Week Ahead 19th-23rd February: Highlights include minutes from the FOMC, ECB and RBA, Flash PMIs and PBoC

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- **MON**: Swedish CPIF (Jan), Canadian Producer Prices (Jan), Holiday: US (President's Day) , EU Red Sea Policing Strategy
- **TUE**: PBoC LPR, RBA Minutes (Feb), EZ Current Account (Dec), Canadian CPI (Jan)
- **WED:** FOMC Minutes (Jan), UK PSNB (Jan), South African CPI (Jan), EZ Flash Consumer Confidence (Feb), New Zealand Trade (Jan), Australian Flash PMIs (Feb)
- **THU:** CBRT Policy Announcement, EZ Final HICP (Jan), ECB Minutes (Jan) EZ, UK & US Flash PMIs (Jan), Canadian Retail Sales (Dec)
- **FRI:** Eurogroup Meeting, German Detailed GDP (Q4), Ifo (Feb), Import Prices (Jan), EZ M3 (Jan), UK CBI Trends (Feb), Holiday: Japan

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NOTE: Previews are listed in day order

EU RED SEA STRATEGY (MON): EU Foreign Ministers are poised to meet on February 19th to greenlight the EU's mission to protect commercial vessels in the Red Sea from Iran-backed Houthi rebel attacks. In a bid to differentiate the EU mission from the US-UK strike operations, EU Foreign Policy Chief Borrell clarified that the mission is "purely defensive," and the EU's " purpose is not to conduct any kind of attack, but just to defend." That being said, Houthis have been threatening Western commercial vessels, with one of the most recent attacks being against a Marshall Island-flagged Greek carrier. Reports suggest Italy is spear-heading the mission, which will see a patrol of the waters between the Red Sea and the Persian Gulf. Aside from the risk of escalating and expanding tensions, the macro implications of the Red Sea situation come in the form of higher costs. IMF research suggests that the recent attacks have led to shipping disruptions and increased costs, while route costs between Asia and Europe have more than doubled. Analysts at MSCI highlight two possible downside-risk scenarios linked to surging costs of freight: 1) "Delayed rate cuts: Higher freight costs push up inflation and ECB rate cuts are not expected before the third quarter of this year. The impact on the economy and risk assets is muted", and 2) "Minor economic damage: Surging freight costs contribute to higher inflation but also cause some damage to the European economy. The ECB rate cuts come later than current market expectations, but sooner than in the first scenario because of the economic slowdown."

PBOC MLF(MON)/LPR (TUE): The PBoC will conduct its 1-Year MLF operations and announce its Loan Prime Rates next week which participants will be eyeing if there are adjustments to rates from their current levels with the 1-year MLF rate currently at 2.50%, while the 1-year and 5-year LPRs are currently at 3.45% and 4.20%, respectively. As a reminder, the PBoC previously kept the rate on its 1-Year MLF unchanged at 2.50% to the disappointment of the slim majority of forecasters calling for a cut and it also refrained from any adjustments to the benchmark LPRs but announced a couple of days after to lower the Reserve Requirement Ratio by 50bps which took effect earlier and was said to have released CNY 1tln into the economy. As such, Chinese press has speculated that the PBoC could cut the MLF rate during Q1 following its recent RRR cut, although it could also be argued that the central bank's recent actions and numerous support pledges by the PBoC and Chinese authorities lessen the urgency for immediate action. The recent key data releases from China have been mixed and could provide an argument for either a cut or a continued pause as official Manufacturing PMI data in January matched estimates and remained in contraction territory for the fourth consecutive month at 49.2 (prev. 49.0) but Non-Manufacturing PMI accelerated to 50.7 (prev. 50.4), while the latest Chinese CPI data showed a worsening of the nation's deflation.

RBA MINUTES (TUE): The RBA will release the minutes from the February 6th meeting where it unsurprisingly kept rates unchanged at 4.35% and maintained its hawkish rhetoric as it reiterated that the board remains resolute in its determination to return inflation to the target and that a further increase in interest rates cannot be ruled out. It also repeated that returning inflation to the target within a reasonable timeframe remains the board's highest priority and although it noted that inflation continued to ease in the December quarter, it added that inflation remains high at 4.1%. Furthermore, it stated the Board needs to be confident that inflation is moving sustainably towards the target range and that inflation is still weighing on people's real incomes and household consumption growth is weak, as is dwelling investment. RBA Governor Bullock also stuck to the hawkish script during the press conference as she noted that everyone is focused on inflation and there is still more work to do with a little way to go to get inflation down. Bullock added that risk remains inflation expectations could drift further and they are not ruling anything in or out on policy, while they need to be convinced on inflation before thinking of cutting rates. However, she provided a more balanced tone during her appearance before the House of Representatives Standing Committee on Economics a few days after where she reiterated the Board is focused on bringing inflation down and that they have some way to go to meet the inflation target with the inflation challenge not over. Bullock also stated the Board hasn't ruled out a further increase in interest rates but neither has it ruled it in, as well as noted that inflation doesn't need to be in the 2%-3% band for them to think about rate cuts and if consumption slows more quickly than expected, it will be an opportunity to cut rates.

CANADIAN CPI (TUE): The previous inflation data for December was a rise in headline CPI to 3.4% Y/Y from 3.1%, while an average of the three BoC core inflation measures rose to 3.73% Y/Y from 3.66%. The January data due next week will be framed in the context of the BoC's policy reaction. In recent remarks, BoC chief Macklem said that monpol was working, but needs more time in order to work through the price pressures that remain, with current policy rates at 5.00% judged as a sufficient level to 'take the steam' out of inflation. Macklem expected the path back to 2.0% to be slow and noted that risks remained. The Governor seems concerned about the persistence of inflation. Those concerns were reflected in the January meeting minutes, where officials were 'particularly' concerned about persistent inflation, and warned against a premature lowering of interest rates. The risks of this persistence means that policy rates would be required to remain restrictive for longer. Overall, officials see a mixed picture on underlying inflation and think more time is needed for rates to work.

FOMC MINUTES (WED): At its meeting, the Fed left rates unchanged at 5.25-5.5%, as expected, but made key changes to its statement, which now reflects a more balanced outlook on rate cuts vs rate hikes. Its description of economic growth was upgraded, now describing economic activity as "expanding at a solid pace"; its reference to the US banking system being "sound and resilient" and its commentary that tighter financial and credit conditions will likely weigh on the economy were both removed. It added a line noting that the risks to achieving its employment and inflation targets were moving into better balance. The statement also removed guidance that "in determining the extent of any additional firming that may be appropriate" to a more dovish/balanced view that "in considering any adjustments to the target range", but it added a hawkish caveat that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2%." At his post-meeting press conference, Chair Powell said the policy rate was likely at its peak for this cycle, and it will likely be appropriate to begin reducing rates "sometime this year" if the economy evolves as expected; he offered the caveat that the Fed was prepared to maintain its current policy rate for longer, if needed. The Fed Chair said reducing rates too soon, or too much, could reverse the progress the central bank has made in lowering inflation, but at the same time, reducing rates too late could unduly weaken the economy. He judged inflation had "eased notably," and that risks to achieving the Fed's goals were moving into better balance. The Fed chief also added that low inflation readings in H2 2023 were welcome, but it needs to see continued evidence in order to gain confidence that it was returning to target. Powell stated that a March rate cut was not likely, and was not policymakers' base case.

BOK ANNOUNCEMENT (THU): BoK is to conduct its latest policy meeting next week with the central bank likely to maintain its 7-Day Repo rate unchanged at the current level 3.50%. As a reminder, the BoK unsurprisingly kept rates unchanged at its last meeting in January through a unanimous decision but removed the phrase "To judge the need to raise the base rate further" from its policy statement which suggests that rate increases are currently off the table, while BoK Governor Rhee said he sees less need for rate hikes but also warned that any premature rate cut could adversely affect the economy and it is best to wait until inflation stabilises. Rhee also stated that five board members see the terminal rate at 3.50%, which is the current level, and that most board members agreed to deploy targeted support measures to help small to medium-sized firms. Furthermore, Governor Rhee stated it is too early to discuss rate cuts, as well as noted that board members saw no rate cuts for the next three months and that he viewed it to be difficult for a rate cut to happen in six months or more, which therefore suggests an adjustment is highly unlikely in the near-term.

CBRT ANNOUNCEMENT (THU): There are currently no analyst expectations as to what the Central Bank may opt to do under new governor Fatih Karaham. Former Governor Hafize Gaye Erkan, who hiked rates from 8.5% to 45% during her tenure, announced her resignation on February 2nd amid controversy surrounding her family's unofficial involvement in the bank's administration. At the last meeting, the final under Erkan, the Central Bank raised rates by 250bps and announced an end to its tightening signal – "the Committee assesses that the monetary tightness required to establish the disinflation course is achieved and that this level will be maintained as long as needed", the statement said. The newly appointed governor Karaham delivered a speech after taking the top job, in which he reiterated the CBRT's pledge to maintain a tight monetary stance to get inflation under control – signalling continuity. Data-wise, January CPI printed hotter than expectations and the prior with the Y/Y at 64.86% (exp. 64.52%, prev. 64.77%), and the M/M at 6.70% (exp. 6.49%, prev. 2.93%). Analysts at CapEco warned that "The figures highlight the continued strength of services inflation and may put pressure on new central bank governor Karaham to restart the central bank's tightening cycle." CapEco however expect the policy rate to remain at 45%, but suggests "The arguments in favour of restarting the tightening cycle with another interest rate hike later this month are compelling and would underline the central bank's commitment to tackle inflation – and help to build Governor Karaham's credibility."

UK FLASH PMIS (THU): Expectations are for the services PMI to hold steady at 54.3 and for manufacturing print to rise to 47.5 from 47.0. The prior report noted that "UK business activity growth accelerated for a third straight month in January… marking a promising start to the year. The survey data point to the economy growing at a quarterly rate of 0.2%." For the upcoming release, Investec notes that while it does not expect that manufacturing has been "fixed" in the prior month, the rate of decline is likely to have continued to ease. In contrast, services likely continued its expansion at a healthy rate, with support from lower market Bank rate expectations which will have pushed down longer-term borrowing costs. Furthermore, the desk also talks up the potential positive spending impact from the NIC reduction. Investec expects that PMI data will augur positive growth in Q1, and therefore, end the H2 2023 recession. From a policy perspective, services inflation and wage growth remains at the forefront of thinking for the MPC. However, a strong outturn could see rate cut expectations further pushed back with the first 25bps cut by the BoE not fully priced until August with a total of 71bps of loosening seen by year-end.

EZ FLASH PMIS (THU): Expectations are for the manufacturing PMI to rise to 47.1 from 46.6, services to increase to 48.7 from 48.4, leaving the composite at 48.5 from a previous 47.9. The prior report noted that "business activity in the euro area fell at the slowest rate for six months in January…albeit with downturns persisting in both manufacturing and service sectors amid further falls in new business." For the upcoming release, Investec says that consumer-facing businesses should benefit from increasing household purchasing power, while the global manufacturing backdrop "looks a little less gloomy now." That said, it points out that the outlook for Germany, and to a lesser extent France, both look poor. As such, Investec suggests that any pick-up in the upcoming data is likely to be marginal, though still should improve as the year progresses. From a policy perspective, inflation and expectations over wage growth remain the core focus for the Governing Council; a soft report could prompt a dovish swing in market pricing. As it stands, April is seen as a coin flip for a 25bps cut with the first reduction fully priced in June. As a whole, 2024 is expected to see 109bps of policy loosening.

ECB MINUTES (THU): As was widely expected, the ECB opted to stand pat on all three of its key rates. The initial policy statement passed with little in the way of fanfare, as the Governing Council said declining trends in underlying inflation had continued, and that past interest rate increases continue to transmit forcefully into financing conditions. At the subsequent press conference, President Lagarde noted that it was "premature" to talk about rate cuts, adding that the ECB will be data-dependent and not fixated on the calendar. On wages, Lagarde suggested that data was 'directionally good' and the Bank is not seeing any second-round effects. However, she followed up with a judgement that the ECB needed to be further along the disinflation process before it can be confident that inflation is moving back towards target sustainably. Given the lack of incremental developments at the meeting, and how markets are focused more on data points rather than stale ECB communications, the account will likely pass with little in the way of fanfare.