newsquawk

Week Ahead - 28th Oct-1st Nov

Highlights include US NFP, ISM Mfg, PCE, GDP, EZ and Australian CPI, UK Budget, BoJ and Japan LDP Election

- **SUN**: Japanese LDP Election
- **MON**: Japanese Jobs Report (Sep)
- **TUE**: German GfK (Nov), US JOLTS (Oct)
- **WED**: UK Budget, Australian CPI (Sep), Spanish Flash CPI (Oct), US ADP (Oct), German Flash GDP (Q3) and Prelim CPI (Oct), EZ Prelim GDP (Oct), US GDP Advance (Q3), Japanese Retail Sales (Sep)
- **THU**: BoJ Announcement and Outlook Report, Chinese NBS PMI (Oct), French Flash CPI (Oct), EZ Flash CPI (Oct), US Quarterly Refunding (Q4), US PCE (Sep), New Zealand Jobs Report (Q3)
- **FRI**: Swiss CPI (Oct), US Jobs Report (Oct), US ISM Manufacturing PMI (Oct)

JAPANESE LDP ELECTION (SUN): Japan will conduct a general election on Sunday to elect all 465 members of the House of Representatives which is the lower house of the Diet, with 233 seats needed for a majority. The snap election was called by PM Ishiba and will occur just one month after Ishiba won the LDP leadership race to succeed former PM Kishida as the head of Japan's ruling party which currently holds an outright majority with 247 seats and has the backing of the Komeito party which currently have 32 seats. The main opposition is the Constitutional Democratic Party of Japan or CDP/CDPJ which is led by former PM Yoshihiko Noda and currently has 96 seats, while the third largest party is the Japan Innovation Party otherwise known as Ishin or JIP which is led by Nobuyuki Baba and currently holds 44 seats. PM Ishiba's gamble to call for a snap election so early into his leadership looks to have backfired as nearly all recent polls by Japanese media have suggested that the LDP could lose their majority in parliament. The ruling LDP still has a buffer owing to its coalition partnership with the Komeito party, although the coalition in its current form may not be enough to reach the 233-seat threshold needed according to some surveys. Nonetheless, the LDP is widely seen to remain the largest party in Parliament. Should the LDP and its coalition partner Komeito fail to achieve the number of seats required there are potential options such as tapping the projected half a dozen independent candidate seats that are affiliated with the party but who were denied endorsement, while they could also expand the coalition by adding more junior parties to the coalition or even partner with other parties on specific policies for a working arrangement although these latter options would require the LDP to consider the policies of multiple parties for it to be successful. The potential market reaction to the election is not so clear cut even if the LDP obtains a majority on its own or through its coalition as PM Ishiba had previously pledged in August to roll back Abenomics stimulus measures but then seemingly did a U-turn more recently following a meeting with BoJ Governor Ueda whereby he stated that they are not in the environment for an additional rate hike. Furthermore, an expanded LDP-led coalition with either Ishin or an even smaller party such as the DPP could raise the hurdles for the BoJ to hike rates. Conversely, a shock result in which the CDP come out on top would likely result in a change of government and shift to a more hawkish environment.

US QUARTERLY REFUNDING (MON/THU): The US Treasury will release the financing estimates on Monday, ahead of the refunding announcement on Thursday. For Q3, the Treasury announced it expects to borrow USD 740bln, assuming an end-September cash balance of USD 850bln. At the time, it also announced it expects to borrow USD 565bln in Q4, assuming a year-end cash balance of USD 700bln. However, Goldman Sachs notes that their projected deficit path suggests modest downside risks to the Treasury's previous borrowing estimate. The desk's baseline is for USD 490bln in marketable borrowing for Q4, assuming a USD 700bln end-of-quarter TGA. Looking ahead to Q1, Goldman Sachs expects USD 753bln in marketable borrowing based on a USD 750bln end-of-quarter cash balance. The desk does not expect changes to nominal auction sizes, but they do see a strong case for the Treasury to soften prior guidance on keeping current nominal auction sizes for "at least the next several quarters", suggesting auction sizes may start to increase from late next year. Note, in Q3 the Treasury announced it is offering USD 125bln of Treasury securities, unchanged from Q2.

UK BUDGET (WED): Labour Chancellor Reeves will in her debut budget announce extensive fiscal measures in an attempt to drive investment and plug the "black hole" she inherited from the Conservative government, a hole which has been reported as being around GBP 22bln; however, Reeves herself says the situation is worse owing to unfunded pressure on finances. Reeves' budget will have a new "golden rule" as its cornerstone, a rule which says that day-to-day spending must be balanced by tax revenue, an addition designed to reassure the market and prevent a Truss-era market reaction. Alongside this, Reeves will change the debt measure which underpins the rule that debt as a share of GDP must be falling between the fourth and fifth years of the horizon. Reeves will reportedly change it from PSND ex-BoE to PSNFL, a broader measure which potentially frees up as much as GBP 50bln of headroom. While this room is available, it remains to be seen how much of it Reeves will tap the market for in order to ensure no adverse reaction in the Gilt market and as anything she borrows has to be spent on investment (given the new "golden rule"), something which is notoriously difficult to successfully deploy in the UK. For Gilts and Sterling, the reaction depends on exactly how much Reeves taps the market for and how expansionary the market and OBR judge the overall budget to be. For the BoE, the argument is two-way with the budget likely to be net-expansionary and thus, all things equal, drive tighter monetary conditions; however, the uncertainty around any investment decisions and the policy lag in the benefits being felt mean the immediate course of monetary policy might not change much.

AUSTRALIAN CPI (WED): The release of September's CPI provides the final piece for the Q3 reading, an inflation pace which is expected to moderate further to 2.9% Y/Y (prev. 3.8%) and 0.3% Q/Q (prev. 1.0%). Much of the expected quarterly moderation is driven by a significant drop in energy prices across the period; however, the RBA has already indicated that it will be looking through this due to the impacts being one-off. As such, trimmed mean CPI for the quarter will draw heightened attention and while the pace of that is expected to moderate, it is seen doing so to a much more limited extent than is the case for the above headline measure, to 0.7% Q/Q (prev. 0.8%) and 3.5% Y/Y (prev. 3.9%). For the RBA, Governor Bullock recently outlined that while there has been significant progress on inflation it is going to take "another year or two" before it returns to target. As a reminder, the minutes of September's hawkish hold (though, somewhat less hawkish than the prior gathering) noted that policy will need to remain restrictive and it is not currently possible to rule anything in or out. As such, assuming the data prints as expected, the RBA's stance is unlikely to be too affected by the release as they wait for inflation to progress to target.

EZ PRELIM GDP (WED): Expectations are for the prelim release of Q3 GDP to print at 0.2% on a Q/Q basis (matching the previous) with the Y/Y rate expected to pick-up to 0.8% from 0.6%. The story for growth in H1 was one of an attempted recovery after the stagnation seen in 2023 with the Eurozone posting Q/Q growth of 0.3% in Q1 and 0.2% in Q2. This time around, economists at Oxford Economics who expect a 0.3% Q/Q print, expect growth to benefit from "the one-off boost from the Paris Olympics". From a regional perspective, the consultancy notes "we expect France to report an increase of around 0.5%, while Spain should be confirmed as one of the outperformers for the eurozone. Germany and Italy are expected to be more subdued, with Germany posting negative quarterly growth and Italy only a marginal one". With regards to market pricing for the ECB, participants often view EZ GDP metrics as somewhat stale given that more timely soft data is available in the form of PMI metrics. On which, October data saw the composite metric holding below the 50 mark at 49.7 with the expansion in services slowing and the contraction in manufacturing marginally easing. The accompanying report noted "the eurozone is stuck in a bit of a rut, with the economy contracting marginally for the second month running".

US Q3 ADVANCED GDP (WED): The consensus looks for the advanced Q3 GDP data to show growth of 3.0%, matching the prior, albeit forecasts range between 2.7-3.2%. There may be some upside potential, with the Atlanta Fed's GDPnow model currently tracking growth of 3.4% in the quarter. Generally, Fed officials have been upbeat on the economy, despite recently cutting rates; Fed's Hammack this week said that inflation eased amid a strong jobs market and good growth. Note, the Fed's median projections show growth at 2.0% for 2024, 2025, 2026 and 2027, with the longer run rate at 1.8%.

BOJ ANNOUNCEMENT AND OUTLOOK REPORT (THU): The Bank of Japan is likely to keep its policy settings unchanged at next week's meeting with money markets currently pricing around an 82% probability for the short-term policy rate to be kept at 0.25%, while the central bank will also release its latest Outlook Report with board members' median forecasts for Real GDP and Core CPI. As a reminder, the BoJ refrained from any major surprises at the last meeting in September as it kept its short-term policy rate at 0.25% as unanimously forecast and provided very little in the way of clues for future policy in its statement. Furthermore, it noted that they must be vigilant to the impact of financial and FX market moves on Japan's economy and prices, while BoJ Governor Ueda said during the post-meeting press conference it is appropriate to increase rates if trend inflation heightens in line with their forecast. A major development since the last meeting was the change of leadership following the LDP presidential election in which Shigeru Ishiba succeeded Fumio Kishida as the head of the ruling party to become Japan's PM and although he was seen as the more hawkish candidate vs run-off rival and Abe protege Takaichi. This hawkish perception has since been toned down as he stated after a meeting with BoJ Governor Ueda that they are not in the environment for an additional rate hike, while Governor Ueda told the PM that the BoJ will adjust the degree of monetary easing if the outlook is realised, but added they will take careful steps to determine that as it takes time. Comments from other officials have also suggested that rates are likely to continue rising but with a lack of urgency for an immediate hike as Board Member Noguchi stated they must patiently maintain loose monetary and that the BoJ will likely gradually adjust the degree of monetary support while cautiously examining whether inflation stably hits 2%, accompanied by wage gains. Board Member Adachi also noted that conditions are already in place for the BoJ to start normalising monetary policy and should raise rates in several stages to achieve smooth policy normalisation, but added that they must avoid drastic policy change that could stoke fear of a return to deflation and warned hiking rates at a rapid pace after the inflation target is met could cause a big shock to the economy. Furthermore, a recent source report stated the BoJ is increasingly aware that there is little need to rush into further interest rate hikes at this month's meeting amid uncertainty surrounding the outlook for overseas economies and financial markets but won't rule it out in the future.

EZ FLASH CPI (THU): Expectations are for headline Y/Y HICP in October to rise to 1.9% from 1.7% with the super-core rate seen holding steady at 2.7%. As a reminder, the prior release saw headline inflation in the Eurozone slip below the 2% mark for the first time since June 2021 with the headline rate primarily dragged low by energy inflation. Elsewhere, service inflation declined modestly to 4.0% from 4.1% and helped nudge core inflation down to 2.7% from 2.8%. This time, analysts at Investec suggest that a 0.1% M/M increase in energy prices will see headline HICP pick back up to 1.9%, whilst core will hold steady at 2.7%. Beyond the upcoming report, the desk notes that "despite the expected rise in headline inflation the outlook remains encouraging given recent data, with our own updated forecasts now envisaging HICP reaching the 2% target on a sustainable basis from Q1 2025, earlier than previously expected". From a policy perspective, despite the apparent shift on the Governing Council from focusing towards growth instead of inflation, a hot print could help temper some of the expectations for a larger 50bps cut at the December meeting. Such expectations have been stoked by recent soft growth indicators and a seeming willingness by some of the more hawkish members on the GC to acknowledge that such an outcome is an option. Furthermore, recent source reporting via Reuters has also noted that some members of the Governing Council are of the view that policy may need to go below neutral in the current easing cycle.

CHINESE NBS PMIS (THU): October's PMIs are expected to show Manufacturing lift back into expansionary territory to 50.1 (prev. 49.8). A forecast which comes on the back of extensive Chinese stimulus that has been announced in recent weeks and throughout the survey period. On this, it will be interesting to see what the internal commentary says about China on stimulus given that the assessment of the measures by various desks has highlighted that while it will lift the growth view, it is still likely to be shy of their 5% target as the measures don't appear to do much to significantly drive near-term consumer demand. A point highlighted by the IMF cutting their growth outlook for China in October's WEO to 4.8% (prev. 5.0%).

US PCE (THU): Capital Economics said that based on the September CPI and PPI data, it estimates that the Fed's preferred gauge of inflation (core PCE deflator) rose +0.24% M/M in September (vs +0.1% in August), a little hotter than in recent months. "Admittedly, it would leave the 3-month annualised core PCE inflation rate at 2.1% Y/Y, while the 6-month annualised rate would decline to 2.2% Y/Y (from 2.4%), and the 12-month annual rate would ease back to 2.6% Y/Y (prev. 2.7%). CapEco adds that "nevertheless, alongside the unexpectedly strong labour market data, September's price data suggest that more than a few Fed officials might regret starting their easing cycle with a bigger 50bps rate cut." The consultancy anticipates a more modest 25bps cut at the November meeting, adding that the data is still not strong enough to justify leaving rates unchanged.

US JOBS REPORT (FRI): The consensus looks for 140k nonfarm payrolls to be added to the US economy in October, cooling from the 254k added in September. Fed's Waller recently suggested that the hurricanes, as well as strikes at Boeing (BA) could reduce the October payrolls growth by around 100k, which is what the consensus is currently shooting for. The unemployment rate is expected to be unchanged at 4.1% (vs the Fed's end-2024 projection for 4.4%). The rate of average hourly earnings is seen easing to +0.3% M/M from the prior +0.4%. Initial jobless claims and continuing claims for the week that coincides with the BLS survey window for the jobs data were mixed; initial claims eased back to 242k from 260k, though are still up from the 222k heading into the September jobs data, while continuing claims rose to 1.897mln from 1.869mln, and above the 1.827mln heading into the September jobs data. Pantheon Macroeconomics said the latest jobless claims data offer mixed messages on October payrolls, but still, it expects weakness in the BLS jobs report, specifically noting that continuing claims rose to a three-year high, and around 70k higher than during the September payroll survey week, the biggest increase since April 2022.

US ISM MANUFACTURING PMI (FRI): Analysts expect the manufacturing ISM will increase slightly in October (to 47.6 from 47.2), but still under the 50 mark, which separates expansion and contraction. As a comparison, S&P Global's Flash US Manufacturing PMI rose to a two-month high of 47.8 in October from a prior 47.3, while the manufacturing output index rose to a three-month high of 48.8 from 47.9 - both rising but still under 50. S&P said the data signals a deterioration in business conditions within manufacturing for a fourth successive month, but the rate of deterioration moderated to the slowest since August. "All five PMI components exerted negative drags on the index bar suppliers' delivery times, with longer lead-times reported for the first time in three months amid freight-related congestion and weather-related disruptions to supply chains," it wrote, "the largest negative contribution to the PMI again came from new orders, which fell for a fourth straight month, albeit with the rate of decline easing from September's 15-month peak, followed by inventories of purchases, which fell at the sharpest rate for 14 months to be the only component exerting a more powerful negative drag in the PMI than in September." It added that production and employment fell at reduced rates. However, the survey compiler said its composite data shows "confidence in the longer, year-ahead, outlook has improved as companies hope that a stabler post-election environment is more conducive to growth," adding that "this is especially so in the manufacturing sector, where factories hope that the current soft patch in production and sales will reverse as the uncertainty caused by the political environment passes."