newsquawk

Week Ahead 14-18th February 2022: Highlights include FOMC minutes, US retail sales, China inflation, UK data

Week Ahead 14th-18th February 2022

- **MON:** Japanese GDP (Q4).
- **TUE:** UK Jobs Report (Jan/Dec); German ZEW Survey (Feb); US PPI (Jan).
- **WED:** FOMC Minutes; ECJ judgement on Rule of Law; Chinese Inflation (Jan); US Retail Sales (Jan); Canadian CPI (Jan).
- **THU:** CBRT Announcement; Australian Jobs Report (Jan); US Philly Fed (Feb); Japan Nationwide CPI (Jan).
- **FRI:** UK Retail Sales (Jan) and Inflation (Jan).

NOTE: Previews are listed in day-order

UK JOBS REPORT (TUE): The unemployment rate is expected to hold steady at 4.1% in the three months to December. Ahead of the release, RBC notes that the emergence of Omicron appeared to dent labour market demand with monthly data on vacancies showing the number of vacancies slipping a little during the month. However, RBC is not of the view that this will have a material impact on the headline unemployment rate. On wages, the bank expects further slippage in headline pay growth to 3.8% 3M/YR (prev. 4.2%) as compositional effects reverse. From a policy perspective, it is worth noting that given that there have now been two labour market reports from the UK which have encapsulated the end period of the furlough scheme, and as there has not been a notable pick-up in redundancies, the upcoming release might be viewed as less important compared to those of recent months. The Bank of England's MPC has shown enough confidence in the jobs market by lifting rates by 15bps in December and 25bps in February; within the latter's policy statement, the MPC said that after the jobless rate fell to 4.1% in the 3-months to November, it is seen declining further to 3.8% in Q1. Looking ahead, policymakers cautioned that beyond the near-term, UK GDP growth is expected to slow to subdued rates and as a result, the unemployment rate is expected to rise to 5% by the end of the forecast period.

RBA MINUTES (TUE): Participants will be on the lookout for more meat on the bones regarding the plausibility of a rate hike this year. To recap, the RBA kept Cash Rate Target at 0.10% and announced an end to bond purchases, as expected, but reiterated the board is prepared to be patient. The central bank said it is still too early to conclude that inflation is sustainably within the target band and it will be sometime before aggregate wage growth is at a rate consistent with inflation being sustainably at the target while it will not increase the Cash Rate until inflation is sustainably within the 2%-3% target. The central bank emphasised that easing bond purchases does not imply a near-term increase in interest rates. RBA Governor Lowe said the achievement of inflation and unemployment goals are within sight, reiterating that it is too early to conclude inflation is sustainably within target range and that end of bond purchases does not mean a Cash Rate hike is imminent. Governor Lowe also reiterated the board is prepared to be patient and said they have scope to wait and see how the data develop and how some of the uncertainties are resolved.

CHINESE INFLATION (WED): The street expects both the CPI and PPI to cool Y/Y with the former expected at 1.2% (prev. 1.5%) and the latter seen at 9.4% (prev. 10.3%), whilst the M/M is seen picking up to 0.5% from -0.3%. Using the Caixin releases as proxies for prices, the release suggests input and output prices both continue to rise with their gauges marginally increasing, although elevated raw material prices remained a concern. "Prices data showed that average input costs rose at a slightly sharper rate than in December, while prices charged inflation also picked up.", the release suggested. The PPI metric will arguably gain more focus as China has a track record of releasing state reserves to stem raw material inflation. On that note, it's worth keeping in mind that China took steps to lower iron ore prices as Chinese regulators vowed to crack down on hoarding, speculation, and price gouging.

US RETAIL SALES (WED): US retail sales are expected to rise +1.7% M/M in January, while the ex-autos gauge is seen rising by +0.4% M/M. Credit Suisse' analysts are more bullish than the consensus, and looks for a bounce back in January, arguing that seasonal adjustment factors weighed on the data series in December, as well as consumers' bringing forward holiday spending in 2021; CS looks for real retail sales growth of +1.9% M/M. The bank explains that unit vehicle sales were up by almost 20% at the start of the year, which should buoy the headline. "There should be a strong rebound in January as seasonal spending patterns normalise," the bank writes, "the expiration of monthly Child Tax Credit payments is a downside risk to consumption at the start of the year, but high-frequency spending data has

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

been robust so far." The bank is encouraged on goods spending levels (above pre-pandemic levels), while noting that household balance sheets remain strong, and the labour market recovery implies we should see strong wage growth ahead. "While some eventual normalisation is likely, we do not expect a sharp contraction in the medium-term," the bank says.

CANADIAN CPI (WED): An analyst consensus has not yet been formed for Canada's January CPI metrics, but Canadian bank RBC thinks the annual rate will come in at 4.7% (prev. 4.8%), little changed on the month, but near the highest levels since the early 1990s. "Gasoline and home-buying costs combined are expected to once again account for just under half of the headline price gain," the bank writes, noting that the "annual price growth is still being biased higher by low year-ago comparable prices across other products when the pandemic economic impact was more severe." However, RBC says that prices have been broadening versus pre-pandemic levels: "By our count, close to 60% of the consumer price basket has been running at more than 2% Y/Y vs pre-pandemic levels," it writes.

FOMC MINUTES (WED): The March FOMC meeting served to prepare markets for imminent rate hikes. Chair Powell was less committal on the pace of hikes, and did not rule out the possibility of a 50bps increment move if needed, nor did the Fed chief rule out the potential for rate hikes at every one of the Committee's remaining meetings in 2022 (seven more). A recap of the meeting can be accessed here. It is worth noting that after the January FOMC, markets were pricing in around 100bps worth of hikes in 2022. However, since then -- and after a blowout January jobs report and a hot January CPI -- markets are currently pricing in around 160bps worth of hiking through the end of this year. In response to the jobs and inflation reports, Fed officials have generally continued to play down the need for a 50bps move, although some outliers -- like the Fed's 2022 voter Bullard, who favours 100bps of interest-rate increases by July 2022, a half-point rate hike in March, and balance sheet reduction to commence in Q2; he also suggested that the Fed should consider lifting rates in between meetings -- are keeping hawkish risks in play. The idea of an inter-meeting move has been given credence after a number of high profile Fedwatchers acknowledged the risks; SGH Macro's Tim Duy, for instance, said he would not be surprised by an inter meeting move, "I know this is crazy aggressive, and we have no inside information, it is just getting to the point where the distance between the Fed’s current position and reality is too wide to ignore any longer - waiting another month while Fed presidents spin stories about only expecting three or four hikes this year is at this point nonsensical." A curious Bloomberg article, however, plays down the threat: without specifically citing sources, Bloomberg claims that despite the hot CPI, the FOMC does not yet favour a 50bps rate hike or even making any emergency policy moves outside of a scheduled meeting (next one is scheduled for March 16th). It adds that such moves would risk signalling panic and cementing criticism that the Fed is behind the curve on inflation; it would also involve bringing forward the conclusion of the Fed’s asset purchases, which could exacerbate the potential shock among unprepared market participants. Other analysts also note that Fed's Bullard is not representative of the central consensus on the FOMC; indeed, other officials like the Fed's Mester, who also votes in 2022 and has been previously considered a hawk, played down the idea of a 50bps increment. In terms of the trader's view, money markets (at pixel time - this is a fast market) suggest that there is around 66% chance of that half-point hike in March (it was around 50% in wake of the hot CPI data on Thursday), and by the end of this year are pricing the Federal Funds Rate target being lifted to 1.50-1.75% (which would represent six 25bps hikes from current levels) and there are risks of 1.75-2.00%. Another factor worth keeping in mind is that the Fed has announced a closed-door meeting of the Board for Monday 14th February at 11:30EST/16:30GMT, held under expedited procedures; officially, the meeting appears to be to review and determine the advance and discount rates to be charged by the Federal Reserve Banks, and banks remind us these can be regular meetings and do not include regional Presidents, implying that no monetary policy decisions will be made, but traders are still on alert after some of the inter-meeting hike talk from Bullard.

CBRT PREVIEW (THU): The CBRT is expected to maintain its Weekly Repo Rate at 14.00%, according to most analysts polled by Reuters. Last month the central bank opted to maintain its rate and assign more emphasis on Lira prioritisation. Turkish data remains dire with Y/Y CPI climbing 48.7% (from 36.08%), whilst the Lira has stabilised following the extraordinary measures announced by President Erdogan at the start of the year. Analysts at Oxford Economics suggest that “While the central bank (CBRT) has paused to evaluate the impact of the steep rate cuts delivered in H2 2021, more cuts may be in the offing, even as fundamentals support rate hikes.” Desks also suggest that further room for currency intervention also remains limited.

AUSTRALIAN JOBS REPORTS (THU): Headline employment change is expected to have shed 15k jobs in January (vs an addition of 64.8k in December), with the participation rate seen ticking lower to 66.0% from 66.1% whilst the unemployment rate is expected to have remained steady at 4.2%. “It is tempting to forecast a lift in participation in January but the Omicron outbreak just as Australians went on summer holidays is a clear complicating factor”, Westpac says. The bank forecasts a 5.5k addition to the labour force and sees the participation matching last month’s 66.1%. “The larger than usual number on leave will hit hours worked but there is a downside risk to both employment and participation, meaning a fall in unemployment is still possible.”, the desk says. From a policy perspective, the report is unlikely to shift the dial for the RBA – with Aussie inflation more of a concern as of late.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

JAPANESE CPI (THU): National Core CPI for January is expected to tick lower to 0.3% from 0.5% Y/Y. Despite the acceleration in the prior month, BoJ officials have been downplaying how persistent inflation will likely be. Governor Kuroda has been very vocal in recent weeks – suggesting that it is hard for inflation to reach 2% unless wages rise in tandem with prices. The governor also emphasised that the chance of Japanese consumer inflation accelerating sharply is very small, and added that they must continue monetary policy easing a bit longer as inflation is short of the target. Recently, the BoJ stepped into the bond market in an attempt to rein in the yield on the 10yr JGB – which has been threatening the central bank's implicit 0.25% ceiling.

UK RETAIL SALES (FRI): Analysts expect retail sales to grow 0.6% M/M in January vs the 3.7% decline seen in December, which was attributed to a "post-Black Friday" pullback with footfall suppressed by Omicron. Accordingly, the upcoming release will likely be characterised by a bounce back from the declines seen in December as consumer behaviour normalised and infection numbers slowed. In terms of recent retail metrics, BRC gauge of retail sales rose to 8.1% Y/Y with the consortium noting it was "encouraging to see such strong sales in January, even once inflation has been accounted for," though cautioned that in the coming months "retailers face competition from other spending opportunities as the public flood back to restaurants, cafes and live events". Elsewhere, the Barclaycard consumer spending report revealed that with more Brits staying at home, face-to-face retail spending (excluding grocery) dropped -8.5%.

UK INFLATION (FRI): Expectations are for UK CPI to rise by 0.1ppts to 5.5% Y/Y, with the core metric seen ticking higher by the same magnitude to 4.3% Y/Y. Ahead of the release, Oxford Economics (which holds a below-consensus estimate of 5.1%) cautions that base effects could prompt a retreat in price growth given that 2021 saw sharp increase in both food and petrol prices. That said, even if there is a pause in the pace of CPI, price pressures are very much expected to pick-up in the coming months. Within its February policy statement, the Bank of England's MPC noted that inflation is expected to increase further in coming months, to close to 6% in February and March, before peaking at around 7.25% in April. Adding that "on the rising market-implied path for Bank Rate and the MPC's current forecasting convention for future energy prices, CPI inflation is projected to fall back to a little above the 2% target in two years' time and to below the target by a greater margin in three years".

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("**Newsquawk**") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.