Week Ahead September 5-9th - highlights include ECB, BoC, RBA; OPEC, EU Energy Meeting; UK PM announcement

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- **MON:** OPEC+, US/Canadian Labor Day, UK PM/Conservative Leader Announcement; Australian, Japanese, EZ, UK Final Composite/Services PMIs (Aug), Chinese Caixin Services PMI (Aug), Turkish CPI (Aug), EZ Retail Sales (Jul)
- **TUE:** RBA Policy Announcement; EZ & UK Construction PMIs (Aug), US Final Composite/Services PMIs (Aug), ISM Services PMI (Aug)
- **WED:** EIA STEO, BoC & NBP Policy Announcements; Australian Real GDP (Q2), Chinese Trade Balance (Aug), German Flash GDP (Q3), EZ Final Employment (Q2), Canadian Trade Balance (Jul)
- **THU:** ECB Policy Announcement; Australian Trade Balance (Jul), US IJC (w/e 29th Aug)
- **FRI** EU Energy Meeting; Eurogroup; Chinese CPI (Aug), Norwegian CPI (Aug), Canadian Labour Market Report (Aug)

NOTE: Previews are listed in day-order

OPEC+ (MON): On September 5th, the Joint Ministerial Monitoring Committee (JMMC) will review the findings of the JTC and make a recommendation to the decision-making OPEC+ group. Expectations lean towards an extension of current quotas following weeks of fluidity in forecasts, as oil officials floated the idea of tightening output to stabilise markets, while sources intimated a cut is contingent on an Iranian nuclear deal. Some believe a proposal for a cut will not even be put forward. To recap, at the prior meeting on August 3rd, OPEC+ agreed to hike total September quotas by 100k BPD. Split among most members, Saudi Arabia's share was increased by 30k BPD and the UAE's by 7k BPD. The White House welcomed the decision since it eases some pressure on Washington in the short term at least; the US Energy Department said at the time that it has seen a remarkable decline in oil prices and wanted even lower prices. The JMMC is set to meet at 12:00BST/07:00EDT, with the OPEC+ ministerial meeting guided around 12:30BST/07:30EDT. A full Newsquawk preview is available here.

UK TORY LEADERSHIP RACE (MON): Monday will see the result of the Tory leadership race, and by extension, it will be an announcement of who will be appointed as the next UK prime minister. As has been the case since the onset of the campaign, Foreign Secretary Liz Truss is widely expected to be declared the victor, with current polling suggesting she has a circa 30 point lead over former Chancellor Rishi Sunak, who has been unable to make much ground throughout the hustings process. Should Truss be elected, her in-tray will be a busy one, top of which will be the cost-of-living crisis which has been a focal point of the campaign thus far. With rampant energy and food prices continuing to add to the bleak inflationary outlook (which has prompted the likes of Goldman Sachs to flag the possibility of CPI breaching 20%) as a looming recession approaches, policy action from the incoming PM is essential. As it stands, households will begin receiving GBP 400 off their energy bills as of October (across six instalments). However, with the OFGEM price cap for October rising 80% and further increases due in Jan 2023 and Apr 2023 expected to follow (of around 52% and 38%, respectively), current measures are deemed insufficient. In terms of what could be forthcoming under Truss (and her widely-expected Chancellor Kwarteng, who is currently the UK's Business Secretary), she has previously objected to "handouts" to address the crisis and instead leans in favour of tax reductions with campaign pledges including halting next year's corporation tax increase and reversing April's national insurance increase. Ahead of the recent OFGEM price cap hike, it was reported that Business Secretary Kwarteng was "seriously considering" a freeze on the energy price cap at GBP 1,971 for two years at a cost of GBP 100bln. More recently, reports last weekend suggested that as a "nuclear" option, Truss could halve VAT to 10% from 20%. However, at a cost of in excess of GBP 60bln and doing little to help ease the burden of increasing energy bills, economists remain doubtful over the feasibility of such a move. Other proposals include approval of a series of oil and gas drilling licences in the North Sea as one of her first acts as PM. Without having taken office though, there remains a high degree of uncertainty over which path Truss will ultimately follow. An emergency budget expected before the end of September. Fiscal measures could have an impact on monetary policy, with tax cuts traditionally viewed as inflationary and therefore could prompt the BoE to hike rates more aggressively. Something, which in turn, could place further pressure on the domestic housing market. Also of note for the BoE, Truss has stated that she could look at changing the BoE's mandate with some suggestions that any new remit could focus on nominal GDP targeting. Finally, Brexit headlines will likely pick-up upon Truss' expected appointment with reports suggesting she could trigger Article 16 proceedings against the EU "within days" of entering Downing Street. Pre-empting this, EU officials have cautioned they will refuse to engage in serious talks on reforms to the post-Brexit deal unless she takes the "loaded gun" of unilateral legislation off the table.

CHINESE SERVICES PMI (MON): Chinese Caixin Services and Composite PMI data for August is due early next week which will provide a further insight into the health of China's services industry from the viewpoint of the private sector after Caixin Services PMI strengthened in July to 55.5 (Prev. 54.5), while the Caixin Composite PMI which is a gauge for both the manufacturing and services sectors, previously slowed to 54.0 (Prev. 55.3) after factory activity growth cooled. The latest official PMI releases for August were better than expected, albeit with the headline Manufacturing PMI remaining in contraction territory at 49.4 vs. Exp. 49.2 (Prev. 49.0) and Non-Manufacturing PMI slightly slowed to 52.6 vs Exp. 52.2 (Prev. 53.8) with the headwinds to activity stemming from China's strict zero-Covid policy to combat sporadic outbreaks of the virus and as heatwaves resulted in power shortages in Sichuan where authorities temporarily halted power supply to industries. The impact of restrictions was evident in the Caixin Manufacturing PMI for August which showed a surprise contraction at 49.5 vs. Exp. 50.2 (Prev. 50.4) and underscored a stalled economic recovery in China, while Capital Economics suggested a near-term turnaround was unlikely due to several factors including further disruptions, cooling foreign demand and a deterioration in the property sector.

RBA ANNOUNCEMENT (TUE): The RBA is expected to raise rates again at its meeting next week with the ASX 30 Day Interbank Cash Rate Futures indicating an 84% expectation of a 50bps increase in the Cash Rate Target to 2.35% and a recent Reuters poll also showed 27 out of 29 economists were calling for a 50bps hike. As a reminder, the central bank raised rates by 50bps as expected at the last meeting which was the 3rd consecutive 50bps rate increase and the 4th straight hike in the current tightening cycle, while it reiterated its guidance that the board expects to take further steps in the process of normalising monetary conditions but noted it is not on a pre-set path. The RBA also repeated its commitment to doing what is necessary to ensure that inflation returns to target over time and noted there are widespread upward pressures on prices from strong demand, a tight labour market and capacity constraints in some sectors of the economy with inflation expected to peak later this year and then decline back towards the 2%–3% range. The commentary from the central bank since that meeting hasn't provided much to suggest a shift in gears and the data releases have been mixed, while aggressive policy actions by key central bank counterparts, including the Fed which have conducted back-to-back 75bps rate hikes at the last two meetings and the RBNZ which have delivered four consecutive 50bps rate increases and a total of seven straight hikes, could also influence the RBA to maintain its current pace of normalisation.

ISM SERVICES PMI (TUE): The consensus looks for the headline to pare to 54.8 in August from 56.7 in July. While not directly comparable, the S&P Global PMI data series reported Flash US Services Business Activity falling to 44.1 in August from 47.3 in July, to indicate a further reduction in overall services activity. S&P's accompanying commentary was gloomy, noting that the decrease in business activity was the fastest since May 2020. "Service providers noted that hikes in interest rates and inflation dampened customer spending as disposable incomes were squeezed," S&P said. New business was a driver of the downside, with new orders contracting at the steepest rate in over two years, with companies highlighting greater client hesitancy in placing new work, while the falls in new business from abroad was also notable. Regarding prices in the services sector, the S&P Global report said that input costs continued to rise markedly, but the rate of input price inflation eased to the slowest for seven months, with companies stating that wage pressures, transportation surcharges, greater supplier costs were pushing up expenses. Ahead, the report said that hopes of an uptick in new business drove the degree of optimism regarding the outlook for output over the coming year to the highest for three months, but even so, the impact of tighter monetary policy on customer demand continued to weigh on overall expectations.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to lift its Policy Interest Rate by 75bps to 3.25% in September; some look for a smaller hike of 50bps, although others see a chance the BoC could even lift rates by 100bps. After hiking rates by 100bps in July, the Governor argued that the central bank wanted to speedily get rates to the upper-end of its 2-3% estimate of where the neutral rate is, or even a bit higher. "This leads us to think that the Bank will weigh up either a 50bps or 75bps interest rate hike, with the OIS-based probabilities implying a roughly 50/50 chance of either move," Capital Economics said. The consultancy lays out the case for a smaller hike: the inflation outlook has improved sooner than the BoC expected; downbeat assumptions about the longer-term inflation outlook are stale; the BoC assumed a gradual easing in global supply chains, but there has been a faster improvement; domestic and external economic outlooks have worsened sooner than the BoC expected; growth clouds over Europe and China allude to lower exports for Canada, which may see GDP forecasts revised down, while inflation forecasts are also subject to risks of downward revisions. But CapEco still thinks the BoC will opt for the larger rate move: CPI is still well-above target, and Governor Macklem has also recently said that broader inflationary pressures were still high, while also noting the inflationary impact of the CAD's decline vs the USD; the labour market remains tight. CapEco says the key question is whether its forecast for the policy rate to peak at 3.5% in October is still too timid. "For now, our assumption is that the slowdown in GDP growth and better news on core inflation will be enough to persuade the Bank to drop down to a 25bps hike in October, and that there will be enough evidence of economic weakness for the Bank to keep policy on hold at the December meeting," the consultancy writes, "market pricing currently implies a peak policy rate of 4.0%, however, and the Bank may prefer to follow through with that rather than send a dovish message by doing any less."

AUSTRALIAN GDP (WED): Australian GDP data for Q2 is due next week where participants will be eyeing if the economy can sustain the momentum seen in the prior quarters and the prolonged streak of better-than-expected readings that has persisted since Q3 2020. As a reminder, Australia's economy topped forecasts in Q1 this year with GDP growth at 0.8% vs. Exp. 0.5% (Prev. 3.4%) Q/Q and at 3.3% vs. Exp. 2.9% (Prev. 4.2%, Rev. 4.4%) Y/Y which was driven by household and government spending, while the firm consumption was also highlighted by a decline in the household saving to income ratio by 2pts to 11.4%, according to data from the Australian Bureau of Statistics. However, this was before the RBA began lifting rates in May and therefore, the upcoming GDP data will be additionally scrutinised to gauge the effects from the central bank's hiking cycle, especially considering that several data releases for Q2 have printed softer than forecast including the surprise contractions in Construction Work Done at and Capital Expenditure, while both Wage Price Index and CPI were also below estimates despite the latter surging to a 21-year high. Nonetheless, Capital Economics expects the Australian economy to continue to hold up better against higher interest rates and declining real incomes than most expect with an improvement in conditions from net trade and the reopening of the economy to further spur consumption, while it had also previously forecast Q2 GDP growth to increase to 1.5% Q/Q.

CHINESE TRADE BALANCE (WED): China's trade surplus is expected to narrow to USD 93bln in August after surging to a record USD 101.3bln in July. The rate of export growth is seen cooling to +13% Y/Y (prev. +18%), while imports too are expected to cool to 1.8% Y/Y (prev. 2.3%). Markets were cheered after the July trade data, and took it as a sign that conditions were resilient in the World's second largest economy. But many still argued that export momentum would wane in the second half of the year. UOB said it saw downside risks to China's trade outlook due to increasing external headwinds -- like higher inflation, and a sharper pace of global monetary policy tightening -- as well as uncertainties from Covid and Russia-Ukraine war that could further disrupt the global supply chain, and the worsening relations with US and Taiwan. UOB expects a more moderate growth of 10-12% for export and around 5% for import this year.

ECB ANNOUNCEMENT (THU): Up until last week, expectations for the September meeting had been coalescing around the prospect of an additional 50bps hike by the ECB, taking the deposit rate to 0.5%. However, a sourced report on 26th August revealed that some policymakers wish to discuss a 75bps rate rise due to the deterioration in the inflation outlook, with the prospect of a looming recession not a justification for slowing or halting policy normalisation. Thereafter, a speech by Germany's Schnabel reinforced the Governing Council's tightening ambitions by noting that both the likelihood and the cost of current high inflation becoming entrenched in expectations are uncomfortably high, and she added that central banks need to act forcefully in this environment. Other notable interjections included Austria's Holzmann, who said 50bps should be "the minimum" and 75bps should be part of the debate, whilst Netherland's Knot noted that he is leaning towards a 75bps move, while the typically centrist Villeroy of France suggested that the central bank could be at the neutral rate (between 1-2%) before the year-end with another significant step in September. These comments were then followed by the August HICP data, which saw the headline rate climb to 9.1% Y/Y from 8.9%, and the super-core metric advancing to 4.3% Y/Y from 4.0%, prompting concerns that second-round effects from energy inflation are making their way through the economy. Accordingly, the likes of Goldman Sachs, Credit Suisse, BofA, JPM and several others adjusted their calls in favour of a 75bps move, an outcome that markets are currently assigning with an approximately 80% probability. Looking further ahead, markets are pricing around 160bps of tightening by year-end (including September). SGH Macro notes that markets will be looking for signs as to whether a potential 75bps move is part of a front-loading exercise or whether the terminal rate is perceived to be higher than at the time of the July meeting. Elsewhere, aspects of the Q&A will likely focus on the ECB's plans for its APP reinvestments after reports suggested that it could begin discussing ending reinvestments, albeit a decision is not expected to be forthcoming with rates viewed as the preferred tool for tightening. Finally, the accompanying staff economic forecasts will likely see upward revisions to the 2022 and 2023 inflation projections of 6.8% and 3.5% respectively, with Morgan Stanley pencilling in an upgrade to the 2024 forecast of 2.1% to 2.2%. From a growth perspective, 2022 GDP is expected to forecast trivially higher to 2.9% vs. 2.8% in June with 2023 growth expected to be cut to 0.4% from 2.1%.

EU ENERGY MEETING (FRI): The holder of the EU's rotating presidency, the Czech Republic, has called for an emergency energy meeting on September 9th in Brussels to discuss a broader solution to the rise in energy markets. "The main task... is to separate the price of electricity from the price of gas, and thus prevent Putin from dictating to Europe prices of electricity with his shenanigans with gas supplies," the Czech Industry Minister said. Power prices have been on an exponential rise in recent weeks, with French and German contracts breaching both EUR 1,000/MWh (note: natural gas prices have seen some pull-back recently after EU officials pledged to take action). The Czech Industry Minister expects draft proposals next week. One-fifth of European electricity is generated by gas-fired power plants. A Commission official also said the EU is looking at energy price caps as well as options for lowering electricity demand, including looking at windfall taxes in the context of high energy prices.

CHINESE CPI (FRI): CPI Y/Y is expected to tick higher to 2.8% in August from 2.7% in July, with the M/M metric seen cooling to 0.2% from 0.5%, whilst PPI Y/Y is seen decelerating to 3.1% from 4.2%. To recap, the July CPI Y/Y metric hit a 2-yr high amid a surge in pork prices, which jumped 20% on the year, according to the National Bureau of Statistics, although core inflation slowed. In this context, it's worth being aware that China partially blocked US Tyson Foods pork meat imports - the suspension came into force on August 29, and currently, the reason behind the suspension is unclear. Using the latest Caixin PMI release as a gauge, the release suggested "Lower prices of some commodities, notably metals and chemicals, led to lower operating expenses and the first fall in average input costs since May 2020. This led to manufacturers cutting output prices for the fourth month in a row and at a steeper rate in an effort to boost sales in the face of subdued demand." On a more forward-looking note, the COVID situation in China remains a headwind for global growth and overall demand. Several Chinese cities have tightened restrictions in recent days, with the latest major update being the Chinese metropolis of Chengdu, which will affect 21mln residents - this is China's largest city-wide lockdown since Shanghai in June, with panic-buying reported in the region.