Week Ahead November 7-11th: Highlights include US CPI, Midterms

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- **MON:** Eurogroup; Chinese Trade Balance (Oct), Swiss Unemployment (Oct), EZ Sentix (Nov), US Employment Trends (Oct), Australian Consumer Sentiment (Nov).
- **TUE:** US Midterms, CBR Policy Announcement, BoJ SOO (Oct), EIA STEO; EZ Retail Sales (Sep), US NFIB (Oct).
- **WED:** NBP Policy Announcement; Chinese CPI (Oct).
- **THU:** Banxico Policy Announcements; Norwegian CPI (Oct), US CPI (Oct), IJC (w/e 31st Oct), New Zealand Manufacturing PMI (Oct), Chinese M2 (Oct).
- **FRI:** German CPI Final (Oct), UK GDP Estimate (Sep), GDP Prelim. (Q3), US University of Michigan Prelim. (Nov).

NOTE: Previews are listed in day-order

CHINESE TRADE BALANCE (MON): China's trade surplus is expected to have widened further in Dollar terms, with analysts expecting USD 95.80bln from a prior 84.74bln. Exports are expected to have grown 4.1% Y/Y (prev. 5.7%) and imports are forecast to rise by +0.1% Y/Y (prev. +0.3%). It's worth noting that the data will likely be too backwards looking given the recent chatter surrounding a more targeted COVID policy from China; recent reports suggest that China's CDC is working on a reopening path, and China's health authorities will be holding a press conference on targeted COVID prevention on November 5th. On Friday, a former Chinese government expert told a conference that many new COVID policies will be introduced over the next 5-6 months, and added a "substantive change" to COVID policy is coming soon.

US MIDTERM ELECTIONS (TUE): All seats in the House up for election, and 35 Senate seats will be up for the vote. The Senate race is currently seen as a toss-up, but in recent days, the polling has been leaning in favour of Republicans, according to FiveThirtyEight; Republicans are expected to take control of the House. FiveThirtyEight sees an 80% chance of the GOP holding between 215-248 seats, adding the fate of the House lies on Iowa's 3rd District, North Carolina's 13th District and Colorado's 8th District, while the three districts along the Texas-Mexico border will also be key. Within the Senate, there is particular attention on the Georgia, Nevada and Pennsylvania races, with Republicans trying to take Georgia and Nevada, while Democrats are looking to take Pennsylvania from the opposition. If the Democrats retain control of the Senate, and the House becomes Republican, it will be difficult to pass legislation over the coming two years, where any House-passed measures would likely be dead on arrival in the Senate, and vice-versa. However, the Republicans will likely use the debt limit and government funding limits to leverage the Democrats to force them to the negotiating table on spending cuts, some analysts argue. The Governorship race is for 36 positions, made up of 20 republicans and 16 Democrats. The Governor races could have implications for the 2024 US Presidential Election, with eyes on whether Florida Governor Ron De Santis is to run for President for the Republicans, as well as former President Trump who has been hinting he expects to run again. Inflation and the economy have been the one of, if not the main concern among the electorate; Bank of America suggests that if the Republicans win, it would signal that the electorate wants low inflation, while if the Democrats win, it would imply the electorate wants low unemployment. BofA suggests a Republican win would also lead to tighter monetary policy, and for the yield curve to invert further, while a Democratic win would likely result in looser fiscal policy, and a steeper yield curve.

EZ RETAIL SALES (TUE): Analysts expect Eurozone retail sales to rebound by 0.3% M/M in September, following a decline of 0.3% in August; the annual measure is expected to improve a little but is still seen -1.3% Y/Y (prev. -2.0%). Analysts at Moody's note that regional retail sales data out of Germany and France surprised to the upside in the month, which bodes well for the aggregated Eurozone data. However, Moody's says it is "not holding [its] breath for a turnaround in consumer spending," and instead, it expects retail sales "to contract through the rest of the year as inflation continues eroding purchasing power and dismal confidence cuts into demand."

CHINESE CPI (WED): Annual consumer prices are expected to have cooled slightly in October to 2.5% Y/Y (prev. 2.8%), while the monthly metric seen accelerating a little to +0.4% M/M (prev. 0.3%). PPI is forecast to fall -1.4% Y/Y (prev. +0.9%). Using the Caixin PMI as a proxy, in October "the rate of inflation was the quickest since February, and above the series long-run average; output prices increased, which often reflected the pass-through of higher costs to customers, anecdotal evidence showed. Alongside a rise in oil-related prices, firms reported higher wage bills leading to an increase in operating expenses. That said, the overall rate of cost inflation was the second slowest in the past 14 months." As a reminder, last month's CPI metrics were impacted by lockdowns (ahead of the CCP National Congress) which hit spending habits. Furthermore, headline CPI was driven by higher food prices, with pork prices rising some 36% in September following a 22.4% gain in April – note the Chinese government has been releasing frozen pork from state reserves in a bid to tame prices.

US CPI (THU): Analysts expect headline consumer prices to pick up by 0.7% M/M in October, accelerating from the 0.4% M/M rate in September; the core measure is seen cooling a touch to 0.5% M/M, lower than the 0.6% M/M in September, but a still elevated level vs historical levels. The data will be framed in the context of how much progress the Fed is making towards lowering inflation. After the November FOMC meeting, Fed Chair Powell said it was "very premature" to consider pausing or ending the rate hiking cycle, noting that inflation remains well above the Fed's longer-run goals, with price pressures evident across goods and services. Although longer-term inflation expectations still appear well-anchored, the Fed wants to see inflation coming down decisively, and is prepared to stay the course until the job is done. The message from Powell was that the Fed is strongly committed to its inflation target of 2%. Powell did, however, allude to a potentially slower pace of rate hikes in December; the statement said the Fed will consider the "cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments" when determining the pace of future rate increases. Analysts rationalised that with rates in restrictive territory, the Fed can downshift to a slower pace of normalisation to assess the impact of the 375bps worth of rate tightening unleashed since March. Currently, the market is split in its views about whether the Fed will implement a 50bps or 75bps rate hike in December. Accordingly, the market seems to be of the view that if inflation metrics move lower (and traders are keeping an eye on aggregate inflation data, including CPI, PCE, wages metrics within jobs data, consumer inflation expectations via surveys, etc), this gives the Fed cover to downshift to the lower increment; however, if inflation data does not cooperate, then the Fed will prefer the larger sized hike, and potentially an even a higher terminal rate (Powell suggested that the eventual peak Fed Funds Rate Target is above the 4.6% pencilled in within the September projections; money markets see the peak at 5.00-5.25% in Q2 2023).

BANXICO ANNOUNCEMENT (THU): At its last policy meeting, Banxico hiked interest rates by 75bps to 9.25%, in line with the consensus view, and minutes from that meeting suggested that further rate hikes were on the table. The central bank's recent monthly poll revealed analysts think rates will end 2022 at 10.50%, raising their expectations from 10.25% in the prior month's poll - and it appears that the current level of rates has begun prompting conversations on the Board about when it will end the hiking cycle. Board member Esquivel, whose term concludes at the end of this year, recently cautioned against lifting rates to an aggressively restrictive level given a weakening economy, and said policymakers should begin thinking about ending the rate-hiking cycle, arguing that a benchmark rate between 10.25-10.50% should be a sufficiently high and restrictive level of rates. He also said that expectations for rates next year are 'atypically' high, and "we cannot think they can stay there for very long". Indeed, this thinking is in line with the central bank's poll, where analysts think that rates will fall to 9.75% next year (in the previous poll, they were expecting 10.25% in 2023).

UK GDP ESTIMATE (FRI): August's monthly GDP data printed -0.3% M/M, painting a picture of an economy losing momentum, and analysts at Investec think a similar picture could be seen in the September data, with the potential for an even steeper drop; it forecasts a monthly decline of 1.0%. The September downside will be exacerbated by a one-off factor relating to Queen Elizabeth II's funeral in the month, which was a national holiday – Investec notes that the character of this type of holiday is different to that of other Bank Holidays, with many businesses shutting as a sign of respect. The September data also rounds out Q3, where the street expects UK GDP to have fallen by 0.2% Q/Q, offsetting the 0.2% Q/Q growth seen in Q2; the annual measure is expected to reveal growth of 2.8% Y/Y. Investec says that if back data is not revised, the UK will have managed to avoid technical recession for now (as defined by the traditional 'two consecutive quarters of negative growth' measure); "Nor is recession likely by Q4, because a rebound in GDP is highly likely to have followed in October as activity resumed after the end of the national mourning period," the bank writes, but "still, we do expect a recession during 2023 as higher interest rates bite against a backdrop of fiscal tightening."