Week Ahead 22-26th August: Highlights include: Jackson Hole, US PCE; PBoC LPR, ECB minutes; Flash PMIs

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- **MON:** PBoC LPRs & Israel Policy Announcement; Swiss M3 (Jul), UK CBI Trends (Aug), US National Activity Index (Jul).
- **TUE:** NBP Policy Announcement; Australian, EZ, UK & US Flash PMIs (Aug), EZ Consumer Confidence Flash (Aug).
- **WED:** South African CPI (Jul), Canadian Business Barometer (Aug), US Durable Goods (Jul).
- **THU:** Fed Jackson Hole (1/3), ECB Minutes (Jul), CBRT Minutes (Aug); German GDP Detailed (Q2), Norwegian Labour Force Survey (Jun), German Ifo (Aug), US GDP 2nd Estimate (Q2), PCE Prices Prelim. (Q2), IJC (w/e 15th Aug), Canadian Average Weekly Earnings (Jun).
- **FRI:** Fed Jackson Hole (2/3); Japanese CPI (Aug), German GfK (Sep), Swedish PPI (Jul), Unemployment (Jul), Norwegian Retail Sales (Jul), EZ M3 (Jul), US Personal Income/Consumption (Jul), University of Michigan Final (Aug), Canadian Budget Balance (May).

NOTE: Previews are listed in day-order*

PBOC LPR (MON): PBoC will decide on its benchmark rates on Monday with the central bank unanimously expected to reduce the 1-Year Loan Prime Rate by 10bps from the current 3.70% level, according to a Bloomberg survey, while there are mixed views regarding the 5-Year Loan Prime Rate (reference for mortgages) as most analyst expect this to be reduced by 10bps from the current 4.45% level, although around 38% are calling for a greater cut of 15bps to assist the flagging property sector. The expectations for the central bank to lower its benchmark lending rate for the first time since late January follows its recent surprise decision to cut rates on the 1-Year Medium Term Lending Facility and the 7-Day Reverse Repo by 10bps each as China contends with a slowing economy amid the impact of its strict zero-COVID policy and sporadic outbreaks of the virus. The slowdown has been evident in recent data releases with Chinese Manufacturing PMI at a surprise contraction last month, while Industrial Production and Retail Sales both missed forecasts and GDP for Q2 showed a wider than expected Q/Q contraction at -2.6% vs. Exp. -1.5% (Prev. 1.3%). Furthermore, Chinese authorities including the central bank have continuously pledged support measures, while a front-page report in the PBoC-backed Financial News noted that China needs additional policy stimulus to increase economic growth, which supports the calls for a cut to the LPRs.

EZ PMI (TUE): Expectations are for the August EZ-wide manufacturing PMI to fall to 49 from 49.8 and services to nudge lower to 50.5 from 51.2, leaving the composite reading at 49.5 vs. prev. 49.9. The July report saw the manufacturing sector unexpectedly slip into contractionary territory, which prompted the composite metric to slip below the 50 mark too, whilst services just about managed to remain in expansionary territory. The accompanying report via S&P Global noted that “The eurozone economic outlook has darkened at the start of the third quarter, with the latest survey data signalling a contraction of GDP in July. Soaring inflation, rising interest rates and supply worries – notably for energy – have led to the biggest drops in output and demand seen for almost a decade, barring pandemic lockdown months." This time around, ING notes “a further deterioration for August as businesses and consumers struggle with even higher energy prices, and drought is adding to production problems in Germany. This will also impact consumer confidence, which had already dropped to an all-time low in July. Don’t rule out another new record for August”. Given remarks from ECB’s Schnabel last week, who noted that a recession wouldn’t be enough to slow inflation, a soft reading might not have too much sway on pricing around the September meeting, however, it could see some adjustments to expectations later in the year and early Q1 2023. As a reminder, around 45bps of tightening is priced in for September.

UK PMI (TUE): Expectations are for the August UK services PMI to fall to 52.0 from 52.6, manufacturing to move lower to 51.3 from 52.1, leaving the composite at 51.1 vs. prev. 52.1. The July report saw all the metrics decline from the prior, but remain in expansionary territory. However, the accompanying report from S&P Global was not particularly encouraging, noting that “UK service providers reported their worst month for business activity expansion since the national lockdown in February 2021. Reduced levels of discretionary consumer spending and efforts by businesses to contain expenses due to escalating inflation have combined to squeeze demand across the service economy”. This time around, analysts at Investec expect further declines across all three readings given that “that companies are increasingly feeling the impact of soaring costs”, whilst increasing interest rates and the higher funding costs that come with them are to have become more of a drag. That said, analysts note “the gradual easing in global supply chain disruptions and the ongoing resilience in the labour market may have buffered the slide”. From a policy perspective, following the July CPI release, markets are pricing in a 50bps move in September with an 89% probability. Even if the PMI prints underwhelmed, it's hard to see how much sway it would have on pricing given that policymakers are clearly fixated on fighting the flames of inflation, whilst forecasting a five-quarter recession due to commence in Q4 2022.

FED’S JACKSON HOLE SYMPOSIUM (THU-SAT): The Fed’s 46th annual Economic Policy Symposium at Jackson Hole is entitled “Reassessing Constraints on the Economy and Policy” and will take place on 25-27th August, with Chair Powell to deliver his remarks on the economic outlook on Friday at 15:00BST/10:00EDT. The event is usually seen as a platform that Fed officials use to signal upcoming policy changes. The FOMC’s July meeting minutes stated that “participants judged that, as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation.” Traders took this as a sign that with rates now at the estimated neutral level, the Fed might ease-off on lifting its Federal Funds Rate target, reverting to smaller increments of 50bps or 25bps; however, the language was offset by a line that said “many participants remarked that, in view of the constantly changing nature of the economic environment and the existence of long and variable lags in monetary policy’s effect on the economy, there was also a risk that the Committee could tighten the stance of policy by more than necessary to restore price stability.” That was marginally less hawkish as it implies 75bps shouldn’t be the default assumption for September.” BMO Capital Market’s strategists suggest that this could mean that an overshoot on rates in the near-term could imply that the Committee is cognizant that they might have to cut rates soon after achieving terminal, which was seen between 3.75-4.00% when the Fed updated its forecasts in June (these projections will be revised at the September 21st FOMC). However, traders expecting any explicit policy signal may be left disappointed, judging by the commentary from Fed officials in wake of the minutes’ release. Fed’s 2022 voting member Bullard said he was leaning towards a 75bps rate rise in September, arguing that front-loading hikes would give the Fed more optionality next year, and reiterated his call for rates to rise to 3.75-4% by year-end as he is not ready to say the inflation surge has peaked; Fed’s George, another 2022 voter, said that the easing of financial conditions may have been based on optimism that the Fed would slow down the pace of tightening, but that did not reflect how the Fed was thinking about policy, adding that the July inflation report was encouraging, but it was not time for a victory lap. Accordingly, Powell could re-emphasise that the Committee’s decision-making will be driven by incoming data, and argue that there is still a great deal of work to be done in bringing inflation back to target.

ECB MINUTES (THU): Despite expectations for a 25bps hike across the ECB's three key rates, policymakers opted to "go big" and deliver 50bps worth of tightening, taking the deposit rate to 0% and therefore drawing a line under the Bank's NIRP. Alongside this, the Bank refrained from providing explicit guidance for the September meeting and is instead adopting a meeting-by-meeting approach. The Governing Council was also able to agree on an anti-fragmentation tool named the Transmission Protection Instrument (TPI) aimed at ensuring that the monetary policy stance is transmitted smoothly across all euro area countries. That said, PEPP will remain the first line of defence to counter risks to the transmission mechanism related to the pandemic. President Lagarde said that the Governing Council rallied around the consensus of a 50bps hike and that the ECB is accelerating the normalisation process, but not changing the ultimate point of arrival. In terms of the details of TPI, Lagarde noted that all nations are eligible, the ECB is capable of "going big" on the instrument, whilst the activation of TPI is at the discretion of the Governing Council. Lagarde later clarified that the four conditions for TPI are as follows: 1. Compliance of EU fiscal framework, 2. Absence of severe macro imbalances, 3. Fiscal sustainability, 4. Sound and sustainable macro policies. Any further colour around the discussion held on TPI and how it could be implemented would be of note for markets. Some commentators were quick to suggest that Italy might fail to satisfy such criteria and as such, the IT/GE 10yr spread was unable to narrow from the levels prompted by the resignation of Italian PM Draghi. Furthermore, the follow-up press release noted that purchases under TPI could be suspended if it is judged that persistent tensions are due to country fundamentals. Overall, given the fast-paced nature of inflationary developments within the Eurozone any policy signals towards the September meeting will likely be deemed as stale, particularly given the ongoing surge in Eurozone electricity prices since the meeting which have added further pressure to the price outlook within the region. As it stands, markets currently price in 42bps of tightening for the September meeting

BOK ANNOUNCEMENT (THU): The Bank of Korea will decide on rates next week with the central bank likely to continue with its policy tightening and increase the 7-Day Repo Rate by 25bps to 2.50%. As a reminder, the BoK unanimously delivered a widely expected 50bps rate hike at last month’s meeting which was its largest ever rate increase and it noted that inflation will remain high for some time which it sees surpassing the May forecast for the entire of 2022 and for core inflation to be higher than 4% for a considerable period. BoK Governor Rhee also noted that more policy tightening looks appropriate going forward should current inflation continue for the time being and that it is reasonable to expect rates at 2.75%-3.00% by year-end, while the central bank stated that inflation is to exceed 6% for the time being and that managing inflation is the utmost priority. Therefore, the central bank is likely to hike rates again next week given that inflation has continued to increase whereby CPI in July rose to 6.3% vs. Exp. 6.3% (Prev. 6.0%) which was the fastest increase since November 1998.

US PCE (FRI): The upside in Core PCE prices is seen moderating in July, with the consensus looking for +0.3% M/M (prev. 0.6%), which would be in line with the reading from the July CPI data. Headline PCE prices are also seen easing, led lower by gasoline. However, Credit Suisse warns that although it would be encouraging to see a slowdown in core goods prices, some of the slowdown in July PCE data will be driven by temporary factors, like falling travel and transport prices; “a downside surprise is a welcome development, but persistent strength in shelter and service prices should keep core PCE inflation above the Fed’s 2.0% target at least through next year,” the bank writes. Meanwhile, Personal Income is seen rising 0.6% M/M, in line with the prior reading, and personal consumption is seen easing to a rate of +0.3% M/M from a previous +0.6%. “Income growth is likely to remain strong – a pickup in wages and above-trend job gains drove a large increase in aggregate labour income in July,” CS says, “we also expect consumer spending to show positive growth for a second-consecutive month after a sharp drop in May.”

OFGEM PRICE CAP REVIEW (FRI): On October 26th the UK energy regulator is set to confirm how much the price cap will increase for the October to December 2022 period. As a reminder, since the last update in February, for the April to September period, Ofgem has increased the frequency of reviews to quarterly. Currently, the Default cap is GBP 1,971, the Standard Credit cap is GBP 2,100 and the Prepayment Meter cap is GBP 2,017. For the Q4 2022 period, Cornwall Insight’s expects the Default cap to increase from GBP 1,971 to GBP 3,582, an increase of 81.7%. Evidently, the increase will substantially pressure household budgets and impact their consumption and as such the economy’s growth; notably, the BoE cited the energy crisis as a key factor behind their call for a UK recession from Q4 2022, which is forecast to last for the entirety of 2023. As such, forecasting consumption growth to turn negative for 2023 (-0.75%) though, this will be somewhat offset by the utilisation of savings. For reference, these forecasts are based on a slightly dated price cap assumption, with the BoE forecasting a 75% increase vs exp. 82%. On inflation, Pantheon Macro writes that while inflation is likely to fall modestly in August and September (from July’s 10.1% headline YY print) amid reductions in oil prices, the increase to the Ofgem cap will bring CPI back up to circa. 13% YY in October as electricity and natural gas prices contribute over 6pp of the rate vs current 2.4pp. As a reminder, this is in-fitting with the BoE’s prediction of a “just over 13%” peak in Q4. Note, Pantheon expects a 25bp BoE hike at both the September and November gatherings before pausing, as the pace of upside in broader price pressures slows; caveating that it would not take much to justify 50bp in September. From a fiscal perspective, given the effective limbo state of the leadership as we await the announcement of the next PM on September 5th, nothing is expected in the interim; though, it is almost certain the leader (likely Truss, if polls hold) will take steps on top of the GBP 400 handout before October. For instance, some reports suggest she will target the handout to poorer households only alongside broader measures to reduce the tax burden in an attempt to mitigate any potential recession.