newsquawk

Week Ahead: 2nd-6th December 2024

Highlights include US NFP and ISM PMIs, OPEC+, Canada jobs, Swiss CPI and Australia GDP

- **SAT**: Chinese NBS PMIS
- **MON**: Chinese Caixin Final Manufacturing PMI (Nov), EZ, UK & US Final Manufacturing PMI (Nov), US ISM Manufacturing PMI (Nov), Construction Spending (Oct)
- **TUE**: Swiss CPI (Nov), US JOLTS (Oct)
- **WED**: NBP Policy Announcement; Australian Real GDP (Q3), China Caixin Services PMI (Nov), ES, UK & US Final Composite & Services PMIs (Nov), EZ PPI (Oct), US ADP (Nov), US ISM Services PMI, Factory Orders (Oct)
- **THU**: OPEC+ meeting, Swiss Unemployment (Nov), German Industrial Orders (Oct), Swedish CPIF Flash (Nov), EZ Construction PMI (Nov), US Challenger Layoffs (Nov), Initial Jobless Claims (w/e Nov. 30th), Canadian Trade Balance (Oct)
- **FRI**: RBI Policy Announcement; German Industrial Output (Oct), UK Halifax House Prices (Nov), EZ GDP Revised (Q3), US NFP (Nov), Uni. of Michigan Prelim. (Dec), Canadian Labour Market Report (Nov)

CHINESE NBS PMIS (SAT): Expectations are for the manufacturing PMI to rise to 50.2 from 50.1 with no consensus for the other metrics. Overall, participants will be eyeing if there is a continuation of the improvement seen last month. As a reminder, China's October PMI figures were mixed as Manufacturing PMI topped forecast at 50.1 vs Exp. 49.9 (Prev. 49.8) which was a six-month high and surprisingly showed the first expansion since April. This was helped by an increase in the production sub-index which accelerated to 52.0 from 51.2 and new orders climbed to reach the 50 benchmark level from a previous 49.9, while Non-Manufacturing PMI for October missed forecasts at 50.2 vs Exp. 50.4 (Prev. 50.0) but along with Composite PMI of 50.8 (Prev. 50.4) and the aforementioned headline manufacturing number, all showed an acceleration from the prior month. The improvement in China's manufacturing and non-manufacturing activity follows a slew of measures the central bank and government agencies announced over the past two months such as the 50bps RRR cut which took effect in late September and with China's short-term funding rates slashed across the board including a 30bps cut in the 1-year MLF rate and 20bps reduction in the 7-day reverse repo rate, while the PBoC also announced a reduction in the benchmark 1-year and 5-year LPRs by 25bps in October. Furthermore, Beijing officials have conducted several press briefings over the last couple of months to outline and pledge support measures although some of these announcements ultimately underwhelmed as they either lacked firm details or more forceful measures that investors had hoped for including the Ministry of Finance's fiscal briefing and the NPC Standing Committee's debt swap plan.

US ISM MANUFACTURING (MON): The consensus looks for the ISM's manufacturing gauge to rise to 47.5 in November from 46.5 in October. As a comparison, S&P Global's flash PMI data for November showed the Manufacturing PMI rising to 48.8 from 48.5, a deterioration in business conditions for a fifth successive month, though with the rate of deterioration moderated to the slowest since July. Manufacturing selling prices rose at a slightly increased rate, though manufacturing jobs rose for the first time in four months. S&P said that "a concern is that growth remains heavily reliant on the services economy, with manufacturing production declining at an increased rate," however, "the promise of greater protectionism and tariffs has helped lift confidence in the US good producing sector, which is already feeding through to higher factory employment." The report said factories were already stepping up purchases of imported inputs as they seek front-run tariffs, putting pressure on supply chains to a degree not seen for over two years. "Any further stretching of these supply lines could see prices move higher as demand outstrips supply," it added.

SWISS CPI (TUE): As it stands, there are currently no expectations for the release. As a reminder, the prior release saw a decline in Y/Y headline inflation to 0.6% from 0.8%; its lowest reading since June 2021. The pullback in price pressures was attributed to several factors including lower prices for hotels and international package holidays with Capital Economics noting that the release will increase concerns that the country could temporarily enter deflation next year. Focus for the upcoming release will be how the report shapes expectations for the December policy announcement. As it stands, markets assign a 72% chance of a 25bps cut to 0.75% and a 28% probability of a deeper move to 0.5%. Odds of the latter will likely surge if the release comes in on the soft side due to aforementioned fears of deflation in Switzerland. Indeed, there appears to be scope for larger moves by the SNB with SNB's Schlegel recently remarking that the Bank would be ready to implement negative rates again if needed. A dovish stance by the SNB could trigger a softer CHF and take some pressure off the Bank to intervene in the FX market. Beyond the upcoming release, Capital Economics expects inflation to average around 0.7% for the rest of the year and to drop sharply at the start of next year due to a large fall in electricity inflation.

US ISM SERVICES (WED): The expectation is for the ISM's services gauge to ease to 55.5 in November from 56.0 in October. As a comparison, the S&P Global flash PMI data for November showed services business activity rising to a 32-month high at 57.0 (prev. 55.0). The report also showed that services prices posted a modest rise, while new orders for services rose at a rate not seen since April 2022. "Average prices charged for goods and services rose only very modestly in November, the rate of inflation cooling to the lowest since prices began rising in June 2020," S&P Global said, "the latest easing pushed the rate of inflation further below the pre-pandemic long-run average, with an especially marked moderation of inflation seen in the services economy, where charges rose at the slowest rate since May 2020."

AUSTRALIAN GDP (WED): Australia's GDP data for Q3 is due next week and will provide a fresh insight into the health of the nation's economy after the modest economic growth seen during Q2 in which GDP QQ missed forecasts at 0.2% vs. Exp. 0.3% (Prev. 0.1%) and the YY growth matched estimates but slowed from the previous to 1.0% vs. Exp. 1.0% (Prev. 1.1%, Rev. 1.3%). Despite the soft reading, the economy still registered growth for the eleventh consecutive quarter which was facilitated by a 1.4% rise in government spending and as services exports returned to expansion with growth of 5.6% after having declined for the prior two consecutive quarters. Conversely, household spending contracted by 0.2% with discretionary spending lower by 1% and transport services fell 4.4% amid reduced air travel, while total investment was down 0.1% for the quarter. Nonetheless, the economy as a whole is likely to continue to show a modest expansion for Q3 with the latest figures for the quarter printing firmer than expected including stronger-than-expected Capital Expenditure of 1.1% vs exp. 0.9% and Construction Work Done at 1.6% vs exp. 0.3% which provides some encouragement given that the construction industry is the fifth-largest sector of the Australian economy and contributes to about 9-10% of GDP.

OPEC+ MEETING (THU): The OPEC+ and JMMC meeting, initially scheduled for Saturday, December 1st, has been pushed back to Thursday, December 5th, due to a clash with the Gulf Cooperation Council meeting in Kuwait. Focus will be on pushing back production increases. Reuters sources on November 28th suggested that OPEC+ is discussing delaying the oil output hike for Q1 2025, and is to hold further talks on policy in coming days after delaying its meeting. The reports also highlighted that UAE's scheduled oil output increase for

January is among issues to be addressed. These reports are similar to what Bloomberg had earlier reported; OPEC+ is starting talks on delaying an oil production restart again. Analysts at Commerzbank expect OPEC+ to postpone oil production increases until at least the end of Q1 2025, while Citi and HSBC look for the group to delay the unwinding of output cuts by a quarter to April 2025. At the Energy Intelligence Forum, the Gunvor CEO warned that OPEC+ has no room to increase production, while Vitol CEO expects OPEC+ to "manage the oil market" for the next 2-3 months. Aside from the production hike pushback, focus will likely lie on recent overproduction; an FT article highlights how the delay of the December meeting comes against the background of Russia, Saudi Arabia and Kazakhstan meeting, with discussions focusing on the latter's over production, while SPA reported that the three energy ministers stressed full commitment to OPEC+ voluntary cuts. FT also pointed out that Russia and Saudi energy ministers also visited Iraq earlier in the week, another over producer.

RBI POLICY ANNOUNCEMENT (FRI): The RBI is widely expected to keep rates unchanged as a recent Reuters poll showed 62 out of 67 economists expect the RBI to keep the Repurchase Rate unchanged at the current level of 6.50% and the rest expect a 25bps cut which is a considerable shift from a survey conducted in the latter half of October that showed a near-even split between a hold and a 25bps cut for the December meeting. As a reminder, the central bank unsurprisingly kept the Repurchase Rate unchanged at 6.50% via a 5-1 vote (prev. 4-2) and unanimously decided to switch to a neutral stance from a previous stance of remaining focused on the withdrawal of accommodation which was seen as paving the way for future cuts. Governor Das stated during the policy address that a moderation in headline inflation was expected to reverse in September and will remain elevated in the near term, while food inflation pressures could see some easing later in the year and the MPC is to remain watchful of the evolving outlook in coming months. The minutes from the meeting provided some insight into the thinking of the MPC’s three new external members including Nagesh Kumar who was the lone dissenter at the meeting and voted for a 25bps cut as he believed it was an opportune moment for the RBI to start the process of normalising monetary policy. The rhetoric from the central bank since then points to a lack of urgency to act as Governor Das stated that a rate cut at this stage would be premature and risky, while he was relatively tight-lipped after Commerce Minister Goyal called for interest rate cuts to stimulate economic growth and suggested food price inflation should not play a role in the RBI interest rate decisions, with Das responding that he would reserve his remarks until the December monetary policy review. Furthermore, a weak currency which recently hit fresh record lows against the dollar and prompted several touted interventions could also compel the central bank to refrain from cutting rates. Furthermore, data also supports the case for a pause as CPI Inflation YY for October rose to outside the central bank’s 2-6% tolerance range at 6.21% vs. Exp. 5.81% (Prev. 5.49%) and Industrial Production YY in September rebounded to 3.1% vs. Exp. 2.5% (Prev. -0.1%).

US NONFARM PAYROLLS (FRI): The consensus looks for the US economy to add 183k nonfarm payrolls to the economy in November, following the +12k gain in October (the low number was a function of weather and strike-related disruptions; the BLS itself said it was unable to specifically quantify the impact of these events). With the effects of the Hurricanes and Boeing strikes now behind us, those jobs will be added back to the economy. ING highlights that the state data for October shows 109k as a base for the November report before considering any payroll growth. The 44k striking workers have returned, and the c. 65k who were not counted due to the Hurricane's will be included in the November data. The unemployment rate is seen unchanged at 4.1% (in its September projections, the Fed forecast this rate rising to 4.4% by the end of this year), while the pace of average hourly earnings is seen easing a touch to +0.3% M/M (vs +0.4% in October). Initial jobless claims for the week that coincides with the BLS survey window eased to 215k heading into the November data (vs 242k for the comparable period in October), while continuing claims picked up from 1.888mln to 1.907mln. Pantheon Macroeconomics said "the recent pick-up in continuing claims broadly supports the idea that the flow of initial claims still is high enough for unemployment to continue to rise," but it is "a fool’s errand" to attempt to precisely forecast the month-to-month changes in the unemployment rate using the continuing claims data." That said, PM forecasts that the unemployment rate likely increased to 4.2% in November based on its call that payrolls now are rising below their break-even pace. Meanwhile, Capital Economics says that there is a risk of larger than usual revisions to payroll gains from the previous two months, noting that initial response rates for the October establishment survey was at a 33-year low. The Fed's recent meeting minutes gave no explicit indication on whether the central bank would pause on rates at its December confab, or proceed with another 25bps reduction; analysts said the debate will be tilted based on incoming jobs and inflation data. Currently, money markets are assigning a 66% chance of a 25bps reduction on December 18th.

CANADIAN LABOUR MARKET REPORT (FRI): The Canada jobs data for November will help shape expectations for the December 11th BoC meeting. Money market expectations are leaning towards a 25bps rate cut following the central bank's 50bps rate reduction at its last meeting. Money markets were initially split between a 25bps and 50bps rate cut, but the resurgence of inflation has seen the probability of a 50bps cut revert to around 20%. At the last meeting, the BoC largely declared victory on inflation, noting that the 50bps cut was to support economic growth and keep inflation close to the middle of its target range. A soft labour market report may start to see the chances of a 50bps rate cut pick-up again. The prior jobs report saw a rise in full time jobs, but decline in part time jobs, seeing the employment change at 14.5k, beneath the 25k forecast and slowing from the prior 46.7k. In wake of the data, but before the latest hot inflation data, Goldman Sachs announced it expects the BoC to cut by 50bps in December.

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