Week Ahead: 7-11th October

Highlights include US CPI, RBNZ, Minutes from FOMC, ECB and RBA, Canada jobs, and UK GDP

- **MON**: Mainland China market holiday
- **TUE**: RBA Minutes, EIA STEO
- **WED**: RBNZ Announcement, RBI Announcement, Bank of Israel Announcement, German Trade Balance (Aug), FOMC Minutes
- **THU**: ECB Minutes, Norwegian CPI (Sep), US CPI (Sep), French Budget
- **FRI**: BoC Business Outlook Survey & Canadian Survey of Consumer Expectations, Canadian Jobs Report (Sep), BoK Announcement, UK GDP (Aug), US PPI Final Demand (Sep), US University of Michigan Prelim (Oct), Hong Kong market holiday

RBA MINUTES (TUE): The tone down in hawkishness from the central bank was evident at the prior meeting, whereby at the press conference, RBA Governor Bullock reiterated that rates are to remain on hold for the time being and revealed that they did not explicitly consider a rate hike at the meeting, unlike the prior meeting in August where the board had considered an increase. Markets will likely dissect the minutes for any more on this front. To recap the decision itself, RBA provided no surprises as it kept rates unchanged, as unanimously forecast, and maintained its hawkish rhetoric in which it reiterated that the Board remains resolute in its determination to return inflation to the target and is not ruling anything in or out. RBA also repeated that inflation remains above target and is proving persistent, as well as stated that returning inflation to target is the priority. Furthermore, it said inflation is still some way above the midpoint of the 2–3% target range and the Board will rely upon the data and the evolving assessment of risks to guide its decisions, while its current forecasts do not see inflation returning sustainably to target until 2026. Although the RBA effectively opted for a hawkish hold, this was seen to be slightly less hawkish than the previous meeting as Capital Economics noted the RBA no longer explicitly discussed upside risks to inflation in the main body of the statement and focused on downside risks when discussing risks to the outlook, while it also tweaked its rhetoric on wages in which it stated that “wage pressures have eased somewhat” compared with its previous language that “wage growth is still above the level that can be sustained given trend productivity growth”.

RBNZ ANNOUNCEMENT (WED): The RBNZ is unanimously expected to continue cutting rates at its meeting next week with 17 out of 28 economists surveyed by Reuters forecasting a 50bps cut in the OCR to 4.75% from the current 5.25% level and with the remaining 11 calling for a 25bps cut, while money markets are pricing around a 96% likelihood of a 50bps reduction and just a 4% chance for a 25bps move lower. As a reminder, the RBNZ delivered a 25bps cut at the last meeting in August amid mixed views among analysts regarding a cut or a hold although money markets had priced a greater chance of a cut, while the central bank's OCR projections also suggested a further cut by year-end and for the OCR to decline 101bps by mid-2025. The central bank's rhetoric was also less hawkish at that meeting as although it stated that members noted that monetary policy would need to remain restrictive for some time to ensure that domestic inflationary pressures continue to dissipate, the committee agreed there was scope to temper the extent of monetary policy restraint and observed that the balance of risks has progressively shifted since the May monetary policy statement. Furthermore, it stated that the pace of further easing will thus be conditional on the committee’s confidence that pricing behaviour is continuing to adapt to a low-inflation environment and that a broad range of high-frequency indicators point to a material weakening in domestic economic activity in recent months. During the press conference, RBNZ Governor Orr noted confidence that inflation is back in its target band and that they can commence re-normalising rates, while he revealed that they considered a range of moves including a 50bps cut but the consensus was for a 25bps move which he said was a relatively low-risk start. Governor Orr also commented the following day after the meeting that they are to proceed with caution in adjusting interest rates and that removing restraint is appropriate for now. This suggests the central bank is likely to continue lowering rates, while recent GDP data also supports the case for a reduction after the New Zealand economy contracted in Q2 with GDP QQ at -0.2% vs. Exp. -0.4% (Prev. 0.2%, Rev. 0.1%) and GDP YY at -0.5% vs. Exp. -0.5% (Prev. 0.3%, Rev. 0.5%).

FOMC MINUTES (WED): The FOMC cut rates by 50bps, taking the target for the federal funds rate to 4.75-5.00%, more in fitting with money market pricing before the release rather than the analyst consensus of 25bps. There was one dissenter; Governor Bowman opted to vote for a smaller 25bps rate reduction. Within its projections, the 2024 rate forecast was revised down to 4.4% from 5.1%, which implies a further 50bps of easing from current levels. The projections showed that nine of the 19 policymakers see the policy rate above the median forecast for 2024, nine at the median, while one sees it below that. The statement saw some changes: it noted inflation has made further progress but remains somewhat elevated, and it added it has gained greater confidence inflation is moving sustainably towards 2%, and judges risks to achieving its goals are roughly in balance. However, it left its guidance unchanged, noting that "the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks," but it said that it is strongly committed to "supporting maximum employment" and returning inflation to its 2% objective (previously it only referenced inflation). Further out, the FOMC’s median projections see the 2025 rate at 3.4% (prev. 4.1%), and end-2026 dot at 2.9% (prev. 3.1%), where it also sees the neutral rate (2.9% vs prev. 2.8%). Since then, we have again heard from Fed Chair Powell; speaking this week, the Fed chief said policymakers were cautious about quick rate cuts, stating that upcoming employment and inflation reports will continue to influence the November decision. Powell said that if the economy behaves as expected, there could be two additional cuts this year, for a total 50bps of reductions, implying that the Fed was likely to scale down the cadence of its rate reductions to 25bps increments, after kicking off the cycle with a bumper 50bps move. The Fed chief said that the labour market's current state may not require further cooling, emphasising the importance of policy lags, and reaffirmed the Fed's approach to maintain economic strength, and again expressed confidence in getting inflation back to its 2% target. He said the labour market provides real-time economic insights, and job creation levels may not sustain the unemployment rate amid rising supply. He acknowledged that the labour market has cooled significantly. Powell mentioned that recent revisions in GDI and personal income have alleviated downside risks, while the savings rate revisions indicate healthy spending levels. He also expressed caution about productivity improvements being sustained. After Powell's remarks, Goldman Sachs said it continues to expect 25bps cuts in November and December, though it was a close call for the choice between 25bps and 50bps in November.

RBI ANNOUNCEMENT (WED): Consensus is for the central bank to keep the Repurchase Rate unchanged at 6.50% with 63 out of 76 surveyed by Reuters predicting the RBI would hold the repo rate at the current level and with a majority of economists anticipating the central bank to wait until December before cutting rates, although market participants will be eyeing if there is any shift in the central bank’s tone given the change of external members within the MPC. As a reminder, the RBI kept its key rate unchanged at the last meeting in August for the 9th consecutive meeting, as expected, while it maintained the stance of remaining focused on the withdrawal of accommodation in which 4 out of 6 members voted in favour of the rate decision and policy stance. RBI Governor Das said during the policy address that India's growth remains strong and inflation is broadly on a declining trajectory, while he added that they want inflation to progressively align with the target and noted the food component of inflation remains stubborn but added that going forward, the base effect on inflation will wear out. Furthermore, he said food inflation pressures cannot be ignored and that they cannot and should not become complacent because core inflation is easing, as well as noted that high food inflation adversely affects household inflation expectations and the MPC may look through high food inflation if transitory, but cannot afford to do so if it remains persistent. The dissent at that meeting came from the MPC external members Goyal and Varma who both voted to reduce the policy repo rate by 25bps and to change the stance to neutral, although along with fellow external member Bhide, are finishing their terms on October 4th with Ram Singh, Saugata Bhattacharya and Nagesh Kumar appointed as the new members of the central bank's rate-setting monetary policy committee. Therefore, the upcoming meeting will provide insight into the thinking and stances of the new members who are seen as unlikely to make immediate changes in their inaugural policy decision. Nonetheless, there are outside calls for the central bank to cut at this meeting given the recent rate cuts by major global central banks and the market consensus is for a total of 50bps of cuts in this cycle, although Nomura thinks there will be a more forceful approach in which the investment bank predicted the RBI would reduce rates by a total of 100bps from October to mid-2025.

ECB MINUTES (THU): As expected, the ECB opted to cut the deposit rate by 25bps from 3.75% to 3.5% whilst also lowering the main refi and marginal lending rates by 60bps (as previously announced in March). In the policy statement, the ECB reiterated that it will continue to follow a meeting-by-meeting approach and remain in data-dependent mode. Furthermore, policy rates will be kept sufficiently restrictive for as long as necessary and the ECB will not pre-commit to a specific policy path. In the accompanying macro projections, headline inflation forecasts for 2024-26 were left unchanged; 2026 remained below target at 1.9%. On a core basis, 2024 and 2025 forecasts were upgraded by 10bps on account of stubborn services inflation. From a growth perspective, 2024-2026 projections were lowered by 10bps each “owing to a weaker contribution from domestic demand over the next few quarters”. At the follow-up press conference, Lagarde noted that the decision to cut the DFR by 25bps was “unanimous”. On the inflation path, the President noted that September inflation is likely to see a downtick on account of base effects before rising again in Q4. Despite attempts by journalists to extract information about easing intentions for the October meeting, Lagarde stated she would neither commit to a position or comment on how close the ECB is to R-star. Note, the account of the meeting will likely be deemed as stale by market participants given the shift in market pricing seen September 12th on account of soft survey data and inflation metrics.

NORWEGIAN CPI (THU): There is currently no consensus for the headline inflation metric, but SEB predicts that the Y/Y figure will spike higher to 3.3% (prev. 2.6%). As for the Core metric (CPI-ATE), the bank predicts that the figure will edge slightly higher to 3.3% to 3.2%. As a reminder, the August CPI-ATE figure edged slightly lower to 3.2% (prev. 3.3% Y/Y), and below the Norges Bank forecast of 2.8% Y/Y. Following the metrics, the Norges Bank brought forward its implied first rate cut forecast to Q1’25 (prev. Q2-25); but was seen as slightly hawkish vs some expectations of the rath to imply a 50% probability of a cut to occur in Q4’24. Given the aforementioned implied rate cut to occur in Q1-25, this inflation report is unlikely to shift the dial for the Bank for the next policy meeting.

US CPI (THU): The consensus looks for headline CPI to rise +0.1% M/M in September (prev. +0.2%), and the core rate is seen cooling to +0.2% M/M (prev. +0.3%). Wells Fargo said a strike among East and Gulf Coast dockworkers poses a near-term upside risk for goods inflation; however, improved retail inventories and soft demand should limit consumer goods price impacts. Services inflation is expected to decline further, with the core CPI monthly rate growth downshifting. Speaking this week, Fed Chair Powell expressed growing confidence in inflation's return to the 2% target, and said that the 50bps cut in September reflects this confidence. He noted that low inflation in new leases will eventually affect headline inflation and observes a flattening of housing services inflation, albeit slowly. Powell suggested that housing services inflation will decline if the growth rate of rents for new tenants remains low. He believes that further cooling in the labour market was unnecessary to achieve its 2% inflation goal, highlighting a balanced risk in reaching both employment and inflation objectives. Powell said that the upcoming November confab will consider additional employment and inflation reports, but emphasised that the recalibration of policy can help to maintain labour market strength while supporting the move towards the inflation goal.

FRENCH BUDGET (THU): PM Barnier and his Budget/Finance ministers are set to propose their budget to parliament. The budget is expected to build on the work of Attal and is designed primarily to bring the French deficit to GDP ratio in line with EU requirements (member nations must have a deficit less than 3% of GDP). As it stands, Barnier has outlined that he plans to be in adherence to this rule in 2029, vs the current target of 2027 and current deficit/GDP ratio of over 6%. In terms of achieving this, a goal which is estimated to require at least EUR 90bln of funds ex-inflation, Barnier has indicated his approach will be one-third tax increases and two-thirds spending cuts. Targeted tax action has been flagged on large firms and the richest sections of society to generate fresh revenue for the government. Notably, Barnier is pressing ahead with the prior government’s 2% minimum wage increase and has gone a step further in bringing the implementation date for this forward to 1st November 2024 from the planned 1st January 2025; in terms of spending reductions, details are light but the education and health sectors have been touted as targets. Barnier has the task of delivering a budget which is seen as credible enough to bring the deficit ratio into adherence while also appeasing enough of a very dividend French parliament to ensure the bill passes. Thus far, political parties are yet to divulge more than cursory thoughts on Barnier’s fiscal outline. For reference, the OAT-Bund 10yr yield spread enters the week of the budget around 78.2bps, compared to a YTD peak of 87.6bps. ING reminds us that current levels remain consistent with at least a one-notch downgrade to the sovereign rating. The next sovereign rating is via Fitch on 11th October; thereafter, Moody’s on 25th October and S&P on 29th November.

BOK ANNOUNCEMENT (FRI): The Bank of Korea will decide on rates next week in what is seen as a live meeting amid sluggish economic activity and softer inflation. As a reminder, the BoK kept its base rate unchanged at 3.50% at the last meeting, as expected, with the decision made unanimously. The central bank said it would examine the proper timing of rate cuts and noted greater confidence that inflation will converge on the target level, while it dropped the phrase 'sufficient period of time' regarding maintaining a restrictive policy stance. BoK Governor Rhee provided a dovish tone after the meeting in which he stated that inflation conditions are appropriate for a cut and revealed that four board members said room for a rate cut should remain open but noted that rising financial stability risks warranted the BoK's decision to hold rates at that meeting. Furthermore, Rhee said the pace and extent of an interest rate cut in South Korea will be smaller than that of the US and that the BoK is communicating with markets using a three-month horizon forward guidance, as well as stated that the BoK sees inflation maintaining the current stable trend for the time being. The rhetoric from the central bank since then has been sparse and Governor Rhee recently responded that he would not comment and would need to discuss with the board members the impact of recent government measures aimed at taming household debt when asked about the possibility of cutting rates at next week’s meeting. Nonetheless, recent key data releases from South Korea support the case for a cut as Final Q2 GDP confirmed a Q/Q contraction of 0.2% and Y/Y growth slowed to 2.3% from the previous quarter of 3.3%, while CPI Y/Y for September softened to 1.6% vs Exp. 1.9% (Prev. 2.0%) which was the slowest pace of increase since February 2021 and below the central bank’s medium-term inflation of 2.0%, providing greater scope for the central bank to move.

CANADA JOBS REPORT (FRI): The jobs data will be framed in the context of BoC monetary policy. The central bank's recent meeting minutes noted concerns about downside risks were liked to potential further weakening of the economy and labour market. Policymakers discussed a scenario where the economy and labour market could weaken further, and in that case, it might be appropriate to speed the pace of interest rate cuts. BoC Governor Macklem said he wants to see jobs growth pick up, adding that the labour market often lags policy, so could see some adjustments ahead. In later remarks, he said that if there was a further adjustment in the labour market, it would probably be more unemployment. Macklem noted that youth unemployment has gone up a lot, and more broadly, he stated that if a rise in unemployment is seen, that would be a concern. On wages, BoC Governor Macklem expects wage growth to come into line with productivity, and if that doesn't happen, it could make inflation sticky.

UK AUGUST GDP (FRI): Expectations are for 0.2% M/M growth in August vs. prev. 0.0%. As a reminder, the prior release saw no M/M growth in July, which followed on from 0% growth in June. The July report noted that growth was dragged lower by production and construction output, offsetting upside in the services sector. For the upcoming release, Pantheon Macro looks for a 0.2% M/M increase on account of manufacturing and construction rebounding from “erratic falls in July, while a jump in retail sales in August will add 5bp to month-to-month GDP growth, and the end of junior doctors’ strikes will help”. From a broader perspective, the consultancy notes that, looking “through the noise and UK GDP growth is slowing from the torrid pace set in the first half of the year, but it continues to trend up at around 1% month-to-month annualised”. From a policy perspective, the release is unlikely to draw much in the way of a sustained shift in market pricing for the BoE with members of the MPC primarily focused on stubborn services inflation and real wage growth. As it stands, a November 25bps is near-enough fully priced with a total of 41bps of loosening seen by year-end.