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WEEK IN FOCUS

The following report is aimed at giving you a concise preview of the major events and themes forthcoming in the week ahead



WEEK IN FOCUS: Is Anyone Tired Of Politics Yet? Oh And The RBNZ Meets As Well….

Key Events: -

Monday: UK-EU Brexit Talks Commence

Tuesday:

Wednesday: UK GDP (Q2, F)

Thursday: RBNZ MonPol Decision, US GDP (Q2, F)

Friday: US PCE Price Data (Aug), Eurozone Inflation (Sep, P), Canadian GDP (Jul)

Politics: -

The **German Federal Election** will be held on Sunday 24th September. German Chancellor Merkel is widely expected to win re-election with her CDU. party. This would leave the CDU with three main options; either build another grand coalition with the SPD or the FDP or form a three-way coalition with the FDP and Green party. Whichever path Merkel takes will likely be a long and difficult one. HSBC suggest that a CDU/CSU-led government would most likely ensure a degree of policy continuation. Focus for markets will potentially be based more on the ramifications for Europe than on domestic issues. Merkel has been touted to push further for European integration (potential Eurozone budget, finance minister etc.) and although the SPD's manifesto is relatively light on details for Europe, they'd be expected to follow suit with the CDU/CSU should they form a coalition. Conversely, should the CDU/CSU approach the FDP over a potential pact, then Merkel's plans for deeper integration of the bloc could face some hurdles with the FDP holding the view that member states should operate with more individual accountability and oppose joint liabilities. In the event of a CDU/CSU, FDP and green coalition, views on Europe would differ across the pact with the Greens very much pro-EU, this could make coalition building process even more difficult.

New Zealand's general election will take place on Saturday 23rd September. The election is expected to be very tight, with incumbent National Party attempting to secure a fourth consecutive term in office, while the opposition Labour Party's hopes were recently revived via a late leadership change, with its new leader Jacinda Ardern riding a popularity wave dubbed "Jacinda-mania." Although her support has waned in the final opinion polls. The latest Radio New Zealand poll of polls has the National Party on 44.4% against Labour's 39.9%. A win for the National Party is seen as NZD-positive as it would maintain the status quo under ex-finance minister and current PM Bill English. Conversely, a victory for Labour could pressure the NZD given the uncertainty of a new, untested government. A change in ruling party would also likely impact the RBNZ as the opposition has called for full employment to be included in the central bank's mandate and have proposed that a committee should govern RBNZ policy, instead of leaving monetary policy decisions to be at the sole discretion of the RBNZ Governor.

Japanese Prime Minister Abe is expected to call a **snap election** on Monday, with Sunday 22nd October touted as the most likely date for the election to take place.

US political developments will also be of interest over the coming week, with a **proposed tax plan and a vote on healthcare** mooted for the week, although no firm times have been settled as of yet.

Any potential fallout from UK PM May's Brexit speech will be monitored over the weekend before the **fourth round of Brexit** talks between the UK and EU get underway on Monday. It is worth noting that May seemed to be softer in her recent address, and this was welcomed by some of her party's more hardline Brexiteers including noted rebel and Home Secretary Boris Johnson. Chief EU negotiator Barnier received the speech in a positive manner, although he did note that further disclosures were still required.

As ever **North Korean-US** tensions will be eyed over the weekend.

North America: -

US durable goods data will hit on Wednesday, with the median estimate looking for a 1.0% MM rise following July's 6.8% fall, with the ex-transport measure expected to rise by 0.2% MM following last month's 0.6% gain. The fall in last month's headline was a result of the strong gains stemming from the Paris Air Show in June. Markit's August manufacturing PMI showed that production rose at a modest pace, while exports dragged on order growth as Markit opined that "the drop in the output index indicates that manufacturing could act as a drag on the economy in the third quarter." Although the collator did note that "the survey brings more encouraging signs of improved domestic demand, with orders for both consumer goods and investment goods boding well for the wider economy to continue to expand as we move through the second half of 2017." Thursday brings the third and final US Q2 **GDP** release, with analysts expecting the secondary estimate of 3.0% to be confirmed. On the inflation front, market watchers will await August's **PCE data** slated for Friday, which will be accompanied (as ever) by the personal income and expenditure releases. Analysts look for headline PCE prices to moderate to 1.4% from 1.5%, while the median estimate looks for a steady core reading of 1.4% YY. There will also be a slew of Federal Reserve speakers supplementing the economic releases.

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Over the border in **Canada** Friday's **GDP** data headlines the docket, with analysts looking for a modest 0.1% MM in July, slowing from the 0.3% seen in June. July's activity data has been somewhat mixed, there was solid increase in wholesale trade, a more mixed set of manufacturing data, with a lukewarm retail sales print rounding of the data we have to hand so far. Prices drove the metric as volume faded, and RBC note that "Canada's recent pace of consumer spending growth looks unsustainable." It is worth noting that economic performance (in the form of a stellar Q2 GDP growth figure) as opposed to underlying inflation pushed the Bank of Canada to deliver an "unexpected" second consecutive hike in September, as BoC Governor Poloz focused on the closing of the output gap. Looking forwards RBC believe that "with GDP growth now better balanced by other areas like business investment, we think further gradual removal of monetary policy accommodation is in order. We expect the Bank of Canada will raise interest rates once more by the end of the year." CIBC opine that "July will be a taste of things to come, with growth in the third quarter likely to cool to a 2% or so pace—less than half of what we saw in Q2. With less slack in the economy, and tightening from the BoC capping how hot growth can run, 2018 is going to clip a pace that's roughly 1% lower than what we're likely to see this year."

Other releases of note during the week: Monday: US Dallas Fed Manufacturing Business Index (Sep) **Tuesday** US New Home Sales (Aug) **Wednesday** US Pending Home Sales (Aug) **Thursday** US Goods Trade Balance (Aug) **Friday** US Chicago PMI (Sep) University Of Michigan Consumer Sentiment Survey (Sep, F)

Europe: -

Friday will bring the release of September's preliminary **Eurozone CPI** data, with analysts looking for a 1.6% YY headline against the 1.5% seen in August, while consensus looks for the core metric to come in at 1.2% YY against a prior 1.3%. August's headline pickup was driven almost entirely by energy base effects. HSBC note that "fuel prices increased sharply at the start of September. Although we expect some of the tourism-related services price spike to fade." On a longer a horizon Credit Suisse "expect core inflation to average 1.1% in 2017 and 1.2% in 2018," which is below the ECB's September projections of 1.1% and 1.3%.

Other releases of note during the week: Monday German IFO Survey (Aug) **Friday** German Labour Market Report (Sep)

UK: -

Wednesday will bring the release of the final Q2 **GDP** reading. Consensus looks for the secondary estimates of 0.3% QQ and 1.7% YY to be confirmed, with analysts expecting the current account deficit to have narrowed modestly to GBP 15.80bln during the quarter. HSBC note that "the preliminary breakdown showed that it was government investment and spending that drove growth, with no contribution from net trade, and private consumption slowing to its weakest rate since Q4 2014." This provided little surprise for those that monitor UK retail sales data, as consumers were squeezed by negative real wage growth, and the spectre of Brexit cast a shadow uncertainty over the economy. The slowdown experienced in Q2 did not stop Bank of England policymakers changing tack in recent weeks, with the BoE suggesting that a rate hike may be on the cards "in the coming months." Markets now attribute a circa 85% chance of a 25bps hike from the BoE by year end.

Other releases of note during the week: Monday BoE Financial Policy Committee Statement **Wednesday** Index Of Services (Jul) **Friday** UK Money Supply & Bank Lending Data (Aug)

Asia-Pacific

The **Japanese** docket will be heavily backloaded, with a slew of economic releases set for Friday. August's **CPI** data should be the pick of the bunch, with analysts looking for headline CPI to accelerate to 0.7% YY from 0.4%, while the excluding fresh food metric is also expected to print at 0.7% YY against a prior 0.5%. Friday will also bring the release of the country's August **labour market report** with analysts expecting the job-to-applicant ratio to tick up to 1.53 from 1.52, the unemployment rate to hold steady at 2.8% and household spending to fall by 0.2% MM against a prior fall of 1.9%. The BoJ's 2.0% inflation target remains distant despite ultra-loose monetary policy, with BoJ newcomer Kataoka striking a dovish tone at his first decision. Underlying prices pressures remain weak, as wage growth remains limited despite the tight labour market conditions.

New Zealand will have economic releases to digest in the wake of its general election. Tuesday will see the release of August's **trade data** with analysts looking for a deficit of NZD 825mln following last month's modest NZD 85mln surplus. TD Securities suggest that the "winter slump in supply and tepid prices is set to dampen exports, while energy prices jumped in Aug, boosting imports." The **RBNZ** convenes on Thursday, and it is highly unlikely that the central bank will adjust its monetary policy settings. The decision comes hot on the heels of the country's general election, which provides a high degree of uncertainty. Westpac suggest that "the economic situation is such that the RBNZ can afford to sit on its hands." This will also be the first decision to be headed by the interim (and former deputy) Governor Grant Spencer. The decision will not be accompanied by a monetary policy statement and therefore the analytic community is attributing a very minimal chance to a change in tack. Looking forwards Westpac suggest that "beneath a placid surface, there is a lot going on with monetary policy. In time, we expect the RBNZ will have to reduce its GDP and house price forecasts, which will affect the stance of monetary policy." Whereas TD Securities are looking for a look for a "hawkish twist at the November MPS"

Other releases of note during the week: Tuesday New Zealand ANZ Business Confidence (Sep) **Friday** Japanese Industrial Production (Aug, P) Japanese Retail Sales (Aug) Australian Private Sector Credit (Aug)