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: Four Major Central Banks Convene, While Brexit Shenanigans Continue

Key Events: -

Monday:
Tuesday: UK Inflation Data (Nov)
Wednesday: FOMC MonPol Decision, US CPI (Nov), UK Labour Market Report (Nov/Oct)
Thursday: EU Summit, ECB, BoE & SNB MonPol Decisions, US Retail Sales (Oct) Australian Labour Market Report (Nov)
Friday: Japanese Tankan Survey (Q4)

Weekend Events: -

China's November **inflation data** is set to hit on Saturday 9th December, with consensus looking for CPI to ease to 1.8% Y/Y, while PPI is expected to moderate to 5.9% Y/Y from 6.9%. TD Securities suggest that the moderation "suits the PBoC's current policy focus which is CFETS strength for the renminbi, and tighter money market conditions."

North America: -

The final **Federal Reserve** monetary policy decision of 2017 will occur on Wednesday. Money markets have been pricing a 25bps hike at the upcoming meeting for some time, which would take the Federal Funds Rate target to 1.25-1.50%. Minneapolis Fed President Kashkari is likely to continue to express his dissent over the tightening of monetary policy, while there will also be attention on Chicago Fed's Evans, who has recently cautioned on hikes. "The Minutes for the November meeting and recent Fedspeak show growing concern about inflation, but not enough to stay their hand at this meeting," writes UBS. UBS believes that the ongoing recovery in inflation from its transitory weakness will be reflected in the statement. The FOMC is due to update its economic projections, and there may be scope for upward revisions. Presently, analysts are more optimistic than the Fed regarding growth and inflation; with regards to the rate of joblessness, the market and the Fed's views are more-or-less in-line from 2018 onwards. The post-meeting press conference with Chair Janet Yellen will be her last, and she is expected to strike a balanced tone regarding future policy, reiterating her view that the FOMC will tighten policy gradually (as the incoming Fed Chair Powell recently endorsed in his confirmation hearing).

Wednesday will also bring the release of November's **CPI** data with analysts looking for a headline 2.0% Y/Y, while the core release is expected to moderate to 1.7% Y/Y from 1.8% last time out. HSBC suggest that "that are signs that owners equivalent rent has stabilised following some recent softness," which could bode well for the print going forwards. Thursday will bring the release of November's **retail sales** data with consensus looking for the headline to rise by 0.3% M/M from last month's 0.2%, the core print is expected to rise by 0.6% M/M from 0.1%, while the control group is expected to rise by 0.4% M/M against last month's 0.3%. There are suggestions that the dip in auto sales could offset the pop in gasoline prices in the upcoming release.

Other releases of note during the week: Monday US JOLTs Job Openings (Oct) **Tuesday** US PPI (Nov) **Wednesday** US Real Earnings (Nov) **Thursday** US Services & Manufacturing PMI (Dec, P) US Business Inventories (Oct) **Friday** Canadian Manufacturing Sales (Oct) US Industrial Production (Nov) US Manufacturing Production (Nov)

Europe: -

The **European Central Bank** (ECB) will issue its latest monetary policy decision on Thursday. After the ECB set out its short-term platform at its most recent decision, the upcoming meeting is set to be a rather low-key affair. With analysts looking for no change to the Bank's monetary policy settings following the recently issued guidance, focus will fall on the staff's macroeconomic projections. HSBC suggest that "the main news since September is a higher oil price (up around 20%), which we expect will raise the ECB's 2018 inflation forecast from 1.2% to 1.5% add 0.1% to its 2019 projection. It will also publish a 2020 forecast for the first time, which we expect to be 1.8% and therefore close to, but less than, 2% and consistent with the ECB's aim. Growth may be nudged up by 0.1% in 2017 and 2018, reflecting ongoing strength in leading indicators since September." It is also worth noting that the Bank's assumed EURUSD for projections currently stands at 1.18. Of course, focus will fall on the post-decision press conference, with market participants on the lookout for fall on any notable shift in rhetoric.

The **Swiss National Bank** (SNB) will also issue its latest monetary policy decision on Thursday, with all of those surveyed looking for no change in the Bank's monetary policy settings. In a recent address SNB President Thomas Jordan noted that "the Franc remains highly valued, and policy is still aimed at weakening the franc despite the recent reduction in value." This was a continuation of recent rhetoric, with analysts not looking for any move in the Bank's monetary policy settings for the foreseeable future, especially with muted domestic inflationary pressures.

The **Norges Bank** also convenes on Thursday. With no change expected focus will fall on the rate path, and as a result it is worth noting that September's projections pointed to a first hike in June 2019. Nordea suggests that a "weaker NOK, lower unemployment, higher oil prices and indications of somewhat higher momentum in growth than expected argue for an upward revision of the coming rate path." Nordea does concede that "housing prices have been marginally on the weak side and there are signals from housebuilders that housing investment will drop more than previously forecast." But the bank concludes that "you



cannot disregard the fact the developments since the September report in sum argue for both higher output gap and higher inflation. The new rate path will consequently be raised and indicate an earlier first hike. All in all, we end up with a path that is in line with a first hike in January 2019."

Other releases of note during the week: Tuesday German ZEW Survey (Dec) **Wednesday** Eurozone Employment Change (Q3) Eurozone Industrial Production (Oct) **Thursday** Eurozone Manufacturing, Services & Composite PMIs (Dec, P) **Friday** Eurozone Trade Balance (Oct)

UK: -

From a data perspective, the main highlight will be Tuesday's release of November's **inflation data**. Headline CPI is expected to hold steady at 3.0 Y/Y. This particular reading is of interest as the Bank of England (BoE) forecast indicated that inflation would peak in October (the BoE looked for 3.2% vs. actual 3.0%). If the Y/Y headline exceeds expectations, this could bring into question the underlying assumptions of the banks recent rate hike, whilst a decline could signify a peak inflation. In terms of the specifics, HSBC posits that "inflation is likely to see a mild uplift from higher petrol prices. However, we also anticipate a slight easing in food and recreational goods inflation".

Elsewhere, Wednesday's **labour market report** will be in vogue, with focus remaining on the wage components in the wake of depressed real earnings and last month's dissent from BoE members Ramsden and Cunliffe. Headline earnings are expected to rise to 2.4% 3M Y/Y from 2.2%. Such a reading would signify a 2017 peak (thus far), with the ex-bonus figure seen steady at 2.2%. In terms of the broader picture of the report, RBC suggests that "it does seem reasonable to expect that there might be a further decline in the level of employment on a quarterly basis this time round given the strength of the data over the summer."

Thursday's **retail sales** figures are expected to show an improvement from the prior month mainly as a by-product of Black Friday sales. However, in terms of recent data, HSBC notes that "anecdotal evidence suggests demand remained subdued. However, the British Retail Consortium reported that this weakness in the sales was offset by a rise in food sales."

Thursday brings the final **BoE** monetary policy decision/minutes release of 2017, with little fresh expected. Last month (alongside the Bank's QIR), the MPC decided to reverse the course of its referendum-inspired rate cut by lifting its benchmark rate back to 0.50% from 0.25%. Last month's dissenters (Cunliffe and Ramsden) based their view around the idea that the Bank's forecast for wage growth was 'too optimistic.' In addition to these concerns, the MPC were overall wary about the ongoing Brexit risks, this has played out in recent data releases, with HSBC highlighting that recently released indicators "doesn't point to any pick-up in activity." As a result, the BoE is likely to operate in a cautious manner, with markets not looking for another hike until Q4 2018. In terms of the upcoming vote, HSBC highlight an outside risk that Saunders and McCafferty (two of the more hawkish MPC members) could look to keep the momentum going by calling for another hike, but this appears to be highly unlikely.

Following the recent breakthrough in Brexit negotiations focus will switch to the **Brussels summit**, which begins on Thursday. However, the importance of this meeting may have diminished as both parties appear to be happy with the agreement struck on Friday, and the European Commission stated that it is ready to begin work on phase two immediately. Elsewhere in UK politics, some on the right voiced some dissatisfaction with PM May's agreement, leading to some questioning her potential longevity. However, Secretary of State for Environment, Food and Rural Affairs Michael Gove (a vocal opponent of May), took to the airwaves to announce his support for May's deal, in turn soothing some concerns over the stability of the UK government.

Other releases of note during the week: n/a

Asia-Pacific: -

The only tier one **Chinese** dataset due during the week is November's **activity data**, which will hit on Thursday. Industrial production is seen at 6.0% Y/Y, with retail sales expected to come in at 10.2% against prior readings of 6.2% and 10.0% respectively. Not much movement is expected in the industrial data as the uptick in November's official manufacturing PMI pretty much offset the downtick in its Caixin counterpart, while the uptick in the official non-manufacturing PMI has led to the slightly more favourable estimate for retail sales.

In **Japan** focus will fall on Friday's Q4 **Tankan Survey**. Analysts are looking for modest increases across the board, for both small and large firms, with Barclays opining that "we expect companies to remain upbeat and capex plans to look firm." It is worth noting that more focus could fall on the inflation expectations side of the survey, which will be released in the week commencing 18th December.

Australia's Q3 **house price index** will cross on Tuesday, with consensus looking for price growth to slow to 0.5% Q/Q from 1.9% in Q2. **NAB's** November **business survey** will also hit on Tuesday. October's survey saw business conditions hit a new high, although the leading indicators pointed to "the possibility of some pull-back in coming months." NAB also noted that "overall, results from the survey indicate that the business sector in Australia is very strong at present, which is having positive spill-overs into the labour market and (to some extent) investment. However, fairly restrained levels of business confidence could be telling us something about how firms see the outlook." Focus will then move to November's **labour market** report, due on Thursday. The



median expectation looks for a headline addition of 18K jobs, accelerating from the 3.7K seen in October, while the participation and unemployment rates are expected to hold steady at 65.1% and 5.4% respectively.

Over the Tasman in **New Zealand** focus will fall on Thursday's release of the **semi-annual economic update**.
ASB notes that the release "normally, attracts little attention, but this update is the first under the new Government. The new Finance Minister, Grant Robertson, has stated that the costs of the 100-day plan will be included in the release. For release at the same time, the Budget Policy Statement will outline the Government's priorities for Budget 2018 and show the level of operating and capital allowances for the next four Budgets." The bank also suggests that "all up, the risks are skewed towards a weaker economic outlook than we have factored in."

Other releases of note during the week: Monday Japanese BSI Large Manufacturing Conditions (Q$) **Wednesday** Australian Westpac Consumer Sentiment (Dec) **Thursday** Australia Melbourne Institute Inflation Expectations (Nov)