Week Ahead 23rd-27th October - Highlights include EZ /UK flash PMIs, ECB, BoC, US PCE, Australian CPI

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- **MON:** Bank of Israel Announcement, EZ Consumer Confidence (Oct), US National Activity Index (Oct)
- **TUE**: German GfK Consumer Confidence (Nov), EZ/UK/US Flash PMIs
- **WED:** BoC Announcement, NBH Announcement, Australian CPI (Q3/Sep), German Ifo Survey (Oct)
- **THU:** ECB Announcement, CBRT Announcement, South Korean GDP Advanced (Q3), US GDP Advanced (Q3
- **FRI:** CBR Announcement, Japanese Tokyo CPI (Oct), Australian PPI (Q3), US PCE (Sep)

NOTE: Previews are listed in day order

EZ FLASH PMI (TUE): Expectations are for October manufacturing PMI to rise to 43.7 from 43.4, services to tick lower to 48.6 from 48.7, and lifting the composite at 47.4 vs. prev. 47.2. The prior report saw a modest downtick in the manufacturing component to 43.4 from 43.5, whilst an increase in the services headline to 48.7 from 47.9 was enough to lift the composite metric to 47.2 from 46.7. For the upcoming release, analysts at ING state "while much less relevant than the ECB meeting, it has caused some movement in recent months as weakening economic data from the eurozone has raised concerns over a possible downturn". The desk adds that "a downbeat reading for the PMI would be negative for euro sentiment as it would increase expectations of a recession".

UK FLASH PMI (TUE): Expectations are for October's services PMI to rise to 49.5 from 49.3, with the manufacturing reading seen ticking higher to 44.6 from 44.3. The prior report saw services tick lower to 49.3 from 49.5 and manufacturing advance to 44.3 from 43.0, leaving the composite at 48.5 vs. prev. 48.6. This time around, economists at Oxford Economic expect the data to "signal a further contraction in private sector output". On manufacturing, the consultancy expects that the slowing in the pace of new orders falling, should provide some respite for the October release. On services, Oxford Economics is less constructive amid lower demand, particularly from abroad. From a policy perspective, a soft release is unlikely to have much bearing on the November meeting given that the MPC already paused last month. However, signs of a more pronounced slowing could see a bringing forward of rate cut expectations in 2024.

BOC ANNOUNCEMENT (WED): The market currently prices in an 80% probability of rates being left unchanged, while the probability for a BoC hike in October diminished to under 20% following Canada's September inflation data, where CPI cooled by more than the consensus was expecting. Additionally, analysts have become more cautious on the growth outlook after the economy saw a surprise contraction in Q2, and activity has been subdued since, as a result of previous BoC tightening, wildfires/floods and labour market industrial action. There are also growing concerns that higher rates will heap pressure on household mortgage costs. The labour market, however, continues to show resilience, with jobs being added in August and September, and the unemployment rate remaining low. Analysts at ING note that BoC Governor Macklem recently argued that the expected trajectory of inflation is where the central bank is focussed, stressing the importance of inflation expectations and wage growth, and although these can be volatile, they are trending upwards. "Slower-than-expected inflation, a clouded growth outlook and higher bond yields means the BoC is likely to overlook jobs tightness and keep rates on hold," ING writes, adding that "there is still all the interest in keeping a higher-for-longer narrative alive, but markets may start to shed some doubts on it."

AUSTRALIAN CPI (WED): The quarterly metrics for Q3 and monthly metrics for September will be released on Wednesday. September Weighted CPI Y/Y is forecast to tick higher to 5.4% from 5.2%, whilst the Q3 Q/Q rate is expected at 1.1% (prev. 0.8%) and Y/Y at 5.3% (prev. 6.0%). Further on the Quarterly metrics, Weighted Median Q/Q is expected at 1.0% (prev. 1.0%), Y/Y at 5.0% (prev. 5.5%), while the Trimmed Mean Q/Q is seen at 1.1% (prev. 0.9%) and Y/Y at 5.0% (prev. 5.9%). Analysts at Westpac suggest "This month will see a quarterly update of some critical services prices including health" and add that forecasts "have a larger than usual degree of uncertainty due to our uncertainty around what the full impact of the changes to government rebates will mean for childcare prices." The desk also highlights that last month, although the August print was in line with Westpac forecasts, the analysts were surprised by the smaller-than-expected rise in housing amid softer-than-expected rents. From an RBA standpoint, Governor Bullock is due to speak on Tuesday, a day before the CPI metrics, whilst in her most recent speech, she said she is a bit more worried about the inflation impact from supply shocks and seeing demand slow and per capita consumption declining, and if inflation remains higher than forecast, the RBA will have to respond with policy. The most recent RBA minutes also tilted towards the hawkish side and noted "Further tightening may be required if inflation is more persistent than expected", while "rising house prices could support consumption and might signal policy is not as tight as assumed."

ECB ANNOUNCEMENT (THU): Consensus is unanimous in expecting the ECB to stand pat on all three of its key rates with markets virtually signalling a 100% chance of such an outcome. The expectation for unchanged rates has stemmed from the September policy statement, which 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". Since the prior meeting, headline Y/Y CPI cooled to 4.3% in September from 5.2%, whilst the super-core metric fell to 4.5% from 5.3%. Furthermore, the Composite Eurozone PMI for September rose to 47.2 from 46.7, but remained deep in contractionary territory with the accompanying report noting "output volumes across both the manufacturing and service sectors were constrained by deteriorating demand conditions". In terms of commentary from the Bank, President Lagarde has continued to reiterate that rates are sufficiently restrictive, whilst also noting there is more policy lag in the pipeline from past hikes. Even the hawks on the Governing Council such as Netherlands' Knot have stated that they are "comfortable" with the current level of interest rates. Furthermore, it is also worth noting that recent increases in Eurozone bond yields will act to tighten financial conditions whilst geopolitical risks in the Middle East have given reason for caution. That being said, as has been the case for other major central banks that have engineered a "pause", policymakers will likely wish to keep optionality over further rate hikes beyond October, particularly given the recent increase in oil prices. In terms of other policy measures, a couple of policymakers have suggested that an early end to PEPP reinvestments (currently set to run until the end of 2024) should be discussed at the upcoming meeting. However, ING is of the view "the surge in bond yields, combined with new debt sustainability concerns in the eurozone" makes it difficult for the ECB to agree an early conclusion to reinvestments at this stage.

CBRT ANNOUNCEMENT (THU): There are currently no expectations for what the central bank may opt to do at its upcoming meeting. As a reminder, last month 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, while tightening will be further strengthened 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 at the time suggested 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 suggested a lot more tightening needs to be delivered, as the desk expects rates to rise to at least 35% by year-end. Meanwhile, the latest CBRT survey upgraded its end-year CPI forecast to 68.01% (Prev. 67.22%) alongside GDP Growth to 4.1% (prev. 3.9%). The USD/TRY level was also revised higher to 30.0453 (prev. 30.1422), while the 12-month CBRT Rate was upped to 37% (prev. 32.44%).

JAPANESE TOKYO CPI (FRI): The Tokyo CPI is seen as a precursor to the nationwide release around two weeks later. Headline CPI is seen cooling to 2.7%, but the "ex-fresh food" metric is seen remaining at 2.5% in October. Analysts at ING suggest that "Tokyo's CPI inflation is expected to slow mainly due to base effects. Headline inflation could come down to 2.6% YoY in October... However, a monthly comparison would show that the recent pick-up in global commodity prices and the weaker yen could add more upside pressure." From a BoJ standpoint, Governor Ueda on Friday suggested inflation is likely to narrow the pace of its rise, then re-accelerate, reflecting changes in corporate wages and price-setting behaviour. Recent Bloomberg sources meanwhile noted the BoJ is reportedly mulling raising its FY23 price view closer to 3%, raising its FY24 price view to 2% or above, while the inflation outlook is said to keep FY25 around 1.6%.

US PCE (FRI): Currently, headline PCE is expected to rise 0.3% M/M from the prior 0.4% pace, while the Core is also expected to rise by 0.3%, accelerating from 0.1% previously. September's headline CPI data rose by a little more than expected (0.4% M/M vs an expected 0.3%), although the core rate of inflation rose in line with expectations, by 0.3% M/M; the Y/Y rate of core inflation slowed to 4.1% from 4.4%. Pantheon Macroeconomics said that this reflected a larger increase in electricity prices, but is unlikely to persist. "The big picture here is that core inflation continues to slow, with the annual rate dipping in September, and the Q3 quarterly annualised gain was only 2.8%." Pantheon says the forces are in place for core inflation to fall substantially in H1 2024; using the CPI data as well as September's PPI report, its economists say a 0.27% M/M increase in September's core PCE deflator is implied. "Our forecast implies the core PCE rose at mere 2.5% annualised rate in the three months to September, compared to the previous three months, the slowest rate since January 2021 and closing in on the target," it writes, adding that "the annual rate will remain elevated, dipping to 3.7% from 3.9% in August, but the Fed will not wait until 2% Y/Y is reached before starting to ease." There will also be attention on Personal Income and Consumption to gauge the strength of the consumer, with income seen rising 0.4%, matching the prior month's pace, while consumption is seen rising 0.3%, easing a touch from 0.4% previously. The data will help gauge Fed expectations, albeit the November decision is largely expected to see rates left unchanged as the Fed proceeds carefully and with markets almost fully pricing this in, currently with a 98% probability. There is a c. 40% probability of another hike by January, a hot report may exacerbate these odds, but a cool report will help with evidence that the Fed is done with rate hikes. Meanwhile, further out the curve the first cut is fully priced in by July, which is somewhat at odds with the Fed's dot plot and higher for longer messaging.

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