Week Ahead October 17-21st: Highlights include China CCP Congress; Inflation data from UK, NZ, EZ, Japan, Canada

Week Ahead October 17-21th 2022:

- **SUN:**: Chinese CCP National Congress.
- **MON:** New Zealand CPI (Q3).
- **TUE:** RBA Minutes, Chinese GDP (Q3)/Retail Sales (Sep)/Industrial Output (Sep), German ZEW Survey (Oct).
- **WED:** UK Inflation (Sep), EZ Final CPI (Sep), Canadian CPI (Sep).
- **THU:** PBoC LPR Announcement, CBRT Announcement, Bank of Indonesia Announcement, Australian Jobs Report (Sep), US Philly Fed.
- **FRI:** Japanese CPI (Sep), UK Retail Sales (Sep), Canadian Retail Sales (Aug).

NOTE: Previews are listed in day-order

CHINESE CCP NATIONAL CONGRESS (SUN): The Chinese Communist Party's (CCP) National Congress kicks off on Sunday 16th October. The meeting occurs every five years and will decide on China's top positions for the next five years. Any hints about China's future direction will be followed closely on a global scale, with China being the world's second-largest economy and with one of the largest military forces at a time of heightened geopolitical tensions. Heading into the event, some have suggested that the lack of leaks has been "a rare phenomenon." At the party congress this week, Xi Jinping appears certain to secure a third term as CCP leader, and he is likely to retain the title of Chairman of China's Central Military Commission. At this point, he also looks set to keep the Presidency at the annual National People's Congress in Spring 2023 (touted to be in March). With the reappointment of Xi Jinping, stability and continuity are expected - including growth and housing market policies. The focus will likely be the replacement of Premier Li Keqiang, who announced he will be stepping down. The economic policy itself will likely not be discussed at the Party Congress, according to SocGen. Another focal point could be China's COVID policy - "Some observers say the party may use the Congress to declare victory over the pandemic and end the zero Covid policy.", according to the BBC.

NEW ZEALAND CPI (MON): The Q3 CPI metrics are expected to cool from Q2, with the Q/Q rate seen at 1.6% (prev. 1.7%) and the Y/Y forecast at 6.6% (prev. 7.3%). Desks suggest that the quarter saw large increases in food and housing costs, which were partially offset by a decline in fuel. Core inflation metrics are likely to remain elevated amid ongoing pressures on wages, operating costs, and resilience in demand. RBNZ's last published forecast sees the Q3 metrics at 1.4%. The October RBNZ announcement touted larger OCR increases than previously expected could be needed to tame inflation. "That suggests that the RBNZ is already braced for a stronger rise in the CPI", according to Westpac, who themselves see a hotter Q/Q figure of 1.8% in Q3.

RBA MINUTES (TUE): The RBA will release minutes from the October meeting where it surprised markets with a smaller-than-expected rate hike as it opted for a 25bps increase instead of the consensus for another 50bps rise, although this followed several hints by the central bank of a future slowdown in the pace of tightening. The central bank's statement suggested further upcoming hikes with the Board committed to returning inflation to the 2%-3% target range over time and it expects to increase interest rates over the period ahead. Furthermore, the RBA reiterated that the size and timing of future interest rate increases will continue to be determined by incoming data and the Board's assessment of the outlook for inflation and the labour market, while the central bank also noted that the Cash Rate had been increased substantially in a short period of time and it remains resolute in its determination to return inflation to target.

CHINESE GDP/RETAIL SALES/INDUSTRIAL OUTPUT (TUE): Chinese GDP data for Q3 is due next week and will provide the latest insight into the health of the world's second-largest economy, and is expected to show a recovery from the prior quarterly contraction with the Q/Q metric forecast at 3.8% vs prev. -2.6% and with Y/Y growth seen accelerating to 3.5% vs prev. 0.4%. Q2 GDP was disappointing with Y/Y growth at its slowest pace since the start of the pandemic due to lockdowns and COVID restrictions affecting the two most populous cities of Shanghai and Beijing as China enforced a strict zero policy and with supply chain disruptions impacting the manufacturing hub in the Yangtze River Delta region. Nonetheless, there are forecasts for an improvement in Q3, although the rebound is likely to be limited by the continued sporadic virus outbreaks across China, as well as the record heatwave and severe drought in the south west during the quarter which resulted in power supply cuts and factory closures in the key electronics and lithium manufacturing province of Sichuan and auto hub of Chongqing. The data will coincide with the latest release of monthly activity figures, which are forecast somewhat mixed, with Industrial Production growth expected to strengthen to 4.7% from prev. 4.2% and Retail Sales slow to 3.0% from 5.4%, although the attention will be on the GDP numbers.

UK INFLATION (WED): Expectations are for Y/Y CPI to climb to 10.1% from 9.9% with the core Y/Y metric set to rise to 6.4% from 6.3%. The prior report was characterised by some slight reprieve in price pressures after declines in contributions from motor fuels offset upside pressure from food and non-alcoholic beverages. This time around, analysts at Investec expect a similar story after petrol prices fell by 4.1% on average in September and the secondhand car market continued to soften. That said, against this trend, Investec cautions that they expect to see “evidence of continued inflationary momentum, especially given the weakness of sterling over September” which will push up “imported costs, particularly food, which tends to react quickly to changes in the exchange rate”. The report will likely be viewed as an input to the November meeting, however, the release might be of lesser significance for the immediate policy outlook compared to prior months given the impact of fiscal events on the UK economic outlook. At the time of writing, after sacking Chancellor Kwarteng, another u-turn on the government’s “mini-budget” is inevitable, however, the extent to which is yet to be confirmed. Policymakers on the MPC will be hopeful that the government will be able to stick to the October 31st date to outline its latest plans. As it stands, markets currently price a 65% chance of a 75bps hike and a 35% chance of a 100bps move with 187bps worth of tightening priced by year-end. Looking further ahead, guidance from the BoE in the September statement noted that “given the Energy Price Guarantee, the peak in measured CPI inflation is now likely to be lower than projected in the August Report, at just under 11% in October. Nevertheless, energy bills will still go up and, combined with the indirect effects of higher energy costs, inflation is expected to remain above 10% over the following few months, before starting to fall back.”

PBOC LPR (THU): PBoC is likely to keep benchmark lending rates unchanged at its upcoming monthly Loan Prime Rate setting with the 1-Year LPR, which is what most loans are based on to be maintained at 3.65% and the 5-Year LPR, which is the reference for mortgages, to be kept at 4.30%. As a reminder, the PBoC kept its benchmark rates unchanged last month as expected, but had lowered rates in August with a 5bps reduction to the 1-Year LPR and a 15bps cut to the 5-Year LPR which suggested the central bank was geared towards providing relief for the flagging property sector. In terms of the central bank’s rhetoric, the PBoC has continuously reiterated a prudent monetary policy stance, albeit with a pledge to step up the implementation of its prudent approach, while its recent actions whereby it conducted the largest weekly net drain via reverse repo operations at the end of the National Day Golden Week holiday also points to the central bank’s preference for avoiding excess liquidity in the interbank market. In addition, the continued weakening of the CNY against the USD owing to the policy divergences between the Fed and PBoC is another factor supporting the view for China’s central bank to refrain from further rate cuts, although participants will be looking out for the decision on the 1-Year Marginal Lending Facility Rate to support their views which is released a few days beforehand and is a leading signal for the central bank’s intentions for benchmark rates.

CBRT ANNOUNCEMENT (THU): The CBRTs latest survey shows business leaders and economists expect the repo rate to be at 9.41% in three-months time (it was 12.59% in the previous survey), and is seen at 15.53% in 12-months (prev. 15.42%); the rate is currently at 12.00%. After a seven month pause, the CBRT cut rates in August and September; even though inflation has continued to climb. Credit Suisse thinks inflation will rise towards 85% Y/Y in the coming months; “authorities will probably continue to implement ad hoc measures as long as they can in order to sustain what we view as this ultimately unsustainable policy stance,” the bank says (in December the central bank announced its Lira deposit scheme, which compensates TRY deposits against currency depreciations), adding that “our 12-month policy rate forecast of 12.00% does not imply that we think the current policy stance is sustainable for 12 months, it reflects our view that the timing of the policy adjustment required for price (and financial) stability is impossible to predict given the authorities’ approach to policymaking and that a conventional policy adjustment will likely be delivered if/when ad hoc measures have been exhausted.” The bank argues that the timing of moves towards conventional policy are likely to depend on political considerations - the Presidential and Parliamentary elections are scheduled to take place no later than the middle of next year.

AUSTRALIAN JOBS REPORT (THU): September is expected to have seen 25k jobs gains (vs +33.5k in August), with the unemployment and participation rates both forecast to remain steady at 3.5% and 66.6% respectively. Desks suggest weekly payrolls are indicative of a modest rise, whilst “there is likely to be upward revisions”, according to Westpac. The Aussie bank expects the employment change to rise 17k, with participation steady and the unemployment rate to be rounded down to 3.4% from the previously rounded-up 3.5%. In the October RBA monetary policy statement, Governor Lowe suggested “the labour market is very tight and many firms are having difficulty hiring workers. The unemployment rate in August was 3.5 per cent, around the lowest rate in almost 50 years. Job vacancies and job ads are both at very high levels, suggesting a further decline in the unemployment rate over the months ahead. Beyond that, some increase in the unemployment rate is expected as economic growth slows.” To recap, the RBA surprised markets with a smaller-than-expected rate hike in which it opted for a 25bps increase instead of the consensus for another 50bps rise. Nonetheless, the central bank has suggested further upcoming hikes with the Board committed to returning inflation to the 2–3% target range over time and it expects to increase interest rates further over the period ahead.

JAPANESE CPI (FRI): The latest Japanese inflation data is due next week and will likely remain elevated after the 3.0% increase in headline National CPI and 2.8% rise in the Core (Ex. Fresh Food) CPI in August which were both higher than expected and above the BoJ's 2% price goal, as well as their highest readings since 2014. The upside was driven by increases in food prices and energy costs with upward pressure on raw materials as the JPY continued to weaken, while the Tokyo CPI data for September which is a leading indicator for nationwide inflation matched expectations for the headline and core readings at 2.8% each vs previous of 2.9% and 2.6%, respectively. Nonetheless, the above target inflation is unlikely to spur a policy adjustment by the BoJ as Governor Kuroda recently noted that once the impact of energy and fuel price rises starts waning, Japan's inflation rate will slow down to less than 2% in the next fiscal year, while he also suggested that wages are increasing, but are not sufficient enough to guarantee 2% inflation and suggested they cannot simply jump to the conclusion that Japan will be able to achieve 2% inflation in two years or one year to be able to change monetary policy now.

UK RETAIL SALES (FRI): Expectations are for M/M retail sales in September to contract by 0.5% with the core metric forecast at -0.3%. The August report saw a 1.6% M/M contraction in retail sales with the ONS noting that "all main sectors (food stores, non-food stores, non-store retailing and fuel) fell over the month; this last happened in July 2021". This time around, the cost-of-living crisis is expected to continue to depress consumer demand with the latest BRC retail sales report noting that "while UK retail sales grew in September, this represented another month of falling sales volumes given high levels of inflation. As consumer confidence continued to fall, people shopped cautiously, avoiding large ticket items…". Elsewhere, the Barclaycard spending report observed that "consumers are taking a savvy approach to budgeting as they reduce spending on discretionary items and seek more value in their weekly shop, which is having a knock-on effect on retail and hospitality sectors".