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# Week Ahead 9-13th October: Highlights include FOMC minutes, ECB minutes, US & China CPI and UK GDP

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- **MON:** EZ Sentix Index (Oct)
- **TUE**: Nil
- **WED:** EIA STEO, US PPI (Sep). FOMC Minutes
- **THU:** ECB Minutes, OPEC MOMR, IEA OMR, UK GDP (Aug), US CPI (Sep)
- **FRI:** Chinese Inflation (Sep), Chinese Trade Balance (Sep), EZ Industrial Production (Aug), US University of Michigan Prelim

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***NOTE: Previews are listed in day order***

**FOMC MINUTES (WED):** At its September meeting, the Fed voted unanimously to keep interest rates steady at 5.25-5.50%, in line with expectations. The central bank upgraded its language about the economy, stating it's growing at a "solid" pace instead of "moderate". It also recognised that job gains have slowed recently, but are still strong. Policymakers continue to believe that inflation is high, and the unemployment rate is low. In its updated economic forecasts, it raised expectations for real GDP growth in 2023 and 2024, and lowered its unemployment rate projections. Inflation is expected to be at 3.3% in 2023, 2.5% in 2024, and 2.2% in 2025 for headline PCE. Core inflation is projected at 2.6% in 2023, 2.6% in 2024, and 2.3% in 2025. The "dots," were revised hawkishly, and the central bank still sees a further rate hike this year, whilst for next year, it now only sees the prospect of 50bps rate cuts (vs 100bps in its previous SEP). During his press conference, Fed Chair Powell emphasised the central bank's cautious approach, though noted strong economic growth and tight labour markets. Powell mentioned that inflation remains above the 2% target, but has eased slightly. He said that most policymakers believe another rate hike is likely, even though markets are sceptical. Powell declined to discuss when rate cuts might happen and suggested the neutral rate may have risen in the short term, contributing to the economy's resilience. Overall, the Fed's message is one of cautious optimism, with an eye on inflation and a willingness to adjust policy as needed. However, its updated projections have drawn scepticism; Capital Economics notes that in order to justify its higher rate projections in future years, officials have had to upgrade economic forecasts quite significantly. "We doubt that economic growth will be anywhere near that strong over the next 12 months – with a mild recession or near-recession still the more likely outcome," CapEco writes, "most notably, even though the three-month annualised rate of core PCE inflation is on track to fall to around 2.4% in August, the median projection is still as high as 2.6% in 2024 and 2.3% in 2025, and only in 2026 does it finally drop back to the 2% target." CapEco's economists argue that if the Fed is right about the economic outlook, then rates can stay higher for longer, but "we just don't believe those forecasts," it says, adding that "the real economy will be considerably weaker and, regardless, core inflation is going to fall back to target much more quickly – under those circumstances, we still expect rate cuts of closer to 200bps next year."

**ECB MINUTES (THU)**: Defying the consensus (which was deemed as somewhat stale given hawkish source reporting by Reuters earlier in the week), the ECB opted to pull the trigger on a 25bps hike to all three of its key rates, taking the deposit rate to 4.0%. The accompanying statement noted that the GC now judges that rates "have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". Furthermore, "rates will be set at sufficiently restrictive levels for as long as necessary". Elsewhere, no tweaks were made to the parameters of its APP or PEPP, with reinvestments in the latter set to continue "until at least the end of 2024". For the accompanying macro projections, 2023 inflation was upgraded to 5.6% from 5.4%, 2024 (in-fitting with source reporting by Reuters) raised to 3.2% from 3.0% and 2025 lowered to 2.1% from 2.2%, but still ultimately seen just above target. Growth projections for 2023-25 were lowered across the board. At the follow-up press conference, Lagarde cautioned that the economy is likely to remain subdued in the coming months and price pressures remain strong. During the Q&A, the President stated that, whilst some members favoured a pause in rates, today's decision was backed by a "solid majority"; details of the breakdown in views will be of note for market participants. In a follow-up question, Lagarde noted that the GC has not discussed PEPP reinvestments. When questioned on the path of rates beyond September, Lagarde, in an attempt to embed some optionality for the Bank, stated that she is not saying that the ECB is at peak rates.

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**UK GDP (THU)**: Expectations are for M/M GDP in August to expand 0.2% vs. the 0.5% contraction printed in July. As a reminder, the prior report was characterised by an unwind in car production and pharmaceuticals with the downside amplified by strike action and the service sector, which saw output fall by 0.5%, as opined by ING. This time around, analysts at Investec have “factored in a partial rebound in output in August amid an expansion in services. The desk also noted that “although the PMIs have taken a turn for the worse recently, the absence of teachers’ strikes (unlike in July) and fewer doctor strikes ought to have acted as a support”, whilst also noting that retail sales volumes were up in August. Analysts add that upside for growth will likely be capped by manufacturing and construction with survey data suggesting “softening output for the former”. From a policy perspective, it is unlikely that the release will do much to sway investors from expecting an unchanged rate from the BoE in November after the MPC opted to stand pat on rates last month, and with the recent upside in yields having further tightened financial conditions in the interim.

**US CPI (THU)**: Headline consumer prices are expected to rise by 0.3% M/M in September (prev. +0.6%), while the core rate of inflation is expected to also rise 0.3% M/M (prev. +0.3%). The upside in gasoline prices is likely to support the headline, but underlying price growth is expected to be more benign, analysts say. Moody's says that "while inflation pressures will continue to ease through year-end, the moderation will be rockier than it has been over the last year," adding that "this is particularly true for headline inflation, where a reversal in energy prices will contribute to upward pressure in the near term." The data will be framed in the context of Fed policy, where any upside (particularly in core prices) will likely tilt the market's implied path in a hawkish direction; any downside relative to consensus, however will likely see markets continue to price the path of future rates more dovishly than the Fed's current dot plot.

**CHINESE INFLATION (FRI)**: September CPI is forecast at 0.2% YY (prev. 0.1%), MM at 0.3% (prev. 0.3%), and the PPI YY at -2.4% (prev. -3.0%). Using the Caixin PMI as a proxy for the upcoming inflation metrics, the release suggests “Price pressures picked up in September amid reports of higher raw material costs, with average input prices rising at the quickest degree since January. That said, the rate of inflation remained comfortably below the series average. Stronger cost pressures led firms to raise their selling prices for the first time in seven months and to the greatest extent since March 2022.” Meanwhile, on the services side, “Prices in the services sector increased slightly. Input costs rose mainly on more expensive manpower and energy, with the corresponding gauge remaining in expansionary territory for 39 months in a row. Service companies raised prices for customers, but to a limited extent, with the corresponding gauge coming in slightly above 50.” Analysts at ING say "expect the inflation to edge slightly to 0.4% YoY as the recent data suggests that the government’s efforts to boost the economy have had some impact… On top of that, surging oil prices are likely to increase transport and energy costs for the period.”

**CHINESE TRADE BALANCE (FRI)**: In Dollar terms, the Trade Balance for September is expected to have expanded to a surplus of 70bln (prev. 68.36bln in August), with Exports seen contacting 8.3% (prev. -8.8%) and Imports seen -6.0% (prev. -7.3%). The metrics will be used to diagnose the health of demand, domestic and abroad. Using commentary from the Caixin PMIs for anecdotal hints, the release suggested that “market demand increased steadily. Output and total new orders both expanded for the second straight month. But overseas demand remained weak, with the gauge for new export orders remaining below 50.” The release went on to say “The upturn [in new work] occurred despite a further drop in overseas orders, suggesting the overall rise in new work was largely driven by firmer domestic demand.” It’s worth also noting that the trade data will be released shortly after the Chinese CPI data.


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