newsquawk

Week Ahead: 7th-11th April 2025

Highlights include US & China CPI, FOMC Minutes, RBNZ, US Earnings Season, Japanese Cash Earnings and UK GDP

- **MON**: Japanese Cash Earnings (Feb), German Trade Balance (Feb), EZ Retail Sales (Feb), EZ Sentix Index (Apr)
- **TUE**: N/A
- **WED**: FOMC Minutes, RBNZ Announcement, RBI Announcement
- **THU**: Chinese Inflation (Mar), Swedish GDP (Feb), Norwegian CPI (Mar), Taiwan Trade Balance (Mar), US CPI (Mar)
- **FRI**: UK GDP (Feb), US PPI (Mar), US UoM Prelim (Apr), US Earnings Season (Q1 25)

JAPANESE CASH EARNINGS (MON): There are currently no expectations for the Japanese Cash Earnings metrics, although the data will be watched by the BoJ for the wage trend. As a reminder, last month's release saw Japan's real wages fall 1.8% year-on-year in January, as rising inflation—at a two-year high of 4.7%—outpaced solid nominal wage growth. While regular and overtime pay saw their strongest gains in decades, a drop in bonuses dragged overall nominal earnings lower. Japan's largest Labour union group, Rengo, secured an average 5.46% pay hike in this year's spring wage negotiations — the biggest since 1991. Base pay rose 3.84%, and even smaller firms saw stronger gains, signalling broad wage momentum. In the latest BoJ rate decision, the central bank provided no surprises at this week's meeting as it maintained rates at 0.50% which was widely expected, given that the central bank just hiked at the last meeting in January, while the decision on rates was made unanimously. The central bank refrained from providing any major clues on policy in which it noted that Japan's economy is recovering moderately, albeit with some weak signs, and that consumption is increasing moderately as a trend and inflation expectations are also heightening moderately.

FOMC MINUTES (WED): At its March meeting, the Fed kept rates unchanged, as expected, and maintained its forecast of two rate reductions in 2025. It removed language from its statement suggesting risks to its goals were balanced, citing increased uncertainty. However, it reiterated that "economic activity has continued to expand at a solid pace," labour market conditions "remain solid,", and inflation "remains somewhat elevated." However, it did add that "uncertainty around the economic outlook has increased." Its 2025 and 2026 growth projections were lowered, with higher unemployment, and it lifted its PCE inflation forecasts. It also announced that starting April, the pace of balance sheet runoff will slow, reducing the monthly Treasury redemption cap to USD 5bln (from the current USD 25bln), though the MBS cap remains unchanged at USD 35bln. Analysts were not very surprised by the announcement, given the use of its reverse repo facility has declined significantly this year. The prior meeting minutes also alluded to a slowdown of the balance sheet runoff, although the March meeting was not explicitly signalled by policymakers. The projections also showed that FOMC members are divided on the number of cuts in 2025; the dot plot continues to show two rate cuts this year, and projections for 2026 and the long-term forecast were left unchanged, but four participants now expect rates to be unchanged in 2025 (vs just one previously), and four members expect only one rate cut. In his press conference, Chair Powell stressed a wait-and-see approach, emphasising uncertainty ahead. He noted rising short-term inflation expectations but highlighted that long-term expectations remain stable. Powell acknowledged tariffs contribute to higher goods prices but are hard to quantify in terms of inflation. He said the Fed could either cut or hold rates at a "clearly restrictive" level. On the balance sheet, he clarified that the slowdown in runoff was a technical adjustment, not a policy shift. He also clarified that removing the language about balanced risks was not a signal. Since the meeting, markets have been rocked by the US tariff announcements this week, which analysts said have the potential to lower the US growth trajectory while boosting inflation. Reports note that the tariffs imposed by President Trump create a challenging environment for the Fed, complicating efforts to control inflation and prevent a recession. Bloomberg said it might lead to a cautious approach by the central bank as it monitors the economic impact before taking further action. Still, money markets began to discount four 25bps rate reductions this year following the announcement. Morgan Stanley, however, has leaned back on this, with the bank scrapping its call for a June Fed cut after Trump's tariff announcement, as a result of "tariff-induced inflation," and now sees the FOMC on hold until next March. MS said that if tariffs persist, US economic growth may suffer, with downside risks increasing.

RBNZ ANNOUNCEMENT (WED): The RBNZ is expected to cut rates for the fifth straight meeting with a Reuters poll showing all 31 economists surveyed expect the Official Cash Rate to be lowered by 25bps to 3.50%. Money markets are pricing in a 97% chance for such a move and just a 3% probability for a greater 50bps cut to 3.25%. The meeting will be the first in the post-Orr era after former Governor Orr suddenly resigned in March, three years before his term was set to end, while Deputy Governor Hawkesby was appointed as Acting Governor until a new Governor is appointed which is said to likely to be a six to nine-month process. As a reminder, the RBNZ delivered a third consecutive jumbo 50bps rate cut and its fourth straight rate reduction at the last meeting in February, which was widely expected, while the central bank noted rates were reduced further as inflation abated and if economic conditions continued to evolve, there was scope to lower the OCR further in 2025. The RBNZ also stated that the committee has the confidence to continue lowering rates and economic activity remains subdued but noted that a recovery is expected over this year. Furthermore, the central bank cut its rate projections with the June 2025 forecast lowered to 3.45% from 3.83% and the March 2026 forecast was cut to 3.10% from 3.43%. The then Governor stated during the press conference that the OCR path projects 50bps of cuts by mid-year around July, in two 25bps steps, with cuts in April and May about right. Orr also commented the following day that he was feeling more positive about the inflation situation and expects the OCR will be around 3.00% by year-end, as well as noting there would have to be an economic shock to cut by 50bps again. Despite Orr's departure, the remaining six members of the MPC are unlikely to deviate from the signalled rate path with rhetoric from officials very light since the last meeting, while recent GDP data also showed New Zealand's economy exited a recession in Q4 which suggests the lack of urgency for another oversized rate cut.

RBI ANNOUNCEMENT (WED): RBI is forecast to continue cutting rates with the Repurchase Rate expected to be cut by 25bps to 6.00% after delivering a similar magnitude cut at the last meeting. However, money markets are pricing around an 82% chance of a greater 50bps cut and an 18% likelihood of a 25bps cut. As a reminder, the central bank unanimously decided to cut rates for the first time in almost five years at the February meeting which was the first policy decision under Governor Malhotra who took over the stewardship at the central bank in December, while the MPC was also unanimous in its decision to maintain a neutral policy stance. The RBI Governor noted at the policy address that average inflation has been lower since the introduction of the framework and that CPI has mostly stayed aligned with the target, barring a few occasions, as well as noted the global economic backdrop remains challenging. Furthermore, the central bank lowered its FY25 Real GDP growth forecast to 6.4% vs 6.6% previously but maintained its FY25 CPI inflation view at 4.8%. The data since then has shown a continued softening of CPI Inflation which slowed to 3.61% vs. Exp. 3.98% (Prev. 4.31%) to print below the central bank's 4% target and effectively increased the scope for a further rate cut, while GDP for the December quarter accelerated but printed just short of estimates at 6.2% vs. Exp. 6.3% (Prev. 5.4%). Furthermore, recent global trade uncertainty with Trump tariffs and the newly announced US reciprocal tariff of 26% for India also supports the case for the central bank to continue to ease policy, while the appointment of former World Bank economist Poonam Gupta to replace former Deputy Governor Patra is seen by Bloomberg as strengthening the case for the RBI to step up its easing efforts with a potential 50bps cut.

CHINESE INFLATION (THU): There are currently no forecasts for the Chinese inflation data. Typically, the data will be closely watched by markets for a prognosis of the world's second-largest economy, particularly with sluggish domestic demand continuing to be a grey cloud. That being said, this set of data will likely be stale given US President Trump's recent "Liberation Day" tariff announcement which resulted in 54% in cumulative tariffs from 20%. China's Commerce Ministry said China firmly opposes US reciprocal tariffs and will resolutely take countermeasures to safeguard its rights and interests, while it urged the US to immediately cancel unilateral tariff measures and properly resolve differences with trading partners through equal dialogue. Goldman Sachs believes the latest US tariffs would further drag China's GDP growth by around 1 percentage point, taking the total drag to 1.7 percentage points.

US CPI (THU): Analysts expect headline US CPI to rise 0.2% M/M in March, matching the February reading; the core rate of inflation is seen climbing by 0.3% M/M, picking up from the prior pace of 0.2%. However, the market may not be as sensitive to the data as it has been in recent months, given the US announcement of tariffs on trading partners has the potential to boost prices ahead, analysts have said. "The March CPI data will feel dated following President Trump's announcement of significantly larger tariffs across trading partners, but should shed some light on how the changing trade environment was already beginning to affect pricing," Wells Fargo writes, and while it thinks that March could mark the nadir in core inflation this year, the administration's efforts to reorient US trade could lead to faster price growth.

NORWEGIAN CPI (THU): There is currently no newswire consensus for Norway's inflation report, but these metrics will be key in determining the future rate path at the Norges Bank. To recap the last meeting, there were some outside expectations for the Bank to deliver a (previously guided) 25bps cut, but members opted for a hold given the recent pickup in inflation. Norges Bank highlighted the uncertainty of the inflation outlook and said that "if the policy rate is lowered prematurely, prices may continue to rise rapidly". The accompanying rate path indicates two cuts in the latter end of 2025 (albeit skewed to just one) vs the prior rate path which points towards three cuts. So whilst this report may have little sway in the immediacy, it could filter into the debate between one or two cuts this year – particularly as members look to future inflation reports to reduce current uncertainty.

UK GDP (FRI): Expectations are for M/M GDP in February to pick up to +0.1% from -0.1% with the 3M/3M rate seen at 0.4% vs. prev. 0.2%. As a reminder, the prior release saw a 0.1% M/M contraction in January vs. the 0.4% expansion seen in the prior month. Capital Economics attributed the downside to payback from a surprisingly strong December i.e. December data "made the economy look stronger than it really was". This time around, analysts at Investec, who forecast an above-consensus print at 0.2%, suggest that the upside in the headline could be driven by the strong outturn for retail sales in February. That being said, the desk doubts that "other parts of the services output performed quite as well". Elsewhere, Investec expects a strong showing for manufacturing as "companies may have boosted output temporarily in order to ship what they could into the US ahead of higher US tariffs taking effect". Nonetheless, this would only represent a partial bounce back from the pronounced drop in January and will likely be followed by "negative payback in the coming months". For the quarter as a whole, Investec looks for a Q1 growth rate of 0.4% vs. the MPC forecast of 0.25%. From a policy perspective, the release will likely have little impact on BoE pricing given the recent imposition of global tariffs by the Trump administration and the MPC's focus on its inflation mandate. As it stands, the next 25bps rate cut is fully priced by June with a total of 75bps of loosening seen by year-end.

US EARNINGS SEASON (FRI): With Q1 25 earnings kicking off next week with the banking sector on Friday, FactSet highlights that the expected annual earnings growth rate for the S&P 500 is 7.3% Y/Y. "If 7.3% is the actual growth rate for the quarter, it will mark the seventh-straight quarter of (year-over-year) earnings growth reported by the index." FactSet also highlights that all 11 sectors are expected to report lower earnings when compared to the end of 2024, due to downward revisions to EPS estimates. On guidance, FS writes "68 S&P 500 companies have issued negative EPS guidance and 39 S&P 500 companies have issued positive EPS guidance". Of course, guidance will be key given the economic uncertainty ahead, following US President Trump's aggressive tariffs on the globe which has seen equity markets tumble.