newsquawk

Week Ahead August 21st-25th: Highlights include Jackson Hole, PBoC LPR, Flash PMIs, CBRT, Japan's Tokyo CPI

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- **MON:** PBoC LPR, German PPI (Jul)
- **TUE:** US Richmond Fed Index (Aug), New Zealand Retail Sales (Q2)
- **WED:** EZ/UK/US Flash PMIs (Aug), Canadian Retail Sales (Jun), US New Home Sales (Jul)
- **THU:** Fed's Jackson Hole Symposium (24-26th Aug), CBRT Announcement, BoI Announcement, BoK Announcement, US Durable Goods (Jul)
- **FRI:** Fed's Jackson Hole Symposium (24-26th Aug), Japan's Tokyo CPI (Aug), German Ifo Survey (Aug), German GDP Detailed (Q2), Uni of Michigan Final (Aug)

NOTE: Previews are listed in day order

PBOC LPR (MON): The PBoC is likely to reduce its Loan Prime Rates next week with the 1-Year LPR and the 5-Year LPRs currently at 3.55% and 4.20%, respectively. This follows the recent surprise decision to lower the 1yr MLF rate by 15bps to 2.50%, which serves as a bellwether for the central bank's intentions for the benchmark LPRs, while the PBoC also unexpectedly cut the rate on its 7-day Reverse Repo operations by 10bps to 1.80%, which was the same magnitude that it cut its Standing Lending Facility rates by shortly after. The surprise easing by the PBoC comes after numerous support pledges by Chinese authorities, including the central bank and the streak of disappointing economic data releases from China which recently slipped into deflation and showed a wider-than-expected contraction in exports and imports, while the latest industrial production and retail sales figures also missed forecasts and prompted several commercial banks to downgrade their GDP growth forecasts for the year.

NEW ZEALAND RETAIL SALES (TUE): There are currently no expectations for the date, but the desk at Westpac expects a -0.1% QQ metric after the -1.4% Q1 figure. The bank highlights that spending appetite remains subdued – "We're forecasting another muted gain in nominal spending (+0.1%), with the volume of goods sold expected to have fallen 0.1%. Excluding the lumpy fuel and motor vehicle categories, we estimate that the volume of goods sold in 'core' retail categories fell by 1% over the June quarter.", the desk says, as it suggests the softness in retail spending reflects households' purchasing power has been squeezed by both high-interest rates and elevated inflation.

EZ FLASH PMI (WED): Expectations are for manufacturing PMI to slip to 42.4 from 42.7, services to decline to 50.4 from 50.9, leaving the composite at 48.4 vs. prev. 48.6. The prior report saw manufacturing decline to 42.7 from 43.4, services fall to 50.9 from 52.0, dragging the composite down to 48.6 from 49.9. The accompanying report noted "The Eurozone is off to a bad start in the second half of the year…economic output fell in July after stagnating the month before and showing generally solid growth during the first five months of the year. The slump in activity is driven by manufacturing, but services activity growth has cooled off too, scaling back the support to the economy as a whole". For the upcoming release, analysts at Investec note that the trends observed in July are likely to continue into August given that the "forward-looking elements of the July release failed to provide any hint of improvement, with new business in services contracting for the first time in seven months". From a policy perspective, a soft release will likely add to fears over the Eurozone's growth prospects and potentially see a bit of an unwind in bets for a September hike by the ECB (currently priced at 63%). However, markets will likely turn towards the August 31st release of flash Eurozone CPI metrics before further cementing calls over what to expect next month.

UK FLASH PMI (WED): Expectations are for the services metric to decline to 50.7 from 51.5, manufacturing to decline to 45.0 from 45.3, leaving the composite at 50.3 vs. prev. 50.8. The prior report saw services slip to 51.5 from 53.7, manufacturing decline to 45.3 from 46.5, pushing the composite down to 50.8 from 52.8. The accompanying report noted "a modest upturn in service sector activity contrasted with another reduction in manufacturing output. Moreover, the latest downturn in factory production was the fastest since January". For the upcoming release, Oxford Economics suggests the data "are likely to signal further weakness in private sector activity growth. Last month, manufacturers reported that the contractions in output and new orders accelerated. This suggests that activity in August is likely to remain subdued". From a policy perspective, given last week's release of hot wages metrics and sticky core inflation, a

25bps hike by the BoE is widely expected for September, therefore the release will likely not have too much impact on pricing for the upcoming meeting. That said, a soft outturn could see market participants scale back expectations of tightening beyond next month.

JACKSON HOLE SYMPOSIUM (THU): The schedule of events will not be published until the eve of the symposium, but it has been confirmed that Fed Chair Powell will give remarks at the event on Friday. The title of the symposium is "Structural Shifts in the Global Economy". Analysts at Investec say "we are not convinced that Fed members will add that much to the current monetary policy conjuncture, given a fair amount of policy related comments recently, including those in the July meeting minutes," but say the event itself should help guide markets how central bankers globally are thinking about medium-term economic issues. The Fed has retained the optionality to lift rates again, if it needs to, and framed its policy reaction around incoming data. The recent FOMC meeting minutes noted that inflation remains "unacceptably high" and officials continued to see significant upside risks to the inflation profile, keeping a hawkish slant on their policy stance. While some have been warning about the risks that the Committee could accidentally tighten too much, and a number saw economic risks as becoming more balanced. And most officials note the gradual slowdown in economic activity, but still see below-trend growth and a softer labour market as necessary to restoring economic balance. That said, Fed staff no longer see the economy entering a mild recession this year, highlighting its resilience in the face of aggressive monetary tightening. SGH Macro's Fedwatcher Tim Duy said the Fed faces a clear messaging challenge at Jackson Hole. "Powell can follow the messaging of recent weeks, which includes the minutes and the June SEP; this messaging has been consistent with market pricing of roughly 10bps more of rate hikes before the Fed cuts rates 100bp in 2024, but that messaging relies on a forecast that is very clearly not working, and a data dependent Fed would respond accordingly." SGH says that if the Fed were to follow the data, he would be highlighting that growth is well above trend, and would be gearing us up for another rate hike at the Octover or November policy meeting. "If he was really bold, he would note that a growth rate like that estimated by the Atlanta Fed should put a rate hike into play for September, but that feels like too much of a shift when the consensus at the Fed wants to wrap up the rate hike part of the cycle." The upshot, SGH says, is that the data dependent approach would mean that pricing for the October and November meetings was too low. On the other hand, SGH says the Fed chair could lean into the recent messaging; "this path fights the growth numbers and emphasises the expected impacts of policy lags," it explains, "Powell could also cite recent declines in near-term inflation expectations as a reason that policy will tighten further in real terms even if the Fed holds rates steady." That approach, however, would suggest to SGH that inflation expectations are being priced too low. "Odds favour Powell highlighting growth, though by doing so he is raising the risk of recession."

CBRT ANNOUNCEMENT (THU): There are currently no forecasts for the CBRT’s next move following the 250bps hike seen in July, which ultimately underwhelmed the market’s median view of a 500bps hike for that meeting. Nonetheless, analysts expect some sort of hike in August, although the magnitude as ever with the CBRT is uncertain. A policy U-turn at the last two meetings (after Erkan was appointed as Governor in early June) delivered rate increases that fell short of investor expectations. Erkan vowed in July to continue with "gradual and steady rate hikes" following years of Turkish President Erdogan’s mission against high rates. In terms of the latest monthly CRBT survey, Turkish End-2023 CPI is now seen at 59.46% (prev. 43.82%), 12-Month CPI at 42.01% (prev. 33.21%), End-2023 USD/TRY is now forecast at 29.8220 (prev. 28.4560) and the 12-Month Repo rate 23.25% (prev. 21.48%). Some desks however caution that a large hike may not spur much action in the Turkish currency, although this was extrapolated from the Russian Rouble and Argentinian Peso reactions following their central banks’ respective rate hikes.

BOK ANNOUNCEMENT (THU): The Bank of Korea is likely to maintain its 7-Day Repo Rate at the current level of 3.50% for the 5th consecutive meeting next week as the continued softening of inflation further reduces the urgency for the central bank to resume its hiking cycle. As a reminder, the BoK unanimously decided to keep rates unchanged at the last meeting in July, although six out of the seven Board members wanted to keep the door open for one more rate hike, while the BoK stated that domestic economic growth is expected to recover gradually with GDP and consumer price inflation this year expected to be consistent with forecasts. The BoK also said it will maintain a restrictive policy stance for a considerable time and monitor financial stability risks, as well as acknowledging that risks to some non-bank financial sectors have increased. Furthermore, BoK Governor Rhee said several Board members expressed concern about the rise in household debt and noted that no Board member had discussed a rate cut so far, while the central bank clarified shortly after that Governor Rhee did not say there will be no rate cut until year-end, which along with the Board’s willingness to keep the door open for one more rate hike, suggests the central bank doesn’t want to take any options off the table despite the unlikelihood of any rate adjustments in the near term.

JAPAN TOKYO CPI (FRI): Markets expect the Tokyo August CPI to have cooled a touch to 2.9% (prev. 3.0%), while the Core metric is seen at 3.0% (prev. 3.2%). Desks posit that the BoJ could mull a minor policy change with inflation in the 3% range and Q2 GDP surprising to the upside by quite a margin. The Tokyo release is seen as a precursor to the nationwide CPI report due a couple of weeks later. Analysts at ING “think that BoJ Governor Kazuo Ueda’s approach to the FX market will be different from that of the former governor. The continued weakness of JPY is a clear reflection of the yield gap which fails to address the recent solid recovery and relatively high inflation. Rising cost-push inflation may also hurt households' consumption and investment recovery. The current JPY move does not justify the BoJ's claim that FX reflects the fundamentals of the economy."