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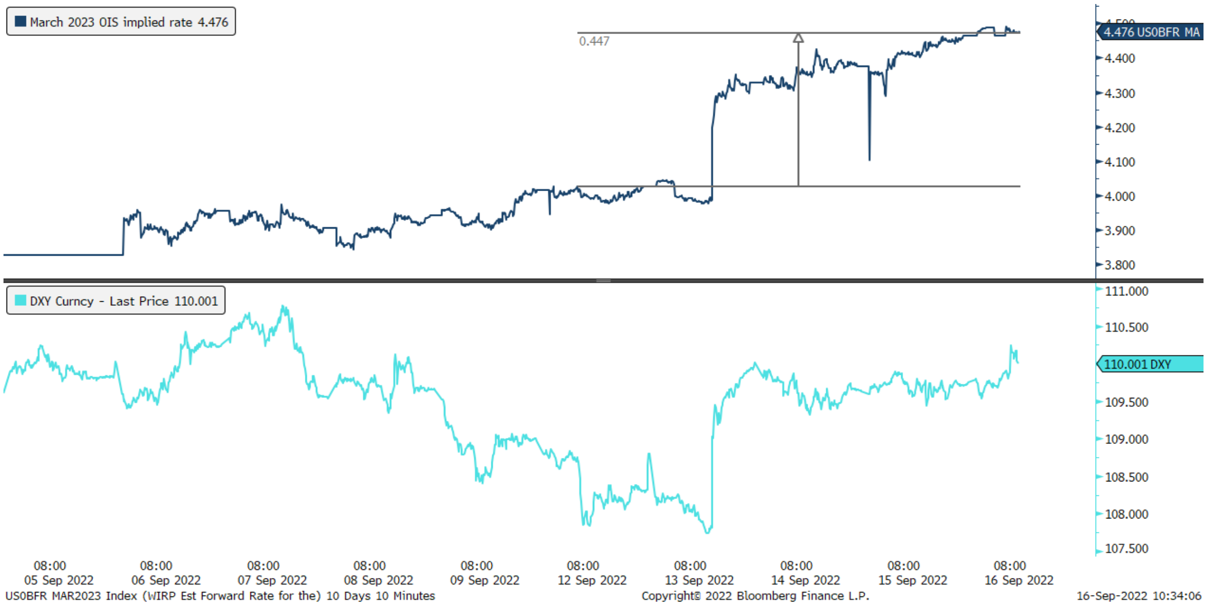
Deluge of central bank decisions populate next week's calendar

Price action in FX markets this week has been all about the dollar. While the greenback opened on a softer footing on Monday, extending Friday's losses the week prior as risk conditions remained supportive in the cross-asset space, the tides abruptly changed following the release of August's CPI report out of the US. Prior to the data release, markets were primarily positioned for a reduction in headline inflation and a stabilisation in the core measure, the result of which would have brought the prospect of a 50bp hike from the Fed next week back into focus. However, the core print blew expectations out of the water as it doubled survey estimates at 0.6% MoM. Within 10 minutes of the release, all of the dollar's losses sustained over a day and a half of trading were entirely erased as the DXY index headed back up above 109.50. That momentum in the dollar has all but persisted in the days since. Within the expanded majors (excluding RUB due to sanctions) all 30 currencies sit in the red against the greenback over the course of the week. As a result, the broad dollar index, DXY, has pushed closer to last week's high, which was the strongest level seen since June 2002.

> Next week, the data calendar is dominated by a torrent of interest rate decisions as nine major central banks prepare to adjust their monetary policy.

The main event, however, will be Wednesday's Federal Reserve decision, especially after short term interest rate traders priced in an additional 45bps worth of tightening in the Fed's tightening cycle this week alone. This aggressive positioning will be tested as the US central bank not only announces its latest policy decision but also publishes a fresh Summary of Economic Projections. Within that document, FOMC members will be forced to provide markets with some forward guidance via the dot plot projection. Should Fed officials push back on the market's pricing of the terminal rate, which currently sits just shy of 4.5%—75bps above June's median 2023 dot—the dollar could ease at the margin. Nonetheless, the greenback's fortunes depend on more than Fed policy. Recession and current account concerns remain abundant in Europe, putting increased emphasis on the latest Bank of England decision and the UK emergency budget statement on Friday, while rate differentials in other key currency pairs like EURCHF and USDBRL will be in focus given the upcoming decisions from the Swiss National Bank and Central Bank of Brazil.

Dollar DXY index rises towards last week's high as money market traders bake an additional 45bps into the Fed's hiking cycle



Calendar (all times BST)

Monday – 19/09

07:30 Bloomberg Eurozone economic survey for September

09:00 Swiss National Bank domestic (prev 638.6b) and total (prev 753.4b) sight deposits CHF

10:00 ECB Vice President Luis de Guindos speaks at the annual meeting Consejos Consultivos organised by Banco Sabadell

Eurozone construction output for July MoM (prev -1.3%) and YoY (prev 0.1%)

13:30 Canada industrial product price index for August MoM (prev -2.1%)

13:45 ECB Governing Council member Francois Villeroy de Galhau speaks at Single Resolution Board conference in Brussels

15:00 US NAHB housing market index for September (est 48, prev 49)

Tuesday – 20/09

00:30 Japan national CPI for August YoY (est 2.9%, prev 2.6%)

02:15 China loan prime rates for the week of September 1-year (est 3.65%, prev 3.65%) and 5-year (est 4.30%, prev 4.30%)

Reference rates in China are expected to remain unchanged next week after the PBoC held the 1-year medium-term lending facility interest rate at 2.75% on Thursday.

02:30 Reserve Bank of Australia meeting minutes for September

07:00 Switzerland real exports for August MoM (prev -2.9%)
Switzerland real imports for August MoM (prev -3.4%)
Germany PPI for August MoM (est 1.3%, prev 5.3%) and YoY (est 36.3%, prev 37.2%)

08:30 Riksbank policy rate announcement (est 1.50%, prev 0.75%)

Following a 50bp hike in June, the Swedish central bank is expected to up the pace of its hiking cycle and raise rates by 75bps to 1.5%. The faster pace will be a direct response to August's inflation data, which saw the CPIF rate climb from 8% YoY to 9%-- a 31-year high. Given the inflation pressures, and the fact that the ECB is also hiking by 75bps, there remains a risk that the Riksbank goes even bigger in order to anchor inflation expectations as both headline and core measures sit at three-decade highs.

09:00 ECB Governing Council member speaks at Bank of Estonia news conference in Tallinn
Eurozone current account for July (prev €42bn)

13:30 Canada CPI for MoM (est -0.1%, prev 0.1%) and YoY (est 7.2%, prev 7.6%)
Canada core-common CPI for August YoY (prev 5.5%)
Canada core-median CPI for August YoY (prev 5.0%)
Canada core-trim CPI for August YoY (prev 5.4%)
Canada Teranet/National Bank home price index for August MoM (prev -0.2%) and YoY (prev 14.2%)
US housing starts for August (est 1460k, prev 1446k) and MoM (est 1.0%, prev -9.6%)
US building permits for August (est 1621k, prev 1674k) and MoM (est -3.8%, prev -1.3%)

Wednesday – 21/09

01:30 Australia Westpac leading index for August MoM (prev -0.15%)

04:00 New Zealand credit card spending MoM (prev 3.2%) and YoY (prev 4.9%)

05:30 Netherlands consumer confidence index for September (prev -54)
Netherlands consumer spending for July YoY (prev 5.2%)

07:00 UK public sector net borrowing for August (prev £4.2bn)
Sweden unemployment rate for August (prev 6.4%)

08:00 Switzerland money supply M3 YoY (prev -0.3%)

09:00 South Africa CPI for August MoM (est 0.1%, prev 1.5%) and YoY (est 7.5%, prev 7.8%)
South Africa core CPI for August MoM (est 0.3%, prev 0.7%) and YoY (est 4.6%, prev 4.6%)
Poland retail sales for August YoY (est 20.0%, prev 18.4%)

12:00 US MBA mortgage applications for the week of September 16 (prev -1.2%)
Mexico retail sales for July MoM (prev -0.3%) and YoY (prev 4.0%)

15:00 US existing home sales for August (est 4.70m, prev 4.81m) and MoM (est -2.3%, prev -5.9%)

15:30 US DOE crude oil inventories for September (prev 2442k) and implied demand (prev 17543)

19:00 US FOMC rate decision lower (est 3.00%, prev 2.25%) and upper bound (est 3.25%, prev 2.5%)

The Federal Reserve is widely expected to hike its target range for the Federal funds rate by 75bps next week to 3.00-3.25% following strong payrolls reports and rising core inflation pressures since July's meeting. However, with consensus largely formed around a 75bps hike, and much of the market reaction now being driven by the rising terminal rate as opposed to near-term pricing, the Fed's latest dot plot projection will hold the key for FX markets. [see more below]

19:30 US Fed Chair holds press conference following FOMC meeting

22:30 Central Bank of Brazil Selic target rate announcement (est 13.75%, prev 13.75%)

The Central Bank of Brazil will likely hold the Selic rate at 13.75% on Wednesday, having signalled a likely end to its extensive tightening cycle at its August meeting. Our view is in line with a unanimous consensus for a pause. Inflation pressures slowed in August on domestic fuel price cuts, the second consecutive month of disinflation, which could allow the central bank to follow through on the pause it communicated last month. Given both the rapid pace of tightening and elevated level for the Selic rate, lagged effects from past hikes should help to anchor longer-term inflation expectations and contribute to further disinflation in the near term. While the current trajectory of inflation is promising, at 8.73% YoY, the pace of price growth is well above the BCB's objective, which is to reach 3.25% inflation in 2023. Given how high inflation is, the risks tilt to the upside, and we could potentially see a 25bp hike if the BCB chooses to take out a bit more insurance against expectations of de-anchoring.

23:45 New Zealand trade balance for August (prev N$1.09b)

Thursday – 22/09

07:00 Australia CBA household spending for August MoM (prev 1.1%) and YoY (prev 12.2%)

07:45 France business confidence for September (est 102, prev 103)

08:00 National Bank of Hungary one-week deposit rate announcement (prev 11.75%)
Riksbank Ohlsson speech

08:30 Swiss National Bank policy rate (est 0.5%, prev -0.25%)

The SNB is set to compound its shock decision in June to hike rates by 50 basis points and remove the depreciation bias from their communications by raising rates a further 75bps, effectively ending seven years under a negative interest rate policy. The decision to go 75 basis points is largely to maintain a stronger real effective CHF rate in order to reduce the level of imported inflation, given that expectations have formed around another 75bps hike from the ECB in October [see more below].

09:00 Swiss National Bank press conference after rate decision
ECB publishes Economic Bulletin
Norges Bank deposit rate announcement (est 2.25%, prev 1.75%)

09:30 Hong Kong current account balance for Q2 (prev H$78.51bn) and overall balance of payments (prev -H$52.49bn)
Hong Kong CPI composite for August YoY (est 2.0%, prev 1.9%)

12:00 Central Bank of Turkey one-week repo rate announcement (est 13.0%, prev 13.0%)
Mexico bi-weekly CPI for September 15 YoY (prev 8.77%) and core CPI YoY (prev 8.13%)
Bank of England bank rate announcement (est 2.25%, prev 1.75%)

Although data this week has induced volatility in GBP assets, we believe it is unlikely to deter the BoE from hiking 50bps on Thursday. Although core CPI exceeded expectations, printing at 6.3% YoY, the reduction in headline levels to 9.9% and medium-term consumer inflation expectations suggest there isn't as much pressure on the BoE to hike more aggressively in order to insure against any further de-anchoring in inflation expectations. (full preview in last week's Week Ahead here)

12:30 Sveriges Riksbank's Floden speaks

13:30 US current account balance for Q2 (est -$260bn, prev -$291.4bn)
US initial jobless claims for the week of September 17 (prev 213k)
US continuing claims for the week of September 10 (prev 1403k)

15:00 Eurozone preliminary consumer confidence index for September (est -25.0, prev -24.9)
US leading index for August (est 0.0%, prev -0.4%)

TBA Bank of Japan policy balance rate (prev -0.1%) and 10-year yield target (prev 0.0%)

Friday – 23/09

00:00 Australia S&P Global preliminary composite PMI for September (prev 50.2)
Australia S&P Global preliminary manufacturing PMI for September (prev 53.8)
Australia S&P Global preliminary services PMI for September (prev 50.2)

00:01 UK GfK consumer confidence for September (est -42, prev -44)

07:45 France final wages for Q2 QoQ (prev 1.0%)

08:00 Spain GDP for Q2 QoQ (est 1.1%, prev 1.1%) and YoY (est 6.3%, prev 6.3%)

08:15 France S&P Global preliminary composite PMI for September (est 49.8, prev 50.4)
France S&P Global preliminary manufacturing PMI for September (est 49.8, prev 50.6)
France S&P Global preliminary services PMI for September (est 50.4, prev 51.2)

08:30 Germany S&P Global preliminary composite PMI for September (est 46.2, prev 46.9)
Germany S&P Global preliminary manufacturing PMI for September (est 48.3, prev 49.1)
Germany S&P Global preliminary services PMI for September (est 47.2, prev 47.7)

09:00 Eurozone S&P Global preliminary composite PMI for September (est 48.2, prev 48.9)
Eurozone S&P Global preliminary manufacturing PMI for September (est 49.0, prev 49.6)
Eurozone S&P Global preliminary services PMI for September (est 49.0, prev 49.8)
Poland unemployment rate for August (est 4.9%, prev 4.9%)

09:30 UK S&P Global preliminary composite PMI for September (est 49, prev 49.6)
UK S&P Global preliminary manufacturing PMI for September (est 46.7, prev 47.3)
UK S&P Global preliminary services PMI for September (est 50.0, prev 50.9)

12:00 UK Chancellor Kwasi Kwarteng is expected to announce the UK's latest budget statement

This week, the UK government announced that it will hold a mini budget statement on Friday, usually taking place around lunchtime, in the wake of the government's latest energy cap announcement. With investors still questioning the financing of such policies, the statement will be in heavy focus.

13:30 Canada retail sales for July MoM (est -2.0%, prev 1.1%) and ex-auto MoM (est -1.1%, prev 0.8%)

14:45 US S&P Global preliminary composite PMI for September (prev 44.6)
US S&P Global preliminary manufacturing PMI for September (est 51.3, prev 51.5)
US S&P Global preliminary services PMI for September (est 44.8, prev 43.7)

19:00 Fed Chair Powell gives opening remarks at Fed Listens Event

Fed to hike 75bps, but dot plot to drive the dollar reaction

The Federal Reserve is set to raise the federal funds rate by 75 basis points to 3.25% next Wednesday following this week's massive core CPI surprise. The upcoming decision has been far more data-driven than usual—as we noted in late August following the Jackson Hole Symposium. In intermeeting communications, Fed officials had voiced that September's decision was a choice between 50 and 75bps, and would rest upon the totality of the data, with nonfarm payrolls and CPI inflation being the key reports.

While money market pricing reflected Fed communications for most of August, futures and swaps began to increasingly price 75bps in September, reaching an 80% chance just prior to August's CPI report. Following CPI, however, expectations surged far higher and now suggest that 100bps, not 50, is the second-likeliest outcome at a 20-22% chance.

Looking to the distribution of forecasts supplied to Bloomberg, economists are less convinced than money markets that 100bps is as large of a tail risk. Using the full sample of 67 estimates, the split between 25, 50, 75, and 100bps is 1, 18, 46, and 2. We should note, however, that only 9 responses were submitted after the CPI report came out on Tuesday. Within that subset, only one economist called for 100bps while the remaining eight said 75bps was more likely.

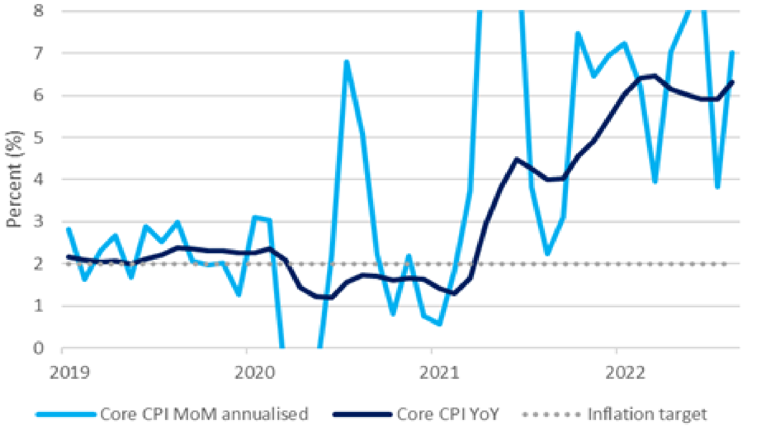
> We are among the consensus calling for 75bps because we believe that the Federal Reserve would gain little from deviating from prior communications and surprising the market to address stronger momentum in core inflationary pressures.

Instead, they can avoid further tarnishing the credibility of their communications while tightening policy further by raising the terminal rate suggested in their dot plot from 3.75% previously. Nonetheless, the risk of 100bps cannot be entirely ruled out because the Fed ditched its communications as recently as June, when it leaked to the WSJ during its media blackout period that it would hike 75bps after repeatedly assuring the market that 50bps was underway.

We think that this decision is fairly straightforward. From Jackson Hole onward, Chair Powell and other top officials including Mester, Bostic, Barkin, and Brainard have largely ceased any discussion of downside risks to growth, focusing their public communications almost entirely on their commitment to address inflation. Given that the key datapoint since those communications—core CPI—accelerated by 0.6% MoM (which annualizes to 7.4%) in August and brought year-on-year growth from 5.9% to 6.3%, recent underlying inflation pressures have risen substantially faster than expected and tilt the decision to the upper end of the two options laid out by numerous officials.

Core price pressures point toward the higher of the two options presented by the Fed

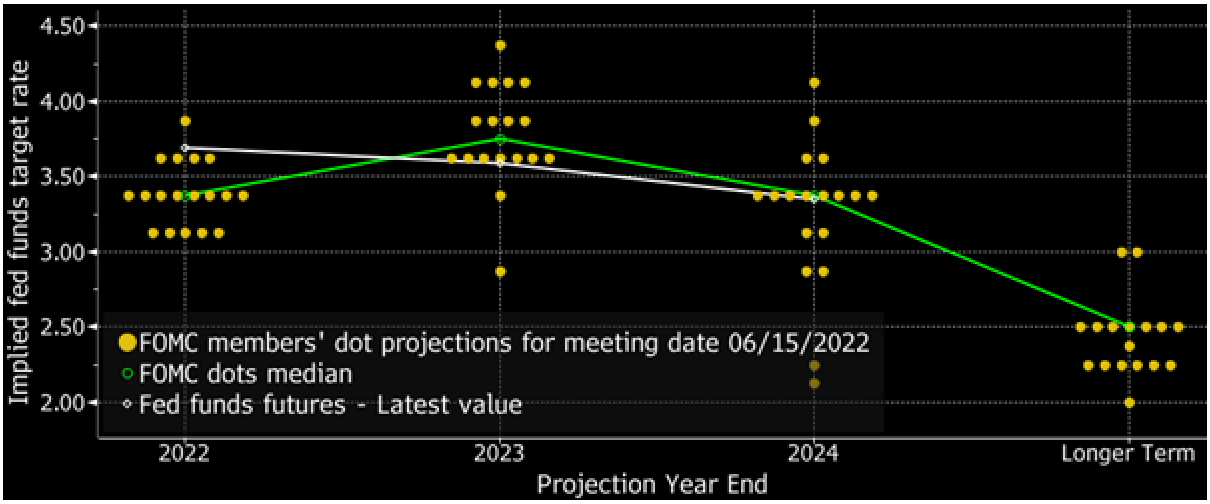
Note: y-axis is truncated from 0% to 8% to better show the trend in the YoY figure; the MoM rate ranges from −5.0% (April 2020) to 10.8% (June 2021).



The more interesting questions pertain to the dot plot and the path to the terminal rate. The most recent dot plot from June had the median estimate for the fed funds rate rising to 3.375% in 2022 and peaking at 3.75% in 2023, before being cut to 3.375% in 2024 and dropping to 2.5% over the longer term. The distribution of expectations for the 2023 terminal rate is wide, ranging from 2.875% at the low end and 4.375%, and skews to the upside as the modal forecast was 3.625%, 12.5bps below the median. Although the Fed endorsed the dot plot back in July, spurring a loosening in financial conditions and a dollar sell-off as markets initially thought the data would lead Fed officials to revise their estimates upward, the latest inflation reading is sure to shift the terminal rate higher by at least 25bps.

> Given that market pricing of the terminal rate has shot up over 40bps to 4.5%, the risks to the dollar skew to the downside should the Fed fail to back those expectations and raise their 2023 estimations by less than 75bps.

Dot plot likely to show a higher terminal rate in 2023



Swiss National Bank to hike 75bps to cover off hawkish European Central Bank

The Swiss National Bank shocked markets back at its last meeting in June with an earlier-than-expected 50bp hike, bringing the deposit rate to -0.25%. Not only did the interest rate decision come as a surprise, but so did the removal of wording around the franc being "highly valued." The two factors prompted speculation that the central bank was seeking a stronger real effective CHF rate to lean against the level of imported inflation from major trading partners, particularly imports from the euro area given the risk of a stronger inflationary impulse in the region from energy markets. This view was confirmed in the corresponding news conference held by Governor Jordan, where he stated explicitly that the recent weakness in the franc had contributed to domestic inflation pressures and that higher inflation rates in neighbouring countries had meant that the franc was no longer considered highly valued.

FX traders welcomed the SNB's messaging with open arms. The EURCHF rate fell by 1.8%, its largest one-day decline since the franc was unpegged in 2015, and the cross continued to trend downwards on the back of higher inflation in Europe and broader euro weakness. Ultimately, it has fallen over 7.5% in between policy meetings, with the move avoiding fresh intervention risk from the SNB given deteriorating inflation conditions in Europe and more limited appreciation against the dollar.

CHF REER remains within recent ranges despite the EURCHF pair trading at its lowest level since the 2015 unpegging (95.4454 is the level it was trading at prior to June's meeting)

Given the SNB's preference for a stronger real CHF rate, its policy decision is heavily dependent on the ECB's hiking cycle and inflation conditions in the euro area. Back in June, the SNB likely hiked earlier than expected to shield against the effects of the ECB's own projected hiking cycle, which they back then forecast at 25bps in July and a 50bps in September. While the ECB has nearly doubled the cumulative level of hikes relative to its previous forward guidance, the CHF REER rate has yet to substantially weaken. For that reason, we don't view the SNB's upcoming decision as a response to the cumulative 125bps hike from the ECB since their last meeting.

> Instead, we believe the SNB will increase the pace of its hiking cycle to cover off the ECB's 75bps hike in October prior to December 15th, where both central banks are expected to announce their final policy decision of 2022.

For FX markets, the SNB's decision to hike by 75bps is unlikely to have much of an impact. Instead, with the CHF REER rate sitting towards the top end of its recent range, the focus will be on Governor Jordan's commentary around the central bank's tolerance for a stronger franc and the likelihood of intervention should EURCHF continue to decline from current levels.

With the CHF REER at the top end of its recent range and EURCHF trading at record lows, intervention risk may come back to the fore

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