Week Ahead Mar 6-10th: highlights include Fed's Powell, US NFP; China Two Sessions, CPI; RBA, BoC, BoJ

Week Ahead March 6-10th

- **MON:** Swiss CPI (Feb), EZ Sentix Index (Mar), EZ Retail Sales (Jan), South Korean GDP Revised (Q4).
- **TUE:** RBA Policy Announcement, EIA STEO, Australian Trade Balance (Jan), Chinese Trade Balance (Feb).
- **WED:** BoC Policy Announcement, NBP Policy Announcement, German Retail Sales (Jan), EZ GDP Revised (Q4), US ADP National Employment (Feb), Japan GDP Revised (Q4).
- **THU:** Chinese Inflation (Feb).
- **FRI:** BoJ Policy Announcement, German Final CPI (Feb), Norwegian CPI (Feb), US Jobs Report (Feb), Canadian Jobs Reports (Feb).

NOTE: Previews are listed in day-order

CHINESE TWO SESSIONS (SAT): The first session of the week-long 14th National Committee of the Chinese People's Political Consultative Conference (CPPCC) will begin on March 4, 2023, in Beijing. The 14th National People's Congress (NPC) will open its first annual session in Beijing on March 5, 2023, according to the Global Times. Chinese President Xi is expected to open the first meeting with a speech on Saturday. The "two sessions" is expected the keep the theme of power consolidation going, in a continuation of October's Party Congress. This year marks the first two sessions after China optimized its COVID-19 response in early January. The meetings are expected to bring about major reforms, with Government appointments expected, whilst economic targets are to be unveiled. The meetings will provide a stage for the final formalisation of Xi Jinping's unprecedented third term as Chinese President. A new Premier is expected to be announced alongside new Senior Financial and PBoC appointments in Xi Jinping's bid to bring the financial system under his control. Desks suggest that changes at the central bank may not signal a major shift in monetary policy, but the PBoC's approach could be slightly less hawkish amid the pro-growth age. Another focal point of the two sessions will be the GDP growth target - China may aim for a higher target than the 4.5-5.5% band proposed in November, and this could range between 5.0%-5.5% or even be as high as 6.0%, according to sources involved in policy discussions cited by Reuters. Recent data backs the notion of a higher GDP target, with the latest Official NBS PMIs notably topping expectations in February. ING's Greater China chief economist said in a note that this upbeat data gives the Government strong reasons to set a high growth target of 5.5% to 6%. Reuters sources added that, in a bid to spur growth, the Government is expected to widen its annual budget deficit to around 3% of GDP this year and issue some CNY 4tln in special bonds to support investment spending.

SWISS CPI (MON): February's CPI YY is, according to Credit Suisse, expected to dip back down to 2.9%, predominantly due to reduced prices for petroleum-related products; if correct, this will be welcomed by the SNB ahead of its March gathering. To recap, January's CPI YY was hotter-than-expected at 3.3% vs exp. 2.9% (prev. 2.8%), a reading which takes YY CPI back towards its recent peak of 3.5% in September 2022 and meaningfully above the SNB's 2.0% long-term target. We haven't had any pertinent SNB commentary since the January CPI, but prior, ``Chairman Jordan made clear that further rate hikes cannot be ruled out and reiterated a willingness to be active in FX, if necessary. On inflation explicitly, Jordan acknowledged that inflation is above the level of price stability, but that a wage-price spiral is not seen. Reminder, at the December gathering the SNB hiked by 50bps and did not rule out additional tightening. Desks generally expect a 25bps hike from the SNB in March; though, if February's inflation is once again hotter-than-expected it may prompt a hawkish revision to this guidance. Particularly given the broader backdrop of hawkish Central Bank repricing.

RBA ANNOUNCEMENT (TUE): The RBA is expected to continue hiking rates at its meeting next week with 27 out of 28 economists surveyed by Reuters forecasting that the central bank will raise the Cash Rate Target by 25bps to 3.60%, while money markets are pricing in around a 74% probability of a 25bps increase and a 26% likelihood that it keeps rates unchanged at the current level of 3.35%. As a reminder, the central bank increased rates by 25bps to a fresh decade high at the last meeting which was widely expected as money markets had priced in over a 90% probability of such a move, while attention was on the RBA's commentary which noted that the Board expects further rate increases and is resolute in its determination to return inflation to target. Furthermore, the minutes from that meeting revealed that the Board considered a hike of 25bps or 50bps and a pause was not an option. The signal for more rate increases was the key highlight and prompted economists to raise their terminal rate view to 3.85% from 3.60%, while ANZ has since further increased its peak rate forecast to 4.10% and CBA now sees hikes in both March and April compared with a previous view for no more rate hikes after the February meeting. Conversely, the data releases from Australia have begun to soften, including the Employment Change which contracted for two consecutive months and the Unemployment Rate rose to 3.7% from 3.5%, while Q4 GDP missed forecasts Q/Q at 0.5% (exp. 0.8%) and although Y/Y GDP matched estimates at 2.7%, this was a notable slowdown in pace from the 5.9% growth rate during the prior quarter. Furthermore, CPI Y/Y in January was softer than expected at 7.4% vs Exp. 8.0% (Prev. 8.4%) which eases some of the hawkish pressure on the RBA and has spurred some cautious optimism from Australian Treasurer Chalmers that inflation may have peaked, although it is too early to declare a softening trend and the data is unlikely to influence the central bank enough to pause given that monthly CPI was still the second highest reading since the series began and as inflation remains very far from the 2-3% target range.

AUSTRALIAN TRADE BALANCE/RETAIL SALES (TUE): The data may induce short-term volatility in Australian assets, but markets will almost certainly be more focused on the RBA announcement due three hours after the data. Nonetheless, Australia's Trade Balance is seen expanding to a surplus of USD 12.70bln in January (prev. +USD 12.237bln), while M/M Retail Sales are seen rising 1.9% (prev. -4.0%). On the Trade Balance, analysts at Westpac suggest "Export earnings are forecast to rise by 1.2%, +USD 0.7bln, supported by a rise in commodity prices and the ongoing recovery in service exports post the national border reopening", while "Imports are forecast to rise by around 1%, +USD 0.4bln. Service imports likely posted another strong rise, as more of us holiday abroad, and goods volumes are trending higher." As mentioned above, the RBA will likely take centre stage during the session, in which the central bank is expected to continue hiking by 25bps to 3.60%, while money markets are pricing in around a 74% probability of a 25bps increase and a 26% likelihood that it keeps rates unchanged at the current level of 3.35%.

CHINESE TRADE BALANCE (TUE): China's Trade Balance in Dollar terms is expected to widen to a surplus of 80.90bln from the prior surplus of 78.00bln. Exports are expected to fall 10% Y/Y (prev. -9.9%) and imports decline 5.3% Y/Y (prev. -7.5%). Using the Caixin Manufacturing PMI as a gauge, the release suggested "Both manufacturing supply and demand expanded last month, as production gradually returned to normal, while both domestic and external demand improved after a Covid policy shift. The readings for output, total new orders and new export orders all rose into expansionary territory, each logging a new high in eight, 21 and eight months, respectively." Meanwhile, the Caixin Services survey added "Services supply and demand continued to grow last month. The shift in China's Covid policy continued to drive up both, with the readings for business activity and total new business each jumping by more than 2 points further into expansionary territory. External demand also rose, with the measure for new export orders reaching the highest since April 2019." That said, China's MOFCOM offered some contradictory remarks on Thursday and warned that many Chinese businesses are reporting falling export orders. Saturday will mark the start of China's annual "two-sessions", with market participants eyeing the GDP target announcement. One source cited by Reuters, who favours a more modest GDP growth target, suggested: "the property sector is still falling and it's difficult to fill the gap while foreign trade is likely to drag on economic growth this year."

POWELL TESTIMONY (TUE, WED): Fed Chair Powell will deliver his Semi-annual Monetary Policy Report to Congress this week, starting with the Senate Banking Committee on Tuesday, and will likely repeat his remarks to the House Financial Services Committee on Wednesday. Analysts have noted that the Fed Chief's testimony will come ahead of any key economic data releases (the NFP report is on Friday, CPI on March 14th and PPI on March 15th), and accordingly, that might leave little scope for him to alter messaging. The hot run of data in January and February has seen a hawkish repricing of the Fed's expected rate hike trajectory, with money markets now discounting the terminal rate rising to between 5.25-5.50% (pricing even tilted into the bracket above this during times following some of the hawkish data). Powell's message is likely to remain data-dependent, and reiterate that the Fed's job on managing inflation has not yet concluded, despite the progress made.

BOC ANNOUNCEMENT (WED): The BoC is expected to pause and hold rates at 4.50% after it said in January that if economic developments evolve broadly in line with its outlook, it expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases. Recent GDP data showed the Canadian economy grew less than expected in Q4 (in fact stagnated in Q/Q annualised terms and contracted 0.1% m/m in December), and was worse than the BoC had forecast, which many analysts say has cemented the pause. Additionally, the January CPI data decelerated, and was below market expectations, with a fall to within the BoC's 1-3% target band now within the realms of possibility for 2023, and adding to the argument for the BoC to pause.

CHINESE INFLATION (THU): Y/Y CPI is expected to tick higher to 2.2% in February from 2.1% the prior month, but the M/M index is seen at 0.7% (prev. 0.8%) and Y/Y PPI is forecast at -0.5% from -0.8%. Using the Caixin PMI as a proxy, the release suggests "Prices remained stable. In February, the measures for input costs and prices charged in the services sector both posted gains, albeit marginal ones under mild inflationary pressure. Surveyed service providers reported elevated costs of raw materials, labour and office supplies to different extents, but their bargaining power for prices charged remained limited as the market was still in recovery". Meanwhile, China's "two-sessions" will get underway on Saturday, with Reuters sources suggesting that China is to stick to its long-standing inflation target of around 3%. "Monetary policy is likely to relax more in the coming months to counter the deflation pressure as well as the yuan appreciation. Inflation for the full year in 2023 will nonetheless sit comfortably below the official target", according to a snippet from state-controlled CGTN, published on February 11th, 2023.

BOJ POLICY ANNOUNCEMENT (FRI): The Bank of Japan is expected to keep policy settings unchanged at its meeting next week with the BoJ likely to leave rates at -0.10% and maintain its QQE with Yield Curve Control to flexibly target 10yr JGB yields at about 0%. This will be the last meeting with Governor Kuroda at the helm who's term ends in early April, while Deputy Governors Amamiya and Wakatabe will also be finishing their terms this month. As a reminder, the BoJ defied increased speculation for a policy tweak at the last meeting in January and instead maintained its rate and the parameters of its YCC, while it also stuck with the forward guidance on rates and said it will continue large-scale JGB buying, as well as reiterating that it will not hesitate to take additional easing measures as necessary. Furthermore, it announced it will seek to improve market functioning by mixing bond buying with supply operations against pooled collateral and the Outlook Report was also dovish leaning as Real GDP forecasts were cut across the projection horizon and Core CPI estimates for Fiscal years 2023 and 2024 remained below the BoJ's target of 2% which is a level that could have paved the way for policy normalisation. Rhetoric from the BoJ since that meeting has remained dovish as Kuroda stated that he is resolved to keep ultra-loose policy and that the BoJ expects core consumer inflation to slow beyond 2% in both fiscal year 2023 and 2024, while Deputy Governor Amamiya also noted it is appropriate to maintain ultra-loose monetary policy, but acknowledged that there are demerits to their YCC policy. As an adjustment in policy is very unlikely at Governor Kuroda's last meeting after a 10-year stint which began with the announcement of QQE way back in April 2013, markets will be looking to the next central bank chief to steer the BoJ towards an exit from ultra-loose policy, although his nominated successor, academic and former BoJ Board member Kazuo Ueda doesn't seem in a rush to normalise policy as he recently noted that current monetary policy is appropriate and that Japan still needs more time for inflation to sustainably hit the 2% target. Furthermore, Ueda has stated it is appropriate to continue monetary easing from now on and suggested that the BoJ would either need to move towards monetary policy normalisation or must consider ways to maintain YCC depending on if inflation significantly improves or not, while a source report also recently noted that the BoJ is said to prefer watching how the impact of earlier policy tweaks work out for now.

NORWEGIAN CPI (FRI): January's release showed marked upside for both headline and core YY Norwegian inflation. Prior to this, the Norges Bank held its rate at 2.75% in January and guided participants to a hike most likely occurring in March. At the time, Governor Bach said rate forecasts following the March meeting had not yet been made. Even prior to the January CPI release, desks were making hawkish alterations to their Norges Bank calls looking for 25bps hikes in March and June. If the February release is hot once again, and as it comes amid a backdrop of broader hawkish global re-pricing, we may well see some further hawkish adjustments to the Norges Bank's terminal rate; a level which desks, broadly speaking, see at around 3.25% vs the current implied 3.10% terminal. Albeit, while Norway's domestic data has been a touch better in recent months, the February Manufacturing PMI dropped back into contractionary territory; a finding that if confirmed via hard data, could impact on the magnitude of further tightening the Norges Bank is willing to deliver.

US JOBS REPORT (FRI): The rate of US nonfarm payroll growth is expected to cool to 200k in February, following the blockbuster 517k rise reported in January. If the consensus is realised, it would be lower than the pace of the 3-, 6- and 12-month averages, at 356k, 349k and 414k respectively. Analysts have argued that the January upside may have been as a result of seasonal adjustments, which could become a negative factor for the February data. The unemployment rate is forecast to rise by one-tenth of a percentage point to 3.5%; the Fed projects this rate will peak-out at 4.6% in 2023, although the central bank will update its economic projections at the March 21-22nd confab. Credit Suisse said there is a chance that the jobless rate could be unchanged this month, and cites the Conference Board's data, which shows job openings remaining elevated, and the 'labour differential' within the most recent consumer confidence report has rebounded back towards the top of its recent range. To get a pulse on how compensation pressures are being impacted by high inflation, analysts will closely monitor the average hourly earnings data; the street expects this will rise by 0.3% M/M, matching the pace seen in January, while average workweek hours are seen narrowing to 34.6hrs from 34.7. CS writes that due to an "easy base effect," the annual average hourly earnings measure should increase to 4.7% Y/Y from 4.4% in January, but adds that "underlying wage growth appears to be moderating across a range of measures and lead indicators, but the current pace of growth is still uncomfortably high for the Fed."

Disclaimer

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