RANSQUAWK Tel: +44 (0)20 3017 4300 Email: info@ransquawk.com www.ransquawk.com

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: NFPs, RBA, ECB Minutes & PMIs Provide A Broad Spread Of Risk Events This Week

Key Events: -

Monday:

Tuesday: RBA MonPol Decision

Wednesday: UK Services PMI (Sep) US ADP Employment Change (Sep)

Thursday: ECB Meeting Minutes

Friday: US Non-Farm Payrolls (Sep) Canadian Labour Market Report (Sep)

Chinese PMI's could set the tone early on, with the official manufacturing and non-manufacturing surveys for September, and the Caixin manufacturing PMI all due for release on Saturday 30th. The median estimate looks for the official manufacturing release to come in at 51.6 against a prior 51.7. Last month the release was driven by a continued improvement in both supply and demand and accelerating imports driven by the recovering domestic market, while input costs and output prices in the manufacturing sector both increased at the quickest pace seen this year. The official non-manufacturing release has no estimate and last stood at 53.4, following adverse weather leading to a slowdown in construction. The Caixin manufacturing PMI is seen at 51.5 against the 51.6 from August. TD Securities suggest that "given Chinese trade and domestic activity data have underperformed our expectations, we see a downward tilt to the Sep PMIs. However, we expect a gradual softening rather than a sudden sharp drop or near-term contraction, and for readings to prepare the markets for slowing H2 growth momentum." Overall, fears of an economic hard landing in China have receded recently, but economic growth is expected to slow going forwards.

China will observe a week long national holiday next week.

Despite opposition from the Madrid-based government, **the regional government in Catalonia remains committed to holding an independence referendum on 1st October**. Overall the impact of independence would likely provide a dent for the nation's economic confidence, but is ultimately not expected to have too severe an impact on the Spanish economy as a whole. Essentially, the lack of legitimacy behind the vote is likely to have a significant bearing on voter turnout, the potential result and whether or not the vote actually takes place. Voter turnout is threatened by some of the recent actions taken by Madrid. It is, therefore, becoming increasingly likely that, given the clout of the Madrid government and its willingness to take action on those involved with the referendum, Catalonian officials may choose to abandon the vote if their position becomes untenable. The impact of the vote if 'Yes' will most likely depend on voter turnout. In the unlikely event that turnout is high and a 'Yes' vote is declared, Rabobank expects any measures to be gradual and non-provocative. If the vote does not take place, it likely that both parties will come to the table, although reaching a compromise will be no easy task. The impact on the Euro should be relatively limited. From a more Spain-centric perspective, yields could rise if tensions between Madrid and Catalonia continue to persist given markets typically operate with caution amid political uncertainty.

North America: -

US focus will fall on the labour market. The labour sub-components in the Markit and ISM PMIs will be keenly eyed, as will Wednesday's **ADP employment change** for September, with the median consensus looking for 172K, against last month's 237K. However questionable the correlation (in the short term), the release is deemed a pre-cursor for the official **Non-Farm Payrolls** release which will hit on Friday. The headline is expected to moderate to 130K from August's 156K, with earnings expected to rise by 0.2% MM from 0.1% last time out, with unemployment expected to hold steady at 4.4%. Eyes will be on the lookout for the effects of the Hurricane season, HSBC suggest that the "likely effects of Hurricanes Harvey and Irma on the national labour market data are difficult to predict. However, the impact of the hurricanes on the September payroll data could end up being smaller than previous hurricanes." Societe Generale suggest that "after 7 straight years of positive payroll prints, the September jobs report could show a 25,000 decline in nonfarm payrolls due to the impact of Hurricane Harvey. To be sure, quantifying the hurricane's impact on jobs is difficult, and there is some early evidence that perhaps the drag on employment may not be as bad as feared. Still, we are more cautious given the sheer number of people impacted by the storm, and the fact that the affected areas account for just over 2.0% of total national employment. Excluding the hurricane, we suspect that underlying job growth was likely in line with recent trends, which have been encouraging."

Over the border in **Canada**, the first focal point will be the release of August's **trade data** on Thursday. The main release for the week will be September's **labour market report**, due on Friday. The labour market has been on a hot streak, although CIBC caution that "GDP growth looks to be slowing in the second half, and so should employment. September should see a decent 14K print in next week's release, leaving the unemployment rate steady at 6.2%. The key to the report will be what happens to wages, with a further recovery in the average hourly measure expected. After last month's collapse in full-time work, look for that metric to at least partially recover, helping the income picture for Canadian workers."

Other releases of note during the week: Monday US Markit Manufacturing PMI (Sep) US ISM Manufacturing PMI (Sep) US Construction Spending (Aug) **Wednesday** US Markit Services PMI (Sep) US ISM Non-Manufacturing PMI (Sep) **Thursday** US Trade Balance (Aug) US Factory Orders (Aug) **Friday** Canadian Ivey PMI (Sep)

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



Europe: -

Monday will bring the release of the **Eurozone's unemployment data** for August. Expectations are for a reading of 9.0%, marginally lower than the prior 9.1%. RBC are more cautious than consensus and look for a steady print as "employment growth slowed in both Spain and Germany last month."

The minutes **from the latest ECB monetary policy decision** will cross on Thursday. In September the ECB left all policy rates unchanged and did not announce any tweaks to forward guidance or make any announcement on the future of its QE programme. However, we do know that there was a preliminary discussion within the Governing Council on possible scenarios for the programme after December, and the minutes could give further insight than we have seen in the usual sources pieces. ECB President Draghi has Draghi confirmed that the bulk of decisions will probably be taken at the next meeting and that the Council did not discuss changing the 33% issuer limit. Discussion over the value of the euro will also be heavily scrutinised.

Other releases of note during the week: Monday Eurozone Manufacturing PMI (Sep, F) **Tuesday** Eurozone PPI (Aug) **Wednesday** Eurozone Manufacturing PMI (Sep, F) Eurozone Retail Sales (Aug)

UK: -

Monday will bring the release of September's **manufacturing PMI**, with consensus looking for a print of 56.4 from 56.9 last time out. Last month's survey sat at the highest level seen since 2014, and the strength was broad-based, with the current output, new orders and current expectations indices all rising sharply. Follow through from the survey based data into the hard economic data has not been seen, and as a result HSBC suggest that "the PMI is giving an overly optimistic read of the manufacturing sector."

Wednesday will bring the release of the heavily watched **services PMI**, with expectations for a steady 53.2. last month the survey pointed to the weakest rise in business activity since September 2016, input cost pressures picking up and job creation hitting a 19-month high. As a result, Markit opined that "the overall level of optimism also remained subdued, mainly linked to Brexit uncertainty, close to levels that have previously been indicative of the economy stalling or even contracting. "While a rise in price pressures will add to worries that inflation could pick up to perhaps 3% again in coming months, the overall level of the PMI remains more consistent with policymakers erring towards stimulus rather than hiking interest rates." Of course, this came before the latest BoE decision, which erred on the hawkish side of things and indicated a rate rise "in the coming months." In terms of the broader backdrop, RBC note that their "PMI-based GDP indicator was pointing to economic expansion of 0.3% q/q for Q3, slightly above our long-standing forecast of 0.2% q/q. After this survey data, only the August IP and construction output data will really add any extra insight to expectations for the initial estimate of Q3 GDP growth which is due on 25 October, just a week before the November MPC vote.

On the political front the ruling **Conservative Party conference** runs from 1st October until 4th October.

Other releases of note during the week: N/A

Asia-Pacific: -

Monday will bring the release of the **Japanese Tankan survey** for Q3. Expectations point to a modest improvement in business sentiment. HSBC note that the "Bank of Japan has kept monetary policy extremely easy, which has led to some JPY depreciation on a trade-weighted basis. This should have helped maintain already high corporate profits."

Australia will observe the Labour Day holiday on Monday. Focus will fall on the **Reserve Bank of Australia's** latest monetary policy decision on Tuesday, with all but 1 of the 49 surveyed by Reuters expecting the RBA to leave its cash rate unchanged at 1.50%. TD Securities are looking for a cut and paste of the Bank's most recent statement. The Reserve Bank's neutral (half glass full) approach has led to very flat assumptions for the rates curve, with the OIS curve pricing in 12bps of easing over the next 12 months. HSBC note that "growth indicators remain positive, with business conditions around decade highs and jobs growth picking up pace. We see this putting some upward pressure on wage growth and underlying inflation over time," and as a result HSBC looks for a hike in "early 2018." Thursday will bring the release Australia's **trade balance** data for August. Consensus looks for the surplus to widen to AUD 870bln from the AUD 460mln seen in July. TD Securities believe that "a jump in iron ore volumes is behind our restoration of a decent trade surplus for August." Thursday will also bring the release of August's **retail sales** data, with the median estimate looking for a rise of 0.3% against a prior flat reading. RBC highlight that "after a boost in activity in April/May, which partly reflected cyclone-induced activity, monthly retail sales have slipped back into their moribund state with the underlying trend weakening accordingly. It is likely that the jump in utility prices (~15-20% effective 1st July) has had some impact with different billing cycles suggesting some spill over to August. A rise in fuel prices in the month coupled with ongoing lacklustre consumer confidence points to another soft outcome in August."

Other releases of note during the week: Tuesday New Zealand NZIER Business Confidence (Q3) Australian House Prices (Sep) Australia Melbourne Institute Inflation (Sep) GDT Dairy Auction **Wednesday** Australian Building Approvals (Aug) **Friday** Japanese Earnings Data (Aug)