Week Ahead 25-29th September: Highlights include US PCE, EZ Flash CPI, China Caixin PMI, and Banxico rate decision

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- **MON:** German Ifo (Sep), US National Activity Index (Aug), German State CPIs (Sep)
- **TUE:** Swedish PPI (Aug), US Consumer Confidence (Sep), New Home Sales (Aug) Richmond Fed (Sep)
- **WED:** Spanish Parliament PM Vote re. Feijoo (TBC), CNB Policy Announcement, BoJ Minutes (Jul); German GfK (Oct), Swedish Consumer Confidence (Sep), EZ M3 (Aug), US Durable Goods (Aug)
- **THU:** Banxico Policy Announcement, CBRT Minutes (Sep); EZ Consumer Confidence Final (Sep), German HICP Prelim. (Sep), US PCE Prices Final (Q2), IJC (w/e 18th Sep)
- **FRI:** Chinese Caixin PMIs (Sep), UK GDP (Q2), German Import Prices & Retail Sales (Aug), Swiss KOF (Sep), German Unemployment (Sep), Norwegian Unemployment (Sep), EZ Flash HICP (Sep), US PCE Price Index (Aug)

NOTE: Previews are listed in day order

SPANISH PARLIAMENTARY VOTE (TUE/WED): People's Party leader Feijoo has been given the first mandate by the King to attempt to form a government following the July election when neither Feijoo nor incumbent PM Sanchez were able to get near a working majority. As it stands, Feijoo is unlikely to have the 176 seats required for an outright majority within Congress and therefore his opportunity looks forlorn. If he does fail, then incumbent Sanchez will be provided with a chance to form a government in October/November, but again the PSOE leader is not expected to be able to hit the majority mark. In the scenario that both challengers fail, then the King could give others a mandate to form a government or allow one/both of them to try again. If a second attempt occurs, then the threshold is lowered to just a simple majority, but this is still deemed to be unlikely unless Feijoo can secure the 172 votes he is targeting vs. the opposition's likely 170, writes Politico, and convince the Junts separatists to abstain. Given the uncertainty in projecting how many seats each camp will be able to secure and whether any of the separatist groups can be convinced to come on side or at least abstain, the most probable next course of action is another general election, which would likely occur in the first few months of 2024.

BANXICO (THU): The prior Banxico meeting saw the central bank leave rates unchanged, as expected, while it reiterated its guidance that it considers it will be necessary to maintain the reference rate at its current level for an extended period. Therefore, it is likely that Banxico will keep rates unchanged at 11.25% once again on Thursday. However, there will be particular attention to the guidance at this meeting. The latest August inflation data saw the 12-month headline and core metrics cool from the prior, in line with expectations. Meanwhile, the latest half month September data saw headline M/M cool marginally from the prior, as did the Y/Y. The M/M core however accelerated a touch but was in line with expectations, while the Y/Y core eased from the 1st half of August. Economic activity in July meanwhile slowed and missed analyst expectations. Analysts at Pantheon Macroeconomics expect Banxico guidance to change on the back of the data, and they see the September meeting as a prime opportunity for them to do so. Pantheon also believes that the Banxico will be able to start cutting rates gradually in late Q4.

CBRT MINUTES (THU): The CBRT opted to match market expectations with a 500bps hike to 30%. The Bank said tightening will continue until a significant improvement to the inflation outlook is achieved, and will be further strengthening as much as needed in a timely and gradual manner. The CBRT also said it will continue to simplify and improve the existing micro and macroprudential framework. The release noted inflation readings were above expectations in July and August. Analysts at CapEco suggest the central bank is "now doing what many investors had hoped they would by raising interest rates sharply and taking a more serious stance against inflation", and "All of this is helping to maintain investor optimism in the policy shift and keeping Turkey's sovereign dollar bond spreads near multi-year lows." CapEco suggests a lot more tightening needs to be delivered, as the desk expects rates to rise to at least 35% by year-end.

CHINA CAIXIN PMI (FRI): The PMIs will be released at a time when Chinese markets will be enjoying an 8-day-long holiday for the Mid-Autumn Festival, spanning from September 29th to October 6th. Thus, Chinese assets will not receive a chance to react to the data, although the surveys could have a macro impact as another gauge of economic conditions. In terms of the August PMIs, Manufacturing printed at 51.0, Services at 51.8, and the Composite at 51.7. The release also comes after a slew of stimulus to prop up the ailing economy. In terms of recent commentary, the NBS stated that the economy saw accelerated demand, but added that domestic demand remains insufficient and the foundation of economic recovery needs to be consolidated, whilst adding that the domestic economy is recovering, but still faces difficulties and China should focus on expanding domestic demand.

EZ FLASH CPI (FRI): Expectations are for September Y/Y HICP to fall to 4.6% from 5.2%, with the super-core metric seen slowing to 4.9% from 5.3%. The prior report saw headline Y/Y HICP decline to 5.2% from 5.3% as energy prices prevented a more meaningful drop, whilst the super-core reading eased to 5.3% from 5.5%. This time around, Moody's expects that energy prices will act as the "main downward pull on the headline rate", whilst the core should also see declines on account of an unwinding of base effects in the transport services segment. From a policy perspective, the release will be unlikely to have a significant impact on pricing for the October meeting which assigns a circa 90% chance for the deposit rate to be held at 4.0%. However, should the release come in below expectations, and given the soft September PMI metrics, markets could begin to bring forward expectations of ECB rate cuts with the first 25bps reduction currently priced in by July next year.

US PCE (FRI): Analysts expect core PCE prices will rise by 0.2% M/M in August, matching the rate seen in July. Traders will be framing the data within the context of Fed policy to judge whether the central bank will follow through on its projections of another rate hike this year. While the Federal Reserve stood pat on policy at its September confab, it has retained the option of raising rates further. The central bank slightly raised its PCE projection for this year (from 3.2% Y/Y to 3.3% vs the 3.3% printed in the July data), but lowered its core PCE outlook (to 3.7% Y/Y from 3.9% vs the 4.2% in the July data). It is not until 2026 that the central bank sees both headline and core inflation back at 2.0%. Chair Powell said that while inflation has moderated somewhat, and expectations remain well anchored, the process of getting inflation down to 2.0% has a long way to go, and he said that the central bank would keep rates in restrictive territory until it is confident that inflation is moving back down to target. The central bank chief also warned that getting inflation back down would likely require a period of below trend growth, and some softening of labour markets. Powell was encouraged by the last three inflation reports, which he said were very good, but he wants to see more than just three good readings.