Week Ahead March 13-17th: US inflation data; ECB; China activity data

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- **SUN:** US moves onto daylight saving time.
- **MON:** South Korean Imports/Exports (Feb).
- **TUE:** OPEC MOMR, UK Jobs Report (Jan/Feb), US CPI (Feb).
- **WED:** IEA OMR, Chinese Retail Sales (Feb) & Industrial Production (Feb), EZ Industrial Production (Jan), US PPI (Feb) & Retail Sales (Feb), New Zealand GDP (Q4), Japanese Trade Balance (Feb); UK Budget.
- **THU:** ECB Policy Announcement, Bank of Indonesia Policy Announcement, Australian Jobs Report (Feb), US Philly Fed (Mar).
- **FRI:** Quad Witching, CBR Policy Announcement, EZ Final CPI (Feb), Canadian PPI (Feb), US University of Michigan Prelim. (Mar).

NOTE: Previews are listed in day-order

UK JOBS REPORT (MON): Expectations are for the unemployment rate in the 3-months to January to rise to 3.8% from 3.7%, the employment change to cool to 40k from 74k and average weekly earnings (ex-bonus) 3M/3M to ease to 6.6% from 6.7%. The prior report was characterised by strong wage growth, whilst the unemployment rate remained in close proximity to record lows, thus heightening calls for the BoE to deliver another rate hike at the March meeting. This time around, analysts at Investec are looking for indications that the labour market could be beginning to weaken “as higher interest rates add to business costs and begin to hold back hiring momentum”. Investec adds that such a development could be augmented by labour force participation creeping up a little, even if NHS pressures prevent some of the long-term sick from re-entering the search for jobs. On the wages front, Investec expects a small downtick, citing reporting from the Recruitment and Employment Confederation that starting salaries for permanent staff grew at their slowest pace in 21 months in January. From a policy perspective, a 25bps hike for March is priced at an 84% probability, and therefore there is some scope for a strong report to further cement expectations for such a move by the MPC. That said, any signs of weakness could see the odds drop closer to 50-50 given that Tenreyro and Dhingra are set to vote for an unchanged rate once again, whilst Governor Bailey has recently cautioned against assuming that the BoE will inevitably need to do more on rates.

US CONSUMER INFLATION EXPECTATIONS (MON, FRI): There are two measures out in the week which will give traders a handle of how consumer inflation expectations have been developing ahead of the March 22nd FOMC, where sticky inflation and hot economic data is likely to see the Fed returning to upsized rate hike incremements, and lift its Federal Funds rate target by 50bps. Ahead of the key CPI report on Tuesday, Monday will see the release of the New York Fed’s February survey of consumer expectations; the January report showed 1yr median inflation expectations unchanged at 5.0%, while the 3yr outlook fell by 0.3ppts to 2.7%, and the 5yr measure rose 0.1ppts to 2.5%. The report also added that median expected growth in household income fell 1.3ppts to 3.3%, the largest one-month fall in the series’ history, though it still remains well above its pre-pandemic levels. On Friday, the University of Michigan’s prelim consumer sentiment headline for March is expected to be little changed at 67.0, but traders will be carefully watching the inflation expectations readings; the one-year inflation outlook rose to 4.1% in February from 3.9% in January, while the longer-term measure was unchanged at 2.9%.

US CPI (TUE): Headline consumer prices are expected to rise +0.4% M/M in February, cooling slightly vs the +0.5% M/M in January; the annual rate of headline inflation is seen easing to 6.0% Y/Y from 6.4%. Within the report, analysts think goods inflation will be around flat, vehicle prices should continue to cool, and apparel prices could even be negative. Core CPI is also expected to rise +0.4% M/M in February, matching the January pace, though the annual measure is likely to fall 0.1ppts to 5.5% Y/Y. Shelter price rises will likely be a key source of core inflation. Analysts will be watching how components of inflation in the services sector perform; Fed Chair Powell has previously acknowledged the progress in taming goods inflation, but this week said there was little sign of disinflation in core services ex-housing, which accounts for more than half of core consumer expenditures. Accordingly, analysts at Moody’s say that “while inflation is set to continue moderating, it may not be enough improvement to keep the Fed from returning to a 50-basis point rate hike.”

CHINA RETAIL SALES, INDUSTRIAL PRODUCTION (WED): Chinese Retail Sales are forecast to have expanded by 3.4% in February following December's 1.8% contraction, whilst Industrial Production is expected to tick higher to 2.6% from 1.3%. Two months' worth of data will be released (January & February) as last month's release was binned, likely on account of the Chinese New Year. Analysts at ING suggest Retail Sales could be optimistic as they forecast a 5.0% Y/Y rise, but Industrial Production could disappoint amid declines in export-related manufacturing due to weak external demand. That being said, the recent trade data showed exports contracting less than expected. "Overall, we believe this set of data should point to a stable recovery of the economy. Given the data, it is likely that the People's Bank of China will keep the 1Y medium-term lending facility (MLF) interest rate unchanged at 2.75%, and there should be no net injection of liquidity from MLF", ING says.

NEW ZEALAND GDP (WED): Q4 Q/Q GDP is expected to print a contraction of 0.2% (prev. +2.0%), with the Y/Y forecast at 3.3% (prev. 6.4%). Desks suggest drivers for New Zealand growth are becoming "patchier". Westpac says "Retail, wholesale, manufacturing and construction all saw declines in the December quarter, while both personal services (including tourism) and business services look to have strengthened… Like us, market forecasts appear to be converging on a negative number. This would be markedly softer than the 0.7% growth that the Reserve Bank expected in its February policy statement." Nonetheless, the RBNZ's focus remains on inflation, with the Q4 CPI metrics topping expectations, whilst the Y/Y also matched the prior. "High 'core' inflation, inflation expectations, and temporary price pressures associated with the recent storms suggest that headline inflation will stay high in the near term, and is likely to begin to decline significantly only from the second half of 2023", the RBNZ said in its most recent monetary policy statement.

UK BUDGET (WED): The upcoming UK budget will see Chancellor Hunt follow-up his Autumn statement with some adjustments to previously outlined plans, but refrain from wholesale changes. Hunt has been presented some leeway by a better-than-expected start to the year for the UK's finances, which Pantheon Macroeconomics suggests should see the OBR reduce its forecast for public borrowing in 22/23 to around GBP 140bln from GBP 177bln. For 23/24, a more favourable energy price outturn and an upgrade to the 2023 OBR growth projection, to -0.3% from -1.4% should lower public borrowing by around GBP 16bln. Accordingly, Credit Suisse expects Hunt to unveil the following three giveaways: 1) cancel the planned rise in the Energy Price Guarantee from £2.5K to £3K in April, 2) announce some public-sector pay rises in the light of strike action and 3) cancel the projected rise in fuel duty. Elsewhere, reporting via Bloomberg suggests that Hunt is considering providing British firms with additional tax relief on investment spending in an attempt to boost economic growth. Furthermore, defence spending will likely receive a boost in the region of around GBP 10bln over the next two years. Capital Economics also highlights the possibility of various measures to boost labour market participation. Beyond these measures, expectations are that Hunt will take a cautious approach given the fallout from the Truss mini-budget which saw markets punish the Gilt market for a policy approach that was deemed as irresponsible and lacking in credibility. Reason for caution also stems from the likelihood of the OBR downgrading its medium-term growth forecasts, and therefore CS expects the fiscal consolidation announced in the Autumn Statement beyond FY 2024 to remain more-or-less in place. As such, Hunt is expected to resist outside calls to cancel the scheduled corporation tax increase from 19 to 25%. From a political standpoint, Hunt will likely wish to keep back any more substantial giveaways until the next general election in 2024 or Jan 2025. MS estimates a gross financing requirement of GBP 265bln for FY 23/24, leading to GBP 242.5bln of gilt issuance, whilst Citi pencils in a figure of around GBP 246bln. Overall, Capital Economics does not look for a meaningful market reaction given that touted policies have "been well trailed in the media and should mostly already be priced into financial markets".

US PPI (WED): The consensus looks for February producer prices to rise at a rate of +0.3% M/M (prev. +0.7%); the annual measure is expected to pare back to 5.4% Y/Y from 6.0% previously.

US RETAIL SALES (WED): Retail sales are seen rising +0.2% M/M in February, a significant cooling vs the +3.0% M/M seen in January. Analysts have noted that warm weather conditions were supporting economic conditions in January, but that support is not likely to be repeated in the February data. Credit Suisse expects the Control Group measure to be around flat in the month. "Consumer finances are in good shape, but data to start the year likely overstate the strength," the bank writes, "income growth was robust in January, but this was driven partly by temporary factors."

AUSTRALIA JOBS REPORT (THU): February is expected to have added 48.5k jobs (vs -11.5k in January), whilst the Unemployment Rate is seen ticking lower to 3.6% from 3.7% and the Participation Rate ticking up to 66.6% from 66.5%. Desks highlight that the January metrics marked the second straight decline in jobs growth, but "the positive is that the January survey reported a larger-than-usual number of people indicating that they have a job to go to in the future. This, coupled with the recent run of soft prints, suggests that employment growth should bounce in the February survey.", Westpac suggests. That said, the desk caveats that forecasting could be affected by the uncertainty surrounding holiday and illness dynamics, as they pencil in a 50k rise in employment. "If, alternatively, the jump in employment is much larger than our 50k forecast, a sharp move lower in the unemployment rate will not necessarily occur. This is because a significant proportion of those not employed in January but with a job to go to may have been out of the labour force. So, upon return, they will not only boost employment but also participation.", the desk says.

ECB POLICY ANNOUNCEMENT (THU): Given the comms at the February meeting and the subsequent lack of a walk-back from officials at the Bank, the ECB is unanimously expected to hike the deposit rate by 50bps to 3.0%. As such, greater focus will be on what lies beyond the March meeting for the ECB, with the Bank likely to stress its “meeting-by-meeting” and “data-dependent” approach. In the wake of the February meeting, Reuters sources suggested that policymakers saw at least two more rate hikes with the May increase expected to either be 25bps or 50bps. Since then, Eurozone inflation slowed to 8.5% in February from 8.6%, whilst the super-core metric rose to 5.6% from 5.3%; something which is of great concern to policymakers on the Governing Council. This, allied with increasingly hawkish bets surrounding the Fed, has prompted many desks to project the ECB’s terminal rate at 4% (would see 50bps March, 50bps May and then either another 50bps in June or 25bps in June and July). The statement is unlikely to be explicit in stating what markets should expect for the coming months, and as such the accompanying macro projections will be of greater interest to the market. On which, ING suggests that lower energy prices, higher 3M Euribor rates and a stronger EUR should lead to lower inflation projections for 2024 and 2025. ING cautions that if this does not materialise, it will underscore the level of concern over core inflation on the Governing Council. This could prompt a further hawkish repricing in the market and give further ammo to the hawks on the Governing Council with Austria’s Holzmann (March 6th) outlining the case for 50bps hikes at the next four meetings. From a dovish perspective, a more subdued growth outlook within the projections, could see markets move closer to a 3.5% terminal rate. On the balance sheet, no changes are expected with the current monthly decline of EUR 15bln/month in APP reinvestments set to run until June.