newsquawk

Week Ahead: 31st March-4th April 2025

Highlights include US Trade Policy Review, US NFP and ISM PMIs, RBA, ECB Minutes and Canada Jobs

- **MON**: Japanese Activity Data (Feb), Chinese NBS PMIs (Mar), German Retail Sales (Feb), German Prelim CPI (Mar), US Chicago PMI (Mar)
- **TUE**: Completion of US Trade Policy Review, RBA Announcement, Potential RBNZ Governor Appointment Decision, Japanese Tankan Survey (Feb), South Korean Trade Balance (Mar), Chinese Caixin Manufacturing Final PMI (Mar), EZ Flash CPI (Mar), US ISM Manufacturing (Mar), EZ/UK/US Final Manufacturing PMIs (Mar),
- **WED**: US Tariff Implementation, South Korean CPI (Mar), US ADP Employment (Mar), US Durables (Feb)
- **THU**: ECB Minutes, Chinese Caixin Services & Composite Final PMI (Mar), EZ/UK/US Final Services & Composite PMIs (Mar), EZ Producer Prices (Feb), Canadian Trade Balance (Feb), US ISM Services PMI (Mar)
- **FRI**: Swedish CPIF (Mar), US Jobs Report (Mar), Canadian Jobs Report (Mar)

JAPANESE ACTIVITY DATA (MON): Industrial Output M/M for February is forecast at 2.3% (prev. -1.1%), and Retail Sales Y/Y at 2.0% (prev. 4.4%). The data may be stale/distorted by the US tariff policy, whilst from the monetary policy standpoint, the BoJ is more focused on the trend of inflation and wages. The latest BoJ Summary of Opinion from the March meeting suggested one member said inflation is somewhat overshooting expectations and a member said wage hikes in spring wage talks are somewhat exceeding last year's figures, with nominal wages rising at a pace in line with the achievement of the BoJ's price goal. Back to the activity data, analysts at ING "expect industrial production to rebound thanks to increased auto production. Before reciprocal tariffs take effect, manufacturers might have revamped their production."

CHINESE NBS PMIS (MON): The Official Manufacturing PMI for March is expected to rise to 50.5 from 50.2, with no current expectations for the Services (prev. 50.4) and Composite (prev. 51.1). Markets will be eyeing the data for any signs of challenges against the backdrop of US tariffs, with any major downticks likely to prompt more calls for stimulus. In terms of last month's release, China's official manufacturing PMI returned to expansion and beat expectations, driven by strong rebounds in new orders and production, while large enterprises continued to outperform smaller ones. However, non-manufacturing PMI showed softer underlying activity despite staying in expansion.

US TRADE POLICY AND TARIFF IMPLEMENTATION (TUE/WED): On April 1st, US federal agencies must submit trade policy reviews and tariff recommendations to US President Trump, focusing on Mexico, Canada, and China. April 2nd will see, as per prior reports, 1) Auto tariffs "in the neighbourhood of 25%" come into effect, 2) US tariffs on "external" agricultural products to go into effect, 3) Temporary tariff relief for Canada and Mexico expire, 4) Reciprocal tariffs kick in - details to be unveiled on the day. Trump has dubbed the day as "Liberation Day". Trump has said tariffs will be "substantial," though he may exempt certain countries. WSJ reported earlier this week that Trump's plan for reciprocal tariffs on April 2 is expected to be more targeted and narrower than what the president has vowed – "likely omitting a set of industry-specific tariffs while applying reciprocal levies on a targeted set of nations". Sources via ABC suggested the Trump admin is focused on trading partners "who have major trade imbalances with the US". FT reported that the move could involve a two-step approach: immediate tariffs using emergency powers while launching longer investigations into trade partners under Section 301. Note, that Trump's moratorium on the TikTok ban is poised to expire on April 5th, Trump has previously suggested he would consider a reduction in Chinese tariffs to seal the deal on TikTok.

RBA ANNOUNCEMENT (TUE): The RBA is likely to keep rates unchanged with money markets pricing around an 87% probability for the Cash Rate to be maintained at the current 4.10% level and about a 13% likelihood of a 25bps cut after the central bank had just cut rates at the last meeting in February. As a reminder, the RBA delivered a widely expected 25bps rate cut at its previous meeting to lower the Cash Rate to 4.10% which was the central bank's first rate reduction since 2020, while 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. 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 they 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. The rhetoric from other officials since the meeting has pointed to a lack of urgency for a back-to-back cut as Deputy Governor Hauser noted that the Board does not currently share market confidence that a sequence of further rate cuts will be required and Assistant Governor Hunter also stated that the February statement reflected the RBA board being more cautious than the market about prospects for further easing. Recent mixed data releases also support the case for a pause after GDP figures for Q4 accelerated and topped forecasts with Q/Q GDP at 0.6% vs. Exp. 0.5% (Prev. 0.3%) and Y/Y GDP at 1.3% vs. Exp. 1.2% (Prev. 0.8%), while the latest Employment Change showed a surprise contraction and printed -52.8k vs. Exp. 30.0k (Prev. 44.0k) for February and monthly CPI figures also softened.

POTENTIAL RBNZ GOVERNOR APPOINTMENT (TUE): Following the abrupt resignation of RBNZ Governor Orr three weeks ago, New Zealand's Finance Minister Willis has not yet received a recommendation from the RBNZ Board on who should serve as the temporary replacement. According to a spokesperson cited by Bloomberg, the minister is awaiting the board's suggestion and will make a decision “as soon as practicable” once it is received, but no appointment will be made before April 1. The appointment of a temporary governor is necessary until a permanent successor is named. The RBNZ Board is responsible for making the recommendation, which the finance minister must then approve. No further details or timelines have been provided regarding the decision-making process or potential candidates under consideration.

JAPANESE TANKAN SURVEY (TUE): The quarterly Tankan Survey is expected to show a decline amongst large manufacturing firms – with the large manufacturing index seen dipping to 12 (from 14) and the corresponding Outlook seen dipping to 9 (from 13). However, the non-manufacturing metrics are expected to be more resilient – with the large non-manufacturing index expected to remain at 33 whilst the Outlook is expected to rise to 29 from 28, with desks suggesting strong wage growth as the driver.

EZ FLASH CPI (TUE): Expectations are for headline Y/Y HICP in March to hold steady at 2.3% whilst both the core and super core metrics are set to slip to 2.5% from 2.6%. As a reminder, the prior release saw the headline inflation rate in February cool to 2.4% from 2.5%, driven by a pullback in services inflation to 3.7% from 3.9%, whilst the super-core metric nudged lower to 2.6% from 2.7%. For the upcoming report, Investec forecasts that “energy prices should again record a monthly fall given the pattern of commodity prices in the period, whilst food and goods prices are likely to have ticked up”. However, the desk adds that given the recent declines in services inflation, it is more focused on evidence of further signs that inflation is on a sustainable path to target. From a policy perspective, despite being viewed as somewhat of a coinflip in the wake of the March announcement, market pricing for an April rate cut has risen to around 90%. A soft outturn could further cement these calls. However, markets remain cognizant of the looming US “Liberation Day” which will likely involve additional tariffs imposed on the bloc. As it stands, there appears to be a divide on the GC over whether policy should focus on the impact of growth or inflation from said tariffs.

US ISM MANUFACTURING PMI (TUE) : The current analyst consensus looks for the ISM manufacturing headline to be unchanged at 50.3 in March (note: this estimate will likely be revised into next week). As a basis of comparison, S&P Global's flash PMI data for the month showed the headline manufacturing PMI falling to a three-month low of 49.8 in March (from 52.7 in February), while manufacturing output fell to 48.8 (from 54.5 in February), also a three-month low. The headline's decline to sub-50.0 is the first time the index has fallen into contraction since December. S&P said factories reported fewer instances of output having been buoyed by the front-running of tariffs, and new orders growth came close to stalling in the goods-producing sector. It added that input buying in the sector also fell back into decline. However, export sales showed the smallest decline for nine months, thanks to rising orders, in particular from Canada, Germany and other EU countries, hinting at some further efforts to fulfil orders ahead of tariff implementation. "A key concern over tariffs is the impact on inflation, with the March survey indicating a further sharp rise in costs as suppliers pass tariff-related price hikes on to US companies," it wrote, "firms' costs are now rising at the steepest rate for nearly two years, with factories increasingly passing these higher costs onto customers."

US ISM SERVICES PMI (THU) : The current analyst consensus looks for the ISM services headline to pare back to 53.0 in March from 53.5 in February (note: this estimate will likely be revised into next week). As a comparison, S&P Global's flash Services PMI data showed business activity rising to a three-month high of 54.3, from 51.0. S&P noted that US business activity growth picked up momentum in the month, as a marked upturn in the service sector offset a renewed fall in manufacturing output. That said, it added that business expectations for the year ahead fell to their second-lowest since October 2022, as companies grew increasingly cautious about the economic outlook, and cited worries over customer demand and the impact of aspects of the new administration's policies. Services exports were a drag, declining for a third straight month. On prices, service sector input costs rose at the sharpest rate for 23 months; the rate of inflation in the services sector rose to an 18-month high, mostly attributed to tariffs, though increased staffing costs were also widely reported. "A welcome upturn in service sector activity in March has helped propel stronger economic growth at the end of Q1, however, the survey data are indicative of the economy growing at an annualised 1.9% rate in March, and 1.5% in the quarter, pointing to a slowing of GDP growth compared to the end of 2024," the report said. Near-term risks also seem tilted to the downside: "Growth is concentrated in the service sector as manufacturing fell back into decline after the front-running of tariffs had temporarily boosted factory output in the first two months of the year," S&P wrote, "similarly, some of the March upturn in services was reportedly due to business picking up after adverse weather conditions had dampened activity across many states in January and February, which could prove a temporary bounce."

ECB MINUTES (THU): As expected, the ECB pulled the trigger on a 25bps reduction to the Deposit Rate, taking it to the upper limit of the estimated neutral range. Greater attention fell upon the Governing Council’s decision to tweak its policy statement so that it reads "monetary policy is becoming meaningfully less restrictive” (prev. “monetary policy remains restrictive”). Elsewhere, the Bank opted to reiterate its data-dependent and meeting-by-meeting approach, whilst stating that it will not pre-commit to a specific policy path. For the accompanying macro projections, the headline 2025 inflation forecast was raised to 2.3% from 2.1%, 2026 held at 1.9% and 2027 trimmed to 2.0% from 2.1%. On the growth front, policymakers cut their 2025 and 2026 growth views whilst holding 2027 at 1.3%. At the follow-up press conference, President Lagarde remarked that the statement language tweak was not an innocuous change and word changes have meaning – any details of the debate around this could be of note for the market. She added that the ECB is now moving towards a more 'evolutionary approach'. With regard to the policy decision, all policymakers, with the exception of Austria’s Holzmann (who abstained) backed the announcement. Lagarde suggested that the GC could cut again or pause its cutting cycle depending on the data. The fact that Lagarde classified the policy discussion as “lively” and “intense” suggested upcoming decisions will become more contentious. In the aftermath of the release, source reporting noted that April is set to see a showdown on whether to reduce rates. Any colour on the arguments made around pausing or extending the rate-cutting cycle will be of interest to the market. However, given the fluidity of the trade environment (the minutes will be released after the April 2nd “Liberation Day”) and the raft of ECB speak we have seen since the meeting, the account will likely be deemed as stale in some quarters.

SWEDISH CPIF (FRI): The March flash figure follows on from the February release where the CPIF Y/Y and ex-energy measures printed hotter-than-expected. A series which sparked modest SEK appreciation at the time. Of note in the monthly metrics, the CPI rate of 0.6% was the highest positive monthly change since December 2023. Upside was seen across much of the annual inflation basket with food/beverages, rental costs and electricity prices increasing further alongside other categories. Offsetting this to a degree was lower interest costs for owner-occupied housing and tenant-owned apartments and a drop in fuel prices Y/Y/. There is no consensus yet for the March figures but the data will be closely eyed in the context of February’s series and after the recent Riksbank minutes underscored that they believe they have “some scope to see through upturns in inflation if we judge that they are temporary”, as opined by Governor Thedeen in the most recent Minutes.

US JOBS REPORT (FRI): The current consensus expects 128k nonfarm payrolls to be added to the US economy in March (prev. 151k; the 3-month average currently stands at 200k/month, the 6-month at 191k, and the 12-month at 162k). The unemployment rate is seen picking up to 4.2% from 4.1% (note: the recent FOMC staff projections have pencilled in the jobless rate rising to 4.4% this year, before paring to 4.3% next year, and 4.2% in the longer-run). Average hourly earnings are likely to rise +0.3% M/M, matching the reading from February, while average workweek hours are seen rising to 34.2hrs from 34.1. Capital Economics notes that the February data confirms the economy started the year on a soft note but it is not plummeting towards a recession. "Some of those fears may resurface in the March Employment Report, when recent federal government layoffs will be a much larger drag on employment than they were last month," CapEco writes, "but with private-sector hiring still running at a fairly healthy three-month average pace of 169k, labour market can probably handle it." NOTE: Fed Chair Powell is due to speak at a business journalism conference in wake of the job data's release, where he will likely be quizzed on the data. Speaking at his post-meeting press conference in March, the Fed Chair said that, overall, the labour market was in balance, adding that conditions were solid, and the labour market was not a source of inflationary pressures; he also reiterated that if the labour market weakens, the Fed can ease policy if needed.

CANADIAN JOBS REPORT (FRI): The Canada Jobs report for March follows on from the mixed February report which missed on the headline, adding only 1.1k jobs due to a 20k fall in full-time jobs and a 21k rise in part-time jobs. Part-time jobs are not as "healthy" as full-time jobs so this disappointed, but surprisingly the unemployment rate was unchanged at 6.6% despite expectations for an increase, however, the participation rate did ease. Wages were hot at 4.0%, rising from 3.7%. As is the case with most Canadian data, given tariffs are set to come into effect on April 2nd, the full impact of the trade dispute with the US will not be felt yet in the data, with only steel and aluminium tariffs in effect on Canada at the moment, so it will be interesting to see if these sector-specific tariffs have had an impact on the labour market already; the steel and aluminium tariffs were implemented on March 12th. The BoC has noted that trade tensions have led households to worry more about their job security, particularly among those in sectors highly dependent on trade. The increased uncertainty has also led many businesses to scale back their hiring and investment plans. The uncertainty puts the BoC in a difficult position, with the BoC cutting by 25bps as expected in March, while Governor Macklem noted there was no serious discussion around a 50bps cut, but they did discuss pausing as growth has been stronger than expected and that waiting until trade and tariff policies are clearer made sense. However, they do expect tariffs to cause economic weakness, and they note inflation is still close to 2%, it felt a cut was appropriate. Note, that Macklem said the estimate of the BoC's neutral rate is centred on the current 2.75% rate and the BoC thinks policy is very much in the neutral zone.