Week Ahead 26th February - 1st March: Highlights include US PCE, ISM Manufacturing PMI, RBNZ policy announcement, EZ, Australia and Japan CPI

Week Ahead 26th February - 1st March

- **MON**: US New Home Sales (Jan), Dallas Fed (Feb), Japanese CPI (Jan), UK Nationwide (Feb)
- **TUE**: US Democratic Primary - Michigan; German GfK (Mar), US Durable Goods (Jan), Consumer Confidence (Feb), Richmond Fed (Feb)
- **WED:** RBNZ Policy Announcement, Australian CPI (Jan), Swedish PPI (Jan), EZ Consumer Confidence Final (Feb), US GDP 2nd/PCE Prices Prelim. (Q4), Japanese Retail Sales (Jan)
- **THU:** Australian Retail Sales (Jan), US PCE (Jan), Canadian GDP (Q4)
- **FRI:** Chinese NBS PMIs (Feb), EZ CPI (Feb), US ISM Manufacturing PMI (Feb).

NOTE: Previews are listed in day order

JAPAN CPI (MON): National Core CPI is seen easing to 1.8% Y/Y in January from 2.3% in December, with base effects being one factor of the expected cooling. Using Tokyo CPI for January as a proxy, the data showed a notable slowdown, surprising market expectations with a decrease to 1.6% Y/Y (exp. 2.0%, prev. 2.4%). The downturn marked the first time since March 2022 that inflation in Tokyo has dipped below 2.0%, significantly cooling from the same period last year, when it reached a peak of 4.4%. The 0.8ppts decline in the headline inflation rate was primarily driven by a slowdown in food and services inflation, which contributed to just over 70% of the decrease, while a fall in energy prices continued to exert downward pressure. Core Tokyo CPI also printed sub-forecasts at 1.6% Y/Y (exp. 1.9%, prev. 2.1%).

RBNZ ANNOUNCEMENT (WED): The RBNZ will likely keep the Official Cash Rate unchanged at the current level of 5.50% with money markets pricing around a 70% chance for no change in rates and about a 30% probability for a 25bps hike, while a Reuters survey showed 27 out of 28 economists forecast rates to maintained at the current level and just one called for a 25bps hike. Nonetheless, a rate increase cannot be ruled out with the meeting seen as potentially live after the central bank’s hawkish signal at the last meeting and ANZ Bank also recently forecasted the RBNZ to deliver back-to-back hikes through to April to lift the OCR to 6.00%. As a reminder, the RBNZ kept rates unchanged as unanimously forecast during the last meeting in November although its language was hawkish as it stated that inflation remains too high and the committee remains wary of ongoing inflationary pressures, as well as noted that if inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further. In addition, the central bank's OCR projections were lifted to suggest risks of a further hike with the OCR view for March 2024 raised to 5.63% from 5.58% and the view for December 2024 lifted to 5.66% from 5.50%, while it also raised the March 2025 OCR forecast to 5.56% from 5.36%. Furthermore, Governor Orr stated that risks to inflation are still more to the upside and they did discuss raising rates at that meeting but also stated they've been adamant on holding rates and that their projection shows an upward bias to rates but it is not a done deal. The central bank’s rhetoric since then has continued to toe the hawkish line with Governor Orr noting that interest rates are restricting spending and that levels of core inflation remain too high, while he also stated a flexible approach to inflation targeting with a medium-term focus remains appropriate and that bringing levels of core inflation back in line with the bank's 1-3% target is an important part of bringing inflation back to the 2% midpoint. Other officials have also provided a similar tone which is hawkish but doesn’t suggest an urgency to act as Chief Economist Conway noted recent economic data suggests monetary policy is working with the economy slowing and inflation easing, but they still have a way to go to get inflation back to the target midpoint of 2%, while Deputy Governor Hawkesby commented that New Zealand's financial system remains strong and that the system can cope with high interest rates. The key data releases from New Zealand support the argument for a pause as GDP in Q3 showed a surprise contraction Q/Q at -0.3% (exp. 0.2%) and Y/Y at -0.6% (exp. 0.5%), while CPI in Q4 slowed as expected to 4.7% from 5.6% and the latest inflation forecasts were also reduced with 1-year and 2-year inflation expectations cut to 3.22% and 2.50% from 3.60% and 2.76%, respectively. This would suggest less pressure for the central bank to resume its tightening cycle although chances of a hike cannot be dismissed given that inflation remains above the RBNZ’s 1%-3% medium-term target and the latest Labour Cost Index data was also firmer than expected.

AUSTRALIA CPI (WED): The Monthly CPI Indicator is forecast to tick higher to 3.5% Y/Y in January from 3.4% in December. Analysts warn that despite the stronger momentum, it reinforces the fact that both Quarterly and Monthly CPI point to easing inflation pressures faster than what was initially expected towards the back end of 2023. Due to base effects, Westpac sees the annual pace lifted from 3.4% to 3.9% in January. “Being the first month of the quarter, the January CPI will predominately serve as an update on durable goods prices such as garments, furniture and furnishings, household textiles, and household appliances (many of which are anticipated to fall) but very few services prices” it writes.

AUSTRALIA RETAIL SALES (THU): Prelim Retail Sales are forecast to rise +1.7% M/M (prev. -2.7%). Analysts highlight that the Australian Bureau of Statistics (ABS) has identified issues with measuring changes in seasonality and sales patterns, making the metric prone to revisions. Insights from the Westpac Card Tracker suggest that this weakness persisted into January, though there was a slight improvement in sales for the month. Westpac expects the metric at +0.3% M/M, and warns that December's update included revisions to previous estimates, indicating the possibility of further revisions in January's data.

US PCE (THU): The rate of PCE inflation is seen picking up in January, with the consensus looking for +0.3% M/M (prev. +0.2%), while the core PCE print is seen +0.4% M/M (prev. +0.2%). Traders are cognizant of the CPI series surprising to the upside in January (headline CPI was +0.3% M/M vs an expected +0.2%, while the core measure rose +0.4% M/M vs an expected +0.3%), but Capital Economics said "the strong reaction to the January CPI data demonstrates that markets still don't fully comprehend that the Fed is focused on the alternative PCE measure of inflation." CapEco sees core PCE inflation falling to 2.7% Y/Y from 2.9% and thinks it is on track to hit the Fed's 2.0% inflation goal by May. "Since Fed officials have repeatedly said they will begin loosening policy before the PCE measure returns to target, that suggests the odds of a May rate cut are higher than the less than 50% probability now implied by fed funds futures," the consultancy added.

CHINA PMIs (FRI): Last time out, the NBS Manufacturing printed at 49.2, Non-Manufacturing at 50.7, Composite at 50.9, and Caixin Manufacturing at 50.8. This month’s data will be eyed to gauge the health of the Chinese economy, although will likely not encapsulate the five-year Loan Prime Rate (LPR) cut at the start of the week. Nonetheless, desks expect the data to remain broadly stable. ING sees manufacturing dipping to 49.1 from 49.2, and says “the Lunar New Year effect could act as a drag on the February data as factories shut down for the break. This year’s eight-day holiday is also a day longer than normal. The PMI will likely come in below the critical 50 threshold for the fifth consecutive month, but the non-manufacturing PMI on the other hand should paint a more favourable picture. A strong recovery in travel and tourism over the Lunar New Year period bodes well for services sectors, and we expect an uptick from 50.7 to 51.0.”

EZ CPI (FRI): Expectations are for headline Y/Y HICP to decline to 2.5% from 2.8% with the super-core metrics expected to decline to 3.0% from 3.3%. The prior release saw the headline tick lower to 2.8% from 2.9% amid a downtick in energy prices, whilst good prices continued to decline and services inflation remained elevated at 4%. For the upcoming report, analysts at ING note that doubts about the pace of inflation declines have increased in recent weeks and therefore markets should not "expect a big drop this month outside of some base effects". As always, consensus for the EZ-wide metric will be shaped by regional releases released earlier in the week with French, German and Spanish numbers all due on Thursday. From a policy perspective, market pricing near-enough fully prices a 25bps cut by the ECB at the June meeting with a total of 88bps of loosening seen by year-end. A soft release could prompt a dovish repricing. However, ECB policymakers are unlikely to endorse such a shift in expectations with the Governing Council wanting to see Q1 wage metrics which will not be released until after the April meeting.

US ISM MANUFACTURING PMI (FRI): The consensus currently looks for a little changed reading (49.1 expected, matching the prior). S&P Global's PMI series saw flash manufacturing rise to 51.5 in February (prev. 50.7), with the data compiler noting the sharpest upturn in the health of the goods-producing sector since September 2022, with the expansion supported by a return to output growth and quicker increases in new orders and employment. Easing pressure on supply chains and better weather conditions underpinned the performance in February. "In line with stronger demand conditions, producers reduced their input buying only fractionally and at the slowest pace since November," S&P said, adding that "optimism in the outlook led firms to build stocks of purchases and finished goods, as both returned to growth in February, with firms indicating the first expansion in pre-production inventories since August 2022."

Disclaimer

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com