Week Ahead

22nd - 26th January 2024

Avoiding talk of cuts

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INTRODUCTION

This week saw markets converge further towards our one-month and Q1 forecasts, driven in large part by the increase in geopolitical risk and hawkish central bank commentary which flushed out a lot of new short USD positioning. The move higher in the greenback was also supported by the latest round of macro data, which not only highlighted the theme of US exceptionalism once again but also reintroduced macro uncertainty as releases like Canadian CPI and Australian jobs data posed some curious questions. All told the start of 2024 is evolving broadly as we expected, although it is notable that the reaction to strong US retail sales suggested markets remain somewhat hesitant to re-engage with fresh dollar long positions, meaning the rally in the broad dollar may marginally undershoot our one-month forecasts before February's round of data further propels the greenback to our Q1 projections.

Looking ahead to next week, the overwhelming theme in markets will be the reluctance of DM central banks to begin discussing the path towards policy easing. In Canada, the recent uptick in inflation data is likely to keep the BoC in a holding pattern even as growth data remains weak and slack continues to build within the labour market, while in the eurozone we expect both the ECB and Norges Bank to continue warning that rate cuts aren't on the immediate horizon. For FX markets, this is unlikely to be a source of volatility, with most of the event risk instead resting on the growth data due out and whether it validates or undermines the central banks' messaging. On that front, US GDP data and flash PMIs are set to be key.

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ECONOMIC CALENDAR

All times in GMT

Monday 22/01

Time	Country	Event	Period	Estimate	Prior
01:25	China	5-year loan prime rate		4.20%	4.20%
		1-year loan prime rate		3.45%	3.45%
08:30	Hong Kong	CPI composite YoY	Dec	2.4%	2.6%
09:00	Poland	Average gross wages MoM (YoY)	Dec	6.7% (11.6%)	1.7% (11.8%)
		Employment MoM (YoY)	Dec	-0.1% (-0.2%)	0.0% (-0.2%)
		Retail sales YoY	Dec	3.4%	2.6%
	Switzerland	Domestic (total) sight deposits CHF	Jan 19		467.8b (476.3b)
15:00	US	Leading index	Dec	-0.3%	-0.5%

Tuesday 23/01

Time	Country	Event	Period	Estimate	Prior
00:30	Australia	NAB business confidence	Dec		-9
		NAB business conditions	Dec		9
05:00	Singapore	CPI MoM (YoY)	Dec	(3.5%)	-0.2% (3.6%)
		Core CPI YoY	Dec	3.0%	3.2%
09:00	Eurozone	ECB bank lending survey			
15:00	Eurozone	Consumer confidence	Jan P	-14.0	-15.0
	US	Richmond Fed manufacturig index	Jan		-11
17:00	Mexico	ANTAD same-store sales YoY	Dec		5.3%
21:45	New Zealand	CPI QoQ (YoY)	4Q	0.5% (4.7%)	1.8% (5.6%)
22:00	Australia	Judo Bank PMI composite	Jan P		46.9
		Judo Bank PMI manufacturing	Jan P		47.6
		Judo Bank PMI services	Jan P		47.1
23:30	Australia	Westpac leading index MoM	Dec		0.07%
23:50	Japan	Trade balance	Dec	-¥123.3b	-¥780.4b
TBA	Japan	BoJ policy balance rate		-0.10%	-0.10%
		BoJ 10-year yield target		0.0%	0.0%

Wednesday 24/01

Time	Country	Event	Period	Estimate	Prior
00:30	Japan	Jibun Bank PMI composite	Jan P		50.0
		Jibun Bank PMI manufaturing	Jan P		47.9
		Jibun Bank PMI services	Jan P		51.5
07:00	Sweden	Prospera Swedish inflation expectations survey			

Time	Country	Event	Period	Estimate	Prior
08:00	South Africa	CPI MoM (YoY)	Dec	0.1% (5.2%)	-0.1% (5.5%)
		Core CPI MoM (YoY)	Dec	0.3% (4.5%)	0.2% (4.5%)
08:15	France	HCOB PMI composite	Jan P		44.8
		HCOB PMI manufacturing	Jan P	42.0	42.1
		HCOB PMI services	Jan P	46.0	45.7
08:30	Germany	HCOB PMI composite	Jan P	48.0	47.4
		HCOB PMI manufacturing	Jan P	43.8	43.3
		HCOB PMI services	Jan P	49.5	49.3
09:00	Poland	Unemployment rate	Dec	5.1%	5.0%
	Eurozone	HCOB PMI composite	Jan P	48.3	47.6
		HCOB PMI manufacturing	Jan P	44.5	44.4
		HCOB PMI services	Jan P	49.0	48.8
09:30	UK	S&P Global PMI composite	Jan P	52.6	52.1
		S&P Global PMI manufacturing	Jan P	47.0	46.2
		S&P Global PMI services	Jan P	53.6	53.4
12:00	US	MBA mortgage applications	Jan 19		-15
	Mexico	Economic activity IGAE MoM (YoY)	Nov		-0.09% (4.24%)
		Bi-Weekly CPI (YoY)	Jan 15	(4.76%)	0.48% (4.86%)
		Bi-Weekly CPI core (YoY)	Jan 15		-0.01% (4.98%)
14:45	Canada	Bank of Canada rate decision		5.00%	5.00%
	US	S&P Global PMI composite	Jan P		50.9
		S&P Global PMI manufacturing	Jan P	48.0	47.9
		S&P Global PMI services	Jan P	51.0	51.4

Thursday 25/01

Time	Country	Event	Period	Estimate	Prior
07:00	Sweden	PPI MoM (YoY)	Dec		1.4% (-4.2%)
	Norway	Unemployment rate trend	Dec		3.7%
07:45	France	Business confidence	Jan	98	98
08:00	Spain	PPI MoM (YoY)	Dec		-2.0% (-7.4%)
08:30	Hong Kong	Trade balance HKD	Dec		-27.9b
09:00	Norway	Deposit rate decision		4.50%	4.50%
	Germany	IFO expectations	Jan	85.0	84.3
		IFO business climate	Jan	86.7	86.4
11:00	Turkey	One-week repo rate		45.00%	42.5%
	Brazil	FGV consumer confidence	Jan		93.7
12:00	Mexico	Unemployment rate	Dec		2.71%
13:15	Eurozone	ECB deposit rate decision		4.00%	4.00%

Time	Country	Event	Period	Estimate	Prior
13:30	Canada	Payroll employment change - SEPH	Nov		-44.6k
	US	Chicago Fed nat activity index	Dec		0.03
		GDP annualized QoQ	4Q A	1.9%	4.9%
		Personal consumption	4Q A	2.3%	3.1%
		Core PCE price index QoQ	4Q A		2.0%
		Wholesale inventories MoM	Dec P	-0.2%	-0.2%
		Durable goods orders	Dec P	1.0%	5.4%
		Initial jobless claims	Jan 20		187k
		Continuing claims	Jan 13		1806k
13:45	Eurozone	ECB President Christine Lagarde holds press conference			
17:00	US	New home sales MoM	Dec	10.1%	-12.2%
23:00	Japan	Tokio CPI YoY	Jan	2.0%	2.4%
		Tokyo CPI ex-fresh food, energy YoY	Jan	3.4%	3.5%
23:50	Japan	BOJ minutes of December meeting			
TBA	South Africa	SARB interest rate announcement		8.25%	8.25%

Friday 26/01

Time	Country	Event	Period	Estimate	Prior
00:01	UK	GfK consumer confidence	Jan	-21	-22
05:00	Singapore	Industrial production MoM (YoY)	Dec	2.7% (1.3%)	-7.8% (1.0%)
07:00	Sweden	Unemployment rate	Dec		7.1%
		Trade balance	Dec		12.7b
	Germany	GfK consumer confidence	Feb	-24.5	-25.1
07:30	Eurozone	ECB's Panetta speaks			
07:45	France	Consumer confidence	Jan	90	89
09:00	Eurozone	ECB survey of professional forecasters			
09:30	Eurozone	ECB's Kazaks, Vujcic speak			
12:00	Mexico	Trade balance	Dec		626.9m
	Brazil	IBGE IPCA-15 MoM (YoY)	Jan		0.40% (4.72%)
13:30	US	Personal income	Dec	0.3%	0.4%
		Personal spending	Dec	0.4%	0.2%
		PCE deflator MoM (YoY)	Dec	0.2% (2.6%)	-0.1% (2.6%)
		PCE core deflator MoM (YoY)	Dec	0.2% (3.0%)	0.1% (3.2%)
15:00	US	Pending home sales MoM (YoY)	Dec	1.5%	0.0% (-5.1%)
16:00	US	Kansas City Fed services activity	Jan		-10

DATA PREVIEWS

Norges Bank: A pivot seems unlikely just yet

The Norges Bank is set to unveil its first policy decision of 2024 next week, though a surprise seems unlikely this time around, with policymakers having all but declared an end to this tightening cycle in December. As such, we expect to see the deposit rate maintained at 4.50% next Thursday, with the focus for FX markets instead shifting to any commentary that accompanies the rate announcement. Given the broad consensus that no further rate hikes will be forthcoming from the Norges Bank, the main area of focus is any discussion on the path for rate cuts. While the data supports discussion of rate cuts, we think the Norges Bank will refrain from doing so to continue supporting the krone and further cement the disinflationary dynamics.

"There have been several key developments since December's meeting, where to the surprise of many who thought this hiking cycle was already done, the Norges Bank still managed to deliver one final rate hike."

The main development is the 2.5% appreciation in the krone, seeing as weakness leading up to the December meeting seemingly tipped the balance for the Norges Bank to shock markets with one further hike. While the hike and the introduction of Fed easing bets fuelled this rally, it was also supported by the significant reduction in FX purchases. While this largely reflects the government's updated spending plans for 2024, it has also improved sentiment around NOK. As a result, the strong rally in the krone now poses a downside risk to the Norges Bank's inflation forecasts, potentially fuelling discussions over policy easing. However, despite this, and our view that the NOK has further to appreciate over the near-term and that both labour market dynamics and growth will also support the disinflation channel, we doubt the Norges Bank will open any such debate next week to avoid sparking renewed downside pressure on NOK and potentially undermining the ongoing disinflationary dynamics.

Another notable development since the December meeting is the progression of inflation. While headline inflation overshot the Q4 MPR projection of 4.6% with a print of 4.8% YoY, core inflation undershot at just 5.5%. On balance, we think the undershoot in the core measure should mean any residual risk of a hike is now off the table. Instead, despite indicating an 80% chance of a cut by Q4, we think policymakers will most likely cut for the first time in Q3. That said, commentary recognising this is unlikely to make an appearance next week, with policymakers cognizant that a premature shift in tone could see markets front running any easing. Instead, Governor Ida Wolden Bache will most likely confirm the obvious, that hiking is now finished, leaving any detail on the timing of rate cuts for a meeting later in the year. If seen, the krone could come under pressure as the residual risk of policy tightening risk is priced out, though absent a full pivot by policymakers, we think this should remain modest.

CBRT: One final push

The CBRT is set to deliver what we think will be the final hike of their cycle next week, raising the one-week repo rate by 250bp to an eye watering 45%. Indications from the December policy meeting suggested that whilst the central bank intended to deliver further rate hikes this month, the end of policy tightening is now imminent. As such, we suspect a repeat of the December policy decision is likely, though we would not rule out a smaller rate hike being delivered. Local elections set for March, however, means that further hiking beyond this month looks unlikely to us. As such, whatever rate is reached at this latest meeting is likely to mark the peak for this cycle. Such a stance should also be supported by the slowdown in sequential inflation, though we note that it remains too early in the inflation battle for the CBRT to make such a decision with any confidence. In particular, a poor performance by the ruling AK party in March's vote could see some backsliding on the recent pivot towards economic orthodoxy. Whilst we have little reason to believe this is likely at present, such a scenario does risk a renewed surge in inflation and a subsequent TRY selloff.

"Assuming that the CBRT maintains its commitment to orthodox monetary policy, however, we now think that rates are tight enough to see annual inflation rates begin to cool, with December's 65% YoY reading likely to be the peak in price growth."

The question now becomes how long inflation takes to return to target, and to what extent this process continues to weigh on the lira. The answer will depend in part on what any final tightening push ultimately delivers. That said, if the CBRT does raise rates by the 250bp we expect, then we should also see the current run rate of inflation maintained over coming months. This means that annual inflation should fall below the one week repo rate in the second half of this year, a condition we think is likely necessary for the CBRT to consider beginning to ease policy. For the lira, we expect this means that weakness is likely to persist in the short term, with high inflation and election risks weighing on the currency. Mid-year though should bring with it a turnaround in the lira's fortunes in our view, with policy remaining tight even as growth boosting rate cuts come into scope for FX markets.

US Q4 GDP: Look out for green shoots

Whilst the US recession anticipated by many failed to arrive last year, the pace of growth is set to have fallen in Q4 when preliminary estimates are published next week. Consensus estimates look for a 1.5% QoQ annualised print for the final quarter of 2023, a sharp drop off from the Q3 reading of 4.9%. That said, a handful of idiosyncratic factors likely weighed on growth towards the back end of last year, temporarily depressing growth in the final quarter, but unlikely to be repeated in 2024. Most notably, this includes the restart of student loan repayments in October which likely weighed significantly on consumer spending. While this will depress Q4 growth, it is also something that can only happen once. Even with these headwinds, the US still likely outperformed at the back end of 2024, especially when compared with other developed markets that flatlined last year. All told, if growth readings don't collapse entirely, and leading indicators hold up as we broadly expect, this could see market attention shift back onto American exceptionalism in what should be a dollar positive dynamic.

Key therefore in the upcoming release will be any hint regarding the US growth outlook for the year coming up. To this point in the Q3 release, it was notable that personal saving as a percentage of disposable personal income dropped to just 3.8%. This was well below the roughly 5% long run rate, suggesting that the consumer spending binge propping up growth at that time was unsustainable, and likely to run out of steam in Q4. Similarly, real disposable incomes also recorded a 1% fall in the third quarter, something we expected to weigh on consumer demand moving forwards. Taken together, this not only pointed to slowing growth at the end of last year, but if repeated in the Q4 release, would signal that growth momentum should continue to cool in the early part of this year too. That said, our base case expects a pickup on both measures when next week's figures are published. Whilst Q3 coincided with a rally in US yields that sharply tightened US financial conditions, Q4 saw this unwind, which should ease debt service costs whilst boosting both credit provision and consumer demand. Indeed, this week's strong retail sales print certainly points in this direction, suggesting to us that US consumers are yet to lose their mojo. As such, we would not be inclined to read too much into the expected slowdown in headline growth figures next week. Instead, we will be looking closely for signs that activity is reaccelerating into the new year, which would support our case for dollar upside in early 2024.

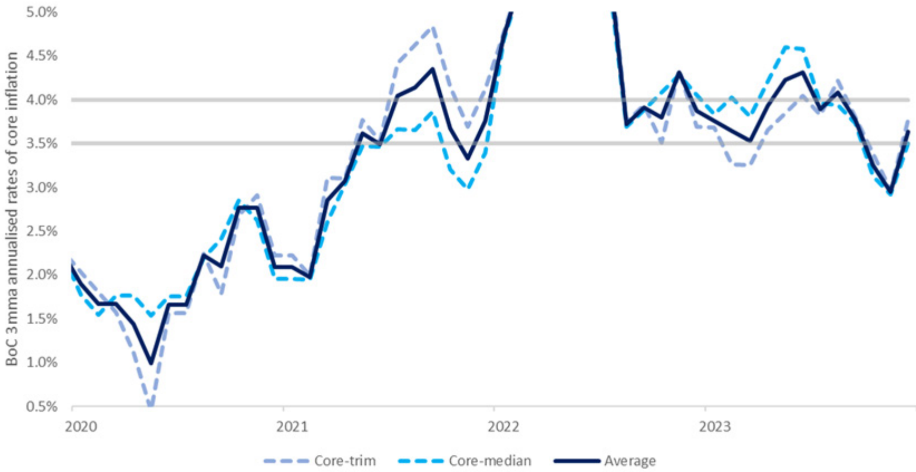
Bank of Canada to remain in holding pattern

Back in December the Bank of Canada essentially delayed any meaningful discussion of monetary policy until 2024. While the data since has generally suggested that the BoC will soon need to actively discuss rate cuts, the recent uptick in the BoC's preferred core inflation measures in December means that next week's meeting will likely be a replay of December. While we believe the measures grossly overstate the strength in the underlying rate of inflation and thus retain our view that the first cut will be in April, the data will nonetheless give Governor Macklem and the rest of the Governing Council cover to continue holding rates.

"With the rate statement and press conference likely to be a carbon copy of December, the focus for next week's meeting is likely to rest on the Bank's updated economic projections with the release of its Q1 Monetary Policy Report."

Here, the main impact for markets will be the Bank's assessment of growth conditions and whether an outright recession is a viable scenario, while the expected passthrough to inflation will also be critical after the BoC's previous projection round saw them materially upgrade their medium-term inflation projections under the expectation of greater inflation persistence. In our view, while the BoC will be at pains to say that the economy is teetering on the edge or even in a recession, which is our current view, we do expect 4Q23 growth to be downgraded from 0.8% QoQ SAAR to near flat and the 2024 inflation forecast to be revised down accordingly from 3% towards July's projection of 2.5%. If this transpires, it would essentially set the ground for the BoC to begin discussing policy easing, but delay any imminent discussion of it due to the recent round of inflation data.

After a sustained period of disinflation, the BoC's core measures of inflation jumped back up in December



Aggregate inflation measures overstate price pressures

The Bank of Canada's preferred measures of core inflation jumped from an average rate of 3% to 3.6% in December, driven largely by an increase in core goods inflation (+0.5% MoM). With the headline measure of inflation also increasing 0.3pp to 3.4%, the main inflation aggregates provide cause for concern and will likely be referenced by the BoC to justify holding rates at 5%. Despite this, we think the BoC can't hold rates at this level indefinitely. While our view of a rate cut in April and at every meeting thereafter is supported by data showing the labour market continues to normalise and growth is set to stall at best, alternate measures of underlying inflation pressures in the Canadian economy also argue in favour of a looser monetary stance. The most simple measure is CPI ex food, energy and shelter. By removing rents and mortgage interest costs, the traditional measure of core inflation falls by more than 2 percentage points to below 2%. Now while the Bank's exploration of underlying inflation pressures will erode their cautious tone on policy easing, we note that it is unlikely to stop them from conducting this exercise given Bank staff comprehensively reviewed underlying inflation drivers in the last MPR in October.

Weak demand, rising supply, and rebalancing in the labour market also support eventual easing

While a deeper study of the inflation basket supports the eventual discussion of rate cuts from the BoC, signs that the labour market is coming back into better balance and that the economy is essentially stalling at best mean that even the standard inflation aggregates should support discussions of easing towards the end of Q1. Granted, the latest labour force survey did show considerably high and rising wage growth figures, but this should be heavily discounted as it didn't correspond with the remaining data on the labour market, which showed a consistent theme of weakness. Furthermore, the BoC's latest outlook surveys showed that firms expect hiring to slow further and wage growth to fall to levels consistent with 2% inflation. With these same surveys suggesting the Canadian consumer is set to remain cautious over the next twelve months and the sequential pace of growth essentially flatlining in early Q4, we think the BoC will find some comfort in the fact that the output gap remains negative, supporting continued disinflation.

EUROPEAN CENTRAL BANK PREVIEW

What can we expect to happen in the eurozone that has not already happened in Davos?

With the World Economic Forum in Davos taking place this week, and the event wrapping up just days before the January ECB meeting, euro watchers have found themselves swamped by commentary from ECB members on the likely path for eurozone monetary policy. Within this commentary, the tone for next week's meeting was set. Speaking with a French broadcaster, President Lagarde warned that, while she could not give an exact date for the start of the eurozone's easing cycle, the central bank will only start cutting interest rates once it is convinced that inflation will return sustainably to its 2% target. Meanwhile, other notable ECB members such as Chief Economist Lane also pushed back on easing bets, stating that wage data not released until Q2 was likely required before the ECB can confidently think about cutting rates. With the ECB also noting that the recent loosening in financial conditions isn't conducive towards its inflation battle, the fact that this week's commentary had little impact on reducing the amount of rate cuts priced by markets means next week's meeting is unlikely to offer a change in tone.

The first to speak at Davos this week was Bundesbank President and member of the Governing Council, Joaquim Nagel. The well-known hawk warned during a live interview on Bloomberg Television that the ECB remains data-dependent, and that despite the fact that markets are sometimes overly optimistic, they do not expect to cut rates before the summer. These comments undoubtedly served to readjust market bets towards a later start to the tightening cycle, but had limited impact as his sentiment was quickly discounted given his known hawkish tendencies.

"Shortly afterwards, the intervention of the Governor of the Austrian Central Bank and one of the most hawkish members of the Governing Council, Robert Holzmann, caught everyone's attention by suggesting not just that the start of easing was not expected in the first half of the year, but that we should not expect rate cuts in 2024 at all. "

Simkus and Knot would join the chorus shortly afterwards, continuing to insinuate that the market's assessment of the monetary easing cycle were too optimistic. On the other side of the balance, though seemingly in a minority, stood Bank of France Governor Villeroy de Galhau, Bank of Portugal President Centeno and Executive Board member Panetta. Even so, statements by the latter suggesting the ECB's next move will be in the form of a cut and that, barring surprises, it will be before the end of the year carried little weight, especially given the absence of any specifics.

The most important comments, however, came from President Lagarde who made a notable addition to her comments just days earlier. She joined the majority of her colleagues in pushing back on market expectations for ECB easing, suggesting that current pricing does not help the ECB in its fight against inflation. That said, this was not the only message from Lagarde that caught our attention. The ECB President again showed her concern about the future profile of inflation in the eurozone, referring to a number of upside risks such as wages, margins, energy prices and the state of supply chains that she suggested would keep the ECB vigilant over the coming months. This is consistent with our reading of the December PMIs, where we warned that there were signs of a possible resurgence in price pressures as rising business confidence was leading to a recovery in prices charged as companies try to rebuild tight margins, even as the growth signals remained incredibly weak. Signs of rising inflationary pressures, even in a context of still negative growth and weak economic prospects, are likely to be a major concern for ECB policymakers, keeping commentary hawkish, though not in a manner that is likely to be positive for the euro.

Opinions differ between doves and hawks as to the optimal time to start the easing cycle. However, most, including Lagarde, are pushing back on market expectations for ECB cuts

Date	Speaker	Commentaries on rates policy and inflation
11/01	Christine Lagarde	▸ "I cannot give you a date [for cuts], but I can say that if we win the inflation battle and we get 2% as estimated in 2025 [...] I'm very confident , then rates will start to decline as soon as we have this certainty"
13/01	Philip Lane	▸ "[...] Once the ECB beginnings lowering interest rates, this would not be by a single decision of a rate cut and, there would most likely be a sequence of rates cuts"
15/01	Joaquim Nagel	▸ "It's too early to talk about cuts [...] Maybe we can wait for the summer break"
	Robert Holzmann	▸ "[...] I may even foresee no cut at all this year"
16/01	Villeroy de Galhau	▸ "[About interest rates] We should be patient" ▸ "We must have a solid inflation outlook if we decide on rate cuts"
	Joaquim Nagel	▸ "It's too early to talk about cuts"
	Mário Centeno	▸ "When the time comes, we will discuss rate cuts [...] We need to be prepared to discuss the topics"
	Gediminas Simkus	▸ "Interest rate cuts may begin around the summer"
17/01	Klaas Knot	▸ "We are optimistic that we have a credible prospect of a return of inflation to 2% in 2025" ▸ "Easing, if it happens, will be very gradual"
	Christine Lagarde	▸ "[We are] on track to get inflation back to its 2% target but victory has not yet been won" ▸ "Too optimistic markets don't help the ECB's inflation fight" ▸ "I, too, think [a first cut by summer] is likely"

While we don't expect the ECB to change its stance as soon as next week, we tend to agree with markets that the easing cycle will likely begin in April. Incoming data from now, starting with the next round of PMIs in the eurozone on Wednesday, will again start to weigh on ECB pricing as the probability of a recession in the single market increases, as per our base case. In fact, several economists are already starting to align with our view, announcing that this may be the first recession of at least two years since 2009. Pending more information ahead of the release of preliminary PMIs for January, as well as aggregate data for the euro area as a whole, we maintain our view that the ECB's hawkish message, will likely to be reiterated next week, lacks credibility. With weak growth likely to weigh on inflation pressures further in the coming months, this should see the ECB at the forefront of the DM easing cycle euro's expense in the near-term.

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