newsquawk

Week Ahead Dec. 12-16th : Highlights include Fed, US CPI; ECB, BoE, SNB, Norges Bank

Week Ahead December 12-16th:

- **MON:** UK GDP Estimate (Oct), Chinese M2/New Yuan Loans (Nov).
- **TUE:** OPEC MOMR; BoE Financial Stability Report; German CPI Final (Nov), UK Unemployment Rate (Oct) /Claimant Count (Nov), EZ ZEW (Dec), US CPI (Nov), Japanese Tankan (Q4), New Zealand Current Account (Q3).
- **WED:** FOMC Policy Announcement, IEA OMR; UK CPI (Nov), Swedish CPIF (Nov), EZ Industrial Production (Oct), US Export/Import Prices (Nov), Japanese Exports/Imports (Nov).
- **THU:** ECB, BoE, SNB, Norges Bank & Banxico Policy Announcements, European Council (1/2); Australian Employment (Nov), Chinese Retail Sales/Industrial Production (Nov), US Retail Sales (Nov), NY Fed Manufacturing (Dec), IJC (w/e 5th Dec), Philadelphia Fed (Dec), Industrial Production (Nov), Australian Flash PMIs (Dec), New Zealand Manufacturing PMI (Nov).
- **FRI:** Quad Witching, CBR Policy Announcement, European Council (2/2); UK GfK (Dec), UK Retail Sales (Nov), EZ, UK & US Flash PMIs (Dec), EZ Final CPI (Nov).

NOTE: Previews are listed in day-order

UK GDP ESTIMATE (MON): October GDP is forecast to rise 0.4% M/M (prev. -0.6%); the data will be used to assess whether the UK is in a recession or not. The September data were distorted by a ten-day mourning period for the funeral of Queen Elizabeth II, which amplified monthly decline. In October, there was extra working days, which will help support a monthly rebound. That being said, recent PMI reports said that "a further steep fall in business activity in November adds to growing signs that the UK is in recession, with GDP likely to fall for a second consecutive quarter in the closing months of 2022… the PMI for the fourth quarter so far is signalling the steepest economic contraction since the height of the global financial crisis in the first quarter of 2009, consistent with the economy contracting at a quarterly rate of 0.4%." The report added that "forward-looking indicators, notably an increasingly steep drop in demand for goods and services, suggest the downturn will deepen as we head into the new year."

UK JOBS (TUE): September's jobs data was mixed, but overall signalled that the labour market remained tight, though there were some signs of loosening. The unemployment rate is expected to tick higher to 3.7% in October from the prior 3.6% – which itself increased from August's 3.5%. Analysts expect the worries surrounding the economy to continue to slightly loosen labour market conditions. Investec sees the jobless rate at 3.7%, with a +62k gain in employment, and also expects wage momentum to persist (headline seen +6.1%, while the regular pay metric seen at 5.9%.

US CPI (TUE): The consensus is looking for a mixed release, with the headline rate of consumer prices seen decelerating slightly to 0.3% M/M in November (prev. 0.4%), although the core rate is expected to pick up a touch to +0.4% M/M (prev. 0.3%). In October, core CPI fell sharply after hefty readings in both August and September, and along with other inflation metrics, has resulted in a reassessment of inflation expectations, with many now more forcefully making the argument that inflation pressures have turned a corner; Morgan Stanley itself looks for inflation to remain at these more moderate levels going forward, as the disinflationary forces continue, and the bank expects the November report to confirm the slowdown. While the data is unlikely to shift the dial too much for the December FOMC (the Fed announce is due the day after the CPI data), where a 50bps rate rise is assumed to be a done deal given the recent commentary from Fed officials, it could be influential in shaping expectations of where the terminal rate will eventually be (currently, markets expect rates to peak at 4.75-5.00% in March 2023, where it is expected to remain until the November 2023 meeting, after which the market expects rate cuts).

UK CPI (WED): Last month's reading was modestly firmer than expected at 11.1% Y/Y, an increase which was largely due to the introduction of the Energy Price Guarantee which caps household energy bills at an average of GBP 2,500 vs Ofgem's GBP 1,970 cap. November's headline is expected to ease to 10.9% Y/Y, while core CPI is seen steady at 6.5% Y/Y, chiming with the read across from the month's S&P Global PMIs, which seemingly suggested that there were signs that inflation had peaked, though remains historically elevated. More broadly, the release will factor into the BoE's Policy Announcement, which is scheduled for the following day, and is likely to result in a 50bps rate hike (vs 75bps in November), as the MPC continues to balance managing inflation and the impending recession. Further out, inflation is

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

likely to remain elevated for some time, though the latest Citi/YouGov survey is a welcome read for the BoE, as 12-month consumer inflation expectations eased, though the 5-10yr view remains stubbornly above the BoE's 2% target. Note, the ONS will not be publishing PPI metrics for November, due to previously announced quality problems.

FOMC ANNOUNCEMENT (WED): The Fed is expected to lift its Federal Funds Rate target by 50bps to 4.25-4.50%, according to both the analyst consensus, as well as the previous meeting statement and recent commentary from Fed officials. Analysts will also be noting the updated economic projections, which are expected to show a higher terminal rate than assumed in the September projections (4.6%), as has been alluded to by Chair Powell at the November FOMC and in remarks made in December. Money markets are implying that terminal is somewhere in the 4.75-5.00% bracket, although have creeped into the 5.00-5.25% range in wake of some hawkish data prints (like the recent NFP and ISM data, for instance). Powell will likely be quizzed on how long the Fed intends to hold rates at terminal; while he might not get drawn into offering any precise guidance, the chair himself has previously said that rates will have to be held at terminal for “some time” - a line echoed by many other Fed officials too. For context, historically the Fed has typically stayed at terminal for between 3-15 months, with the average being around 6.5 months. It is worth noting that expectations for the December meeting could be subject to some further volatility, given that the November CPI data will be released a day before the FOMC meeting; accordingly, if the CPI data does deviate widely vs expectations, the Fed may choose to again ‘guide’ expectations via its mouthpieces in the WSJ or NYT.

AUSTRALIA EMPLOYMENT (THU): Analysts expect 17k jobs to be added to the workforce in November (prev. 32.2k), and the unemployment and participation rates are expected to be unchanged at 3.4% and 66.5% respectively. The October release was influenced by holidays and floods that hampered a recovery in employment. Westpac says that “while labour market indicators from both business and household surveys, along with job ads, have eased a bit over the past few months they remain at very robust levels consistent with at least sound employment growth,” and adds that “the November update from Weekly Payrolls suggests jobs growth bounce back in the month.” The bank expects an above-consensus addition of 27k jobs, while forecasting another dip lower in the unemployment rate to 3.3%.

CHINA RETAIL SALES, INDUSTRIAL PRODUCTION (THU): November's activity data is likely to have been hindered by COVID-related lockdowns. Retail sales are expected at -3.0% Y/Y (prev. -0.5%), while industrial production is seen at 3.8% Y/Y (prev. 5.0%). That said, the data will not offer any timely or accurate prognosis of the current state of the retail and manufacturing sectors given authorities' recent shift in their COVID policy stance, which has seen several large cities re-open and some testing rules dropped. Further, the government's recently announced property policies has also supported sentiment in the sector. Additionally, the market's focus on Thursday (domestically, at least) will likely be on China's Central Economic Work Conference, where policymakers will discuss next year's GDP targets and budget metrics.

CHINA CENTRAL ECONOMIC WORK CONFERENCE (THU): Policymakers will discuss next year's GDP targets and budget metrics, according to recent reports. Sources have said that officials are looking to loosen the stance on property policies, with some inferring that authorities will look to reverse the downtrend in the sector, and could even declare a completion to China's campaign to deleverage the property market. President Xi presided over a Politburo meeting this week, and warned that the global economy will face difficulties next year. Recent reports have also suggested that policymakers are mulling a 5% GDP target, in what was described as a “pro-growth” shift. “As opposed to previous meetings, the latest politburo meeting pointed to an overall rebound of macro-economic operations in 2023, and ‘attaining effective improvement in quality,’ which indicates that one of the most important tasks next year is to fire up the economic engine under a new development pattern,” SGH Macro Advisors said; it also added that one official “expected that credit growth will be relatively strong in 2023, but the growth rate may slow down slightly,” and the PBoC could “further cut the reserve requirement ratio, use reverse repos, Open Market Operations (OMO), the Medium-term Lending Facility (MLF), pledged supplementary Lending (PSL), and other instruments to keep liquidity in the banking system reasonable and ample.”

NORGES BANK POLICY ANNOUNCEMENT (THU): Following a downshifted 25bps rate hike at its previous gathering, the central bank guided participants towards further tightening ‘most likely’ taking place in December. While Governor Bach did not provide explicit guidance as to what magnitude to expect, the consensus looks for another 25bps hike, taking its key policy rate to 2.75%. Since the November 3rd policy meeting, the most pertinent releases have been October's and November's CPI metrics: the October release was hotter than expected, both for the headline and core measures, while the November rates of inflation unexpectedly cooled, with the core (ex-ATE) figure at 5.75% (prev. 5.9%). However, while a good sign, this compares to (and significantly eclipses) the 4.97% forecast for December within the central bank's September's MPR. The December meeting will be accompanied by an updated MPR, which is expected to see a significant upward revision to at least the near-term inflation forecasts. While the inflation backdrop perhaps justified a more hawkish announcement, the view in November that there are signs of the economy slowing down – a prognosis echoed by the Financial Stability Report, Regional Network and Household surveys since. On the latter, while there are some optimistic points within it on inflation and capacity constraints, the overall 6-month ahead index deteriorated. For reference, commentary from the Norges Bank has been very sparse.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

SNB POLICY ANNOUNCEMENT (THU): The Swiss central bank is expected to lift rates by 50bps to 1.00%, and will likely reiterate a two-way willingness to intervene in FX as necessary. The downshift to 50bps from September's 75bps move is justified by inflation printing below both the market and SNB's forecasts for October and November; though, given recent rhetoric from Chairman Jordan, a larger magnitude cannot be ruled out. At the September meeting, the central bank disappointed market expectations for 100bp, which sparked a pronounced dovish reaction across asset classes. Additionally, it altered its tiering system, essentially flipping the prior exemption to account for rates moving into positive territory. Perhaps the most pertinent aspect of the meeting, rates aside, was the reiteration of language from the Chair that it can buy or sell FX as needed to weaken or even support the CHF. Since then, we have seen Jordan double-down on this language, which hints at further tightening, while stressing a willingness to take all necessary measures to bring inflation back to stable territory and reiterating that nominal CHF appreciation is useful in guarding against inflation. November's inflation print was in-line with the prior readings and market expectations at 3.0% Y/Y, a figure that is below the SNB's forecast from September of 3.4% for the Q4-2022 period; and while December's metrics are not yet available, the numbers for the quarter thus far are comfortably below this forecast. Accordingly, this could perhaps reduce the need for any 'outsized' policy action, a view that derives support from the ECB and Fed potentially looking to step down the pace of tightening to 50bps in December, a magnitude the SNB may also enact, although 25bps still should not be ruled out given the aforementioned inflation developments.

BOE POLICY ANNOUNCEMENT (THU): Policymakers on the MPC are expected to step down to a 50bps rate hike pace compared to the 75bps move implemented in November. The decision to "go big" last month was largely based on the disappointment from the market that the MPC "only" went for 50bps in September. This time around, and with 290bps of rate increases under their belts thus far, the MPC is expected to return to a 50bps adjustment, according to 52 of the 54 analysts surveyed by Reuters, and market pricing assigns around a 90% chance of such an outcome. The decision to move on rates is expected to be a unanimous given that headline annualised inflation advanced to 11.1% Y /Y in October, while the core rate remained at an elevated level of 6.5%. However, given dissent at the November meeting – where Swati Dhingra voted for a 50bps hike, and Silvana Tenreyro for 25bps – there is a risk that the decision might not be unanimous. Credit Suisse touts the possibility of a 2-5-2 split, where Tenreyro and Dhingra could vote for 25bps, Haskel and Mann vote for 75bps, and with the remainder opting for 50bps. Capital Economics notes that there is a risk that Tenreyro could opt for an unchanged rate, given remarks she made in a recent speech, where she said that "in the most likely scenario, we had already done enough"; she also published a central scenario where rates peak at 3% (current levels). It is likely that the bulk of the focus will centre around this aspect of the decision, and any adjustment to forward guidance, which currently reads "the majority of the Committee judges that...further increases in Bank Rate may be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets." Beyond next week's meeting, analysts surveyed by Reuters expect the BoE will carry out a further 50bps of rate hikes in Q1, followed by 25bps worth in Q2, taking the terminal rate to 4.25%; market pricing takes a slightly more hawkish view and sees the terminal rate at 4.5%.

ECB POLICY ANNOUNCEMENT (THU): Despite softer-than-anticipated headline inflation in November, Eurozone HICP printed 10.0% Y/Y (exp. 10.4%), and was overshadowed by an unexpected rise in core inflation 6.6% Y/Y (exp. 6.3%, prev. 6.4%). As such, the central bank is expected to pull the trigger on another rate hike, despite the uncertain economic outlook. The 75bps increase at the October meeting was supported by a "very large majority", with some members expressing a preference for 50bps given the potential financial stability and economic activity ramifications of an "overly aggressive pace of tightening." This time around, a downshift to a 50bps increment is expected by 45 of the 62 economists surveyed by Reuters, while market pricing assigns an approximately 87% chance to such a move. Chief economist Lane has laid the groundwork for a potential slowdown in the cadence of rate increases by noting that he would be reasonably confident in saying that "it is likely we are close to peak inflation." Lane added that in December, "we should take into account the scale of what we have already done. So the basis for the decision will be different [compared to September and October]." That said, the Governing Council does not appear to be unanimous in stepping-down to a 50bps pace of tightening; Austria's Robert Holzmann backs another 75bps increase, whilst the influential Isabel Schnabel of Germany said that incoming data thus far suggests to her that scope to slow the rate of adjustments remains limited. ING is of the view that an "earlier and more significant" form of QT could be the compromise required by hawks in order to back a slower pace of rate hikes." Accordingly, the Dutch bank expects the ECB to "announce a gradual reduction of the reinvestments of its bond holdings under the Asset Purchase Programme (APP) at the December meeting, with the aim to stop the reinvestments by end-2023." It adds that the Italian BTP-German Bund yield spread being below 190bps is probably where most would have put it before the ECB embarked upon unwinding its bond portfolio. Looking beyond the December meeting, a further 75bps of tightening is fully priced in for 2023, and that would take the deposit rate to 2.75%, into restrictive territory, with policymakers broadly of the view that rates are "close to neutral."

US RETAIL SALES (THU): November's retail sales are expected to fall 0.1% M/M (prev. +1.3%), while the ex-autos measure is seen rising 0.3% M/M (prev. +1.3%). Credit Suisse is more pessimistic than consensus, and looks for the headline to contract by 0.5% in the month, reversing some of the upside surprise in the October report. "Auto and gas spending were likely a drag this month, but we also expect broader weakness in control group sales," the bank says,

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

"goods prices are falling, so the decline should be more modest for real retail sales, which remain above trend." The control group measure of retail sales is also likely to decline, CS thinks, given that high-frequency card spending data fell sharply in the month. "In recent years, holiday shopping has been pulled earlier into Q4, leading to strength early in the quarter offset by punitive seasonal adjustments in November and December," it observes. CS also thinks that real retail sales will be under pressure into the new year: "Higher borrowing costs and weak sentiment are likely to push real retail sales back to trend," it writes, "weakness in the housing market is also likely to limit demand for large durable goods such as appliances and furniture."

BANXICO ANNOUNCEMENT (THU): After two successive 75bps rate rises, the Banxico is expected to downshift the rate of interest rate increase in December, as has been suggested by some of its officials this week. But the central bank is still expected to tighten policy, with many expecting a 50bps rate rise, following the 600bps of tightening already implemented this cycle, in order to tame surging consumer inflation. The slowdown will be supported by a slightly easier tone in recent CPI data, which showed consumer prices rising 0.6% M/M (exp. +0.7%), and easing to 7.8% Y/Y (exp. 7.9%) from the prior 8.4%. Traders will be looking for signs from the central bank that it is close to concluding its hiking cycle; Franklin Templeton's analysts expect Mexico's terminal rate to be at 11% in H1 2023, and believes that the central bank will then begin to lower rates.

UK RETAIL SALES (FRI): The release will cover the Black Friday spending period which, when accounting for the extra Bank Holiday impact(s) to the October release, may muddy the month-on-month interpretation of the series. November's metrics are expected at +0.4% M/M (prev. 0.6%), matching the increase in consumer spending reported in Barclaycard's data, where Black Friday's volume of transactions were up 3.2% Y/Y. Note, the ONS has previously incorporated the Black Friday event into the December release, and as such, it advises looking at the November and December series in combination (when both are available) for a more accurate read into retail activity. From the month's PMIs, both the manufacturing and services releases noted a further contraction, with respondents to the surveys highlighting weak demand – though, this was accompanied by tentative upbeat commentary on the inflation front. More broadly, the data will be scoured for any indication that the real economy is beginning to feel the dual impact of BoE tightening and the first stages of a recession, particularly in the context of the likely dovish dissent at December's BoE (Note, the Policy Announcement occurs in the session prior to retail sales being released) given Tenreyro and Dhingra used domestic headwinds as justification for their dovish dissent in November.

EZ FLASH PMI (FRI): The Eurozone Flash PMIs are expected to match the prior month's releases, according to Reuters, with the manufacturing print expected at 47.1, the services gauge is expected at 48.5, while the composite measure is seen at 47.8. The previous surveys registered a surprise improvement as supply constraints eased, whilst the overall theme of the findings was one of subdued demand. "A fifth consecutive monthly falling output signalled by the PMI adds to the likelihood that the Eurozone is sliding into recession," S&P Global said, "however, at present, the downturn remains only modest, with an easing in the overall rate of contraction in November means so far the region looks set to see GDP contract by a mere 0.2%." The survey also highlighted signs of inflation peaking.

UK FLASH PMI (FRI): The flash December metrics are expected to portray a deterioration in sentiment, with the services gauge expected at 48.5 (prev. 48.8), manufacturing at 46.0 (prev. 46.5), and composite at 48.0 (prev. 48.2). November's PMI data surprised to the upside, with one potential factor being a stabilising political backdrop following the mini-budget fiasco, though subdued economic conditions were telegraphed in the prior release. "A further steep fall in business activity in November adds to growing signs that the UK is in recession, with GDP likely to fall for a second consecutive quarter in the closing months of 2022," S&P Global said. On the inflation front, the prior release suggested "price pressures meanwhile remain elevated but show further signs of cooling, often linked to weakened demand, which – combined with the growing recession signals – suggest that the Bank of England may start to make less aggressive interest rate hikes in the coming months." That said, the December month sees the end-of-year holiday period alongside a series of workers' strikes which could distort sentiment across the manufacturing and services sector, whilst energy could be a source of concern as winter weather approaches and demand for energy rises.

CBR ANNOUNCEMENT (FRI): Analysts continue to expect Russia's central bank to hold its key rate at 7.5% through the end of this year, according to Reuters' monthly poll. The central bank's own monthly analyst poll notes that the economy has overcome the short-term slump in wake of the partial mobilisation, with the disinflationary impact of that mobilisation having now disappeared. Over the next couple of years, these analysts see GDP growth being capped by a reduced labour force, however, which is likely to have a pro-inflationary effect, with these risks expected to become more apparent in the medium-term. Ahead, the CBR is expected to have lowered rates to 6.75% by the end of 2023, according to the latest Reuters poll.

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

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