Week Ahead October 31-November 4th. Highlights include US FOMC, jobs data and ISM

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- **MON:** Chinese Official PMI (Oct), German Retail Sales (Sep), EZ Flash CPI (Oct) and Flash GDP (Q3), US Chicago PMI (Oct).
- **TUE:** RBA Policy Announcement, RBNZ Financial Stability Report; Japanese JibunBK Manufacturing PMI Final (Oct), Chinese Caixin Manufacturing PMI Final (Oct), UK & US Manufacturing PMI Final (Oct), US ISM Manufacturing PMI (Oct), JOLTS (Sep), New Zealand Unemployment (Q3).
- **WED:** FOMC Policy Announcement, BoJ Minutes (Sep); German Unemployment (Oct), EZ Manufacturing PMI Final (Oct), US ADP (Oct), Australian Composite/Services PMIs (Oct).
- **THU:** BoE & Norges Bank Policy Announcements, Japanese Holiday (Culture Day); Australian Trade Balance (Sep), Chinese Caixin Services PMI (Oct), Swiss CPI (Oct), Italian Unemployment (Sep), UK Composite/Services PMI Final (Oct), EZ Unemployment (Sep), US IJC (w/e 24th Oct), US Composite/Services PMI Final (Oct), Durable Goods (Sep), Factory Orders (Sep), ISM Services PMI (Oct).
- **FRI:** RBA SOMP, Scandi Holiday (Half day); Japanese JibunBK Composite/Services PMI Final (Oct), German Industrial Orders (Sep), EZ & UK Construction PMI Final (Oct), US NFP (Oct), Canadian Employment Report (Oct), Ivey PMI (Oct).

NOTE: Previews are listed in day-order

CHINA NBS MANUFACTURING PMI (MON): The street looks for China's official manufacturing PMI to be little changed in October; the consensus looks for a trivial decline to the neutral 50.0 mark from 50.1 in September. Moody's says "economic momentum has improved as the enduring zero-COVID policy has become less disruptive to manufacturing by shifting to swifter and more localised lockdowns," however it notes that the economy still faces headwinds, including more challenging export conditions outside of Asia, and especially in Europe, where high inflation and rising borrowing costs are expected to weigh on demand into 2023.

EUROZONE CPI (MON): Expectations are for October’s Y/Y CPI to ease to 9.6% from 9.9% with the ex-food and energy metric seen remaining at 6.0%. The prior report was characterised by the headline being boosted by the ongoing surge in energy and food prices as well as Germany unwinding its discounted transport ticket scheme. This time around, Moody’s expects “HICP will continue to be driven by massive pressures in energy prices. But with the falling natural gas prices over the past two months, energy inflation has some space to slow from the previous month”. That said, national releases seen thus far have seen German HICP advance to 11.6% Y/Y with hot readings from France (7.1% vs. prev. 6.2%) and Italy (12.8% vs. prev. 9.4%). As such, there might be an upward bias to the consensus estimate heading into the release. From a policy perspective, the release will take place in the aftermath of the ECB’s recent 75bps hike and will be used to guide market expectations over whether the ECB will step down the pace of rate hikes in December. An above forecast report could see some market participants revaluate their interpretation of the October decision which many viewed with a dovish lens after policymakers opted to ditch the “several meetings” phraseology regarding further hikes. Alternatively, if the release is softer than expected, traders could continue to pull in expectations of further moves from the ECB and concerns about the growth outlook could begin to bear greater relevance for gauging rate hike expectations.

RBA ANNOUNCEMENT (TUE): The RBA is expected to raise its cash rate by 25bps, according to 28 out of the 32 respondents polled by Reuters, whilst a handful look for a 50bps increase. Calls for a 50bps hike came to light after the hotter-than-expected Q3 Aussie CPI data, which saw all metrics, aside from the Weight Mean Q/Q index, top expectations. Westpac is among those calling for a 50bps increase “in November for a terminal rate of 3.85% by March, revised up from 3.6%.” Meanwhile, CBA sees a 25bps increase at the upcoming meeting, followed by another 25bps in December in wake of the inflation data (vs the prior view of a hold in December). Finally, analysts at NAB, “given the recent communications”, opt for a 25bps hike, but believe the inflation metrics mean the Board will likely debate a 50bps hike - "In these circumstances, the RBA will need to move monetary policy into more clearly restrictive territory to ensure inflation returns to target," NAB says.

ISM MANUFACTURING (TUE): Analysts expect the manufacturing ISM will ease by half-a-point to 50.4. Although the two data-sets are not directly comparable, the S&P Global data for the month showed the US manufacturing PMI falling to 49.9 in October from 52.0 in September, which the survey compiler said signalled broadly unchanged operating conditions over the month. The output index increased for the second month running in October, with firms noting easing supply chain pressures and the delivery of some key inputs. The rise in production was slight, but the quickest for five months. However, new orders fell back into contraction, with S&P stating that "the decrease in client demand was solid and the sharpest since May 2020." New orders were also constrained by challenging economic conditions in key export destinations and Dollar strength, S&P said. "The US economic downturn gathered significant momentum in October, while confidence in the outlook also deteriorated sharply," S&P wrote, and the surveys presented a picture of the economy "at increased risk of contracting in the fourth quarter at the same time that inflationary pressures remain stubbornly high." That said, it caveated that there were signs that weakening demand was helping to moderate the overall rate of inflation, which it says should continue to fall in the coming months.

US REFUNDING (WED): The US Treasury is expected by many to leave almost all of its coupon auction sizes for the upcoming quarter unchanged after the August refunding saw the Treasury Borrowing Advisory Committee (TBAC) say "auction sizes are expected to level out next quarter." However, there are some expectations for the 20yr bond to see additional cuts, with desks gravitating around an estimated USD 1bln reduction for both the new issue and reopenings. A key issue in focus will be any decisions regarding the previously touted Treasury buybacks after the TBAC said the option warranted further discussions, while Treasury Secretary Yellen said recently that it was conceivable something could be done. Briefly, the appeal of buybacks, where the Treasury would purchase outstanding debt securities which would then be cancelled, include improving liquidity in illiquid Treasury securities (mainly those further out the curve), whilst funding the purchases with more T-Bill issuance, which would be desirable in the current environment where short-end paper is seeing high demand. On the other hand, some of the cons with buybacks include higher taxpayer costs due to refinancing (during an inverted yield curve) at higher bill rates, creating uncertainty about the Treasury's issuance path, and signalling issues with the Fed carrying out QT at the same time.

FOMC ANNOUNCEMENT (WED): The Fed is expected to hike its target Fed Funds range by another 75bps to 3.75-4% (money markets have 75bps priced at a 98% probability) with a firm focus on the guidance and Powell's presser as the FOMC looks to step down its pace of tightening approaching its expected terminal rate, roughly in the 4.5-5% area. Ahead of the blackout, Fed insider Timiraos at the WSJ noted the FOMC is barreling towards a fourth straight 75bps hike in November, adding that the meeting could serve as a critical staging ground for future plans, including whether and how to step down to 50bps in December; Fed's Daly also gave remarks calling on the need to step down the pace of tightening. Timiraos wrote, "Some officials are more eager to calibrate their rate setting to reduce the risk of overtightening. But they won't want to dramatically loosen financial conditions if and when they hike by 50bps (instead of 75)... One possible solution would be for Fed officials to approve a half-point increase in December, while using their new economic projections [in Dec.] to show they might lift rates somewhat higher in 2023 than they projected last month." Those concerns around loosening financial conditions will already be top of mind for the Fed given the spike higher in long-end inflation breakevens that have been accompanied by a pick-up in stock appetite, fall in Treasury yields, and a weakening Dollar seen in wake of the WSJ article, not to mention the dovish developments at the ECB and BoC which have only added to central bank 'pivot' pricing. As such, Powell will likely push back on the 'pivot' narrative at the November FOMC, and perhaps front-run the December SEPs in hinting towards a higher terminal rate than the 4.6% median dot in the September SEPs and stressing a "higher for longer" stance as a means to counter the dovish signalling of a reduction in the pace of hiking in the backdrop of little progress made on the inflation front.

BOE ANNOUNCEMENT (THU): With Y/Y CPI running at an uncomfortably high 10.1% in September and the core metric advancing to 6.5%, policymakers are expected to deliver a "significant" rate hike after the 50bps adjustment in September underwhelmed some in the market. Expectations are for the MPC to hike the Bank Rate by 75bps to 3%, according to 18/30 analysts surveyed by Reuters. For the remaining 12 surveyed, 10 expect a 100bps move, one favours 125bps and another looks for 150bps. In terms of market pricing, a 75bps hike is 93% priced in as bets for 100bps move continue to recede. The decision to hike rates is expected to be unanimous, however, there is expected to be a split in views over the magnitude with Dhingra (voted for a 25bps hike in September) and Tenreyro potential dissenters. Beyond the upcoming meeting, market participants will also be on the lookout for clues about further tightening within the policy statement. As a reminder, the Bank has continued to push back on the aggressive level of market pricing with Deputy Governor Broadbent (20th Oct) noting that it remains to be seen if rates need to rise as much as currently priced in by markets. At the time, the peak rate was priced at around 5.25% vs. 4.75% currently with the latter implying 175bps of tightening beyond November. It's also worth noting that by the time of the meeting, the Bank's Gilt sale operation (short and medium-term) will have commenced after pushing back the start date in October and having to return to the market to purchase longer-dated Gilts following distress in the pension sector after the UK's mini-budget. Elsewhere, the accompanying MPR projections will be subject to great uncertainty and potentially of limited use given that they can only factor in stated government policy. Given the fiscal event due on October 31st has now been pushed back to November 17th, the MPC will need to base its forecast on the Energy Price Guarantee being maintained for two years, instead of the shorter timeframe that Chancellor Hunt is expected to officially unveil. Furthermore, the MPC will not be able to factor in the more stringent fiscal package that will be put forward in November. Accordingly, analysts at Pantheon Macroeconomics expect “the MPC’s forecasts likely will show CPI inflation hovering near the 2% target in two-to-three years’ time, despite the big upward shift in markets’ expectations.”

NORGES ANNOUNCEMENT (THU): At the September gathering, the Norges Bank hiked its Key Policy Rate by 50bp as expected to 2.25%, alongside this they flagged that the rate will most likely increase further in November; however, the pace is set to slow with Governor Bache looking for a 25bp hike. A slowdown in the pace of tightening was regarded as being warranted due to there now being clear signs of a cooling economy. Since then, the main release has been September’s CPI metrics which were notably hotter than expected and increased further from the prior. Upside which appears to be broad-based in nature and thus adds weight to the argument for the Norges Bank to hike by more than 25bp in November; reminder, the September statement included a two-way caveat that hikes could be smaller/higher than forecast, depending on how inflation progresses. Following this, Governor Bache spoke but provided little on policy. Thus, expectations for the November meeting are likely to be split evenly between a 25bp and a 50bp hike from the current 2.25% Key Policy Rate.

US NONFARM PAYROLLS (FRI): The conensus expects 200k nonfarm payrolls to be added to the US Economy in October, moderating from the 263k rise seen in September. If the consensus expectation is realised, it would be beneath the three-, six- and 12-month averages (at 372k, 360k, 474k respectively). The consensus expects the unemployment rate to nudge up by one-tenth of a percentage point, taking it to 3.6%; there will be focus on the participation rate to see whether the rise is a function of returning workers. Average hourly earnings are seen rising by 0.3% M/M (some exepct the annual measures to be supported by strong base effects), in line with the prior month's report. The labour market has held up well of late, and even when GDP metrics were pointing to a technical recession, were adding jobs. Now, however, some rate sensitive sectors (like housing for instance) are begining to show signs of strain under the weight of tighter monetary policy, and analysts will be watching carefully to see if this is permeating into the labour market too. In terms of the Fed reaction, Credit Suisse says "overall, a report in-line with our expectations should reassure the Fed as they consider easing their pace of rate hikes," adding that "payrolls growth is still well-above a sustainable pace, but stability in the unemployment rate and ongoing moderation in wages suggest that some signs of overheating earlier in the year may have been temporary."