Week Ahead 5th-9th February: Highlights include RBA, Chinese inflation, US ISM Services PMI and US annual CPI revisions

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- **MON**: Japanese Jibun Final Composite/Services PMI (Jan), Chinese Caixin Final Services PMI (Jan), German Trade Balance (Dec), EZ/UK/US Final Composite/Services PMI (Jan), US ISM Services PMI (Jan)
- **TUE**: RBA Policy Announcement, EIA STEO, US Democratic Primary - Nevada, German Industrial Orders (Dec), EZ Construction PMI (Jan), EZ Retail Sales (Dec), New Zealand Unemployment (Q4)
- **WED:** NBP Policy Announcement, Riksbank Minutes (Feb), Swiss Unemployment (Jan), German Industrial Output (Dec), UK Halifax House Price (Jan), Italian Retail Sales (Dec), US International Trade (Dec), Canadian Trade Balance (Dec)
- **THU:** RBI, Banxico & CNB Policy Announcement, CBRT Inflation Report (Jan), US Republican Caucus - Nevada, Virgin Islands, Chinese CPI/PPI (Jan) & M2/New Yuan Loans (Jan), New Zealand Inflation Forecasts (Q1)
- **FRI:** German Final CPI (Jan), Norwegian CPI (Jan), Canadian Employment (Jan). Holiday: China (New Year), Hong Kong

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NOTE: Previews are listed in day order

CHINESE CAIXIN SERVICES PMI (MON): The January data will be in focus as a gauge of sentiment in the Chinese services sector with eyes on the anecdotal commentary ahead of the Chinese inflation figures on Thursday. There are currently no expectations for the release, whilst the prior printed at 52.9 in December (vs 51.6 in November). The January Caixin Manufacturing metric matched forecasts at 50.8 (vs 50.8 in December). The accompanying commentary with the manufacturing release suggested “Overall, the manufacturing sector continued to improve in January, with both supply and demand increasing... However, employment remained in the contraction zone, price levels were subdued, and deflationary pressures persisted”. The Senior Economist at Caixin also said “Given there is still room for further adjustments in fiscal and monetary policies, policy measures need to be strengthened.” Analysts at ING say “a small uptick can be expected” can be expected in the Services PMI.

US ISM SERVICES PMI (MON): S&P Global's flash PMI data for January showed US services business activity rising to a seven-month high at 52.9 from 51.4 in December. "Businesses in the US signalled a stronger upturn in activity at the start of the year, with the expansion driven by service providers, as manufacturers continued to see a drop in production amid intensifying supply issues," it said. "Nonetheless, a broad-based improvement in demand conditions was reported, as firms reported stronger new order growth for both goods and services, helping push business confidence for the year ahead to a 20-month high." With regards to pricing dynamics, S&P's data showed "service providers signalling the slowest rise in output charges in the current sequence of inflation which began in June 2020 amid efforts to price competitively and drive new orders."

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep its Cash Rate Target unchanged at 4.35% when it holds its policy meeting next week with money markets pricing a 91% expectation for no change to the Cash Rate and just a 9% expectation for a 25bps cut. This will be the first meeting since the revamp at the RBA took effect in which the central bank switched to just 8 meetings a year from the previous 11 meetings although the meetings will now be held over two days and the post-meeting statement will be issued by the board instead of the RBA Governor. Furthermore, RBA Governor Bullock will conduct a press conference to explain the decision after each board meeting which will begin an hour after the policy announcement, while the central bank will also release its quarterly Statement on Monetary Policy at the same time as the outcome of board meetings in February, May, August and November instead of the following Friday. As a reminder, the RBA unsurprisingly kept the Cash Rate unchanged at the last meeting in December and reaffirmed its forward guidance that whether further tightening is required to ensure that inflation returns to the target in a reasonable timeframe will depend upon data and evolving assessment of risks, while it 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. The commentary from the central bank lacked any major hawkish surprises which some were anticipating given the more forceful comments on inflation from RBA Governor Bullock in the weeks leading up to the meeting. The upcoming meeting is also not expected to involve any policy tweaks although market participants will get a slew of commentary from the policy statement, quarterly SoMP and press conference to scrutinise for clues on future policy.

RIKSBANK MINUTES (WED): Overall, a dovish hold from the Riksbank with rates kept at 4.0% accompanied by a widely flagged increase to bond sales. However, this was to just SEK 6.5bln (prev. 5.0bln) shy of SEB's 7-8bln consensus. The main development was the view that inflationary pressures are going to continue to decline ahead and as such the risk of inflation becoming entrenched has lessened. Given this, the board said that rates will likely be cut sooner than November's forecasts indicated (Nov. implied no 2024 cut) and added additional dovishness by stating "If the prospects for inflation remain favourable, the possibility of the policy rate being cut during the first half of the year cannot be ruled out.". Albeit, this was caveated a touch by the assessment that contractionary policy is still needed currently. Next, we look to the minutes on February 7th to see if any members provided a specific meeting/period for the first reduction and thereafter the March MPR for a formal update to the forecasts; for reference, the likes of SEB forecast the first cut in May.

RBI ANNOUNCEMENT (THU): The RBI is expected to keep its Repurchase Rate unchanged at 6.50% and maintain its stance of remaining focused on the withdrawal of accommodation when it concludes its 3-day policy meeting next week which will be the final policy decision in the current financial year. As a reminder, the RBI kept rates unchanged at the previous meeting in December with the decision made through a unanimous vote and 5 out of 6 MPC members voted in favour of maintaining the policy stance of remaining focused on the withdrawal of accommodation to ensure that inflation progressively aligns to the target while supporting growth. MPC external member Varma once again expressed reservations on the policy stance part of the resolution as he believes a stance is not needed at all at this stage and stated that if there is a stance, it should be neutral. Nonetheless, the rest of the MPC remains aligned in their focus on the withdrawal of accommodation and RBI Governor Das also noted that they have to remain highly alert to any signs of generalisation of price impulses that may derail the ongoing process of disinflation, while he also stated that they have to remain vigilant and ready to act effectively in their journey towards the 4% inflation target.

BANXICO ANNOUNCEMENT (THU): Banxico's private sector analyst poll reveals an expectation that headline inflation will end this year at 4.17%, revised up from the 4.0% seen in the previous poll, as strong wage growth fuels inflation gains; the forecast for core inflation, however, was left unchanged at 4.06%. Many analysts do not expect headline inflation to fall back into the Banxico's 2-4% tolerance band until later this year. Accordingly, the timing may not be right for the central bank to cut rates next week. Analysts still see the Banxico's benchmark rate ending this year at 9.25%. Moody's says that although most LatAm economies are expected to report declining inflation rates for January, indicative of an overall improvement in their economies, not all are showing positive trends; Mexico's CPI is seen rising, which should result on Banxico maintaining its policy rate at 11.25% in February.

CHINESE INFLATION (THU): There are no expectations at the time of writing for the Chinese CPI and PPI metrics, but the data will be eyed as a diagnosis of demand – with China experiencing a period of deflation woes. In terms of the December prints – CPI Y/Y came in at -0.3% (vs -0.4% in November), M/M at +0.1% (vs +0.2% in November), and PPI Y/Y at -2.7% (vs -2.6% in November). The desk at ING says "CPI inflation is expected to remain in negative territory for perhaps the final month, impacted by the Lunar New Year effect. High-frequency data indicates that food prices edged down in sequential terms, but at a slower pace than the two previous months." Moody's Analytics meanwhile strips out the volatility from food and fuel and suggests "core consumer prices have been creeping higher. In seasonally adjusted terms, prices were likely flat in January relative to December, although given falls in the second half of last year, that would still see prices 0.3% lower than in January 2023". Moody's Analytics see January PPI -2% Y/Y and say "Businesses are offering discounts to keep production lines running and the lights on in their factories. As these discounts are coming out of savings from reduced commodity and energy costs, profit margins should be intact." The Caixin Manufacturing PMI for January highlighted that "Price levels remained weak. Increases in input costs were limited due to the slight increase in raw material prices. The measure for input costs hit the lowest level since August. Output prices were even weaker, as growing market competition constrained companies' bargaining power, pushing the gauge back into contractionary territory."

NORWEGIAN CPI (FRI): At the January meeting the Norges Bank judged inflation to be broadly in-line with projections and that, accounting for the December inflation print [Core 5.5% Y/Y vs exp. 5.6% (prev. 5.8%)], policy is sufficiently restrictive to return inflation to target within a reasonable time horizon. On that, December's release was judged to have shown a sufficient magnitude of cooling to confirm policy had peaked but was above target to a degree which required the Norges Bank to state that "the policy rate will likely be kept at that level for some time ahead". While January's print will be scrutinised, before the March MPR we will also receive February's inflation figure and the latest regional network report, timelier inputs which will have a larger weighting than January's inflation on the March deliberations and by extension any alterations to the repo path.

US ANNUAL CPI REVISION (FRI):" The US CPI seasonal factor revisions are released on Friday, and will cover data from 2019-2023. Oxford Economics says that the revisions will likely be modest, "but should show that inflation was on a better trajectory heading into this year than thought." The consultancy notes that historically, these revisions have been small, but there have been outliers. OxEco says "the monetary policy implications of the revisions to the CPI will depend on what they mean for the PCE deflator, which is the measure of inflation that the Fed targets." OxEco replicated the BLS seasonal adjustment process using the actual non seasonally adjusted components of the CPI, and then, mapped the prices that are used as source data for the PCE deflator; "our bottom-up approach to estimating the PCE deflator showed that the implications of the revisions to the source data will be minor, suggesting it will not tip the scales toward the Fed cutting rates earlier or later than we forecast."

CANADIAN EMPLOYMENT (FRI): Recent S&P Global PMI data noted firms continued to cut employment at the start of the year, albeit only marginally. "Where employment was reduced, this was linked to lower production requirements and sufficient capacity," the report said, adding that "backlogs of work were reduced for an eighteenth successive month according to the latest data." As always, there will be focus on remuneration levels. The BoC recently noted that labour market conditions have eased, with job vacancies returning to near pre-pandemic levels and new jobs being created at a slower rate than population growth. However, it notes that wages are still rising around 4-5%. In December, average hourly wages for permanent employees rose to 5.7% Y/Y from 5.00%. Officials have also warned that if wages continued to grow in that range, and productivity growth remains weak, inflationary pressures could increase, and analysts say that could place obstacles in the path of looser monpol ahead.