Week Ahead - 16th-20th September 2024

Highlights include FOMC, BoJ, BoE, US & UK Retail Sales, UK, Canada & Japan CPI, Australian jobs and New Zealand GDP

- **SAT**: China Activity Data (Aug)
- **MON**: N/A
- **TUE**: EZ/German ZEW (Sep), US Retail Sales (Aug), Canadian CPI (Aug), US Industrial Production & Manufacturing Output (Aug), Business Inventories (Jul), NAHB Housing Index (Sep)
- **WED**: FOMC & BCB Policy Announcements; Japanese Trade Balance (Aug), UK CPI (Aug), Swedish Unemployment (Aug), South African CPI (Aug), EZ HICP Final (Aug), US Building Permits/Housing Starts (Aug), New Zealand GDP (Q2)
- **THU**: BoE, Norges Bank, SARB & CBRT Policy Announcements; Australian Employment (Aug), EZ Current Account (Jul), US IJC (w/e 14th Aug), Philadelphia Fed (Sep), Existing Home Sales (Aug)
- **FRI** PBoC LPR, BoJ Policy Announcement, Quad Witching; UK GfK (Sep), Japanese CPI (Aug), UK PSNB (Aug), Retail Sales (Aug), Canadian Producer Prices (Aug), Retail Sales (Jul), EZ Consumer Confidence Flash (Sep)

CHINESE ACTIVITY DATA (SAT): Retail Sales for August are forecast at 2.5% (prev. 2.7%), Industrial Output is expected at 4.8% (prev. 5.1%) and Urban Investments is seen at 3.5% (prev. 3.6%). The data will be keenly watched to diagnose the health of the Chinese economy after the recent softer-than-expected CPI and lower-than-expected Imports reinforced an ailing Chinese economy. Softer prints could prompt more calls for more stimulus. It's also worth noting that China will not be reacting to the data until Wednesday given the mid-Autumn festival market holidays on Monday and Tuesday.

US RETAIL SALES (TUE): Analysts expect US retail sales to rise +0.1% M/M in August (prev. +1.0%), with the ex-autos measure seen rising +0.3% M/M (prev. +0.4%). Bank of America's monthly consumer checkpoint data noted that aggregated credit and debit card spending per household rose 0.9% Y/Y in August (prev. -0.4% Y/Y in July), with monthly spending -0.2% M/M (prev. +0.3% in July). "In our view, this reflects a normalisation of consumer spending as opposed to a weakening," BofA writes, "within the total, services spending momentum remains stronger than goods." The bank also notes that housing cost inflation is easing for both homeowners and renters, with its data on 'new rents' for people who move within the same city suggesting that rental payments have flattened out. "Over time, this may mean renters have more to spend on other things and further close the gap to homeowner spending," it said, adding that "however, one risk to consumer spending emerges from the small proportion of households that have seen significant rises in their monthly auto loan repayment as a result of higher car prices and financing rates."

CANADIAN CPI (TUE): In its September policy announcement, the BoC cited continued easing in inflationary pressures as one of the reasons it cut rates but noted that price rises in shelter and some services were holding inflation up, and policymakers were carefully assessing these opposing forces. Governor Macklem warned that inflation may bump up later this year, and there was a risk these upward forces could be stronger than expected. He also spoke about downside risks to its growth outlook, which could continue to pull inflation down, adding that it must guard against the risks that the economy becomes too weak, and inflation falls too much. That said, Macklem stated that if inflation continues to ease in line with the July projections, it would be reasonable to expect further interest rate reductions. In further remarks, the Governor warned that trade disruptions still had the capacity to increase the variability of inflation.

FOMC ANNOUNCEMENT (WED): The consensus looks for the FOMC to begin its rate-cutting cycle with a 25bps reduction in September, however, money market pricing suggests that it is a close call between a 25bps move and a larger 50bps cut. The August jobs data failed to resolve the debate, and while the August CPI data was judged to have tilted the argument in favour of the smaller move (the implied probability of a 50bps reduction fell to 13% in the wake of the data), but money markets have since re-priced once again; as this note goes to publication, money market pricing implies a circa. 40% probability of the larger cut. That re-pricing has been a function of commentary from Jon Faust, a former senior adviser to Fed Chair Powell; Faust said that while the amount of cuts ahead will be more important than whether the first move is 25bps or 50bps, it was still a close call, adding: "I don't think we're in a spot that really shouts out for a pre-emptive 50bps... but my preference would be slightly toward starting with 50bps," adding "I still think there's a reasonable chance that the FOMC might get there as well." He also made the case that the Fed could manage concerns about spooking investors with a larger cut, and it would not necessarily need to be a sign of investor concern. Former NY Fed President Dudley has made a similar argument, advocating for a 50bps rate hike. He points to a slowing labour market, arguing that job risks outweigh persistent inflation challenges. He also noted that current rates are 150-200bps above the neutral rate and highlighted that Chair Powell's comments at Jackson Hole emphasised the Fed's reluctance to see further labour market weakening. Meanwhile, a poll conducted by Reuters suggests economists are generally in favour of a 25bps reduction (92 of the 101 surveyed), with 54 of 71 suggesting that a 50bps move was unlikely in any of the remaining meetings this year. "If the Fed were to cut 50bps in September, we think markets would take that as an admission it is behind the curve and needs to move to an accommodative stance, not just get back to neutral," BofA's economists said. The Fed is also due to update its economic projections at the September meeting.

BCB ANNOUNCEMENT (WED): Expectations are building that the BCB will have to hike its Selic rate in the months ahead. The most recent weekly central bank poll saw economists revise up their Selic rate view for this year, projecting a rise to 11.25% from the current 10.50%, and they also see the Selic ending next year at 10.25% (previously, economists were forecasting 10.00%). The upward revisions follow the recent strength in economic data releases, including the better-than-expected Q2 growth figures. Given there are three more meetings this year, the poll would imply +25bps rate hikes in each of the remaining confabs in 2024. "This scenario underscores the market's concern about balancing economic growth with inflation control, and points to a higher interest rate environment to contain inflationary pressures," Polo Capital Management said. Some analysts look for even more hikes: BofA sees a 25bps hike at the September meeting, followed by two +50bps hikes; BofA cites inflation expectations failing to decline in recent weeks, the BRL remaining above 5.50 vs the USD, the growth upside surprise.

UK CPI (WED): Expectations are for headline Y/Y CPI to hold steady at 2.2%, core Y/Y to rise to 3.5% from 3.3% and services to increase to 5.6% from 5.2%. As a reminder, the prior release saw an increase in headline Y/Y inflation to 2.2% from 2.0% on account of the OFGEM price cap, whilst services inflation pulled back to 5.2% from 5.7%. However, this was largely regarded as noise generated by volatile hotel prices. This time around, economists at Pantheon Macroeconomics look for headline inflation to pick up to 2.3% from 2.2% (vs. MPC exp. 2.4%). For the more widely watched services print, the consultancy looks for an increase to 5.6% from 5.2% on account of airfares being depressed in July "by the early CPI collection date, while chunky base effects in hotel and live-music prices should boost year-over-year inflation". Beyond the upcoming release, Pantheon expects "services inflation to run weaker than the MPC forecast for the rest of this year, but rate-setters will focus on the trend; the persistent component of inflation is fading only gradually". From a policy perspective, the release is unlikely to have much follow-through into the September rate decision with consensus and market pricing so firmly in favour of an unchanged rate amid expectations that the MPC will adopt a cautious approach to rate cuts on account of stubborn services inflation, solid growth and a still healthy labour market.

NEW ZEALAND GDP (WED): There are currently no market expectations for New Zealand GDP. Desks suggest the release will continue to be sluggish, where small periods of growth are followed by declines, but there's no sharp economic recovery or collapse. Analysts at Westpac "expect a 0.4% fall in GDP for the June 2024 quarter (vs RBNZ's -0.5% Q/Q forecast), continuing the 'rolling maul' recession of the last couple of years.". The desk also suggests that the changes in the timing of tax payments are expected to have a negative impact in the June quarter. Westpac predicts that the RBNZ's thinking will not be greatly impacted by the release – "With the risk of a sharper than expected downturn now fading, we think the RBNZ will return its focus to the inflation data to determine how far or fast it will be able to reduce interest rates."

SARB ANNOUNCEMENT (THU): Analysts expect the SARB will cut rates for the first time since its COVID response, according to a Refinitiv poll. The consensus looks for a 25bps rate reduction to 8.00% in September amid slowing inflation. Of the 21 surveyed, 18 look for a 25bps cut, while 3 see an unchanged outing. Ahead, analysts see the SARB reducing rates to 7.25% by next May. While some expect the central bank to enact larger 50bps reductions, other analysts note that the current rates are only around 100bps away from neutral, which could diminish the case for the larger cuts.

BOE ANNOUNCEMENT (THU): After cutting rates in August, expectations are for the MPC to maintain the Base Rate at 5.0%. 65/65 economists surveyed by Reuters look for an unchanged rate with markets assigning a circa 77% chance of such an outcome. The vote split is expected to be 7-2 with dovish dissent expected from Dhingra and most likely Ramsden. In terms of data since the prior meeting, headline Y/Y CPI in July rose to 2.2% from 2.0%, core slipped to 3.3% from 3.5% and services declined to (a still elevated rate of) 5.2% from 5.7%. In the labour market, employment growth remained strong in July, rising 265k, whilst the unemployment rate slipped to 4.1% from 4.2% and headline wage growth slipped to 4.0% from 4.6% on a 3M/YY basis. Despite the UK showing zero growth on a M/M basis for July, GDP is still expected at around 0.3% Q/Q in Q3, whilst PMI data remains strong with the services, manufacturing and composite metrics all comfortable in expansionary territory. As such, the consensus on the MPC will likely look to stand pat on rates and wait for more data ahead of the November meeting. In terms of pricing beyond next week's meeting, a 25bps cut is fully priced for November with a circa 80% chance of another one to follow thereafter. Aside from the rate decision, the focus will also fall on the Bank's decision for bond sales over the next 12 months. Consensus looks for a pace of GBP 100bln per year (would include GBP 13bln of active sales). Beyond the headline amount, the focus will be on the composition of the sales with some desks suggesting that the Bank should begin including sales of 1-3yr maturity Gilts due to liquidity issues within this sector of the curve.

NORGES BANK ANNOUNCEMENT (THU): On Thursday, the Norges Bank is widely expected to keep its Key Policy Rate unchanged at 4.50%, and as such, the focus for this meeting will be on any potential changes to the current hawkish guidance; or on potentially opening the door for a December rate cut. At the last meeting, the Bank kept rates steady and reiterated that "policy will likely be kept at the current level for some time ahead". As it stands, current guidance from the June MPR points towards a first-rate cut in Q2'25 vs market expectations of a first cut in Dec'24. Since the last meeting, GDP (Q2) cooled more than expected, with PMIs also dipping from the prior but still remained within expansionary territory. More pertinently, inflation metrics were mixed; CPI-ATE edged lower slightly to 3.2% (prev. 3.3% Y/Y), and below the Norges Bank forecast of 3.7% Y/Y. SEB points out that the latest inflation report shows a "flattening out of the downward momentum" in CPI-ATE; and even more so when excluding childcare subsidies. Data aside, the latest Norges Bank Regional Network report revised activity growth lower for Q3, but enterprises expect activity to increase "somewhat" in H2'24. Given the former, SEB believes the Norges Bank will open the door for the possibility of a December cut, by signalling a 50% chance of such a move. However, an analyst at Commerzbank emphasised the weak NOK, given the importance the Norges Bank has put on it at past meetings; at the last meeting the report described the NOK as "weaker than assumed". In conclusion, whilst analysts are unanimously expecting the Norges Bank to keep rates steady, there are some conflicting views on whether or not the Bank will open the door to a December cut.

CBRT ANNOUNCEMENT (THU): There is currently no median expectation of what the CBRT may opt to do, although chances are that rates will be kept unchanged, with the One-Week Repo Rate at 50%. As a reminder, at the prior meeting in August, the CBRT held its rate at 50% for the fifth consecutive month, maintaining a vigilant stance on inflation. The bank hinted at future rate cuts but gave no clear timeline, stating that aligning inflation expectations with its disinflation projections is critical. Analysts expect rate cuts later this year. Despite previous aggressive rate hikes to control soaring inflation, the central bank remains cautious about easing too soon. Inflation dropped to 61.78% in July and then further dipped to 51.97% in August (vs exp. 52.20%). The latest CBRT Survey showed that end-2024 CPI is seen at 43.14% (prev. 43.31%), 12-month CPI is seen at 27.49% (prev. 28.71%), GDP at 3.2% (prev. 3.4%), end-2024 USD/TRY seen at 37.1599 (prev. 37.2760), and the Repo Rate seen at 31.66% in 12-months (prev. 33.30%).

AUSTRALIAN JOBS (THU): The August Labour Force Survey is expected to show the addition of 30k jobs (prev. +58.2k), a return to trend after several months of stronger-than-expected gains. The participation rate is anticipated to hold steady at its record high of 67.1%, supported by robust population growth. The unemployment rate is forecast to remain at 4.2%, slightly above June's 4.1%, as labour supply continues to outpace demand. Westpac analysts note that rising unemployment driven by higher participation is less concerning than job losses and expect steady labour market conditions to persist in the near term.

EU-CHINA MEETING ON EV TARIFFS (THU): China's Commerce Minister Wang Wentao is poised to visit Europe on September 19th to discuss the EU's anti-subsidy case against Chinese-made electric vehicles ahead of a vote on imposing additional tariffs. The EU is mulling adding tariffs of up to 35.3% on top of the current 10% import duty on Chinese EVs. Wang will meet with EU Trade Commissioner Dombrovskis. Spanish PM Sanchez this week called for a reconsideration of the EU's position, signalling concerns about sparking a trade war. Germany meanwhile has telegraphed its dissatisfaction against the probe. The final decision will depend on a vote by the EU's 27 members by the end of October. FT later reported that the European Commission has rejected offers by Chinese EV makers to adjust their prices in a bid to avoid sharply higher tariffs.

PBOC LPR (FRI): The PBoC will likely maintain LPRs at current levels with the 1-Year LPR and 5-Year LPR at 3.35% and 3.85%, respectively. As a reminder, the benchmark Loan Prime Rates were kept unchanged last month which was widely expected given the bout of cuts conducted in July, while there doesn't seem to be any urgency for an immediate adjustment and the central bank has been more focused on daily liquidity. This was evident in the recent increased magnitude of open market operations, while the central bank also opted to refrain from its mid-month MLF operation in August which usually occurs on the 15th and instead delayed it to August 26th which OCBC's head of FX and Rates noted is consistent with the policy direction to gradually fade MLF as a guidance to market rates. Nonetheless, future policy adjustments cannot be dismissed given mixed Chinese PMI and trade figures which continued to show weak domestic demand, while the latest Chinese inflation data was softer-than-expected and a PBoC official also recently stated that there is still some room for cutting the RRR.

JAPANESE CPI (THU): Japanese Core Nationwide CPI Y/Y is expected to tick up to 2.8% from 2.7%. This comes after the Tokyo Core CPI released on 30th August surprisingly printed hotter than expected (2.4% vs exp. 2.2% vs prev. 2.2%). The data comes just before the BoJ announcement on Friday but is unlikely to sway the outcome of the meeting, with markets currently pricing in a 94.5% chance of a hold next week. Furthermore, a recent source report noted that the BoJ sees little need to hike interest rates next week although officials are not ruling out another hike later this year or in early 2025 contingent on the economy and market. That being said, it will be interesting to see Governor Ueda's analysis of the CPI at the post-meeting presser on Friday and whether recent developments have moved in line with the BoJ's expectations.

BOJ ANNOUNCEMENT (FRI): The BoJ will likely refrain from conducting any policy adjustments with money markets pricing around a 94% chance the central bank will keep its short-term interest rate at the current level of 0.25%, while a recent Reuters poll showed economists were unanimous in their calls for no rate hike at next week's meeting. The expectation for the BoJ to maintain the status quo follows the prior meeting at the end of July where the central bank hiked its short-term interest rate by 15bps to 0.25% (which money markets were pricing the likelihood of ahead of the decision), while it also announced it is to conduct a slow taper with its monthly bond purchases to be reduced by JPY 400bln per quarter and the central bank will now provide a specific value for monthly purchases instead of a range. BoJ stated it decided that adjusting the degree of monetary easing was appropriate from the standpoint of stably and sustainably achieving the price target, as well as noted that it expects to continue raising rates if the economy and prices move in line with forecasts shown in its quarterly Outlook Report. There was plenty of volatility across markets in the days following the BoJ's policy adjustment and officials have also provided a slew of commentary since then including from BoJ Governor Ueda who underwent a grilling in parliament over the decision but justified the central bank's actions and continued to suggest that further rate hikes were in play whereby he noted that there was no change to the stance that they would adjust the degree of monetary easing if the price outlook is likely to be achieved. He also stated that the BoJ's policy path to a neutral interest rate remains highly uncertain but noted that Japan's short-term interest rate is still very low so if the economy performs well, the BoJ will adjust rates to levels deemed neutral to the economy. Furthermore, other officials have provided a similar view including Deputy Governor Himino who stated the BoJ will adjust the degree of monetary accommodation if it has growing confidence that its outlook for economic activity and prices will be realised, while board member Takata stated that they must adjust monetary conditions by 'another gear' if they can confirm that firms will continue to increase capex, wages and prices. Furthermore, board member Nakagawa also signalled future hikes were on the table but acknowledged it was hard to comment on the timing of the next rate hike with markets likely to remain unstable, while board member Tamura adhered to the hawkish tone as he stated that they must raise short-term rates in several stages. Nonetheless, the central bank is not anticipated to act again so soon and a recent source report noted that the BoJ sees little need to hike interest rates next week although officials are not ruling out another hike later this year or in early 2025 contingent on the economy and market.

UK RETAIL SALES (FRI): Expectations are for headline M/M retail sales to fall to 0.3% from 0.5% with the Y/Y rate seen remaining at 1.4%. In terms of recent retail indicators, BRC retail sales rose 0.8% Y/Y in August with the accompanying report noting "despite summer finally making an appearance, and a slight uptick in consumer confidence, shoppers did not catch-up their spending during August, with total sales growth of only 1% reflecting the challenging retail environment that is likely to dominate for the rest of this year". Elsewhere, the Barclaycard Consumer Spending Report noted "overall Retail spending increased by 0.1% in August 2024, marking a return to growth for the first time since March this year". The release is not expected to have any impact on market pricing at the BoE.