

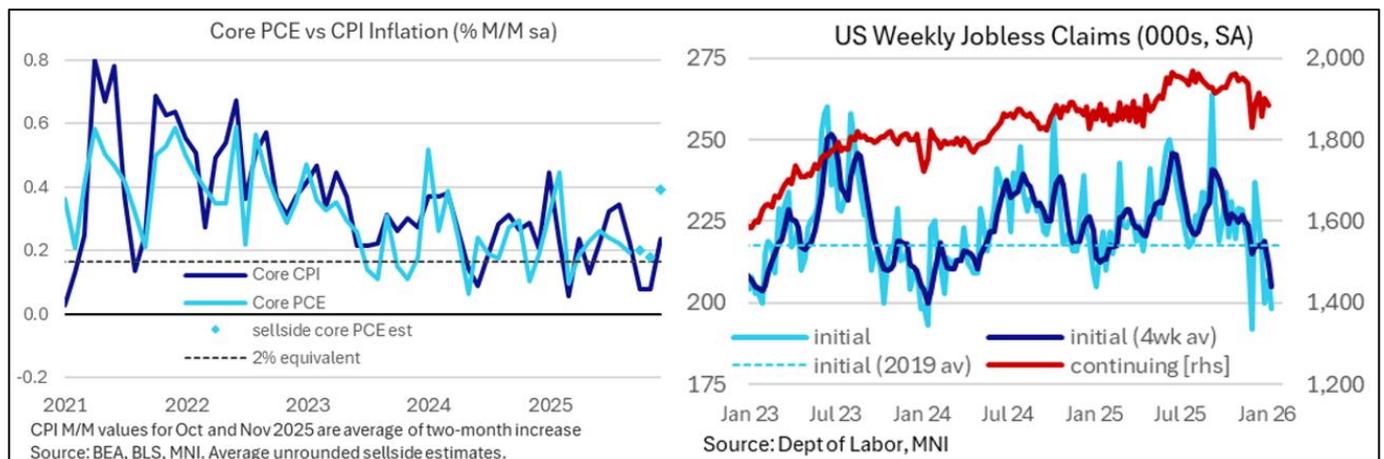
MNI U.S. Macro Weekly

MNI View: Data Takes Backseat To Fed Chair Intrigue

January 16, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- Inflation data this week did little to change market participants’ minds over the future path of Fed rates, taking a backseat to non-economic developments.
- December’s CPI data was softer than expected in most respects, with relatively limited “payback” from the unusually soft (and heavily distorted) October/November report.
- Subsequently-released (and delayed) producer price data for October and November pushed up core PCE forecasts for Q4 – and there will be a positive spread for core PCE over its CPI counterpart - but the FOMC’s December projection of 3.0% Y/Y still looks to have downside risks.
- Even so, there is overwhelming support among Fed speakers for a rate hold at the upcoming meeting.
- The Fed’s Beige Book for January portrayed a slightly stronger take on economic activity compared with the prior release (November), with a slight improvement in labor market conditions and steady inflationary pressures – likely reinforcing conviction on the FOMC that there is no hurry to cut rates.
- The week’s main moves in rates markets didn’t come from CPI or PPI, but rather a hawkish shift from another surprisingly low jobless claims print before President Trump hinted he’d like Kevin Hassett to stay at the NEC (amid a furore over the DOJ’s just-announced investigation into current chair Powell.)
- Trump is expected to select his candidate for the next Fed Chair soon, and rates jumped alongside the implied probability that former Fed Governor Kevin Warsh will get the nod given speculation that he won’t be as ardent a supporter of lower policy rates as Hassett.
- The terminal implied yield of 3.26% has now more clearly exceeded levels seen shortly before the Dec FOMC and last closed higher in July. Increases in 2026 rate expectations are unsurprisingly backloaded with Fed Powell’s term expiring in May. The 20bp of cumulative cuts for Jun is little changed since the start of the US session but year-end cuts have been trimmed 3bps to a cumulative 45bp.
- The coming holiday-shortened week (Monday is MLK Day) will be highlighted by legal intrigue on Tuesday and Thursday, with the US Supreme Court potentially releasing its ruling on the legality of the White House’s IEEPA tariffs on its next scheduled opinion day on Tuesday, and oral arguments on Wednesday over whether President Trump is allowed to fire Fed Governor Lisa Cook.
- Thursday’s monthly personal income and outlays report headlines the weekly US data calendar with another unusual two-month combined release for October and November.

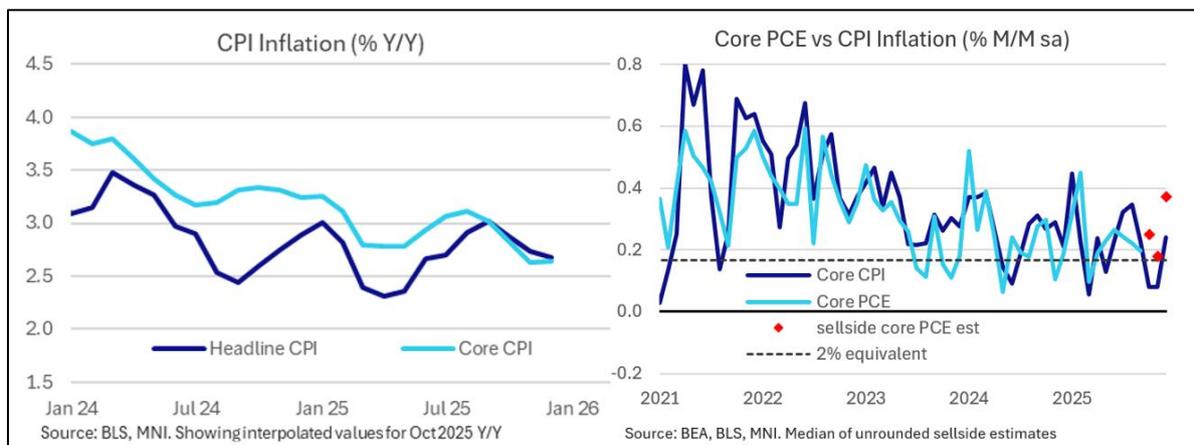


Inflation: Almost Normal

MNI US Inflation Insight: Almost Normal

See MNI's full analysis on this week's CPI and PPI data, here: <https://mni.marketnews.com/4qOREem>

- December's CPI data was softer than expected in most respects, with relatively limited "payback" from the unusually soft (and heavily distorted) October/November report.
- Stronger-than-expected food prices and energy readings kept headline (0.31% M/M) from "missing" more vs MNI's unrounded consensus (0.37% M/M) than did core which came in at 0.24% M/M (0.35% unrounded consensus).
- Headline Y/Y inflation printed its lowest since June and core CPI Y/Y inflation at joint lows since early 2021. There was relatively little change in Y/Ys for core goods and services compared to last month's surprisingly low November print, though food inflation firmed.
- Within the core categories, the big surprise was that there was zero inflation in core goods prices despite anticipation that there would be "payback" in particular for unusually low holiday sales-related goods prices in November (along with continued expectations of tariff passthrough).
- Core services and overall supercore were also on the soft side though directionally most of the major categories were in order. That included a pickup in housing inflation that was slightly more than had been expected, and while travel-related services jumped as fully anticipated, they wasn't quite as strong as consensus had thought.
- Subsequently-released (and delayed) producer price data for October and November pushed up core PCE forecasts for Q4 – and there will be a positive spread for core PCE over its CPI counterpart - but the FOMC's December projection of 3.0% Y/Y still looks to have downside risks.
- There were plenty of oddities in this CPI report, with several categories registering multi-year/all-time highs and others lows without much explanation, reinforcing the notion that the "noise" from the October/November collection period continues to reverberate.
- By the same token, it will reinforce conviction among FOMC participants that it could be a little longer before there is a cleaner read on underlying inflation dynamics.
- Overall while inflation may not have picked up as strongly toward the end of the year as feared following the imposition of tariffs, Fed officials have signalled that they will be waiting to see data early in the New Year for any signs that businesses are finally setting prices higher to offset input inflation pressure. But most are cautiously optimistic that inflation should come down over the course of the year.
- In the meantime, the data did nothing to alter expectations for a January Fed hold, with more focus at this point on the labor market. FOMC meeting-dated OIS shows just under 1bp of easing for this month, 6.5bp through March, 11bp through April, 24bp through June, 32bp through July and 53bp through year-end.

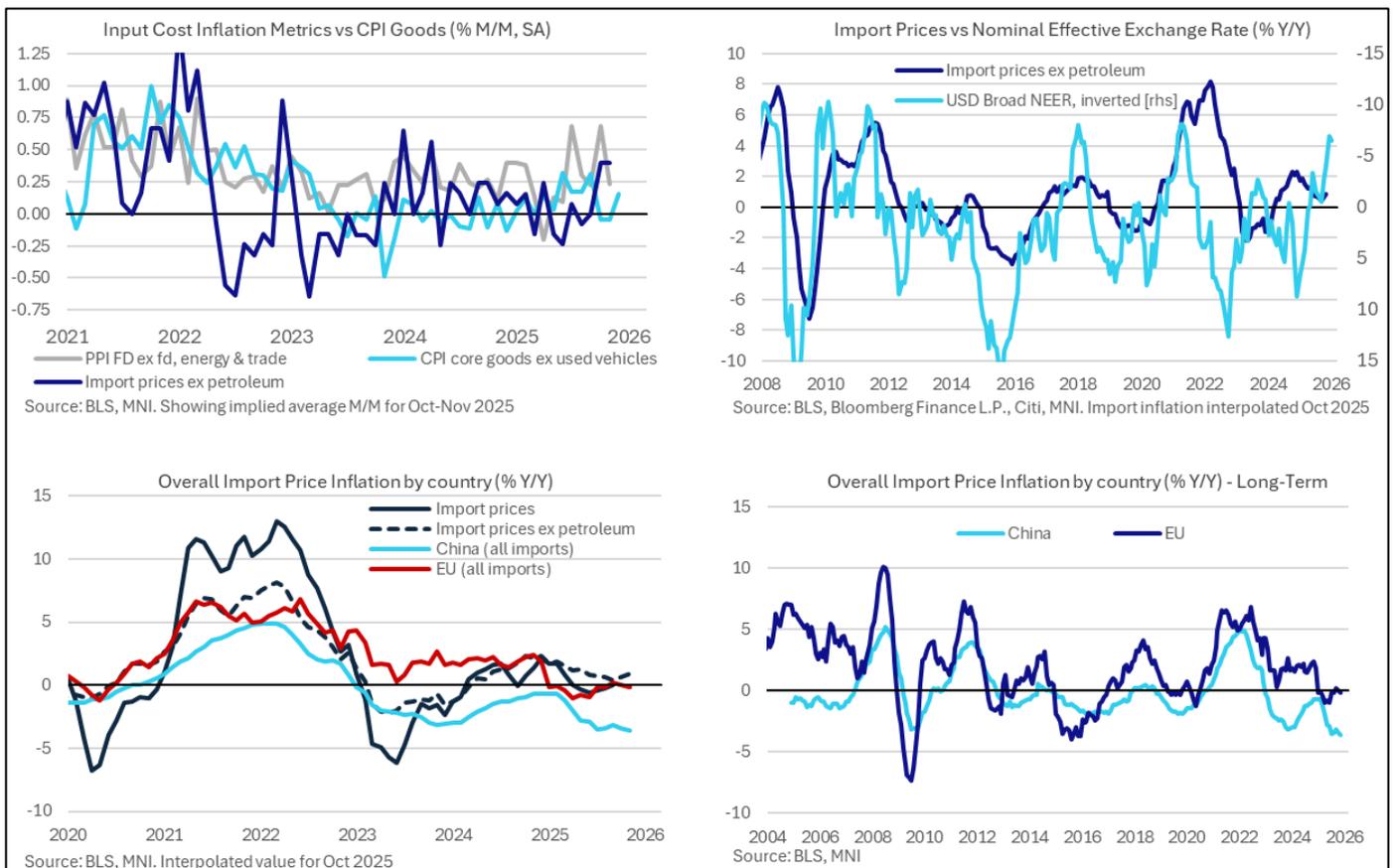


Inflation data released after we published the Inflation Insight:

Largest Y/Y Decline In US Import Prices From China In 20Yrs Of Data

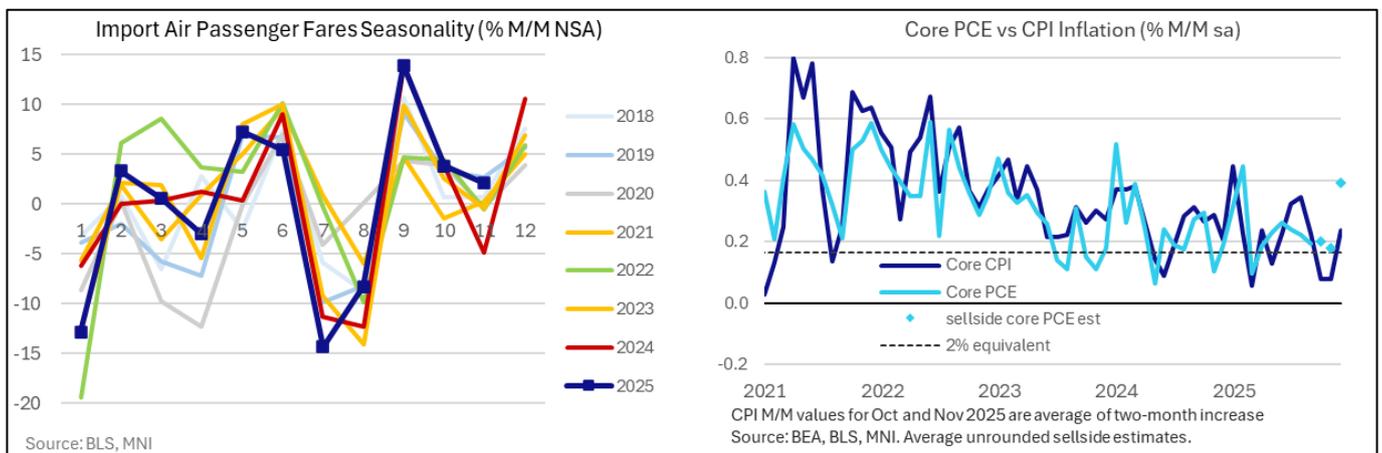
With sizeable caveats over potential disruption from the government shutdown, one takeaway from the November import price report is that Chinese exporters look to have given greater tariff concessions with the largest Y/Y decline in import prices since data started in 2004.

- The BLS import price report saw a full monthly report for November plus partial details for October, in a similar structure to last month's CPI release as primarily survey-based series couldn't be collected.
- Import prices ex petroleum increased a cumulative 0.8% between September and November, an average 0.4% M/M in what would be the strongest months since 0.6% M/M in Apr 2024 for the non-seasonally adjusted series.
- We won't dwell too much on the monthly figures but instead look at Y/Y trends where the 0.9% Y/Y in Nov increased from 0.4% in Sept. The BLS used cell mean imputation which should have less of a bias lower than the case of carry forward in CPI, but there is still a large caveat that these data could be less reliable than usual.
- The dollar's trade-weighted depreciation very crudely points to upside for import price inflation ahead although US trade policies continue to have some countering effects.
- In particular, Chinese exporters look to have given greater tariff concessions, with import prices falling -3.6% Y/Y in November after the -3.2% Y/Y in Sept was revised from the -2.6% initially reported. This pushes below the -3.5% seen in July for a fresh low since data started in 2004. For context, import price inflation from China was -0.7% Y/Y prior to Trump's inauguration in Jan 2025.
- Elsewhere, EU import prices dipped -0.1% Y/Y after the 0.2% in Aug was its first increase since Dec 2024 having recently bottomed at -1.0% Y/Y in Apr. Manufacturing import prices, to strip out larger energy distortions, from Canada increased 0.7% Y/Y vs 0.4% in Sept and from Mexico increased 1.8% Y/Y after 2.2% in Sept. These USMCA members have also seen a smaller adjustment in trade balances with the US compared to China and the EU.



Firm Import Price Air Fares Shouldn't Materially Alter PCE Tracking

- Import prices were able to be collected for air passenger fares in both October and November in contrast to the truncated October details overall.
- These foreign air fares increased 2.1% M/M in Nov and 3.8% M/M in Oct, both at the stronger end of typical values.
- To give an idea of sensitivity for core PCE inflation estimates, Morgan Stanley now see 0.20% M/M in Oct (vs 0.19 prior) and 0.18% M/M in Nov (vs 0.16 prior).
- MS had been on the softer size of core PCE estimates so we suspect this will be on the larger size of potential upward revisions on balance.
- For now, and relying on some from pre-IPPI estimates, we see some unrounded core PCE estimates average 0.20% M/M for Oct, 0.18% M/M for Nov before a strong 0.39% M/M in Dec.
- The December value is most susceptible to revisions as we don't have Dec PPI yet (Jan 30, two days after the Jan FOMC decision) but October also has a wide 0.13-0.28 range to estimates presumably owing to CPI distortions.



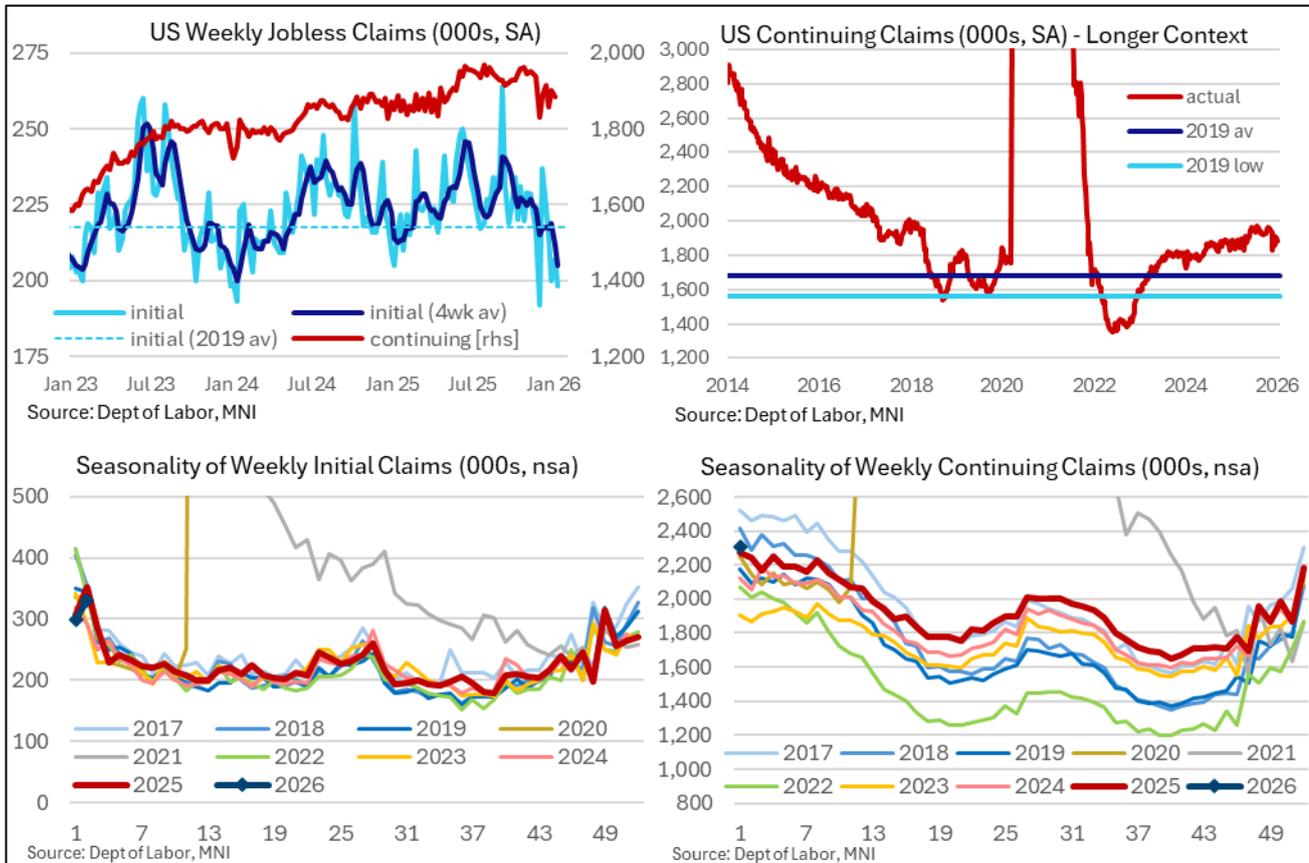
Labor: Resilience

Claims Point To (Particularly) Low Firing and Low Hiring Jobs Market

Initial jobless claims surprised lower for a fifth consecutive week. There are residual seasonality concerns, which could see increases heading into February, but it was still left one of the lowest single weekly readings of recent years and the lowest four-week average since Jan 2024. Continuing claims continue to hold their easing back from cycle highs seen through Jun-Oct.

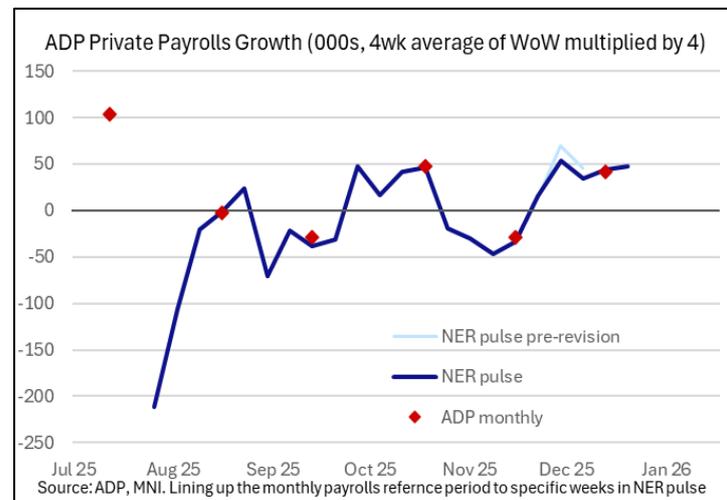
- Initial claims came in at just 198k (sa, cons 215k) in the week to Jan 10 after a marginally downward revised 207k (initial 208k) in the previous week.
- Aside from the seemingly Thanksgiving-distorted 192k in late Nov, this is the lowest seasonally adjusted single week for initial claims since early 2024 and before that Sep 2022.
- The four-week average fell to 205k vs 219k just two weeks prior, for its lowest since Jan 2024. These are historically low levels - they averaged 218k through 2019 with a sub-4% u/e rate, although re-hiring is currently clearly softer - but there still appears to be residual seasonality that points to increases heading into February (see top left chart).
- The non-seasonally adjusted level of initial claims increased 32k to 331k vs a 46k increase to 352k in a broadly similar period in 2025, but comparisons with prior years are complicated by how weeks fell around the turn of the year.
- Continuing claims also surprised lower at 1884k (sa, cons 1897k) in the week to Jan 3 after a downward revised 1903k (initial 1914k)

- Whilst still two weeks away from covering the January payrolls reference period, they're currently tracking below the 1914k for Dec which had already compared broadly favorably to the 1944k in Nov, 1957k in Oct, 1916k in Sep and 1944k in Aug.



Weekly ADP Sees Similar Tracking To Last Week's December Update

- ADP earlier today reported solid private payroll growth averaging 11.75k per week in the four weeks to Dec 20.
- It follows an 11k in the week to Dec 13 (as you'd expect broadly chiming with the 41k increase in the monthly report published last week with its reference week including the 12th of the month) plus downward revisions to 8.75k (initial 11.5k) to Dec 6 and 13.25k (initial 17.5k) to Nov 29.
- Being only one week on from the monthly report it doesn't offer much new information, but it at least continues a reasonably solid trend by recent month standards. A monthly equivalent of 47k is close to the 41k increase in the December report after a volatile few months with -29k in Nov, 47k in Oct and -29k in Sept.
- ADP proved to be a useful indicator ahead of private payrolls in Friday's December BLS report, which saw a 37k increase vs consensus of 75k. The previous correlation has been mixed though, with BLS private payrolls increasing 50k in Nov (vs that -29k for ADP) and just 1k in Oct after a heavily downward revised previous estimate of 52k (vs 47k for ADP).



Growth: Even Stronger Q4 GDP Tracking

Atlanta Fed Q4 GDPNow Edges Up, Underlying Demand Still Softer Than Q3

The Atlanta Fed's latest estimate of Q4 GDP has ticked up to 5.30% Q/Q SAAR vs 5.13% in the prior estimate on January 9.

- The biggest single driver to the upward revision was equipment investment, which following the Manufacturing and Trade Inventories and Sales report is now seen contributing 0.04pp to GDP in the quarter (vs -0.04% in the prior estimate), a +0.08pp contribution shift with the Atlanta Fed showing a positive growth rate in this column for the first time since it initiated the Q4 nowcast on December 23 (equipment investment posted 5.4% Q/Q SAAR growth in Q3 and 8.5% in Q2 so this would be a slowdown either way).
- The PCE forecast has been upped to 3.1% from 3.0%, reflecting a solid November retail sales release earlier in the day; we had thought the Nowcast could actually edge lower given the downward revision to Control Group sales in October but the Atlanta Fed may have previously underestimated the strength in November; it still expects a slowdown in quarterly PCE growth at a still-high level (3.1% Q/Q SAAR vs 3.5% in Q3).
- Also contributing a little more are net exports (up 0.02pp to 1.99pp) and government spending (up 0.04pp to 0.27pp, following the federal monthly budget statement).
- But those latter two contributions - plus inventories' 0.82pp - mean that private final demand in the quarter is estimated to slow to the mid-2s from the 3.0% in Q3 and 2.9% in Q2, so in this respect underlying economic activity is moderating despite the gawdy headline estimate.

Atlanta Fed GDPNow estimates for 2025: Q4, growth rates and changes

Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
23-Dec	Latest BEA estimate for 25:Q2	3.8	2.5	8.5	15.0	-7.5	-5.1	-0.1	-1.8	-29.3	323	-190
23-Dec	Latest BEA estimate for 25:Q3	4.3	3.5	5.4	5.4	-6.3	-5.2	2.2	8.8	-4.7	101	-11
23-Dec	Initial GDPNow 25:Q4 forecast	3.0	2.7	-2.4	5.6	-0.4	1.9	1.4	6.6	7.8	-26	57
5-Jan	ISM Manufacturing Index	2.7	2.4	-3.2	5.5	-0.5	1.3	1.4	6.4	7.6	-25	56
6-Jan	Auto sales	2.9	2.6	-2.5	5.5	-0.4	1.6	1.4	6.5	7.7	-26	55
7-Jan	ISM Services, M3-2 Manufacturing	2.9	2.7	-2.4	5.5	-0.4	1.6	1.4	6.6	7.8	-26	55
8-Jan	International trade, Wholesale trade	5.4	3.0	-0.8	5.5	-0.4	1.5	1.4	6.1	-9.4	130	50
9-Jan	Employment Situation, Housing starts	5.1	3.0	-0.8	5.5	-0.4	-5.8	1.3	6.2	-9.3	130	48
13-Jan	CPI, New-home sales, MTS	5.1	3.0	-0.8	5.5	-0.4	-7.1	1.6	6.2	-9.2	129	48
14-Jan	Retail trade, PPI, Existing-home sales	5.3	3.1	0.7	5.5	-0.4	-6.1	1.6	6.7	-9.1	131	47

Source: Atlanta Fed

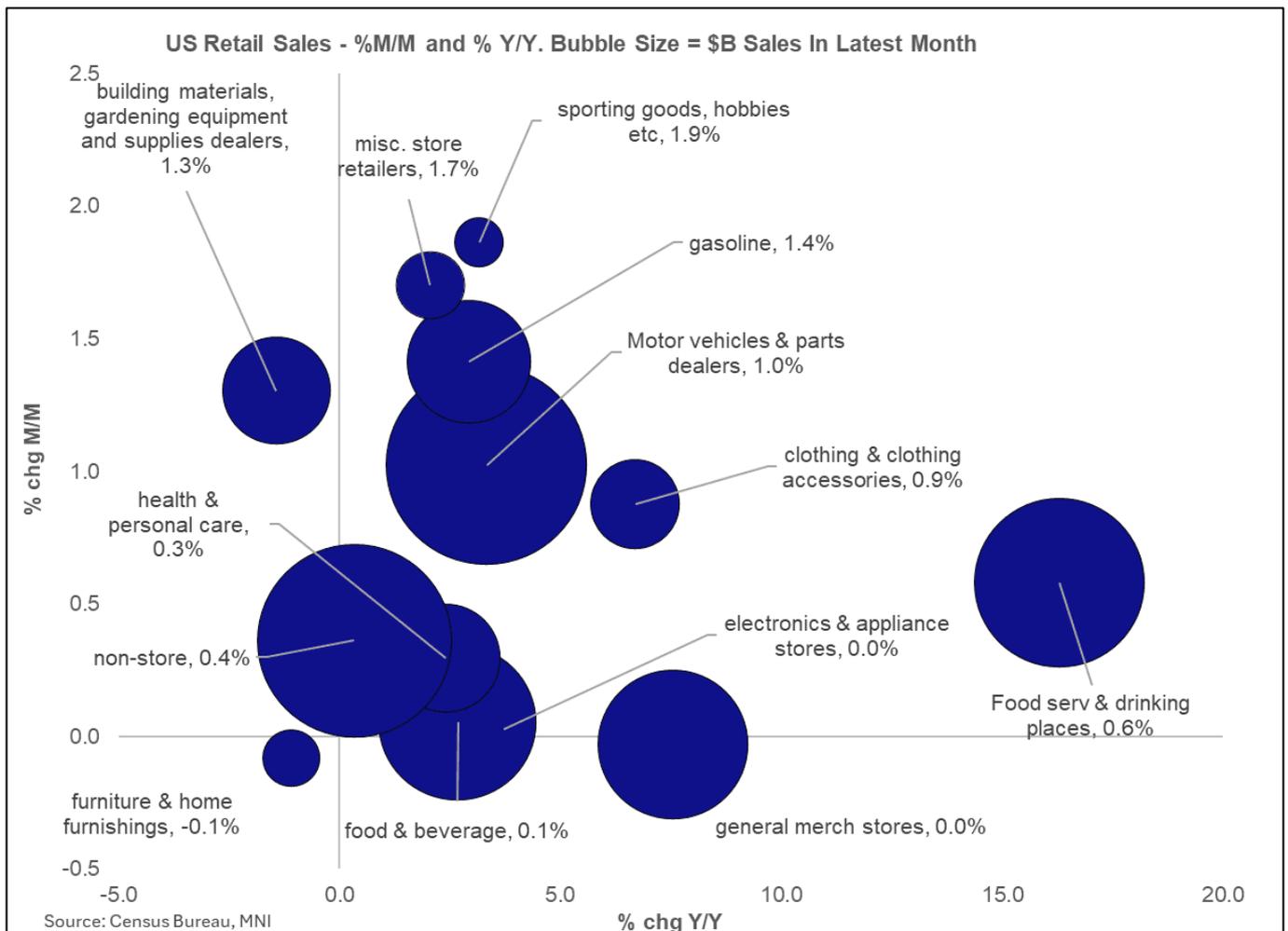
Consumer: Solid But Signs Of Slowing

Core Retail Sales Still Strong, But Slowdown Still Implied For Q4

November retail sales were solid on all counts, though October's very strong report was revised down to slightly less robust (but still quite strong) levels. Overall there is no sign of a retail consumption slowdown toward the end of 2025, though this report may marginally downgrade tracking estimates for Q4 private consumption (depending on one's assumptions for core sales in Nov).

- Headline sales beat expectations rising 0.6% (prior was rev down to -0.1% from 0.0%), but this was largely - as expected - due to strong motor vehicles/parts (+1.0% after -1.6%) and gasoline (+1.4% after -1.2%) sales, neither of which feed into the key GDP-input Control Group metric.
- The latter rose by 0.4% M/M, right in line with consensus but the October reading of 0.85% M/M was revised down fairly substantially to 0.61%. Ex-autos accelerated to 0.5% (0.2% prior; and above Chicago Fed CARTS' 0.3% expected) with ex-autos/gas steady at 0.4%.

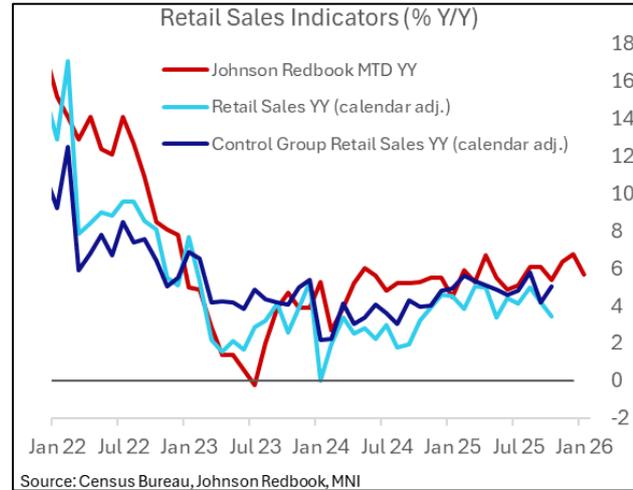
- The major reason for the October downgrade to Control Group sales was non-store (ie online) retail which originally posted growth of 1.8% that has now been revised down to 1.0%. It then followed this up with 0.4% M/M in November.
- Indeed it was largely categories outside of the Control Group that had the most impressive gains: this included not just the aforementioned autos and gas, but also building materials (+1.3% after -1.3%), and key to services, food/drinking establishment sales rose to 0.6% after -0.1% (this was revised up from -0.4%).
- From a GDP tracking perspective, this report may result in a softer expectation for personal consumption in Q4 than previously expected, given that October's very strong Control Group figure was key to a strong base effect for the quarter.
- The Atlanta Fed's GDPNow metric estimates real PCE growth of 3.0% Q/Q SAAR in Q4 after 3.5% in Q3. It's unclear whether this report warrants a slight downgrade (it depends what they assumed for November) but either way a gradual slowdown estimate vs Q3 appears justified by recent tracking of retail Control Group growth.



Redbook Retail Sales Slow In Early January After Strong December

January retail sales have started on a solid but relatively slower note vs December's multi-year high in growth, per the Johnson Redbook Retail Sales Index. Sales rose 5.7% Y/Y in the week ending January 10 (the first retail week of the month), vs December's 36-month-high 6.8%, and vs retailers' target of a 6.2% gain.

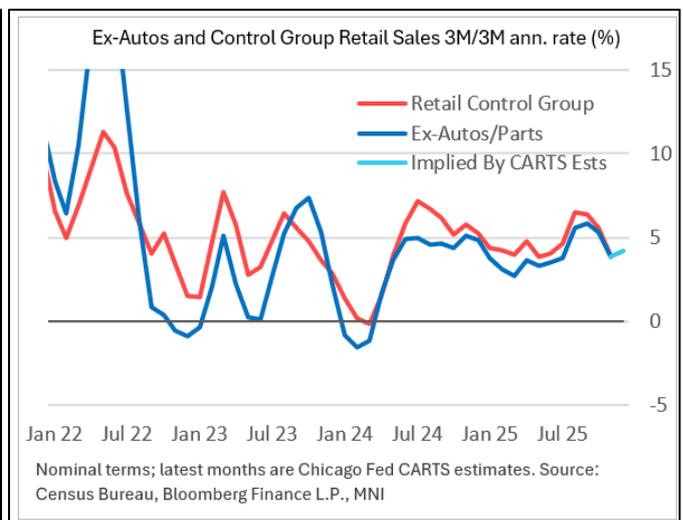
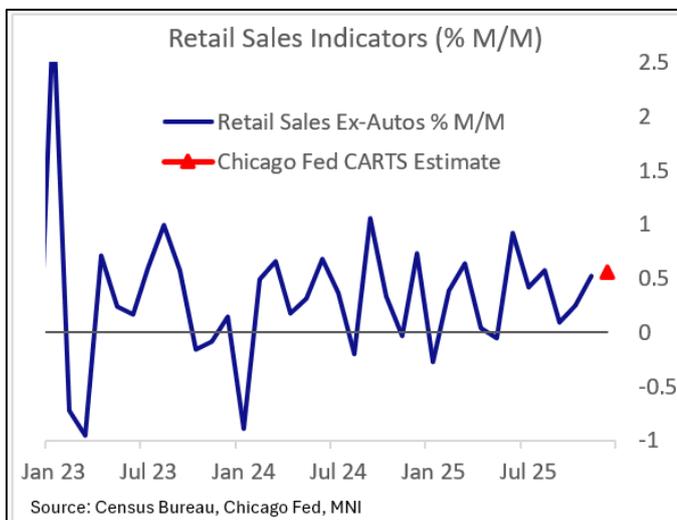
- The anecdotal section suggests that consumers have reverted to type after a strong holiday retail season: "Post-Christmas sales were primarily driven by shoppers redeeming gift cards and exchanging or returning gifts, and shopping for bargains. In January, clearance remains the main focus, with most retailers introducing Valentine's Day and spring merchandise by mid-month and preparing for Super Bowl sales. Some discounters noted that consumer behavior has returned to normal, with spending focused on essential items and basic commodities."
- The "alternative" retail data including Redbook has moved far beyond the Census Bureau's delayed advance retail sales series - which will publish November data on Wednesday. Control Group sales of 0.4% M/M (0.8% in October) looks relatively well-founded given strong Redbook (+6.4% Y/Y) and CARTS ex-auto (+0.3% M/M) sales for the month.



Chicago Fed CARTS Eyes December Goods Consumption Pickup

The Chicago Fed's CARTS estimate for retail sales growth ex-autos in December was revised up to 0.6% in its final report, from 0.4% prelim. This comes after the official census Bureau release for November, which showed 0.5% ex-autos sales (CARTS had estimated 0.3%).

- On an unrounded basis this would be the strongest M/M reading since August, and mark a constant acceleration since a recent bottom of 0.1% in September.
- In turn this suggests a solid Retail Control Group figure to end the year, which should help boost goods PCE after a slowdown in momentum following a sizzling few months (largely due to a September M/M contraction): 3.9% 3M/3M SAAR in November, the lowest since May.
- CARTS points to a pickup to above 4% in December which would correspond to the quarterly growth figure - in nominal terms of course.
- Either way most signals point to a real personal consumption growth rate slowing from the 3.5% Q/Q SAAR pace in Q3, but remaining at an elevated level.
- There still is no date set for a December retail sales release.

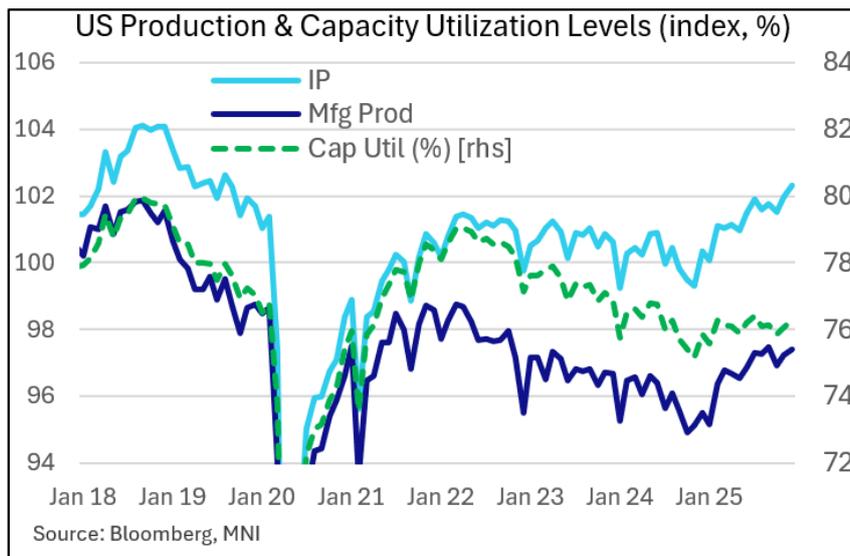


Production: Ending 2025 On High Note

Uptrending Industrial Production Ends 2025 On Up Note

Industrial production was more solid to end the year than had been expected - even though a strong December was largely driven by volatile factors. Overall industrial production looks as though it was on a slow if not entirely steady uptrend going into 2026.

- Production rose 0.4% M/M in December vs the 0.1% expected, while November's was revised up to 0.4% from 0.2%. This should be seen in the context of a contraction between July and October that saw the level of IP relatively flat on net for 5 months, but December's pickup meant a post-pandemic high in the index by a slight margin.
- As such it's more of a recovery than a nascent boom, with 3M/3M annualized IP up less than 1% over the last 3 months for the weakest period since Nov 24-Jan 25 (was 0.7% in December). Manufacturing production, up 0.2% M/M after 0.3% in November, remains at roughly the July level (and in December was contracting on a 3M/3M annualized basis for the first time since January 2025, at -0.7%). Mining production fell 0.7% in December (after a 1.7% November gain). Instead it was a 12-month best jump in utilities production - the most volatile category of all - of 2.6% M/M in December that led overall IP higher.
- Even though the composition of the December gains wasn't entirely convincing, for the year (Dec/Dec), IP as well as overall manufacturing rose 2.0% Y/Y, with mining up 1.7% and utilities 2.3%, a decent performance given extreme tariff-related volatility.
- From a final products perspective, business equipment led by tech spending finished the year on a high, up 0.8% (and 10.1% Y/Y), though construction (-0.3%) was soft and consumer goods barely eked out growth for the year (up 0.7% M/M and 0.7% Y/Y). As such tech strength appeared to be the driver throughout 2025; there is some hope that tax and other incentives help non-tech industrial investment/production in the new year, with core durable goods orders appearing to maintain solid momentum even though ISM Manufacturing remains in contractionary territory.

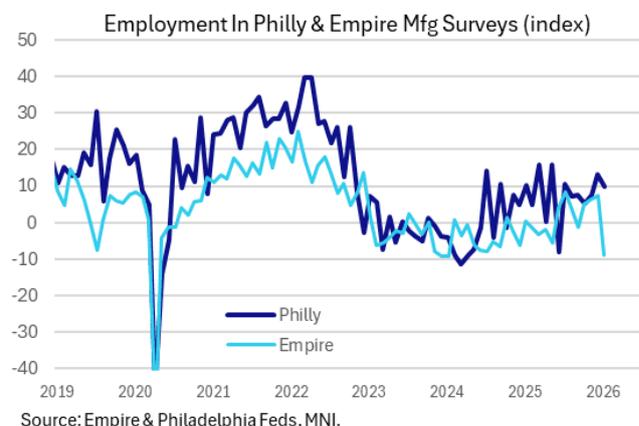
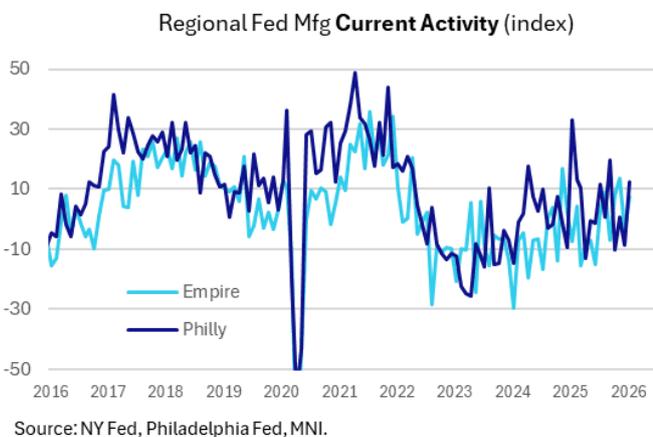


Business Sentiment: Manufacturing Sees A Mostly Strong Start To The Year

Empire And Philly Manufacturing Start Year Strong, Except Jobs (1/2)

Manufacturing activity in the neighboring New York and Philadelphia Fed regions picked up in January after a weak December, boding well for a national pickup in industrial activity at the start of the year. That included better new orders and shipments across both surveys. However if there was a note of caution in activity, it was in employment, which deteriorated in both region - particularly New York.

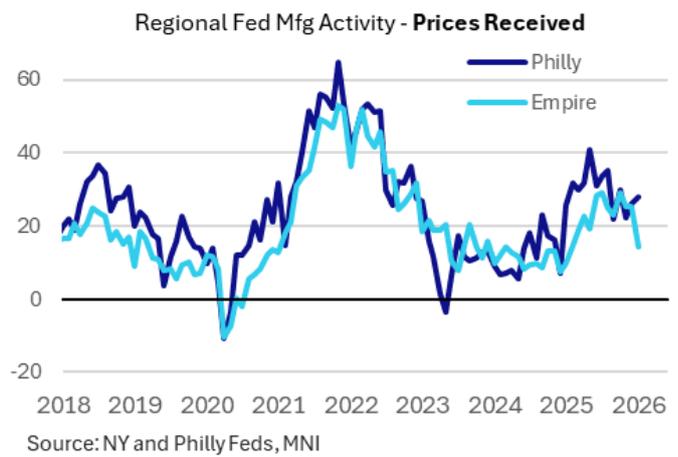
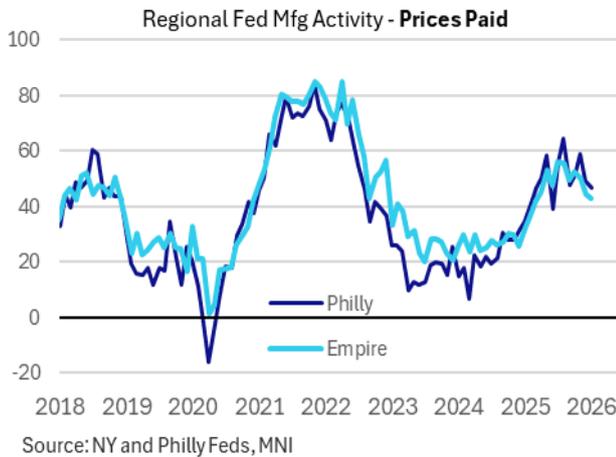
- The Empire State Manufacturing Survey's General Business Conditions index jumped to 7.7 from -3.7 in December, and vs the 1.0 expected - partially retracing the large drop from 18.7 in November.
- And the Philadelphia Fed's Manufacturing Business Outlook Survey showed a general activity index that likewise surprised to the upside in reversing a negative print prior, printing 12.6 after -8.8 in December, and better than the -1.4 expected. This was a 4-month high for the Philly index.
- The NY Fed sums up a solid Empire report which carried some caution on the employment and supply availability fronts (we note the recent tightness in the same Fed's global supply chain index): "New orders increased, and shipments grew at a solid pace. Delivery times were unchanged and inventories edged down, while supply availability worsened slightly." Additionally, "Firms remained fairly optimistic that conditions would improve."
- However, a weakening in employment levels and hours worked was the clear standout in terms of a month-to-month move in Empire, with the number of employees index dropping to -9.0 from +7.5 prior for the weakest since the end of 2023 (though expected future employment ticked up).
- In the Philadelphia report, "The survey's indicator for general activity rose and turned positive. The new orders and shipments indexes also moved higher... Most of the survey's broad indicators for future activity declined but continued to suggest expectations for overall growth over the next six months."
- But again, employment was a weak spot, with number of employees falling to 9.7 from 13.0 in January, with a similar drop in hour worked.
- (Note that both the Empire and Philly surveys incorporated adjusted seasonal factors which affects prior years' monthly readings.)



Inflation Softens But Divergence In Manufacturing Prices Received (2/2)

Prices paid indices fell across both surveys as the tariff-related increase seen through much of 2025 shows increasing signs of dissipating.

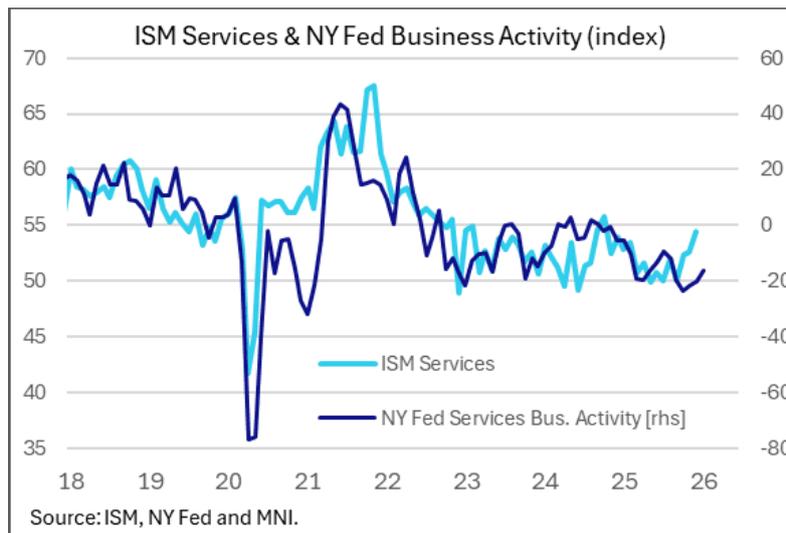
- In the New York region, the prices paid index dipped 1.4 points in January to 42.8, a fresh 10-month low and indicating input price increases remained elevated but at least moderated.
- In Philadelphia, current prices paid fell to 46.9 from 49.3, marking a 7-month low.
- There was a divergence in prices received which ticked up slightly in Philly (1.8 to 27.8) but plummeted in the Empire survey, to 14.4 from 25.4, marking the lowest since January.
- The latter looks anomalous but could be indicative of an inability of manufacturers to pass on higher input prices due to soft demand/competitive pressures.



NY Area Services Activity Still Negative, But Picking Up

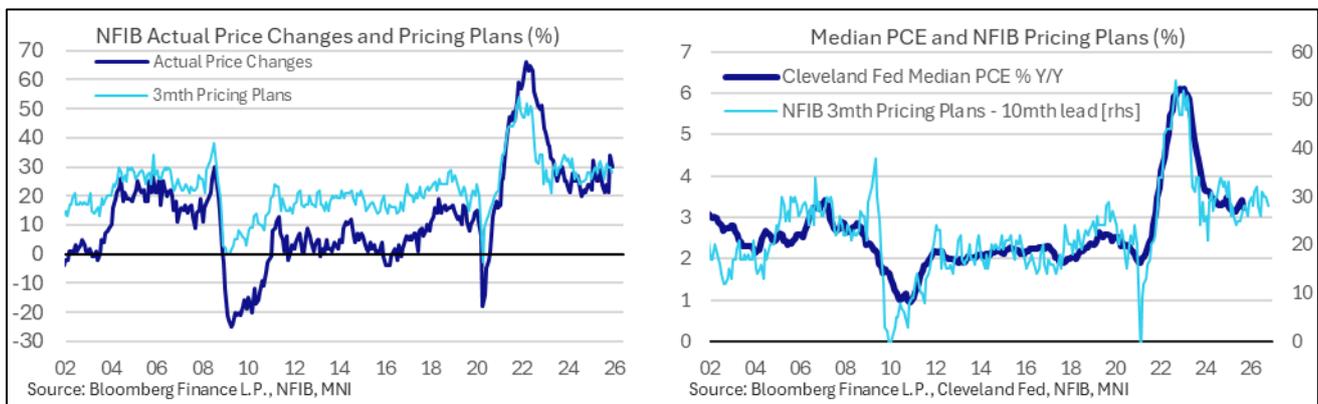
Services sector activity in the New York area picked up to start the year, per January's NY Fed's Business Leaders Survey which showed a rise in the current conditions index to a 5-month best -16.1 (-20.0 prior). To be sure, this is still a weak reading outright, with the report's interpretation being that activity "fell substantially" in January. As with other regional Fed services/nonmanufacturing indices, this one failed to anticipate the 14-month high in national ISM Services PMI in December, but the latest improvement underlines that confidence in conditions among services firms is recovering after a shaky 2025.

- The survey of firms in New York, northern New Jersey, and southwestern Connecticut showed the best current business climate reading since the same month a year earlier, jumping to -34.4 from -44.2. And expectations for both activity and climate jumped to the highest since February 2025.
- The survey notes "Employment fell for a fifth consecutive month, and wage growth picked up but remained modest. Supply availability was little changed...Employment and wage increases are expected to pick up in the months ahead. Capital spending plans remained soft."
- Re current employment - which saw a deterioration in the NY Fed's January manufacturing survey to a multi-year low- while it was still in contractionary territory for services, this gauge actually picked up 1.9 points to -5.5.
- Importantly, price pressures retreated to 63.9 from from December's cautionary jump to a post-2022 high 72.1, with expected prices paid at the lowest since December 2024 (54.9 after 63.2).



Small Business Price Pressures Ease A Touch But Still Elevated

- A net 30% of firms reported price increases compared to three months ago, moderating somewhat after the jump to 34% in Nov (highest since Mar 2023) from 21% in Oct (join lowest since Aug 2024).
- Putting this 30% into perspective, it has only been higher in two months since May 2023, during which period it averaged 25%.
- This share averaged ~12% in immediate years after the pandemic.
- Planned price increases have been steadier meanwhile, most recently dropping to a net 28% expecting to increase prices over the next three months vs two months at 30% in Oct-Nov and 31% in Sep. It recently peaked at 32% back in June.
- Whilst down significantly from 50s in late 2021/early 2022, it continues to remain stubbornly above the ~22% averaged in the pre-pandemic period.
- From the press release: “In December, 64% of small business owners reported that supply chain disruptions were affecting their business to some degree, unchanged from November. Beneath simple yes/no impact binary, there was a positive shift from those reporting a significant impact to those reporting a moderate or mild impact.”
- This unchanged/softer take on supply chain pressures goes against the NY Fed’s global supply chain metric which last week was calculated to be at its highest (most acute pressure) in nearly three years.

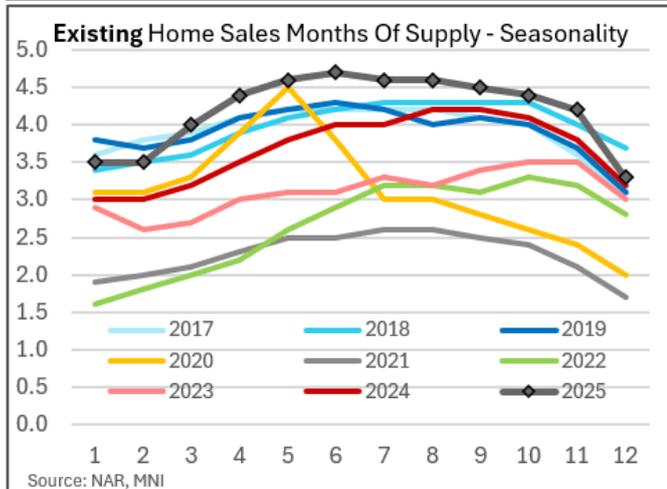
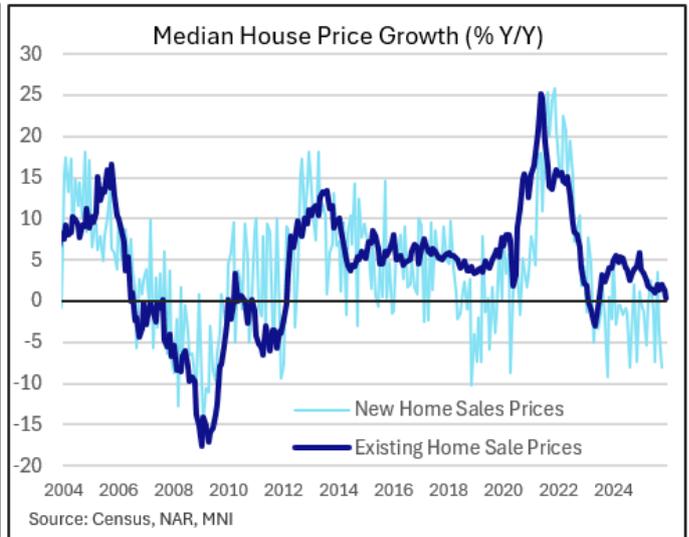
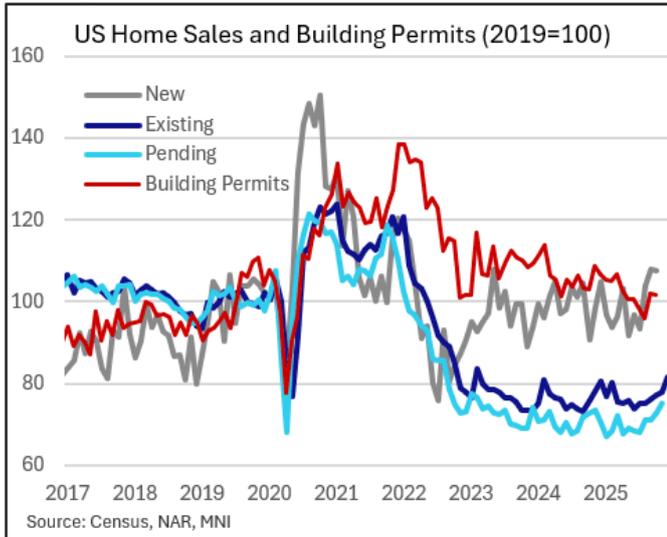


Housing: Sales Climb and Mortgage Rates Fall Further

Existing Home Sales Jump, Adding To Signs Of Stabilizing Activity

The jump in existing home sales in December to a 34-month high 4.35M (on a seasonally-adjusted annual rate basis) adds to other recent evidence of improving residential real estate activity, including in homebuilder sentiment and new home sales.

- While well-telegraphed by the jump in pending home sales in November (not coincidentally a 33-month high), existing sales still managed to easily beat expectations (4.22M consensus).
- Two themes from other reports were evident here: one is tighter supply after extreme looseness in mid-year (months of supply fell to 3.3, compared with 4.6-4.7 between May and August, and tighter even on a seasonally-adjusted basis), with the other being softness in prices (NSA existing home prices were up just 0.4% Y/Y, the weakest since June 2023).
- Moderating mortgage rates in recent weeks and price discounting appear to be the major factors here, though overall activity remains subdued and we would characterize the residential construction sector as stabilizing rather than anything more positive.



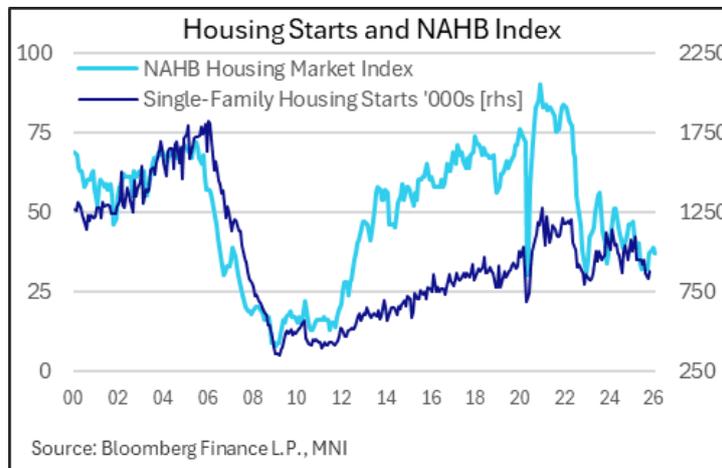
Weaker Homebuilder Survey A Cautionary Note For Thawing Housing Market

The National Association of Homebuilders/Wells Fargo Housing Market Index (HMI) unexpectedly relapsed in January after improvement in each of the prior 4 months, dipping to 37 from 39 prior (a further rise to 40 has been expected). This is something of a setback in confidence amid a residential real estate market that showed signs of thawing in the latter months of 2025, with sales picking up amid a dip in mortgage rates.

- Within the report, there were deteriorations in each of future sales (-3 points to 49, a 4-month low), present sales (-1 to 42) and prospective buyer traffic (-3 to 23, also a 4-month low), with 3 of 4 US regions seeing declines (with the exception of the Northeast which bounced strongly after two large contractions).
- We took note of continued discounting/incentives among homebuilders, within the broader context of housing market "thawing" amid a combination of lower mortgage rates and sagging prices helping to improve affordability. From the report: "In a further sign of ongoing challenges for the housing market, the latest HMI survey also revealed that 40% of builders reported cutting prices in January, unchanged from December but the third consecutive month the share has been at 40% or higher since May 2020.

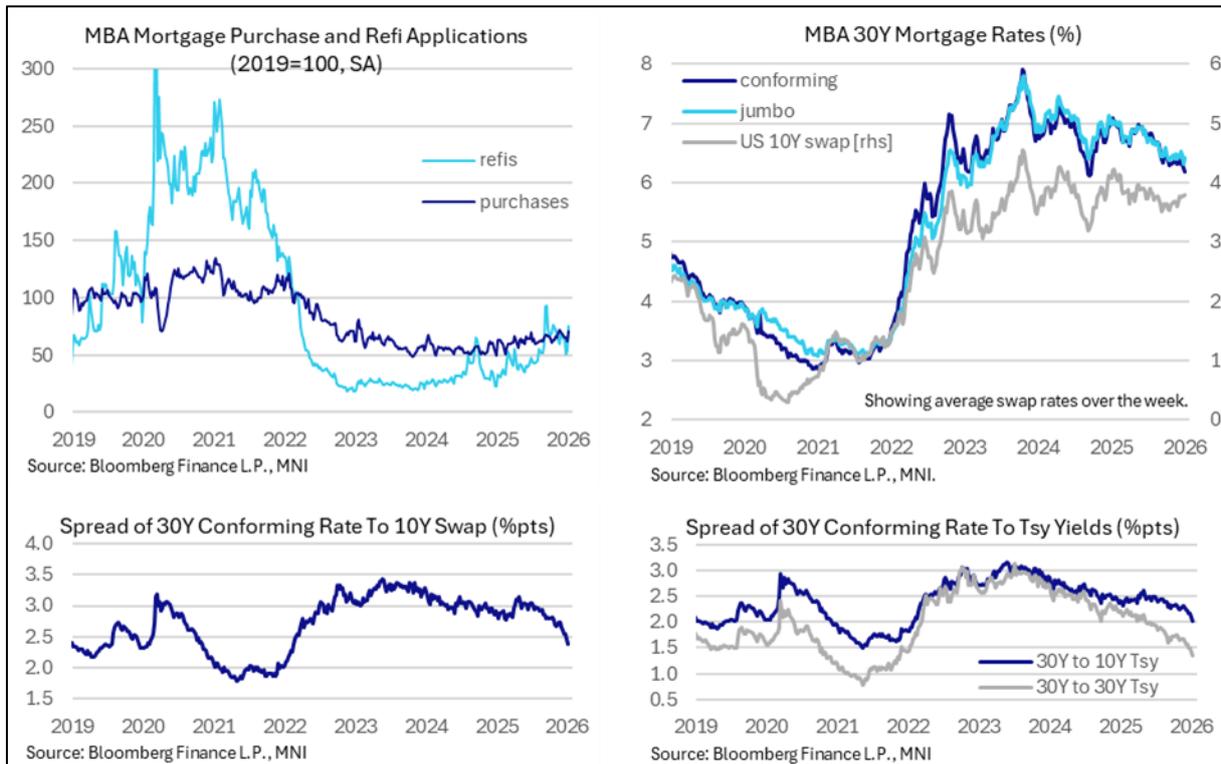
Meanwhile, the average price reduction was 6% in January, up from the 5% rate in December. The use of sales incentives was 65% in January, marking the 10th consecutive month this share has exceeded 60%."

- The NAHB survey reflects single-family home construction sentiment and a relapse here would be bad news for broader housing starts/residential construction given that this category firmed in the latest data vs a sharp deterioration in multi-unit housing.



Another Week, Another Narrowing In Mortgage Lending Spreads

- MBA composite mortgage applications jumped 28.5% (sa) last week in the first full week of the year, still in a period where the series can see heightened volatility.
- It came as refis surged 40% after 7% and -20%, whilst new purchase applications increased 16% after -6% and 0%.
- We'll need to see further weeks of data but for now, levels relative to 2019 average: 72.5% composite, 71% new purchases and 76% refis.
- Increases are supported by what's been a sizeable decline in mortgage rates in recent weeks, with the 30Y conforming rate of 6.18% down 7bps on the week and 20bps since mid-Dec.
- An impressive narrowing trend in spreads continued last week, with the 30Y rate spread to the average 10Y swap rate over the week falling another 8bps to 239bp. It peaked at 315bp in May in post-tariff disruption, averaged 285bp in 1Q25 and 302bp in 2024.
- Compared to August when US Tsy Sec Bessent talked on wanting to see flat or lower mortgage spreads, this swap rate spread has narrowed 55bp or 39bps to 202bps for the 10Y Treasury yield equivalent.
- Narrowing has been supported by Fannie Mae and Freddie Mac increasing their retained portfolios ahead of a potential IPO, with MBS spreads then tumbling last week after Trump ordered \$200bn in MBS purchases.



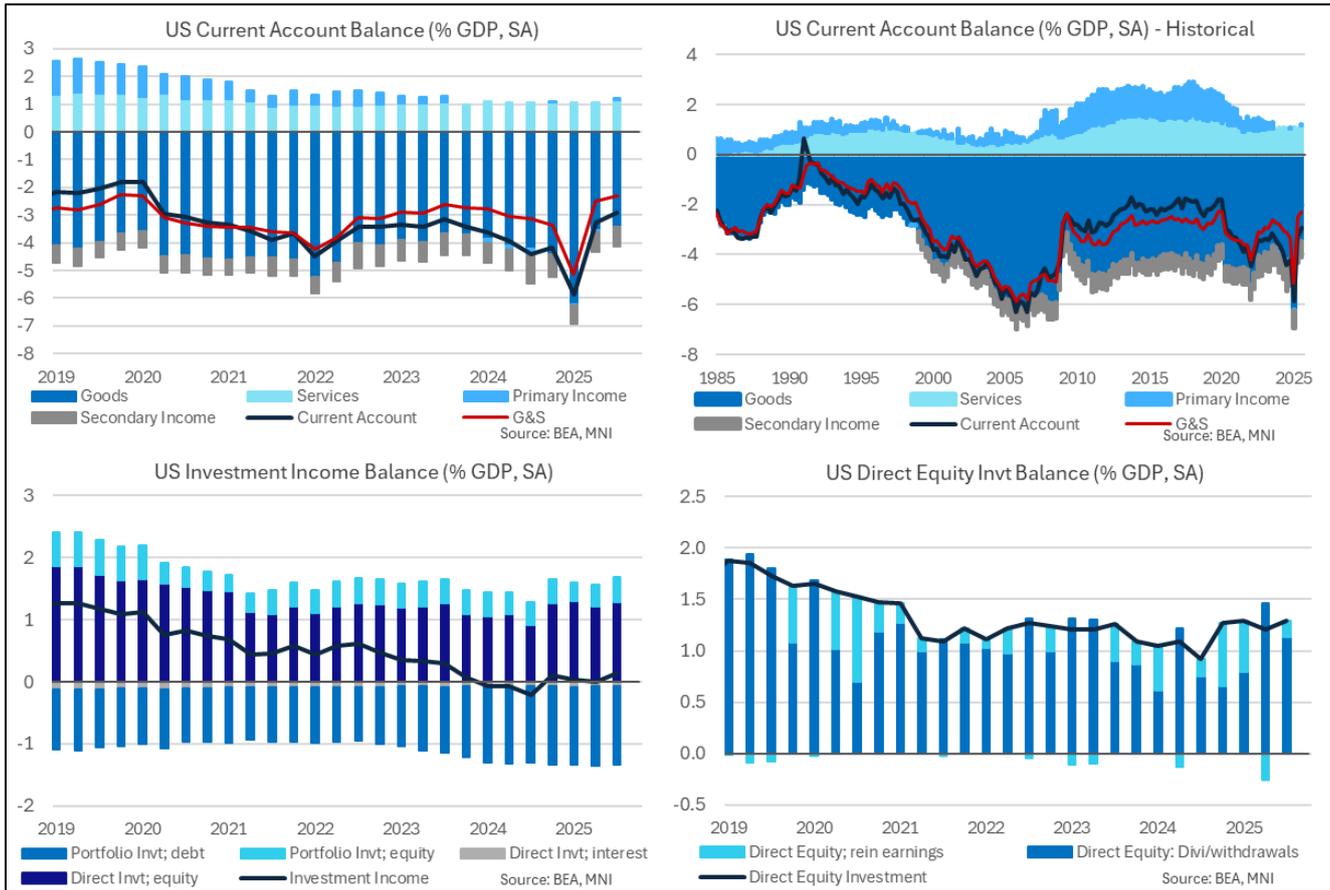
External: Smallest Current Account Deficit Since 2020

Current Account Deficit Surprises Lower With Extra Boost From Incomes

Q3 current account data saw a smaller than expected deficit in Q3 at 2.9% GDP after 3.3% GDP in Q2, with the surprise coming from higher investment income. It's the smallest quarterly current account deficit since 2020 whilst the details confirmed a goods trade deficit at 3.4% GDP in Q3 for its smallest quarterly deficit since 2009 as President Trump noted ahead of the release. Add in services trade data also available for October and we're tracking at the lowest broader trade surpluses since the late 1990s according to latest data.

- The current account deficit narrowed by more than expected in Q3 to \$226.4bn (cons \$238bn) from \$249bn in Q2.
- The goods & services trade deficit narrowed from \$189.8bn to \$178.2bn as monthly data had already showed. The surprise instead came from primary income switching to its largest surplus in nominal terms since 3Q23, at \$5.2bn vs a deficit of \$5.8bn in Q2 (mainly on higher direct investment equity receipts but also from higher portfolio equity flows).
- It translates to a current account deficit of 2.9% GDP in Q3 (smallest since 1Q20) after 3.3% GDP in Q2, 5.9% GDP in Q1 and an average of 4.0% in 2024.
- The goods-only trade surplus saw a small narrowing on the quarter to 3.4% GDP (-0.1pp), which as Trump noted before the release was its smallest quarterly deficit since 2009.
- The broader goods & service trade surplus shows broadly similar trends, at 2.3% GDP for its joint smallest since 4Q19-1Q20 and 2Q09. It follows 2.5% GDP in Q2, 5.1% GDP in Q1 and an average 3.1% GDP in 2024.
- As part of Trump's remarks on the deficit "going even lower", we summarized after last week's October release, with its boost from higher gold exports and lower pharma imports, that this goods & services trade deficit has since shrunk to just 1.7% GDP on a three-month rolling basis for its smallest since the late 1990s.
- Elsewhere, the primary income surplus was worth 0.1% GDP in Q3 (+0.2pps) whilst the secondary income deficit held steady at 0.7% GDP for a third quarter.

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Fed Personnel Considerations: Former Governor Warsh In The Driving Seat For Next Fed Chair

- President Trump told Reuters his Fed Chair pick will be announced in the next few weeks in the latest stalling having originally planned to announce a decision at the end of 2025.
- Odds that former Fed Governor Kevin Warsh will get the nod have jumped after Trump suggested he would like to keep Kevin Hassett where he is, i.e. at the NEC.
- BlackRock executive Rick Rieder's lack of Fed experience is seen by officials as being a big positive.

Hassett Chair Probability Drops After Trump Says Wants To Keep Him Where He Is (Jan 16)

Trump says at an event regarding Fed Chair Candidate Hassett: "I want to keep you where you are, if you want to know the truth. Kevin Hassett is so good I'm saying "wait a minute" if I move him, these Fed guys, certainly the one we have now, they don't talk so much, it's a serious concern to me."

This is being interpreted as a sign Trump will not nominate him as the Fed Chair, an announcement that's expected in the coming couple of weeks. Implied probability of Hassett being the next Fed chair is plummeting on prediction markets after Trump's comments on large volumes: now just 15% vs 50+% for ex-Fed Gov Warsh.



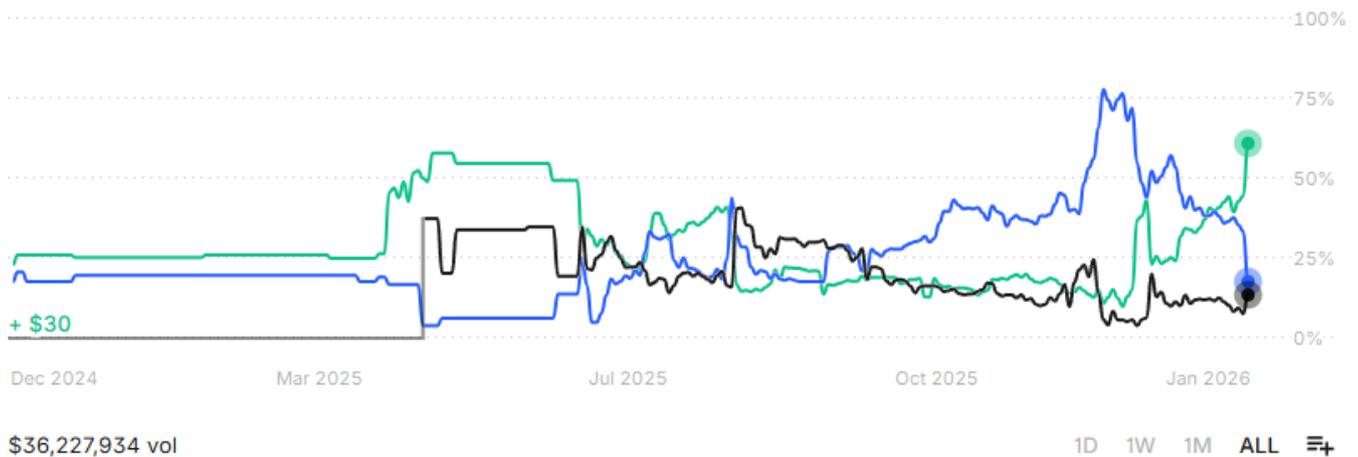
Politics · Trump

Who will Trump nominate as Fed Chair?



● Kevin Warsh 61% ● Kevin Hassett 18% ● Christopher Waller 14%

Kalshi



Source: Kalshi

Rieder's Lack Of Fed Experience Seen As A Big Positive - Fox Journalist (Jan 16)

FOX Business journalist on latest in Fed Chair deliberations (link). Polymarket currently has Warsh 44%, Hassett 36%, Waller 8% and Rieder 7%.

"@EdwardLawrence

On Monday FOX Business broke the story of Rick Rieder the BlackRock executive being the last interview for possible Fed Chairman job. Now the exclusive results of that meeting:

Rick Rieder is the BlackRock Chief Investment Officer of Global Fixed Income at BlackRock. He's the only person on the finalists list that has no previous Federal Reserve Experience. Two Senior Administration Officials tell me the people in the room for the interview viewed that as a big positive.

In the room for the meeting was President Trump, Vice President Vance, Sec Scott Bessent, Chief of Staff Susie Wiles, and Deputy Chief of Staff Dan Scavino..

Rieder talked about Fed Profitability, the importance of monetary policy stability, and U.S. Debt Dynamics.

This is the final interview before President Trump makes his final decision. Treasury Secretary Bessent has said in previous interviews that he expects a decision by the end of the month.

The final list of candidates is:

Kevin Warsh

Kevin Hassett

Christopher Waller

Rick Rieder"

Beige Book: Improvement In Economic Activity, With Positive Outlook

The Federal Reserve's Beige Book for January portrays a slightly stronger take on economic activity in the mid November-December period compared with the prior release (November). In this regard it's only going to reinforce conviction on the FOMC that there is no hurry to cut rates.

- This is one of the strongest Beige Books in this respect in the last several cycles, in terms of breadth at least: 8 of 12 districts (the exceptions being NY, Chicago, Minneapolis, Dallas) saw activity rise at a slight/modest pace, compared with just 4 in the previous report. (See table below - MNI categorizes the results using the verbatim commentary in individual regional Federal Reserve banks' reports).
- Labor market conditions were slightly improved in the January Beige Book vs November, though the overall theme remained very much "low hiring, low firing" across most of the 12 districts. The lack of further deterioration vs November's report (when half of the districts reported decreases in employment) will also reinforce the notion that the rate cuts already implemented will suffice as sufficient "insurance" against labor market weakness for now.
- Reported inflationary pressures remained fairly steady across Fed districts in the January Beige Book vs November's edition, though this time no districts reported a downtick in prices (New York did in November).

District-By-District Descriptions of Current Conditions - Jan 2026 Beige Book

	Econ Act	Previous Report	Employment	Previous Report	Inflation (Selling Prices)	Previous Report
Boston	Edged Up Further	Expanded slightly	Unchanged	Edged lower	Rose modestly further	Modest increases
NY	Continued to decline modestly	Declined modestly	Continued to decline slightly	Declined slightly	Picked up further but remained moderate	Eased slightly
Phil	Slight pace of growth	Modest declines	Increased modestly	Declined slightly	Rose at a moderate pace	Rose moderately
Cle	Increased slightly	Increased slightly	Flat	Flat	Rose moderately	Rose moderately
Richmond	Grew at a modest rate	Grew modestly	Unchanged	Unchanged	Grew moderately	Moderate
Atl	Grew slightly	Unchanged	Flat to slightly down	Levels remained flat	Rose slightly	Increased modestly
Chicago	Little changed	Rose slightly	Flat	Increased slightly	Rose moderately	Rose moderately
Stl	Modestly increased	Unchanged	Unchanged	Unchanged	Increased moderately	Increased moderately
Minn	Flat	Flat	Down slightly	Declined slightly	Increased slightly	Increased moderately
KC	Increased slightly	Slowed slightly	Improved slightly	Declined slightly	Gone up modestly	Increased modestly
Dallas	Held steady	Weakened slightly	Largely held steady	Continued to fall	Remained moderate	Increased moderately
San Fran	Expanded modestly	Mixed	Stable on net	Largely held steady	Rose moderately	Rose modestly

Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

Fedspeak: Acknowledgement Of Lower Inflation But Dividing Lines Set

- VC Supervision Bowman unsurprisingly maintained a firmly dovish tone in her first monetary policy focused remarks since October.
- At the other end of the spectrum, Kansas City Fed's Schmid (hawk but non-voter) argued that rate cuts risk more harm to inflation than they would help the labor market, having dissented at back-to-back meetings at the end of 2025.
- Philadelphia's Paulson ('26 voter) reiterated that she eyes modest rate cuts this year.
- SF Fed's Daly ('27 voter) said incoming data looks promising, with policy in a good place to react.
- Chicago Fed's Goolsbee ('27 voter) said his main takeaway from the December CPI report was that inflation didn't get worse but he needs to see that it's on a path towards 2%.
- Citing the continued fog within the data, Minneapolis Fed's Kashkari expects it will take a few months for the data to be fully clean again and Atlanta Fed's Bostic said the government shutdown will distort data until April or May. Nearer-term, Paulson will be particularly focused on January price data.

Gov Jefferson Telegraphs January Hold With Policy "Well Positioned" (Jan 16)

Federal Reserve Governor Jefferson (permanent voter) hints strongly in a speech Friday (which is likely to be the final major Fed communication ahead of the pre-FOMC meeting blackout period that starts Friday night) that he will support the overwhelmingly expected hold at the January meeting ([speech text here](#)).

- With the cuts so far bringing Fed funds into "a range consistent with the neutral rate — a rate that neither stimulates nor restricts economic activity. I look forward to our upcoming policy meeting, which will be held in less than two weeks. While I do not want to prejudge the decision that will take place there, in my view, the current policy stance leaves us well positioned to determine the extent and timing of additional adjustments to our policy rate based on the incoming data, the evolving outlook, and the balance of risks."
- We regard Jefferson as pretty close to the center of the Committee, and his views are probably not far removed from Chair Powell's, so all in all this leads us to expect Powell will take a similarly "cautiously optimistic point of view" at the January meeting. Indeed we would expect some of Jefferson's commentary on the labor market and inflation to be repeated almost verbatim by Powell.

- Jefferson: "I am starting 2026 with a cautiously optimistic point of view. Conditions in the labor market appear to be stabilizing, and I see the economy as well positioned to continue to grow while inflation returns to a pathway toward our 2 percent objective....the labor market is not deteriorating rapidly, as layoffs remain low; however, hiring remains low as well... In this less dynamic and somewhat softer labor market, the downside risks to employment appear to have risen. My baseline, however, is for the unemployment rate to hold steady throughout this year."
- On inflation, "progress slowed over the past year or so, and inflation remains at a level that is above readings consistent with our inflation target" but "shelter inflation, shown by the black dot-dashed line, has continued to decline, and core services inflation excluding shelter, the red dashed line, has also been on a downward trend, albeit on a somewhat bumpier path. Those readings are consistent with overall inflation moving back toward our target....While some upside risks remain, moving forward I expect to see inflation return to a sustainable path back to our 2 percent target."

Bowman Maintains Firmly Dovish Stance In Rare Update (Jan 16)

Speaking publicly on monetary policy for the first time in three months, Fed VC Supervision Bowman (vote) gave an unsurprisingly dovish speech ([link](#)). We have previously considered her to be the second most dovish member of the FOMC, and assume her 2026 dot at the Dec SEP to have looked for 125bp of cuts in 2026.

- "Absent a clear and sustained improvement in labor market conditions, we should remain ready to adjust policy to bring it closer to neutral. We should also avoid signaling that we will pause without identifying that conditions have changed. Doing so will indicate that we are not attentive or responsive to the recent and expected path of the labor market."
- "Although the labor market is still near full employment, it has become increasingly more fragile and could continue to deteriorate in the coming months,"
- "On inflation, we have seen considerable progress in lowering the underlying trend, considering that still-elevated inflation mostly reflects tariff effects that I expect will fade this year. When those effects are taken into account, core PCE inflation appears to be much closer to 2%."

KC Fed's Schmid: Rate Cuts Risk More Harm To Inflation Than Help To Labor (Jan 15)

It is not surprising to hear Kansas City Fed President Schmid emerge with a hawkish [speech](#) Thursday, given that he dissented against the FOMC's most recent two cuts when he was a voter in 2025. It remains clear that he does not envisage rate cuts this year in his base case scenario, though he is not a voter in either 2026 or 2027: "my preference would be to keep monetary policy modestly restrictive. And I will judge the restrictiveness of monetary policy by how the economy evolves."

- He writes in repeating his dissent explanation from the December meeting that "One way to interpret the recent rate cuts is that the Committee had become a little more worried about the employment side of its mandate and a little less worried about the inflation side. My preference at both meetings, as reflected in my vote, was to leave the policy rate unchanged. My reasoning was based on three factors. First, inflation remains too high. Second, I believe that cutting rates could disproportionately harm the inflation side of our mandate without providing much benefit to the employment side. And third, I don't think that monetary policy is currently very restrictive."
- Indeed he takes a different view of the balance of risks than most of the FOMC: "I believe that there is a risk that lowering rates could do more harm to the inflation side of our mandate than benefit on the employment side."
- His take on the latest shutdown-distorted data is that "the effect of the shutdown on the quality of the data will likely persist through the first part of this year. That said, what data we do have, including this week's CPI release for December, is consistent with an inflation rate that remains close to 3 percent", with concerns over future inflation stemming from conversations with private sector contacts and surveys that suggest potential for input price passthrough to come. He acknowledges moderation in housing costs and "While I am hopeful that price pressures will ease, I am reluctant to step back until I see more convincing

signs that overall inflation is headed in the right direction", pointing to both non-energy goods and non-housing services inflation as troublesome.

- He says also that while "The labor market has clearly cooled in recent months" he points to the KC Fed's Labor Market Conditions Indicator which "remains a touch above its historical average. Overall, the data suggest a low-fire/low-hire labor market".
- "With inflation too high, prices are sending us a signal that demand growth is outpacing supply growth". He goes on to say that "the data suggest to me that the neutral interest rate in the economy has moved up and that the current stance of policy, which well could have been restrictive before the pandemic, is no longer very restrictive now."

Daly: Incoming Data Looks Promising, Policy In A Good Place (Jan 15)

SF Fed's Daly ('27 voter) has posted a chain on X ([link](#)), noting that incoming data looks promising but with the Fed needing to be deliberate as it calibrates policy to achieve its full mandate.

- "The Federal Reserve's job is to serve the American people. In monetary policy that means achieving our dual mandate goals of price stability and full employment.
- Last year the FOMC reduced the policy rate by 75 basis points, responding to significant slowing in the labor market and milder than expected inflationary pressures.
- As we start the year, inflation and the labor market remain front and center. The incoming data look promising.
- Projections for growth are solid, the labor market is stabilizing, and inflation is expected to improve over the course of the year.
- Of course, there is still a lot of uncertainty, with risks to both sides of our mandated goals.
- So, we will need to be deliberate as we calibrate policy to achieve both price stability and full employment. Fortunately, policy is in a good place to respond to however the economy evolves.
- As we determine our next steps, we will need to focus beyond any data print, looking further ahead and prioritizing listening—to businesses, households, and communities—to fully understand the economy."

Philadelphia's Paulson Eyes Modest Cuts This Year (Jan 14)

Philadelphia Fed President Paulson (2026 voter) largely repeats previous comments on her monetary policy outlook for the year [in a speech Wednesday](#). She's the most dovish of the 4 regional voting presidents this year. We would think she's a little below the median participant in the Dot Plot (ie looking for at least 2 cuts) though her outlook suggests that she's not looking for a cut early in the year and certainly not at her first meeting as an FOMC voter at end-January.

- She says "I view the current level of the federal funds rate as still a little restrictive" and her cautiously optimistic appraisal of the inflation outlook combined with "a slowing labor market" "argue against tighter monetary policy". Overall "some modest further adjustments to the funds rate would likely be appropriate later in the year" if her outlook pans out.
- "I see a decent chance that we will end the year with inflation that is close to 2 percent on a run-rate basis; that is, 12-month inflation may still be a little elevated, but three-month inflation will be 2 percent by the end of the year. Yesterday's [December] CPI inflation release for December doesn't change my assessment.
- Paulson says her cautious optimism is based on multiple factors, including having "already seen a lot of the price adjustments" in goods as a result of tariffs. However Paulson repeats her previous caution in noting that "producers may still have some more price changes to make. The data for January will be especially useful for gauging this because the beginning of the year is a natural time for firms to change prices."
- She doesn't see any evidence that "tariff-induced price pressures are leading to broader inflation." While supercore inflation is "still elevated", "it is moving in the right direction". And on housing inflation, "here the news is unambiguously good" with both recent data and forward looking indicators pointing to continued progress.
- On the labor market: "While the labor market is clearly bending, it is not breaking...still, labor market risks have risen and that has been an important factor in my support for the 75 basis points of cuts that the FOMC did last year. I will be monitoring labor market developments closely."

- And here she notes as part of a long passage on the divergence between strong GDP growth and a softer labor market that "typically, when GDP and labor market signals are in conflict, the labor market signal turns out to be more accurate". And on labor market risks, "my baseline outlook is pretty benign and does not take strong signal from Q3 growth".

Goolsbee – Inflation Didn't Get Worse But Need To See On Path To 2% Inflation (Jan 14)

Chicago Fed's Goolsbee ('27 voter) tell NPR local radio (audio [here](#)) that the stand out in Tuesday's inflation data was that it didn't get worse but that it's an important challenge over the next couple months to make sure that the path is back towards the 2% target. That's not surprising, having dissented at the Dec meeting as he wanted more clarity on post-shutdown developments, but sees rates going down a fair amount if inflation is on track. Speaking on Dec 18, he saw a lot to like in the November CPI report. As for latest attacks on Fed independence, Goolsbee says we're in a bad spot if Fed Chair Powell's integrity is being called into question.

- *Q: What stood out to you in the latest inflation report?*
- Goolsbee: Well, it didn't get worse, and that stood out. That's nice. Prices are on everyone's mind, but showing that we're, let's say, on a path headed back to 2% is an important challenge for us over the next couple of months. [When asked on whether that counts as good news] Yeah, look, I don't know if that's necessarily good news, but before the lights went out in the government shutdown, we had gotten some semi disturbing reports, and we're wanting to get assurance that things were not getting worse. So maybe it's a bright lining in that.
- *Q: Wondering what impact are President Trump's tariffs having on inflation?*
- Goolsbee: I think it's pretty clear in the data that tariffs have increased the price of goods pretty significantly. That said, our hope is that over the coming months, you would see this one time increase in costs be one and done, and that that might go away. I'm out here in the Midwest, and the Chicago Fed is the most manufacturing intensive of all the Fed districts in the country. It's still on the minds of business people and of community leaders, their costs, their input costs, their costs that they're paying when they're going into the grocery store. That's still very much on people's mind. So if that tariff inflation proves to be more lasting than we hope, that would be a serious issue that we'd had to think about.
- *Q: What are you going to be looking out for as the economy moves further into 2026?*
- Goolsbee: "The best thing about the economy is the growth rate remains pretty strong, and the powerful driver of growth in the economy is not actually AI data center investment. Yes, those are strong, but it is the continued spending of the American consumer that's been the strongest part. So one thing I'm looking for is the consumer going to continue to be the driver of growth. And then on the inflation side, is there evidence that we're kind of putting this spike up in prices behind us.
- *Q: On whether there's a shadow over the data because of the Trump administration putting pressure on Fed Chair Powell and how he sees the situation.*
- Goolsbee: The independence of the Fed couldn't be more important for the long run inflation rate in this country. Any place where you don't have central bank independence, inflation comes roaring back, and we've spent the last five years fighting to get the inflation rate down, and that hasn't been easy. And if you're attacking the independence of the Fed, that makes that problem worse. And I will say I consider chair Powell to be a first ballot Hall of Fame Fed chair. And if we're going to get into a circumstance where the independence or even the integrity of chair Powell is in question, we're in a bad spot.

St Louis's Musalem: Latest CPI Encouraging, But Little Reason To Cut Soon (Jan 13)

St Louis Fed President Musalem (non-2026 FOMC voter) appears encouraged by recent inflation developments but is nonetheless hesitant about making further rate cuts in the near-term.

- He says at an MNI event that he expects inflation to resume its convergence to the 2% target over the course of this year, and the December inflation data "was encouraging that respect" with the 3-month rate of inflation trending lower.

- He says that his "sense" is that "policy is right around neutral" and "well positioned right now, balancing both the expected path of the economy and the risk on both sides".
- Musalem says he sees "little reason for near-term further easing of policy".
- That said, "If the labor market risks were to rise more than I currently expect, or if the risk that expected inflation begins to undershoot 2% on a persistent basis increases, of course, at that point, it might be appropriate to reduce the policy rate further, but I would have to see those risks materialize."
- He says that the latest nonfarm payrolls report for December and other data suggest a "resilient" labor market that he expects to "stabilize around current levels".
- "What I see is a labor market that has been cooling in an orderly way over the past nine months or so, I see demand and supply factors that have been at play...what I took away from it is, the unemployment rate's right around the neutral rate of unemployment. I took that payrolls are growing right in the middle of the range that we estimate [St Louis Fed] to be the new break even rate, which we say somewhere between 30,000 to 80,000 persons per month. And in terms of compensation growth, it is robust compensation growth, but consistent with a very high labor productivity that we've had in the last few quarters... if you look at the employment components of a lot of the business surveys, they've been robust. If you look at unemployment claims, they've been stable or coming down as new claims. And if you look at layoff announcements, they have come back out again, at least in the last read. So all in all, I see labor market that has been resilient. I expect it to stabilize around current levels. And the last labor report in my read was, was a good one."
- He eyes solid growth in 2026: "I expect the economy to grow and operate at or above potential in the coming year, there are some very robust tailwinds. We have a positive fiscal impulse, we have the cumulative lag effects of the 175 basis points of monetary policy easing working through the economy, we have accommodative financial conditions. And so all these, I think, will lead to a robust economy this year. The economy was very robust last year, very resilient to a number of shocks, and so that tells me the labor market will be stabilizing, will be supported by those dynamics."

STIR: Most Hawkish Since July As Low Jobless Claims & Trump-Hassett Considerations Dominate

- The weeks main moves in rates markets didn't come from CPI or PPI, although there was a dovish reaction to CPI, but rather a hawkish shift from another surprisingly low jobless claims print before Trump hinted he'd like Hassett to stay at the NEC.
- Writing after the Hassett headlines:
- SOFR futures have found some support after the initial sell-off on Trump saying he wants to keep NEC's Hassett where he is.
- SFRZ6, leading today's sizeable volumes at 550k and where the terminal implied yield currently sits, is at 96.740, 3-3.5 ticks below pre-Trump headlines but 2.5 ticks off lows.
- Markets will assess the nature of Trump's remarks and recall Dec 2 when he similarly referred to Hassett at a public event - however that incident had the opposite impact, when Trump referred to him and said the potential Fed chair is in the room, sparking a further increase in his betting odds to 85% at one point (now currently closer to 15% vs closer to 35% pre-headlines).
- Kevin Warsh has been the clear beneficiary in betting markets on today's headlines, seen at ~60%, with some speculation that he won't be as ardent a supporter of lower policy rates as Hassett, in a bid to contain longer-dated rates.
- The terminal implied yield of 3.26% has now more clearly exceeded levels seen shortly before the Dec FOMC and last closed higher in July.



- Increases in 2026 rate expectations are unsurprisingly backloaded with Fed Powell's term expiring in May. The 20bp of cumulative cuts for Jun is little changed since the start of the US session but year-end cuts have been trimmed 3bps to a cumulative 45bp.

Fed Funds futures implied rate for Dec26 FOMC. Source: Bloomberg Finance L.P.

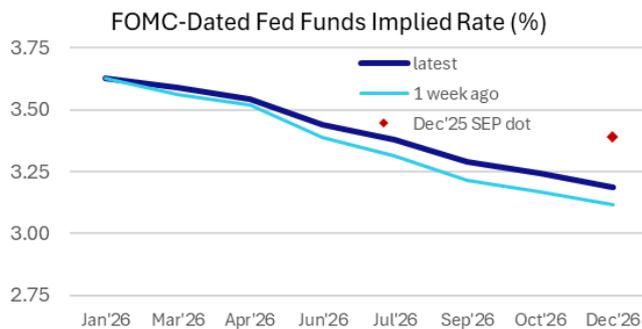
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre CPI (Jan 13)			chg in rate bp	pre NFP (Jan 9)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	3.64			3.64				3.64			
Jan'26	3.63	-1.2	-1.2	3.63	-1	-1.2	0.0	3.61	-3	-3	1.6
Mar'26	3.59	-4.0	-5.2	3.58	-5	-6.3	1.1	3.54	-8	-10	5.1
Apr'26	3.54	-4.5	-9.7	3.53	-4	-10.7	1.0	3.49	-4	-15	5.0
Jun'26	3.44	-10.3	-20.0	3.41	-13	-23.3	3.3	3.36	-13	-28	8.1
Jul'26	3.38	-6.2	-26.2	3.33	-8	-31.0	4.8	3.28	-8	-36	9.8
Sep'26	3.29	-8.9	-35.1	3.24	-10	-40.5	5.4	3.20	-8	-44	9.3
Oct'26	3.24	-4.6	-39.7	3.18	-6	-46.2	6.5	3.15	-5	-49	9.5
Dec'26	3.19	-5.4	-45.1	3.12	-6	-52.4	7.3	3.10	-5	-54	9.1

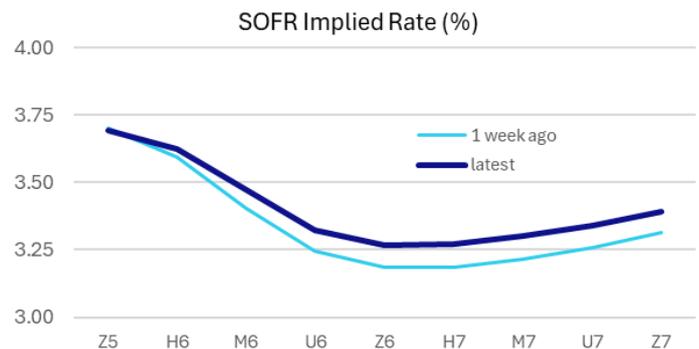
Source: Bloomberg Finance L.P., MNI.

Assuming same EFRR-target lower bound spread from latest fix going ahead

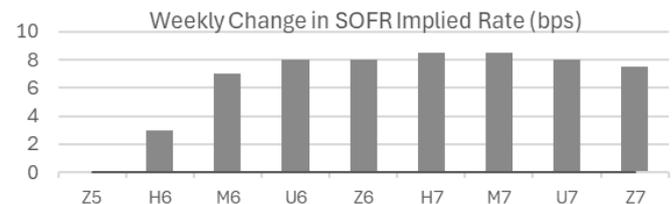
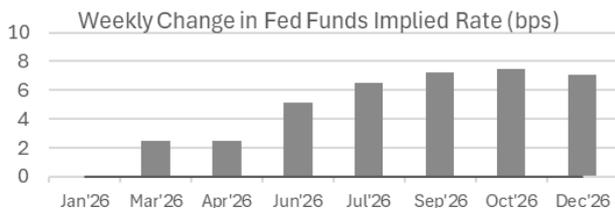
Weekly changes:



Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.



The US Macro Week Ahead: Two-Month PCE Report and SCOTUS Rulings In Focus

Data

Thursday's monthly personal income and outlays report headlines the weekly US data calendar with another unusual two-month combined release for October and November. The BEA has announced it will use an average for BLS Sep/Nov CPI where required (ie most of the report) for October pricing calculations. Latest PPI inputs have

seen some unrounded estimates for core PCE inflation on average looking for 0.20% M/M in October (wide range of 0.13-0.28) and 0.18% M/M for November (more typical range of 0.16-0.20). Those follow an average 0.22% M/M in the three months to September, prior to any revisions, but we're in the unusual position of already having post-CPI estimates for core PCE in December. These currently look for a strong 0.4% M/M but won't be firmed up until the delayed December PPI report on Jan 30.

On the activity side of the report, nominal retail sales data have been solid, with the control group rising 0.4% M/M in November after 0.6% M/M in October. Real goods & services consumption was strong in Q3, rising 3.5% annualized after 2.5% in Q2, with a significant tailwind from strong increases in net household worth on continued equity gains. This report should offer a useful update on consumer momentum deeper into Q4, where GDP tracking is currently at a particularly elevated 5.3% annualized per Atlanta Fed's GDPNow, admittedly buoyed by a slide in pharma imports that could see further volatility in months ahead. Thursday will also see the "third" release for Q3 national accounts but we expect its delayed nature will see it secondary to the PCE report – early days for consensus looks for an unchanged 4.3% annualized having surpassed already solid expectations in last month's initial release in the first update after the government re-opened.

SCOTUS Rulings

The US Supreme Court could release its ruling on the legality of the White House's IEEPA (International Emergency Economic Powers Act) tariffs on its next scheduled opinion day on Tuesday (it would be issued from 10am ET onward). The court does not reveal in advance what opinions it will be releasing, but the previous two opinion days this month bore significant market anticipation. If there is an IEEPA decision in the coming week, the first order question is whether it will favor upholding the tariffs (prediction markets think only about 30% chance the justices will allow them to stand) but there are many permutations, for example striking them down completely and ordering the government to pay refunds retroactively, or allowing the existing revenues to remain but not allow future IEEPA tariffs to be collected. If there is no opinion issued, it would look increasingly likely that a decision may have to wait until late February - or even later.

In a busy Supreme Court week for market participants, on Wednesday the justices will hear oral arguments over whether President Trump is allowed to fire Fed Governor Lisa Cook. No decision is expected in the near future and prediction markets mark under 5% probability that Cook will be dismissed before March, but we may get a sense of how the Court regards the inviolability of the Fed's independence and ability of the US President to reshape the monetary policy-setting Fed Board.

FOMC Will Have PCE Data Through January By Its March Meeting

The Bureau of Economic Analysis has announced updated release dates for delayed data:

- The Q4 GDP / 2025 second estimate will be published March 13 (was originally scheduled for Feb 26); with the third estimate out April 9 (originally scheduled for March 27). These will follow the advance estimate for the quarter on February 20.
- The BEA has also scheduled the Personal Income and Outlays reports (with PCE readings) for January and February, on March 13/April 9 respectively. These were originally due out Feb 26 / Mar 27. The December data is scheduled for February 20.
- This means that the Federal Reserve will have PCE data through January as well as a 2nd reading of GDP by the time of its March decision (Mar 16). That's no less than it would have had absent the shutdown-related delays, a sign that the statistics agencies are catching up with the long backlog.

Date	ET	Impact	Event
20 Jan	0830	**	Philadelphia Fed Nonmanufacturing Index
21 Jan	0700	**	MBA Weekly Applications Index
21 Jan	0855	**	Redbook Retail Sales Index
21 Jan	1000	**	NAR Pending Home Sales
21 Jan	1000	*	Construction Spending

22 Jan	0830	***	Jobless Claims
22 Jan	0830	***	GDP / PCE Quarterly
22 Jan	1000	***	Personal Income and Consumption
23 Jan	0945	***	S&P Global Manufacturing Index (Flash)
23 Jan	0945	***	S&P Global Services Index (flash)
23 Jan	1000	***	U. Mich. Survey of Consumers