Week Ahead September 12-16th - highlights include US CPI; China activity data; Shanghai meeting; UK data dump

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- **SUN:** Swedish Elections.
- **MON:** Hong Kong Mid-autumn Fest; UK GDP Estimate (Jul), German Final CPI (Aug), Chinese M2 (Aug).
- **TUE:** OPEC MOMR, Norges Bank Regional Network (Q3); Japanese Corporate Goods Price (Aug), Australian Consumer Sentiment (Sep), UK Jobs Data (Jul/Aug), EZ ZEW (Sep), US CPI (Aug), NFIB (Aug).
- **WED:** IEA OMR; UK CPI (Aug), Swedish CPIF (Aug), EZ Industrial Production (Jul), US PPI Final Demand (Aug).
- **THU:** RBA Bulletin, Shanghai Cooperation Organisation Summit (1/2); Japanese Trade Balance (Aug), Australian Employment (Aug), US Export/Import Prices (Aug), IJC (w/e 5th Sep), NY Fed Manufacturing (Sep), Philadelphia Fed (Sep), Retail Sales (Aug), Industrial Production (Aug), New Zealand Manufacturing PMI (Aug).
- **FRI** CBR Policy Announcement, Shanghai Cooperation Organisation Summit (2/2), Quad Witching; Chinese Retail Sales (Aug), Industrial Output (Aug), UK Retail Sales (Aug), EZ Final CPI (Aug), US Uni. of Michigan Prelim. (Sep).

NOTE: Previews are listed in day-order

SWEDISH ELECTIONS (SUN) Current PM Andersson's Social Democrats (S) are leading the polls at present with around 30% support, though commentators point out that much of this is the personal appeal of Andersson rather than the broader party. However, another term for Andersson is far from certain despite the polling lead, as once again, the Social Democrats are struggling to form a coalition. Her opposition is led by Kristersson's Moderates (M) and supported by Sweden Democrats' (SD) Akesson and Christian Democrats' (KD) Busch; parties which are polling at 17%, 21% and 6% respectively. Interestingly, crime is being surveyed as a top election issue for the first time, an area which would generally benefit the right-wing opposition parties. As it stands, PM Andersson runs a minority government that is formed solely by her party, her intention was to derive support from the Green Party (MP), but this proved challenging. This time around, Andersson's Social Democrats are expected to try and find partners in the Centre Party (C) and Left Party (V), among others – however, this could once again leave her shy of a parliamentary majority. As it stands, the polls are too close to call and it remains to be seen if enough parties on either side of the aisle can function well enough together to form a working majority. Given political instability is nothing new for Sweden, market focus will likely remain with the Riksbank which is expected to hike by 75bp in September and then 50bp in November, according to SEB. For reference, market pricing is slightly more hawkish than this implying around +80bp for both gatherings – albeit, this is likely a function of hawkish ECB pricing influencing and a rollover of pricing for an inter-meeting hike in August.

UK GDP (MON) At the time of writing, there is no consensus for July's M/M GDP, which will follow on from the 0.1% contraction observed in June. Data in June was distorted by the additional bank holiday on account of the Queen's Jubilee, with headline GDP throughout the quarter also dragged lower by the winding down of the government's COVID-19 testing and vaccine measures. This time around, analysts at Pantheon Economics pencil in a 0.3% M/M expansion, with the consultancy noting that given the distortions seen in May and June, the upcoming release will provide the first clean read of the economy's performance since April. In terms of recent indicators, Pantheon notes that business surveys were still consistent with moderate growth in GDP before August, as the S&P Global/CIPS composite PMIs averaged 53.0 between May and July, consistent with GDP rising by 0.3% over those three months. Furthermore, "the business confidence index of Lloyds' Business Barometer survey points to an identical rate of growth, while the CBI's monthly growth indicator has pointed to slightly faster growth". That said, Pantheon cautions that output in the important distribution and health care sectors was likely lower in July vs. April with the latter being a key driver of recent reports. Note, the backwards-looking GDP metrics will likely be viewed in the context of the findings of the BoE's August MPR which looks for a five quarter recession commencing in Q4 this year.

UK LABOUR MARKET REPORT (TUE) Expectations are for the 3M/3M unemployment rate for July to fall to 3.7% from 3.8%, and the employment change to pick up to 256k from 160k, whilst headline wage growth is forecast to rise to 5.2% from 5.1%. The prior report was characterised by a slowing down in the pace of employment growth alongside an increase in the workforce amid an increase in foreign nationals, whilst the level of wage growth remained elevated. This time around, analysts at Investec anticipate a rebound in the participation rate given the incentives to return to the workforce as real household incomes are most squeezed for those not working and vacancies are plentiful. On pay growth, Investec expects wages to remain solid, albeit not keep pace with inflation. Further ahead though, analysts caution that “as headwinds to growth build, not just from higher input costs, but also from rising interest rates, firms’ labour demand may slacken in due course, limiting their ability to offer wage rises too”. As a reminder, guidance from the BoE notes that “the labour market is expected to remain tight over the next year. Unemployment only starts to rise above its current level from mid-2023, but reaches 6.25% at the end of the forecast period”.

US CPI (TUE): The consensus expects US headline inflation to decline in August by 0.1% M/M (vs a previous unchanged reading), which would be the first monthly decline in two years; the core rate of inflation, however, is seen accelerating to +0.4% M/M (prev. +0.3%). The data release will form a key part of building expectations around the FOMC’s September 21st confab; a hot reading would likely tilt the central bank to act more aggressively, as it prioritises capping price pressures over supporting growth, while a softer reading would give it license to opt for less aggression. After a solid jobs report for August, upside surprises in the influential ISM business surveys for the month, along with hawkish rhetoric from Fed officials, money markets are assigning an 85% chance that the central bank will opt for the larger 75bps rate hike, rather than a smaller 50bps increment, though many have emphasised that their decision at the September confab will hinge on incoming data. One of the more broader themes traders will be monitoring is the impact the data has on expectations of the cumulative amount of hikes the Fed will fire this cycle; the more constructive tone of macro indicators in Q3 has seen market expectations of the terminal rate rise from the 3.50-3.75% range when the quarter began, to the current 3.75-4.00% range, where rates will likely be hiked to in Q1, and comes into line with the Fed’s June forecasts (which will be updated in September), where it envisaged a terminal rate at 3.8% in 2023. Analysts note that, historically, the Fed has typically stayed at terminal for between 3-15 months, with the average being around 6.5 months; the upshot is that if terminal is achieved in Q1 2023, it could imply a rate cutting cycle will begin in H2-2023.

UK CPI (WED): Expectations are for headline Y/Y CPI to advance to 10.4% in August from 10.1% previously, with the core reading expected to climb to 6.3% from 6.2%. The July report saw CPI climb above 10% for the first time since 1980 with the headline rate driven by a surge in food prices and the core metric underpinned by housing costs, as noted by ING. For the upcoming release, Investec, who hold an against consensus view, look for a decline to 9.8%. Analysts anticipate price pressures easing on account of declines in fuel and lubricant prices, with petrol prices falling 7% during August. That said, price pressures elsewhere, particularly for food will have remained “uncomfortably high”, whilst “soaring mortgage rates pushed up rental prices further, whilst also increasing the wedge between the CPI and the RPI”. Up until this week, given the 80% increase in the October OFGEM price cap and further hefty hikes expected in January and April, some desks had touted the possibility of inflation peaking somewhere in the region of 15-20%. However, given the recent energy price cap announcement from the government, the inflationary outlook has now been reassessed with the likes of Oxford Economics expecting CPI to peak at 10.5% in October and average 5.4% in 2023 compared to a peak of 14-15% in January and 10% average rate next year without any intervention from the government.

US RETAIL SALES (THU): The consensus looks for retail sales to rise by 0.2% M/M in August (prev. 0%), while the ex-autos measure is also seen rising by 0.2% M/M (prev. 0.4%). Credit Suisse says that "retail sales have been on a win-streak in recent months, but we maintain a weak outlook for real goods demand over the next few quarters," arguing that "sentiment is sour and financial conditions are tightening along the Fed’s explicit policy goal of slowing growth," and that "incremental shocks may put the US into a broader, unemployment-led slowdown, keeping risks to spending skewed to the downside."

SCO MEETING (THU-FRI): The Shanghai Cooperation Organisation (SCO) members include China, Russia, India, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Uzbekistan, and Iran. The focus of this summit is the touted meeting between Chinese President Xi and Russian President Putin – the first face-to-face between the leaders since Russia’s invasion of Ukraine. Ties between the nations have been warming, with China refusing to condemn Russia for the commencement of the war, whilst Russia has been increasing its exposure to the Yuan via reserves and gas deals in a bid to circumvent western sanctions. From a military perspective, reports via the Kremlin have also suggested Putin has attended large-scale military exercises involving Chinese forces and militaries of several Russian-friendly countries, which comes at a time of heightened tensions between China and Taiwan. The two leaders will likely reaffirm their commitment to deepening ties whilst criticising the West.

CHINESE RETAIL SALES/IP (FRI) The latest activity data from China is due next week with Industrial Production growth expected to increase to 4.0% from from a previous of 3.8% and Retail Sales also forecast to rise to 4.0%, from the prior month’s 2.7%. As a reminder, the data for July missed forecasts and also slowed from the month before with the economy impacted by sporadic virus outbreaks and China’s strict zero-COVID policy, while a deterioration in the real estate sector and heatwave were also headwinds for the economy. These economic pressures have persisted in August as many cities were briefly placed under full or partial lockdown during the month and the heatwave also persisted which was made worse by China’s worst drought on record. This caused parts of the Yangtze River to dry up which impacted hydropower and the higher temperature boosted power consumption due to air-conditioning demand, resulting in a power crunch in Sichuan that forced authorities to cut power to industries and briefly shut all factories in the province. This doesn’t bode well for the incoming activity data, while other key releases for August have disappointed with inflation and trade data softer than expected, and both official and Caixin manufacturing PMI figures printing in contraction territory.

UK RETAIL SALES (FRI) Expectations are for M/M August retail sales to contract by 0.2% following the 0.3% expansion seen in July, whilst the Y/Y metric is seen at -3.3% vs. prev. -3.4%. Ahead of the release, analysts at Moody’s note (whose M/M call is in line with consensus) “when households are spending, they are still privileging services, and with inflation in double digit territory, disposable incomes are becoming increasingly squeezed”. Recent retail indicators have seen the BRC Y/Y sales metric slip to 0.5% in August vs. 1.6% in July with the consortium noting that growth slowed “as consumers reined in spending amidst the spiralling cost-of-living. While inflation in retail prices is lower than general inflation at over 10%, this still represents a significant drop in sales volumes.” Elsewhere, the latest consumer spending report from Barclaycard observed “consumer card spending grew 4.7 per cent year-on-year in August – the smallest uplift since March 2021 – as rising living costs hampered the retail sector”.