# Week Ahead 15-19th January: Highlights include PBoC MLF, China activity data, UK jobs & CPI, ECB Minutes and US Retail Sales

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- **SAT:** Taiwanese Elections.
- **MON**: Iowa Republican Caucuses, Eurogroup Meeting, Davos WEF Begins (15th-19th); Indian WPI (Dec), German Wholesale Price Index (Dec), Swedish CPIF (Dec), EZ Trade (Nov)
- **TUE**: German Final CPI (Dec), ZEW (Jan), Norwegian GDP (Nov), US NY Fed Manufacturing (Jan), Canadian CPI (Dec)
- **WED:** OPEC MOMR; UK CPI (Dec), US Import/Export Prices (Dec), Retail Sales (Dec), IP (Dec), NAHB (Jan), Chinese GDP (Q4), Chinese Retail Sales/Industrial Production (Dec)
- **THU:** ECB Minutes (Dec), ABC Republican Debate, IEA OMR; EZ Current Account (Nov), US Housing Starts /Building Permits (Dec), IJC (w/e 12th Jan), Philadelphia Fed (Jan), Japanese CPI (Dec).
- **FRI:** German Producer Prices (Dec), EZ HICP Final (Dec), US Existing Homes (Dec), Uni. of Michigan (Jan), German Ifo (Jan), Canadian Producer Prices (Dec), Retail Sales (Nov), EZ Flash Consumer Confidence (Jan)

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

**TAIWANESE ELECTIONS (SAT)**: Taiwan will head to the polls on January 13th in what could be an election which affects the country's democracy, and with it, relations with China, the US, and Europe. The main issue lies with the geopolitical stances of the three main candidates. The first is a "pragmatic worker for Taiwan independence" - current Vice President Lai Ching-te (or William Lai) of the Democratic Progressive Party (DPP). The second is the Beijing-friendly candidate Hou Yu-ih from the Kuomintang (KMT) party – Lai's main rival, and the trailing candidate Ko Wen-Je from The Taiwan People's Party (TPP) – who claims neutrality on the China stance. There is a ten-day blackout period on polls in Taiwan in the run-up to the elections. The latest poll via the Economist (updated on January 2nd) shows DPP's Lai leading with 36%, KMT's Hou second with 31% and TPP's Ko trailing with 24%. In short, the election is seen as a fight for regional influence between China and the US, with participants' focus being Beijing's reaction to the results. From a market perspective, the geopolitical implications, alongside the subsequent influence on defence and semiconductor sentiment, will likely be eyed the most. "The nightmare scenario for global security would be a regional conflict centred on an island that makes more than 90 per cent of the world's advanced microchips, vital for everything from iPhones to electric vehicles", says Politico. Other desks believe that the worst-case scenario would be a status-quo government and should not materially alter relations with China in the near or medium term. Click here for the detailed Newsquawk Primer.

**PBOC MLF (MON)**: The PBoC will conduct its 1-Year MLF operation next week which participants will be eyeing to see what the central bank decides regarding its short-term funding rates as this would serve as a leading signal for the benchmark Loan Prime Rates the following week. As a reminder, the PBoC maintained its 1-Year MLF rate at 2.50% last month as it announced CNY 1.45tln of funds which resulted in a record net monthly injection of CNY 800bln under the facility, while there had been plenty of anticipation of a potential RRR cut during Q4 2023 although this failed to materialise. Nonetheless, some are anticipating adjustments in the near future after a PBoC official hinted at tools to boost credit including the use of reserve requirements and Nomura also suggested that China is quite likely to cut its lending rates on Monday, although with the latest GDP and activity data from China scheduled next week, it may be prudent for the central bank to wait for additional clues on the health of the economy before making any policy adjustments.

**CANADIAN CPI (TUE)**: In December, BoC Governor Macklem said that declines in inflation will likely be gradual in the coming months, noting that while it has come down recently, it remains too high. He added that it was still too early to consider cutting rates, and that the BoC would only consider rate cuts when it was confident that the economy was clearly on a path back to price stability. Macklem sees inflation getting close to the 2% target later this year. When asked about the conditions for rate cuts, Macklem pointed towards core inflation arguing that the BoC needs to see a further, sustained downward move in core inflation, as well as some moderation in wage growth. The minutes of the BoC's meeting reiterated these themes, with the Council concluding that while the recent data was pointing in the right direction, considerable uncertainty remains, adding that it still might be necessary to raise the policy rate.

**UK LABOUR MARKET (TUE):** Prelim expectations are for the unemployment rate in the 3-month period to November to hold steady at 4.2%, whilst headline earnings growth is expected to cool further to 6.7% 3m-Y/Y from 7.3%, and the ex-bonus metric slip to 6.7% 3m-Y/Y from 7.2%. The previous report saw the unemployment rate unchanged at 4.2%, with payrolled employees declining 12k in November and headline wage growth in the 3M Y/Y period slow to 7.2% from 8.0%. For the upcoming release, Pantheon Macroeconomics looks for “for zero month-to-month growth in the PAYE measure of employees in December, slightly below the 0.1% average increase in the first 11 months of 2023.” On wages, the consultancy is of the view that “earnings figures will likely bring further evidence that pay growth is losing momentum, albeit not as quickly as implied by last month’s data.” From a monetary policy perspective, the release is unlikely to have much sway on the immediate policy view on the MPC, with policymakers wanting to see greater progress on slowing wage growth which will help suppress elevated services inflation.

**UK CPI (WED):** Expectations are for headline CPI to cool to 3.8% Y/Y from 3.9%, and core inflation is seen easing to 4.9% Y/Y from 5.1%. The previous report marked a significant downside surprise for price pressures in the UK, with the annual rate falling to its lowest level since September 2021. Crucially, the all-important services print declined to 6.3% Y/Y from 6.6%, which was in stark contrast to the MPC’s projection of 6.9%. For the upcoming release, analysts at Investec (which forecasts 3.5% Y/Y) expect downside for the headline rate to stem from fuel and food prices, whilst on a core basis (it forecasts 4.7%) the annual rate is expected to be dragged lower by airfares and greater discounting from retailers during the festive period. Beyond the upcoming release, Investec cautions that there will likely be “bumps in the road” to the 2%, target and forecasts an increase in the January print due to OFGEM price cap and unfavourable base effects. From a monetary policy perspective, it is still too soon for the MPC to declare victory on inflation, however, as a reference point, markets currently assign an 80% chance of a 25bps cut in May and a total of 125bps of cuts by year-end.

**US RETAIL SALES (WED)**: The consensus looks for US retail sales to rise +0.3% M/M in December, matching the rate seen in November. The ex-autos measure is seen rising +0.2% M/M in December, again matching the rate seen in November. Adobe's data for the holiday shopping season tracker alluded to strong spending conditions, with consumers shelling out USD 222.1bln online from November 1st through the end of the year (+4.9% Y/Y); online spending of USD 123.5 billion +6% Y/Y, bolstered by a strong Cyber Week. In December alone, consumers online spending was +3.7% Y/Y. On inflation dynamics, Adobe said "strong consumer spending this season was driven by net-new demand, as opposed to higher prices," and its data showed that e-commerce prices have fallen for over a year now" (-5.3% Y/Y in December 2023). Adobe notes that its data are not adjusted for inflation, but if online inflation were factored in, there would be even higher growth in top-line consumer spend.

**CHINESE GDP/RETAIL SALES/INDUSTRIAL PRODUCTION (WED)**: Wednesday 02:00 GMT will see a deluge of Tier 1 Chinese data. There are currently no expectations. The market focus will likely initially be on the Q4 GDP metrics before the December activity data is digested. The health of the Chinese economy was one of the key themes last year (which saw a myriad of support measures deployed by the nation) and is an ongoing theme against the backdrop of global growth. Analysts expect China to hit its goal of “around 5%” GDP growth target, whilst forecasts from the IMF and OECD also back that view as they pencilled in GDP growth of 5.4% (upgraded in November) and 5.2% (according to the November release) respectively. OECD added that “Monetary policy [in China] should remain supportive, with further interest rate and reserve requirement cuts as needed”, whilst warnings that “Exports will remain weak amid sluggish global growth. Consumer price inflation will remain very low, though sustained deflation is unlikely. A deeper correction in the real estate market is a key risk.” In late December, A spokesperson for China’s National Development and Reform Commission (NDRC) - China's top economic regulator - suggested "The country has the conditions and capabilities to meet its economic and social development objectives for 2023 … as China's economic recovery continues to gather steam and a series of policies take effect gradually," according to China Daily, and added that the primary focus will be placed on the forthcoming year's key growth targets. Analysts at ING “believe that the seasonally adjusted quarter-on-quarter growth rate was similar in the fourth quarter to the third last year, at about 1.3%. We think that this will result in a slight uptick in GDP growth to 5.2% year-on-year in the fourth quarter, and also 5.2% for the full-year figure – slightly in excess of the government’s 5.0% target.” The desk also expects modest further improvement in manufacturing and industrial production growth, whilst retail spending figures will be eyed for signs of resilience, although ING believes the retail metrics may not sustain above the longer-run trend growth for long.

**ECB MINUTES (THU):** As expected, the ECB opted to stand pat on rates for a second consecutive meeting with the main policy adjustment coming via the balance sheet. The Governing Council decided that reinvestments under PEPP will run at current levels during H1 (vs. previous guidance of “at least until the end of 2024”), after which, it intends to reduce the PEPP portfolio by EUR 7.5bln per month on average. Elsewhere, the statement reiterated that “policy rates will be set at sufficiently restrictive levels for as long as necessary.” However, the policy statement omitted policymaker’s prior judgement that “inflation is still expected to stay too high for too long.” The accompanying macro projections saw 2023 inflation downgraded to 5.4% Y/Y from 5.6%, 2024 cut to 2.7% Y/Y from 3.2%, and 2025 held at 1.9% Y/Y. Note, the forecasts drew criticism in some quarters given the November 23rd cut-off date, which prompted suggestions that the 2024 core inflation projection of 2.7% was too high given recent economic developments. On the growth front, 2023 and 2024 projections were cut, with this year’s GDP growth view at just 0.8%, and the 2025 forecast held steady at 1.5%. At her follow-up press conference, when questioned on the Bank’s plans for rate cuts in 2024, President Lagarde stated that the decisions will be data dependent, not time dependent, adding that policymakers will not lower their guard. Furthermore, Lagarde was clear in stating that the Governing Council did not discuss rate cuts, with policy set for a “plateau of hold.” Lagarde also noted that the Bank will need to see more evidence on wage growth given that current data shows that wages were “not declining”. When questioned on the balance sheet, the President noted that there were differing views on PEPP, whereby some Governors wanted different tapering, earlier or later. As always, given the lag between the meeting and the publication of the account, the release will be seen as stale in some quarters. Additionally, given that rates are not set to be lowered in the immediate future, their insight into the 2024 rate path will likely be limited.

**JAPANESE CPI (THU)**: Japanese nationwide inflation data for December is due next week which is expected to show a further slowdown after the National headline inflation reading slowed to 2.8% from 3.3% in November which was in line with expectations and Core CPI (ex-Fresh Food) printed its slowest annual pace since July 2022 as expected at 2.5% (prev. 2.9%). The softening of inflation was helped by a slowing of the rise in goods prices which increased by 3.3% in November vs a 4.4% rise the prior month and as inflationary supply-side factors dissipated, although services inflation continued to accelerate which suggests firms are passing on rising labour costs. In terms of the forward-released Tokyo CPI data for December which is seen as a leading indicator of the national trend, this showed core consumer prices slowed for a second consecutive month in December and by more than anticipated to 2.4% from a previously revised 2.7% reading in November, while Tokyo Core inflation fell to 2.1% from 2.3% to match the lowest since June 2022 and was helped by an 18.8% decline in energy prices.

**UK RETAIL SALES (FRI):** Expectations are for headline retail sales to contract 0.4% M/M in December, with the annual measure seen at +1.1% M/M (the core M/M is expected to be -0.5%, and the Y/Y gauge is seen +1.6%). In terms of recent retail indicators, BRC Retail Sales for December rose by 1.7% Y/Y (vs prev. 2.7%) with the consortium noting “the festive period failed to make amends for a challenging year of sluggish retail sales growth, as weak consumer confidence continued to hold back spending.” Elsewhere, the Barclaycard consumer spending report noted that “overall retail spending grew 0.6% in December 2023, a decline compared to the Y/Y growth of 2.5% in November 2023. This comes as spend growth at supermarkets and clothing retailers both decelerated on an annual basis, as consumers had likely stocked up on festive food and gifts earlier in November, taking advantage of the early discounts and deals promoted by supermarkets and retailers this year.”