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Week Ahead January 9th-13th: Highlights include US & Chinese CPI, Chinese Trade, UK GDP and US Earnings Season

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- **MON:** Swiss Unemployment (Dec), German Industrial Output (Nov), EZ Sentix (Jan), Unemployment (Nov), Chinese Exports/Imports (Dec)
- **TUE:** EIA STEO; Norwegian CPI (Dec), US NFIB (Dec), Chinese M2 & New Yuan Loans (Dec)
- **WED:** Australian CPI (Nov)
- **THU:** Australian Trade Balance (Nov), US CPI (Dec), IJC (w/e 2nd Jan)
- **FRI:** ECB TLTRO Repayment Amount Publication; UK GDP (Nov), Swedish CPIF (Dec), EZ Trade Balance (Nov), Industrial Production (Nov), US University of Michigan Prelim. (Jan), German Wholesale Price Index (Dec), Canadian Housing Starts (Dec)

NOTE: Previews are listed in day-order

CHINESE CPI (THU): There are currently no expectations for the December Chinese inflation data release. To recap the prior report, CPI Y/Y rose 1.6% in November from the 2.1% pace in October, with prices of food printing at 3.7%, 3.3ppts lower than October, according to Global Times (GT). A bulk of the consumer inflation was fuelled by food prices in the month – with prices of pork soaring 34.4%. “According to a research report issued by the China International Capital Corporation (CICC), the tightened supply of live pigs has been ameliorated in November amid Chinese authorities' scaled-up policy adjustment”, reported GT. China set a consumer inflation target of around 3% for 2022. PPI meanwhile fell 1.3% in November, largely due to base effects. Using the latest Chinese Caixin PMI data as a proxy for December, the release suggests “Input costs faced by Chinese firms rose at the slowest rate since September and only marginally. Prices charged were meanwhile stable, as discounting at manufacturers was offset by price hikes at services firms.” From a broader policy perspective, Caixin’s Chief Economist warned - “Under pressure from shrinking demand, weakening expectations and a supply shock, the annual Central Economic Work Conference stated that the foundation for an economic recovery is not solid. Policymakers have made it clear that priority must be given to the recovery and expansion of domestic consumption.”

US CPI (THU): The consensus looks for headline CPI to print 0.1% M/M in December, matching the prior rate, while the annual measure is expected to fall to 6.7% Y/Y from 7.1%. Credit Suisse explains that goods prices continue to face headwinds as supply chains and demand conditions ease. Services inflation will continue to be supported by shelter prices, which CS sees peaking in one-or-two quarters before falling into year-end. A decline in gasoline prices will offset the upside in food inflation, the bank believes. Meanwhile, core CPI is likely to have risen 0.3% M/M, analysts think, picking up a touch from the prior 0.2%; though the annual rate of core inflation is seen easing slightly to 5.9% Y/Y from 6.0%. "A report in-line with expectations would be reassuring for the Fed as it considers slowing – and eventually pausing – the hiking cycle early this year," the bank writes. NOTE: on Monday, the NY Fed will release its monthly gauge of consumer inflation expectations, while the University of Michigan's inflation expectations components, released Friday, will also receive attention. As seen in other data, traders are attentive to inflation updates in many forms given that the Fed wants to see substantial progress in bringing price pressures back down to target before it changes its tone on inflation, and begins refocussing on the deteriorating growth outlook.

BOK POLICY ANNOUNCEMENT (FRI): Analysts at SocGen expect the BoK to lift interest rates by 25bps on Friday, taking its key rate to 3.50%, which SocGen believes will mark the end of its rate hiking cycle. "We have reduced our terminal policy rate forecast from 3.75% to 3.50%," it writes, "the data continue to indicate weak economic activity and peaking inflation, and concerns surrounding financial stability have persisted due to high corporate leverage and housing market weakness, which would be bearish for the growth outlook." Elsewhere, SocGen argues that a decline in the USDKRW exchange rate eases the pressure on South Korea's central bank to track the Fed's tightening cycle, and thinks the BoK will follow the 'majority view' of the Policy Board members presented in November by setting its terminal rate at 3.50%.

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CHINESE TRADE (FRI): There are currently no expectations for the December trade data that encapsulates the final month of a year plagued with various domestic COVID measures, tighter overseas monetary policy amid high inflation, and fears of recession. From a domestic perspective, the zero-COVID policy began to unwind and become more targetted at the start of December, with China responding to a weakening virus, although cases continued to rise. Using the Chinese Caixin PMI as a proxy, the release suggested – “the latest reduction in sales was the fastest seen for three months, with companies citing relatively weak demand conditions amid the ongoing pandemic. Foreign demand for Chinese manufactured goods also fell, and at a quicker pace than in November. Lower amounts of export work was often blamed on sluggish global economic conditions and the pandemic.”, although some firms indicated a relative improvement vs November.

UK GDP (FRI): Consensus looks for a 0.3% M/M contraction in November vs. the 0.5% expansion in October. Growth in October was boosted by the favourable M/M comparison vs. September, which was impacted by the extra bank holiday for the Queen’s funeral. Pantheon Macroeconomics noted at the time that “the level of GDP in October still was 0.1% below its January 2020 level, and 0.4% below the artificial peak in May 2022”. Ahead of the upcoming release, analysts at Investec (which holds an above consensus view) suggest that GDP may have been relatively flat in November on account of “the reversal from November onwards of the National Insurance hike that took effect in April 2022, which left post-tax paycheques somewhat higher than in October”. That said, analysts caution that “the narrower manufacturing measure of output may have seen some renewed declines, judging by the subdued level of the output component in the PMI survey”. Investec suggests that GDP in Q4 most likely fell by a marginal 0.1%, however, a deep downturn is likely this year. From a policy perspective, a 25bps hike in February is priced at 39% with a 50bps move at 61%. Inflation is still very much front of mind for policymakers, however, a soft growth outturn could prompt additional members on the MPC to either join Tenreyro and Dhingra in the unchanged camp or scale back their vote to a 25bps move vs. the 50bps in December.

US CORPORATE EARNINGS SEASON (FRI): It will be a quiet start to the earnings season, and although almost 150 US companies will report in the week of January 9th, only a handful are in the S&P 500. However, six of these companies are large financials (BAC, BK, BLK, C, JPM, WFC), while healthcare giant UNH will also report -- all on Friday. For the earnings season more widely, analysts expect S&P 500 companies will report a decline in earnings of 1.6% in Q4, according to Refinitiv, and 'earnings recession' will be a theme that the analyst community focuses on. Other themes likely to be prevalent in this seasons' updates are margin compression due to higher inflation and lower international earnings due to the USD's relative strength against other global peers. Additionally, analysts say that corporate guidance for Q1 may be more informative for the outlook than the Q4 numbers alone, which may help to inform the corporate view on the debate around the extent to which the US will fall into recession, and how long any potential recession could last. Rathbone's strategists have said that the new year will be filled with old concerns, including the war in Ukraine, unpredictable demand for energy, and the continuation of rate hikes, meaning there will be no quick return to normal. It added that earnings season will be crucial since the forecast in the US was still relatively buoyant, "which means there is room for disappointment if the recession turns out to be deeper."

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