond Fed (Mar)
- **WED**: BoC Minutes, CNB Announcement, Australian CPI (Feb), UK CPI (Feb), US Durable Goods (Feb),
- **THU**: Norges Bank Announcement, US GDP (Q4), US PCE (Q4), Tokyo CPI (Mar), Banxico.
- **FRI**: BoJ Summary of Opinions, UK Retail Sales (Feb), Spanish Flash CPI (Mar), French Prelim CPI (Mar), German Unemployment (Mar), EZ Sentiment Survey (Mar), US PCE (Feb)

EZ FLASH PMI (MON): Expectations are for March's Eurozone manufacturing print to rise to 48.4 from 47.6, services to increase to 51.0 from 50.6, leaving the composite at 50.5 vs. prev. 50.2. As a reminder, the prior release showed the manufacturing print pick up to 47.6 from 46.6, and services slip to 50.6 from 51.3, leaving the composite at 50.2 vs. prev. 50.2. The accompanying report noted, "the Eurozone economy has barely grown for two months in a row now, as the mild growth in the services sector is almost fully eaten up by the recession in the manufacturing sector". This time around, analysts at Investec note that there are several competing considerations for the release. On the one hand, the looming April 2nd tariff deadline is clearly a headwind for the manufacturing sector, however, this is tempered by the recent reform package approved in Germany. On balance, given the survey period will not fully encapsulate the passage of the German reform deal, the desk expects that trade concerns will likely have greater sway on the report. As such it is worth looking for any potential frontloading of orders by EZ companies ahead of said tariffs. From a policy perspective, markets are increasingly leaning towards a 25bps cut next month with such an outcome priced at around 65% vs. 50% in the aftermath of the March decision.

UK FLASH PMI (MON): Expectations are for March's services PMI to tick higher to 51.4 from 51.0; consensus for other metrics is not available at the time of writing. As a reminder, the prior release showed the services metric advancing to 51.0 in February from 50.8, and manufacturing slipped to 46.9 from 48.3, leaving the composite at 50.5 vs. prev. 50.6. The accompanying report noted, "The lack of growth alongside rising price pressures points to a stagflationary environment". This time around, Investec notes that it does not expect to see an improvement from the prior report which made for "relatively gloomy reading". The desk adds that looming tariff threats and the already imposed 25% tariff on steel and aluminium will likely have "depressed" sentiment amongst manufacturers. From a domestic perspective, the impact of the hike in employers NIC's and increase in the NLW will continue to act as a drag on sentiment ahead of the upcoming spring statement. From a policy perspective, a soft outturn could see a marginal dovish shift for BoE pricing. However, as shown by the latest policy announcement, the MPC is more focused on the inflation backdrop in the UK.

PBOC MLF (TUE): PBoC will conduct its monthly Medium-term Lending Facility operation next week with the central bank likely to maintain its 1-year MLF rate at 2.00% where it has been since September last year. As a reminder, the central bank kept rates unchanged and decided to only partially roll over maturing funds at last month's MLF operation in which it released CNY 300bln of loans through the facility for a net drain of CNY 200bln as there were CNY 500bln of loans maturing. The decision to maintain the MLF rate was unsurprising as Chinese banks had also opted to maintain the Loan Prime Rates in the week prior to that operation, while China's major banks have continued to refrain from adjusting the benchmark LPRs for this month which also suggests the unlikelihood of any changes in the MLF rate next week. Furthermore, the PBoC had already lessened the role of the MLF as a policy tool last year in favour of the 7-day Reverse Repo which is its main instrument for influencing short-term rates and liquidity although the rate on this has also been kept unchanged since September. Nonetheless, future policy action is anticipated as the central bank has signalled it will deliver cuts with PBoC Governor Pan pledging to reduce rates and RRR at an appropriate time.

BOC MINUTES (WED): The BoC meeting saw the Central Bank cut rates by 25bps to 2.75%, in line with expectations. BoC Governor Macklem noted that the BoC will be proceeding carefully when it comes to the policy path and is primarily due to the uncertainties ahead with the impacts of tariffs from US President Trump, with fears of tariffs boosting inflation and slowing growth, putting the central bank in a difficult position. Macklem also noted they did not seriously consider a 50bps move at the meeting, while he also stated the BoC estimate of neutral is centred on 2.75% - the current rate. The Minutes will be eyed to see what the BoC think about the impact of Trump's tariffs on the Canadian economy and its implications for monetary policy. However, it will likely echo Macklem in that they must now proceed carefully. Any clues about whether they focus on keeping inflation down or boosting economic growth will also be of note. The BoC essentially reached its inflation target, although it has since been creeping back up slightly since the lows.

AUSTRALIAN CPI (WED): There are currently no expectations for the monthly Australian CPI release for February, which held at 2.5% Y/Y in January. The prior report saw M/M CPI dragged down by a fall in holiday travel and a slowdown in housing costs, although desks at the time cautioned that the January report only covered a portion of the full CPI basket and was concentrated on goods rather than services. As a reminder, at the latest RBA meeting, the central bank delivered a widely expected 25bps rate cut to lower the Cash Rate to 4.10% - the bank's first rate reduction since 2020. It stated that underlying inflation is moderating and the outlook remains uncertain, as well as noted that sustainably returning inflation to the target is the priority and the board will continue to rely on data and evolving risk assessments to guide decisions. 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.

UK CPI (WED): Expectations are for headline Y/Y CPI to slip to 2.9% from 3.0% with the core metric set to tick lower to 3.6% from 3.7%. As a reminder, the prior release showed that Y/Y CPI rose to 3.0% (highest annual rate since March 2024) from 2.5%, core picked up to 3.7% from 3.2% and services jumped to 5.0% from 4.4%, albeit this was below the MPC forecast of 5.2%. This time around, economists at Pantheon Macroeconomics have a call of 3.0%, which would be 0.2pp higher than the MPC's forecast; driven by stronger food and core goods inflation. For services, the consultancy expects "hotel and phone app prices to push up services inflation to 5.1%, matching the MPC's call". Looking beyond the upcoming report, PM says that the upcoming release will be the 'calm before the storm' of price resets with inflation set to rise to 3.5% in April. From a policy perspective, given expectations of an increase in inflation in the coming months, market pricing over further BoE easing will likely remain cautious. As it stands, the next 25bps cut is not priced until August with a total of 44bps of cuts seen by year-end.

UK SPRING STATEMENT (WED): Chancellor Reeve's first fiscal event in October left her with GBP 15.7bln of space under the borrowing rule and just GBP 9.9bln under her "golden rule" that day-to-day spending cannot be funded by borrowing and instead must be funded via tax revenue alone. Since the statement, an upward move has seen UK yields rise as high as 4.925% on January 9th, though currently holding just below 4.6%. Further to that, the October and November 2024 GDP prints were softer than expected and while the December figure was a marked beat, this has since been superseded by a soft start to 2025. Additionally, PSNB data shows borrowing for the 11 months of the current FY has already surpassed the OBR's forecast for the entire 12-month period. In total, these points have likely eroded essentially all of Reeves' "golden rule" headroom. The Government has already announced some spending cuts with Foreign Aid trimmed and sweeping changes to Disability payments, totalling some GBP 5bln as the Foreign Aid revenue was used to fund a Defence spending increase. As such, the Chancellor is likely to announce some further cuts to spending and/or a tax-raising measure; though, the latter would make this a fiscal event rather than just an update, something the Chancellor has said she will not be doing. Most recently, the Guardian reports that there will not be any tax changes but Reeves will be unveiling the biggest spending cuts since austerity with billions more than thought to be slashed from Whitehall budgets; reminder, the general view was already for significant cuts to be made to such budgets from the Spending Review. Morgan Stanley, prior to the above developments, forecast the creation of around an GBP 8bln buffer via GBP 4bln in near-term spending cuts which then increase gradually in subsequent years. Cuts which would be via the upcoming Spending Review and freezing tax thresholds to the end of the forecast horizon, the latter could arguably be seen as a manifesto breach given her stance on it in October. Given the above, the likely playbook for Reeves is to add to the GBP 5bln from Disability payments by targeting the Spending Revenue and/or freezing tax thresholds. Spending Review savings are hard to quantify but a tweak to tax thresholds would likely raise around GBP 5bln, getting the Chancellor somewhere near the GBP 10bln figure (given the Disability adjustment); though, of course, it remains to be seen how the OBR scores the measures and the UK's economic outlook, The Telegraph reports that 2025 GDP projection will be cut essentially in half from the 2% outlined in October. For the Gilt remit, Morgan Stanely forecasts the FY25/26 amount at GBP 305bln (current projection 297bln) and a "notable reduction" in long issuance.

JAPANESE TOKYO CPI (THU): There is currently no consensus for the Tokyo CPI release, which is seen as a leading indicator to the National CPI typically released a couple of weeks later. Analysts at ING expect a slight easing to Tokyo prices "amid energy subsidy programmes and stabilisation of fresh food prices. But prices excluding fresh food and energy are likely to remain at a 1.9% rate". As a reminder, the latest BoJ meeting provided no surprises as it maintained rates at 0.50% which was widely expected. The central bank said it expects underlying inflation to converge towards a level consistent with the price target in the latter half of the three-year period projected under the quarterly Outlook Report but noted that uncertainty surrounding Japan's economy and prices remains high.

NORGES BANK (THU): At the January meeting, the statement reiterated that "the policy rate will likely be reduced in March", guidance which stemmed from the progress of inflation to target and a general assessment that the time for easing was approaching. However, February's CPI-ATE came in markedly hotter than expected at 3.4% (exp. 2.9%, prev. 2.8%) and surpassed the 2.7% Norges Bank forecast; a release which marked a second consecutive month of above forecast inflation. Internals from the release were also hot and have sparked a return of the sticky-inflation narrative. Following the February metrics, Nordea has shifted to no longer expect a cut at any point in 2025 or 2026. Most recently, the Regional Network was hawkish and has seemingly cemented the view that the Norges Bank will not be easing in March.

BANXICO (THU): In the prior meeting the Mexican Central Bank cut ruts by 50bps to 9.5%, as expected, in a 4-1 vote split with Heath the dissenter, voting for a 25bps cut. Within the meeting, it noted the Board estimates that looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes. In the forecasts, headline inflation is expected to converge to the target in Q3 '26, while it anticipates that the inflationary environment will allow it to continue the rate-cutting cycle, albeit maintaining a restrictive stance. For Banxico, significant focus continues to reside around the incoming tariffs from the US, which are due to be implemented on April 2nd. On which, Banxico's Deputy Governor Mejia recently noted that tariffs have been a negotiating tool for the US and it is yet to be seen when they are applied, and if they will have a lasting impact.

UK RETAIL SALES (FRI): At the time of writing, there is no consensus for this release, though recent indicators, including UK BRC retail sales for February, rose 1.1% Y/Y, below the three-month average growth of 2.4%, and the 12-month average growth of 0.8%. The accompanying report highlighted retailers are hopeful the March weather will catalyse spending on clothing items. Elsewhere, the February Barclaycard Consumer Spending Report showed a slight increase in consumer spending, as households exercised greater control over their expenses ahead of April's scheduled rise in bills.

US PCE (FRI): The full consensus is not yet available, but once CPI and PPI data were released, WSJ's Timiraos compiled analyst forecasts, with the median headline print expected at 0.31% and Y/Y expected at 2.5%. The core M/M is expected at 0.34%, with Y/Y at 2.7%. CPI data for February showed the headline rising by 0.2% M/M (exp. 0.3%, prev. 0.5%), while the core rate eased to 0.2% M/M (exp. 0.3%, prev. 0.4%); headline PPI was unchanged in the month (exp. 0.3%, prev. 0.4%), while the ex-Food and Energy measure eased by -0.1% M/M (exp. 0.3%, prev. 0.5%). In the wake of the data, Goldman Sachs said that based on those releases, it estimates that February core PCE prices will be up 0.29% M/M and at 2.7% Y/Y. Additionally, it expects that the headline PCE price index will increase by 0.26% M/M (+2.45% Y/Y). In its updated economic projections, the Fed now sees headline PCE inflation at 2.7% Y/Y this year (raising its forecast from the 2.5% seen in December), while the core PCE forecast was raised to 2.8% Y/Y from 2.5%. The Fed also nudged up its 2026 headline view to 2.2% Y/Y from 2.1% but left its 2026 core PCE view unchanged. At his post-meeting press conference this week, Fed Chair Powell said he sees the PCE inflation headline at 2.5% Y/Y (which would be unchanged vs January), and core PCE at 2.8% Y/Y (rising from 2.6% in January). The Fed sees inflation as somewhat elevated, noting that recent inflation expectations have ticked higher, on account of the US tariff policy, though he added that longer-term inflation expectations remain consistent with the Fed's 2% goal. The Fed Chair also said that it was too soon to say if it would be appropriate to look through the impact of tariff inflation - that will depend on how quickly the pass-through occurs, and how inflation expectations evolve. Powell also conceded that there may be a delay in further inflation progress this year, with the arrival of tariffs. He said that it would be a couple of months before the Fed knows if higher goods inflation in the first part of 2025 was a function of tariffs. On the consumer side, he observed that the University of Michigan's inflation gauges were an outlier, but he emphasised that officials monitor these closely. Money market pricing currently prices in 21bps for the June meeting with the first rate cut not fully priced until July, while 70bps is priced throughout the year. This fully discounts two 25bps rate cuts, with an 80% probability of a third.