BNY

WEEK AHEAD

iFlow

January 5, 2025

Resolutions

"Great dangers give birth to great resolutions." - Auguste Escoffier
"It is always during a passing state of mind that we make lasting resolutions" – Marcel Proust

- **US jobs Friday key to January and 2025 FOMC easing odds** – along with the FOMC minutes and Fed speakers – we expect pause expectations to hold and the US curve to steepen.
- **Eurozone flash CPI Tuesday key for ECB easing speed –** we see ongoing risk of higher CPI linked to natural gas at 14-month highs, sticky service costs, but ECB easing still too slow.
- **Australia CPI Wednesday key for RBA February easing hopes –** we see 75bps RBA easing in 2025, along with the China RRR cuts and PBOC steepening curve. The China CPI Thursday driving outlooks for more China stimulus and commodity demand in 2025 also matters to AUD.
- **Japan wages Thursday key for BOJ January hike –** expectations are for 2.7% y/y cash earnings – adding to 15bps hike risk for January 23-24 – we see BOJ hiking 1% in 2025.

Summary:

The new year brings new plans and new resolutions. The "haute couture" for trading is in the January reversal risks while for investors the logic of relocating capital from winners last year to the value trades ahead usually dominates. Trading Almanacs will focus on the first 5 days for stocks and the performance while the January effect looks at risk in 2025 given the lack of a December rally. The problem for many is that we remain in uncertain times with policy particularly that of the US less clear than normal. Trump polices on trade, immigration and taxes will matter significantly for the FOMC but more so for the rest of the world. The week ahead starts the serious economic data that central bankers lean on to judge their mandates on stable prices and their third rail for financial market stability. The reduced volumes of December put some of the moves seen in markets less trusted and leaves the focus on whether US exceptionalism can hold through the week and month.

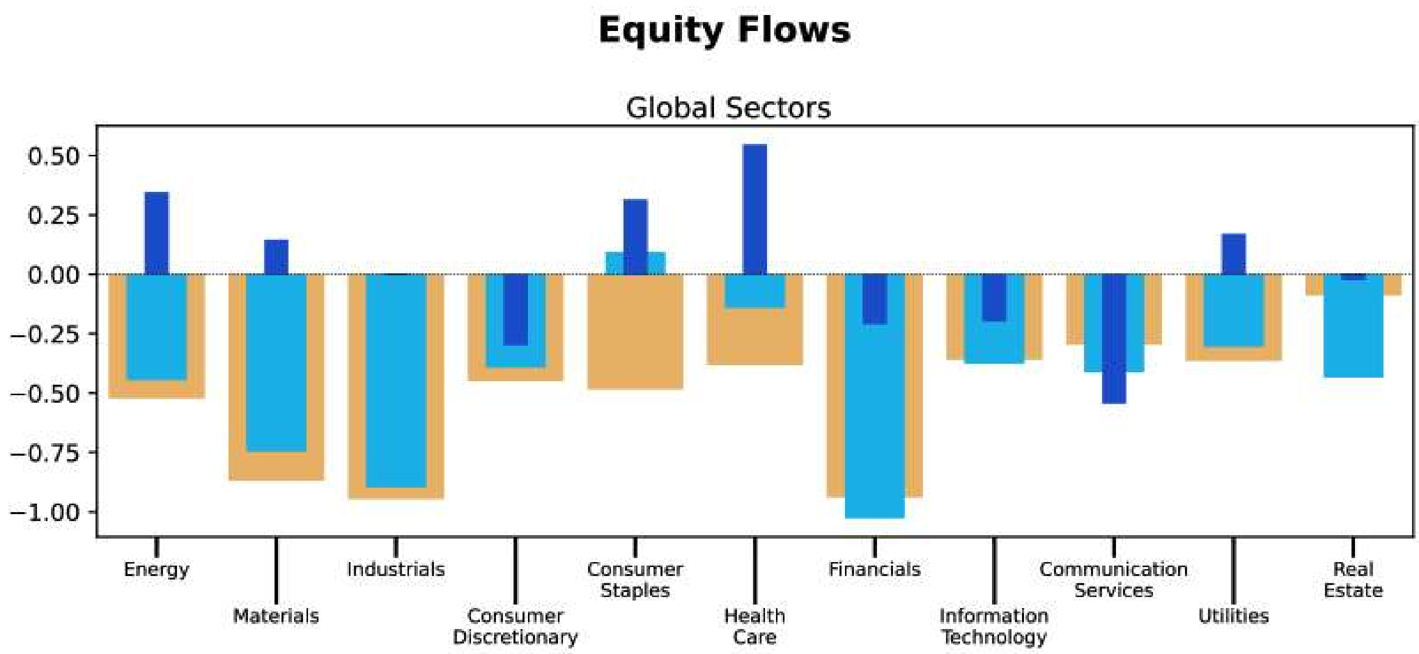
Themes:

- **CNY and the 7.30 breakout – is this a policy shift?** All eyes are on PBOC Monday and the fixing for the Chinese Yuan. The New Year trading Friday brought a break of 7.30 – the first since 4Q 2023 – running to 7.3174 USD highs. Market risk is now for 7.45 or higher USD against CNY. Next week will prove this move in FX is ongoing and part of the preparation for anticipated Trump tariffs. The other shift last week came with lower rates onshore with 2Y rates at 0.985%, 10Y at 1.59% and 30Y at 1.85% - 20-year lows reflecting weak domestic demand. CNY in the CFETS basket in 2024 appreciated – so given the weakness in KRW and JPY over 157, the moves in CNY last week may just reflect the reality of broader USD strength and the recognition of that at the central bank.
- **US Yield Curve and the supply of debt**. Key view for strategy in 2025 is that we see a higher yield curve – debt supply and non-US demand are key parts of this view. Risk in 1H2025 is for 75bps in 2/10Y US curve after closing at 32bps Friday. The week ahead brings $119bn US treasury issuance with $58bn in 3Y notes, $39bn in 10Y notes and $22bn in 30Y bonds. On top of this there is the usual bill issuance of bills estimated over $350bn. Consider also that January 9th is a partial holiday for mourning former President Carter and add in more corporate issuance with $50bn expected next week following the $15bn last week with January expected to deliver $200bn in new IG issues. The demand for paper may not match the supply and this makes the data, the FOMC speakers and the US dependence on cross border flows key.
- **Gold and Emerging Markets**. The failure for flows to show up in emerging markets in December surprised some as the outlook for a recovery there remains a consensus for 2025. Whether the fiscal dominance worries in Brazil or political problems in South Korea can be resolved matters but the policy for easing and growth in places like Turkey and South Africa

stand out as well. The role of measuring gold as a deflationary risk for policymakers vs. Emerging Markets is well measured and the correlation has been mostly positive over the last 20 years. So, the fact that gold is holding near its highs and EM near its lows (in stocks, bonds and FX) suggests something is different or prime for a reversal.

- **In Equities – the Mood index flipped out of extreme negative to neutral** – now at 28th percentile. This suggests global equity buying is returning. However, the last week saw the US shares down 5 of 6 trading sessions. The Friday reversal was again fueled by big tech. Our flows for the week showed energy, consumer staples, and healthcare all higher albeit on the lowest volume since the start of 2024. Also notably, the holdings for US shares peaked December 12th while holdings in developed Asia peaked in the week of 17 October and in Europe, back in 5 September. The EU holdings are below the 5Y average and back to 3Q2023 lows. The European flows for the week were positive with gains in all sectors but banks and IT. For Asia only industrials and health care shares fell. For the 5 days of trading Australia ASX rose 0.36% then Canada up 0.91% while the EU saw Spain's IBEX up 1.55%, Italy's MIB up 1.15% but biggest winners were Swiss Mkt up 1.83% and Sweden OMX up 1.49%.

Exhibit #1: Global Equity Flows Reverse?



Source: iFlow, BNY

What Happened over the Weekend?

- **Taiwan asks for South Korean help investigate Chinese ship damaging subsea cable**. Taiwan telecoms operator Chunghwa Telecom and the Taiwan Coast Guard said on Saturday that the cargo vessel Shunxing39 was believed to have caused damage to a communications cable — close to the port of Keelung on Taiwan's north coast — on the morning of January 3. The next port of call for the ship is in South Korea and due to weather, the Tawain authorities could not board the ship. The damaged cable is part of the Trans-Pacific Express Cable System, connecting Taiwan with the US west coast owned by an international consortium. As well as Chunghwa, it includes the US operator AT&T, Japan's NTT, Korea Telecom and Chinese operators China Telecom and China Unicom.
- **Austria faces risk for new election as Chancellor Nehammer resigns after collapse of centrist coalition**. However, the right-wing nationalist leader Kickl may be given the chance to try to form a coalition government, after current leader Nehammer, who also announced he would stand down as leader of the moderate conservative People's party (ÖVP), failed in his task set by the country's president to form a coalition after all the other parties in parliament ruled out working with the FPÖ's hardline leader Herbert Kickl. The failure of the negotiations deepens Austria's political uncertainty at a time when its economy is at risk of shrinking for a third year running in 2025. The country is also facing the challenge of finding between €18bn and €24bn in budget cuts.

News agenda – US labor reports – JOLTS, NFP and FOMC speakers and minutes – Global Service PMI and US ISM, Australian CPI, China CPI, Eurozone CPI, Canada Jobs

The first full week of trading for 2025 begins with focus on inflation with key reports from Australia, China, Sweden, Switzerland and the Eurozone. This coupled with the US data and US Trump policy risks puts US exceptionalism back in play after a rough week for US shares and bonds.

- The US focus is on labor markets with JOLTS Tuesday and ADP and jobless claims Wednesday culminating with the Friday NFP and unemployment rate. The US partial holiday Thursday will matter as well to liquidity given bond supply. The US also gets multiple Fed speakers, the FOMC minutes from December and the flash University of Michigan consumer sentiment.
- Elsewhere, India releases its economic forecasts for 2025 with recent economic data weakness a concern while final Service PMI reports globally will be watched for similar troubles outside the US.
- For Asia, CPI also is released for Thailand and Philippines and with Japan wages, rate policy focus will be key for FX and Equities as monetary policy decisions battle with growth and FX limits. The rate decisions of BOI and BCRP will be watched for such.
- In Europe, the German factory orders and industrial production will be viewed for bottoming out hopes, while France and Spain also report industrial production.
- In the Americas, Canada jobs are expected to weaken sharply, and trade deficits to widen, but key focus is on votes of no confidence. As for LatAm, beyond the Peru rate decision, Chile BCC minutes are released, Colombia inflation is expected to drop while Chile rise while Brazil retail sales and industrial production should soften reflecting rate hikes and BRL troubles hitting confidence and orders.

1. US Labor reports – next week brings JOLTS, ADP and the NFP – **key for FOMC**. The views on US bonds, USD and stocks links back still to how rate policy drives growth even with the uncertainty of Trump policy ahead. The FOMC speakers return to the spotlight with Wednesday Waller and Cook a key focus. The Friday January 10 release for non-farm payrolls is expected to slow to 160,000 but with stable unemployment at 4.2%. Also key to the report will be average hourly earnings expected to slow to 0.3% from 0.4% m/m. The economic report sets the stage for how investors and the Fed see the economy starting 2025 - with the market now pricing 89% chance for a pause after 1% easing in 2024.

Exhibit #2: US Fed Funds and the USD index

Source: Bloomberg, BNY

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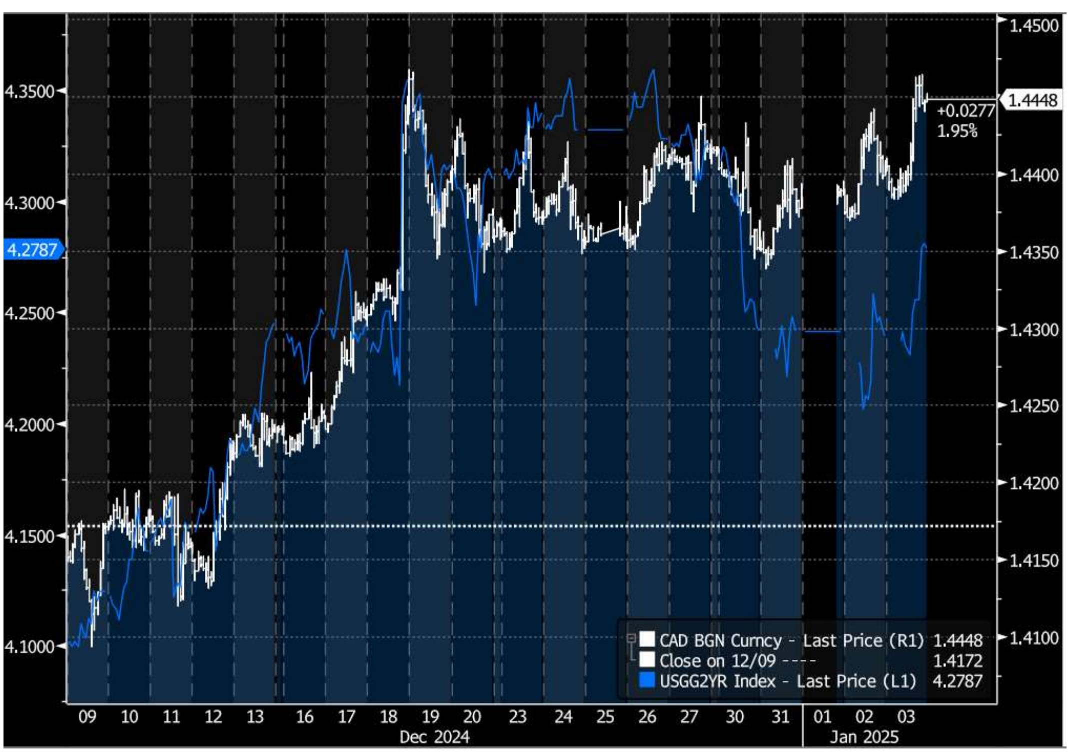
2. Eurozone vs. China – Key question for markets in 2025 is whether inflation or growth is the key driver for FX. How markets price in growth outside the US looks critical and rate policy and FX are parts of the trading puzzle. The spread of US vs. EU GDP is over 1% in forecasts and the EUR fell to 1.0225 last week and many see the risk for 1.00 and a breach ahead dependent on EU data with flash CPI Tuesday being key for more easing hopes. While the FT polls sees ECB behind the easing curve even as inflation is expected to climb again in December. In contrast, the PBOC easing is ongoing, RRR cuts are next expected with the Thursday CPI expected to be near 0% if not negative y/y. The expectations for China GDP are still over 4% in 2025 and the view on stimulus is that this will work in the year ahead. CNY moving over 7.30 maybe more about the regional FX story with CNY view turning from China rates and inflation to China growth compared to Korea and Japan.

Exhibit #3: EUR and CNH tracking the same thing?

Source: Bloomberg, BNY

3. Canada trade, jobs and politics - The CAD closed Friday at 1.4445, just a few pips away from its December 18 USD highs of 1.4467. Expect a test of 1.45 on any surprises. This week ahead will again test the balancing act of the Bank of Canada in pushing growth against the uncertainty of politics as the No Confidence vote for the minority Trudeau government is likely to come in the next week and start the process for new elections and more fiscal policy uncertainty. The role of Trump trade policy on the election will be critical and along with how much the current easing policy has helped the economy stabilize. Weaker CAD could be in play on data misses but underlying global demand for commodities might be a counterweight particularly energy. The focus on Friday jobs is notable with weaker labor demand reflected in weaker global trade as exports (ex the US) slump.

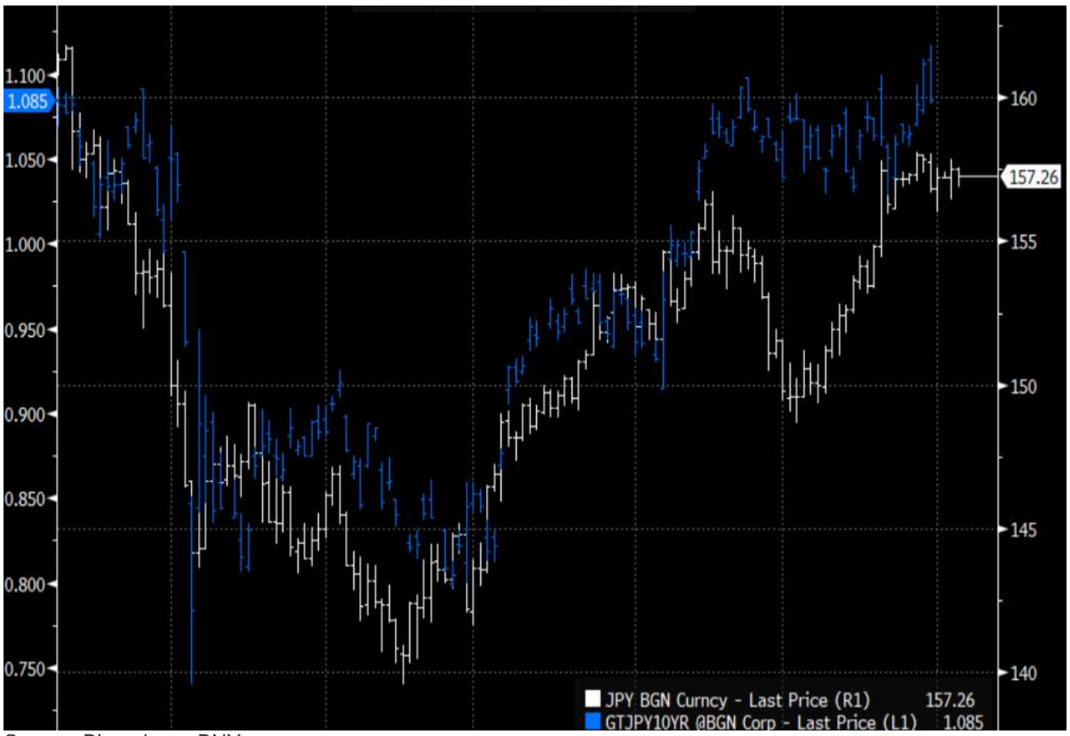
Exhibit #4: Is CAD led US 2Y rates?



Source: Bloomberg, BNY

4. Japan Wages, the BOJ and the JPY. The FX USDJPY 158 line looks important into the week ahead as markets in Tokyo reopen and as the 10Y JGB level has some catching up to do with US rates. The spread between Japan and China vs. Japan and the US is one of the key focus points for investors in the year ahead. How CNY vs. JPY trades could be just as important as the dollar levels. The risk for the week ahead rest in the data still with Japan wages Friday critical to supporting the BOJ push to normalize rates. JPY is significantly undervalued but growth and the rest of the region matters to the MOF and BOJ policy decisions.

Exhibit #5: Do 10Y JGBs matter to JPY?



Source: Bloomberg, BNY

Calendar of economic releases from January 6-10

Central bank decisions

- **Israel BoI (Monday, January 6th) –** The Bank of Israel is expected to keep rates unchanged at 4.5%. The November decision noted that there were some “tendencies to weakening” in the economy but supply constraints remain in place and the BoI will continue to find it difficult to reference easing in the current environment, especially with expenditures still at very elevated levels: the 2025 deficit is expected to remain above 5% of GDP this year, well above the government target even accounting for the special reserve allocation. As US rates are now expected to fall less than anticipated, room for adjustment will be even narrower for the BoI in the near term.
- **Peru BCRP (Thursday, January 9th) –** The BCRP is expected to cut rates 25bps to 4.75%. This follows the December holding of rate decision where upside inflation was the worry. Since that decision, CPI fell to 1.97% y/y from 2.27% - better than the consensus and the second sub 2% y/y inflation report in 2-years. This should tip the scales for the central bank to return to easing.

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
01/06/2025	13:00	08:00	GE	CPI YoY	Dec P	2.40%	2.20%
01/06/2025	13:00	08:00	GE	CPI MoM	Dec P	0.30%	-0.20%
01/06/2025	***14:00***	***09:00***	***IS***	***Base Rate***	***Jan-06***	***4.50%***	***4.50%***
01/06/2025	15:00	10:00	US	Factory Orders	Nov	-0.30%	0.20%
01/06/2025	15:00	10:00	US	Durable Goods Orders	Nov F	-0.30%	-1.10%
01/07/2025	00:30	19:30	AU	Building Approvals MoM	Nov	-1.50%	4.20%
01/07/2025	01:00	20:00	PH	CPI YoY 2018=100	Dec	2.60%	2.50%
01/07/2025	07:30	02:30	SZ	CPI YoY	Dec	0.60%	0.70%
01/07/2025	07:30	02:30	SZ	CPI MoM	Dec	0.20%	-0.10%
01/07/2025	08:00	03:00	SZ	Foreign Currency Reserves	Dec	--	724.6b
01/07/2025	10:00	05:00	EC	CPI MoM	Dec P	0.30%	-0.30%
01/08/2025	07:00	02:00	SW	CPI MoM	Dec P	--	0.30%
01/08/2025	07:00	02:00	SW	CPI YoY	Dec P	--	1.60%
01/08/2025	12:00		US	MBA Mortgage Applications	Jan-03	--	--
01/08/2025	12:00	07:00	BZ	Industrial Production YoY	Nov	1.80%	5.80%
01/08/2025	13:15	08:15	US	ADP Employment Change	Dec	130k	146k
01/09/2025	00:30	19:30	AU	Retail Sales MoM	Nov	1.20%	0.60%
01/09/2025	01:30	20:30	CH	CPI YoY	Dec	0.10%	0.20%
01/09/2025	01:30	20:30	CH	PPI YoY	Dec	-2.40%	-2.50%
01/09/2025	07:00	02:00	GE	Industrial Production SA MoM	Nov	0.70%	-1.00%
01/09/2025	11:00	06:00	SA	Manufacturing Prod NSA YoY	Nov	--	0.80%
01/09/2025	12:00	07:00	BZ	Retail Sales YoY	Nov	4.00%	6.50%
01/09/2025	13:30	08:30	US	Initial Jobless Claims	Jan-04	--	211k
01/09/2025	00:00	19:00	CH	Money Supply M2 YoY	Dec	7.20%	7.10%
01/10/2025	07:00	02:00	NO	CPI MoM	Dec	--	0.30%
01/10/2025	07:00	02:00	NO	CPI YoY	Dec	--	2.40%
01/10/2025	12:00	07:00	BZ	IBGE Inflation IPCA YoY	Dec	4.87%	4.87%
01/10/2025	12:00	07:00	BZ	IBGE Inflation IPCA MoM	Dec	0.55%	0.39%
01/10/2025	13:30	08:30	US	Change in Nonfarm Payrolls	Dec	153k	227k
01/10/2025	13:30	08:30	US	Unemployment Rate	Dec	4.20%	4.20%
01/10/2025	13:30	08:30	CA	Unemployment Rate	Dec	--	6.80%
01/10/2025	15:00	10:00	US	U. of Mich. Sentiment	Jan P	--	74

Key speeches/events

01/04/2025	22:30	17:30	US	Fed's Daly, Kugler Speak at AEA Monetary Policy Session
01/05/2025	18:15	13:15	US	Fed's Daly Gives Remarks on Panel Honoring Bernanke
01/06/2025	14:00	09:00	IS	Base Rate
01/06/2025	14:30	09:30	US	Fed's Cook Gives Speech at University of Michigan Event
01/07/2025	13:00	08:00	US	Fed's Barkin Speaks to Raleigh Chamber
01/08/2025	17:30	12:30	EC	ECB's Villeroy speaks in Paris
01/08/2025	19:00	14:00	US	FOMC Meeting Minutes
01/09/2025	06:15	01:15	SZ	SNB Publishes Preliminary 2024 Results
01/09/2025	14:00	09:00	US	Fed's Harker Speaks on Economic Outlook
01/09/2025	15:00	10:00	MX	Central Bank Monetary Policy Minutes
01/09/2025	16:00	11:00	UK	BOE's Breeden Speaks
01/09/2025	17:40	12:40	US	Fed's Barkin Speaks to Virginia Bankers Association
01/09/2025	18:30	13:30	US	Fed's Schmid Speaks to Economic Club of Kansas City

Source: Bloomberg, BNY

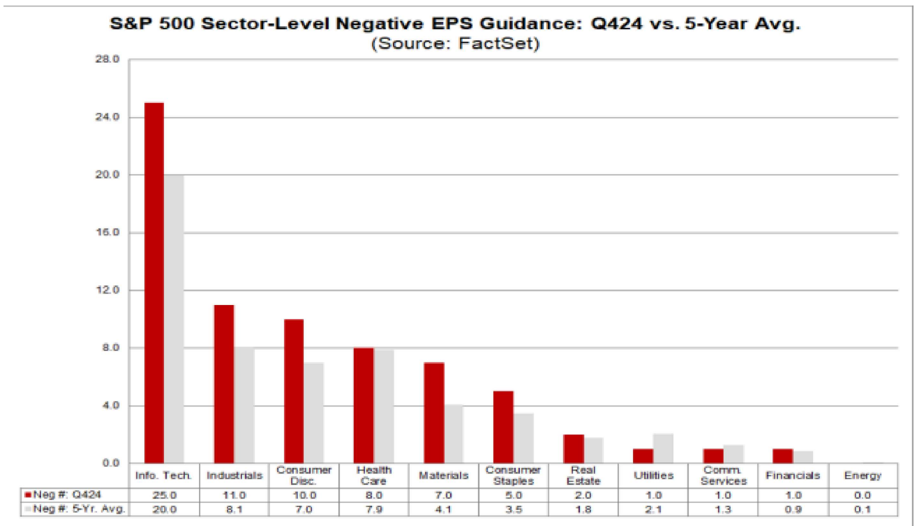
Conclusions: Are markets too bullish 2025?

The US exceptionalism arguments for 2025 rest on the view that the US will growth faster with stable inflation as the FOMC engineers ongoing soft-landing for the economy. In contrast, the rest of the world is seen scuttling along the bottom of a prolonged slow-down led by China and Germany where policy for more monetary easing and fiscal support is required. The year ahead is filled with uncertainty led by the policy expectations for the US as it shifts from globalization to America First policies with trade tariffs and immigration being the highlighted worries for investors. Many see the current trading environment as tactical until the more strategic investment plans for the year get set after the Trump policy plans become clear – moving from talk to action. This makes the trading environment inherently more volatile and more prone to position washouts.

For the year of 2024 sets up 2025 for ongoing expectations of performance for stocks in 2025. Consensus forecasts for the S&P500 are for 12% returns. There are few analysts expecting a flat to bearish year ahead. The skewness of the analyst community doesn't reflect the uncertainty in the weeks ahead. This clash will come to play most clearly in US earnings. FactSet sees 4Q consensus earnings growth at 11.9% - which if proved true – will be the highest quarterly earnings since 4Q 2021. We are now in the confessional stage for the US markets – where companies downgrade earnings outlooks ahead of the actual reporting that starts at the end of the month. This will add to the risks for trouble in the weeks ahead of the Trump inauguration. About 20% of the S&P500 have given guidance so far for 4Q 2025. As of Friday, 71 companies (14% of the index) have seen negative outlooks – that is above the 5 and 10-year averages Focus globally will be on earnings as a key value metric for asset allocation when the world gets more clarity on policies into the year ahead.

Bottom Line: The US exceptionalism faces risks for cracking in the week ahead with jobs, ISM and consumer confidence all critical parts of the puzzle for how investors reallocate risk into 2025. The inflation data from the rest of the world will be important but the growth views and policy plans both fiscal and monetary are likely to dominate. The ongoing focus on political risks from Germany to Canada to Asia are also in play and matter to how equities, bonds and FX trades. USD reversals could have an outsized impact on markets given the reduced hedging flows we have seen and the extreme positive correlation of bonds to stocks and negative ones to the dollar.

Exhibit #6: Is the risk for more negative guidance?



Source: FactSet, BNY

Please direct questions or comments to: iFlow@bny.com

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