Week Ahead August 28th - September 1st: Highlights include US ISM, PCE and NFP, Australian, Swiss and EZ CPI, ECB Minutes, Chinese PMIs

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- **MON:** Australian Retail Sales (Jul)
- **TUE:** NBH Announcement, German GfK Consumer Sentiment (Sep), US CaseShiller (Jun) and JOLTS (Jul)
- **WED:** Australian CPI (Jul), Spanish Flash CPI (Aug), EZ Sentiment Survey (Aug), US GDP 2nd Estimate (Q2), US ADP National Employment (Aug)
- **THU:** ECB Minutes, Japanese Retail Sales (Jul), Chinese Official PMI (Aug), German Retail Sales (Jul)/ Unemployment (Aug), EZ Flash CPI (Aug), US Challenger Layoffs (Aug), US PCE (Jul)
- **FRI:** Chinese Caixin Manufacturing PMI (Aug), Swiss CPI (Aug), EZ/UK/US Final Manufacturing PMI (Aug), ISM Manufacturing PMI (Aug), US Labour Market Report (Aug), Canadian GDP (Q2)

NOTE: Previews are listed in day order

AUSTRALIAN RETAIL SALES (MON): Retail sales are forecast to rise 0.3% MM in July following a contraction of 0.8% in the previous month. Analysts at Westpac expect a number slightly above market expectations, citing a slight firming in their Westpac Card Tracker in July. “Population growth alone is running at 0.2%mth. As such, even if sales hold flat in real (i.e. inflation-adjusted) per capita terms, total nominal sales would be up about 0.4%mth. We expect that to be broadly the story in July, with a 0.4% rise for the month, the desk adds.

AUSTRALIAN CPI (WED): The monthly CPI data is expected to show a cooling to 5.2% in July from 5.4% in June. These recently introduced monthly inflation metrics have become paramount for the RBA’s data-dependent policy steering, given that data used to be released quarterly. For this month, the desk at Westpac suggests “Electricity presents a key risk this quarter both in terms of the impact of state energy rebates and the timing of bill increases. The ABS recently introduced a monthly electricity price series for the CPI, but it only goes back to September 2017 so we don’t have a good handle on the monthly seasonality of electricity price changes.” At the latest RBA meeting, the statement from Governor Lowe highlighted “Returning inflation to target within a reasonable timeframe remains the Board’s priority” but clarified that “To date, medium-term inflation expectations have been consistent with the inflation target and it is important that this remains the case.” Governor Lowe also warned that “Some further tightening of monetary policy may be required”, with markets currently pricing around a 90% chance of a hold at 4.10%, according to the ASX 30 Day Interbank Cash Rate Futures.

CHINESE PMIs (THU): China's NBS Manufacturing PMI is expected to tick higher, but remain in contraction territory - with the metric forecast at 49.5 in August (prev. 49.3 in July). There are currently no expectations for the non-manufacturing and Composite readings. China’s economic struggles have been telegraphed by the latest trifecta of disappointing data in the form of trade, inflation, and activity – which all largely underscored ailing demand both domestic and abroad. Since then, Chinese authorities have released a series of measures to boost the economy and stem the slide in stock markets, although desks suggest it will take time for the stimulus to filter through to the real economy. Analysts at ING expect a further deterioration in the Chinese PMIs, both the official and Caixin releases “ as we await more substantial support from the government to boost domestic demand while global demand remains weak.” On the flip side, the desk suggests “One positive next week would be that the non-manufacturing PMI may still register a modest expansion even if the index edges lower, as it is still the summer holiday season when many families travel and boost business.”

EZ FLASH CPI (THU): Expectations are for headline Y/Y flash CPI in August to fall to 5.1% from 5.3% with the super-core metric seen moving lower to 5.3% from 5.5%. The prior report saw the headline pullback from 5.5% to 5.3% amid a negative contribution from energy prices, whilst the super-core reading held steady “thanks to diverging developments between non-energy industrial goods and services inflation” as opined by ING. For the upcoming release, analysts at Moody’s suggest that the decline in the headline will be prompted by food and core inflation, counteracting a potential increase in energy inflation given the runup in crude oil prices. Digging deeper into core inflationary pressures, analysts expect the reading to ultimately inch lower “as services inflation stabilizes and core goods inflation falls thanks to lower producer prices”. That said, the desk cautions that there is a risk “that services inflation may tick up, buoying overall core inflation”. From a policy perspective, last week’s soft PMI metrics prompted a dovish repricing for the ECB’s September meeting with the decision now seen as a coin flip between unchanged and a 25bps increase. Furthermore, subsequent source reporting revealed that momentum at the ECB is growing for a pause on rate hikes as recession fears increase. The report added that the debate is still open given inflation metrics are set to be released this week and any decision to pause would need to make clear future hikes could still be needed. Furthermore, several policymakers cautioned against reading too much into survey data such as the August PMIs as there is a growing gap between hard data and sentiment readings. As such, it appears that next week’s inflation metrics will prompt a significant repricing one way or the other.

ECB MINUTES (THU): As expected, the ECB pulled the trigger on another 25bps hike, taking the deposit rate to 3.75%. Aside from the decision itself, focus for the statement was on the modest adjustment to the Bank's language on future decisions whereby the key ECB interest rates will be "set at" sufficiently restrictive levels for as long as necessary vs. the previous wording of "brought to". Elsewhere, the GC also opted to set the remuneration of minimum reserves at 0% (vs. prev. matching the deposit rate). In the follow-up press conference, Lagarde stated that policymakers were unanimous in their stance. When initially questioned over whether she thinks the Bank has more ground to cover, she said the decision will be based on the data and the GC is "open-minded". When pressed on the matter later during the press conference, Lagarde stated that at this moment in time she "would not say so" with regards to there being more ground to cover; given the mixed interpretations of this statement, it will be interesting to see if the account can provide any greater clarity on the matter. On the balance sheet, Lagarde remarked that a reduction had not been discussed and there would be no trade-offs between rates and QT. Overall, the main takeaway ahead of the September meeting was that the ECB was happy to either pause on rate hikes or carry out further tightening, however, any decision to do so would be based on how the data plays out between now and then. On which, it is worth noting that the inflation data the morning of the release may well tip the balance for the September meeting which is a near-enough coin flip between unchanged and a 25bps hike after the soft PMI data for August prompted a dovish repricing last week. With this in mind, and as is often the case, the account of the previous meeting will be deemed stale and pass with little in the way of fanfare.

US PCE (THU): Headline PCE prices are expected to rise 0.2% M/M in July (prev. 0.2%), while the core rate is seen rising by the same magnitude, and also matching the prior; the annual rate of core inflation is likely to tick-up to 4.3% Y/Y from 4.1%. Credit Suisse says that the PCE deflator, the Fed’s preferred measure of inflation, is likely to confirm the disinflation already evident in July’s CPI report. The bank is in line with the consensus regarding its expectations. "Gradual disinflation in shelter should weigh on the run rate of PCE in the coming months," it writes, "however, shelter is a smaller weight in PCE than CPI inflation, and more limited progress on other core services, which are a higher weight, could keep PCE stickier than CPI later in the year."

SWISS CPI (FRI): July’s release printed at 1.6%, in-line with market expectations and incrementally below the SNB’s Q3 forecast of 1.7%, which was set during the June gathering. For the August metric, we look for any skew around the SNB’s 1.7% forecast. In particular, an above-forecast reading would be a point of concern for policymakers as it would indicate that their forecast for inflation to lift back above the 0-2% band from Q1-2024 onwards remains in play. As it stands, market pricing currently ascribes a circa. 70% chance of an unchanged rate decision at the upcoming September gathering.

ISM MANUFACTURING PMI (FRI): The consensus looks for a little change, at 47.0 in August (prev. 46.9). Although there are some differences in the ISM data vs the S&P Global PMI data, the flash release of the latter showed the manufacturing PMI falling to a two-month low of 47.0 (from 49.0 in July), while the output index dropped below 50.0, to 47.5 (from 50.2). The report from S&P said that it was a signal of a "solid deterioration" in operating conditions midway through Q3; "the decline was the second-sharpest since January, as a renewed drop in output and steeper decrease in new orders weighed on the overall performance of the sector," it added, with the lower new sales leading to a retrenchment among manufacturers as input buying fell at a quicker pace. S&P said the fall in purchasing activity reflected a reduced need to store materials and finished items, and subsequently, manufacturing inventories declined further. "Despite lower demand, vendor performance improved to the smallest extent since February," S&P wrote, "some companies stated that a shortage of drivers at suppliers frustrated efforts to reduce delivery times."

US JOBS REPORT (FRI): The consensus looks for 160k nonfarm payrolls to be added to the US economy in August (prev. 187k), and the unemployment rate is expected to remain at 3.5%, while average hourly earnings are seen rising 0.3% M/M, cooling from a rate of 0.4% seen in July. Analysts have been looking for the rate of job additions to cool as we progress further towards the end of the year. The Fed has projected that the jobless rate will rise to 4.1% by the end of this year, though officials have been noting the resilience of the labour market recently; recent initial jobless claims data, for instance, has failed to meaningfully spike higher, and in the survey week that coincides with the BLS jobs report window, the four-week moving average was at 234.5k (vs 237.5k going into the July data), and continuing claims was at 1.697mln (vs 1.717mln). Elsewhere, the BLS this week published its prelim estimates for the upcoming benchmark revisions to payroll employment, revising down employment levels for the year through March 2023 by 306k. Moody's explained that "the eventual benchmark changes, released early next year, will impact the full period from April 2022 through March 2023," adding that the data was in line with its expectations "that employment growth will be revised lower, and while the monthly details are not yet known, the size of the revision would imply a 25k per month reduction in job growth."