Week Ahead

12th - 16th February 2024

UK and US data in focus as China celebrates Lunar New Year

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INTRODUCTION

After a busy period of central bank decisions, the week just gone has seen markets take a breather, aided by a light data calendar and little new information forthcoming from policymakers. For the dollar that meant price action was much reduced, especially in comparison to the prior fortnight where a combination of hawkish Fedspeak and strong job growth forced a notable reassessment of the Fed's easing cycle. This meant that the only US specific event of note were 2023 CPI revisions, something that had been flagged by Chair Powell as a notable risk to the Fed's inflation outlook. Even that proved something of a damp squib when it was ultimately released, with minimal revisions to last year's figures meaning the dollar ended the week only fractionally above where it started; an outcome ultimately determined by Monday's continuation in the post-payrolls rally. With little excitement being driven by the US this week, this left the focus for G10 FX squarely on the Antipodes and Canada. In Australia, it was the RBA that took centre stage, delivering a marginally more hawkish hold than many had anticipated. Whilst there had been a risk that policymakers fully dropped their hiking bias, they instead merely toned it down, which saw AUD rally as a consequence. For New Zealand the focus was instead on jobs data which offered a more inflationary indication than markets had anticipated, an outcome that saw traders notably pare back RBNZ rate cut expectations, especially after ANZ published a call for further rate hikes. Canada too received a labour market report this week, though this was much less clear cut in our view. Whilst headline indications that unemployment fell are suggestive of a stronger economy, the details of the report arguably said the opposite. This is likely to leave the BoC in a state of flux going forwards. Now with no clear indication from any major data series as to the strength of the economy, we think the odds of a policy mistake are rising alarmingly. Despite the quiet week across developed markets, for EMs it was a rather different story. In CE3 the National Bank of Poland held rates to very little surprise, but the Bank's commentary was more hawkish than expected, whilst the CNB caught markets off guard with 50bp of easing, with consensus having narrowly looked for a smaller 25bp rate cut. Mexico also saw some action too, with Banxico also keeping rates on hold, and likely to continue to do so until May under our base case.

Next week the focus will return to G10 currencies as a string of key data releases set to be delivered while a number of EM markets close for the Lunar New Year holiday. A major focus is likely to be the UK, as a fluke of scheduling means that all major official economic data series are set to be released next week. While the details should point to a broadly improving picture, we suspect that markets will see this set of prints as marginally negative for sterling on balance, with news that the UK entered recession in 2023 likely to steal the headlines. Staying in Europe, Swiss inflation is expected to rise when January data is unveiled on Tuesday, though comments by the SNB's Jordan have suggested that it will not exceed 2%. This release will be in particular focus given indications the SNB has seen enough CHF strength and begun intervening in FX markets. While we don't think the SNB will intervene further in FX markets given the uptick in headline inflation pressures, weak inflation details would confirm our view that intervention is likely should EURCHF drop below 0.94 again. In Australia, a round of jobs release is only likely to be impactful if the data behaves, far from a foregone conclusion given the recent performance record of seasonal adjustments in the post pandemic period. Despite all this, a US data print is arguably set to steal the limelight next week. In this case it is the release of January CPI readings, albeit we suspect they could be less impactful than would have been expected in advance of January's Fed meeting. Back then this print was seen as likely the deciding factor on the likelihood of a March rate cut by markets. But with Fed Chair Powell killing that prospect, now the emphasis for markets has shifted out to May. Therefore, while the data will still be closely watched, and we suspect land a little stronger than expected, any upside move by the dollar in response could find itself muted next week.

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ECONOMIC CALENDAR

All times in GMT

Monday 12/02

Time	Country	Event	Period	Estimate	Prior
05:30	Sweden	SEB Swedish housing-price indicator			
08:00	Eurozone	ECB's De Cos speaks in Madrid			
09:00	Switzerland	Domestic (total) sight deposits CHF	Feb 9		470.5b (481.2b)
09:45	Eurozone	ECB's Lane speaks			
12:00	India	CPI YoY	Jan	4.99%	5.69%
16:00	US	NY Fed 1-year inflation expectations	Jan		3.0%
17:00	Eurozone	Fed's Barkin speaks at Atlanta Economics Club Event			
18:00	UK	BoE Governor Andrew Bailey speaks			
23:30	Australia	Westpac consumer confidence index	Feb		81
23:50	Japan	PPI MoM (YoY)	Jan	0.1% (0.0%)	0.3% (0.0%)
TBA	Mexico	Nominal wages	Jan		9.0%

Tuesday 13/02

Time	Country	Event	Period	Estimate	Prior
00:30	Australia	NAB business confidence	Jan		-1
02:00	New Zealand	2-year inflation expectation	1Q		2.8%
05:00	Sweden	PES unemployment rate	Jan		3.4%
06:30	France	ILO unemployment rate	4Q	7.3%	7.4%
07:00	UK	ILO unemployment rate 3-months	Dec	4.0%	
		Jobless claims change	Jan		11.7k
		Employment change 3M/3M	Dec		
		Payrolled employees monthly change	Jan		-24k
		Average weekly earnings 3M/YoY	Dec		6.5%
		Weekly earnings ex-bonus 3M/YoY	Dec	6.0%	6.6%
07:30	Switzerland	CPI MoM (YoY)	Jan	(1.8%)	0.0% (1.7%)
		CPI core YoY	Jan		1.5%
08:10	Sweden	Riksbank's Jansson speech at SvD bank summit			
10:00	Germany	ZEW survey expectations	Feb	19.0	15.2
	Eurozone	ZEW survey expectations	Feb		22.7
11:00	US	NFIB small business optimism	Jan		91.9
13:30	US	CPI MoM (YoY)	Jan	0.2% (2.9%)	0.3% (3.4%)
		CPI ex food and energy MoM (YoY)	Jan	0.3% (3.7%)	0.3% (3.9%)
		Real average weekly earnings YoY	Jan		0.7%
		Real average hourly earnings YoY	Jan		1.0%

Time	Country	Event	Period	Estimate	Prior
20:00	New Zealand	REINZ house sales YoY	Jan		14.1%
21:45	New Zealand	Card spending total MoM	Jan		-0.6%
		Food prices MoM	Jan		-0.1%
TBA	Germany	Current account balance	Dec		30.8b

Wednesday 14/02

Time	Country	Event	Period	Estimate	Prior
06:00	Finland	GDP YoY	Dec		-0.7%
07:00	Norway	GDP MoM	Dec		1.2%
		GDP QoQ	4Q		-0.50%
	UK	CPI MoM (YoY)	Jan	-0.2% (4.1%)	0.4% (4.0%)
		CPI core YoY	Jan	5.0%	5.1%
		CPI services YoY	Jan		6.4%
		PPI input MoM (YoY)	Jan		-1.2% (-2.8%)
		PPI output MoM (YoY)	Jan		-0.6% (0.1%)
07:30	Hungary	GDP QoQ (YoY)	4Q P	(0.9%)	0.9% (-0.4%)
08:30	Eurozone	ECB's Guindos speaks			
09:00	Poland	GDP QoQ (YoY)	4Q P	(1.1%)	1.5% (0.5%)
09:30	UK	House price index YoY	Dec		-2.1%
10:00	Eurozone	Industrial production MoM (YoY)	Dec	-0.5% (-4.4%)	-0.3% (-6.8%)
12:00	US	MBA mortgage applications	Feb 9		3.7%
13:00	Hungary	Hungarian central bank's minutes			
14:00	Canada	Existing home sales MoM	Jan		8.7%
	Eurozone	ECB's Cipollone speaks			
14:30	US	Fed's Goolsbee speaks in Q&A			
17:00	Eurozone	ECB's Nagel speaks			
21:00	US	Fed's Barr speaks at NABE conference			
23:50	Japan	GDP QoQ	4Q P	0.3%	-0.7%
		GDP annualized QoQ	4Q P	1.2%	-2.9%
		GDP private consumption QoQ	4Q P	0.0%	-0.2%

Thursday 15/02

Time	Country	Event	Period	Estimate	Prior
00:00	Singapore	GDP QoQ (YoY)	4Q F		1.7% (2.8%)
		GDP YoY	2023 F		1.2%
	Australia	Consumer inflation expectation	Feb		4.5%
00:30	Australia	Unemployment rate	Jan	4.0%	3.9%
		Employment change	Jan	30.0k	-65.1k
		Full time employment change	Jan		-106.6k

Time	Country	Event	Period	Estimate	Prior
07:00	UK	Monthly GDP MoM	Dec	-0.1%	0.3%
		GDP QoQ (YoY)	4Q P	0.0% (0.2%)	-0.1% (0.3%)
		Private consumption QoQ	4Q P		-0.5%
		Industrial production MoM (YoY)	Dec		0.3% (-0.1%)
		Index of services MoM (3M/3M)	Dec		0.4% (0.0%)
		Visible trade balance GBP/Mn	Dec		-£14189m
07:30	Switzerland	Producer & import prices MoM (YoY)	Jan		-0.6% (-1.1%)
08:00	Switzerland	SECO consumer confidence	Jan	-35.0	-40.0
	Sweden	Riksbank's Thedeen speaks			
	Eurozone	ECB's Lagarde speaks			
09:00	Poland	CPI MoM (YoY)	Jan	0.4% (4.2%)	0.1% (6.2%)
10:00	Eurozone	Trade balance	Dec		14.8b
11:25	Brazil	Central bank weekly economist survey			
12:00	Brazil	Economic activity MoM (YoY)	Dec		0.01% (2.2%)
	Eurozone	ECB's Lane speaks			
13:00	UK	BoE's Megan Greene speaks			
13:15	Canada	Housing starts	Jan		249.3k
13:30	Canada	Manufacturing sales MoM	Dec		1.2%
	US	Empire manufacturing	Feb	-10	-43.7
		Retail sales advance MoM	Jan	-0.2%	0.6%
		Philadelphia Fed business outlook	Feb	-9.0	-10.6
		Initial jobless claims	Feb 10		218k
		Continuing claims	Feb 3		1871k
		Industrial production MoM	Jan	0.4%	0.1%
13:50	UK	BoE's Catherine Mann speaks			
15:00	US	NAHB housing market index	Feb		44
15:20	Sweden	Riksbank's Breman speaks			
18:00	Eurozone	ECB's Nagel speaks			
TBA	Brazil	Formal job creation total	Jan		-430159

Friday 16/02

Time	Country	Event	Period	Estimate	Prior
00:00	US	Fed's Bostic speaks on outlook and monetary policy			
07:00	Sweden	Unemployment rate SA	Jan		8.2%
	UK	Retail sales included auto fuel MoM (YoY)	Jan	1.0%	-3.2% (-2.4%)
		Retail sales ex auto fuel MoM (YoY)	Jan		-3.3% (-2.1%)
08:45	Eurozone	ECB's Schnabel speaks			
13:30	Canada	Wholesale sales ex petroleum MoM	Dec		0.9%

Time	Country	Event	Period	Estimate	Prior
	US	Housing starts MoM	Jan	0.0%	-4.3%
		New York Fed services business activity	Feb		-9.7
		PPI final demand MoM (YoY)	Jan	0.1%	-0.1% (1.0%)
		PPI ex food and energy MoM (YoY)	Jan	0.1%	0.0% (1.8%)
15:00	US	University of Michigan sentiment	Feb P	79.0	79.0
		University of Michigan expectations	Feb P		77.1
		University of Michigan 1-year inflation	Feb P		2.9%
		University of Michigan 5-10-year inflation	Feb P		2.90%
17:10	US	Fed's Daly speaks at NABE conference			

DATA PREVIEWS

Swiss inflation to determine SNB commitment

With a reading of 1.7%, the December inflation data slightly exceeded the SNB's inflation forecast of 1.6% for the fourth quarter. However, the consensus of economists is already pointing to headline inflation dropping back to 1.6% year-on-year in January. While this will see inflation remain within the Bank's tolerance band, we believe it is a somewhat poor reading given the bulk of inflation is set to be derived from idiosyncratic factors that both policymakers and analysts have already telegraphed. This was evidenced by recent comments from SNB President Jordan, who said that inflation is set to rise "due to the increase in VAT and electricity prices [...] although it should not exceed 2%." As a result of these one-off factors, we don't think the headline measures will really derail expectations for the SNB, with the focus instead on levels of imported inflation and domestically produced inflation once excluding VAT impacts. Should these data suggest weak growth and a stronger trade-weighted franc are weighing on inflation, we expect pricing of a March SNB cut to tick up from 25% currently. Furthermore, such details could keep the SNB's intermeeting stance relatively dovish. Trading in the 0.94-0.945 region now, we don't think the SNB will intervene further in currency markets on the back of softer inflation pressures, but weak inflation details will definitely confirm our view that intervention is likely should the cross dip back into the 0.93s.

Aussie jobs data will only have an impact if the data behaves

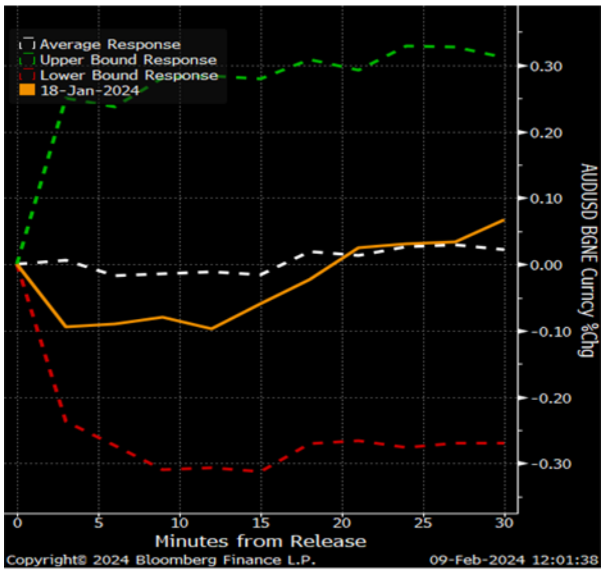
The Reserve Bank of Australia left the cash rate unchanged at 4.35% this week and diluted its hawkish forward guidance to a more neutral stance. The central bank also adjusted its forecasts in line with eventual policy easing, revising down growth and inflation expectations while lifting its unemployment projection. Despite these adjustments, we continue to think that the RBA is some way off delivering its first rate cut given that inflation remains high, services inflation specifically is proving sticky, and conditions in the labour market remain tight, with the unemployment rate half a point below levels the RBA considers to be consistent with inflation returning back to its target band.

"Our view that the RBA should remain on hold for the foreseeable future should be reinforced by January's labour market data, released next week Thursday at 00:30 GMT."

Expectations are for a net 30k jobs to be added at the start of the year, reversing half of December's 60k contraction in employment. Nonetheless, a rebound in the participation rate is also likely and is expected to lift the unemployment rate 0.1pp to 4%. All told, consensus expectations are that January's data reverses December's anomalous report, at least in part, but uncertainty over this view is high given January is also typically a volatile month for Australia's labour market. Not only non-seasonally adjusted data subject to high levels of volatility due to holiday effects and annual job moves, but the ABS's seasonal factors may have gone awry given they place a firmer weighting on recent readings, and thus the pandemic years of 2020-2022. So while we expect the data to confirm the RBA's view that the labour market is moderating only gradually, we can't discount another freak reading.

In terms of the market reaction, if the data behaves and meets expectations, we expect it to support AUD in the range of 0.6450-0.66; a view we've taken since this week's RBA decision. In the event that the January data provides more noise than signal, we expect a limited reaction in the Aussie dollar as the data is fully disregarded as was the case in December.

Despite providing the biggest surprise over the past year, December's jobs data had little impact on AUD as markets discounted the signal it provided



Inflation data unlikely to derail the Fed

January's inflation data was set to be highly influential for the prospects of a March rate cut, which as recently as a fortnight ago was priced as a coinflip. However, recent strength in the labour market data and more cautious guidance by Fed officials, who downplayed progress on disinflation even as the 6-month annualised rate of core PCE tracked below 2%, has effectively neutralised the risk of a March cut. As a result, next week's inflation data will be viewed in the context of a potential May cut, which is currently 70% priced into overnight interest rate swaps. But with two further jobs and inflation reports ahead of the May 1st meeting, January's inflation report is now set to have a lesser impact on rates and FX markets. While next week's inflation data is subject to elevated levels of uncertainty given the presence of January effects, we think the data should show further disinflation in the annual figures. However, the dovish implications of such a print should be undercut by an acceleration in the pace of sequential core CPI readings. This view is primarily based on two factors. On annual disinflation, falling unit labour costs and the normalisation of inflation expectations will likely result in firms resetting prices at the start of 2024 with a lower inflation adjustment than in January 2023. This should result in negative base effects for the annual rates, as headline inflation rose 0.52% and core inflation increased by 0.41% in January 2023. However, given underlying economic strength, visible in January's PMIs and employment figure, and the strong pace of wage growth, we expect core inflation to print slightly above 0.3% MoM on an unrounded basis. This would see core inflation accelerate moderately from its average Q4 pace of 0.27% MoM, reflecting the aforementioned factors and a reduced January effect. If our expectations are met, the 3-month annualised rate of core CPI would break above Q4's range of 3.3-3.4%, rising to around 3.6%.

"With the annual measure of inflation falling to 3.7% under this scenario, the convergence of the two measures would support the Fed's more cautious stance on easing given that it would suggest a slower pace of disinflation moving forward."

In terms of the component breakdown, we will be paying close attention to products tied to discretionary spending, after prices of recreational services jumped 1.1% in December. In addition, medical care services will also be one to keep an eye on for signs that the catch-up effect is slowing, as well as core goods prices after some global CPI measures have displayed renewed supply chain pressures due to the ongoing conflict in the Red Sea.

All told, while we expect the near-term pace of core inflation to accelerate, we don't think it will derail the view that the Fed will cut rates from May. Further disinflation should be supported by a rebalancing in the auto and housing markets, while wage pressures from the labour market are also likely to cool as demand and supply comes back into better balance. As a result, pricing of the Fed is unlikely to shift much next week under our base case. That said, we think markets will continue to position cautiously ahead of February's jobs and inflation data, released on March 8th and 12th respectively, on the risk that progress in the inflation battle continues to stall. This should keep the dollar buoyant at current levels.

BANK OF ENGLAND

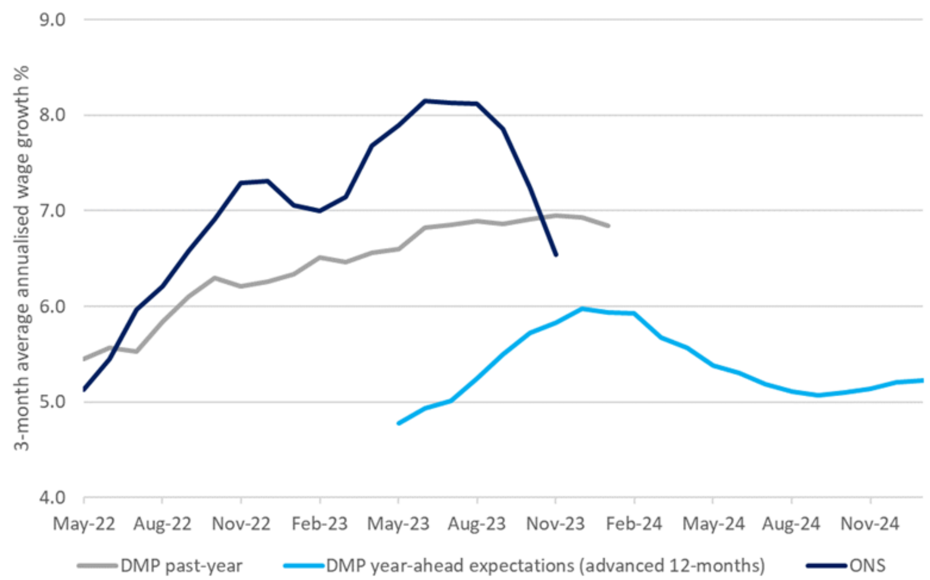
A busy week should weigh on sterling at the margin

A jampacked schedule of releases is coming up next week and should keep sterling traders closely focused on domestic UK developments. First up, a speech by Bank of England Governor Andrew Bailey is scheduled for Monday before focus turns to the raft of official statistics set published through the remainder of the week. In terms of the data that is due to land, Tuesday brings with it labour market readings, inflation data is due on Wednesday, followed by Q4 GDP on Thursday, all rounded out with retail sales numbers on Friday. All told, we expect next week's data should point to an economy that flatlined late last year and where underlying inflation pressures continue to cool. This mix should lead markets to re-accelerate BoE easing bets, and weigh on sterling in the process. Nevertheless, with data also showing the economic outlook is improving and the labour market continuing to produce strong wage pressures, this latest round of publications should do little to convince policymakers that rate cuts are warranted in before August, keeping our base case for the BoE intact in spite of market pricing.

"Beginning with Tuesday's labour market data, December's report will mark the full return of employment and unemployment readings, following a multi-month suspension over data quality concerns which ended with backdated releases being published earlier this week."

That said, the ONS is still refusing to classify these as "official statistics", signifying a continued lack of confidence in the data. Combined with the fact that the most recent November print showed that inflation had dropped to 3.9%, moving in the opposite direction to other labour market indicators, we suspect markets will continue to discount these figures. More relevant then will be wage data. Having indicated pay growth of 6.5% 3m/YoY in November, the headline measure should drop considerably as an 8.5% single month YoY increase from September is set to fall out of the three-month window used to calculate headline figures. A similar story is set to play out once removing bonuses too, with economists expecting a drop in 3m/YoY figures from 6.6% to 6.0%. Even with this drop, pay growth will remain some way above levels consistent with the BoE's 2% inflation target though, and it is notable that the BoE's Decision Maker Panel saw year-ahead wage expectations stabilise just above 5% in the second half of 2023. Whilst we are sceptical about the survey's reliability as an indicator, the MPC appears to have faith in it, a key factor in our call for no rate cuts in the first half of 2024. We think the BoE will need to see evidence that wage growth is dropping sustainably below levels indicated by the DMP before cutting, which is unlikely until the middle part of this year.

Official wage growth data continues to track above DMP expectations, which if continued should see the BoE stay on hold over coming meetings



Following on from Tuesday's jobs release, Wednesday's inflation data is likely to be the key data print of the week. The headline inflation reading is highly likely to rise on an annualised basis, with a -0.6% MoM drop from January 2023 set to drop out of the 12-month calculation. Even so, with markets predicting a -0.3% MoM drop for the first month of 2024, any rise is year on year figures should be modest and not likely to unduly trouble markets, especially with BoE forecasts already having pencilled this uptick in. More relevant will be the measures of underlying inflation. The critical data to watch will be readings for core and for services inflation, the latter of which has explicitly linked by the BoE to wage growth as an indicator of price growth stickiness. January's core price growth reading is anticipated by markets to ease by just 0.1pp in this latest set of figures, dropping to 5.0% YoY, down from 5.1% at the end of 2024. However, services inflation is predicted to tick up from the current rate of 6.4% YoY due to base effects, similar to the headline reading, with Bank staff forecasts projecting a reading of 6.6% for January. If anything, we think this somewhat optimistic given that MoM service prices dropped -0.9% in January 2023. Whilst admittedly, January normally sees a relatively soft MoM services print, given the size of last year's drop-off, in our view this means the risks are skewed towards a decent upside beat for services inflation when compared with BoE forecasts. We would however note that the MPC will have access to February's data by the time of the March rate decision. Given that this should show disinflation across all inflation measures resuming its downward trend, we don't think policymakers will be inclined to panic on the back of next week's reading.

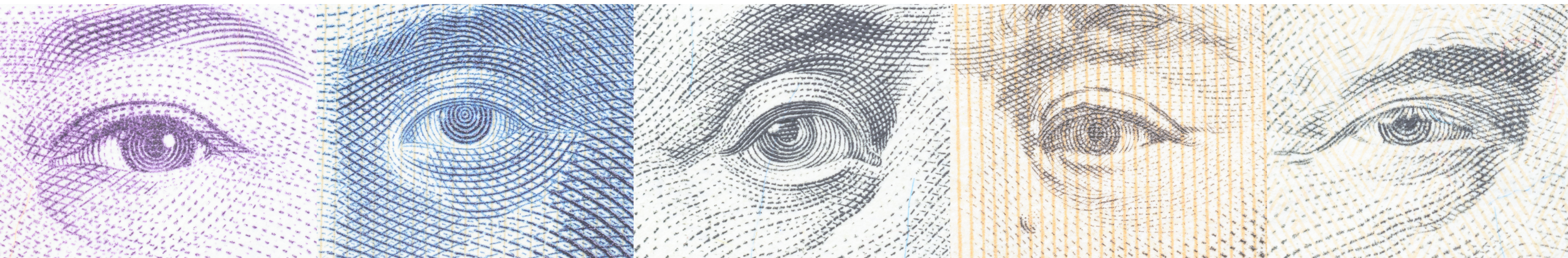
"Despite the importance of inflation data to markets, it will almost certainly be Thursday's Q4 GDP figures that attract a majority of newspaper headlines."

Barring a major surprise, these will confirm that the UK economy just barely fell into recession in the second half of 2024. Given the weakness seen in December's retail sales figures, we struggle to see how the corresponding GDP reading can print in positive territory, necessary for Q4 growth to avoid recording a contraction. This would leave readings for both the third and fourth quarters of 2023 showing that the economy shrank by -0.1%, just barely meeting the definition of a technical recession. Whilst this is likely to grab the attention of many, it is somewhat misleading in our view, especially when considering the UK's growth outlook heading into 2024. Composite PMI indicators have now printed above the 50 no-change mark every month since November, standing at 52.9 in January, indicating a solid expansion in activity over recent months. Moreover, real pay turned positive in April last year, and our bias is that growing real incomes should support an economic recovery as consumer confidence picks up in 2024 H1. Some evidence pointing towards this should be delivered on Friday in the form of January retail sales data, where an improvement on the December figures should help to take the edge off Thursday's disappointment. Significantly, the timelier BRC shop price readings outperformed expectations, albeit whilst also delivering a slowdown to 1.4% YoY from December's 1.9% reading. As such, market consensus that looks for a 1.5% MoM increase on the headline reading scans as broadly reasonable to us, as do annual expectations which foresee an improvement from -2.4%YoY to -1.7%. All together this suggests to us that the economy should expand at a decent rate this year, likely exceeding the 0.5% growth predicted by the BoE's February MPR.

Whilst we think the details in next week's data should be broadly positive for the pound, we would be surprised if it results in significant GBP upside immediately. Headline readings should offer a more mixed bag of takeaways, which on balance could actually lead to a modest weakening for sterling. Crucially, after spending the first part of the year suggesting that markets were looking for too many rate cuts from the BoE, we now think that they have swung too far in the other direction and are looking for too few. Current market expectations see just over three rate cuts being delivered this year. We look for four, with these set to be delivered at a faster pace than markets are envisaging, but only beginning in August.

"If traders are largely content to look through the uptick in inflation measures, and we think they should as base effects are likely to be well anticipated, then falling wages and soft growth should see more Bank Rate easing for this year being priced back in."

This would weigh on the pound in isolation, leading sterling to track below our one-month forecasts temporarily. On this point, we doubt that markets will fully align with our base case next week. Whilst the details of next week's data should support our base case view for a later start to easing than traders expect at present, we are sceptical that this will be reflected in market price action given a recent tendency for markets to adjust the projected start for UK policy easing based on expectations for the Fed. For a later start to rate cuts to ultimately be priced, it will likely take a steer from the BoE, something that we don't see as likely to be forthcoming next week. This should become apparent in the next few months however as commentary from the Fed and BoE diverges, supporting modest GBP upside into mid-year.



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