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: FOMC Minutes Headline As Politics Simmer

Key Events: -

Monday:

Tuesday: Catalan Regional Parliament Plenary

Wednesday: FOMC MonPol Meeting Minutes

Thursday:

Friday: US CPI (Sep) US Retail Sales (Sep)

Geopolitics will remain at the forefront of investors' minds during the week as recent reports suggested that **North Korea could potentially test a missile with a wide enough range to hit the US west coast on Monday 9th October.**

China also return to market on Monday following a week-long holiday, and investors will be keen to see how the onshore markets react to the PBoC's latest targeted RRR cut. Chinese FX reserves data for September is set to cross on Sunday 8th October.

North America: -

Monday could be subject to thinner trading conditions with Canada observing its Thanksgiving holiday, and although it isn't a market holiday, Columbus Day will be observed in the US on Monday.

Wednesday will bring the release of the **minutes from the FOMC's latest monetary policy meeting.** The Fed stood pat at the meeting, in line with consensus. It also announced that it would begin to shrink the size of its balance sheet in October as expected, with the process falling in line with a previously disclosed detailed plan. The summary of economic projections saw the FOMC trim its longer run Federal Funds target rate expectations, while the nearer-term Core PCE projections were also trimmed, and GDP estimates were raised. RBC suggests that the "debate surrounding the drop back in core inflation this year was particularly lively. The bounce-back in CPI inflation appears to have convinced the centrists that the earlier weakness was partly due to transitory factors, whereas the doves are still worried about potential structural factors or lingering cyclical slack." This was reflected by the fact that 12 of 16 officials that submitted projections still anticipated at least one more rate hike this year. In the press conference that followed the decision Fed Chair Janet Yellen noted that "low inflation this year, despite a substantial improvement in labour market conditions, created uncertainty for monetary policymakers." Although she did note that low inflation may be "transitory" and as a result it does not negate the need for gradual policy tightening. Since the decision, Fed rhetoric has increasingly cited structural headwinds for inflation, while some of the more dovish members have continued to highlight the need for a pickup in inflation before they are willing to vote for a hike (including 2017 voter Robert Kaplan, who was previously of a hawkish disposition). Accordingly, HSBC suggests that "the FOMC minutes are likely to show a range of views on inflation, financial stability, and the implications for policy."

Friday brings the release of **US CPI** data for September. The headline reading is seen 2.3% YY against a prior 1.9%, while the core release is expected to print at 1.8% YY against a prior 1.7%. RBC notes that "gasoline prices rose more than 11% on the month and given that the energy component is typically down in September, this should provide a significant boost to seasonally adjusted headline CPI." They also say that "core prices should see a decent gain for a couple of reasons: 1) the elements that have plagued underlying CPI look to have abated with core services up sharply in August and breadth bottoming out in recent months, 2) the replacement impact in the aftermath of the hurricanes." It is worth noting that September's ISM PMI releases highlighted strong inflationary pressures for supply chains with direct exposure to the Hurricane's seen in the month.

Friday will also bring the release of **US retail sales** data for September, with consensus looking for a headline 1.7% MM rise and the core measure expected to tick up by 0.4% MM, against prior readings of -0.2% and +0.2% respectively. Capital Economics expects that "distortions linked to the recent storms helped headline retail sales rise by as much as 2.2% MM in September, although underlying sales should also have rebounded." Auto sales are expected to be particularly supportive.

Other releases of note during the week: Wednesday US JOLTS Job Openings (Aug) **Thursday** PPI (Sep) **Friday** US University Of Michigan Consumer Sentiment Survey (Oct, P)

Europe: -

The political situation in Catalan will continue to garner attention, with the region's parliament set to hold a plenary on Tuesday at 17:00 BST, with some suggestions that this could come after a declaration of independence on Monday. The Spanish

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



Constitutional Court formally suspended Monday's session, however, it would appear that it is likely that Tuesday's will go ahead. Morgan Stanley posits that "independently of whether this parliamentary session takes place or not, we do not envisage secession. The Spanish government is committed to avoid any missteps and is likely to react quickly to a potential declaration of independence. In any case, and even though tail risks can be avoided, the political situation in Catalonia is likely to remain uncertain for longer. Addressing this issue more permanently likely requires a political deal, which might provide more autonomy and funding for Catalonia. But this might only be possible after a future regional election." In terms of wider spill over, credit rating agency Moody's recently noted that if Catalan independence were to occur then "Spain would still have significant credit strengths and would likely remain investment grade following Catalan independence, at least in the near-term." Although Moody's base case is that independence will not occur.

Other releases of note during the week: Monday German Industrial Production (Aug) **Tuesday** Norwegian Inflation (Sep) **Thursday** Swedish Inflation (Sep) Eurozone Industrial Production (Aug) Friday German CPI (Sep, P)

UK: -

British politics will continue to come under the microscope, with the **fifth round of Brexit negotiations** set to be held during the week. There is a heavy degree of scepticism surrounding the talks at present, with most seeing little chance of any notable progression at the upcoming sit down, despite a modestly warmer tone being struck at the last round of discussions. The ruling Conservative Party's rebel group (rumoured to be around 30 MP's) is reportedly calling for PM May to step down from her post, so expect plenty of media stories on this matter over the weekend.

August's **production data** will be released on Tuesday. Industrial production is expected to print at a steady 0.2% MM, manufacturing production growth is expected to moderate to 0.3% MM from 0.5% last time out, while construction output is expected to rise by 0.2% following last month's 0.4% fall. The PMI surveys have pointed to positive growth for manufacturing, however, they are known to overestimate the hard data, while the most recent construction sector based survey unexpectedly contracted in September. UK growth is expected to hit 0.3% QQ in Q3, which is in line with the latest BoE projections, but could disappoint some of the hawkish cohort (and perhaps temper rhetoric following the recent hawkish swing) that expected data to be stronger than forecast in the August Quarterly Inflation Report. HSBC notes that "manufacturing output rose on the month in July for the first time in 2017, after a very poor first half of the year, given the boost the sector should have had from sterling. Perhaps some of the softness reflected poor confidence around Brexit and higher costs." These are two extensively discussed factors, and don't present anything new. August's **trade data** will be released alongside the production release, with consensus looking for a fairly steady deficit of GBP 11.20bln.

Asia Pacific: -

Chinese trade data from September is set to hit on Friday, with analysts looking for a surplus of USD 39.50bln, slightly narrower than August's USD 41.99bln. TD Securities points to seasonality noting that "September was a weak month for exports last year, so it only has to be "not weak" for annual rates to jump."

Japan will observe a national holiday on Monday.

In **Australia** focus will fall on the semi-annual **Financial Stability Review**, Macro stability has been a key topic since Phillip Lowe took became Governor of the RBA. RBC reminds us that a "a number of macro prudential measures were introduced late last year targeted at investors with the regulator re-affirming a 10% speed limit on housing credit. Additional measures were introduced in March 2017 including a 30% target on interest only loans/total loans." The macroprudential measures have had some effect, recognised in recent RBA communique, also debt levels remain elevated, a key driver of the central bank's firmly on hold (although glass half full) approach.

Across the Tasman in **New Zealand**, Saturday 7th October represents the counting of the special votes from the General Election. "Kingmaker" and head of the New Zealand First party, Winston Peters, is set to form a coalition government with one of the two major parties, with talks still ongoing.

Other releases of during the week: Monday Chinese Caixin Services & Composite PMIs (Sep) Australian NAB Business Survey (Sep) **Tuesday** Japanese Current A/c Balance (Aug) **Thursday** Japanese PPI (Sep) Australian Housing Finance Data (Aug) **During The Week** New Zealand Housing Sales (Sep)