Week In Focus

This report is aimed at giving you a concise preview of the major events and themes forthcoming in the week ahead

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Week In Focus: Tax legislation, BoJ and Riksbank Rate Decisions in focus

Key Events

Monday: Eurozone CPI (Final)
Tuesday: German IFO Survey
Wednesday: Riksbank Rate Decision, NZ GDP
Thursday: US GDP (3rd Reading), BoJ Rate Decision
Friday: UK GDP (3rd Reading), US PCE

North America

Major data and central bank events die down in the coming week although the US releases its third estimate of **GDP** on Thursday and Friday sees the release of the Fed's targeted inflation measure, **PCE**. However, the main focus will likely fall on the potential **tax legislation** which should be in both chambers of Congress early in the week, before moving to Trump's desk in time for Christmas.

The Republican party are expected to present the joint tax bill that will first be put to the House and the Senate. The Republican majority in the Senate is only going to get slimmer after Doug Jones Alabama victory and there are still a handful of Republican senators who are undecided or have said they'll vote against the bill in its current form. Even if the bill does pass and is put into law for 2018, some have still cast doubt on the impact it will have on economic growth, although most expect it to give a boost to earnings, owing to the lower corporate tax rate. Even if the bill passes early next week, Congress won't be finished for 2017 as a government shutdown still lingers. Currently, the government is due to lose some funding at midnight on December 22nd, but Nordea note an extension of funding into mid-January looks the most likely option.

The third reading of US **GDP** is expected to be unrevised at 3.3% on an annualised basis, and this is not expected to have a major market impact. Friday's **PCE** data could garner more attention, given it's the Fed's preferred method of inflation. Core PCE is expected to improve to 1.5% Y/Y, still below the Fed's target but an improvement from October's 1.4% rate. This would have been welcomed by the Fed but Yellen in her final press conference still said some of the factors driving down inflation are transitory. Nordea note that the latest CPI reading suggests risk is tilted to the downside after the core measure slipped to 1.7% from 1.8% in October.

Canadian CPI is expected to increase to 2.0% Y/Y from 1.4%, driven mainly by an increase in gasoline and energy prices over the latest month. "The main factor in the increase is a 7.0% increase in gasoline prices in the month that will make a 0.2pp contribution to the change in consumer prices," writes HSBC. Core inflation, which strips out energy prices, is expected to remain stable at 1.6%.

Other releases of note during the week: US Housing Starts/Building Permits, US Durable Goods Orders, Philly Fed Survey, US New Home Sales

Europe/UK

This week sees a substantial drop off in tier 1 data and central bank events in the region as markets wind down for the festive period. Monday sees the release of the latest **Eurozone inflation figures (albeit final readings)** with both Y/Y and M/M expected to be unrevised at 1.5% and 0.1% respectively and thus expected to provide little in the way of traction for the market. Tuesday's **German IFO** release is also expected to potentially take a back seat this time round after last month's fresh all-time high readings for the business climate component with HSBC suggesting that any decline will only be modest at best. Elsewhere, across the channel, Friday's final **UK Q3 GDP** reading is expected to be unrevised for both the Q/Q and Y/Y at 0.4% and 1.5% respectively. The release will be accompanied by the October index of services figures, ahead of which, RBC highlight that 'With an elevated services PMI in October, it seems likely that services output will have expanded, building on expectations for another positive quarter of GDP growth to end 2017, despite the contraction in construction activity.'

In terms of political events, Brexit could play second fiddle to events in Catalonia this week with regional **Catalonian elections** due on Thursday and Brexit talk potentially not set to pick-up again until the new year now that the UK have received a formal sign off on Phase 1 talks. With regards to the Catalonian election, this is seen as more of a vote on independence than a traditional election per se, given the ongoing tensions in the region. In terms of expectations for the event, **polling data suggest that we are likely to see a particularly fragmented parliament** with Oxford Economics adding that they 'continue to expect a prolonged political stalemate regardless of the election outcome' and as such, any response from the Madrid-based government will be closely watched. From a purely economic perspective, Oxford Economics add that they think that headwinds for economic activity will be limited in impact.

The main central bank event in Europe this week comes from Sweden with the **Riksbank unlikely to rock the boat** given higher domestic inflation data, the weak SEK and as such consensus expects the repo rate to be unchanged at -50bps. The CPIF measure of inflation has averaged 2% over the last year, and Nordea believes that higher energy prices as well as the

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unexpectedly weak SEK suggests the inflation will likely remain close to target through 2018, and the central bank's easing cycle could be near an end. There will be some attention on whether the central bank extends its asset purchases, with the current programme set to conclude at the end of 2017. "In connection with the two latest decisions to extend the purchase programme, Governor Ingves had to use his casting vote to push through the decision," Nordea says, "against the current economic backdrop he will probably not do that at the upcoming meeting." But with that said, Nordea expects the central bank will retain optionality to resume asset purchases if the SEK appreciates rapidly. Additionally, there will be focus on the Riksbank's rate path. The current guidance – which extends through to Q4 2020, at which time the repo rate is seen at 0.75% – will likely be maintained, with the first rate rise pencilled in for the middle of 2018. Nordea expects the decision will be unanimous. Finally, HSBC highlight that the Bank could also flag some of the concerns around the housing market and strike a relatively dovish tone considering how strong the Swedish data are.

Other releases of note during the week: UK GfK Consumer Confidence

Asia-Pacific

The BOJ's policy meeting concludes on 21 December, and the central bank is widely expected to stand pat. There will, however, be attention on the post-meeting comments from BOJ Governor Kuroda, and specifically, whether he will elaborate on his ideas regarding "reversal rates" and policy normalisation, after his recent comments. "A slim majority of analysts, ourselves included, expect the Bank of Japan to leave policy settings unchanged next year," said Capital Economics, "but a rising number are forecasting policy tightening" after many of the world's major central banks have begun erring towards removing stimulus, as well as the recent concerns expressed by Kuroda with regards to the impact of low policy rates on bank profits, capital and lending.

The RBA's meeting minutes from the 19 December meeting – where it held the overnight cash rate at 1.50% – should provide some colour around the bank's tweaking of its language regarding the Australian dollar. (December's "The Australian dollar remains within the range that it has been in over the past two years. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast." versus November's "The higher exchange rate is expected to contribute to continued subdued price pressures in the economy. It is also weighing on the outlook for output and employment. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast."). "In December, the RBA prefaced the appreciation warning with the observation that the 'Australian dollar remains within the range that it has been in over the past two years'. It seems fair to argue that this might suggest a slightly more relaxed stance towards the currency on the part of the RBA," according to Westpac.

Across the Tasman Sea, New Zealand releases Q3 GDP on Thursday morning (21:45GMT on Wednesday). "Overall growth is expected to remain solid, although retail and other tourism-related sectors are likely to look a little softer after receiving a boost in H1 from events such as the Lions rugby tour," writes HSBC. Seasonally adjusted, the quarterly growth rate is expected to moderate to 0.6% from 0.8%.

Other releases of note during the week: Japanese trade balance