



The Macro Month Ahead

January 2025

President Trump and the Year of the Snake

Happy New Year! May 2025 bring health and happiness to you and your loved ones, as well as prosperity and success in your investments! After a hopefully restful and fulfilling festive season, January will, in many ways, lay the foundation for the year ahead. In the United States, Donald Trump will succeed Joe Biden in the Oval office (**20/01**) and has promised to sign a flurry of executive orders in the first days of his presidency on a wide range of areas, such as tariffs, immigration, energy policy, and international treaties. In China, with the Chinese New Year starting on **29/01**, the Year of the Snake will succeed the Year of the Dragon and Chinese authorities will hope for better economic fortunes than in the past three years. In the realm of central banks, the global rate-cutting cycle that began in 2024 may start to show significant divergences. The Federal Reserve is expected to pause, reflecting resilient economic growth and persistent inflationary pressures (**29/01**), while the European Central Bank is likely to continue easing monetary policy (**30/01**). As such, after starting with the recurring economic data, the events of January will surely shape the year ahead. Happy New Year and may everything you wish come true!

Adrien Pichoud,

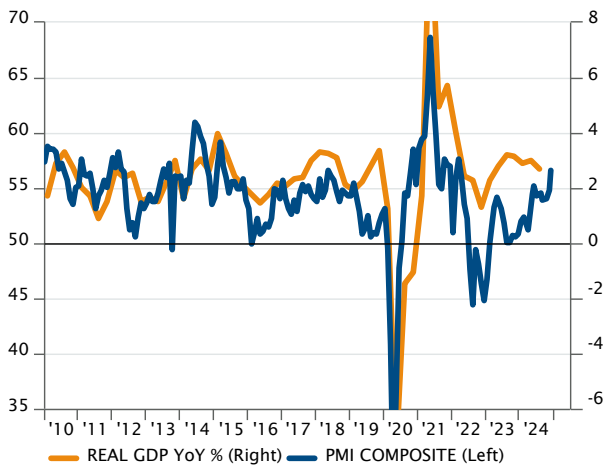
Chief Economist

President Trump is back at the helm of a roaring US economy

Donald Trump will be sworn-in as the 47th President of the United States on Monday **20/01**, a day when financial markets will be closed for Martin Luther King Jr. Day. Upon his return to the White House, he has pledged to sign a spate of executive orders in the first day(s) of his presidency. Imposing trade tariffs on US imports, hardening immigration policies, reinstating some of his policies that were revoked by Joe Biden are among the numerous decisions he intends to take as soon as he is back in the Oval Office. For other parts of his agenda, President Trump will have to work with the two chambers of the new US Congress, whose members were instated on **3/01**.

Before President Trump returns to office, the regular monthly data will have provided some insights on economic dynamics at the end of 2024. The JOLTS report (**7/10**) and the Employment Report (**10/01**) will reveal whether the US job market ends the year on the same robust dynamic that has characterised most of 2024. The first estimate of consumer confidence for January (**10/01**) and retail sales data for December (**16/01**) will update on households moral, the key driver of US growth. Business activity surveys will also be of interest to gauge the economic momentum at the turn of the year: The ISM Manufacturing (**3/01**) and Services (**7/01**), the NFIB index of small businesses' optimism (**14/01**), the NAHB Housing Market index (**14/01**) and early regional surveys of January's activity (Empire Manufacturing **15/01**, Philadelphia Fed **16/01**) will be worth paying attention to, as well as the Fed's Beige Book update on local economic dynamics (**15/01**).

Donald Trump will take the helm of a roaring economy that has been growing above potential for two years and continues to exhibit robust momentum.



Source: Banque Syz, Factset Research

As fiscal policy has become a defining feature of US growth dynamic and is likely to remain as such under the Trump administration (see our Flash note "The Fed acknowledges that fiscal dominance is here in the US", 20/12/2024), the Federal Budget balance for December (**13/01**) will likely confirm that the US are on track for a record-breaking fiscal deficit in the fiscal year that started in September. Supportive fiscal policy is likely to have supported strong GDP growth again in the 4th quarter of 2024 (first estimate of the GDP due on **30/01**). Before the Fed gathers for its first policy meeting of 2025 (**29/01**), the release of the minutes of the December meeting (**8/01**) will give insights on the

discussions and dissents that were suggested by Jerome Powell at the 18 December meeting. Inflation data (CPI **15/01**, PPI **14/01**, PCE deflator **31/01**) will obviously be closely watched after the Fed revised up its inflation projections for 2025 and suggested upside risks to the inflation outlook.

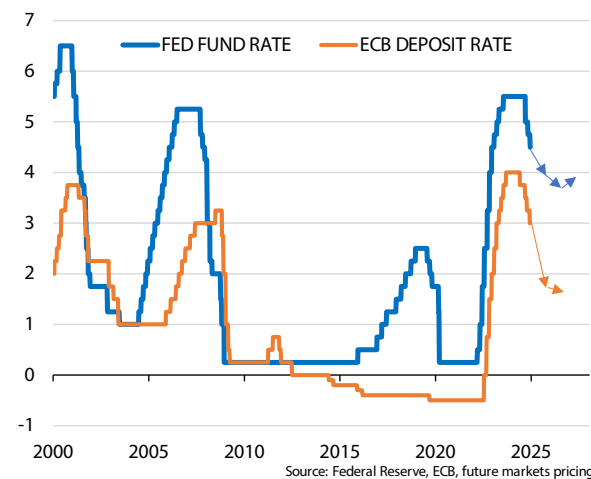
Monetary policies reflect diverging economic dynamics across the Atlantic

Just a few days after the inauguration of President Trump, the US Federal Reserve will hold its first monetary policy of the year 2025 (**29/01**). After the 18 December FOMC meeting, the outlook for US monetary policy has been significantly adjusted, with expectations of further rate cuts in 2025 having been significantly scaled down.

The strong economic activity and inflation in the US towards the end of 2024, the expected growth-supporting fiscal policies under the new administration, and potential inflationary measures like import tariffs and stricter immigration policies all point to a shift towards fiscal dominance. This means monetary policy will play a secondary role, responding to the direction of fiscal policy.

In this context, the current level of interest rates may not be as restrictive for economic activity as it was thought to be just a few months ago. In the latest update, a majority of Fed members now expect no more than two 25bp rate cuts in 2025, while market-implied expectations are reflecting a potentially even smaller amount of rate reduction this year. In any case, the Fed should leave its key rate unchanged in January, before gauging in the following months whether some adjustment to the policy rate finally is required.

USD short-term rates may only be slightly reduced in 2025, while EUR rates will be sharply lowered.



The outlook for US monetary policy stands in sharp contrast with the situation in Europe, where the weakness of economic activity and the lack of fiscal policy support will likely warrant a significant easing in the monetary policy stance. The European Central Bank will hold its first 2025 monetary policy meeting at the end of the month (**30/01**), and should extend the interest rate cut cycle initiated last year, with a 25bp rate cut to its key benchmark rates. It is widely expected that more interest rate cuts will follow the January decision, in order to bring EUR short-term rates at least toward a level neutral for economic activity. Additional 25bp rate cuts are expected for the following ECB meetings in early March, mid-April, and early June.

The divergence between the US and Europe in terms of monetary policy dynamics reflects the divergences in

growth, inflation, and fiscal policies on the two sides of the Atlantic. The expected widening in interest rate differentials between the US dollar and the euro will be an important feature of the first half of this new year, with significant implications for forex, fixed income and even equity markets' developments. Economic data to be released in January will likely confirm the deterioration of the European economic backdrop: December CPI inflation update and inflation expectations (**7/01**), Economic Sentiment Index (**8/01**), the flash estimate of January PMI activity indices (**24/01**) and Q4 2024 GDP estimate (**30/01**) will all provide precious insights on the extent of the economic slump in Europe.

China enters the Year of the Snake

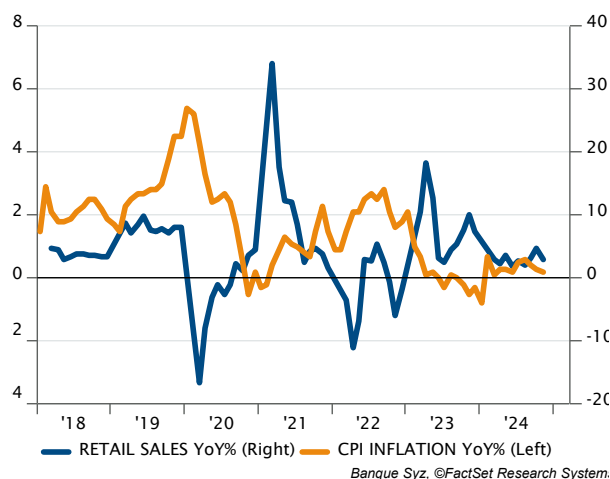
There is no mention of government policy in the Chinese zodiac, but fiscal stimulus might well be a defining feature of the New Lunar Year that will start on Wednesday **29/01**. Indeed, economic activity has been subdued in the world's second largest economy since 2022, and a further deterioration in 2024 already led to a set of supportive economic measures in the fourth quarter of last year, mostly designed to ease financing conditions and stimulate credit growth. A tentative improvement in some gauges of activity has been visible since then, that will need to be confirmed by the release of Q4 GDP data and December real estate prices and industrial production (**17/01**).

However, there is one major segment of the Chinese economy that remains clearly depressed: final consumption by households. Retail sales have been growing at a subdued pace last year and have not shown any sign of improvement so far. The release of December data (**17/01**) is unlikely to diverge from the recent trend and will likely confirm the weakness of domestic demand in China that is also visible in lacklustre inflationary pressures. CPI inflation hovered just above zero last year, and the release of December data (**9/01**) will likely confirm.

In fact, the economic package announced in late September notably lacked direct support to household consumption, and expectations of a significant fiscal stimulus targeted directly to domestic consumption have been growing in the past weeks. Regular hints by Chinese officials of a more supportive fiscal stance in 2025 and prospects of more

interest rate cuts are clear signals that further economic stimulus is to come this year. It is a possibility that Chinese authorities are waiting for the inauguration of Donald Trump in the US and the ensuing announcement of US tariffs on Chinese imports before announcing a fiscal package to support economic activity and balance the negative impact of US tariffs on export-driven industries. It could also be that the authorities want to announce such fiscal package just before the Chinese New Year holidays (from **29/01** to **4/02**), as they did in September 2024 just before the Golden Week. The People's Bank of China will announce Prime Rate for 1y and 5y loans on **20/01** (the morning of President Trump's inauguration) and update on its benchmark lending facility rate on **27/01**. Some significant economic policy announcements could therefore be expected in the week between Trump's inauguration and the start of the Chinese New Year Holidays. 2025 will be the year of the Snake in the Chinese zodiac. The snake is thought to symbolise wisdom and transformation, the start of a movement or of something new that offers opportunities for personal growth and change. Faced with a hardening in global trade conditions and persisting weakness in domestic activity, China must indeed have the wisdom to change its economic policies for starting a new positive dynamic led by internal consumption.

Domestic demand remains depressed in China, as reflected by subdued retail sales growth and lacklustre inflationary pressures



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