newsquawk

Week Ahead - 30th Sep-4th Oct

Highlights include US NFP, ISMs, EZ CPI, Japan Tankan & OPEC+ JMMC

- **MON**: Chinese NBS & Composite PMIs (Sep), Caixin PMIs (Sep), Japanese Retail Sales (Aug), German Retail Sales (Jun), UK GDP (Q2), Swiss KOF (Sep), German Flash CPI (Sep), UK Mortgage Approvals/Lending (Aug), US Dallas Fed Index (Sep), New Zealand NZIER (Q3) ; Canada Holiday.
- **TUE**: Riksbank Minutes, EZ/UK/US Final Manufacturing PMI (Sep), EZ Flash CPI (Sep), US ISM Manufacturing PMI (Sep), US JOLTS (Aug), Mainland China and Hong Kong market holiday.
- **WED**: NBP Announcement, US ADP National Employment (Sep), EZ Unemployment Rate (Sep), Mainland China market holiday.
- **THU**: Swiss CPI (Sep), EZ/UK/US Final Services and Composite PMIs (Sep), US Durable Goods R (Aug), US ISM Services PMI (Sep), Mainland China and South Korea market holidays
- **FRI** US Jobs Report (Sep), Mainland China market holidays

CHINESE PMIS (MON): The NBS and Caixin PMIs will be released on the same day, with the NBS manufacturing forecast to tick higher to 49.5 (prev. 49.1) but remain in contraction territory, whilst the Caixin Manufacturing is expected to tick higher to 50.5 (prev. 50.4). The data will be keenly watched for a prognosis of the Chinese economy, with the release also coming in light of the bazooka stimulus announced by the PBoC governor on Tuesday. The stimulus announcement came after a string of concerning Chinese metrics which overall underscored weak domestic demand. Analysts at ING look “for a slight recovery of the official manufacturing PMI to 49.3 from 49.1.” Note, that Chinese markets will be closed from Tuesday for the rest of the week due to the Golden Week Holiday.

RIKSBANK MINUTES (TUE): As expected, the Riksbank cut its policy rate by 25bps to 3.25% (prev. 3.50%); the kicker at the meeting was that the policy rate may be cut at the two remaining meetings this year, with a possibility of a larger 50bps cut at one of those meetings; further out, the path also "indicates that one or two further cuts may be made during the first half of 2025". This was a dovish shift to the previous verbal guidance, which pointed towards a policy rate of 2.75% by year-end. As such, EUR/SEK immediately spiked higher, but this proved fleeting; potentially because this guidance is fairly in-fitting with SEB analyst expectations. ING offers other reasons for the unreactive SEK, noting that the Riksbank’s openness to a 50bps cut could imply that the Swedish economy is on track to outperform the Eurozone; the bank adds that external factors such as the jumbo 50bps cut at the Fed is also more “accommodative” for the SEK. Taking a look at the Riksbank economic forecasts for 2025; it notably lowered CPI, marginally lowered CPIF, raised GDP and Unemployment slightly. In the post-policy announcement, Riksbank Governor Thedeen did not commit to favouring between a 25 or 50bps cut for the remaining two meetings; he noted that no single factor will decide the magnitude, but noted the main scenario will be 25bps at both meetings. Going forward, SEB has reiterated its view that the Riksbank will opt for a 50bps cut in November and a 25bps cut in December, taking the policy rate to 2.50% by year-end. Next week will see the release of the Riksbank Minutes, whereby the focus will lie on whether or not a larger 50bps reduction was discussed at the most recent gathering, and what in particular officials are looking out for to opt for a cut of a larger magnitude.

EZ FLASH CPI (TUE): Consensus (taken before French and Spanish inflation metrics) looked for headline Y/Y CPI to decline to 2.0% from 2.2%, core to pullback to 2.7% from 2.8% and super-core to hold steady at 2.8%. Note, if the headline prints at 2.0%, it will be at target for the ECB for the first time since June 2021. As a reminder, the August release saw a pullback in the headline print from 2.6% to 2.2% on account of energy inflation, whilst core inflation was dragged a touch lower by goods inflation and services inflation ticked higher to 4.2% from 4.0% due to the French Olympics. Ahead of the release, regional metrics from France and Spain came in notably lower than expected with the former slipping to 1.2% Y/Y from 1.8% and the latter printing at 1.5% vs. prev. 2.3%. As such, Capital Economics argues that the consensus is now effectively stale and headline EZ-wide inflation should “show a sharp decline to below the 2% target”. From a core perspective, the consultancy notes that core inflation is also likely to have edged down. However, in their view, this should not come as a “big surprise” to the ECB and therefore on balance, they expect an unchanged rate in October. Market pricing disagrees with Refinitiv data indicating a circa 90% chance of a 25bps reduction next month. It is worth noting that recent source reporting via Reuters suggested that (contrary to commentary in the wake of the September meeting) that the October meeting is “wide-open” given recent data points. However, we are yet to see much in the way of rhetoric from policymakers backing such a move.

US ISM MANUFACTURING PMI (TUE): The consensus looks for the ISM manufacturing survey to print 47.3 in September, little changed vs the 47.2 in August. As a comparison, S&P Global's flash data for the month showed the manufacturing output index at a two-month high (48.9 vs the prior 48.2), and the manufacturing PMI itself falling to a 15-month low (47.0 vs a prior 47.9), with the "solid" expansion of the service sector contrasting with the decline in manufacturing output, and signalling a deterioration in business conditions within the goods-producing sector for a third successive month. "The largest negative contribution to the PMI came from new orders, which fell at the fastest rate since December 2022, followed by employment, which fell at a pace not seen since June 2020.," the report said, "supplier performance also detracted from the PMI, with delivery times shortening to a degree not witnessed since February, indicating spare supply chain capacity)." S&P added that production acted as a drag on the PMI, though the decline moderated compared to August, while inventories were unchanged.

JAPANESE TANKAN SURVEY (TUE): Large Manufacturers Index for Q3 is forecast at 13 (prev. 13), while the large non-manufacturers index is seen ticking lower to 32 (prev. 33), and the large industry Capex for Q3 is seen rising to 11.9% (over. 11.1%). Desks expect the services-led recovery to carry on amid cooling inflation and strong wage growth. Industrial production meanwhile is seen as somewhat flat with Toyota production only gradually recovering. “The Bank of Japan is likely to downplay the weak IP results, but if the Tankan survey describes positive business sentiment, it should support the BoJ's policy normalisation as early as December”, says ING.

OPEC+ JMMC (WED): No recommendations are expected to be put forth by the JMMC, which is not the decision-making body for OPEC+ policy. OPEC+ will likely be more focused on addressing overproduction by some nations. Recent sources suggested OPEC+ is poised to go ahead with a December oil output increase as its impact will be minimal if there is a plan for some members to make larger cuts to compensate for overproduction. Russian Deputy PM Novak also recently suggested that there were no changes to the group’s plans to return some of the phased-out production in December. Note, that the FT reported that Saudi Arabia is reportedly prepared to abandon its unofficial USD 100/bbl crude target to regain market share, although this report was met with scepticism by OPEC watchers and subsequently denied by multiple sources. "Neither Saudi Arabia nor the wider OPEC+ group have any specific target for oil prices, and no member of the producers' alliance is about to abandon output discipline in favour of chasing market share", multiple OPEC+ sources have told Argus.

US ISM SERVICES PMI (THU): Expectations are for the Services PMI to rise a touch to 51.7 in September from 51.5 in August. As a comparison, S&P Global's flash PMI report for September showed US services business activity at a two-month low of 55.4 (vs 55.7 prior). S&P said that inflows of new work in the service sector rose at a rate just shy of August's 27-month high, while new export orders for services rose at an increased rate. Backlogs of orders consequently rose slightly at service providers, hinting at a lack of spare capacity. However, the survey compiler also noted that optimism about output in the year ahead deteriorated sharply, the survey's future output index falling to its lowest since October 2022, and the second lowest seen since the pandemic; "the deterioration in confidence was led by the service sector amid concerns over the outlook for the economy and demand, often linked to uncertainty regarding the Presidential Election," it said.

US JOBS REPORT (FRI): The consensus looks for 145k nonfarm payrolls to be added to the US economy in September (vs 142k in August), with the unemployment rate seen unchanged at 4.2% (NOTE: the FOMC's September projections see the jobless rate rising to 4.4% by the end of this year). Average hourly earnings are seen rising 0.3% M/M (prev. 0.4%), and average workweek hours are seen unchanged at 34.3hrs. Capital Economics says that although the job gains remain positive, they reflect a slowdown compared to recent years, adding that hiring expectations are decreasing, suggesting that payroll growth may average around 100k month for the remainder of the year. Consumer confidence in job security is also declining, with the Conference Board's survey highlighting risks that the unemployment rate could rise to 5% later this year. CapEco says that given the cooling labour market, if payroll data continues to underperform, the Fed might consider an additional 50bps rate cut in November, following its 50bps reduction in September. As this note goes to print, money market expectations are split with regards to a 25bps or 50bps cut in November.