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: Politics, NFP's, BoC & Aussie GDP Headline The Week

Key Events: -

Monday: UK PM May To Meet EU's Juncker & Barnier
Tuesday: UK Services PMI (Nov), RBA MonPol Decision
Wednesday: BoC MonPol Decision, Australian GDP (Q3)
Thursday:
Friday: US Labour Market Report (Nov), Japan GDP (Q3, 2nd)

North America: -

Friday heralds the release of November's **US labour market report**. Consensus looks for the headline nonfarm payrolls to show an addition of 188K jobs, slowing from October's 261K. Average hourly earnings growth is expected to slow to 0.3% M/M from 0.5%, while the unemployment rate and average hours worked are expected to hold steady at 4.1% and 34.4 respectively. Hurricane induced volatility should be absent from the November release, and consensus points to a headline print much more in-keeping with trend rate. Barclays suggests that "employment fundamentals remain very solid with claims for unemployment insurance still running at the all-time lows (LF-adjusted) while confidence in the labour backdrop is near multi-decade highs." It is worth noting that if the drop in the unemployment rate holds it will stand around the level that most FOMC members forecasted for the of end-2018 in the September Summary of Economic Projections. Barclays note that FOMC "participants have generally indicated an unwillingness to permit a large undershoot in the unemployment rate, lest it generate undesirable inflation impulses down the road or stoke financial stability concerns." However, wage growth remains somewhat limited, and many FOMC members have sounded warier on the inflation front in recent addresses.

The US political space will come under greater scrutiny after former US Defence Director Flynn prepared to testify against US President Trump, suggesting that he would say Trump directed him to contact the Russia through a member of his transition team.

Focus across the border will fall on Wednesday's **Bank of Canada (BoC)** interest rate decision, with the majority looking for the Bank to leave its key interest rate unchanged at 1.00%, although 3 of the 31 surveyed by Reuters are looking for a 25bps hike. Following the BoC's back-to-back rate hikes in Q3, interest rate markets were pricing in a 40-50% chance of a hike at the upcoming decision, that has now pared back to 25% as the BoC has sounded more cautious in recent addresses, highlighting that it expected the economy to slow (GDP growth moderated to 1.7% in Q3 on a Q/Q annualised basis, from 4.3% in Q2) while stressing that it remains data dependant. RBC highlights that "the BoC has been focused on the consumer's reaction to the earlier hikes and is content to wait-and-see for the moment. Wage growth – another key metric for the central bank – has improved in recent employment reports (reaching the highest level of growth since April 2016 in November's report). Despite its softer tone, the BoC continues to stress that "less monetary stimulus will likely be required over time" and as a result the statement will be scoured for any changes in tone. At the time of writing, markets are pricing a 57.2% chance of a 25bps hike in January, with such a move 91.0% priced by the end of March.

Other releases of note during the week: Monday US Factory Orders (Oct) **Tuesday** Canadian Trade Balance (Oct) US Markit Services & Composite PMI (Nov) US ISM Non-Manufacturing (PMI) **Wednesday** US ADP Nonfarm Employment Change (Nov) US Unit Labor Costs (Q3) Canadian Labour Productivity **Thursday** Canadian Ivey PMI **Friday** Canadian Housing Starts (Nov) Canadian Capacity Utilisation (Q3) US Wholesale Inventories (Oct)

Europe: -

There are no tier one economic releases due during the week.

Other releases of note during the week: Monday Eurozone PPI (Oct) **Tuesday** Eurozone Markit Services & Composite PMI (Nov, F), Eurozone Retail Sales (Oct) **Thursday** Eurozone GDP (Q3, F)

UK: -

As has often been the case with the UK in recent weeks, sentiment is most likely to be guided by the latest developments/hurdles presented by Brexit. The week kicks off with parliament debating the withdrawal from the EU on Monday. The debate also falls on the same day that UK PM May is set to meet with European Commission Head Juncker and EU Chief Brexit Negotiator Barnier, with the main issue on the docket likely to be the financial settlement agreement, and whether it is sufficient for trade talks to commence. However, that's not the only issue facing UK PM May in the negotiations with the Irish border question continues to remain a sticking point. Recent rhetoric from both the Republic of and Northern Ireland has suggested that not enough progress has been made, and the DUP remains adamant that it will bring down the DUP-backed Conservative government if May is unable to work out a feasible solution.

From a data perspective, Tuesday sees the release of the heavily watched **services PMI** which is expected to moderate to 55.0 from 55.6. The previous report saw services growth hit its fastest pace in six months with firms reporting improved order books and resilient client demand against a backdrop of improved domestic demand and new product launches. RBC highlights that "last



month's weak reading on the level of outstanding business doesn't bode too well, but new orders were growing reasonably well by historical standards."

Friday brings October's **production numbers** with Industrial and Manufacturing figures looking for an uptick on a Y/Y basis but a decline in the M/M readings. These data will be the first hard input into Q4 GDP trackers, and therefore could provide insight into how the UK economy has begun Q4. RBC suggests that "coming off the back of a strong outturn in September, even if the level of IP is flat in October and subsequently to year-end, then IP will be up around 0.6% q/q in Q4, matching impressive signals from the manufacturing PMIs in recent months." The data set will be accompanied by October's trade balance, with analysts looking for a relatively stable headline deficit of GBP 11.5bln.

Asia-Pacific: -

November's **Chinese Caixin Services PMI** survey will hit on Tuesday. October's survey came in at 51.2, with the new business sub-index declining for a second consecutive month, while the price-based sub-indices continued to expand. Survey compilers Caixin noted that "the PMIs for October showed that the economy had a relatively weak start to the fourth quarter. However, monetary policy is unlikely to be loosened unless major downside risks emerge." Friday will bring the release of November's **trade balance,** with analysts looking for a surplus of USD 39.50bln, slightly wider than the USD 38.19bln seen in October.

In Japan, the secondary estimate of Q3 **GDP** will be released on Friday. The preliminary estimate came in at 0.3% Q/Q, and 1.4% Q/Q annualised. Daiwa highlights that "the ministry of finance's corporate survey for Q3 reported that nominal capex (excluding software) rose 1.0% Q/Q in Q3, with spending up 0.5% Q/Q in the manufacturing sector and 1.3% Q/Q for the non-manufacturing sector. That left overall capex up 4.3% Y/Y, a touch above market expectations. This suggests that a read-across to the national accounts implies an upwards revision to the estimate of real private non-residential investment in Q3 from the advance estimate of 0.2% Q/Q to about 0.6% Q/Q. The decline in public investment, however, might have been somewhat larger than initially thought." Overall, Daiwa looks for modest upward revisions.

The **Reserve Bank of Australia** (RBA) will issue its latest monetary policy decision on Tuesday, with analysts looking for the Reserve Bank to leave its cash rate unchanged at 1.50% after a November deluge of RBA rhetoric offered little fresh impetus. RBC suggests that the Bank's "upbeat tone on activity is unlikely to shift but will be tempered by some caution around household consumption. The most significant domestic data since the board last met was weak Q3 wages will add to that caution and assessment of inflation ahead. This may give the post meeting statement a dovish tinge similar to the recent quarterly Statement on Monetary Policy." While CBA's thinking is along similar lines, opining that "low inflation & weak wages growth give the RBA plenty of time to ponder the growth and prices outlooks. Wages are not expected to fuel inflation anytime soon given considerable spare capacity in the jobs market currently."

Tuesday also brings Australia's October **retail sales** data, with analysts looking for a 0.3% M/M increase against September's flat reading. TD Securities suggest that "after several weak months a rebound is due. While wages are soft, employment growth is strong. Market range is flat to +0.6%, so a shock would be another contraction."

The major risk event in Australia will be Wednesday's Q3 **GDP** release, with consensus currently expecting the Q/Q reading to tick down to 0.7% from 0.8%, while the Y/Y rate is seen at 3.0% from 1.8% in Q2. The current estimates could see notable adjustments during the week as **inventories**, **corporate profits** and **current account** data points are set to hit, which feed into the national accounts data. Net exports are expected to contribute to the final release, although domestic demand could prove to be modest.

Other releases of note during the week: Monday Australian Melbourne Institute Inflation Expectations (November) **Tuesday** GDT Dairy Auction **Thursday** Australian Trade Balance (Oct) **Friday** New Zealand Manufacturing Sales Volume (Q3) Australian Housing Finance Data (Oct)