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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



RANsquawk Week In Focus – WC 6 November 2017

Most of the major data releases are out of APAC: the RBA and RBNZ are seen standing pat on policy, Chinese inflation data is seen easing a touch. Eurozone retail sales data is seen rebounding, and there are only second-tier releases out of the US

KEY EVENTS:

RBA (Tuesday), RBNZ (Wednesday), China inflation (Thursday) , US Uni of Mich (Friday), UK Trade and industrial production (Friday)

ASIA-PACIFIC:

The **RBA** (Tuesday) is expected to keep its Cash Rate Target on hold at 1.50%. While some are expecting the central bank to adopt a dovish tone after CPI missed expectations (1.8% YY versus an expected 2%) and remains below the RBA's 2-3% target, HSBC isn't too concerned, noting that it seems past its trough: "Supporting this view is the lift in domestically-generated inflation, with non-tradable inflation lifting to 3.2% y-o-y, up from 2.7% y-o-y, and the strongest rate since Q4 2013," the bank writes, "price pressures here are mostly related to housing, with increases in construction costs, insurance, and utilities prices all accelerating."

Additionally, there are signs that the labour market is firming. "Jobs growth has picked up and is now running at its fastest pace since 2008, at 3.1% YY, this has been sufficient to see the unemployment rate fall to a new cyclical low of 5.5%." HSBC also points out that soft data on the labour market is also encouraging, with a rise in job ads as well as the ABS Job Vacancies measure ticking up to the fastest pace since 2002. "The numbers show that most of the job creation over the past year has been full-time positions, which indicates a fall in 'underemployment'; the lift in employment has also been quite broad-based across the Australian regions."

Accordingly, HSBC is looking for the RBA to leave its growth and inflation forecasts largely unchanged from those published in August. It is also worth noting that since the central bank's last meeting, the Australian dollar has slipped by around 4%, while oil prices have surged, and both have the potential to drive the RBA's CPI forecasts slightly higher. As we wrote last week, there is a possibility that some technical changes may be introduced, per the speech by Deputy Governor Guy Debelle last week, and these changes may mean the central bank communicates its forecasts to the nearest 0.25 percent rather than to the nearest 1 percentage point.

The **RBNZ** (Wednesday) is likely to keep its Official Cash Rate unchanged at 1.75% next week; on the whole, the run of recent data suggests that the RBNZ is not likely to be in any major hurry to change its policy outlook, despite uncertainties on the horizon. There is a possibility that the central bank may raise its inflation forecasts after the recently announced fiscal stimulus, the recent firmness in inflation metrics, as well as the decline in the New Zealand dollar.

The central bank faces "an outlook of many moving parts, with uncertainties remaining over the policy outlook, which makes November an awkward time to deliver a set of forecasts, ASB Bank writes. "The change in Government will bring a range of new policies that will likely tweak the economic outlook, but it is too soon for the RBNZ to properly assess the economic and inflation impacts." Additionally, ASB notes that the incoming Government has also announced a review of the RBNZ's mandate and policy targets (potentially adding an employment target into the mix). "The RBNZ is going to present a set of forecasts full aware that the economic forecasts will change and that the RBNZ's own objectives and ways its sets policy could also change."

With such uncertainties and the messy outlook, ASB argues that it would be best for the RBNZ to stand pat on policy, sticking to its previous policy assessment, while reiterating rates will remain low for an extended period of time.

China's October trade data (Wednesday) is likely to have shown the trade surplus widening to USD 35bln from USD 28.6bln in September; last month's data showed imports surging , while higher commodities prices drove coal, copper, crude and iron ore costs higher. On the other side of the equation, analysts have noted that tech exports remain healthy.

China inflation data for October (Thursday) may see consumer prices slip to around 1.4% YY (versus a previous 1.6%) on the back of lower food prices. Analysts have pointed out that core food prices have been slowly edging up, as of late; but Moody's says that trend will probably reverse in the coming months, while food inflation will surge as polluting farms are shutdown, and the CRA believes that core inflation will likely peak as the housing market cools and producer prices ease.

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Those producer prices (PPI is seen easing to 5.8% from 6.9%) had been accelerating in recent months on the back of higher commodity prices, but the slowdown in housing is set to reduce demand for raw materials.

EUROPE:

Eurozone Retail Sales (Tuesday) are seen rebounding in September after a couple of soft months, with the median view looking for +0.6% MM (Prev. -0.50%) and the YY rate rising by 3.0% (Prev. 1.2%). However, if the data print is in line with expectations, it would still signal that consumer spending had slowed in Q3 as a whole, Capital Economics says. Looking ahead, the consultancy says that data is pointing towards annual retail sales growth of 3.0%, but doubts that this pace can be sustained for an extended period of time, though signs that wage growth is creeping up and the outlook for spending are positives.

UK industrial production (Friday) may moderate slightly in September, HSBC believes; the bank forecasts the MM will rise 0.3% (Prev. 0.4%) and the YY rate will fall to 2.4% from 2.8%; Industrial production is seen rising on the month to 0.3% from 0.2%, which should push the YY rate to 2.0% from 1.6%.This would broadly be consistent with the forecast for the ONS.

The **UK trade balance** (Friday) will narrow to a deficit of GBP 4bln in July (Prev. deficit GBP 5.6bln) and the visible trade balance will narrow to a deficit of GBP 12.5bln from a previous deficit of 14.2bln, analysts believe. The CBI's Industrial Trends Survey and the Markit Manufacturing PMI still remain above their long-run averages which may indicate strength in export volumes, Capital Economics points out, which may provide support. However, the 7.4% rise in the sterling value of oil prices could be a negative factor, given the UK remains a net oil importer. The narrowing would do little to alter the big picture; for Q3, the deficit would still be around GBP 15.5bln, rising from GBP 6.5bln in Q2. Capital Economics suggests that net trade, therefore, may not provide much support for Q3 GDP.

NORTH AMERICA:

US JOLTS (Tuesday): Job openings were at a record high in August. "The elevated level of job openings at the end of last month underscores that the September drop in payrolls was the result of the recent hurricanes and that demand for labor is holding up," Wells Fargo writes. Turnover was lower in August, the bank notes, with both gross hires and separations declining – the latter by fewer layoffs and fewer people quitting. Wells notes that the quits rate has remained between 2.1% to 2.2% in 2017, and that is comparable with the highs from previous cycles, and this may drive wage pressure in the months ahead.

US University of Michigan (Friday): the median view looks for headline consumer sentiment to fall slightly in November to 100.0 from the near-decade high of 100.7 in October. But it wouldn't be particularly surprising to see the index extend gains in November, Capital Economics says: "Despite the spike in jobless claims and gasoline prices, consumer confidence continued to trend higher over the past few months. With the stock market reaching new highs, jobless claims hitting their lowest since 1973 and that spike in gasoline prices reversing, consumer confidence probably edged higher again in November."