newsquawk

Week Ahead 24-28th January. Highlights include: FOMC, US PCE; Flash PMIs; BoC

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MON: Italian Election; Japanese Manufacturing PMI Flash (Jan), EZ, UK, US Flash PMIs (Jan), German CPI Prelim. (Jan), US National Activity Index (Dec).

TUE: NBH Policy Announcement; Australian NAB (Dec), German Import Prices (Dec), Ifo (Jan), EZ Consumer Confidence Final (Jan), Consumer Confidence (Jan), Richmond Fed (Jan), New Zealand Trade Balance (Dec).

WED: FOMC & BoC Policy Announcements, BoJ SOO (Jan), India Republic Day, Australia Day; US New Home Sales (Dec), Retail Inventories (Dec), New Zealand CPI (Q4).

THU: SARB Policy Announcement, CBRT Minutes (Jan); Australian Export/Import Prices (Q4), Chinese Industrial Profit (Dec), German GfK (Feb), US Durable Goods (Dec), US GDP Advance (Q4), PCE Prices Advance (Q4), Initial Continued Jobless Claims (w/e 17th/10th Jan), US Pending Homes Index (Dec), Japanese CPI (Jan).

FRI: Australian PPI (Q4), Swiss KOF (Jan), EZ M3 Growth/Loans to Households (Dec), US Personal Income, Consumption, PCE Price Index (Dec), Canadian Budget Balance (Nov).

NOTE: Previews are listed in day-order

ITALIAN PRESIDENTIAL ELECTION: January 24th will see the commencement of the process to elect a replacement for President Mattarella. The process involves 1,008 electors from the Senate and Chamber of Deputies casting votes via a series of secret ballots across various voting rounds. Note, the role of President is largely seen as “ceremonial” but has the ability to dissolve parliament, appoint a PM and Cabinet as well as rejecting laws on a constitutional basis. Current PM Draghi has been touted to take over as President after running a technocratic government since February 2021. During his tenure as PM, by using his credentials as the former head of the ECB, Draghi brought a sense of economic and political stability. In terms of who else is in the running for the position, on January 14th, centre-right parties confirmed that they are backing former PM Berlusconi as President and will seek parliamentary support for his backing. Political commentators have noted that such a Presidencymight jeopardise the current air of stability surrounding Italy. As such, his candidacy will likely face opposition from the centre-left, who themselves are yet to provide much in the way of clues over who they will back. It is also worth noting that some lawmakers wish for current President Mattarella to remain in his position, however, for now he appears to be sticking with his plans to retire at the age of 80. If Draghi is elected as President, this will mean that the position of PM will be vacant. The first avenue to be explored will be whether or not the legislature can agree to support the existing government coalition until the currently scheduled 2023 elections. If an agreement is formed, this could provide some reassurance to markets, depending on how divisive his replacement is. In the absence of an agreed replacement, an early election could take place with the date brought forward from 2023. However, one mitigating factor here is that it would see the total number of MPs lowered to 600 from 945 and therefore there may be some reticence by lawmakers to trigger such an event. If he is not appointed as President, Draghi will likely remain in his position as PM and therefore could continue on his current path of implementing the PNRR. However, it is likely that Draghi would likely exit Italian politics following the 2023 elections and therefore any air of stability could prove to be short-lived. With regards to the new President, the focus for the market will be on the “divisiveness” of him/her.

EZ MARKIT FLASH PMI (MON): Expectations are for January’s manufacturing PMI to slip to 57.6 from 58.0, services to fall to 52.1 from 53.1, leaving the composite at 52.6 vs prev. 53.3. The December report saw IHS Markit note that “following a brief acceleration in November, economic growth in the euro area eased to a nine-month low during December, resuming a slowdown trend amid a resurgence of COVID-19 infections”. This time around, RBC highlights that although “coronavirus case rates in many countries continued to rise sharply in January, euro area economies by and large refrained from a significant tightening in Covid restrictions”. As such, RBC expects just a minor downtick for the services metric from the prior. On the manufacturing front, the Canadian bank will be eyeing details of the manufacturing print to see if there have been any further improvements in the supplier delivery times. From a policy perspective, the upcoming report will unlikely have much bearing on the ECB meeting the following week given that blockbuster meeting in December which saw policymakers unveil their 2022 tightening plans.

UK MARKIT FLASH PMI (MON): Expectations are for January's services PMI to tick higher to 53.7 from 53.6, manufacturing to fall to 57.8 from 57.9, leaving the composite at 53.8 vs prev. 53.6. December's report, which saw the services print decline to 53.6 from 57.7, was heavily influenced by COVID-disruptions with IHS Markit noting that "UK service providers highlighted a considerable reversal of fortunes during December as the Omicron variant led to a steep fall in spending on face-to-face consumer services, escalating business uncertainty and disruptions due to staff absences". This time around, Oxford Economics, which has an above-consensus forecast of 55.0, expects the upcoming release "to indicate that the drag on services activity from the Omicron wave eased as case numbers began to drop back". On the manufacturing front, Oxford Economics suggests that with the emergence of Omicron not impacting the sector much in December, a shortening in supplier delivery times could drag on the headline. From a policy perspective, the MPC next meets on February 3rd, whereby markets assign an 81% chance of a 25bps hike in the Bank Rate to 0.5% with the bank rate seen reaching 1.25% by year-end.

AUSTRALIAN CPI (TUE): CPI for Q4 is expected to have ticked higher with the Y/Y see at 3.2% (vs prev. 3.0%) and the Q/Q expected at 1.0% (vs prev. 0.8%). The Trimmed (core) and Weighted Q/Q metrics are both expected to match the priors of 0.7%, whilst the Y/Y counterparts are expected to come in hotter than in Q3. Some desks suggest that the country is yet to see signs of supply chain issues, albeit uncertainties reside on the Black Friday Sales which should "keep prices for clothing & footwear plus household goods & furnishings well contained in the December quarter", according to Westpac. That being said, analysts warn that the risk is to the upside – "underlying prices could rise faster than expected (2.0%), as well as there being less grants left to be used, resulting in dwelling prices rising more than the 4.8% forecast."

NEW ZEALAND TRADE BALANCE (TUE): There are currently no expectations for the Trade Balance metric nor the Import/Export breakdown, but domestic demand is likely to see a hot import value, according to some analysts. The metric is unlikely to sway the course of monetary policy as inflation will likely dictate the course of rate hikes – with the bank almost wholly expected to raise its rate at the next meeting.

FOMC PREVIEW (WED): The January 25th-26th FOMC is largely expected to be a signalling event for a March rate liftoff as the Fed's asset purchases near a conclusion. Bloomberg's economist survey saw a majority of the 45 respondents predict this meeting to be used to telegraph a 25 bps hike in March, although two look for a surprise 50bps hike (the largest since 2000); economists were evenly split between three and four hikes in total for 2022. Markets themselves have already priced in both a March hike and four hikes altogether this year. There have also been some eye-catching suggestions for as much as six or seven hikes this year from market participants, but really what that depends on is the inflation path. If price pressures continue to roar and long-term expectations become unanchored, the Fed will be forced to be more aggressive making a high single digit amount of hikes more likely; Fed's Waller said if inflation remains above 3% the Fed will have to rethink its strategy. However, the most likely outcome at this stage is three hikes, that being based on near-term full employment being met and an expectation that inflation comes further back down towards target heading through the year. The January meeting is also likely to echo recent commentary regarding expectations for poor activity data to start the year given the surge of the Omicron variant, but a return to stronger growth as that fades, and thus, not a reason to walk back on the removal of accomodation. There remains a wild card of the Fed abruptly ending its asset purchases at the January meeting ahead of the existing March plan, although that seems not much more than speculation given Fed officials have not taken the opportunity to express an interest. Lastly, we are looking to Powell's presser for any guidance around balance sheet reduction. 29% of Bloomberg's economists surveyed expect the runoff to occur between April and June and 40% from July to September. The median estimate looked for monthly reductions (caps) between USD 40-60bln, bringing the balance sheet down to USD 8.5tln by year-end from 8.8tln at present. Powell said at his renomination hearing that it will be discussed at the January meeting, but noted the balance sheet decision tends to take two to four meetings to work through. The Fed Chair also echoed the Dec FOMC minutes in saying the Fed would reduce its holdings sooner and faster than last time.

BOC PREVIEW (WED): The Bank of Canada may see its first hike since the onset of COVID on Wednesday with market pricing leaning hawkish in recent days from a 60% chance on Monday to a 90% chance on Wednesday following a hawkish Business Outlook Survey and December CPI data. If the Bank were to hike by 25bps, it would be ahead of their current guidance for "sometime in the middle quarters of 2022". The Business Outlook Survey sounded the alarm on inflation with 67% of firms expecting inflation to be above 3% over the next two years, with most predicting it will return to target within one to three years. It also noted that demand and supply bottlenecks are expected to keep upward pressures on prices over the year-ahead. However, the overall survey saw a continued improvement in business sentiment to see the indicator hit a record high although it was held back by labour shortage and supply chain issues. Note, the Canadian labour market is back at pre-pandemic levels and has been for a while. A separate BoC survey showed the consumer inflation expectations hitting a record high 4.89% over the next year, noting most people are more concerned about inflation post-COVID than before, where consumers believe it is more difficult to control. The latest CPI report saw the headline M/M and Y/Y metrics in line with expectations although the core Y/Y measure saw a sharp rise to 4.0%, while the BoC eyed measures rose to 2.93% from 2.73%. Analysts at Canadian Bank Scotia bank expect the BoC to hike by 25bps at the next meeting with 175bps of hikes in 2022 to see the end of 2022 at 2%, followed by 50bps in 2023 to a terminal rate of 2.5%. The desk cites a number of reasons for their hawkish shift: Governor Macklem sounded more uncomfortable with inflation in his December speech, Fed Chair Powell also sounded concerned on inflation. More evidence Omicron is less severe than feared. Q4 GDP growth is tracking much better than expected. Real policy rate has continued to ease. December jobs adds to the recovery that is 241k above pre-pandemic levels. Inflation expectations, wage pressures and house prices continue to rise (citing BoC surveys). Finally, a very strong housing market is also a reason for their thinking. On the flip side, there is the argument that the Omicron variant restrictions are currently in place may force the BoC to hold off, although this doesn't appear to be the consensus given the concerns on inflation, and that the Omicron variant could escalate inflationary pressures.

NEW ZEALAND CPI (WED): Y/Y CPI for Q4 is expected to tick higher to 5.6% from 4.9% whilst the M/M is seen cooling to 1.2% from 2.2%. Desks suggest that domestic inflation is a function of both supply and demand-side factors – with the supply crunch effects compounded by increases in international transport and energy prices. Meanwhile, on the demand side, household spending has been rising on furnishings and recreational equipment, whilst residential construction has also seen support. “Inflation is being boosted by a perfect storm of supply-side pressures and strong domestic demand”, analysts at Westpac say, “measures of underlying or ‘trend’ inflation are also likely to continue pushing higher this quarter. Most core inflation measures are already running above 2%, with several approaching or already above the 3% upper bound of the RBNZ’s target band.” The bank expects the RBNZ to hike the OCR at the upcoming February meeting.

US GDP (THU): The Q4 advanced report is expected to show growth of +5.8% in Q4 (prev. 2.3%). For reference, the Atlanta Fed's GDPnow model is tracking growth of 5.1%. The latest Omicron woes might not be fully reflected in the data; this effect is being seen more in the early January economic data releases, and that could make the data easy to look through due to the uncertainty. Oxford Economics' notes that Omicron is unlikely to have derailed the US recovery, but it expects that GDP growth will slow to roughly 2.5% annualized in Q1, and assuming health conditions improve, it sees solid real GDP growth of around 4% in 2022 as a whole.

SARB PREVIEW (THU): Analysts expect the South Africa Reserve Bank to lift rates by 25bps, taking its repo rate to 4.00%; a small minority believes the central bank will stand pat. "The spike in consumer inflation to just below the ceiling of the SARB's inflation target in the context of tightening of global monetary policy supports front-loading of the South African hiking cycle," Standard Bank's analysts said, adding that "South Africa's inflation remains reasonably benign given the persistently weak economy, but inflation is edging higher and the SARB's interest rate normalisation process will continue."

US PERSONAL INCOME, CONSUMPTION, PCE (FRI): Personal income is seen rising +0.4% M/M in December; the BLS employment situation report for December saw monthly average hourly earnings rise above expectations while the unemployment rate fell, in another sign of the tight labour market conditions in the US; ahead, some desks caution that the expiry of monthly Child Tax Credits is may be a headwind for consumers' income. Meanwhile, consumption is seen rising +0.1% M/M; analysts have noted that US consumers appear to have brought forward some seasonal shopping in Q4, while the Omicron surge towards the end of the year likely weighed on services spending too. For reference, retail sales data for December disappointed expectations. On the inflation front, Core PCE is seen rising +0.5% M/M in December, matching the prior months' rate, while the annual core PCE reading is seen rising 0.1ppts to 4.8% Y/Y; Credit Suisse notes that notes that core inflation remained firm through the end of the year, and ahead, it sees the annual measure remaining in its elevated range until Q2, when base effects may become a "significant" headwind.