Week Ahead September 19th-23rd - highlights include FOMC, PBoC, BoE, BoJ

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- **MON:** Japanese Respect for the Aged Day; EZ Construction Prices (Jul), Canadian Producer Prices (Aug), German Producer Prices (Aug).
- **TUE:** Chinese LPR, Riksbank Policy Announcement, RBA Minutes (Sep); Japanese CPI (Aug), EZ Current Account (Jul), US Building Permits/Housing Starts (Aug), Canadian CPI (Aug).
- **WED:** FOMC & BCB Policy Announcements; UK PSNB (Aug), US Existing Home Sales (Aug), New Zealand Trade Balance (Aug).
- **THU:** BoE, SNB, Norges Bank, BoJ, CBRT, Indonesian & SARB Policy Announcements; US IJC (w/e 12th Sep), EZ Consumer Confidence Flash (Sep).
- **FRI** Japanese Autumnal Equinox; Australian, EZ, UK & US Flash PMIs (Sep), Canadian Retail Sales (Jul), UK GfK Consumer Confidence (Sep).

NOTE: Previews are listed in day-order

PBOC LPR (TUE): The PBoC is expected to maintain its benchmark lending rates next week with the 1-Year Loan Prime Rate (which most loans are based on) likely to be kept at 3.65% and the 5-Year Loan Prime Rate (the reference rate for mortgages) anticipated to be held at the current 4.30% level. As a reminder, the PBoC surprised markets last month, firstly with unexpected 10bps cuts to its 1-Year MLF and 7-Day Reverse Repo rates which were then shortly followed by a 5bps cut to the 1-Year LPR and a 15bps reduction in the 5-Year LPR as the central bank was prompted to act following weak data releases and amid the ailing property industry. The data releases since then have been mixed and therefore not expected to spur another immediate rate reduction with disappointing trade figures and Manufacturing PMI in contraction, although Industrial Production and Retail Sales topped forecasts. The central bank has also made it clear it will avoid flood-like stimulus and may likely want to refrain from further pressuring its currency which was evident in its recent daily streak of firmer-than-expected reference rate settings and FX RRR cut, while fresh policy pledges by Chinese authorities and the decision to maintain the 1-Year MLF this month also point to a likely pause in the benchmark rates.

RIKSBANK ANNOUNCEMENT (TUE): Expected to continue the tightening cycle at the September meeting with a 75bps hike to 1.50%, although money market pricing indicates that an even bigger increase could be on the cards, as it has a 50/50 chance of a full point rise amid the recent hot inflation data and Central Bank peers, such as the ECB, stepping up the pace of normalisation. On inflation, CPIF for August came in well above forecast M/M and Y/Y, with the latter rising to 9.0%, while core inflation also picked up markedly and is far above the Riksbank's view, and as such Nordea added there is no doubt that monetary policy will be tightened swiftly. SEB and Nordea chime with consensus and expect a 75bps hike in September, but Nordea has lifted its November and February projections and now sees 75bps and 25bps hikes, respectively, boosting the rate to 2.50% at the latter meeting. Regarding its revised projections, Nordea cites higher inflation and other central banks being more aggressive as the primary reasons. Furthermore, it is worth noting this comes after the June meeting when the Riksbank said the rate will be raised further and it will be close to 2% at the start of 2023. Additionally, Nordea has altered its QE forecast, and now sees no reinvestments of maturing bonds as from Q4 this year, which compares to the previous forecast that the Riksbank would stop reinvestments as from Q1 2023. Elsewhere, within the policy rate decision, attention will turn to the rate path, particularly given the hot inflation report and how, if, it has changed the outlook after the Riksbank said at the prior meeting it will raise policy faster if needed to ensure that inflation returns to target.

RBA MINUTES (TUE): The RBA will release the minutes from the September meeting where it hiked rates by 50bps to 2.35% which was the fourth consecutive 50bps increase and widely expected. The Board reiterated that it is committed to doing what is necessary to ensure inflation returns to target and it expects to increase rates further in the months ahead, but is not on a preset path. Furthermore, it stated that the size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market. The actual policy announcement lacked any major fireworks and the absence of hawkish surprises resulted in a brief dovish reaction, while comments from RBA Governor Lowe in the days after were also perceived to be less hawkish as he noted that the case for a slower pace of rate hikes becomes stronger as the level of the Cash Rate increases.

Furthermore, Lowe has continued to flag a future slowdown in the tightening cycle as he stated that at some point they will not need to hike by 50bps and are getting closer to that point, while he added they will consider hiking by 25bps or 50bps at the next meeting, but also noted that rates are still too low right now.

JAPANESE CPI (TUE): Japanese Core CPI Y/Y in August is expected to tick higher to 2.7% from 2.4% in July. The release comes in the week of the BoJ policy decision, and last month, National CPI rose at its fastest pace since 2014, at 2.4%, which was as expected owing to the impact on energy prices from the war in Ukraine. Furthermore, BoJ board member Nakagawa had stated that simply hitting 2% alone will not suffice and that the BoJ must continue easing to achieve the price target in a sustained and stable manner, while a recent survey found that analysts viewed the BoJ as unlikely to move toward normalization in the final months of Governor Kuroda's term, even if inflation rose to 3%. Meanwhile, the weakening JPY has been in focus in recent days with repetitive verbal jawboning from several Japanese bodies, including the BoJ, the MoF, and the FSA - Finance Minister Suzuki said recent JPY moves have been quite sharp and he will not rule out any options when asked about intervention, which followed reports that the BoJ conducted a rate check on FX levels in apparent preparation for currency intervention.

CANADIAN CPI (TUE): Canada CPI on Tuesday will help to gauge how high the BoC needs to hike rates after the Bank entered restrictive territory last week with rates now at 3.25%, above the 2-3% neutral range estimate. The July CPI report led Governor Macklem to note that inflation has come down a little and may have peaked, but caveated it remains far too high and will likely stay too high for some time - although headline inflation slowed, the BoC's core measures accelerated, indicative of a broadening of price pressures, which was acknowledged in the latest BoC statement. The statement also noted that surveys suggest short-term inflation expectations remain high, and the longer this continues, the greater the risk that elevated inflation becomes entrenched. We look to the August CPI to see if the BoC core measures continue to accelerate and to see how the report impacts the BoC's reaction function. On the terminal rate, analysts at TD Securities note they "see anything from 3.50% to 4.75% as plausible, and think a 4.00% terminal rate strikes a nice balance of maintaining BoC credibility and not unduly burdening the household sector". The desk has now lifted its BoC terminal rate estimate to 4.00% from 3.50%.

FOMC ANNOUNCEMENT (WED): The FOMC is expected Wednesday to hike the FFR by 75bps to 3.00-3.25%, with risks of a larger 100bps hike after the super-hot August CPI data shattered expectations for any imminent downtrend in inflation. The SEP ('Dot Plot') will also be updated, since their last iteration in June, to show both a higher year-end and terminal rate with desks circling around new median forecast dots that could reach heights of 4% (prev. 3.4% in June) and 5% (prev. 3.8% in June), respectively, reflective of both the worsening inflation outlook and stubbornly tight labour market. Fed Governor Waller, to wit, "right now there is no tradeoff between the Fed's employment and inflation objectives, so we will continue to aggressively fight inflation." The broad-based upside seen in the August CPI (Core +0.6% M/M, +6.3% Y/Y, with services gaining momentum) broke what could have been more evidence towards a series of lower readings, a condition that would have allowed the Fed to start considering a slowdown in the pace of tightening. Instead, the debate now lies on whether the Fed could hike as much as 100bps as some speculate, with another 75bps in November looking possible. With the dovish runoff now closed, at least in the near term, the likelihood of the Fed hiking until the economy crashes, a 'hard landing', has increased further and markets have seen a material hawkish repricing since the CPI data to reflect that. A 75bps hike at the Sept FOMC is priced at an 80% implied probability and 100bps is priced at 20%, vs. >90% for 75bps and a slight chance of 50bps pre-CPI, while the terminal rate is now priced towards the top-end of the 4.25-4.5% range for the March 2023 FOMC, vs. 3.75-4% beforehand, and the 2022-end rate is priced in the 4.00-4.25% range, up from 3.75-4% before CPI. While the angst around CPI is deafening, it's worth highlighting the recent decline in long-term inflation expectations (via NY Fed survey), lower prices paid components in September Philly Fed and Empire State releases, and also the more contained August PPI data (which will keep the Fed's preferred inflation gauge, Core PCE, more anchored) as factors that may temper some of the extreme hawkish hype.

BCB ANNOUNCEMENT (WED): Money markets are currently assigning an approximately 70% chance that the BCB will hold rates at 13.75% in September, with around 30% chance of a 25bps rate hike to 14.00%, according to Refinitiv's data. At its August policy meeting, the BCB said it would "evaluate the need for a residual adjustment" at the September meeting. Credit Suisse says that this could indicate that the central bank will be less inclined to hike interest rates after the September meeting, and predicts that the BCB will fire one final hike of 25bps in September, and adds that "the decision to disregard all inflation in 1Q23—items affected and not affected by the increase in taxes—indicates that the monetary authority is more inclined to tolerate higher inflation next year than our previous expectations."

BOE ANNOUNCEMENT (THU): Expectations are for the MPC to raise the Bank Rate by 50bps to 2.25%, according to 40/47 analysts surveyed by Reuters with the remaining 7 favouring a 75bps move. The decision to hike rates will likely be unanimous, however the vote over the magnitude of the hike could be subject to some dissent in both a hawkish and dovish direction. Beyond September, analysts forecast a 50bps increase in November and 25bps in December, taking the Bank Rate to 3%, where it is expected to stay until October 2023. As it stands, market pricing implies an 89% chance of a 75bps hike with the year-end rate seen at 3.5%. Market pricing for a 75bps move from the BoE accelerated following recent outsize hikes by the ECB and Fed with the inflationary outlook for the UK seen to be a bleak one following the 80% increase in the October OFGEM price cap with further advances expected in January and April. However, the recent energy support package presented by newly-appointed PM Truss has shifted the dial on the inflationary outlook with some desks now expecting inflation to peak around 11% in October. Despite the near-term implications likely being welcomed by the MPC, Oxford Economics expects the price cap "will support disposable incomes and spending, and keep the labour market tighter than anticipated. This would increase the risk of higher inflation in the medium-term". As such, there is a growing belief amongst market participants that the MPC may need to keep its foot on the rate hiking pedal and delay any prospective cuts that some had been hoping for in 2023. With this in mind, the statement will be eyed to see if the MPC reaffirms its commitment to act "forcefully" in the face of inflationary pressures. Also of note for the announcement will be focus on the confirmatory vote for the Bank's Gilt selling programme.

SNB ANNOUNCEMENT (THU): Money markets have discounted a rate rise of 75bps, and suggest that there is some chance that the central bank could even move by a 100bps increment. Either would take Swiss benchmark rates into positive territory for the first time since 2014. The Swiss central bank lifted rates by 50bps in June, raising rates even before its central banking peer in Frankfurt. Since then, analysts note that inflation has continued to rise, while the CHF currency has also strengthened. "Investors expect the SNB to tighten substantially at its upcoming meetings, but we think that they have got ahead of themselves," Capital Economics says, "after all, while headline inflation is historically high, it is low by international standards and the surveys suggest price pressures may now be easing." However, CapEco is expecting the SNB to match the ECB’s move (hiked by 75bps last week). "The Bank seems comfortable with the strength of the franc, which is stemming imported inflation," it says, "failing to keep pace with the ECB would widen the rate differential more than the SNB would like and it would risk a sharp depreciation of the franc - assuming that inflationary pressures start to ease, we expect future rate hikes to be smaller." CapEco adds that if the CHF weakened too much, the central bank could opt to sell some of its FX reserves to support the currency.

BOJ ANNOUNCEMENT (THU): The Bank of Japan will conduct a 2-day policy meeting next week with the central bank widely expected to keep its monetary settings unchanged with rates to be kept at -0.10% and QQE with yield curve control maintained to target 10yr JGB yields at around 0%, while sources familiar with the central bank’s thinking noted that the BoJ will likely stick to its guidance for short- and long-term rates to remain at present or lower levels and that it will take additional easing steps without hesitation as needed with an eye on the pandemic's impact on the economy. BoJ officials have relentlessly maintained a dovish stance despite the tightening seen across most of the world’s major central banks as Governor Kuroda stated shortly after the last meeting that there is no intention to raise interest rates under Yield Curve Control, nor is there a plan to widen YCC's 0.25% cap and that they need to continue with monetary easing to support the growth cycle. The recent weakening trend of the JPY is also not expected to trigger a shift in BoJ policy despite Japanese officials repeatedly voicing concern regarding the rapid currency depreciation, as intervention has solely been verbal and a recent meeting between the MoF, BoJ, and FSA produced no statement as the basic understanding on FX remained unchanged from the last meeting. Moreover, Board member Nakamura had previously suggested that the weakness in JPY is driven mostly by US rate hikes and that there is not much the BoJ can do as moves are driven by changes in the US economy. The data releases also suggest a lack of urgency to tweak policy with larger than expected upward revisions for Q2 Final GDP at an annualised growth rate of 3.5% and National CPI at its fastest pace of increase since 2014 at 2.4%, which was as expected owing to the impact on energy prices from the war in Ukraine. Furthermore, BoJ Board member Nakagawa has stated that simply hitting 2% alone will not suffice and that the BoJ must continue easing to achieve the price target in a sustained and stable manner, while a recent survey found that analysts viewed the BoJ as unlikely to move toward normalization in the final months of Governor Kuroda's term, even if inflation rose to 3%.

CBRT ANNOUNCEMENT (THU): The Turkish Central Bank is expected to maintain its Weekly Repo Rate at 13.00%, according to 11 out of 14 analysts polled by Refinitiv, whilst three analysts look for cuts ranging from 50-100bps. In August, the MPC unexpectedly cut its rate by 100bps after pausing for seven months. Desks are almost unified about Turkey’s monetary policy not being based on conventional economic fundamentals. The latest central bank survey downgraded its end-year CPI forecast to 67.73% from 70.60% last month, whilst the Repo Rate forecast in the next 12 months was cut to 15.42% from the prior 16.50%, and the end-2022 USD/TRY forecast saw an incremental change to 19.5062 from 19.6480. “The timing of a conventional policy adjustment will also crucially hinge, in our view, on political considerations, in particular the presidential/parliamentary elections that will be held no later than in mid-2023.”, Credit Suisse said.

NORGES ANNOUNCEMENT (THU) Thursday will see the policy rate decision at 09:00BST/04:00EDT, accompanied by the latest Monetary Policy Report (MPR) and a post-meeting presser at 09:30BST/04:30EDT. Desks expect the central bank to hike its Policy Rate by another 50bps from 1.75% to 2.25%. Overall, data in Norway has been mixed, but inflation printed below expectations in August, with the CPI Y/Y at 6.5% vs. Exp. 7.1% (Prev. 6.8%), and Core Y/Y at 4.7% vs. Exp. 4.8% (Prev. 4.5%), whilst the M/M metrics also came in sub-forecasts. At the August meeting, the central bank hiked by 50bps as “Inflation has been considerably higher than projected” and emphasised that “the policy rate will most likely be raised further in September." The statement also said, "A faster rate rise now will reduce the risk of inflation becoming entrenched at a high level and the need for a sharper tightening of monetary policy further out."

SARB ANNOUNCEMENT (THU): The South African Reserve Bank is expected to lift rates by 75bps to 6.25% at its September meeting, following a similar move in July. Some analysts are looking for a smaller 50bps move. BNP Paribas argues that the SARB will continue the hiking process with a larger incremental hike given the evidence of broader price pressures. Looking ahead, analysts expect rates to have risen to 6.50% in Q4, before rising to 6.75% in Q1 2023. BNP thinks that the risk is that the SARB moves by a higher amount rather than a lower amount if core inflation does not fall, and the bank predicts the terminal rate in South Africa will be 7.00%, seen in January. "Higher unit labour costs, sticky two-year inflation expectations in Q3, and what could prompt a more vulnerable ZAR on a return to twin deficits leave us comfortable in our above consensus call.

UK "MINI-BUDGET" (FRI): The day after the BoE policy announcement, newly-appointed Chancellor Kwarteng will present his emergency "mini-budget" to Parliament. In terms of what to look out for, the government is widely-expected to confirm its intention to reverse the National Insurance increase which came into effect in April. Additionally, PM Truss has already stated her intention to not proceed with the planned corporation tax increase which would have seen the rate climb to 25% from 19% in April 2023. Also of note for business, the Guardian states that Truss' team has held discussions over changes to business rates and reductions in VAT. In terms of a "rabbit out of the hat" announcement, the Guardian highlights speculation that Chancellor Kwarteng could "bring forward by a year" the pledge, made by Rishi Sunak as Chancellor, to cut income tax by 1% from 2024. Elsewhere, a bulk of the focus will be on the details of the recently-announced (8th Sept) emergency bailout package presented by Truss. As a reminder, the government has opted to freeze UK household energy bills at GBP 2,500 per year for 24 months with a six-month package put forward for business. The overall cost of the measures is touted to be somewhere in the region of GBP 170bln with details currently lacking on how the government intends to finance the package, ie via Gilt issuance, loans or a combination of the two. If the Treasury leans towards Gilt issuance, focus will be on how much additional supply the market will be expected to absorb. This will also be food for thought for the BoE who are expected to give the green light to winding down its APF the day before.

UK FLASH PMI (FRI): Expectations are for the services PMI metric to fall to 49.9 from 50.9, manufacturing to rise to 48.0 from 47.3, with the composite forecast at 49.0 vs. prev. 49.6. The prior report noted "although the survey data are currently consistent with the economy contracting at a modest quarterly rate of 0.1%, deteriorating trends in order books suggest the incoming prime minister will be dealing with an economy that is facing a heightened risk of recession, a deteriorating labour market and persistent elevated price pressures linked to the soaring cost of energy." Ahead of the upcoming release, Oxford Economics (which has an above-consensus forecast) notes that "given the surveys are so heavily influenced by sentiment, the announcement of the energy price guarantee and 'equivalent', but as yet unspecified, support for businesses could underpin an improvement in the flash PMIs in September". From a policy perspective, the upcoming release will fall on the morning after the latest BoE announcement with the next decision from the MPC not due until November and therefore could provide less impetus than recent reports. Furthermore, the report might also be overshadowed by the UK "mini-budget" announcement which is due on the same day.

EZ FLASH PMI (FRI): Expectations are for the manufacturing print to fall deeper into contractionary territory, at 48.7 from 49.6, services to fall to 49.0 from 49.8 (first time sub-50 since March 2021), leaving the composite at 48.1 vs. prev. 48.9. The prior report noted that "a second month of deteriorating business conditions in the euro area adds to the likelihood of GDP contracting in the third quarter. August saw output fall at an increased rate, with companies and households scaling back their expenditures amid the recent surge in inflation and growing uncertainty about the economic outlook". This time around, analysts at Investec anticipate that the backdrop of softening demand under the weight of inflation is unlikely to have changed much during the month of September given the cessation of all gas flows through the Nord Stream 1 pipeline and continued warnings over potential power outages this winter. One potential offsetting factor could be the household support measures put forward at the national and EU level, however, they will unlikely be enough to prevent another sub-50 release. From an ECB perspective, the October meeting is currently priced with a 79% chance of a 50bps move and 21% chance of 75bps with a total of 132bps tightening anticipated by year-end. Developments on the inflation front remain the key focus for the ECB, however, a soft PMI report could temper some of the more hawkish bets placed in the market ahead of a difficult winter to come for the Eurozone.