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Week Ahead January 30th - February 3rd

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- **MON:** Swiss KOF (Jan), Japanese Retail Sales (Dec), Unemployment (Dec), UK Nationwide House Price (Jan)
- **TUE:** Australian Retail Sales (Dec), Chinese NBS PMIs (Jan), German Import Prices (Dec), Retail Sales (Dec), UK M3 (Dec), EZ GDP Flash/Prelim. (Q4), US Employment Cost/Wages (Q4)
- **WED:** Chinese Caixin Final Manufacturing PMI (Jan), EZ, UK and US Final Manufacturing PMI (Jan), EZ Flash CPI (Jan), OPEC+ JMMC Meeting, US Quarterly Refunding, US ISM Manufacturing PMI (Jan), FOMC Policy Announcement, BCB Policy Announcement, New Zealand Jobs (Q4).
- **THU:** BoE Announcement, ECB Announcement, CNB Announcement, German Trade Balance (Dec), US Durable Goods (Dec)
- **FRI:** Chinese Caixin Final Services PMI (Jan), EZ, UK and US Final Services & Composite PMI (Jan), EZ PPI (Dec), US Jobs Report (Jan), US ISM Services PMI (Jan).

NOTE: Previews are listed in day-order

AUSTRALIAN RETAIL SALES (TUE): The December Retail Sales data is seen printing at -1.0% vs the prior of +1.4%. Desks highlight that November's Black Friday and Cyber Monday events were successful, as indicated in the November data, although analysts will now assess the impact of higher rates over the Christmas period. Westpac, citing the Westpac Card Tracker, suggests that conditions in December were buoyant, although "retail components were softer with gains in card activity centering on non-retail segments like travel and recreational services. The high weighting of food (accounting for just over half of all retail) also looks to have been a drag, some of which may be price-related.", the desk says, as it forecasts a shallower contraction of 0.3%.

CHINESE NBS PMI (TUE): January's official PMIs are expected to signal improved sentiment following the abandonment of China's zero-COVID policy. Markets expect the Manufacturing metric to rise to 49.7 from 47.0 in December – remaining in contraction territory, while there are currently no forecasts for the Non-Manufacturing (prev. 41.6) and Composite (prev. 42.6) metrics. Analysts at ING also expect the Manufacturing PMI to remain in contraction while forecasting that the Non-Manufacturing PMI should recover slightly, with a similar pattern expected in the Caixin reports. As usual, the PMI releases will likely be dissected for anecdotal commentary on growth, inflation, and firms' sentiment.

EZ PRELIM. GDP (TUE): Expectations are for prelim Q/Q GDP for Q4 to contract 0.1% vs. the 0.3% expansion in Q3, with the Y/Y rate forecast at 1.7% vs. prev. 2.3%. Ahead of the release, analysts at Investec highlight that the upcoming release will likely see a break in the trend seen through Q1-Q3 of the Eurozone economy expanding despite headwinds from the surge in energy prices. Investec anticipates just a modest contraction for Q4, but notes that it does not expect the Eurozone to "escape a shallow recession this winter", adding that despite the recent declines in spot gas prices, consumers in Europe are still being squeezed by higher energy prices and higher inflation more generally. Investec also cautions that H2 2023 could bring a renewed set of headwinds for the region amid the potential for renewed energy price pressures and the impact of prior rate increases being felt. For the upcoming ECB policy announcement, ING (who hold an above consensus call) notes that Q4 "GDP is likely to see growth stalling, though avoiding outright shrinkage, which should also give the ECB more confidence to stay the course".

US EMPLOYMENT COSTS (TUE): In remarks on January 19th, Federal Reserve Vice Chair Brainard said that there were tentative signs that US wage growth was moderating, noting that the growth in average hourly earnings has softened recently, stepping down to a pace of 4.1% annualised on a 3-month basis in December, which is down from roughly 4.5% on a 6- and 12-month basis. The influential Fed policymaker said that she would be closely watching to see whether the employment cost index data for Q4 continues to show the deceleration from Q3. Brainard said that price trends and the deceleration in wages provides some reassurance that we are not currently experiencing a 1970s#style wage–price spiral, and therefore, it remains possible that a continued moderation in aggregate demand could facilitate continued easing in the labour market and a reduction in inflation without a significant loss of employment. This could give the Fed enough confidence to potentially hike rates further as it assesses what impact the 425bps of tightening implemented so far has had on bringing down price pressures. According to Refinitiv, analysts expect the data to print 1.2% in Q4, matching the rate seen in Q3. Money markets are currently pricing that the Fed will be cutting rates towards the end of this year, and while officials have leaned back on this narrative, cooling in the employment cost index,

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combined with a continued softening in other inflation and wage measures, will at least give the central bank scope to slow down monetary tightening as the economy slows, if it needs to.

EZ FLASH CPI (WED): Expectations are for Y/Y HICP for January to decline to 9.0% from 9.2%, with the core reading (ex-food and energy) seen remaining at 6.9% and the super-core print set to decline to 5.1% from 5.2%. The prior report was characterised by a return of headline inflation to single-digits, driven by declines in energy prices, however, the super-core metric actually rose from 5.0% to 5.2% amid increases in goods and services inflation. At the time, ING cautioned “the next two months will be critical as many businesses traditionally change prices at the start of the year. It could therefore be that core inflation rises further from now”. Ahead of the upcoming release, Moody’s looks for more of the same for headline inflation with energy prices on the decline. However, there are forces slowing the extent of the decline with analysts highlighting “the rebound in German energy inflation following the one-off policy effect in December, and the lifting by 15% of France’s price cap on electricity and gas”. Moody’s adds that it expects food inflation to remain strong and anticipates an increase in the core reading given “that PMI surveys from January reported a tangible increase in selling prices by manufacturers and service-providers”. From a policy perspective, the release will likely have little sway on Thursday’s ECB policy announcement with markets assigning a circa 87% chance of a 50bps move. However, beyond February, a strong print for core inflation could convince some market participants that another 50bps in March is on the cards despite recent source reporting suggesting that 25bps may be on the table for that meeting.

JMMC MEETING (WED): The Joint Ministerial Monitoring Committee (JMMC) will meet on Wednesday to take stock of energy market fundamentals. This will not be a decision-making meeting – with the next OPEC+ Ministerial Meeting currently slated for 4th June 2023. Sources via Bloomberg and Reuters suggest the JMMC is to recommend keeping oil production levels unchanged, citing a tentative recovery in global demand. The recovery optimism arises from a combination of mounting calls for less-severe-than-expected recessions/GDP slowdowns, coupled with China abandoning its zero-COVID policy and reopening its markets. Despite OPEC+ dropping its format of monthly decision-making meetings, the Saudi Energy Minister emphasises that OPEC+ will remain “proactive and pre-emptive” to keep oil markets balanced. “Prices have firmed, supply remains tight, and significant levels of uncertainty prevail for both supply and demand.”, according to Eurasia Group, “OPEC+ looks increasingly likely to keep output levels unchanged even after the scheduled meeting.”

QUARTERLY REFUNDING (WED): The US Treasury is expected to leave all its coupon auction sizes unchanged at the February refunding announcement on Wednesday, February 1st. For November, the Treasury estimated USD 578bln in net marketable debt for Q1, but it's possible this could rise when the latest estimates are released on January 30th on account of the likely lower Treasury General Account (TGA) balance at quarter-end. There is great uncertainty as to how the month-to-month T-Bill issuance will pan out given the ongoing debt limit saga, but in general, it is expected that issuance will ramp up later in the year after a resolution on the debt limit is reached, which is expected to take place at some point in the summer. Meanwhile, an area of discussion is likely to be around adjustments to the auction calendar, which follows the Primary Dealer Questionnaire asking about the liquidity benefits of reducing the number of CUSIPs for Treasuries. Finally, after saying in November that research into a Treasury buyback programme would continue, alongside positive feedback from dealers, any progress on the issue will be eyed.

US ISM MANUFACTURING PMI (WED): The headline is expected to slip a little further below the 50-level, which divides expansion and contraction, with the consensus view expecting 48.2 in January from 48.4 in December. Although the data sets don’t always behave in the same way, S&P Global’s flash PMI data for January reported a small increase from 46.2 to 46.8, signalling a solid decline in operating conditions at the start of 2023 as manufacturing demand conditions remained subdued, the survey compiler said. The report also noted that input prices increased at a faster pace in January, ending a sequence of moderation in cost inflation that began in mid-2022. There will be attention on the forward-looking new orders sub-index, which has not been above the 50-mark since August. “The worry is that, not only has the survey indicated a downturn in economic activity at the start of the year, but the rate of input cost inflation has accelerated into the new year, linked in part to upward wage pressures, which could encourage a further aggressive tightening of Fed policy despite rising recession risks,” S&P Global said.

FOMC POLICY ANNOUNCEMENT (WED): The consensus expects the FOMC will lift its Federal Funds Rate target by 25bps to 4.50-4.75%, although some still expect the central bank to hike rates by a larger 50bps increment. Money markets are pricing the smaller move with almost certainty. Money market pricing and commentary from Fed officials has been diverging; policymakers have been reticent to get into discussions about when the central bank will cut rates, instead focussing on the still-high inflation levels. For historical context, the Fed has tended to hold rates at neutral for between 3-15 months, with the average being about 6.5 months. Money markets, however, are pricing rate cuts at the end of this year as the economy slows. While the Fed will likely to continue its course until its inflation goals are more clearly in sight, investors are debating the level that rates will peak, and how long they will be held at terminal; money markets imply the terminal rate between 4.75-5.00%, more dovish than the 5.00-5.25% pencilled in by officials in their December economic projections. Accordingly, Chair Powell is again expected to lean back on the market’s dovishness,

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as well as the looser financial conditions that have been seen recently. On an operational note: Chair Powell tested positive for COVID, it was announced on January 18th; in the event that Powell is unable to attend the February FOMC, guidance suggests that the FOMC's Vice Chair Williams will assume Powell's duties.

BCB ANNOUNCEMENT (WED): The COPOM in December held the Selic rate at 13.75%, as the market was expecting. Credit Suisse said its accompanying statement appeared neutral, with the central bank not giving any further information about the prospective scenario. The statement did allude to concerns about fiscal dynamics, noting that "the Committee will closely monitor future developments in fiscal policy and, in particular, its effects on asset prices and inflation expectations, with potential impacts on the dynamics of future inflation." Political pressure seems to be ramping up on the central bank. Additionally, a former Deputy Governor who played a crucial role in developing the BCB's inflation-targeting regime, said that officials had set excessively restrictive goals, and that the current targets failed to account for the country's unusually large fixed fiscal outlays, adding that officials were putting themselves in a corner, noting that Brazil, unlike other EM economies, spends more on pensions and public services. Credit Suisse said that "the uncertainty surrounding the waiver amounts and conditions to be approved in the Bill for Constitutional Amendment for the Transition and the absence of a credible fiscal anchor in the short term lead us to believe that interest rates will not be sufficiently restrictive, given neutral interest rates have risen and inflation expectations should remain high." The bank recently revised its expectations for the Selic rate, and now sees 11.50% by year-end (vs 13.75% previously), and for the end of the 2024 year, sees the Selic at 8.50% (cut from its prior view of 11.50%).

NEW ZEALAND JOBS (WED): The Q4 Unemployment rate is forecast to dip to 3.2% from 3.3% with the Participation Rate seen at 71.00% against 71.70% in Q3, whilst the Q/Q Employment Change was previously at 1.3%. Analysts at Westpac expect a 0.3% rise in the employment change, partially aided by the return of migrant workers. "We expect that unemployment will rise in the coming years as the economy cools off. But with labour typically being a laggard in the economic cycle, we are not likely to see signs of that just yet.", the Aussie bank cautions. From a central bank standpoint, the RBNZ is seemingly more focused on inflation after Q4 CPI eased from the prior quarter, but printed hotter-than-expected, whilst the newly-appointed New Zealand PM Hipkins also suggested more must be done to combat high inflation.

BOE ANNOUNCEMENT (THU): 29/42 surveyed analysts by Reuters look for a 50bps hike in the Bank Rate to 4%, with the remaining 13 looking for a more modest 25bps adjustment. Market pricing agrees with consensus as a 50bps move is priced at around 76%. A consensus on the vote split is yet to be published, however, the decision will likely be subject to dissent given that Tenreyro and Mann voted unchanged at the December decision. HSBC looks for similar dissent this time around with none of the other members of the MPC expected to switch to the unchanged camp yet. Within those remaining seven, there is likely to be a split of views, the extent to which is hard to judge given the lack of comms from the MPC since December. HSBC has attempted to form a base case scenario with an out-of-consensus call for a 25bps hike in which Bailey, Cunliffe, Broadbent and Pill go for 25bps whilst Mann, Haskell and Ramsden back a 50bps move. However, such a step down in the cadence of rate hikes would likely need to be accompanied by guidance that rates will still have further to run given developments in the labour market. Looking beyond February, a 25bps hike in March is priced at around 80% with markets split on whether a further 25bps would follow in Q2 to take the terminal rate to 4.5%. In terms of the accompanying forecasts, HSBC expects that the impact of the stronger GBP and softer energy prices will likely outweigh the impact from stronger growth and lower rates, which should therefore lead to a downward revision to the MPC's Q4 2023 inflation forecast to 6.9% from 7.9%.

ECB ANNOUNCEMENT (THU): 55/59 surveyed analysts look for a 50bps hike in the deposit rate to 2.5% with market pricing assigning a circa 90% chance of such an outcome; this would take the deposit rate into slightly restrictive territory. The December meeting saw President Lagarde state "based on the information that we have available today, that predicates another 50-basis-point rate hike at our next meeting, and possibly at the one after that, and possibly thereafter". This statement saw consensus coalesce around the idea of a 50bps hike for the upcoming meeting and comms from ECB officials have done nothing to lead markets away from this view. That said, some confusion around the rate hiking cycle was observed after a Bloomberg report suggested that policymakers are reportedly beginning to consider just a 25bp hike in March. Nonetheless, commentary from policymakers has done little to suggest that the GC is considering such a step down at this stage and has leaned against such reporting. In terms of market pricing, a 50bps increase in March is priced at around 80% with another 25bps expected to come thereafter in May; what happens beyond May is subject to divided opinion. With regards to the balance sheet, the prior meeting saw the GC announce that from the beginning of March 2023 onwards, the APP portfolio will decline at an average pace of EUR 15bln per month until the end of Q2 with its subsequent pace to be determined over time. For the upcoming meeting, further details on the programme are set to be announced, on which, Morgan Stanley expects "more details on how the decline in reinvestments will be distributed between the different APP programmes, as well as jurisdictions (most likely to be done proportionally in line with the capital key)". MS adds that a detailed announcement of the entire expected QT path is less likely with guidance to be kept "general".

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US JOBS REPORT (FRI): The rate of payroll additions to the US economy is expected to moderate to 175k in January (vs 223k prior, three-month average 247k, six-month average 307k, 12-month average 375k). The unemployment rate is forecast to tick-up by 0.1ppts to 3.6%. With monetary policymakers firmly fixated on reducing inflationary pressures, there will again be outsized attention on average hourly earnings, which are expected to rise 0.3% M/M, matching the rate seen in December. Labour market proxies continue to allude to tight conditions; the weekly initial and continuing jobless claims data for the week that coincides with the establishment survey window declined vs the comparable week for the December data. That said, Capital Economics points out that while layoffs remain low, demand for labour has eased in recent months, as evidenced by the employment sub-indices in the S&P Global PMI data, and along with other measures, the consultancy says it implies a slowdown in overall employment growth soon. Elsewhere, it is worth noting that annual benchmark revisions are also due to be made to the data series, and some believe that this could see a downward revision to many of the payrolls numbers we saw in the second half of 2022, as hinted at by the Quarterly Census of Employment and Wages.

US ISM SERVICES PMI (FRI): Analysts expect the Services ISM headline will return above the 50-mark, which separates expansion and contraction, with the consensus looking for 50.5 in January from 49.6 in December. As a comparison, S&P Global's flash US services business activity index posted 46.6 in January from 44.7 in December, signalling a solid fall in service sector output, but one that was the softest since last October. "The slower fall in business activity was in part linked to a less marked contraction in new orders at service providers," S&P Global said, adding that "the decrease in new business was only marginal overall." However, the report noted that "customer hesitancy and the impact of inflation on spending remained a key drag on new domestic and external sales."

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