Week Ahead 16th-20th October: Highlights include US retail sales, China activity data, PBoC, inflation from NZ, Japan, UK and Canada

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- **SAT:** New Zealand General Election
- **MON:** New Zealand CPI (Q3), PBoC MLF
- **TUE**: RBA Minutes, German ZEW Survey (Oct), US Retail Sales (Sep), Canadian CPI (Sep)
- **WED:** Chinese GDP (Q3), Chinese Industrial Output (Sep) and Retail Sales (Sep), UK Inflation (Sep), EZ Final HICP (Sep)
- **THU:** BoK Announcement, Bank of Indonesia Announcement, Japanese Trade Balance (Sep), Australian Jobs Report (Sep), US Philly Fed (Oct), Canadian PPI (Sep)
- **FRI:** EU-US High-level Meeting; PBoC LPR, Japanese CPI (Sep), UK Retail Sales (Sep), Canadian Retail Sales (Aug)

NOTE: Previews are listed in day order

NEW ZEALAND GENERAL ELECTION (SAT): New Zealand will hold its general election on Saturday 14th October 2023 and polls suggest a change of government with voters electing 120 members to the House of Representatives under New Zealand's mixed-member proportional voting system whereby 72 members will be elected from single-member electorates and 48 from closed party lists, while 61 seats are needed for an outright majority. The two main parties vying for control of the 54th Parliament and form the next government include the incumbent Labour Party led by PM Hipkins which currently has 62 seats and won an outright majority in the House at the last election in 2020 under former PM Ardern and was the first time a party achieved a majority under the MMP system since its introduction in 1996. The main opposition is the National Party, led by Christopher Luxon and currently has 34 seats, but are clearly leading across opinion polls. Nonetheless, neither of the main parties are expected to achieve a majority, so the next government will likely be formed through a coalition involving the smaller parties, with the Green Party and Te P#ti M#ori which currently hold 9 and 2 seats, respectively, traditionally supportive of Labour, while right-wing ACT currently has 10 seats and is seen to be on track with the National Party to win 59 seats as part of a right coalition. This likely puts the next government in the hands of the New Zealand First Party which is projected to return to parliament after it was ousted in the 2020 election due to a failure to achieve the minimum 5% needed for parliamentary representation, while party leader and effective ‘kingmaker’ Winston Peters, is all too familiar with this responsibility after having supported both the Labour Party and National Party in past governments.

NEW ZEALAND CPI (MON): YY CPI for Q3 is seen cooling a touch to 5.9% from 6.0%, while the QQ metric is expected to tick higher to 2.0% from 1.1%. The RBNZ, via forecasts released in August, see the Q3 YY rate at 6.0% and the QQ at 2.1%. “The September quarter saw a sharp rise in fuel prices and other transport costs, as well as a large increase in local body rates and the annual increase in tobacco taxes. That’s only partially offset by the softening in food prices in recent months”, suggest the analysts at Westpac, as the bank pencils in a QQ metric of 1.9% and a YY forecast of 5.8%. The desk acknowledges that its forecasts are softer than the RBNZ’s projections, as it reflects “a lower forecast for tradable prices. Even so, core inflation and non-tradable inflation are expected to remain red hot.”

PBOC MLF (MON)/LPR (FRI): The PBoC is likely to maintain its 1-Year MLF rate and benchmark Loan Prime Rates next week with the 1-Year MLF Rate at 2.50%, 1-Year LPR at 3.45% and 5-Year LPR at 4.20%. As a reminder, the PBoC kept its MLF and benchmark lending rates unchanged last month, which was as expected after having just cut its key short-term rates in August by between 10bps-15bps, although it did announce a cut in the RRR last month which was seen to release over CNY 500bln of liquidity and help stabilise the Yuan. Furthermore, the PBoC said it will maintain the basic stability of the exchange rate, firmly support the sustainability of the real economy and promote the economy to achieve effective qualitative improvement and reasonable quantitative growth. The latest data releases have pointed to a lack of urgency for an immediate policy tweak as Industrial Profits returned to growth and PMI figures were mixed in which the official Manufacturing and Non-Manufacturing PMIs topped forecasts, but Caixin PMIs disappointed, while inflation data was softer-than-expected and trade figures mixed with exports remaining in contraction territory.

RBA MINUTES (TUE): The RBA will release the minutes from the October 3rd meeting when the central bank kept the Cash Rate Target at 4.10%, as widely expected, while it also stuck to its familiar rhetoric in which it reiterated that some further tightening of monetary policy may be required and that the Board remains resolute in its determination to return inflation to target. Furthermore, it stated that returning inflation to target within a reasonable timeframe remains the Board’ s priority and recent data is consistent with inflation returning to the desired 2–3% range over the forecast period, while it also stated that inflation in Australia has passed its peak, but is still too high and will remain so for some time yet, as well as noting significant uncertainties around the outlook. This was new Governor Bullock's inaugural meeting at the helm, while the language from the central bank was pretty much a carbon copy of the comments during Lowe's leadership and further bolstered the view of policy continuity.

US RETAIL SALES (TUE): US retail sales are expected to rise 0.2% M/M in September, cooling from the 0.6% pace in August; the core measure is seen rising 0.1% M/M, and also slowing from 0.6% previously. In its monthly consumer checkpoint analysis, Bank of America's analysts note that consumer spending has been fairly flat over the last two months. Its data shows total card spending +0.2% M/M, reversing the 0.2% decline in card spending reported in August. It said that total card spending per household was +0.7% Y/Y in September (vs +0.4% in August), according to its internal data. "The labour market is key for the consumer," it wrote, "while there has been a relative deterioration in labour conditions at the higher end of the market, most of that underperformance may now be in the past." But BofA adds that wages and salaries of higher-income households are still growing at slower rates than other income cohorts. Analysts will monitor the data to see how consumer trends are holding up in the face of a slowing economy. Ahead, Adobe's online shopping forecast for the holiday season (period that runs from November 1st through the end of this year) predicts that US online holiday sales will rise 4.8% Y/Y and hit USD 221.8bln. It said mobile shopping is set to overtake desktop for the first time, as consumers get increasingly comfortable transacting on smaller screens, and discounts were expected to hit record highs, while 'Buy Now, Pay Later' usage is set to drive a record USD 17bln in online spending as consumers look for flexible ways to manage their budgets.

CANADIAN CPI (TUE): In the minutes from the September policy meeting, BoC officials were concerned about ongoing and broad-based inflation pressures, with some components rising well above pre-pandemic averages. They noted that shelter costs and high oil prices were contributing to inflation. The minutes said that the outlook for inflation suggests that it will rise in the short-term, due to higher oil and gasoline prices, but gradually ease afterward. The BoC will closely monitor whether momentum in underlying inflation is decreasing, particularly focusing on core inflation, which has remained sticky, and will also consider the balance between economic supply and demand in determining future inflation. Canadian bank RBC says its base-case does not assume further interest rate hikes from the BoC this year, noting that there is still another monthly inflation report and the closely watched Business Outlook Survey to be released before the central bank's next confab, though adds that the BoC has been clear that it won't hesitate to respond with more hikes if necessary to cool labour markets and bring inflation down.

CHINESE GDP (WED) / INDUSTRIAL OUTPUT AND RETAIL SALES (WED): Analysts expect Chinese Q3 GDP to print at 4.4% YY (prev. 6.3% in Q2) and with the QQ rate forecast at 1.0% (prev. 0.8%). The Retail Sales metric for September is seen at 4.5% (prev. 4.6% in August) and Industrial Output at 4.3% (prev 4.5% in August), according to Reuters. A recent piece by the CCP’s mouthpiece, Securities Daily (citing industry experts), suggested the YY metric may be above 4% whilst recently announced stimuli make their way through the economy, “the economy ‘opened low but moved high’ in the third quarter”, Securities Times said. “Judging from high-frequency indicators in September, the current positive factors for economic recovery are increasing, and economic growth is expected to remain steady throughout the quarter.” On the rest of the activity data, the piece says “Industrial production is expected to continue to accelerate month-on-month in September. However, due to the higher base in the same period last year, the year-on-year growth rate is expected to rebound slightly to around 4.7%.” On the retail sales front, Securities Daily says “continued rapid rebound in service consumption this year, and this trend continued in the third quarter.” Looking ahead to Q4, the CCP mouthpiece says Q4 economic growth is expected to improve across the board – “with consumption recovery momentum continuing to strengthen, investment growth rising from a decline, and the dragging effect of external demand on economic growth also easing. In addition, as measures to stabilize the property market continue to be stepped up, the real estate market is expected to stabilize and rebound in the fourth quarter, and its impact on consumption and investment confidence will be weakened.”

UK INFLATION (WED): Expectations are for headline Y/Y CPI in September to fall to 6.5% from 6.7%, with no consensus available for the other metrics at the time of writing. The prior report acted as a decisive factor in the MPC’s decision to stand pat on rates in September after the release saw declines in headline, core and services CPI, with the latter coming in at 6.8% and well below-the BoE forecast of 7.2%; note, the majority of the fall in services CPI was attributed to airfares and package holidays. For the upcoming release, analysts at Investec are of the view that “despite the push higher in fuel prices over the month, we still expect that inflation continued its downward trend in September”. The desk adds that upside pressures could come from education and transport, however, it expects that “these were outweighed by easing price pressures in other areas, such as cooling food price inflation as well as clothing prices”. From a policy perspective, similar to the labour market report, it is hard to see the data having much bearing on pricing for the November meeting which points towards the BoE standing pat on rates once again. That said, if the release is particularly out of line, it could have some impact on expectations for rate cuts in 2024, however, given the difficulties in near-term forecasting throughout the current hiking cycle, it is unlikely that market participants will have too much conviction in cementing calls for next year.

BOK ANNOUNCEMENT (THU): The Bank of Korea is likely to maintain its 7-Day Repo Rate at the current level of 3.50% where it has been since January this year and with the central bank expected to refrain from any rate changes for the rest of the year. As a reminder, the BoK was unanimous in its decision to keep rates unchanged at the last meeting in August, although six out of the seven Board members wanted to keep the door open for one more rate hike, while the BoK said it would maintain a restrictive policy stance for a considerable period of time and Governor Rhee stated it is too early to talk about a rate cut, but did not want to rule out the possibility of an ease this year and acknowledged that interest rates are at the upper end of the neutral range, or higher. Furthermore, the central bank noted high uncertainties, including Chinese economic growth and US monetary policy, while it was stated that the increase in household debt over the last couple of months was faster than expected and they may consider macro policy to tackle the issue, but not for now. Since that meeting, there hasn't been anything to suggest a change in the status quo and the central bank's senior Deputy Governor recently stated that there is no need to tighten monetary policy further for now, while inflation data accelerated in September with CPI YY at 3.7% vs. Exp. 3.4% (Prev. 3.4%), although this is unlikely to force the BoK to act as it had anticipated an increase before stabilising from October onwards towards 3% by year-end.

JAPANESE TRADE BALANCE (THU): The Trade Balance for September is expected to show a narrower deficit of JPY 425mln vs the August deficit of JPY 938mln. Exports are seen growing 3.1% YY (prev. -0.8%), while imports are seen contracting 12.9% YY (prev. -17.8%). Analysts at CapEco believe the deficit will continue to flatline around JPY 600bln. The desk, citing trading partners alongside prelim figures, posits that imports fell at a slower pace in September. "Given that import prices increased by less on the month, we suspect import volumes also rose slightly", say CapEco.

AUSTRALIAN JOBS REPORT (THU): There are currently no forecasts for the Aussie jobs report. Analysts at Westpac see the employment change at 20k (prev. 64.9k), while the desk sees the unemployment rate steady at 3.7%. The analysts suggest "The choppy profile over the last two months again looks to be partly a reflection of shifting seasonalities around school holidays." The desk also posits that " Businesses have demonstrated a remarkable ability to absorb the migration-driven surge in labour supply, although this dynamic will be tested as the broader economy continues to slow... The labour market has moved past its tightest point but is not yet slackening to a material degree." Westpac anticipates that the labour market will remain tight into the end of the year "before a more material degree of slackening emerges in 2024."

EU-US SUMMIT (FRI): European Commission President von der Leyen and European Council President Michel will meet President Biden on October 20th at the White House. Topics on the agenda, according to the joint statement, include Russia-Ukraine, clean energy, digital infrastructure, AI, and the leaders will "review joint activities to strengthen economic resilience and to address related challenges." Away from the official release, sources suggested one area of focus will be the steel sector. A senior EU official cited by newswires suggested steel tariffs are among the issues to resolve, with Bloomberg later reporting the two sides are seeking an interim deal on steel to avoid the return of Trump-era tariffs. Furthermore, from a geopolitical angle, the EU is reportedly planning an anti-subsidy probe into Chinese steelmakers at a summit with the US on October 20th, according to the FT citing sources. An EU official clarified to Reuters that the probe was not limited to China. "A joint statement due at the end of the summit is expected to say the European Union will use its trade defence instruments to assess the market situation for steel, but not mention China. This would lead to investigations by the European Commission", according to the diplomat. Aside from the steel issue, desks also suggest keeping an eye on commentary surrounding Europe's opposition to the US Inflation Reduction Act.

JAPANESE CPI (FRI): The Core YY rate is seen cooling to 2.7% from 3.1%. There is no forecast for the headline YY or super-core YY, which were previously 3.2% and 4.3% respectively. Using the Tokyo CPI (released a couple of weeks ago) as a proxy, the metric ticked down to 2.8% from 2.9% in the month following a sharp decline in August, led by declines in utility tariffs and manufactured goods inflation. Analysts at CapEco forecast a similar cooling in the coming release. The desk also highlights that the pickup in services inflation reversed in the last month, however, inflation is moderating less quickly than the Bank of Japan anticipated, which will lead to the need to revise inflation forecasts in their meeting later this month (30th-31st). In fitting with that view, Kyodo sources from October 10th suggested the BoJ is reportedly mulling raising its FY23/24 core CPI forecast to near 3% from 2.5% forecast in July. CapEco sees the YY headline at 3.1%, core at 2.8% and supercore at 4.1%.

UK RETAIL SALES (FRI): In terms of recent consumption indicators, BRC Y/Y retail sales rose 2.8% in September (prev. 4.3%), with the consultancy noting "Sales growth in September slowed as the high cost of living continues to bear down on households. Big ticket items such as furniture and electricals performed poorly as consumers limited spending in the face of higher housing, rental and fuel costs". Elsewhere, the Barclaycard consumer spending release noted "It was nice to see consumers return to the high-street and make the most of the warm weather in early September. However, with the festive period approaching, consumers are balancing their budgets to prepare for this expensive period". For the upcoming release, Oxford Economics notes "…we think there was a further pickup in sales in September. Food sales have been particularly soft of late and look ripe for further catch-up, while there's scope for recoveries in non-store and fuel sales after chunky m/m falls in August".