newsquawk

Week Ahead October 24-29th. Highlights include ECB, BoC, BoJ, PMIs, Aus CPI, Tory Leadership Race

Week Ahead October 24-29th 2022:

- **MON:** EZ/UK/US Flash PMIs (Oct)
- **TUE:** NBH Announcement, German Ifo Survey (Oct), US CaseShiller (Oct)
- **WED:** BoC Announcement, BCB Announcement, Australian CPI (Q3), US Adv Goods Trade Balance
- **THU:** ECB Announcement, South Korean GDP (Q3), German GfK Consumer Sentiment (Oct), German Flash CPI (Oct), US GDP Adv (Q3) and PCE (Q3)
- **FRI:** CBR Announcement, BoJ Announcement, Japanese Jobs Report (Q3), Australian PPI (Q3), German Flash GDP (Q3), EZ Sentiment Survey (Oct), US PCE (Sep)

NOTE: Previews are listed in day-order

TORY LEADERSHIP RACE: Following the resignation of Truss as PM after just 44 days in office, an accelerated leadership contest to appoint a new Conservative leader and by extension PM has been called. In an effort to have a new leader in place before the October 31st budget, an event that is itself a point of uncertainty, the format is slightly different to the usual process. Around 14:00BST on Monday, the first and potentially only round of voting will occur with the threshold to progress set at 100/357; as such, only a maximum of three candidates can progress to this point. If there are three candidates, Tory MPs will hold a knockout vote with the MP receiving the fewest votes eliminated. Either way, when it is whittled down to two members this is put to an online ballot of broader Conservative members to determine the next PM, results expected Friday. For reference, if only one candidate gets 100 backers, then they are immediately declared PM. As it stands, it looks like it is going to be a contest between Boris Johnson, Rishi Sunak and Penny Mordaunt; though, bear in mind no candidate has officially declared they are standing just yet. For reference, bookmakers have Sunak in the lead while Johnson is seen as the favoured candidate among grassroots members.

EZ FLASH PMIS (MON): Expectations are for the manufacturing metric to fall to 48.0 from 48.4, services to drop to 48.2 from 48.8, leaving the composite at 47.6 vs. prev. 48.1. The prior report saw the composite PMI decline to 48.1 in September from 48.9 in August. Accordingly, S&P Global noted that “Business activity has now deteriorated for three successive months, indicating falling GDP, with the rate of decline gathering momentum over the third quarter”. This time around, analysts at Investec note that “there has been little in the way of major developments to reverse the current sentiment. As such we expect October’s PMI to remain in contractionary territory, in line with our view that the eurozone is in for a difficult winter, with a mild recession our central case”. From a market perspective, the release will likely play second-fiddle to the ECB policy announcement later in the week which is expected to see policymakers pull the trigger on an additional 75bps hike (see below for further details). That said, a markedly weak report could see traders dial back some expectations for action from the ECB later in the year and early 2023 as the harsh reality of a tough winter for the bloc becomes more visible in the data.

UK FLASH PMIS (MON): Expectations are for the services metric to fall to 49.0 from 50.0, manufacturing to weaken to 47.9 from 48.4, leaving the composite at 48.2 vs. prev. 49.1. The prior report saw the composite metric fall to 49.1 from 59.6 with S&P Global noting that "September data highlighted an absence of growth in the UK service sector for the first time in 19 months as the energy crisis continued to hit business and consumer spending”. The October release is not expected to provide much in the way of encouragement given the political turmoil seen in the wake of ex-Chancellor Kwarteng’s “mini-budget” which prompted a surge in borrowing costs. Although some of the impact of this was mitigated following the appointment of Jeremy Hunt as Chancellor who essentially tore up Kwarteng’s plans, concerns remain over political stability in the UK and public finances amid a GBP 40bln hole that needs to be plugged. From a policy perspective, the BoE is widely expected to deliver a 75bps hike at its November 3rd meeting following Chancellor Hunt’s fiscal plan due on October 31st (this could be pushed back amid the ongoing Conservative leadership contest). Given the gravitas of these two events, any traction in UK assets following the PMI release is likely to be fleeting.

NBH ANNOUNCEMENT (TUE): The NBH is expected to keep its Base Rate unchanged at 13.00%, after hiking by 125bps in September vs the split consensus between 75bp and 100bp heading into the gathering. October’s decision is expected to be unchanged following guidance from the NBH after the last meeting that it has concluded the tightening cycle and policy can be held for a prolonged period as the Bank turns its attention to liquidity and transmission. The

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

subsequent minutes made clear that the decision to keep the Base Rate on hold following September's hike had the full support of rate-setters, in keeping with the unanimous decision to end with a 125bp hike. Since then, the Bank has undertaken liquidity-draining operations – a narrative that will be in focus for the upcoming meeting for guidance around the intended scope of such action.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to hike rates by 50bps at its October meeting, according to the latest Reuters survey, which was conducted before the September CPI data. Money markets, in wake of CPI, are now leaning towards a 75bp hike with a 70% probability - so it is a close one for either a 50bp or another 75bp hike. The Economists surveyed by Reuters saw 27/30 expect a 50bp hike while the remaining three expect a 75bp hike. The latest CPI data was hotter than expected on all fronts with Y/Y rising 6.9% (exp. 6.8%) but decelerating from the prior 7.0% while the M/M rose 0.1%, hotter than the expected unchanged print. The Core Y/Y rose 6.0%, accelerating from the prior 5.8% while the M/M rose 0.4%, accelerating from the unchanged reading in August. The average of the BoC-eyed measures also ticked up. The inflation report saw a hawkish move in market pricing with Canadian interest rate futures now implying a 75% chance of a 75bp hike next week, vs a 30% probability before the hot inflation. Recent commentary from Governor Macklem noted if the recent CAD depreciation against the Dollar persists, we are going to have to do more work on interest rates. Looking ahead, the terminal rate is expected to reach 4.25% in Canada, up from the prior 3.50% in the prior Reuters poll with nearly all respondents saying risks are skewed towards a higher peak rate. However, since the inflation data, money markets are currently pricing a peak rate of around 4.50% in April, up from the prior 4.33% ahead of the data. It is also worth noting the Fed is widely expected to hike by another 75bps in November, and given Macklem's commentary on the FX rate, coupled with rising inflation expectations in the BoC Business Outlook survey, and hot inflation data, the argument has been building for a 75bp hike. ING also suggests a further 75bp hike, given the upside in inflation, is the most likely outcome. However, it is worth highlighting the latest business outlook survey was quite somber, noting business confidence has softened and most think a domestic recession is likely within 12 months while many are expecting slower sales growth as rates increase and demand slows.

BCB ANNOUNCEMENT (WED): The Brazilian Central Bank is expected to maintain the Selic Rate at 13.75% again. The last meeting saw the Bank keep rates unchanged, however the vote was not unanimous and was a 7-2 split decision, with the two dissenters opting for a 25bp hike. The decision to keep rates unchanged reflected uncertainty about scenarios for prospective inflation, higher than usual variance in the balance of risks and as it "is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy, which includes 2023 and, to a lesser extent, 2024". The statement also saw the BCB note that it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected. Analysts at Credit Suisse look for the rate to be unchanged and for the Bank to put emphasis on the guidance that leaving the rate unchanged is consistent with inflation returning to target, while it also expects the BCB to maintain language about its readiness to resume tightening if required. Looking ahead, the desk sees the Selic Rate at 13.75% until September 2023, falling to 11.50% by end-2023 and 8.5% at the end of 2024. However, it acknowledges this outcome depends on the fiscal framework by the next administration with the runoff election due at the end of the month.

AUSTRALIAN CPI (WED): Q3 CPI Q/Q is expected to cool to 1.6% from 1.8%, but the Y/Y rate is expected to pick up to 7.0% from 6.1%. In terms of the Trimmed Mean figures, Q/Q is seen matching the prior quarter at 1.5%, but the Y/Y measure is expected to rise to 5.6% from 4.9%, whilst the Weighted Mean Q/Q is expected at 1.5% vs the prior 1.4%, and the Y/Y at 4.9% against the previous quarter's 4.2%. The release also comes amid the recent introduction of the monthly CPI metrics by the ABS, and although desks suggest there are some issues with converting the monthly metrics to a quarterly print, it is the closest guide. For example, desks suggest electricity prices are only measured in the last month of each quarter, thus the Monthly CPI Indicator will not provide an update on electricity prices. Westpac believes "This is a significant issue in September due not just to the reported significant increase in power bills but also the various state government electricity rebates…Without the rebates we estimate electricity prices would have lifted a bit more than 8% in the quarter contributing 0.22ppt to the CPI." The Bank expects a 1.1% Q/Q reading for the September quarter with the Y/Y at 6.5%.

ECB ANNOUNCEMENT (THU): With headline Y/Y HICP in September advancing to 9.9% from 9.1% and the core metric rising to 6.0% from 5.5%, policymakers are set to deliver another outsized rate hike following a 75bps increase in September. According to a Reuters survey, 27/36 expect the Deposit Rate to be raised by a further 75bps to 1.5%, 7/36 look for 50bps and just 2/36 forecast 25bps. In terms of market pricing, a 75bps hike is priced at around 80% and a 50bps increase at 20%. Beyond inflationary developments, growth concerns are continuing to mount in the Eurozone with the composite PMI metric declining to 48.1 in September from 48.9 in August. Accordingly, S&P Global noted that "Business activity has now deteriorated for three successive months, indicating falling GDP, with the rate of decline gathering momentum over the third quarter". Nonetheless, with the ECB's 5y5y inflation expectations measure rising to around 2.3% from circa 2.2% at the time of the prior meeting, policymakers will be forced to raise rates again this month with President Lagarde recently noting that hikes will be carried out over the course of the next "several meetings". In terms of other measures to be mindful of, source reporting on 13th October suggested that the GC discussed the timeline for the balance sheet reduction at the Cyprus meeting earlier this month. The report noted that the language

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

regarding reinvestments could be tweaked at the October meeting, before outlining plans for a balance sheet reduction in December or February and then commencing QT sometime in Q2 2023. Elsewhere, the upcoming meeting could see policymakers alter the terms of its TLTROs given that banks can currently park cash from operations at the ECB and earn a risk-free profit following recent rate hikes. Market participants will also be looking for how committed to further rate hikes the Bank is given recent reporting suggesting that an ECB staff model puts the target-consistent terminal rate at 2.25%. That said, the report noted that policymakers were sceptical over the accuracy of the model. As a guide, markets currently see the peak deposit rate at around 3% by late Q2/early Q3 next year.

CBR ANNOUNCEMENT (FRI): The Russian Central Bank is expected to hold rates at 7.5% at its October policy meeting, following a 50bps cut last time when the accompanying statement no longer mentioned further rate reductions. Further within the prior release, CBR said inflation expectations of households and price expectations of businesses remain elevated, which has since been reiterated by the Deputy Governor as has the annual inflation forecast of 11-13% in 2022. Since the last meeting, the Deputy Governor has noted the decline in inflation may now be slower than previously thought, but the neutral rate remains at 5-6%, something which Governor Nabiullina echoed in wake of the meeting. Looking ahead, the CBR official noted the central bank will make further rate decisions based on the economic situation and balance of risks, and it will refine forecasts in October with an improved GDP estimate. Further on inflation, the government decided to bring forward the hike in utility prices for households to December '22 from July '23, doubling the size of the indexation to ~9%, and as such JPMorgan thinks "this should add around 0.6%-pt to CPI by the end of the year and might have marginal secondary effects through higher cost inflation and higher inflation expectations." As a result, JPM lifted its year-end inflation forecast to 12.9% from 12.0% previously.

BOJ ANNOUNCEMENT (FRI): The Bank of Japan is widely expected to maintain its monetary policy settings next week with the central bank likely to keep rates at -0.10% and stick to QQE with Yield Curve Control to flexibly target 10yr JGBs at around 0%. The central bank will also release its latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI, which the Japanese press noted will include an increase in the current fiscal year CPI forecast to the high-end of 2% from the prior 2.3% view. However, rhetoric from the BoJ firmly suggests an unwillingness to tighten policy as Governor Kuroda has stated that the pace of Japan's economic recovery is still slow so the BoJ must continue supporting the economy and that raising rates now is inappropriate in light of economic and price conditions. BoJ's Adachi also recently warned that they must be cautious about shifting towards monetary tightening as downside risks to the economy are increasing and such a shift would weaken demand and heighten the risk that Japan will revert to deflation, while the central bank's decision to extend its pandemic relief program at the last meeting also attests to the BoJ's lack of appetite for normalisation. The latest key data releases add to the case for maintaining easy monetary policy as the BoJ's quarterly Tankan survey showed sentiment amongst large manufacturers worsened, while Machinery Orders and Household Spending also disappointed. Conversely, inflation remains above the 2% target and recently printed its highest since 2014 at 3.0%, but is unlikely to trigger a policy reaction as the central bank has acknowledged that price increases are being driven by rises in energy costs and raw materials, as well as anticipating inflation to slow down to below target levels during the next fiscal year once the impact of energy and fuel costs begin to wane. Furthermore, the recent rapid depreciation in the JPY is unlikely to spur an adjustment to monetary policy with the central bank seemingly comfortable to leave FX intervention to the government, while it even upped the amounts of its bond purchases and conducted unscheduled operations to defend its yield cap which is further evidence of its unwavering dovish stance.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("**Newsquawk**") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com