# Week Ahead 18-22th December: Highlights include US PCE; BoJ, PBoC, BOC and RBA Minutes; CPI from Japan, UK, Canada

## Week Ahead 18-22th Dec:

- **MON**: German Ifo (Dec), New Zealand Trade Balance (Nov).
- **TUE**: BoJ & NBH Policy Announcements, RBA Minutes (Dec); EZ HICP Final (Nov), Canadian CPI (Nov), Japanese Trade Balance (Nov).
- **WED:** PBoC LPR, BoC Minutes (Dec); UK CPI (Nov), EZ Current Account (Oct), EZ Consumer Confidence Flash (Dec), US Existing Home Sales (Nov).
- **THU:** CBRT & CNB Policy Announcements; UK PSNB (Nov), US Final GDP (Q3), IJC (w/e 15th), Philadelphia Fed (Dec), Canadian Retail Sales (Oct), Japanese CPI (Nov).
- **FRI:** BoJ Minutes (Oct), UK GDP (Q3), UK Retail Sales (Nov), Swedish PPI (Nov), US PCE Price Index (Nov), Durable Goods (Nov), Uni. of Michigan Final (Dec), New Home Sales (Nov).

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

**BOJ ANNOUNCEMENT (TUE)**: The BoJ is expected to maintain its policy settings at the December meeting, according to all respondents polled by Reuters between December 8th to 14th. BoJ expectations have been choppy over the past couple of weeks following commentary from Governor Ueda who, among other points, said “handling of monetary policy would get tougher from the end of the year”. These comments fuelled speculation of a potential December move by the BoJ, with the Yen rallying on the expectations. Thereafter, a Reuters source piece said there was no intention by Governor Ueda to signal “anything about the timing of a policy change”. More recent sources clarified that the BoJ is said to see little need to end negative rates in December and intends to come to a decision based on data up to the last minute, and officials view the potential cost of waiting for more data as not very high. Sources added that the BoJ lacks proof of sustainable inflation and has not yet seen sufficient evidence of wage growth which would support sustainable inflation. The latest Tokyo CPI, which is seen as a precursor to the nationwide metric released on Thursday (after the BoJ meeting), saw the Core Y/Y miss expectations (2.3% vs exp. 2.4%, prev. 2.7%). Furthermore, following the December FOMC decision (which saw a dovish pivot), a Nikkei article citing a BoJ insider suggested Japan’s negative rate exit scenario has been muddled by the Fed’s outlook -”if possible, I’d look forward to wage increases that surpass this year’s”. The article added that from the standpoint of consistency, the BoJ would hold off until confirming the results of the spring labour talks, including those at small businesses, and that perspective makes an exit in the latter half of 2024 a convincing scenario as well. “The end of the negative interest rate policy would be the beginning of a tightening cycle,” the BoJ insider said. The latest Reuters poll shows that 21% of economists think the BoJ will begin to unwind ultra-loose policy in January 2024, while 84% expect the BoJ will end NIRP in 2024 vs 71% in the November poll and 54% in the October poll. 88% of economists expect the BoJ to end YCC policy and 12% think the BoJ will tweak again. 28 out of 42 economists expect the BoJ to raise the deposit rate to 0% or 0.10% by end-Q2 2024, while two expect rates at 0.25%.

**JAPANESE TRADE BALANCE (TUE)**: The November trade deficit is expected to widen to JPY 962.4bln from the prior deficit of JPY 662.5bln, whilst exports are seen cooling to 1.5% (prev. 1.6%) but the contraction in imports seen improving to -8.6% (prev. -12.5%). Auto-related exports are anticipated to remain strong due to easing supply constraints. However, machinery-related shipments are likely to see a contraction, mainly due to the downturn in the Chinese economy, according to desks.

**RBA MINUTES (TUE)**: The RBA will release the minutes from the December 5th meeting next week where the central bank kept the Cash Rate Target unchanged at 4.35%, as expected, and reiterated its forward guidance on whether further tightening is required to ensure inflation returns to the target in a reasonable timeframe will depend upon data and evolving assessment of risks. RBA also repeated that the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome, as well as noted there are still significant uncertainties around the outlook and that the limited information received on the domestic economy since the November meeting has been broadly in line with expectations. The language from the central bank was largely reiterations of the commentary from the prior meeting and therefore less hawkish than many were anticipating considering the rhetoric from RBA Governor Bullock in the weeks leading up to the meeting who was more forceful in her warnings that inflation remained a crucial challenge and had stated that more substantial monetary policy tightening is the right response. Nonetheless, participants will be eyeing the minutes on the off chance that there are more meaningful clues on monetary policy.

**CANADIAN CPI (TUE)**: The BoC's recent policy statement said that central bank officials were still concerned about the risks to inflation, although the updated statement dropped a reference to inflationary risks increasing. The BoC wants to see further and sustained easing of core inflation, and is continuing to monitor inflation expectations too. It noted that its own preferred gauges of core inflation have been ranging 3.5-4% recently, with the October metrics towards the bottom of that range. BoC Deputy Governor Gravelle said the bank was encouraged by the progress made in October, but wants to see the improvement progress further, and the BoC was not there yet on its price goal, adding that it was pretty clear that Canada was still not on the path to sustainable 2% inflation.

**PBOC LPR (WED)**: The PBoC is expected to maintain the Loan Prime Rates next week with the 1-Year LPR currently at 3.45% and 5-Year LPR at 4.20%. As a reminder, rate-setters have refrained from making any adjustments to the benchmark lending rates since the last cut to the 1-Year LPR in August which most new loans are based on, while the 5-Year LPR which serves as a reference rate for mortgages was last reduced in June. The expectations for the PBoC to maintain the Loan Prime Rates follow the recent decision to keep the 1-Year MLF rate unchanged at 2.50% as this provides a fairly reliable indicator for the central bank's intentions for the benchmark LPRs and although there has been speculation in Chinese press regarding scope for a RRR cut to meet liquidity needs at year-end, this has so far failed to materialise. Furthermore, recent comments from PBoC Governor Pan haven't suggested any urgency for a near-term adjustment in which he noted that China's economy continued to gain momentum in recovery with the economy expected to achieve the GDP growth target for 2023 and they will continue to keep monetary policy accommodative, while the PBoC's Q3 Monetary Policy Report stated that they will further promote financial institutions to lower the effective lending rate and that prudent monetary policy will be forceful and precise.

**BOC MINUTES (WED)**: At its policy meeting, the BoC left rates unchanged at 5.00%, as expected, but tweaked its statement with both hawkish and dovish tones. On the dovish side, it noted signs that rate hikes were having an impact, stating that "higher interest rates are clearly restraining spending: consumption growth in the last two quarters was close to zero, and business investment has been volatile but essentially flat over the past year." It also referenced the Q3 GDP contraction, easing labour market, and that the economy was no longer in excess demand. The statement dropped a line that said progress toward price stability was slow, and inflationary risks have increased. On the hawkish side, however, it reiterated concerns about the risks to the outlook for inflation, and maintained guidance that it is prepared to raise the policy rate further if needed. Still, with price pressures abating and economic growth slowing, markets remain of the view that the central bank is done with rate hikes, particularly since BoC Governor Macklem's recent remarks that policy may now be restrictive enough. Attention now is turning towards the start of its easing cycle. Money markets are pricing a little over 100bps of easing in 2024, with the first cut fully priced by April. Macklem has said that it was not the time to be talking about rate cuts, and the BoC would likely be cautious over any rising inflation expectations if the consumer starts to expect rate cuts.

**UK CPI (WED):** Expectations are for headline CPI in November to cool to 4.4% Y/Y from 4.6%, with the core measure seen slipping to 5.5% Y/Y from 5.7%, The October report saw the headline decline to 4.6% from 6.7%, while core inflation fell to 5.7% Y/Y from 6.1%, while the all services measure slipped to 6.6% Y/Y from 6.9% (vs. MPC forecast of 6.9%). Analysts noted that the decline in the headline rate was not too surprising following last year's 25% increase in household energy bills, which fell out of the annual comparison. For the upcoming release, analysts at Investec expect that food and energy price inflation will likely contribute to declines once again with scope for goods prices to keep easing. The desk cautions that declines will not be uniform as "base effects in clothing and footwear prices, for instance, look unfavourable, as there was already a large drop last year". From a policy perspective, given that the MPC opted to hold rates at its December meeting and maintained guidance that policy will need to be restrictive for an "extended" period of time, the upcoming release will likely have little sway on the immediate rate path. That said, there may be some modest fluctuations around current pricing which sees an 88% chance of a May cut with 112bps of policy loosening priced by year-end.

**CBRT ANNOUCEMENT (THU)**: The CBRT is expected to raise its One-Week Repo Rate by 250bps according to all 12 economists polled by Reuters. CPI data for November printed sub forecasts but CPI Y/Y and PPI Y/Y both reaccelerated a touch, with the CPI Y/Y at 61.98% (exp. 63.00%, prev. 61.36%), M/M at 3.28% (exp. 3.90%, prev. 3.43%), and PPI Y /Y at 42.25% (prev. 39.39%). To recap the prior meeting, the CBRT hiked its Weekly Repo Rate by 500bps (vs median exp. 250bps hike) to 40% (prev. 35%, exp. 37.5%); expectations ranged from 250-500bps. The central bank stated that the pace of monetary tightening will slow down and the tightening cycle will be completed in a short period of time. The statement clarified that monetary tightness will be maintained as long as needed to ensure sustained price stability. The latest CBRT survey meanwhile suggested the Repo Rate is seen at 36.65% (prev. survey 37.01%), USD/TRY seen at 29.6229 (prev. 29.9961), and 12-month CPI seen at 41.23% (prev. 43.94%).

**JAPANESE CPI (THU)**: The National Core Y/Y is expected to cool to 2.5% in November (vs 2.9% in October). These expectations come as the November Core Tokyo CPI (seen as a preview of the nationwide release) saw a cooling of a similar magnitude from October (2.3% vs exp. 2.4%, prev. 2.7%). According to a Reuters poll of 17 economists, the expected fall in the core metric is partly due to energy. “Consumer inflation will drop substantially thanks to the government’s energy subsidy programs, and inflation is likely to decelerate to 2.7% YoY in November from 3.3% in October”, say the analysts at ING. Looking at the corporate price expectations survey within the latest BoJ Tankan release, Japanese firms expect consumer prices to rise 2.4% a year from now (vs +2.5% in the previous survey, 2.2% 3 years from now (vs prev. +2.2%), and 2.1% 5 years from now (vs prev. +2.1%). It’s also worth being aware that the release comes after the BoJ policy announcement and as markets prepare to close out for Christmas.

**UK RETAIL SALES (FRI):** The BRC gauge of retail sales rose 2.6% Y/Y in November, with the accompanying release stating that “Black Friday began earlier this year as many retailers tried to give sales a much-needed boost in November. While this had the desired effect initially, the momentum failed to hold throughout the month, as many households held back on Christmas spending”. Elsewhere, the Barclaycard consumer spending report noted “overall Retail spending grew 2.5% in November 2023, an uplift compared to the year-on-year growth in October 2023 (of 1.2%), as Clothing retailers and Department Stores received a boost due to Black Friday sales starting earlier on in the month, combined with the late arrival of seasonally cold weather”. Ahead of the upcoming release, Moody’s says that “given losses to purchasing power and low sentiment we think households spent less in the lead up to the holiday season. That said, Black Friday sales may have been particularly attractive this year given households’ broad pessimism”.

**US PCE (FRI)**: Analysts expect to see PCE inflation cooling further in November after similar outcomes seen within the CPI and PPI inflation reports. WSJ’s Fedwatcher Nick Timiraos says core PCE inflation is projected to have been a very mild 0.06% in Nov, and that could see the annual reading of core PCE fall to 3.1% in November from 3.5% in October. And it would also imply that the six-month annualised rate would have eased to 1.9%, below the Fed’s 2% price goal.