Bank of Nassau
SINCE 1982

Economy Week Ahead

January 11, 2026

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Chief Economist

"Economics is not an exact science. It's a combination of an art and elements of science."

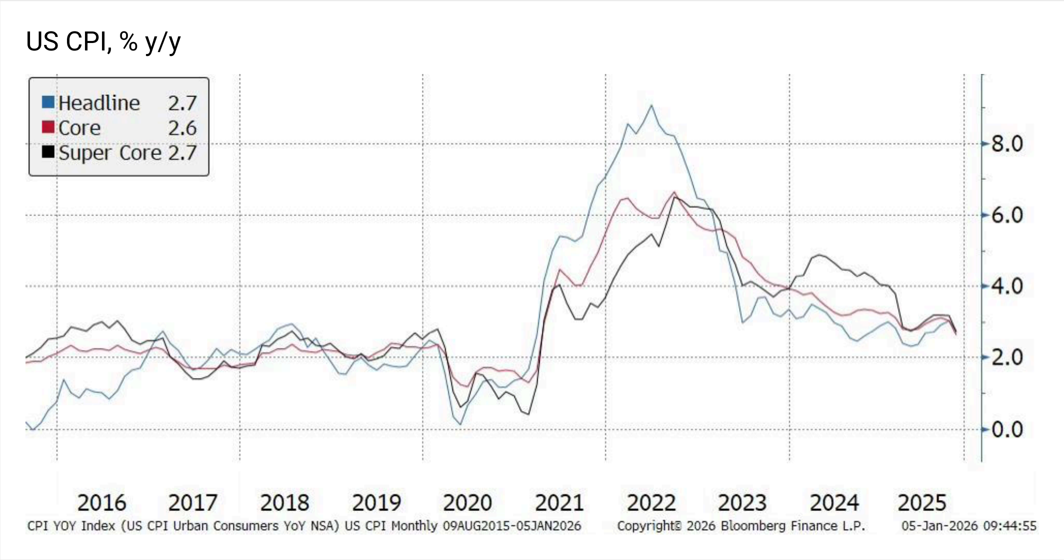
Paul Samuelson

We believe that last week's data showed ongoing weakness in the US labor market. However, the December jobs report had something for both the hawks and the doves and so it appears the Fed may pause this month. That said, we side with the doves and believe the economy is likely to slow noticeably this year as the labor market weakens further. Data this week should allow the Fed to cut again when the time is right, and we would not yet totally rule out January.

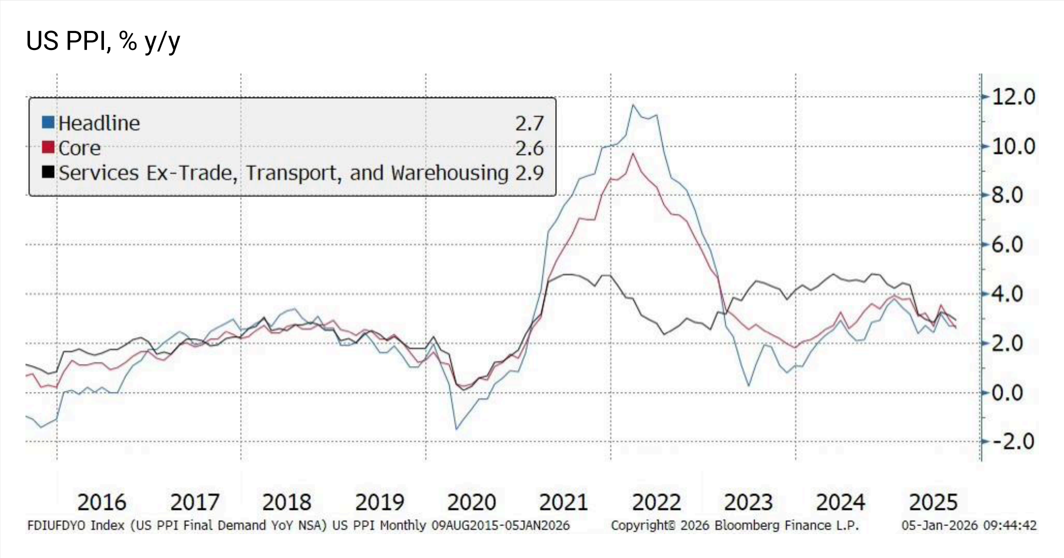
Americas

The Supreme Court did not issue a ruling on reciprocal tariffs last Friday, as some expected. However, we do believe a ruling is imminent. If these tariffs are struck down, we agree with the consensus on the knee-jerk reaction: equities up, dollar down, and US curve steeper. Whether these moves are sustained will depend on how quickly the Trump administration can come up with alternative methods of getting the tariffs back in place. This will likely take some time and may also face legal challenges and so we think the ongoing uncertainty can keep the knee-jerk market reactions going for longer than one might expect.

US data highlight will be December CPI Tuesday. Headline is expected to remain steady at 2.7%, while core is expected to pick up a tick to 2.7% y/y. It appears that the BLS methodology for dealing with missing data due to the shutdown led to lower November readings that will remain embedded in the data going forward. Indeed, the Cleveland Fed Nowcast model estimates December headline and core both at 2.6%, followed by January headline and core at 2.2% and 2.5%, respectively.



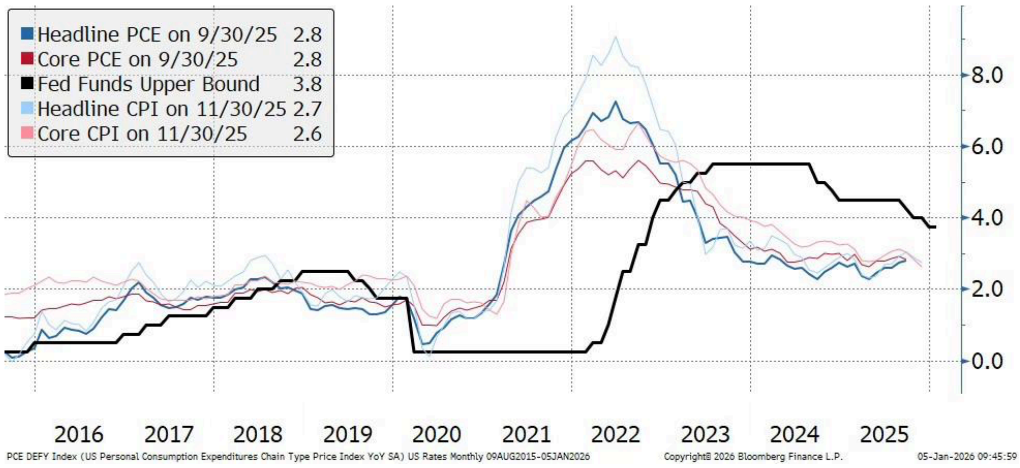
October and November PPI data will be reported Wednesday. Keep an eye on PPI services ex-trade, transportation, and warehousing as this feeds into the PCE calculations. Of note, the delayed October and November PCE date will be reported January 22. The Cleveland Fed Nowcast model estimates October headline and core PCE at 2.7% and 2.8%, respectively, followed by November headline and core PCE both at 2.7%.



This will be the last week for Fed speakers before the media blackout goes into effect at midnight Friday. Bostic, Barkin, and Williams speak Monday. Musalem and Barkin speak Tuesday. Paulson, Miran, Kashkari, Bostic, and Williams speak Wednesday. Bostic, Barr, Barkin, and Schmid speak Thursday. Bowman and Jefferson speak Friday. Recall that the annual rotation of the regional Fed Presidents saw incoming Hammack, Kashkari, Logan, and Paulson replace outgoing Goolsbee, Collins, Musalem, and Schmid.

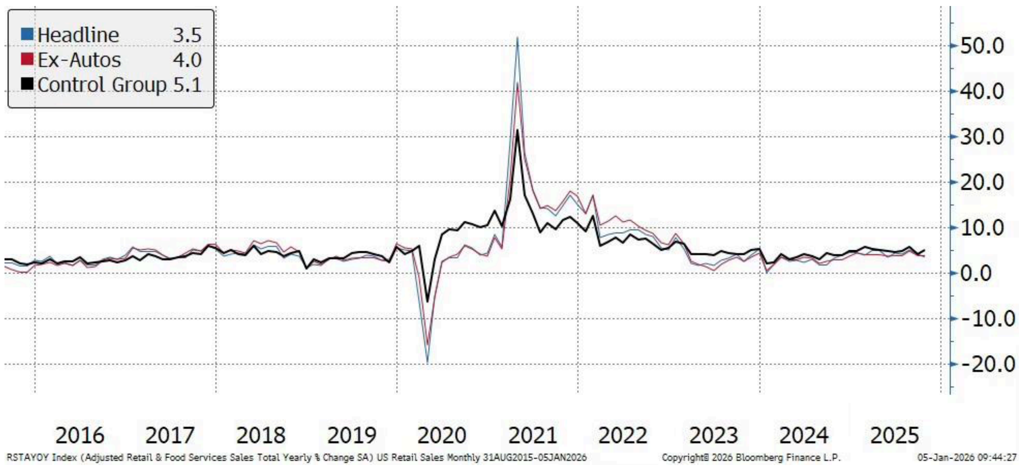
After the mixed jobs data Friday, odds of a January cut fell to 5% from 15% at the start of last week. We think this understates the risk of a dovish surprise, especially as we have some key data both this week and next week ahead of the January 27-28 FOMC meeting.

US Rates



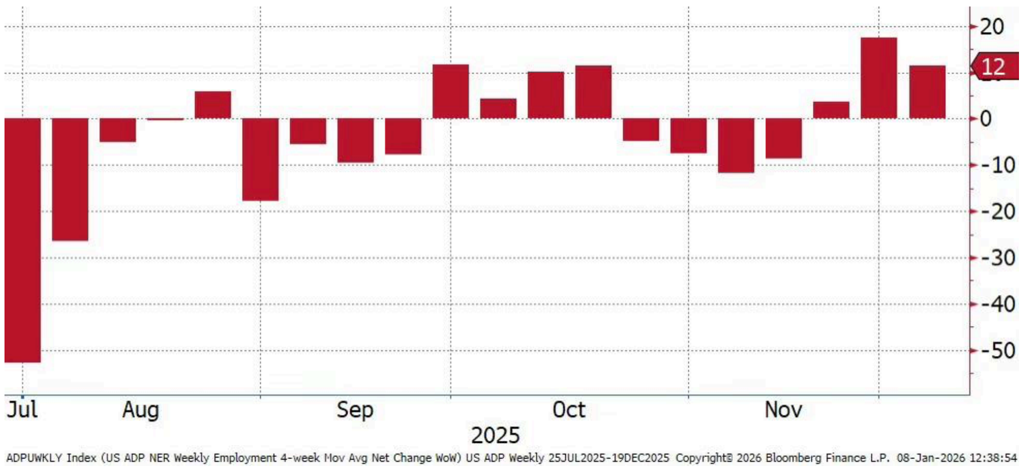
November retail sales data will also be reported Wednesday. Headline is expected at 0.4% m/m vs. flat in November, while ex-autos is expected at 0.3% m/m vs. 0.4% in November. The so-called control group used for GDP calculations is expected at 0.4% m/m vs. 0.8% in November. Of note, the Chicago Fed's CARTS model estimates November retail sales ex-autos rose 0.3% m/m in nominal terms and was flat m/m real terms. For now, consumption continues to hold up but we do not think this can be sustained as the labor market continues to weaken.

US Retail Sales, % y/y



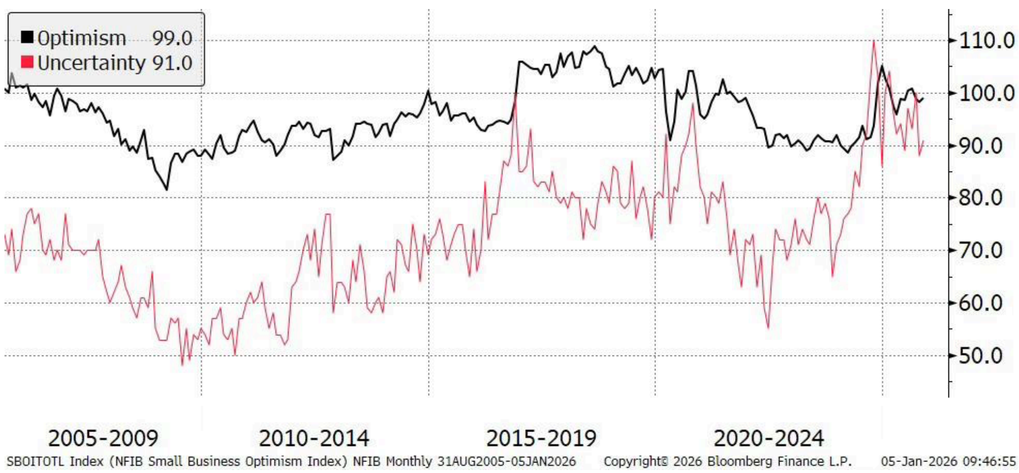
ADP reports its weekly private sector jobs estimate Tuesday. It will be for the week ending December 27. The last reading for the week ending December 6 was 11.5k, while data for the weeks ending December 13 and 20 have not been reported yet. After last week's mixed jobs data, the outlook for January jobs now comes into focus.

ADP Weekly Private Sector Jobs Estimate

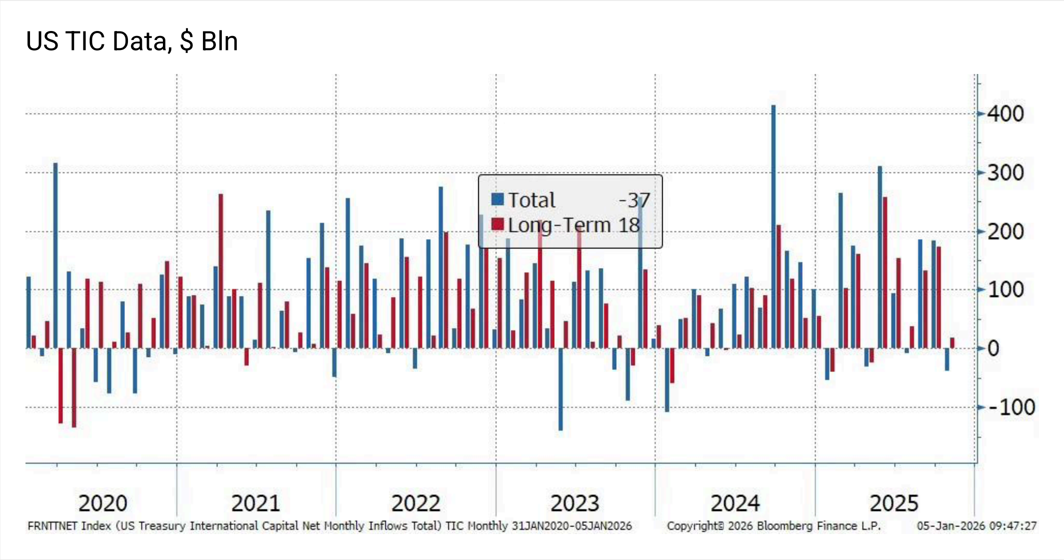


NFIB Small Business Optimism for December will also be reported Tuesday. Headline is expected at 99.5 vs. 99.0 in November. If so, it would rise for the second straight month to the highest since August. After the November report, NFIB Chief Economist Bill Dunkelberg noted that "Although optimism increased, small business owners are still frustrated by the lack of qualified workers. Despite this, more firms still plan to create new jobs in the near future."

NFIB Small Business Optimism

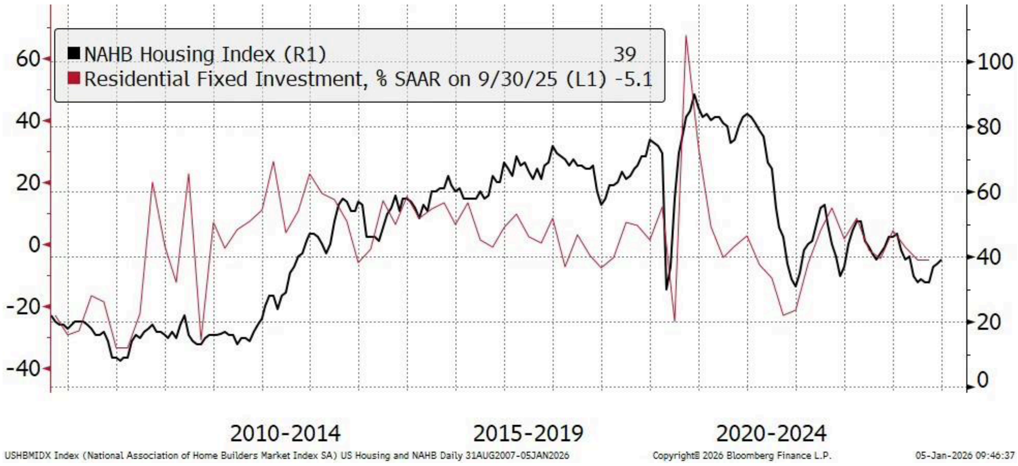


November TIC data will be reported Thursday. October data showed a rare outflow for total TIC flows but still showed a very modest inflow for net long-term TIC flows. For now, we expect the US to continue drawing in foreign capital. However, if our view that US equities will underperform this year comes to pass, the TIC data may start to show smaller inflows as the year progresses. Stay tuned.



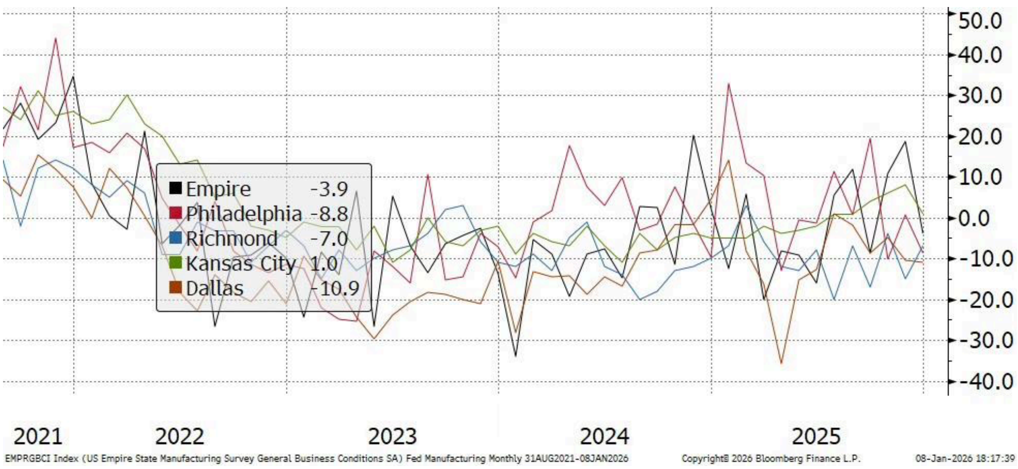
NAHB Housing Market Index for January will be reported Friday. Headline is expected to rise a point to 40. If so, it would rise for the fourth straight month to the highest since April. While it would remain below the key 50 level, we expect further improvement in the coming months as mortgage rates have resumed falling. After the December report, NAHB Chairman Buddy Hughes noted that “Market conditions remain challenging with two-thirds of builders reporting they are offering incentives to move buyers off the fence. Meanwhile, builders are contending with rising material and labor prices, as tariffs are having serious repercussions on construction costs.”

NAHB Housing Market Index



Regional Fed surveys for January start rolling out. Empire and Philly Fed manufacturing surveys will be reported Thursday and are expected at 1.0 and -1.9, respectively. New York Fed services survey will be reported Friday. In December, four out of the five manufacturing and services surveys were negative, with Kansas City being the lone positive reading in both surveys. This is another reason to believe that the economy is slowing as we move into 2026.

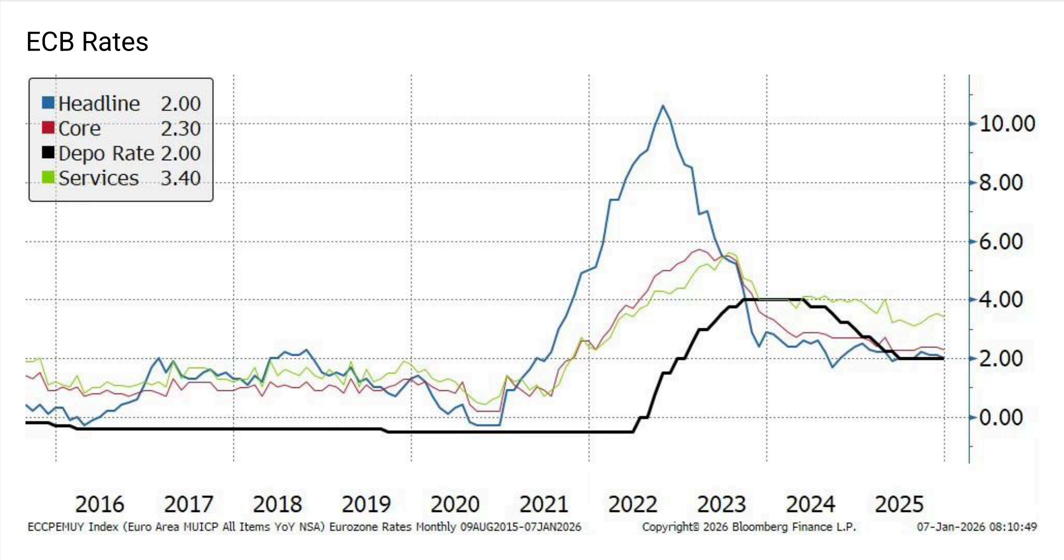
Regional Fed Manufacturing Surveys



Europe

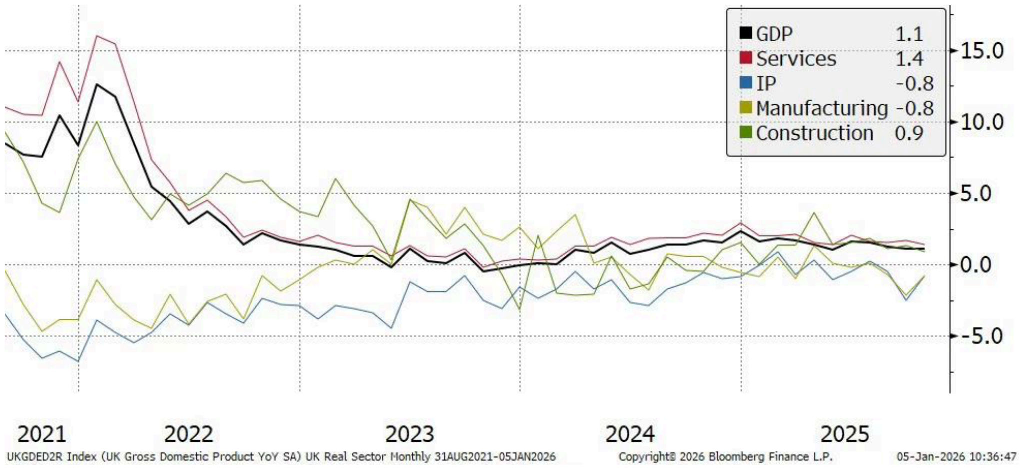
Eurozone inflation data last week support the European Central Bank's current hold stance. Next meeting is February 5 and no change is expected then. Indeed, the swaps market is pricing in steady rates for 2026 and we concur. Guindos and Villeroy speak Monday. Kocher speaks Tuesday. Guindos speaks again both Wednesday and Thursday.

Of note, ECB Vice President Luis de Guindos' term non-renewable 8-year ends at the end of May. Reports suggest that eurozone Finance Ministers will decide on his replacement at their next regular meeting January 19. Nominations closed last week and the six candidates are former Lithuania Finance Minister Rimantas Sadzius, Estonia central bank Governor Madis Muller, Finland central bank Governor Olli Rehn, Latvia central bank Governor Martin Kazaks, Croatia central bank Governor Boris Vujcic, and former Portugal central bank Governor Mario Centeno.



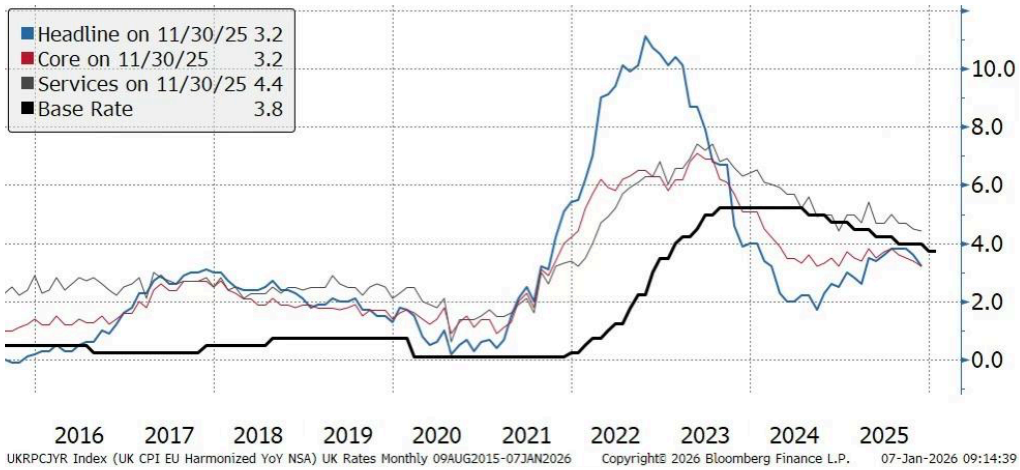
UK reports November real sector data Thursday. GDP is expected at 0.1% m/m vs, -0.1% in October, IP is expected flat m/m vs. 1.1% in October, services is expected at 0.2% m/m vs. -0.3% in October, and construction is expected at -0.3% m/m vs. -0.6% in October. Of note, GDP has contracted two straight months and three of the last four (it was flat the fourth month) and has not grown since June.

UK Real Sector, % y/y



The Bank of England is cutting rates cautiously, but a sharper slowdown in the economy may change its calculus. Governor Bailey speaks Tuesday. MPC members Taylor and Ramsden speak Wednesday. At the last meeting December 18, all three voted with the majority to cut rates 25 bp to 3.75%. Next meeting is February 5 and the market sees only 10% odds of another cut then, with those odds rising to around 50% March 19 and to over 90% April 30.

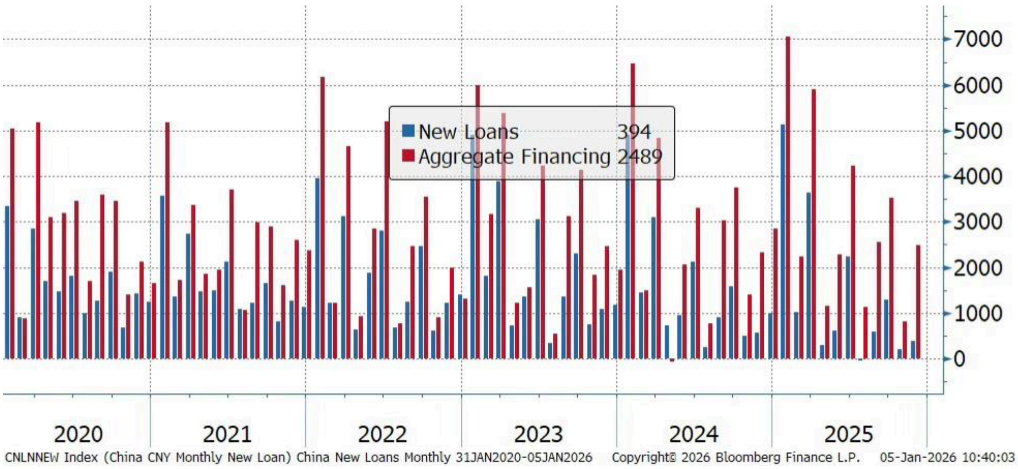
UK Rates



Asia

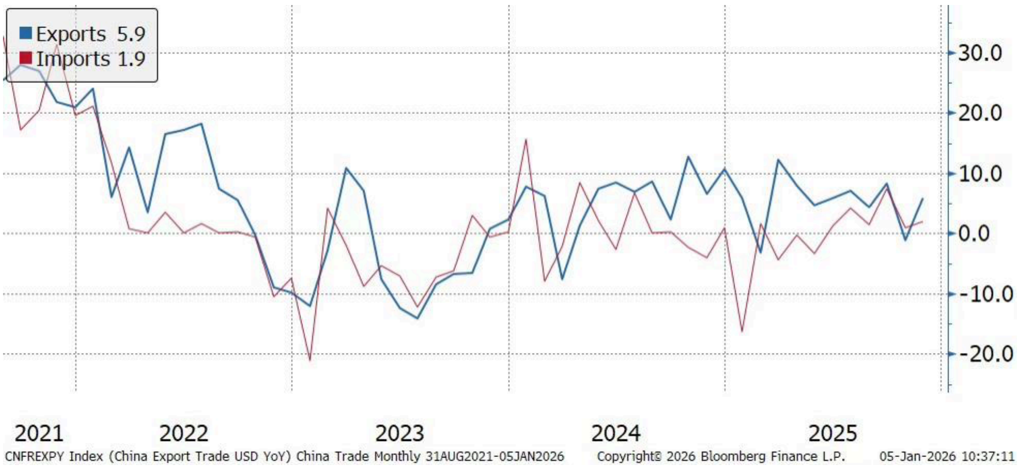
China reports December money and loan data sometime this week. Inflation continues to edge higher but with downside risks to the economy, we expect further monetary stimulus this year. That said, the focus seems to be more on fiscal stimulus as the government kicked off the year with heavy bond issuance.

China New Loans and Aggregate Financing, CNY Bln



China reports December trade data Wednesday. Exports are expected at 3.0% y/y vs. 5.9% in November, while imports are expected at 0.7% y/y vs. 1.9% in November. The yuan is trading at its strongest levels since mid-2023. With domestic demand weak, we expect policymakers to continue relying on external demand this year to boost growth. In that respect, we expect the PBOC to continue leaning against yuan strength.

China Trade, % y/y



Bank of Korea meets Thursday and is expected to keep rates steady at 2.5%. The bank has kept rates steady since the last 25 bp cut back in May. At the last meeting November 27, the decision to hold was 5-1 with the dissent in favor of a cut. Looking ahead, Governor Rhee said the board was split 3-3 about policy over the next three months. However, the bank also removed a previous statement that it would “maintain its rate cut stance.” The swaps market is pricing in steady rates over the next six months, followed by around 50% odds of a 25 bp hike over the subsequent six months. We believe a hike in 2026 is unlikely.

Korea Rates