newsquawk

Week Ahead - November 4-8th

Highlights include US election, Fed, BoE, RBA, Norges, Riksbank, US ISM Services PMI and Canada jobs

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- **MON**: Japanese Holiday: Culture Day. Eurogroup Meeting, EZ Manufacturing PMI Final (Oct), Sentix (Nov), US Employment Trends (Oct), Factory Orders (Sep), Australian Composite/Services PMI Final (Oct)
- **TUE**: US Election. RBA Policy Announcement; BoC Minutes (Oct), RBNZ FSR; Chinese Caixin Services PMI Final (Oct), Swiss Unemployment (Oct), UK Composite/Services PMI Final (Oct), US Composite/Services PMI Final (Oct), ISM Services (Oct), New Zealand HLFS Unemployment (Q3), BoC Minutes
- **WED**: NBP & BCB Policy Announcements, BoJ Minutes (Sep), CBR Minutes (Oct); German Industrial Orders (Sep), EZ Composite/Services PMI Final (Oct), Producer Prices (Sep), Canadian Ivey PMI (Oct)
- **THU**: Fed, BoE, Riksbank, Norges Bank & CNB Policy Announcements; German Trade Balance (Sep), Industrial Output/Production (Sep), Swedish CPIF (Oct), Chinese FX Reserves (Oct) Trade Balance (Oct), EZ Retail Sales (Sep), US Initial Jobless Claims (w/e 2nd Nov.)
- **FRI**: CBRT Inflation Report; Canadian Labour Market Report (Oct), US Uni. of Michigan Prelim. (Nov), Chinese M2/New Yuan Loans (Oct)

US PRESIDENTIAL ELECTION (TUE): On Tuesday, November 5th, Americans will go to the polls to vote in the Presidential Election with the winner taking office in January 2025 for a four-year term. Republican candidate Donald Trump and Democratic candidate Kamala Harris are locked in a very tight race, and while national polls have Harris slightly in front, betting markets favour Trump, as do polls in swing states; what is certain is how momentum has shifted towards the former President in recent weeks and months. In terms of averages, FiveThirtyEight's model assigns a 52% probability of a Trump win, and a 48% probability of Harris winning; pollster Nate Silver sees a 54% and 46% chance respectively. Republicans are clearly favoured to win the Senate, with FiveThirtyEight averages assigning an 89% probability, while the House is neck and neck, with Republicans seeing a 53% likelihood and Democrats 47%. On the night, the pivotal swing states (Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin) will be viewed to see how the election is playing out, with Pennsylvania seen as the key state, as it is likely, but not impossible, that a candidate will not win the election without it. In the polls and in recent weeks (via 538 and Nate Silver) PA has flipped to Trump. For traders, the focus will be on the Dollar, with a Trump win and a Republican sweep seen as the most bullish case for the Buck, with Commodity FX, the Yuan, and MXN amongst EMFX heavily weighed on. If Harris won, the Greenback is expected to be weaker, with commodity FX outperforming along with the EUR. Please click here for the full Newsquawk Presidential Election Preview.

RBA POLICY ANNOUNCEMENT (TUE): The RBA is expected to keep the Cash Rate unchanged at 4.35% in its meeting next week with money markets pricing a 96% probability for the RBA to remain on hold and just a 4% chance for a 25bps cut. As a reminder, the RBA provided no surprises at the last meeting in September where 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 stating that returning inflation to the 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 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". The tone down in hawkishness was even more evident in the press conference where 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. Bullock also stated that the board discussed whether to change the policy messaging and the message is that the board does not see rate cuts in the near term, but they are prepared to respond in either direction depending on the data. Furthermore, the minutes noted that the Board discussed scenarios for both lowering and raising interest rates in the future and reiterated it is not possible to rule in or out future changes in the cash rate target at this time, but also acknowledged underlying inflation is still too high and policy would need to remain restrictive until board members are confident inflation is moving sustainably towards the target range. The rhetoric from officials since then hasn't suggested that much has changed as RBA Deputy Governor Hauser stated that they are data-dependent but not data-obsessed and will take into account Q3 CPI and other data to form a view on policy, while Assistant Governor Hunter said they are monitoring data to see if inflation remains sticky and there are risks to both sides. As such, the recent data releases would suggest a lack of urgency to act as Employment Change was much stronger than expected and was accompanied by a surprise decline in the Unemployment Rate to 4.1% from 4.2%, while inflation numbers were mixed in which the monthly figure for September and quarterly headline inflation for Q3 printed softer than expected but the RBA's preferred Trimmed Mean and the Weighted Median figures mostly topped forecasts although predominantly softened from the prior readings.

BOC MINUTES (TUE): At its October confab, the BoC cut rates by 50bps, in line with most analyst forecasts and market pricing, bringing the rate down to 3.75%. It marked the fourth consecutive rate cut by the central bank and the first of this magnitude. The BoC characterised the 50bps reduction as a measure to support economic growth and maintain inflation within its 1-3% target range. Looking ahead, the BoC indicated that if the economy develops in line with recent forecasts, it expects to lower rates, though the timing and pace will depend on incoming information and its impact on inflation. Following recent soft inflation reports, the bank's preferred measure of core inflation has fallen below 2.5%, indicating that inflationary pressures are no longer broad-based, with business and consumer expectations largely normalised. With inflation now within the target range, the BoC seems to be satisfied with progress and aims to maintain current levels. The MPR reflected lowered CPI forecasts for 2024 and 2025, while growth forecasts remained unchanged. BoC watchers are eying growth closely, arguing that weaker performance may prompt a 50bps cut, though some anticipate a more likely 25bps move given strong labour market data. August's unchanged GDP data, and July's downward revision, suggest Q3 growth will fall below the Bank of Canada's 1.5% estimate, further supporting expectations for a 50bps cut in December, analysts said.

ISM SERVICES PMI (TUE): Analysts expect the October ISM services PMI will ease to 53.3 from 54.9 in September. By way of comparison, S&P Global's PMI data showed services business activity rising to a two-month high at 55.3 (prev. 55.2). S&P Global said that the US services sector demonstrated robust growth, with activity increasing at a pace only surpassed once in the past two-and-a-half years. The expansion was largely driven by the highest rise in new business since April 2022, supported by growing domestic demand, despite a slight decline in export orders. Optimism in the services sector reached a 16-month high, indicating positive future expectations, while job reductions were minimal, primarily due to non-replacement of staff rather than layoffs. Although average prices for goods and services increased, the rise was the smallest since May 2020, marking a departure from the previous month's uptick and bringing inflation rates below pre-pandemic averages. S&P said the services sector saw a significant decline in selling price inflation, hitting its lowest level in almost four-and-a-half years, even as input costs remained high historically, particularly related to wage pressures. Overall, while the services sector is performing well and projecting optimism, ongoing elevated input costs suggest caution in long-term sustainability, it added.

BCB POLICY ANNOUNCEMENT (WED): Brazil's central bank is seen raising its Selic rate by 50bps to 11.25% in November, following its 25bps hike in September. Many foresee an upsized hike due to stronger-than-expected economic activity and tightening labour markets, though four of the 30 surveyed by Reuters expect a smaller 25bps move. Copom officials have said they remain committed to achieving the 3% inflation target amid rising prices, exacerbated by pressures on the BRL currency and geopolitical uncertainties. Looking ahead, most expect another hike in December too. The central bank's own poll of economists reveals that economists see the Selic rising to 11.75% by the end of this year, though the rate is expected to be cut to 11.25% by the end of 2025. The tightening stance contrasts with the trend of monetary easing in other regions, such as the US and Europe, where central banks cutting rates, primarily due to elevated inflation expectations in Brazil.

FOMC POLICY ANNOUNCEMENT (THU): The FOMC's policy announcement will be on Thursday, November 7th, rather than the usual Wednesday update, given the Presidential elections on November 5th; it's a close race, and currently, polls show Harris slightly ahead, but betting markets favour Trump. Many believe that Trump's proposed policies, including higher import tariffs and additional tax cuts, could reignite inflationary pressures, and most think there would be more inflationary than those of Harris. Accordingly, election dynamics could sway expectations of the Fed's easing trajectory. Analysts expect the Fed will continue its easing cycle with a 25bps rate cut in November, to 4.50-4.75%. Ahead 90% of the analysts surveyed by Reuters see the central bank cutting by another 25bps in December. Money markets are currently pricing around 42bps of rate cuts through the end of the year, suggesting at least one 25bps rate reduction, with a decent chance of another. Since the Fed began its cutting cycle in September with a bumper 50bps reduction, economic data has generally pointed to a resilient economy. Through next year, 80% of the 96 economists polled by Reuters see the Federal Funds Rate target falling to 3.00%-3.25% or higher by the end of next year (more than 80% said risks were that rates could likely be higher than they currently expect, the poll notes); money markets are pricing rates will fall to 3.50-3.75% by the end of 2025 - these would still be considered 'restrictive' given then the Fed currently estimates the neutral rate is around 2.9%. "Since the start of this year, the median view of Fed officials on the neutral rate has risen from 2.5% to 2.9%, and it is likely that this view can edge up slightly more," SocGen notes, "the more cautious approach, as advocated by most Fed officials, is the appropriate course, particularly as economic evidence shows more strength and perhaps greater challenges in achieving the 2% inflation objective."

BOE POLICY ANNOUNCEMENT (THU): Expectations are unanimous that the BoE will cut its Base Rate by 25bps to 4.75%. This is according to 72/72 analysts surveyed by Reuters; polling taken before the October 30th budget. Market pricing assigns an 83% chance of such an outcome vs. the 92% priced before the UK budget. The fallout from the UK budget has lit a fuse under UK yields on account of firmer near-term growth and elevated borrowing requirements. This will provide food for thought on the MPC but is unlikely to impact next week's decision. The backdrop to the upcoming meeting has seen headline inflation drop below target for the first time since April 2021 whilst the widely-watched service print showed a sizeable downtick to 4.9% from 5.6%. Elsewhere, recent sentiment data saw declines in services and manufacturing PMIs during October with the latter delving into negative territory for the first time since April. As such, after skipping a cut at the prior meeting, the MPC will feel emboldened to dial down the restrictiveness of current policy. Consensus looks for a 7-2 vote in favour of such a move with dissent expected from Mann and one other member of the MPC; Pantheon Macroeconomics flags the risk of Dhingra voting for a 50bps reduction. In terms of the accompanying statement, focus will be on whether the MPC reiterates that policy will need to continue to "remain restrictive for sufficiently long". Beyond the upcoming meeting expectations for a December move have been scaled back given the near-term growth implications of the recent UK budget. Markets assign a 20% chance of a cut next month vs. 50% ahead of the budget; Morgan Stanley abandoned its call for a December cut following the budget. For the accompanying MPR, Pantheon Macroeconomics highlights that it is hard to gauge how the budget will be factored into forecasts given the proximity of the two events. However, the consultancy expects the MPC to raise its mode and mean inflation forecasts by 20bp at the two-year horizon, and to set mean inflation at 2.0% in Q4 2027.

RIKSBANK POLICY ANNOUNCEMENT (THU): September's meeting saw a 25bps cut to 3.25% as expected and a dovish-tweak to guidance which pointed to a cut at all H2 meetings (i.e. brings both November & December into play) and opened the door to 50bps being possible at one of those. Thereafter, the meeting's minutes downplayed the significance of a possible 50bps move with members stressing data dependence and a meeting-by-meeting approach. Most recently, September's final CPIF ex-energy cooled to 2.0%, slightly above the 1.9% forecast by the Riksbank; nonetheless, the reading brings the inflation measure in line with their target while headline CPIF remains markedly cooler at 1.1%. For the Riksbank, the data confirmed that a cut will be delivered, and while a 50bps move in November very much remains an option the data errs marginally in favour of another 25bps move given they have the optionality to utilise 50bps in December. However, following the data Deputy Jansson remarked that the diminished risk of inflation becoming too high means "they can proceed a little more decisively with monetary easing"; as a reminder, the September minutes saw Jansson express a preference for a "slightly greater easing in monetary policy". Inconveniently, the October Flash CPIF print comes a few hours before the Riksbank policy announcement but could be decisive on whether a 25bps or 50bps move is enacted.

NORGES BANK POLICY ANNOUNCEMENT (THU): In September, the Norges Bank delivered a hawkish hold. A hold which implied that the first cut would occur in Q1-2025. At the time, Governor Bache said "We believe that there is a need to keep the policy rate at today's level for a period ahead but that the time to ease monetary policy is approaching", a line which has been reiterated as recently as mid-October. The remark was delivered just after September's inflation where the core Y/Y moderated more than markets expected to 3.1% and just below the Norges Bank's quarterly view of 3.28%. Overall, the Norges Bank looks set for another hold and reiteration of guidance. Though, given the recent inflation print, there is a possibility it may be a slightly less hawkish affair than last time if the Bank decides to provide some guidance around the timing of a Q1'25-cut; however, any change to forward guidance is more likely to be presented at the December MPR.

CANADIAN LABOUR MARKET REPORT (FRI): The BoC's October statement noted that the labour market remains soft. It noted the population growth has continued to expand the labour force, while hiring has been only modest, and that was impacted young workers and newcomers to the labour market. Wages still remain elevated relative to productivity growth. It is worth noting that the BoC cut by 50bps at the last meeting, and essentially declared victory on inflation noting that the larger-than-usual cut was to stimulate growth with the BoC now focusing more on growth as opposed to a focus on inflation.