newsquawk

Week Ahead 17th-21st January 2022

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MON: BoC Business Outlook Survey, Eurogroup Meeting, US Martin Luther King Jr. Day; Chinese Retail Sales /Industrial Output (Dec), GDP (Q4), EZ CPI Final (Dec), US Leading Index (Dec), Canadian Housing Price Index (Dec)

TUE: BoJ Policy Announcement, OPEC MOMR; Japanese Capacity Utilisation (Nov), UK Jobs Report (Nov), Claimant Count (Dec), German ZEW (Jan), Canadian Housing Starts (Dec), CPI (Dec), US NY Fed Manufacturing (Jan), NAHB (Jan)

WED: EIA OMR; Australian Composite Leading Index (Dec), German CPI Final (Dec), UK CPI (Dec), EZ Construction Output (Nov), US Building Permits/Housing Starts (Dec), Redbook (w/e Jan 10th), Canadian Wholesale Trade (Nov), Japanese Trade Balance (Dec)

THU: ECB Minutes (Dec), PBoC LPR, Norges Bank & CBRT Policy Announcements; Australian Employment (Dec), German Producer Prices (Dec), US Initial/Continued Jobless Claims (w/e 10th/3rd Jan), Philadelphia Fed (Jan), New Zealand Manufacturing PMI (Dec), Japanese CPI (Dec)

FRI: BoJ Minutes (Dec); UK Retail Sales (Dec), GfK Consumer Confidence (Jan), Canadian Retail Sales (Nov)

NOTE: Previews are listed in day-order

CHINESE GDP (MON): Q4 GDP growth is seen at 3.6% Y/Y vs. 4.9% printed in Q3. The slowdown in growth during Q4 comes against the backdrop of China's rising COVID cases coupled with its zero-COVID policy, property firm defaults, whilst power outages during the quarter only added to the headwinds. Nonetheless, China will also release its 2021 metric in which several forecasters including the World Bank anticipate the world's second-largest economy to expand by 8% - which would be higher than China's official target of "above 6%" for the year. Expectations for the strong growth follows on from a low base in 2020 when China posted its weakest expansion in four decades due to the onslaught from COVID-19. That being said, some doubts have been cast on the 2022 metrics by reports citing Chinese officials, with recent sources suggesting the GDP target may be lowered in 2022 vs 2021. Advisors have reportedly recommended targets of "5-5.5%" or "above 5%" GDP growth in 2022 vs "above 6%" for 2021. SGH Macro sources suggested that the Chinese State Council is looking to achieve around 4.0% Y/Y GDP growth for Q1 2022 with the aid of a series of macroeconomic policies. Subsequently, there has been growing noise surrounding monetary policy in China even as the US Fed gears up to raise rates.

CHINESE RETAIL SALES/INDUSTRIAL OUTPUT (MON): A slowdown is also expected to show across the retail sales and industrial output metrics for December, with the Street expecting the former at 3.6% Y/Y vs 3.8% in November, whilst Retail Sales Y/Y is seen at 3.7% vs 3.9% in December. The month saw several power outages in the manufacturing region, whilst targeted COVID measures also restricted manufacturing and consumer activity. That being said, this particular data release will likely be overshadowed by the GDP metrics, whilst the domestic economic situation also remains fluid on the back of the Omicron wave and increasing noise surrounding Chinese policy easing this year.

BOJ PREVIEW (TUE): The Bank of Japan is expected to keep its policy settings unchanged at next week's meeting with rates to be maintained at -0.10% and QQE with YCC to target 10yr JGB yields at around 0%, while the central bank will release its latest Outlook Report containing forecasts for Real GDP and Core CPI. The BoJ has stuck to its aggressive easing policy which is unlikely to change anytime soon as Governor Kuroda has stated the Bank will patiently sustain powerful easing citing below target inflation and noted it is too early to consider normalising policy now with the central bank still in a phase to patiently continue large-scale easing, while the BoJ has continuously reiterated it is ready to take additional easing steps as needed with an eye on the pandemic. Nonetheless, it decided at last month's meeting to scale back its pandemic relief funding after the March deadline in which it will taper corporate bond and commercial paper buying by ending the increased purchases of such assets, but extended the portion of its pandemic relief loan scheme targeting smaller firms by six months. This prior announcement adds to the likelihood for no adjustments at the upcoming meeting, while the ongoing Omicron outbreak which has forced Japan to extend border restrictions until end-Feb and impose a COVID-19 pre-emergency status for several prefectures, also supports a patient approach. As such, focus will on board members' updated estimates as source reports suggested the BoJ could revise up its FY22 CPI forecast to the low 1% ranges (from the prior 0.9% view), while participants will be eyeing the statement for any clues that may elaborate on a recent source report that suggested debate within the BoJ on how soon a rate increase can be signalled which could occur ahead of the 2% price target.

UK JOBS REPORT (TUE): Expectations are for the unemployment rate to remain at 4.2% in the 3-month period to November with the subsequent employment change seen rising to 228k from 149k. Ahead of the release, RBC highlights that the 3-month period running up to November will include two months' worth of data that will capture the post-furlough labour market. In the prior report, which captured just one month, it was observed that the closure of the scheme did not trigger a wave of mass redundancies and the same is expected this time around. For context, after opting to stand pat on rates in November amid uncertainty in the labour market and then subsequently hiking rates by 15bps in December, the MPC's judgement on the labour market was an upbeat one with the policy statement noting that "there is little sign in the available data that the closure of the Coronavirus Job Retention Scheme at the end of September has led to a weakening in the labour market". As such, "the LFS unemployment rate is now expected to fall to around 4% in 2021 Q4, compared with the 4.5% projection in the November Report". Looking beyond the upcoming release, it is worth noting the emergence of the Omicron variant, on which, RBC suggests that hiring likely slowed in the run up to Christmas "but with vacancy rates still high overall, that is only likely to offer temporary respite to the overall tightness of the UK labour market".

CANADIAN CPI (TUE): Currently, the consensus is not available for the data but in November CPI saw a 0.2% gain M /M and 4.7% Y/Y gain while the average of the core measures saw a rise to 2.73% from 2.67%. Analysts at Canadian bank RBC see a 4.9% Y/Y rise and suggest the recent dip in oil prices will be offset by expenses in home and car purchases, which explains roughly half the increases in the core measures relative to pre-pandemic levels. Looking ahead RBC note the "headline inflation rate is expected to plateau before dialing lower in coming months as pandemic 'base-effects' start to fade. But pressures from ongoing supply chain challenges, higher input prices, and strong consumer demand are expected to continue to broaden."

UK CPI (WED): Y/Y CPI is forecast to rise to 5.2% in December from 5.1% with the core metric seen remaining at 4.0%. Ahead of the release, Pantheon Macro suggests that if Y/Y CPI prints inline with its forecast of 5.1%, this would be some 0.6pp above the MPC's November MPR projection. Pantheon expects that such an outcome would not be enough for them to alter their call for a 25bps hike in March, however, the consultancy concedes that a "material overshoot" above 5.1% would bring the February meeting into play. It is worth noting that market pricing is perhaps a tad more hawkish than Pantheon, with markets assigning a circa 77% probability of a move on rates at the February 3rd confab. Note, the release will take place against the backdrop of a lack of guidance from MPC members since the prior meeting with just Catherine Mann due on the docket next week. As such, at the time of the release, it will likely take a material deviation from the consensus to shift market pricing. In terms of the expected drivers of inflation for the upcoming release, Pantheon expects the headline rate to be boosted by a further jump in food inflation, whilst "government data show that the month-average level of motor fuel prices was unchanged between November and December". Looking further ahead, in the December policy statement it was noted that "Bank staff expect inflation to remain around 5% through the majority of the winter period, and to peak at around 6% in April 2022, with that further increase accounted for predominantly by the lagged impact on utility bills of developments in wholesale gas prices".

ECB MINUTES (THU): As expected, policymakers opted to stand pat on rates. As had been signalled by the ECB, purchases under PEPP will cease at the end of March 2022. Reinvestments were extended until 2024 and purchases under PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic. On APP, as of Q2 2022, monthly purchases will be beefed up to EUR 40bln from EUR 20bln and then subsequently lowered to EUR 30bln in Q3 and back down to EUR 20bln in Q4 "for as long as necessary to reinforce the accommodative impact of its policy rates". With regards to APP, the programme was not given any of the flexibility criteria seen under PEPP. Elsewhere, policymakers opted to maintain the linkage between APP and rate increases whereby the Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates. At the press conference, President Lagarde noted that although there are near-term headwinds, activity in the Eurozone is expected to pick up strongly in 2022. On inflation, Lagarde stated that in the medium-term, inflation is expected to come in below target. This was reflected in the subsequent staff economic projections which pencilled in 2023 and 2024 inflation at 1.8%. In the near-term, 2021 was upgraded to 2.6% from 2.4% and 2022 to 3.2% from 1.7% (it is worth noting that the cut-off point for the projections was prior to the emergence of the Omicron variant). In terms of the policy decisions made, Lagarde revealed that more than one member did not agree on the parameters, but there was a very large majority. On rates, the President continued to reaffirm that rates are unlikely to rise in 2022. Following the press conference, ECB sources revealed that it was the Austrian, Belgian and German governors who disagreed with parts of the ECB's decision. The hawks were reportedly unhappy with extending the PEPP reinvestment to 2024 and not setting an APP end-date. They also disagreed on the inflation outlook and some stressed risks were to the upside. Given that source reports have already outlined the extent of the disagreement on the Governing Council and the macro landscape has shifted in recent weeks amid the spread of Omicron, the upcoming account will be deemed by some in the market as stale.

PBOC LPR (THU): The PBoC is to update on its benchmark lending rate where participants will be eyeing whether the central bank will maintain the 1-Year Loan Prime Rate at 3.80% or follow through on last month's 5bps reduction which was the first cut since April 2020, while it decided to maintain the 5-Year Loan Prime Rate at 4.65% which is the reference for mortgages. The reduction to the LPR from which most new and outstanding loans are based, was seen as a surprise for some given that the central bank had maintained the "bellwether" Medium-term Lending Facility rate the week beforehand, although there were heightened calls for such action after the PBoC reduced the Reserve Requirement Ratio earlier that month to free up funding for banks amid increasing economic headwinds. The recent move by the PBoC has supported the view that the central bank is on an easing cycle and after it had vowed to step up cross cyclical adjustments, as well as reduce capital costs for financial institutions. As such, economists anticipate further easing steps to support slowing growth and provide a cushion for the economy as the Fed moves closer to a rate lift off with many expecting further RRR cuts this year and a recent poll also showed forecasts for additional 5bps reductions to the LPR in both Q1 and Q2. Conversely, UBS' chief China economist Tao Wang expects the PBOC to keep the LPR steady, but anticipates a RRR cut in March or April, while some economists suggest room for cutting the LPR will be limited as real interest rates are already low considering current price rises, but still see scope for a reduction.

NORGES BANK PREVIEW (THU): Expected to leave the Key Rate unchanged following December's 25bp hike to 0.50%, in a unanimous decision and in-spite of a slight discrepancy within market expectations due to the Omicron variant. Looking ahead, the Norges Bank is expected to continue with its hiking cycle that sees the next increase occurring in March. Explicitly, in December, the Norges Bank guided that "based on the Committee's current assessment of the outlook and balance of risks, the policy rate will most likely be raised further in March.". Since December, the Omicron variant has diminished, in terms of the general expectation of its impact globally, within developed economies at least. Specifically for Norway, December's inflation report takes centre stage showing an above-expected and unexpected increase in the core (ATE) and headline YY measures respectively; the CPI-ATE YY rise to 1.8% from the previous level of 1.3%, a prior that coincides with the Norges Bank's expectation for this period – an unanticipated increase that could justify an explicit warning within the statement and will likely spark an upward revision to inflation forecasts at the March gathering. Elsewhere, the unemployment rate remains steady and GDP metrics, albeit for November, show an improvement. Overall, developments since December reinforce the hiking cycle laid out by the Norges Bank in H2-2021 at this stage; albeit, elevated inflation, if deemed to be persistent, could spark a hawkish-revision.

CBRT PREVIEW (THU): The CBRT is almost wholly expected to hold its Weekly Repo Rate at 14.00% at the upcoming meeting, with only one of out 16 respondents forecasting a cut of 50bps. The almost-one-sided expectations come amid the extraordinary measures taken by Turkey since the prior meeting to rein in the weakening Lira and its subsequent effects on inflation. President Erdogan reiterated his pledge to lower inflation whilst refraining from hiking rates. Given this stance, incoming data has less of an influence on policy decisions – despite CPI soaring to 36% Y/Y in December – a 19-year high. Nonetheless, reports citing the Finance Minister suggested that inflation will likely start to fall from May and reach single digits by mid-2023. In terms of the CBRT survey, end-2022 CPI is seen around 29.75%, GDP (end-2022) around 3.7%, the Repo Rate (in 12 months) at 16.33% and USD/TRY around 16.1350 at the end of this year.

AUSTRALIAN JOBS REPORT (THU): The December employment change is expected to show that 30k jobs were added (vs +366.1k in Nov), with the unemployment rate seen dipping to 4.5% from 4.6% and participation forecast to tick up to 66.2% from 66.1%. Desks highlight that the sample period will unlikely capture the full effect of the Omicron outbreak and therefore see a continuation of the upward momentum. As such, the release carries less weight than usual given that the January data is expected to soften amid a clearer Omicron impact in certain sectors, particularly Travel & Leisure.

JAPANESE CPI (THU): The Core National CPI Y/Y rate is seen ticking higher in December to 0.6% from 0.5% in November. This would be in-fitting with recent commentary from BoJ Governor Kuroda who earlier this week suggested CPI is likely to gradually increase as a trend – although energy is expected to play a large part. Some desks believe the Core metric will exceed 1.5% by around April – with the effects of last year's phone fee cuts abating and oil prices pushing electricity bills higher. The Japanese CPI releases will likely attract more attention over the course of this year, particularly due to the hawkish sources released regarding the world's most dovish central bank, whereby BoJ policymakers are said to be debating how soon they can begin telegraphing a rate increase which could occur before the central bank reaches the 2% target, although an actual hike may not occur until late 2023.

UK RETAIL SALES (FRI): Expectations are for M/M retail sales to contract 0.9% in December with the core rate seen falling 0.5%. Ahead of the release, Oxford Economics notes that after M/M increases in October and November driven by booming sales in non-food stores, a correction looks likely. The consultancy notes that the emergence of the Omicron variant restricted mobility, whilst December also likely saw a drop in fuel sales. In terms of recent indicators, BRC retail sales for December rose 0.6% Y/Y with the consortium noting "despite the recent Omicron outbreak, retail sales held up through December. Many people chose to shop online rather than travel to nearby high streets and shopping centres". Elsewhere, Barclaycard UK December Consumer Spending rose 12.2% compared to December 2019. Barclaycard stated that "while consumer card spending levels are up on 2019, December was a mixed picture for retail, hospitality and leisure, as restrictions to tackle the spread of Omicron started to take effect".

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