Week Ahead September 26-30th: Highlights include Italy Elections, US PCE, EZ CPI, China PMIs

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- **MON:** Japanese Flash PMIs (Sep), German Ifo (Sep), US National Activity Index (Aug), German Prelim. CPI (Sep), Canadian Business Barometer (Sep).
- **TUE:** NBH Policy Announcement; Chinese Industrial Profit (Aug), EZ M3 (Aug), US Building Permit Revisions (Aug), Durable Goods (Aug), Consumer Confidence (Sep), New Home Sales (Aug), Richmond Fed (Sep).
- **WED:** BoJ Minutes (Jul); Australian Retail Sales (Aug), German GfK (Oct), Swiss Investor Sentiment (Sep), US Pending Home Index (Aug).
- **THU:** Banxico Policy Announcement, Riksbank & CBRT Minutes (Sep); EZ Consumer Confidence Final (Sep), US GDP Final (Q2), IJC (w/e 19th Sep), Canadian GDP, UK GDP (Q2).
- **FRI:** Japanese Unemployment (Aug), Chinese NBS & Composite PMIs (Sep), German Import Prices (Aug), Retail Sales (Aug), Swiss KoF (Sep), German Unemployment (Sep), EZ Flash CPI (Sep), Unemployment (Aug), US PCE Price Index (Aug).

NOTE: Previews are listed in day-order

ITALY ELECTIONS (Sun, Sept. 25th): If polls hold true, the Centre-right coalition will comfortably secure a majority and likely be led by Brother's of Italy's Meloni. Note, the coalition has seen a slight dip in recent polling though remains on track for an outright majority of seats, despite being at around 45-48% of the vote. The coalition holds strong stances on increasing the deficit, easing the tax burden and lessening legislation (among other areas) to the benefit of domestic business. With regards to the EU, Meloni has committed to sticking to the Recovery and Resilience plan and has echoed Former PM Draghi in prudent language around the budget deficit alongside denouncing the Russian activity and pledging to support Ukraine; steps that have, incrementally, reduced the market-perceived risk of a Meloni government (evidenced via BTP-Bund, at the time). Although, it remains unclear as to how much influence The League's Salvini and Forza Italia's Berlusconi will have within the coalition and as such on government policy, thus keeping the "right wing" leadership market risk very much in play.

CBRT MINUTES (THU): The Turkish Central Bank surprised markets with a 100bps cut to its One Week Repo Rate to 12.00%, against expectations for an unchanged outcome. The central bank cited the weakening effects of geopolitical risks on global economic activity, which continue to increase, and warned that since July leading indicators have been pointing to a slowdown in growth due to the weakening of foreign demand. The CBRT assessed that the updated level of the policy rate is adequate under the current outlook, and reiterated that it would continue to use all available instruments decisively within the framework of liberalisation strategy until strong indicators point to a permanent fall in inflation and the medium-term 5% target is achieved in pursuit of the primary objective of price stability." The minutes will be eyed for further meat on the bones, but analysts seem united in their views that Turkish monetary policy is not based on conventional economic fundamentals.

BANXICO ANNOUNCEMENT (THU): Hot domestic inflation and a hawkish US Federal Reserve mean that the Banxico will likely lift rates by 75bps, analysts say. The recent bi-weekly CPI report showed unadjusted CPI of +0.44% (exp. 0.42%) in H1 September, as analysts were expecting, while consumer prices were unchanged at 8.8% Y/Y (exp. 8.7%). Pantheon Macroeconomics notes that underlying inflation pressures still remain elevated in Mexico, though a relatively stable MXN and tighter financial conditions are cushioning. "Conditions likely will improve over the coming months, as we expect domestic demand to soften and tighter monetary policy to bite," Pantheon writes, "improving supply chains, lower commodity prices and less-harsh base effects will also help to push inflation down to about 8.5% in October, then 8.2% in December and around 7.2% in March." but that said, Pantheon says that risks are tilted to the upside, and Banxico will continue to hike in the near term to bring inflation expectations under control. "Following the FOMC's meeting, we now expect Banxico to hike by 75bps to 9.5%, followed by a terminal 50bps hike in November," PM writes, "but this outlook remains heavily conditional on the Fed."

CHINA PMI (FRI): China Manufacturing PMI is expected to fall a touch from 49.4 to 49.2; the Non-manufacturing PMI is seen easing to 52.3. ING's analysts say the PMI data is expected to follow the declining trajectory of the previous months. "The worrying amount of COVID cases in China led to the tightening of measures in multiple cities including in the tech hub of Shenzhen, as well as a weeks-long lockdown in Chengdu," the bank writes, "this could contribute to falls in orders, employment and business confidence, leading to the Caixin Manufacturing PMI and NBS non-manufacturing PMI falling for the fourth straight month." ING says "the impact of the economy might be cushioned for large-scale and state-owned firms surveyed in the NBS manufacturing PMI as orders and input costs for these companies are stable and business sentiment is less affected, contrary to that of private companies."

RBI PREVIEW (FRI): India’s central bank is expected to hike its key rate next week, with to 26 out of 51 economists calling for the central bank to raise the Repurchase Rate again by 50bps to 5.90%, while 20 forecast a 35bps rate increase, and the remaining analysts anticipate hikes between 20-30bps. At its last meeting, the RBI hiked its Repurchase Rate by 50bps amid mixed expectations of between 25bps-50bps, and said that a further calibrated withdrawal was warranted to keep inflation expectations anchored. It also noted that CPI inflation had eased from its surge in April, but remained uncomfortably high. The central bank also recently noted that it will have to front-load its monetary policy to fight stubborn inflation and shield medium-term growth in the economy as front-loading of monetary policy actions can keep inflation expectations firmly anchored and reduce the medium-term growth sacrifice. The latest key data releases from India suggests the central bank will continue with the current pace of hikes as inflation has remained stubbornly elevated and above the 2-6% tolerance range with CPI in August firmer than expected at 7.0% (vs exp. 6.9%), while the most recent Industrial Production disappointed at 2.4% (exp. 4.3%) and GDP for the April-June quarter was also short of estimates but firmly accelerated to 13.5% (exp. 15.2%, prev. 4.1%). Another factor that could compel the central bank to stick to the current pace of rate hikes is the continued policy normalisation by most of the major global central banks including the Fed and given that the INR recently extended to fresh record lows against the USD, as the RBI would likely want to avert further pressuring the currency by slowing down on its hiking cycle.

EZ FLASH CPI (FRI): Headline consumer prices are forecast to rise higher to 9.6% Y/Y from 9.1%, while the super-core metric is seen picking up to 4.6% Y/Y from August’s 4.3%. Anecdotal inflation commentary within the recently released flash PMI data was downbeat, with the general theme being supply-led price pressures being replaced by energy-induced inflation. “While easing raw material supply constraints helped alleviate some inflationary pressures, rising energy prices were widely blamed on a renewed acceleration of input cost inflation across both manufacturing and services. The overall increase in costs was the steepest since June”, S&P Global said, adding that “the challenge facing policymakers of taming inflation while avoiding a hard landing for the economy is therefore becoming increasingly difficult.” The ECB has said that the risks to the inflation outlook are primarily on the upside, while EUR depreciation does not help the situation, with EURUSD breaking below 0.9800 this week. The ECB itself raised its inflation projections at the recent policy meeting, with its 2022 estimate upped to 8.1% (prev. 6.8%), 2023 raised to 5.5% (prev. 3.5%), and 2024 lifted to 2.3% (prev. 2.1%). In wake of that meeting, sourced reports had suggested that the central bank could discuss a 75bps rate rise at the October 27th meeting if the inflation outlook warrants one.

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US PERSONAL INCOME, SPENDING, PCE (FRI): Analysts at Credit Suisse expect Core PCE to rise 0.5% M/M (prev. +0.1%), pushing the annual measure up to 4.8% Y/Y (prev. 4.6%). "Core PCE inflation likely reaccelerated in August," the bank says, arguing that "the strength in core inflation has been broad, with goods prices rebounding alongside persistent strength in labor-intensive services and housing." Ahead, CS expects that goods inflation will moderate, but overall core PCE will still remain above the Fed’s 2.0% target into next year. This week, the Fed raised its forecasts for inflation; the central bank now sees core PCE at 4.5% by the end of this year (it previously projected 4.3%), moderating to 3.1% next year - the Fed sees core inflation at 2.1% at the end of its forecast horizon in 2025, but thinks that headline PCE prices will be at its 2% target by then. Meanwhile, personal income is expected to rise 0.3% M/M in August (prev. +0.2%), and personal consumption is seen rising 0.2% M/M (prev. +0.1%). CS thinks the report will paint a picture of flat real household spending; "goods demand continues to contract, with control group retail sales and unit auto sales negative for the month," it writes, "this continues to be offset by positive growth in services." In the near-term, CS argues that tightening financial conditions, slowing housing demand, and poor sentiment will continue to weigh on durable goods, but the bank sees overall consumer spending returning to positive growth in the months ahead.

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