Week Ahead: 21st-25th October

Highlights include PBoC LPR, BoC, EZ & UK PMI

- **MON**: PBoC LPR
- **TUE**: NBH Announcement, IMF World Economic Outlook
- **WED**: BoC Announcement
- **THU**: EZ/UK/US Flash PMIs (Oct)
- **FRI**: PBoC MLF (TBC), CBR Announcement, Japanese Tokyo CPI (Oct), German Ifo (Oct), US Durable Goods (Sep), US University of Michigan Final (Oct)

PBOC LPR (MON): PBoC will announce the latest Loan Prime Rates next week in which Chinese banks are likely to reduce the benchmark lending rates from the current levels after the slew of recent policy support measures by China's central bank and government departments. As a reminder, China's Loan Prime Rates were maintained last month with the 1-Year LPR (which most new loans are based on) kept at 3.35% and the 5-Year LPR (reference for mortgages) held at 3.85%, as expected. However, since then, the PBoC have announced a 50bps cut RRR cut and reduced the 7-day reverse repo rate by 20bps to 1.50%, while it also lowered the 1-year MLF rate by 30bps to 2.00% and said it will guide LPRs lower. Furthermore, the PBoC instructed banks to lower interest rates on existing mortgages by October 31st and it was also reported that Chinese banks will reduce rates on as much as CNY 300tln of deposits. This had already set the backdrop for a reduction in the LPRs, while the latest developments further signalled an upcoming cut to the benchmark rates as the major Chinese banks recently lowered interest rates on CNY fixed-rate deposits by 25bps and PBoC Governor Pan noted the LPR is expected to drop by 20bps-25bps on Monday, as well as reiterated that they may further lower RRR this year by 25bps-50bps based on market liquidity.

BOC ANNOUNCEMENT (WED): The Bank of Canada is expected to cut rates by 50bps to 3.75% on Wednesday, according to 19/29 analysts surveyed by Reuters, while 10 analysts look for a smaller 25bps rate cut. Alongside the rate decision, the latest monetary policy report will be released as well as a speech from Governor Macklem. Remarks from BoC Governor Macklem on 10th September, a week after the BoC cut by 25bps, stated that bigger cuts are possible if the economy and CPI is weaker. The August data was soft, which started to see 50bps being priced in with more certainty, although a strong September jobs report saw money markets price in a 25 or 50bps as a coin flip. Nonetheless, the September inflation data was notably softer than forecast and 50bps bets ramped up. As things stand, money markets are pricing in 48bps of easing at the upcoming meeting, implying a 92% probability of a 50bps cut. The focus of the meeting will largely be on the rate decision, however the statement will be eyed for guidance and how the BoC are explaining the recent soft inflation data. We will also look to the MPR for the BoC's economic forecasts. Looking ahead, the BoC Business Outlook Survey noted business sentiment remains subdued, while excess capacity is leading to restrained investment and hiring. Firms also expect both wage and price growth to soften. Analysts at RBC note that the recent soft inflation data, coupled with the BOS, sees the desk expect a 50bps rate cut. Looking ahead, the Reuters poll found that there was no clear consensus on what the BoC will do at the December meeting, 10/29 expect rates to finish the year at 3.50%, nine expect rates to at 3.75%, while one analyst sees rates at 4.00% from the current 4.25%.

EZ PMI (THU): Expectations are for October's manufacturing PMI to rise to 45.1 from 45.0, services to pick up to 51.5 from 51.4, leaving the composite at 49.7 vs. prev. 49.6. As a reminder, the prior release saw a decline in the manufacturing print from 45.8 to 45.0, services slip to 51.4 from 52.9, leaving the composite in contractionary territory at 49.6 vs. prev. 51. The accompanying report noted "our GDP nowcast model, which takes into account the PMI indicators, points to only minimal growth." This time around, analysts at Investec expect an extension of some of the weakness seen in the September composite metric to follow through into the upcoming report. That being said, the desk acknowledges that there is some scope for stabilisation on the manufacturing front on account of Chinese stimulus efforts. Note, this is unlikely to have any follow-through to the services sector, which instead may be hampered by news of French tax-raising measures. From a policy perspective, given the impact of the prior report on pricing for the ECB's October meeting, this is very much a tier 1 release for ECB watchers, particularly given the increased importance of the growth outlook at the bank. As such, a soft release could see an acceleration of dovish pricing for the December meeting with a deeper 50bps cut currently priced at around 20%.

UK PMI (THU): Expectations are for October's services PMI to slip to 52.2 from 52.4, manufacturing to fall to 51.3 from 51.5, leaving the composite at 52.4 vs. prev. 52.6. As a reminder, the prior report showed a decline in the services print to 52.4 from 53.7, manufacturing decline to 51.5 from 52.5, leaving the composite at 52.6 vs. prev. 53.8. The accompanying report noted "The September PMI surveys suggest that the UK economy is still on a positive trajectory". This time around analysts at Investec expect similar themes in the October release to those of September which was characterised by an optimistic picture of the UK economy, albeit with some concerns over the upcoming UK budget. On the latter, the desk notes "if the fear of fiscal tightening turns out to be greater than the net impact of what will be announced, then we could be in store for a rebound in November". From a policy perspective, a 25bps rate is very much baked in for the BoE's November meeting. However, a strong report could temper expectations for how fast the MPC will move thereafter with a December cut priced at around 64%.