Week Ahead October 10-14th: Highlights include: FOMC minutes US CPI, G20 finance ministers/central bank heads

Week Ahead October 10-14th, 2022:

- **MON:** Norwegian CPI (Sep); EZ Sentix Index (Aug); Japan Holiday.
- **TUE:** UK Jobs Report (Sep).
- **WED:** G20 Meeting (1/2); BoK Announcement; UK GDP (Aug); US PPI (Sep); FOMC Minutes (Sep); EIA STEO; Hong Kong Holiday.
- **THU:** G20 Meeting (2/2); German Final CPI (Sep); Swedish CPI (Sep); US CPI (Sep).
- **FRI:** Chinese Inflation (Sep); Chinese Trade Balance (Sep); Indian Inflation (Sep); US Retail Sales (Sep); US University of Michigan (Oct).

NOTE: Previews are listed in day-order

UK JOBS REPORT (TUE): Expectations are for the unemployment rate in the 3M period to August to hold steady at 3.6%, employment change to pick up to 128k from 40k and headline average weekly earnings growth to advance to 5.8% from 5.5% (ex-bonus is forecast at 5.3% vs. prev. 5.2%). The prior report saw an unexpected decline in the unemployment rate to 3.6% from 3.8% (lowest since 1974) amid a notable pick-up in the number of those classified as “inactive” as opposed to an increase in the number of people employed. The other notable takeaway was the pick-up in wages with annualised pay growth (ex-bonus) running at a rate of 7.0%; something which would have been a source of concern on Threadneedle St. This time around, analysts at Investec expect the intensification of the cost-of-living crisis will have prompted a reversal in the trend of declining participation and the “vast number of vacancies should have provided employment to many of these returning to the market”. Elsewhere, on the wages front, Investec cautions that any pick-up will be as a result of favourable base effects, as opposed to an intensification of pay demands. In terms of recent guidance from the MPC (ahead of the UK’s mini-budget), policymakers in September noted that there had “been some indications that the demand for labour is weakening, although the labour market nonetheless tightened further over the summer, with inactivity materially higher than anticipated”.

G20 FINANCE MINISTERS/CENTRAL BANK HEADS (TUE/WED): Heading into the IMF’s annual meetings, there seem to be some expectations that finance chiefs and central bank heads will discus a coordinated response to alleviate some of the stress seen in financial markets of late, which has seen the likes of Japan announce interventions in FX to manage JPY weakness, and the UK’s BoE enter the Gilt market again to arrest the surge in yields. Although the latter likely has some domestic influences at play, both have come about amid an aggressive Federal Reserve, which is moving to contain inflation via rate hikes, and has sent the USD and Treasury yields higher. The FT notes that this has given rise to hopes of a Plaza Accord II. (The original Plaza Accord was a deal finance ministers and central banks struck in 1985 in response to a surging USD, where co-ordinated rate rises and FX interventions followed). While the FT says that investors should be prepared for a Plaza Accord II, it also argues that “a reboot of the Plaza Accord is for the moment fantasy economics,” adding that “it may remain so if the dollar weakens naturally in tandem with growth, but the unique strengths of the US economy mean an international party to bash the greenback is a scenario investors should include in their planning.”

UK GDP (WED): Expectations are for M/M GDP in August to be flat with the 3M/3M rate at -0.2%. The prior report saw M/M growth of just 0.2% in July (vs. exp. 0.4%) with the UK economy unable to benefit from a post-bank holiday rebound after the Queen’s Jubilee marred the June release. This time around, analysts at Oxford Economics note that “there are grounds to expect a rebound in construction output, given the unexpected weakness of July’s outturn, but otherwise our expectations are set low”. PMI data for August saw the composite metric slip into contractionary territory at 49.6 (vs. 52.1 in July) with S&P Global noting that the data was consistent with the economy contracting at a modest quarterly rate of 0.1%. Other data points saw August retail sales decline by 1.6% with the ONS stating that “all main sectors (food stores, non-food stores, non-store retailing and fuel) fell over the month”. In terms of guidance from the MPC, at the time of the September meeting, policymakers forecast negative growth of 0.1% in Q3 (vs the August Announcement’s projection of +0.4%), marking a second successive quarter of decline. However, the subsequent mini-budget and growth plan presented by the government has yet to be included in the MPC’s forecasts.

FOMC MINUTES (WED): The FOMC hiked rates by 75bps to 3.00-3.25% in September, in line with the consensus expectation. The statement was largely unchanged from the July meeting, noting that "the Committee... anticipates that ongoing increases in the target range will be appropriate." That left the focus on the updated economic projections, which were judged as hawkish: officials now see rates at 4.25-4.50% by end-2022 (previously 3.25-3.50%); officials also raised their view of the terminal rate (now see the FFR range peaking out between 4.50-4.75% in 2023 vs previous forecast of 3.75-4.00%); after 2023, the Fed expects rates will decline to 3.25-4.00% by the end of 2024, and then fall to 2.75-3.00% in 2025; it left its estimate of the neutral rate unchanged at 2.5%. Inflation projections were unsurprisingly lifted, and the central bank does not expect headline PCE to be at target before 2025; growth projections were slashed, and at least one official sees a contraction in 2023. Chair Powell's press conference was underwhelming by comparison, and he revealed little by way of fresh insight, affirming many of the points he made at the recent Jackson Hole Economic Symposium. Powell once again caveated the dot plots, stating that it does not represent a plan or commitment from the Fed. The Fed chief was asked about the conditions that officials would need to see before endorsing arguments for lower rates, and repeated that there would have to be a confidence that inflation is moving back down to 2%. In wake of the meeting, one point analysts picked up on is the divergence of views on the Fed over how far it needs to get into restrictive territory, and Powell danced around that, saying the Fed has now moved to the "very lowest" level of what it considers restrictive, saying there is still a ways to go on rates, without giving specifics on where he sees the terminal level, aside from his comment that the Fed would likely get to levels in the Dot Plot. Goldman Sachs said the updated dot plot suggests that the Fed would hike rates by 75bps again at its November meeting, followed by a 50bps rate rise in December, and then a 25bps hike in January. For 2023, GS says that the path of rates will depend on how quickly growth, hiring and inflation slow, and whether the FOMC will really be satisfied with a sufficiently high level of the funds rate and willing to slow or stop tightening while inflation is still uncomfortably high. NOTE: The Fed meeting minutes are an account of that particular meeting, they do not factor in commentary or developments that followed in wake of the meeting; as such, while many desks will be keeping a close eye on them for any remarks that suggest the Fed would be prepared to halt the course of its policy normalisation if it triggered an unnecessary US recession or financial stability risks, the minutes may not feature some of the more recent thinking of officials. For instance, traders have attributed some of the recent commentary from Fed chair Brainard, Atlanta Fed's Bostic, San Fran Fed's Daly, where they suggested that the Fed was cognizant of these concerns in its policymaking (adding that they have a domestic mandate, and fighting inflation remains the priority).

US CPI (THU): Consumer price data for September will have a mixed feel, analysts believe. The headline is seen rising 0.2% M/M, picking up from the prior rate of 0.1% in August, but the annual headline is seen paring back to 8.1% Y/Y from 8.3%. A similarly mixed showing is expected to be seen in the core measures, with the street estimating a monthly rise of 0.5% M/M (prev. 0.6%), though the annual measure of core inflation is likely to pick-up to 6.5%. The data will be one of the last pieces of the puzzle officials will want to see ahead of the November 2nd FOMC, where money markets currently price in a greater chance of another 75bps rate rise, which would take rates to 3.75-4.00%, rather than a 'smaller' 50bps increment. Amid the softer tone of some incoming data points recently (ISM manufacturing, JOLTs data), as well as activism from some global jurisdictions (BoE for instance, while Japan's government has also been active in FX) on financial stability concerns, there have been some hopes that the Fed will relent on hawkish policy. However, commentary from Fed officials has been resolute in its focus, with all officials generally arguing that the central bank remains fixed on inflation, and will continue lifting rates until the fight against surging prices has been won - even if that means tilting the US economy into a recession.

CHINESE INFLATION (FRI): The latest Chinese inflation data is due next week with CPI expected to increase to 2.8% from 2.5% and PPI expected to slow further to 1.0% from 2.3%. The previous readings for August were softer than expected as the economy was hampered by a flagging property sector and with softer demand amid China's strict zero-COVID policy, as well as the disruptions from power restrictions during a record heatwave. Nonetheless, the PBoC has suggested that consumer inflation could top the government's target of around 3% in the latter half of the year as structural inflation pressure may increase in the short-term and with China's various support measures, including the cuts in benchmark lending rates during the second half of August, likely to provide a driving force for prices. Conversely, factory gate prices are expected to continue to slow after rising by the slowest pace in 18 months which China's stats bureau attributed to a decline in energy prices and raw materials.

CHINESE TRADE BALANCE (FRI): Chinese Trade Data for September is scheduled next week where market participants will be hoping for an improvement following the disappointing figures for August. As a reminder all components of the release for August missed forecasts in which the trade balance showed a narrow than expected surplus, as exports slowed to 7.1% vs. Exp. 12.8% (Prev. 18.0%) and imports also printed short of estimates at 0.3% vs. Exp. 1.1% (Prev. 2.3%). This was due to economic activity being mired by slowing demand, COVID restrictions and a heatwave which resulted in a severe drought and a power shortage that prompted authorities in Sichuan and Chongqing to impose power cuts for industrial plants and households. Nonetheless, the power restrictions were eased in late August which provides some optimism for the September data, while demand was also likely boosted prior to the National Day holidays.

US RETAIL SALES (FRI): Analysts expect US retail sales to rise +0.2% M/M in September (prev. +0.3%). While Credit Suisse expects nominal retail sales to be flat in the month, the bank thinks that the retail deflator will be -0.3% M/M, suggesting that real retail sales of +0.3%, which it says would be the third consecutive month of increase in real retail sales. “Auto spending should be a boost this month as unit vehicle sales improved, but gasoline spending will likely drag headline significantly as prices declined on average in September.” The consensus view expects the ex-autos measure of retail sales is likely to be unchanged (prev. -0.3%). “High-frequency card spending data showed a small decline in consumption in September,” CS writes, “elevated inflation and tighter borrowing costs have led to a steep drop in sentiment, putting a ceiling on consumption growth.” The bank says that an earlier decline in gasoline prices may have helped boost consumption on the margin, but overall, real goods spending is seen falling towards trend rates through the rest of this year.”