Week Ahead: 25th-29th November 2024

Highlights include US PCE, FOMC Minutes, RBNZ rate decision, EZ HICP, and Australian CPI

- **MON**: German Ifo (Nov), US National Activity Index (Oct)
- **TUE**: FOMC Minutes (Nov); US New Home Sales (Oct), Richmond Fed (Nov)
- **WED**: RBNZ Policy Announcement; Australian CPI (Oct), German GfK (Dec), US GDP 2nd (Q3), PCE Prices Prelim. (Q3), PCE Price Index (Oct), Initial Jobless Claims (23rd Nov), Durable Goods (Oct)
- **THU**: US Holiday: Thanksgiving. CBRT Minutes (Nov); EZ M3 (Oct), EZ Consumer Confidence Final (Nov), German CPI Prelim. (Nov), Japanese Tokyo CPI (Nov), Unemployment (Oct)
- **FRI**: German Retail Sales (Oct), French Prelim. CPI (Nov), German Unemployment (Nov), EZ HICP Flash (Nov), Canadian GDP (Q3)

FOMC MINUTES (TUE): At its November meeting, the FOMC cut rates by 25bps to 4.50-4.75%, in line with market pricing and analyst expectations, and in a unanimous decision. The statement saw some changes: it removed language that it "has gained greater confidence that inflation is moving sustainably toward 2%"; it also adjusted its explanation of why the Fed cut rates, to "in support of its goals," as opposed to "in light of the progress on inflation and the balance of risks." Fed Chair Powell confirmed in the press conference these changes were not meant to send a signal on policy, but the language beforehand was a test for the Fed to cut rates, and now that it has started to ease policy, that test has already been completed. The statement changes further confirmed the Fed's commitment that they are focused on both sides of the Fed's mandate, as opposed to just inflation. The Fed maintained language that risks to both sides of the mandate are "roughly in balance" and it still describes inflation as "somewhat elevated", while it acknowledged that labour market conditions have generally eased. In his Q&A, Powell noted the economy is strong, the labour market remains solid, and that inflation has eased substantially. He also noted that downside risks have diminished, and kept his options open again, noting that the FOMC can move more quickly or they can move more slowly, depending on how the economy reacts. Powell believes the Fed is on the "middle path," noting that they must be careful not to move too quickly, or too slowly. But they will be careful to increase the probability they get the easing process right. Since the meeting, money market pricing has become slightly more hawkish on the future trajectory for Fed rate cuts, following a string of strong economic data, and remarks from Fed Chair Powell himself. On inflation, Powell has said that it has eased substantially from its peak, and is on a sustainable path to the Fed's 2% goal; he expects inflation to continue to come down toward target, albeit on a sometimes-bumpy path; but while inflation was running much closer to our 2% target, it is not there yet, and the Fed is committed to finishing the job. Powell noted that recent economic data has been "remarkably good," where growth in consumer spending has remained strong, while the labour market remains in "solid condition," and is now back to more normal levels that are consistent with its employment mandate. On policy, he said the economy was not sending any signals that the Committee needs to be in a hurry to lower rates, and that the strength currently being seen gives officials scope to approach decisions carefully.

US PCE (WED): US monthly PCE is due on the 27th November ahead of Thanksgiving. With the monthly CPI and PPI data released, analysts can track the expected Core PCE print, which is the Fed's preferred gauge of inflation. The CPI report was largely in line with expectations but the PPI report was firmer-than-expected. UBS noted within the PPI report how the PCE components looked hot. Pantheon Macroeconomics highlighted that PPI portfolio management prices rose by 3.5%, while domestic air transportation prices rose by 8.8%, both larger than anticipated. Therefore, Pantheon Macroeconomics is revising its forecast for the increase in core PCE to 0.30% from 0.26%. Meanwhile, in wake of the CPI and PPI data, Fed Chair Powell said it is likely PCE rose 2.3% Y/Y in October (prev. 2.1%), with core climbing 2.8% (prev. 2.7%). The current consensus looks for Core PCE to rise 0.3% M/M with the headline rising 0.2%, both matching the prior month's pace. The data will be used to help shape December's Fed rate cut expectations, with money markets currently pricing in c. 14bps of easing, which implies a 56% probability of a 25bps rate cut at the meeting.

RBNZ POLICY ANNOUNCEMENT (WED): The RBNZ is expected to continue cutting rates with money markets pricing a 70% likelihood for the central bank to lower the Official Cash Rate by 50bps to 4.25% from the current 4.75% level and less than a 30% chance of a greater 75bps move. As a reminder the RBNZ delivered a 50bps cut to the OCR at the last meeting in October as widely expected by the majority of economists and which money markets had priced around a 93% likelihood of heading into the announcement. The RBNZ said at the meeting that New Zealand is now in a position of excess capacity and low import prices have assisted disinflation, while the Committee assessed annual consumer price inflation is within its 1-3% target and noted it was appropriate to cut the OCR by 50bps to achieve and maintain low and stable inflation. The Minutes from the meeting stated the Committee confirmed future changes to the OCR would depend on its evolving assessment of the economy and that they discussed the respective benefits of a 25bps versus a 50bps cut in the OCR but decided a 50bps cut at the time was the most consistent with the Committee's mandate of maintaining low and stable inflation. Furthermore, the central bank stated that the new OCR level of 4.75% is still restrictive and leaves monetary policy well-placed to deal with any near-term surprises. The comments from officials since then suggest the likelihood of further cuts as RBNZ's Orr suggested low and stable inflation is in sight and they must be cognisant of unanticipated risks ahead, while he added they must at times act swiftly to avoid perils and that New Zealand's monetary policy is still at a restrictive level. He added that the real economy is lagging a reduction in interest rates which is a concern and they can be more incremental and circumspect on the way down. RBNZ Deputy Governor Hawkesby also noted that domestic economic challenges remain, and unemployment is expected to rise further. The data releases also point to a cut after employment contracted in Q3 with Jobs Growth QQ at -0.5% vs. Exp. -0.4% (Prev. 0.4%), while CPI YY softened as expected to 2.2% vs. Exp. 2.2% (Prev. 3.3%) which is comfortably within the central bank's medium-term target of between 1% and 3%.

AUSTRALIAN CPI (WED): Australia's monthly CPI data for October will be eyed to see if there is further progress on bringing inflation down following the deceleration seen in the September monthly reading which saw the Weighted CPI YY print softer than expected at 2.10% vs. Exp. 2.40% (Prev. 2.70%). Australia's Bureau of Statistics noted the most significant price increases at the group level came from food and non-alcoholic beverages which rose by 3.3%, while alcohol and tobacco rose by 6.3% and housing costs climbed by 1.6%. However, the major driver for the lower headline CPI inflation was due to a fall in prices for electricity and automotive fuel as electricity costs fell 24.1% Y/Y and transport prices contracted by 3.8% with the decline in the former due to expanded Commonwealth Energy Bill Relief Fund rebates and state government rebates which were applied from July 2024. The release of the prior monthly inflation data coincided with the quarterly CPI figures for Q3 which were less convincing as they showed headline inflation was softer than expected but the Trimmed Mean and Weighted Median figures mostly topped forecasts with the RBA's preferred trimmed mean CPI remaining above the central bank's 2-3% target at 3.5% vs. Exp. 3.5% (Prev. 3.9%). Therefore, next week's data release is not likely to have major ramifications for the RBA meeting in December especially as the Minutes from the November meeting revealed the central bank saw no immediate need to change the Cash Rate and they had "minimal tolerance" for inflation above forecasts, while it also stated that they would need more than one good quarterly inflation report to justify a rate cut.

BOK POLICY ANNOUNCEMENT (THU): The central bank is likely to pause after cutting rates at the previous meeting in October. As a reminder, the central bank lowered its base rate by 25bps to 3.25% at the last meeting which was widely expected but with the decision not unanimous as board member Chang Yong-Sung dissented and the central bank also voted to lower the policy interest rate for special loan programmes. The BoK said it will thoroughly assess trade-offs among inflation, growth, and financial stability, as well as noted that South Korea's economy is to continue moderate growth and the BoK will carefully determine the pace of further cuts to the base rate. BoK Governor Rhee revealed after the meeting that five board members said keeping the policy rate at 3.25% is appropriate for the next three months and one board member was open to a further cut in the three months ahead, while Rhee added that the policy decision could be viewed as a hawkish cut. Furthermore, he said they will look at property prices, Q3 growth figures and the pace of household debt growth for the rate review in November, as well as noted that they will look at financial stability risks for any further rate reduction decisions and the pace of rate cuts will be slower in South Korea compared with the US. This suggests a lack of urgency for the central bank to follow through with a consecutive rate cut although recent data releases suggest a further reduction cannot be ruled out. Advanced GDP for Q3 missed forecasts at 0.1% vs. Exp. 0.5% (Prev. -0.2%) and YY at 1.5% vs. Exp. 2.0% (Prev. 2.3%), while the latest CPI data for October was also softer than expected with M/M at 0.0% vs. Exp. 0.2% (Prev. 0.1%) and Y/Y at 1.3% vs. Exp. 1.4% (Prev. 1.6%).

EZ HICP (FRI): Expectations are for an uptick in November's headline Y/Y HICP to 2.4% from 2.0% with the super-core metric expected to tick higher to 2.9% from 2.7%. As a reminder, the prior release saw an expected rise in headline inflation from its 3-and-a-half-year low at 1.7% on account of notable growth rates in food and energy inflation whilst services inflation held steady at 3.9%. For the upcoming report, analysts at Investec noted that the "upward lift to inflation this month is set to be driven by unfavourable base effects from services inflation and from goods prices where we suspect the rise in freight costs this year will provide an upward influence on price pressure". From a policy perspective, expectations around the ECB's December meeting saw a notable repricing in the wake of Friday's PMI metrics with odds of a 50bps cut rising to around 60% vs. circa 20% in the prior session. Absent a more pronounced pick-up in inflation and given the GC's focus on growth dynamics, as the event risk from the inflation report passes, calls for a 50bps could heighten. However, greater clarity will likely be required from central bank rhetoric and potential source reporting.

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