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: D-Day For ECB, Although Focus Also Falls On The BoC, Will They Make it 3 Hikes In A Row?

Key Events: -

Monday:

Tuesday:

Wednesday: BoC MonPol Decision, UK GDP (Q3, A), Australia CPI (Q3), US Durable Goods (Sep)

Thursday: ECB MonPol Decision, Riksbank MonPol Decision, Norges Bank MonPol Decision

Friday: US GDP (Q3, A), Japan CPI (Sep)

Weekend Events: -

Japan goes to the voting booth on Sunday 22nd October. The latest Nikkei poll indicates that Prime Minister Shinzo Abe's ruling coalition is on track to win around 300 of the 465 seats in the lower house. It is worth noting that a notable amount of those polled are undecided. The poll suggests that the ruling coalition may capture 63.9% of the chamber, down from 68.2% pre-election, short of the 310-seat super majority that is needed to push forward with Abe's proposed constitutional reforms, and nail on the latest sales tax increase, slated for 2019.

North America: -

The **US flash PMI** surveys for October will hit on Tuesday, with analysts looking for the manufacturing print to accelerate to 53.6 from 53.1 last time out, while the services print is expected to tick up to 55.7 from 55.3. Last time out, IHS-Markit noted that "given the disruption caused by recent hurricanes, some pull-back in business activity was understandable, so the resilient reading of the September services PMI makes for encouraging reading." The survey compilers noted that "while rebuilding and a return to normal business conditions after the hurricanes will hopefully boost growth in the fourth quarter, it's worrying to see business expectations about activity levels over the coming year fall. Future optimism is at its lowest since February, suggesting companies have become increasingly cautious about the outlook." As a result, focus will fall on any comments relating to how businesses judge their outlook now that they have had a better opportunity to gauge the impact of the recent hurricanes. Wednesday will bring September's **durable goods** data, the headline is expected to rise by 1.1% MM from 2.0%, while durables ex-transport is expected to hold at a steady 0.5% MM. The advance **US Q3 GDP** release will hit on Friday, with analysts looking for a 2.6% headline against 3.1% in Q2. HSBC suggests that "a pick-up in inventory accumulation could add about 0.9 percentage points to GDP growth. We expect little to no contribution to growth from other components, including residential investment. government spending, and net exports." Focus will also fall on the accompanying PCE price index, with analysts looking for 1.8% from 1.0% last time out. Despite the perceived tick-up, various Federal Reserve officials have sounded more sanguine on inflationary pressures in recent addresses, with structural headwinds gaining an ever-increasing amount of air time.

Across the border in **Canada** focus will fall on the **Bank of Canada**. The majority expects the BoC to stand pat when it issues its monetary policy decision on Wednesday, following back to back 25bps hikes. Scotiabank suggests` that "the policy statement (which will be accompanied by the quarterly monetary policy report) is likely to reinforce the BoC's 'data dependent' messaging while maintaining a slightly hawkish bias." Market pricing surrounding the possibility of a hike this time out has eased on softer output data and a more measured BoC rhetoric. The beginning of the pullback roughly coincides with a speech made by BoC Deputy Governor Lane, in which he underscored the importance of the Canadian economy's sensitivity to the recent tightening and a stronger CAD. Governor Poloz's late September 'data dependence' speech also focused on impact of CAD strength, but this time lent towards its effects on inflation. In a more recent address Poloz downplayed worries over sluggish inflation, as he noted that "at this stage of the cycle (inflation) is pushed out further, and that's a good thing." This reinforces the idea that his data-dependant stance focuses on the output gap, and the same address saw the Governor caution that Canadian growth is set to moderate in H217. Manulife expects the BoC to stand pat and outline the reasons behind their view as follows; 2015's 50 bps worth of cuts has been removed and the Bank now needs time to assess the impact of its recent moves, the CAD could do with a "breather," NAFTA risks are mounting, new OSFI housing rules, a moderation in economic data and more measured BoC rhetoric in recent public addresses.

Other releases of note during the week: Monday Canadian Wholesale Sales (Aug) **Thursday** US Goods Trade Balance (Sep) US Wholesale Inventories (Sep, P) US Pending Home Sales (MoM) (Sep) **Friday** University Of Michigan Sentiment Survey (Oct, F)

Europe: -

The **Eurozone's flash PMI surveys** for October will hit on Tuesday, with analysts looking for the manufacturing print to slow to 57.8 from 58.1 last time out, while the services print is expected to moderate to 56.5 from 56.7. IHS-Markit suggested that September's surveys pointed to an "economy entering the fourth quarter with business energized by inflows of new orders growing at the fastest rate for over six years and expectations of future growth reviving after a summer lull." The recent surveys have also



pointed to "growth becoming increasingly broad based, which should help make the upturn more sustainable as corporate profits, labour markets and demand improve across the region."

Thursday brings the much-awaited **ECB monetary policy decision**. Ahead of the policy meeting, the ECB has been testing the waters with regards to how traders will respond to various scenarios regarding the scaling back of its asset purchase programme. The consensus view is that the central bank will cut the buying pace by around half to EUR 30bln per month (the range of estimates seems to be between EUR 25bln and EUR 40bln), and extend the purchase horizon (currently scheduled to elapse in December 2017) by nine months. One sources piece has suggested that ECB officials may be leaning towards putting a ceiling on the size that it will allow its bond-buying portfolio to grow to, with a EUR 2.5tln figure being touted. "This would imply a possible EUR 220bln of purchases available beyond December 2017," HSBC writes, "so the question is how to spread them out." Accordingly, the bank believes that the ECB would slow the pace of purchases to between EUR 40bln and EUR 60bln for an additional six months. IFR, however, suggests that the most important element to the ECB's exit strategy is not QE, but the sequencing of when rate hikes will happen: "It is no coincidence that ECB President Draghi told us last week the forward guidance on rates was 'very, very important' after saying that sequencing was not discussed at the September meeting. Not playing around with sequencing helps to contain a negative market reaction to QE tapering."

The **Riksbank** also convenes on Thursday, with expectations for the central bank to stand pat as it awaits cues from the ECB before adjusting its own policy. Nordea note that "the theme is largely the same as earlier this year. Inflation has gone up, but the Riksbank cannot rely on this uptick, as wage increases and other costs are not accelerating at a sufficient degree. A weak SEK is therefore still an important tool in the bid to prop up inflation. The SEK however, remains 2% below the central bank's forecasts, and notes that it has only pencilled in a marginally stronger SEK by the end of 2019, suggesting little room for the central bank to adjust its rhetoric." Inflation has shown signs of easing in September from the above-target levels seen for much of 2017; specifically, Nordea has noted that the Riksbank's preferred measure, CPIF, was 1.9% YY, no less than 0.3% point lower than the Riksbank's forecast. "Inflation is volatile and could bounce back in the next few months," the bank writes, "however, if our forecast proves accurate, underlying inflation excluding energy will not reach 2% again during this cycle. And if it doesn't happen within the next few months, the likelihood decreases further, as imported inflation will be lower next year."

The **Norges Bank** will also issue its latest monetary policy decision on Thursday. Capital Economics believe that the central bank "will likely repeat guidance that it will hold rates at 50bps. Growth in the mainland economy has accelerated gradually over the last year or so, but despite this, inflation has continued to decline." However, the consultancy notes that "there is scope for the central bank to pursue 'looser for longer' policy given diminishing risks in the housing market."

Other releases of note during the week: Tuesday German ZEW Economic Sentiment Survey (Oct) Eurozone CPI (Sep, F) **Wednesday** German IFO Business Survey (Oct)

UK: -

The docket will be dominated by Wednesday's advance Q3 **GDP** release. Consensus looks for a steady 0.3% QQ, and 1.4% YY from 1.5% YY last time out. HSBC have downgraded their forecast for the upcoming release to 0.3% QQ from 0.5% QQ which they estimate would leave the YY rate at 1.4%, the weakest rate since Q2 2012. The bank stated that the "reason for the downward revision primarily hinges on a 0.2% MM decline in services output in July, alongside a 0.1pp downward revision to June growth, to 0.3% MM. There was also a sharp fall in construction output in July. This wobbly start to Q3 means that even with a growth recovery in all major sectors in August and September, another sub-par outturn is very much possible." Survey data continues to more optimistic than hard data, and when taken collectively PMI collators IHS-Markit believe that their surveys point to 0.3% QQ growth, in line with consensus.

Other releases of note during the week: N/a

Asia Pacific: -

China's congress will continue to sit (potentially through 28th October), with little revealed on the leadership succession plan as of yet, outside of PBoC Governor Zhou hinting that he is close to retiring.

Focus in **Australia** will fall on Q3's **CPI** release, due on Wednesday. Consensus looks for a 2.0% YY headline and a trimmed mean reading of 2.0% YY, against prior readings of 1.9% and 1.8% respectively. Westpac points to seasonality, noting that "September is a seasonally strong quarter due to the post June 30 price resetting of many administered prices and as such. Energy costs should lead the push higher and foresees flat tradable prices," although the bank does warn that "the two-quarter annualised pace of core inflation is forecast to decelerate to 1.7% YY from 2.1%, well below the bottom of the RBA's target band." In terms of broader monetary policy implications the most recent RBA meeting minutes indicated that the Bank continues to focus on the domestic currency, stating that the "rise in the AUD (which has been driven by the fall in USD) is weighing on domestic inflation," while it continued to warn that "a material further rise in the AUD would result in slower pick-up in both growth and inflation." In lieu of September's labour market data AMP capital opined that "ongoing labour market strength does add to risk of an earlier RBA move

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(H1 2018 rather than H2 2018), but stronger wages and inflation are required before any monetary tightening." One factor holding inflation back could be the notable underemployment rate evident in Australia at present, compounding the muted wage growth.

Outside of the political fallout from the General Election, focus in **New Zealand** will fall on September's **trade data**, due for release on Thursday. Consensus expects the deficit to narrow to NZD 900mln from the NZD 1.2bln seen in August. TD Securities suggests that "September is a soft month for exports, so we pencil in scant improvement on the weak August print, while imports are expected to be strong as energy prices surged. This report also gives guidance for Q3 trade estimates, where we look for the current account deficit to remain at around -2.8% of GDP."

Other releases of note during the week: Wednesday: Australian Terms Of Trade, Q3 **Friday** Japanese CPI (September)