Week Ahead 22-27th January: Highlights include BoJ, ECB, BoC, PBoC, PMIs, US GDP & PCE

Week Ahead 22-26th January

- **MON**: PBoC LPR (Jan); Swiss M3 (Dec), US Leading Index (Dec
- **TUE**: BoJ Policy Announcement, New Hampshire Primary; US Richmond Fed (Jan), New Zealand CPI (Q4), Australian Flash PMIs (Jan), Japanese Trade Balance (Dec)
- **WED:** BoC Policy Announcement; Japanese Flash PMIs (Jan), South African CPI (Dec), EZ, UK & US Flash PMIs (Jan), UK CBI (Jan)
- **THU:** ECB, Norges Bank, SARB & CBRT Policy Announcements, RBA Bulletin; Swedish PPI (Dec), US GDP Advance (Q4), IJC (w/e 19th Jan), New Home Sales (Dec), Japanese Tokyo CPI (Jan), German GDP Flash (Q4)
- **FRI:** BoJ Minutes (Dec); UK GfK (Jan), German GfK (Feb), EZ M3 (Dec), US PCE Price Index (Dec), Pending Home Index (Dec), German Prelim. CPI (Jan)

NOTE: Previews are listed in day order

PBOC LPR (MON): The PBoC decided to keep its 1-year MLF rate unchanged at 2.50% which was somewhat of a disappointment as a slim majority of forecasters had called for a cut although the size of funds provided under the facility was larger than estimated at CNY 995bln (exp. CNY 900bln), while the central bank also announced a couple of notably large injections through its daily open market operations in the following days after, which suggests a current preference to ensure ample liquidity rather than reduce the cost of funding. As such, the PBoC is expected to maintain its benchmark 1-year and 5-year Loan Prime Rates on Monday at their current levels of 3.45% and 4.20%, respectively, as the 1-year MLF rate serves as a fairly reliable leading indicator of the central bank's intentions for the benchmark LPR which most new loans are based on, while a recent Reuters poll showed 26 out of 27 market watchers surveyed predict no changes to the LPRs. The latest data releases from China also support the case for the central bank to remain patient after the GDP and activity data printed mixed but showed China's economy grew by 5.2% in 2023 to reach the government's official target of around 5%. Nonetheless, Chinese media still think the PBoC could cut rates and RRR during Q1 given the uneven recovery in the Chinese economy, although it is also worth noting that there was widespread speculation of a potential RRR cut during Q4 last which failed to materialise.

BOJ ANNOUNCEMENT (TUE): The BoJ is expected to maintain its policy settings of negative rates at -0.10% and QQE with YCC to flexibly target 10yr JGB yields at around 0% with a 1% upper bound reference rate for market operations, while the central bank will also release its latest Outlook Report containing board members' median forecasts for real GDP and core CPI. As a reminder, the BoJ disappointed outside bets that it could make some sort of policy tweak at the last meeting in December and instead opted to keep policy settings unchanged, as well as reiterated its dovish forward guidance and pledge that it will not hesitate to take additional easing measures if necessary. The upcoming meeting is also unlikely to involve any policy tweaks but participants will be eyeing the central bank's statement for clues regarding future policy and if there are any adjustments to members' projections in the Outlook Report as the BoJ was reportedly considering lowering its price outlook for FY24 to the mid-2% range, although sources have stated that the BoJ is expected to broadly maintain its projections that trend inflation will stay near its 2% target in the coming years and although it is seen cutting its FY24 core inflation forecast, the central bank is likely to make no major changes to its forecast that "core core" inflation will hit 1.9% in both FY24 and FY25. Furthermore, expectations for a rate cut this year by key global central banks such as the Fed and ECB effectively lessens pressure for the BoJ to normalise policy although it is still expected to exit the world's last negative rate policy with most economists forecasting April as the most likely month for the central bank to scrap NIRP.

NEW ZEALAND CPI (TUE): Q4 CPI is expected to have cooled to 0.6% Q/Q (prev. 1.8% in Q3), and 4.7% Y/Y (prev. 5.6%). Desks suggest the forecasted cooling in inflation is attributed to a fall in import prices, notably food, fuel, and airfares. That being said, analysts caution that domestic inflation remains strong and is cooling more gradually. The RBNZ is likely to concentrate on core inflation measures, which are showing signs of easing but remain at high levels, indicating ongoing concerns about inflationary pressures, according to Westpac, as they see a Q/Q metric of +0.5% and Y/Y figure of 4.7% - "Our forecast is lower than the RBNZ's projection (published back in November) with most of that difference due to prices of volatile imported items", the bank says.

BOC ANNOUNCEMENT (WED): The BoC is unlikely to move rates from the current 5.00% level at its confab in January. The BoC's latest Business Outlook Survey revealed that Canadian businesses see sales slowing as high interest rates place obstacles to consumer spending, but businesses expect inflation to ease ahead, helping the business outlook indicator to pare back a little to -3.15 from -3.45. "Firms pricing behaviour is slowly returning to normal," the BoC said, "still, wage growth on average is expected to be higher than normal over the next 12 months, often related to cost-of-living adjustments." Money markets are pricing the first BoC rate cuts in H1 of this year. Analysts at Capital Economics expect the BoC to maintain a hawkish tone at the January meeting after CPI-trim and CPI-median core inflation gauges ticked-up in December; "but those measures are arguably overstating inflation pressures," CapEco writes, and "with the economy looking weak, we continue to think that the first rate cut is coming sooner rather than later, albeit in April rather than March as we previously forecast."

UK FLASH PMI (WED): Expectations are for January’s services PMI to rise to 53.6 from 53.4 with the manufacturing print seen rising to 46.8 from 46.2. The prior release saw the December composite PMI rise to 52.1 from 50.7 with the services print advancing to 53.4 from 50.9 and manufacturing slipping to 46.2 from 47.2. The accompanying release noted “December data illustrated divergent trends across the manufacturing and service sectors. The former posted a decline in production for the tenth consecutive month and the pace of contraction accelerated since November. Service providers meanwhile indicated a solid expansion of business activity at the end of 2023”. For the upcoming release, analysts at Investec look for a slight improvement as the National Insurance Contribution cut that has been in effect since the start of the year will likely prove supportive. Other positive factors include optimism over the March budget and “the overall trend lower in borrowing rates”. For the manufacturing print, Investec expects a larger uptick but notes “in this case it is a reflection of supply disruptions in the Red Sea, rather than elevated demand that is increasing delivery times”. From a policy perspective, the key focus for the BoE remains on services inflation and wage growth. However, the PMIs could provide some insight into activity for both factors. As a reference point, the first 25bps rate cut by the BoE is priced by June with a total of 117bps of easing seen by year-end.

EZ FLASH PMI (WED): Expectations are for January’s manufacturing PMI to tick higher to 44.8 from 44.4, services to advance to 49.0 from 48.8, leaving the composite at 48.2 vs. prev. 47.6. The prior release saw the December EZ-wide composite PMI hold steady at 47.6, services tick higher to 48.8 from 48.7 and manufacturing nudge up to 44.4 from 44.2. The accompanying release noted “the Composite PMI, a reliable indicator of overall economic performance, is sounding the recession alarm for the Eurozone”. For the upcoming release, analysts at Oxford Economics note “given the latest tensions in the Middle East have disrupted major shipping lanes, delivery times in the PMIs will offer early clues on the scope of the problem”. Economists add that “in recent years, delivery times have been a good leading indicator for goods price inflation”. From a policy perspective, ECB policymakers have been in full force ahead of their blackout period attempting to walk back pricing for an aggressive 2024 cutting campaign. However, a soft outturn for the data could see some of this progress unwound. As it stands, an April cut is currently priced at around 85% with a total of 133bps priced by year-end.

ECB ANNOUNCEMENT (THU): Expectations are for the ECB to stand pat on all three of its key rates after having held the deposit rate at its current peak of 4% since October. In terms of recent economic developments, headline EZ HICP rose to 2.9% in December (vs. prev. 2.4%) amid unfavourable energy base effects from Germany. Note, the uptick is set to be a temporary one and therefore the disinflationary process is still judged to remain in place. Core inflation has continued to decline with December showing a downtick for the super-core metric to 3.4% from 3.6%. On the growth front, the prelim Q4 EZ release is not due until 30th January. However, the FY 2023 GDP release from Germany noted a prelim 0.3% Q/Q contraction for the Eurozone’s largest economy. Survey data saw the December EZ-wide composite PMI hold steady at 47.6, services tick higher to 48.8 from 48.7 and manufacturing nudged up to 44.4 from 44.2. Despite the slowing trend for inflation and subdued growth, January is seen as too soon for the ECB to commence its rate cutting cycle with policymakers attempting to dampen market expectations for an aggressive path of reductions. On which, President Lagarde has noted that too optimistic markets do not help the ECB in its inflation fight. Adding that, it is likely that the ECB will cut rates by the summer. Elsewhere, Chief Economist Lane has suggested the ECB will have key data by June to decide on rates and that changing rates too fast can be harmful. Looking beyond the current meeting, the recent dovish repricing has seen markets assign a circa 85% chance of a cut in April with a total of 135bps of cuts seen by year-end vs. circa 160bps in the aftermath of the ECB’s December meeting. Surveyed economists are slightly more hawkish-leaning with the median looking for a rate cut in June and a total of 100bps of cuts this year.

NORGES ANNOUCEMENT (THU): There are currently no analyst polls for Norges Bank’s confab next week, but the central bank’s communication, transparency, and recent data indicate a hold on current rates. To recap the prior meeting, Norges Bank defied consensus by triggering the hike to its Key Policy Rate to 4.50% from 4.25% (exp. a hold at 4.25%) but the forecast indicated that the policy rate will lie around 4.5% until autumn 2024 before gradually moving down. Interestingly, the repo path and statement do not rule out further tightening. With around a 20% chance of a 25bp move by Q2-2025 implied. However, given the recent pivot from the Fed and pronounced market pricing for global easing today's 4.50% rate is likely the peak, whilst the statement flagged a data-dependent approach and noted that “If cost inflation remains elevated or the krone turns out to be weaker than projected, price inflation may remain higher for longer than currently projected. In that case, the Committee is prepared to raise the policy rate again", but also noted, "If there is a more pronounced slowdown in the Norwegian economy or inflation declines more rapidly, the policy rate may be lowered earlier than currently envisaged." In terms of recent data, Core Y/Y for December printed at 5.5% (exp. 5.6%, prev. 5.8%) whilst headline Y/Y printed at 4.8%, matching the expectations and prior. The core Y/Y figure cooling from the prior by more than expected likely confirms that the Norges Bank's tightening cycle has concluded. But the fact that inflation remains markedly above the 2.0% target, even for the headline rate which printed at 4.8% Y/Y, means it is far too soon for rate-setters to begin discussing easing. Analysts at Rabobank suggest that the headline print also means policymakers are likely to maintain a hawkish tone at the upcoming meeting. "Currently the market is priced for rates around 35 bps lower on a 6-month view. We see this as overdone and look for the NOK to find some support as the market adjusts to a more cautious Norges Bank. We expect EUR/NOK to edge lower to 11.20 on a 3-month view", says Rabobank.

CBRT ANNOUNCEMENT (THU): There is no median consensus among analysts at the time of writing, but some desks expect a 250bps hike to the Weekly Repo Rate to push it to 45%, citing the communication given in December implying a move upward in January before ending the hiking cycle. At the prior meeting, the CBRT hiked its rate by 250bps to 42.5% as expected and noted that "The Committee anticipates to complete the tightening cycle as soon as possible. The monetary tightness will be maintained as long as needed to ensure sustained price stability." Analysts at ING share the view that January could be the last CBRT hike – "We expect inflation to remain elevated until mid-2024, with further increases above 70% on seasonal effects in January and unfavourable base effects in May. The second half of next year, on the other hand, will likely see a sharp downtrend – reflecting this year's high base and the further impact of tighter policy, pulling inflation down to 40-45% at year-end. In this environment, following one more hike in January, we expect the CBT to remain on hold until the third quarter of next year", says the bank.

TOKYO CPI (THU): Core CPI Y/Y for January is expected at 1.9% (prev. 2.1%), according to the median estimate of 18 economists polled by Reuters, with analysts citing a cooling in energy and food inflation, with "government subsidies on energy bills and a high base last year contributing as well", according to ING. The headline CPI Y/Y has no forecasts at the time of writing (prev. 2.4%). The Tokyo CPI is seen as a precursor to the nationwide release seen around two weeks later. The Tokyo CPI release also comes after the BoJ's first meeting of the year whereby the central bank is expected to maintain policy settings. "Inflation will likely slow further in January and the cautionary mood following the recent earthquake will prevail", ING says.

US GDP (THU): The 1st estimate of Q4 GDP is expected to show 2.0% growth, easing from the Q3 growth of 4.9% with current analyst forecasts ranging between 1.3-2.8%. Participants will also be watching the PCE and Core PCE prints to gauge price action in the fourth quarter, albeit more attention will lie on the more timely December PCE report due the following day. For GDP, the Atlanta Fed GDPNow estimate is tracking Q4 growth at 2.4%, above the 2.0% analyst consensus. The estimate was revised up to 2.4% from 2.2% after the Retail sales, Industrial Production and Import /Export prices data were released earlier in the week, which notably saw a large beat in the Retail Control metric, which feeds into the consumer spending section of GDP. In terms of Fed commentary, after a strong Q3 GDP print, Fed's Logan said she expects a much slower Q4 2023 reading (vs Q3) and her contacts "consistently report that growth is settling down—not collapsing, not heading toward recession, but settling down." The Fed median dot plot currently expects real GDP to ease to 1.4% growth by the end of 2024, before picking back up slightly throughout 2025 to 1.8%.

US PCE (FRI): The consensus view is for US core PCE to rise +0.2% M/M in December. WSJ Fedwatcher Nick Timiraos says that, based on the CPI and PPI data for December, core PCE is projected to have been mild last month. If the data is in line with expectations, the annual rate of PCE would fall to 2.9% from 3.2%, Timiraos says, while the 3-month and 6-month annualised rates of core PCE inflation would fall to 1.5% and 1.9%, respectively. In terms of the drivers, Moody's analysts say "energy prices will continue to put downward pressure on the headline index, as strong output from the US has worked to offset the risk of a positive price shock from turmoil in the Middle East and OPEC production cuts." Moody's thinks services continue to put upward pressure on prices while goods prices are declining. "The downward trend in goods prices is despite growing supply-chain disruptions linked to low water levels in the Panama Canal and attacks from Houthi rebels from Yemen in the Suez Canal," it writes, "services-related price pressures are broad-based, and nonenergy service inflation will positively contribute to the core PCE in December."