Week Ahead February 6-10th: US Sec Of State Blinken in China; Prelim Uni. of Mich; RBA, BoC minutes

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- **MON:** US Secretary of State Blinken to visit China (TBC), Australian Retail Sales (Q4), EZ Sentix Index (Feb), EZ Retail Sales (Dec), New Zealand National Day.
- **TUE:** RBA Announcement, US Trade Balance (Dec), Canadian Trade Balance (Dec), EIA STEO.
- **WED:** RBI Announcement, NBP Announcement, Banxico Announcement, BoC Minutes.
- **THU:** Riksbank Announcement, EU Leaders' Summit on US Inflation Reduction Act.
- **FRI:** EU Leaders' Summit on US Inflation Reduction Act, ECB TLTRO Publication of Repayment Amount, Chinese Inflation (Jan), Canadian Jobs Report (Jan), UK GDP (Dec), Norwegian CPI (Jan), US University of Michigan Survey (Feb), CBR Announcement.

NOTE: Previews are listed in day-order

US VISIT TO CHINA: US Secretary of State Blinken is expected to head to Beijing this weekend in a bid to stabilise ties between the two largest economies. Several sources cited by the FT suggested Blinken may meet Chinese President Xi during his two-day visit, which commences on Sunday. The talks will likely touch on several themes, with the overarching issue being US-China decoupling. Recent reports suggested that the US has convinced Japan and the Netherlands – among the largest manufacturers of semiconductor manufacturing equipment - to join it in expanding a ban on exports of chip-making technology to China. Beijing accused the US of deliberately targeting Chinese companies. Geopolitics will likely be another topic – namely on Taiwan. Chinese military exercises around Taiwan have been a regular occurrence since the visit of former House Speaker Pelosi to the island. More recently, the US secured new access to key bases in the Philippines, which China said could increase tensions, particularly as the Philipines and China disagree on territories in the South China Sea. Furthermore, China expressed discontent over the AU/UK/US pact - the trilateral security agreement between Australia, the UK, and US – which was announced in September 2021. Under the pact, the US and UK will assist Australia in acquiring nuclear-powered submarines. The Russia-Ukraine war will also likely be discussed given China’s close ties with Russia – Russian Foreign Minister Lavrov on Thursday said Russia’s relations with China are stronger than a military alliance, there is no limit. All-in-all, it is unlikely that a breakthrough will be reached at the confab, but the tone of commentary from both sides will be watched, whilst a joint press conference could be received as a positive.

AUSTRALIA RETAIL SALES (MON): Retail sales in Q4 are expected to have contracted 0.6% from a 0.2% rise in Q3. Desks suggest the main dynamic for the slowdown in Q3 vs Q1 and Q2 was likely a function of a sharp rise in retail prices eroding purchasing power. Furthermore, Australian Q4 CPI rose at a sharp pace – printing at 7.8% Y/Y (exp. 7.5%; prev. 7.3%). Analysts at Westpac expect retail prices to have risen around 1.2% Q/Q, and thus align their forecasts with the Street’s view of a 0.3% fall in retail sales volumes. “Note that wider measures of spending suggest this weakness in retail has been largely offset by a surge in non-retail spending, and services in particular”, the analysts say.

RBA ANNOUNCEMENT (TUE): The RBA is to conduct its first policy meeting of the year on Tuesday when the central bank is likely to continue hiking rates with money markets pricing an 85% chance of a 25bps rate increase to 3.35% and just a 15% likelihood of a pause, although this was more balanced around two weeks ago when markets were pricing near-even odds between a 25bps hike and keeping rates unchanged. As a reminder, the RBA raised rates by 25bps at the last meeting in December which was as expected and it reiterated that the Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course with the size and the timing of interest rate increases to depend on data and the assessment of the outlook for inflation and the labour market. The central bank also noted that inflation is too high and that the Board’s priority is to re-establish low inflation, as well as return inflation to the 2%–3% band target over time, while the options it considered at that meeting were either a 50bps hike, a 25bps hike, or no change in the Cash Rate. Furthermore, the RBA's rhetoric was largely a reiteration and pointed to additional rate hikes ahead to contain inflation which spurred some adjustments to market forecasts as some had previously anticipated rates to peak at 3.10%. The recent data releases have continued to support the likelihood of a hike as inflation remained red hot for Q4 with CPI Y/Y at 7.8% vs. Exp. 7.5% (Prev. 7.3%) which was the highest since 1990 and boosted hawkish bets with markets now heavily leaning towards a continuation of the rate hike cycle at the upcoming meeting, although there is debate thereafter with Australia’s largest bank CBA among those calling for a pause after this meeting, which goes against the median view from a recent Reuters poll for rates to continue increasing to 3.60% before the RBA pauses for the rest of 2023.

RBI ANNOUNCEMENT (WED): The RBI is expected to hike rates again when it concludes its 3-day policy meeting next week, with 40 out of 52 economists surveyed by Reuters forecasting the RBI to deliver a narrower rate hike increment of 25bps to lift the Repurchase Rate to 6.50% compared with the 35bps rate increase it opted for in December, while the remaining 12 economists are calling for a pause. The rate increase at the last meeting was largely influenced by inflation which Governor Das said remained high and broad-based, while he also noted that further calibrated monetary policy action is warranted to anchor inflation expectations and that a premature pause would be costly at this juncture. Furthermore, the MPC will remain focused on the withdrawal of accommodation as 4 out of 6 voted in favour of retaining the current policy stance to ensure that inflation remains within the target range going forward, while Committeee member Goyal voted against the resolution and suggested it was time to move to a neutral stance, and Varma also opposed the decision and was the sole dissenter on rates as he believed the 35bps hike was not warranted. Nonetheless, the inflation situation has improved since that meeting with CPI data for both November and December back to within the RBI's 2%-6% target range in which the most recent of those printed 5.72% vs. Exp. 5.90% (Prev. 5.88%) and tempers hawkish pressure on the central bank, while participants will also be eyeing any clues of the RBI's intentions going forward considering that the median forecast from a Reuters survey is for the central to bank to pause for the rest of the year following this anticipated hike.

BOC MINUTES (WED): As a recap, The BoC hiked rates by 25bps to 4.50%. However, it gave an explicit signal that it expects rates to be held at this level, providing the economy develops broadly in line with its forecasts, though caveated that it remained prepared to raise rates even further if it is necessary to bring inflation back to target. The pause signal was a dovish surprise, with analysts mostly expecting the central bank to maintain its prior guidance. The MPR saw the Bank lower its 2022 and 2023 inflation forecasts, but 2024 inflation is expected at 2.3% (prev. 2.2%), the same year it expects it to reach its target. Growth forecasts were raised for 2022 and 2023, but lowered for 2024. Meanwhile, the neutral rate estimate of 2-3% was left unchanged, and its output gap estimate was revised higher to 0.5- 1.5% from 0.25-1.25%. At his post-meeting press conference, Governor Macklem stressed that the pause was conditional as the BoC takes time out to assess whether they have reached a sufficiently restrictive level, and hinged on how the economy progresses. Macklem also stressed that it is too early to be talking about rate cuts, and when he was asked about the potential for an economic recession, said that there could be a mild one, and added that the BoC expects growth to stall over the next few quarters, but that was what is needed. In a later interview with Reuters, Macklem said that if service price inflation was stickier than expected, the BoC would likely need to raise rates further, and the biggest near-term economic risk would be if a rapid reopening of the Chinese economy caused global commodity and oil prices to rise.

RIKSBANK ANNOUNCEMENT (THU): Expected to hike as guided in November, though desks are split as to whether the move will be 25bp as the repo path from the last policy meeting implied, or if a larger 50bp increase will be delivered given that CPIF continues to increase and surpass the Riksbank's November forecasts. A 25bp hike can be justified by the view that much of the upside in headline inflation is due to volatile electricity prices and the core (ex-energy) measure was only marginally above target in December. As such, the Riksbank could argue that the hot headline prints are not representative of the underlying inflation backdrop, and thus stick with its guidance from November. Additionally, the broader economy continues to deteriorate and Sweden is in a recession. On the flip side, the main CPIF metric, while affected by electricity pricing, was above target in November and significantly so in December at 12.3% (Riksbank exp. 9.14%). This measure will undoubtedly be used as justification by some on the Board for hawkish action; a stance perhaps prefaced by Breman's recent remarks that inflation is far too high and does not appear to have peaked yet. Additionally, the ECB's 50bp hike alongside hawkish market pricing for the Riksbank adds credence to the argument for a larger tightening increment. Looking further ahead, prior guidance was for the interest rate to peak at 2.84% and then remain at this level, but the terminal rate looks all but certain to be lifted irrespective of the hike magnitude implemented at this gathering, with the Riksbank's assessment of CPIF/CPIF-XE likely to have the final say.

BANXICO ANNOUNCEMENT (THU): The Mexican central bank's January poll of private sector analysts shows expectations for benchmark interest rates to end this year at 10.50% (vs 10.25% in the December survey). Analysts also revised up their view of Mexican inflation, seeing headline CPI at 5.8% in 2023 (vs 5.10% previously), and the core rate of inflation at 5.20% this year (prev. 5.07%). Oxford Economics expects the Banxico to defy consensus expectations with a swifter normalisation cycle. "Our Taylor rule calculation supports our forecast of 175bps in rate cuts during the second half of 2023, taking the policy rate to 9.00%," the consultancy writes, and sees the central bank ending its tightening cycle in February with a 25bps hike to 10.75%, in line with forward guidance provided at the last meeting. "However, the unexpected strength of the peso and the market's recent repricing of a lower terminal rate and earlier rate cuts in the US should provide room for Banxico to start cutting rates from September onwards." OxEco says the Banxico' s decoupling from the Federal Reserve will likely cap the rise of the MXN, although it says that the likely "downturn in the US and a less attractive carry-trade return should prevent the currency from repeating its stellar performance last year"; it sees USD/MXN at 20.5 by the end of this year.

EU MEETING ON US IRA (FRI): A Special European Council meeting is slated for the 9th and 10th of February. The European Union is concerned that Washington's Inflation Reduction Act (IRA) will pose problems for international competition and trade rules. The IRA creates a USD 370bln package of subsidies and tax credits to develop an ecosystem of advanced technologies. As a result, the European Commission announced a USD 270bln "Green Deal Industrial Plan" in what some are calling a "global subsidy race". Several European heads suggested they do not want to start a subsidy race with the US. Participants may be on the lookout for a new EU financing instrument to fund the package, although this may not gain much traction as Germany is publicly opposed to a new fund, while the Commission already suggested it will facilitate the use of existing EU funds for financing cleantech innovation, manufacturing and deployment.

CHINA INFLATION (FRI): Chinese CPI is expected to remain at 1.8% Y/Y for January, while the PPI metrics have no expectations (prev. -0.7%). Analysts at ING expect a faster pace of CPI increase, around 2.4% Y/Y, given the COVID-related reopening alongside the extended holiday from the Lunar New Year. PPI is expected to contract amid lower commodity prices and higher base effects. The desk believes CPI will slow in February after the holiday effect, whilst PPI will be supported after construction activity recovers after the winter period. Using the latest Caixin PMI data as a proxy for the month, the release suggests "Average input costs meanwhile increased at the quickest pace for six months, though prices charged were broadly stable." Meanwhile, on Thursday, China's MOFCOM warned that the nation's imports and exports face an extremely severe environment of slowing external demand.

UK GDP (FRI): Expectations are for M/M GDP for December to show a contraction of 0.1% vs. the 0.1% expansion in November, and with the Q/Q rate for Q4 pencilled in at 0%. The prior report saw an above-consensus +0.1% vs. Exp. contraction of 0.2% with the headline supported by the services sector on account of the Men's Football World Cup. This time around, analysts at Investec flag risks for the upcoming report on account of industrial action in December which acted as a drag on the services sector, whilst retail sales volumes fell 1% in December. On a more positive footing, Investec judges that industrial production likely grew by 0.7%, but when measured against a modest contraction in the construction sector and unchanged agricultural output, their overall call is for a 0.1% M/M contraction. From a policy perspective, it's unclear how much of a sway the upcoming release will have on the immediate outlook with the chance of a further 25bps hike in March priced at just 60%. A positive outturn will likely be welcomed by the MPC, however, given comments from Governor Bailey at the February press conference, that the MPC needs to be absolutely sure "we are turning the corner on inflation", it is likely that markets will continue to place greater weight on the inflation landscape, as opposed to the growth picture in the UK.

CBR ANNOUNCEMENT (FRI): All 13 analysts surveyed by Reuters expect Russia's central bank will maintain its key rate at 7.50%, as it continues its efforts to bring inflation back to its 4% target. The survey suggests that the inflation goal will not be met this year, with analysts predicting it will end 2023 at 5.8%. The analysts surveyed also see the Russian economy contracting by around 2% this year, in contrast to the IMG's recent projections, which estimates above zero growth in 2023. Looking ahead, analysts see scope for the CBR to lower rates, with the key rate seen at 7.13% by the end of the year (range 6.50-8.00%).

US UNIVERSITY OF MICHIGAN SENTIMENT (FRI): The University of Michigan's preliminary look at US consumer confidence in February is expected to register a trivial rise to 65.0 from the 64.9 in January. Credit Suisse looks for a higher-than-consensus 65.5, noting that "sentiment has rebounded significantly from a deep trough last summer – but the level remains depressed, even compared to past recessions. An outperforming stock market and better news on inflation should continue to drive modest improvement." Several gauges of inflation have been showing a cooling in price pressures recently, and CS sees the one-year (previously at 3.9%) and the 5-10yr (previously at 2.9%) will be little changed, staying in recent ranges; "realised inflation appears to have peaked, but we expect the Fed to remain vigilant of any signs that expectations are drifting higher," CS writes.