newsquawk

Week Ahead: 18th-22nd November 2024

Highlights include UK CPI & Retail Sales; RBA Minutes; Japanese CPI

- **MON**: G20 (Brazil)
- **TUE**: NBH Policy Announcement; RBA Minutes (Nov); EZ Indicator of Negotiated Wage Rates (Q3), EZ HICP (Final), US Building Permits/Housing Starts (Oct), Canadian CPI (Oct)
- **WED**: UK CPI (Oct), German PPI (Oct)
- **THU**: CBRT & SARB Policy Announcements; UK PSNB (Oct), US Initial Jobless Claims (w/e 16th Nov), Philadelphia Fed (Nov), Existing Home Sales (Oct), EZ Consumer Confidence Flash (Nov), Japanese CPI (Oct), Australian Flash PMIs (Nov)
- **FRI**: UK GfK (Nov), Retail Sales (Oct), EZ, UK & US Flash PMIs (Nov), Canadian Retail Sales (Sep), US Uni. of Michigan Final (Nov)

RBA MINUTES (TUE): The minutes as usual will be dissected for any commentary regarding potential policy steps ahead, whilst it was already telegraphed that the Board did not actively consider a rate hike or cut – just as in September. As a reminder, the most recent meeting saw a lack of fireworks from the RBA meeting, where it opted to keep the Cash Rate unchanged for the 8th consecutive meeting which economists had unanimously forecast. The rhetoric provided little fresh insight as it reiterated that the board will continue to rely upon the data and evolving assessment of risks, as well as noted that inflation remains too high and is not expected to return sustainably to the midpoint of the target until 2026. Furthermore, it stated that policy will need to be sufficiently restrictive until the board is confident that inflation is moving sustainably towards the target range and it repeated that the board is not ruling anything in or out. The latest quarterly Statement on Monetary Policy noted that core inflation remains elevated with service inflation expected to decline only gradually and that policy in Australia is not as restrictive as in most peer countries, even after recent rate cuts abroad, while the RBA lowered its GDP, household consumption, trimmed CPI and core inflation forecasts. The post-meeting press conference also provided little in the way of fresh clues as RBA Governor Bullock stated that the last part of bringing inflation down is not easy and rates need to stay restrictive for the time being, while she thinks there are still risks on the upside for inflation but noted they will be ready to act if the economy turns down more than expected. Furthermore, she said they have the right settings at the moment and there were no discussions on specific scenarios for rate changes, as well as stated the current Cash Rate path priced by the market is as good as any.

CANADIAN CPI (TUE): The Canadian inflation data will be used to confirm the BoC's victory on inflation with focus now turning to supporting growth, hence their 50bps rate cut in October. It also noted that inflationary pressures are no longer broad based, and they are seeing business and consumer inflation expectations largely normalised. The BoC largely believe they can continue with the easing process and keep inflation within the BoC's 1-3% target range, noting the timing and pace will be guided by incoming information and the assessment of implications for the outlook, noting decisions will be made meeting by meeting. Looking ahead, the latest forecasts saw the 2024 and 2025 CPI forecasts lowered while the 2024 Q4 forecasts saw Y/Y CPI ease to 2.1% from 2.4% and core inflation rise to 2.1%. Money markets are currently pricing in 33bps of easing for the next meeting in December, which implies a 66% probability of a 25bps rate cut, but with a 33% probability of another 50bps rate cut. A hot inflation report could see money markets start to unwind the pricing of another 50bps move, but with focus shifting to economic growth, GDP and labour market data will also be eyed.

UK CPI (WED): Expectations are for the Y/Y to tick up to 2.2% from 1.7% while the core figure is seen moderating slightly to 3.1% from 3.2%. As a reminder, the prior release showed headline Y/Y CPI in September fell to 1.7% from 2.2%; below target for the first time since April. Furthermore, core Y/Y declined to 3.2% from 3.6% and the all-important services metric slowed to 4.9% from 5.6%. This time around, Pantheon Macroeconomics looks for a pick-up in headline inflation to 2.2% on account of Ofgem's 9.5% hike to the energy utility price cap, combined with "last October's utility price cut dropping out of the inflation calculation". Note, an outturn of 2.2% would be 40bps below the last MPC forecast with Pantheon suggesting that most of the discrepancy will likely be on account of falling petrol prices. On services inflation, the consultancy expects an uptick to 5.0% which would match the MPC's November MPR forecast. For policy, the release will be scoured to see if there are any elements which could bring a December cut back into contention, or further pare expectations for a move, with markets currently ascribing less than a 20% chance of a 25bps cut in December; as a reminder, November's CPI will be published the session before the BoE rate announcement.

CBRT ANNOUNCEMENT (THU): The Turkish Central Bank is expected to maintain its One-Week Repo Rate at 50.00%. Desks were split on a December cut, but recent CPI data topped expectations and did not slow as much as had been hoped, whilst the CBRT in its final inflation report of the year raised its 2024 inflation forecast to 44% (prev. 38%), raised its 2025 forecast to 21% (from 14%) and raised its 2026 forecast to 12% (from 9%) – implying a delay in Türkiye's disinflation process. That being said, analysts at ING suggest that "While addressing structural challenges related to food and rent inflation, the CBT's relatively positive assessment of the October data and projected inflation path suggests that a rate cut in December should not be fully ruled out if we see more benign data releases in November. That said, economic activity may be headed for a further slowdown given the significantly tight financial conditions, and a deeper-than-expected impact could also be a key factor in the timing of the cutting cycle."

SARB ANNOUNCEMENT (THU): Expected to deliver a 25bps cut, bringing its interest rate down to 7.75% from 8.00%, according to 20/22 respondents to the Reuters survey; the remaining two look for a 50bps move. The median forecasts then point to further cuts in January, March & May taking the rate to a 7.00% trough. As a reminder, headline annual inflation slowed to 3.9% in September vs the prior 4.4%; which is below the mid-point of the Bank's target range; paving the way for further easing. Analysts at Standard Chartered, wrote that "we think the SARB will want to proceed cautiously, monitoring global risks and any consumption boost from South Africa's recent Two Pot Pension Reforms". In terms of the prior meeting, the SARB delivered a 25bps cut for the first time since COVID; a unanimous decision which matched analyst expectations. The accompanying statement noted that "as long as headline inflation stabilises at lower levels, we anticipate further progress in re-anchoring expectations around the middle of our target range".

JAPANESE CPI (THU): There are currently no expectations for the Japanese CPI data, whilst the preceding Tokyo CPI release saw Core CPI above consensus but still down from the prior month. ING suggests in their view, "the BoJ is likely to take a closer look at yen movements. The yen has depreciated by almost 4.5% against the dollar over the past month, raising the possibility of higher import costs and a subsequent overshooting of inflation. As for the Bank of Japan raising interest rates, we believe it is only a matter of time and that this should materialise in either December or January. We see a slightly higher probability of a December hike than a January hike, as we expect the JPY depreciation to continue for a while and for upcoming inflation data to provide more evidence of growing inflationary pressures. If this is confirmed, the Bank of Japan is likely to hike 25bp in December." The next BoJ announcement is scheduled for December 19th.

UK RETAIL SALES (FRI): Expectations are for October’s M/M figure to come in at -0.2% (prev. 0.3%) though the consensus is subject to a wide forecast range of -0.6% to 0.2%. In terms of recent retail indicators, BRC retail sales for October rose 0.3% Y/Y (prev. 1.7%) with the accompanying release noting “After a good start to Autumn, October’s sales growth was disappointing. This was in part driven by half term falling a week later this year, depressing the October figures, and November sales will likely see more of a boost. Uncertainty during the run-up to the Budget, coupled with rising energy bills, also spooked some consumers”. Elsewhere, the Barclaycard consumer spending report observed “Overall Retail spending increased by 0.7% in October 2024, a third consecutive month of growth as the sector continues its recovery. In particular, spend at General Retailers & Catalogues increased by 6.0%, the highest growth for the category since February 2024 (6.9%), whilst spend at Department Stores increased by 4.7%, as consumers were incentivised by retailer’s promotional activities”.

EZ FLASH PMI (FRI): November’s Flash PMIs will be one of the first reads into the bloc post-Trump’s victory in the US Presidential election. Thus far, we have seen November ZEW for the bloc and Germany, with metrics for the regions coming in markedly shy of expectations. For Germany specifically, attached commentary highlighted that "economic expectations for Germany have been overshadowed by Trump's victory and the collapse of the German coalition" with the release clarifying that US political developments were likely the primary cause of pressure in sentiment indicators. As such, market consensus looks for the manufacturing print to remain at 46.0 while Services is seen slipping to 51.5 from 51.6, which would push Composite back into a contraction at 49.9 from 50.0. However, some of the pressure could be offset by a boost in orders/stockpiling ahead of potential tariffs, a point raised by Pantheon’s Vistesen, who adds and reminds that tightening supply side developments can actually bolster the PMI, as seen during COVID.

UK FLASH PMI (FRI): PMIs are seen printing in-line with October’s figures after several months of pressure, though there are numerous factors in play. As a reminder, the prior release showed the October services PMI decline to 51.8 from 52.4, manufacturing slip into negative territory at 49.9 vs. prev. 50.3, leaving the composite at 51.7 vs. prev. 52.6. The accompanying release noted “The early PMI data are indicative of the economy growing at a meagre 0.1% quarterly rate in October". This time around, focus will be on what impact respondents expect the victory of US President Trump to have on the UK, with the narrative potentially different to that for the EZ; irrespective of this, the passing of political uncertainty around the election will be a positive. On politics, respondents will have had more time to digest the recent UK budget and thus may have formed more concrete views on the short/medium/long-term implications of it. Overall, Oxford Economics expect the PMIs to stabilise close to October’s figures after declining in the last few periods.