Week Ahead 16-20th Dec: Highlights include FOMC, BoJ, BoE, PBoC LPR, PMI data, US PCE and Retail Sales

- **MON**: Chinese Industrial Output, Retail Sales & House Prices (Nov), German WPI (Nov), EZ Wages (Q3),EZ, UK & US Flash PMIs (Dec), NY Fed Manufacturing (Dec)
- **TUE**: UK Unemployment Rate (Oct), German Ifo (Dec), EZ Trade Balance (Oct),German ZEW (Dec), US Retail Sales (Nov), Industrial Production (Nov), Canadian CPI (Nov), Japanese Trade Balance (Nov)
- **WED**: FOMC Policy Announcement; UK CPI (Nov), EZ Final HICP (Nov), US Building Permits & Housing Starts (Nov)
- **THU**: BoE, BoJ, Norges Bank, Riksbank& CNB Policy Announcements, European Council Meeting (1/2); German GfK (Jan), EZ Current Account (Oct), US GDP (Q3), Initial Jobless Claims (w/e 14th), Philly Fed (Dec), Existing Home Sales (Nov), New Zealand Trade Balance (Nov), Japanese CPI (Nov)
- **FRI**: PBoC LPR, CBR Policy Announcement, European Council Meeting (2/2), Quad Witching; German Producer Prices (Nov), UK Retail Sales (Nov), PSNB (Nov), US PCE (Nov), Personal Income (Nov), Uni. of Michigan Final (Dec), Canadian Retail Sales (Oct)

CHINESE ACTIVITY DATA (MON): Chinese Retail Sales are expected to have dipped to 4.6% in November (vs 4.8% in October), with Industrial Output seen steady at 5.3% and Urban Investments expected to tick higher to 3.5% from 3.4%. Using the Caixin PMI as a proxy, the release suggested “The expansion of China's manufacturing sector accelerated midway through the final quarter of the year. Higher new work inflows, including from abroad, led to a solid rise in production. Purchasing activity and inventory levels also rose as confidence about the year ahead grew.” Meanwhile for Retail Sales, the release noted that “anecdotal evidence suggested that firms were hopeful that better economic conditions and government policy support could lift sales. Conversely, other companies were concerned about the outlook for global trade and rising competition.” The data will be used to provide a prognosis of the Chinese economy but may prove to be stale after China recently eased its overall monetary policy stance, whilst the Central Economic Work Conference is still ongoing at the time of writing.

UK FLASH PMIS (MON): Expectations are for December’s services PMI to nudge higher to 51.0 from 50.8. No consensus for the other metrics have been published by Reuters at the time of writing. However, Investec forecasts the manufacturing PMI at 47.0 vs. prev. 48.0, leaving the composite at 50.1 vs. prev. 50.5. As a reminder, the prior release saw the all-important services metric slip to 50.8 from 52.0, manufacturing fell to 48.0 from 49.9, leaving the composite at 50.5 vs. prev. 51.8. The accompanying release noted, “optimism was the lowest since December 2022 amid reduced confidence in both manufacturing and services”. This time around, Investec looks for a further moderation in the data as “corporates appear to remain downbeat over the tax measures in the Budget, judging by various surveys and anecdotal evidence”. Furthermore, “…the weak economic backdrop of some of the UK’s key trading partners, such as Germany, is likely to also have weighed on the index”. From a policy perspective, the release may cause some short-term gyrations in market pricing. However, markets will be more fixated on upcoming labour market and inflation data ahead of the BoE announcement on Thursday.

EZ FLASH PMIS (MON): Expectations are for December’s manufacturing PMI to fall to 45.0 from 45.2, services to tick lower to 49.4 from 49.5, leaving the composite at 48.1 from 48.3. As a reminder, the prior release saw the EZ-wide manufacturing PMI fall to 45.2 from 46.0, services decline to 49.5 from 51.6, leaving the composite at 48.3 vs. prev. 50.0. The accompanying release noted, “central to November’s drop in activity levels was the service sector, which posted its first decline in output since the beginning of the year. Factory production volumes fell for a twentieth successive month, the longest sequence of contraction in the survey history”. This time around, analysts at Investec note that it sees “little in the last month to alter the current trajectory. If anything, the latest developments provide further negative news for the outlook given the political troubles in France and rising European concerns over President-elect Trump’s trade policies”. From a policy perspective, as the dust settles on the ECB’s December 25bps cut, markets are now looking ahead to the ECB’s easing plans in 2025. As it stands, around 39bps of easing is priced for the January meeting. Given the bank’s focus on the Eurozone’s growth outlook, a soft outturn could heighten calls for a 50bps reduction next month.

UK LABOUR MARKET DATA (TUE) : Expectations are for the unemployment rate in the 3-months to October to hold steady at 4.3%, 3M/YY headline earnings growth to rise to 4.6% from 4.3%. No consensus has been released for employment change at the time of writing, however, MS pencils in a 10k figure vs. prev. 220k. As a reminder, the prior release saw a larger-than-expected increase in the 3-month unemployment rate to 4.3% from 4.0%, employment change slowed to 219k from 373k and headline 3M/YY average earnings rose to 4.3% from 3.9%. A lot of attention was placed on the unemployment rate, however, given the data reliability issues at the ONS, this should be taken with a pinch of salt. Analysts at ING highlight that all the rise in the unemployment rate did was “reverse an equally strange dip in the unemployment rate from earlier in the summer”. This time around, economists at Pantheon Macroeconomics highlight that “we think the unemployment rate is rising gradually and job growth has stalled, but we see little hard evidence of a sharp hiring fall. So, we assume payrolls were unchanged month-to-month in November”. On the wages front, the consultancy highlights stubbornly strong pay growth in the DMP and Indeed wage tracker and as such, expects “private-sector ex-bonus pay to beat the MPC’s forecast of 5.1% year-over-year growth in Q4”. From a policy perspective, if wage growth comes in as expected, this will underscore the view that the MPC will likely refrain from cutting rates later in the week.

US RETAIL SALES (TUE): US retail sales are expected to rise +0.5% M/M in November (prev. +0.4%), while the ex-autos measure is seen rising +0.4% M/M (prev. +0.1%). Bank of America's monthly consumer checkpoint data stated that consumer resilience showed no sign of waning in November, with its aggregated credit and debit card data showing spending per household was up +0.6% Y/Y. "Moreover, spending on holiday items in the two weeks around Thanksgiving was 6.1% higher this year compared to 2023’s holiday period," the bank wrote, noting that travel has been a strong theme this year, while gasoline transactions rose over the Thanksgiving period; that said, BofA said that total gas spend amount was down due to falling gas prices, which provided a boost to consumers’ wallets. Ahead, BofA says its robust internal deposit data on after-tax wage growth suggests that consumers have enough firepower to keep spending as we enter 2025, adding that while 'dry powder' in the form of savings buffers or spending on credit cards may be diminished, it has not exhausted.

CANADIAN CPI (TUE): The Canadian inflation data will be eyed to see if the rise in inflation in October was just a blip or perhaps if pricing pressures are reigniting. The data also follows the December rate decision from the BoC, which saw the central bank cut by 50bps, but signal a slowdown of easing ahead with the BoC now approaching neutral territory (rates are currently at the top end of the BoC's neutral rate estimate). The Bank dropped the language about it being reasonable to expect further rate cuts if the economy evolves in line with forecast, but it will evaluate the need for further rate cuts one decision at a time, with decisions guided by incoming information and their assessment of the implications for the inflation outlook. Despite the recent uptick in inflation, the BoC still went ahead with a 50bps move and maintained their language behind the 50bps rate cut, stating it is to support economic growth and keep inflation close to the middle of their target. The decision implies the BoC were not too concerned with the recent move higher in inflation. Meanwhile, looking ahead, BoC Governor Macklem said they expect the GST tax holiday to temporarily lower inflation to around 1.5% in January, but that will be unwound after the break ends in mid-February. He also stated that their policy focus now is to keep inflation close to target, so any further acceleration would likely be a concern- but with a slowing economy it is likely to keep a lid on upside in inflation. One source of uncertainty is the potential tariff proposals from US President-elect Trump in 2025. Bloomberg sources reported that Canada is considering an export tax on Uranium, oil and potash if Trump imposes tariffs on Canada.

FOMC POLICY ANNOUNCEMENT (WED): The FOMC is expected to lower its Federal Funds Rate target by 25bps to 4.25-4.50% at its December 18th confab, according to a Reuters survey. Analysts then expect the central bank to pause on rates in January, amid some concerns about rising inflation risks, with price pressures potentially set to rise due to President-elect Trump's proposed tariffs and tax cuts. Money market pricing has become more dovish in the wake of the November jobs, CPI and PPI data; as this goes to publication, money markets are pricing around a 94% chance of a 25bps rate cut, and then see only a c.20% chance of another reduction in January. The headline payrolls bounce back was a function of a rebound after the end of strikes and a reversal of hurricane effects, while the rate of slack was judged to increase despite rising wages (Chair Powell will next week likely reiterate that wage gains are not expected to fuel inflation in the short-term). Meanwhile, the inflation data was largely seen as benign for the Fed, with some analysts pointing out that the details of the November release demonstrated progress on some of the stickier components of inflation, like housing. The Fed will update its quarterly economic projections, and the forecasts for core PCE are expected to be revised up; Pantheon Macroeconomics states that "the median forecast among FOMC participants for the average Q4 Y/Y rate will rise to 2.8%, from 2.6% in the September, because the M/M increases were bigger than anticipated in both September and October," and adds that "this upside surprise will bolster the case for a pause in January, which is already well made by elevated uncertainty over the incoming administration’s economic policy plans." Further out, Reuters poll finds that the majority of economists see the FFR falling to between 3.50-3.75% or lower by the end of 2025. Traders will carefully watch the Fed's projection for the Federal Funds Rate in the longer-run (currently 2.9%) for clues about how much the Fed could cut rates ahead. NY Fed President Dudley, in a Bloomberg TV interview, said that he expects the neutral rate estimate will be revised up. He also highlighted that the upcoming Summary of Economic Projections will not include impact from tariffs as the Fed does not front-run fiscal policy.

UK INFLATION (WED): Expectations are for Y/Y CPI to rise to 2.5% from 2.3%, core CPI Y/Y to increase to 3.6% from 3.3%. As a reminder, the prior release saw headline Y/Y CPI rise to 2.3% from 1.7% with the upside driven by an increase in the energy price cap. Beyond the headline, core Y/Y CPI advanced to 3.3% from 3.2%, whilst services inflation ticked higher to 5.0% from 4.9%; matching the MPC’s forecast. ING noted at the time that the so-called “core services” inflation fell from 4.8% to 4.5%, which is “quite a different story from what the headline services number is telling us”. This time around, analysts at Morgan Stanley expect headline Y/Y CPI to rise to 2.5%, driven by “unflattering base effects in fuel and core goods prices”. Beyond the headline, MS notes that “payback from last year's Black Friday discounts should drive an uptick in core goods inflation, which we see rising to 0.9%Y”. For the all-important services inflation metric, the desk anticipates “a strong 4.9%Y print, and a decent chance the figure rounds up to 5.0%Y”. From a policy perspective, it is unlikely that the release will have any sway on the BoE’s policy decision on Thursday with just 3bps of easing priced in. However, an out-of-consensus report could have some impact on 2025 pricing which currently sees around 73bps of loosening by the end of 2025.

BOE POLICY ANNOUNCEMENT (THU): Expectations are for the MPC to hold the Base Rate at 4.75% with markets assigning a 90% chance of such an outcome. The decision to keep rates unchanged will likely come via an 8-1 vote split with Dhingra the lone dissenter. The backdrop to the upcoming meeting has seen October Y/Y CPI rise to 2.3% from 1.7% with the upside driven by an increase in the energy price cap. Beyond the headline, core Y/Y CPI advanced to 3.3% from 3.2%, whilst services inflation ticked higher to 5.0% from 4.9%; matching the MPC’s forecast. On the growth front, M/M GDP in October showed a contraction of 0.1% vs. expectations of a 0.1% expansion. More timely data from S&P showed the all-important services metric slipped to 50.8 from 52.0, manufacturing fell to 48.0 from 49.9, leaving the composite at 50.5 vs. prev. 51.8. In the labour market, data reliability issues persist, however, the broad consensus is that the labour market is gradually easing whilst wage growth remains stubborn. Overall, despite some concerns on the growth front, the pick-up in inflation is likely to keep policymakers cautious. Pantheon Macroeconomics is of the view that the “data give some support to the most hawkish of the MPC’s three scenarios”. Furthermore, commentary from officials has continued to show that the consensus on the MPC is for a “gradual” lowering of interest rates. As such, the policy statement will likely reiterate that “a gradual approach to removing policy restraint remains appropriate”. Looking beyond the upcoming meeting, focus has been on a recent interview with Governor Bailey in the FT with the policy Chief noting that he sees four 25bps rate cuts in 2025. However, this merely reflected market pricing at the time of the last MPR. As it stands, markets look for 73bps of easing in 2025.

BOJ POLICY ANNOUNCEMENT (THU): The BoJ will hold its final policy meeting of the year next week, with a decision expected shortly after the FOMC’s anticipated interest rate cut. The latest sources suggested the BoJ is leaning toward keeping rates steady next week, according to Reuters sources. Sources added there is no consensus within the bank on the final decision, some believe conditions have been met for a December hike. Sources also said the BoJ could hike if the FOMC decision triggers a JPY selloff. The latest Reuters poll suggests the BoJ is to hold the key interest rate at 0.25% in December, according to 58% of economists polled (vs 44% in the Nov poll), while 51 of 52 economists say the central bank will hike to 0.50% by the end of March 2025. Markets currently assign a 23% chance of a 25bps hike. BoJ Governor Ueda telegraphed that a hike is on the horizon but remains non-committal about the timing. Recent sources meanwhile suggested the BoJ reportedly sees little cost in waiting for the next rate hike, according to Bloomberg, citing current prices. Should the BoJ decide to keep rates steady, attention will shift to Ueda's guidance on future policy direction and any hints at upcoming actions, especially ahead of the January meeting. Analysts at Goldman Sachs expect the Bank of Japan to remain on hold at 0.25% at the December meeting as they think the central bank “has not yet reached a situation where it can judge that it has sufficient confidence in the outlook”, with GS’ base case looking for a hike in January 2025.

NORGES BANK POLICY ANNOUNCEMENT (THU): Norges Bank is expected to keep its key rate unchanged on Thursday at 4.50%; as a reminder, the September MPR implied a 20% probability of a rate cut at the December meeting, with a full rate cut to be delivered by March 2025. In terms of recent inflation metrics, core Y/Y cooled from the prior to 3% but at a slower rate than analysts had expected; this is in-line with Norges Bank’s forecast, and as such further diminishes the chance of a 25bps cut. For reference, money markets currently assign a 12% probability of such a move, and analysts over at SEB agree and favour a first cut to be delivered in March. On FX developments, at the last meeting, Norges Bank once again brought the NOK into focus, noting that the "krone has been a little weaker than assumed" - a factor which has continued to play against any dovishness at recent meetings. Since the last meeting, the NOK has appreciated a touch, which may help to ease some concerns at the Bank. And finally, the recent Regional Network report for Q4 confirmed the slow but continuous growth in the economy; which should provide enough confidence for the Bank to stick to its current guidance.

RIKSBANK POLICY ANNOUNCEMENT (THU): Expected to cut by 25bps after delivering a 50bps cut to 2.75% (as expected) at the November meeting. A meeting which was accompanied by communication that the rate could be lowered in December and also H1-2025, guidance which was reiterated from September and has been repeated by officials in recent weeks. The November inflation report saw CPIF ex-energy lift to 2.4% Y/Y (prev. 2.1%). Overall, the reiteration of above guidance around December and H1-2025 means that another cut is likely while the uptick in CPIF in November means a 25bps cut is more likely than another 50bps move.

JAPANESE CPI (THU): Japanese CPI for November will be released in the session after the BoJ rate decision, but could be of note for the upcoming BoJ meetings in Q1 2025, with policymakers attentive to all data. There are currently no expectations for the release, but the Core Tokyo CPI (seen as a leading indicator for the nationwide release) for November accelerated more than expected to 2.2% (exp. 2.1%, prev. 1.8%). The core CPI rise in November was partly due to a phase-out of utility subsidies from November, according to desks. The latest

Reuters poll suggests the BoJ is to hold the key interest rate at 0.25% in December, according to 58% of economists polled (vs 44% in the Nov poll), while 51 of 52 economists say the central bank will hike to 0.50% by the end of March 2025.

PBOC LPR (FRI): There are currently no forecasts for what the PBoC may opt to do to the Loan Prime Rate (LPRs) following the recent shift announced by the Politburo which said China's fiscal policy is to be more proactive next year, and monetary policy is to be moderately loose (prev. prudent), marking the first shift in the stance of monetary policy since 2011. As a reminder, in November, the PBoC left its one-year LPR unchanged at 3.1% and the five-year unchanged at 3.6%. Desks have previously anticipated that further rate cuts might be limited by external pressures, notably the economic policies of US President-elect Trump. Recent reports suggested China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariff looms, via Reuters citing sources, "The contemplated move reflects China's recognition that it needs bigger economic stimulus to combat Trump's threat of bigger tariffs", the sources added.

UK RETAIL SALES (FRI): Consensus looks for a 0.5% M/M increase for November's retail sales report vs. the 0.7% contraction seen in the prior month. In terms of recent retail indicators, BRC Retail Sales fell 3.4% Y/Y in November with the accompanying release noting "Retailers will be relieved that consumers were holding back their November buying for Black Friday week promotions, rectifying the disappointing retail sales levels seen during the rest of the month. Black Friday week saw growth of nearly 6% on last year, with nearly all categories up, except furniture sales". Elsewhere, the Barclaycard Consumer Spending Report noted "overall Retail spending fell -2.0% in November 2024 when compared to this time last year. This is the lowest year-on-year growth since June 2024 (-2.6%), as November's cold snap deterred shoppers from visiting the high-street". The release is unlikely to have much of an impact on BoE pricing.

US PCE (FRI): After the latest CPI and PPI inflation reports, the WSJ's Fedwatcher Nick Timiraos said that forecasters have lowered projections for core PCE inflation, the Fed's preferred gauge, and now estimate it will rise +0.13% M/M in November (vs +0.3% M/M in October), which annualises to 1.6%, and would hold the 12-month rate of core PCE at 2.8% Y/Y; it would also see the 6-month annualised rate to rise to 2.4% from 2.3% in October (assuming no revisions to prior months), while it would see the 3-month annualised rate to drop to 2.7% from 2.8%. Bank of America, sees core PCE rising 0.1% M/M, said if it is correct in its view, it would be welcome news for the Fed following two consecutive months of 0.3% M/M prints. That said, BofA said the outlook ahead was "murky"; "if our forecast proves correct, it would be a relief and leave us less worried about the recent trajectory of inflation, and moreover, it increases our conviction that the Fed will cut in December." But the bank adds that "the outlook beyond that remains murky, as progress on inflation has stalled of late, and there are upside risks to inflation on the horizon." The bank sees the Fed slowing the cadence of interest rate reductions in 2025 to once per quarter from every meeting, and maintains its terminal rate forecast of between 3.75-4.0%.