# Week Ahead

5th - 9th February 2024

## A blow to easing bets


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# INTRODUCTION

The week just gone saw the dollar return to the limelight, with arguably the two biggest events of the week both taking place in the US. Despite this, attention began on Monday in Europe, with eurozone GDP readings and inflation in focus. Neither were as bad as many had feared. Initial growth estimates saw the bloc as a whole escape recession, whilst inflation continued to cool, albeit a little slower than consensus had anticipated. Even so, this failed to shift the narrative following last week's ECB meeting. We continue to look for six rate cuts this year beginning in April. Wednesday's Fed meeting however was more consequential for markets. Whilst the hiking bias was finally dropped from the statement, Powell all but ruled out a March rate cut in a more hawkish than expected intervention. This move sparked a temporary USD recovery, with the greenback having found itself on the back foot heading into the meeting. But the markets' willingness to ignore Powell and sell the dollar saw this reversed on Thursday once again. Banking worries and a handful of soft second tier data releases gave markets the needed excuse to unwind the initial post-Fed price action. Thursday also saw rate decisions from the BoE and the Riksbank too. However, with both holding rates and offering more neutral guidance as expected, neither event was notably impactful for FX markets. The same could not be said for Friday's nonfarm payrolls release, which delivered a bombshell to round out the week. Not only did the headline number show a massive 353k jobs added by the US economy in January, but upwards revisions saw December's print rise to 333k as well. Combined with a flatlining unemployment rate, falling participation, and hourly earnings recording that largest monthly rise since March 2022, the release reinforced Powell's message from earlier in the week and torpedoed any remaining chances of a March rate cut from the Fed.

Whilst the weekend may well see Jerome Powell quietly whispering "I told you so" under his breath, next week the focus for many FX traders will switch to emerging markets. In CE3, both Poland and the Czech Republic play host to policy decisions, though only the latter is subject to much uncertainty. The NBP will almost certainly hold rates, but given prospects for a sharp drop off in Czech price growth, the CNB decision is a toss up between 25 and 50bps of cuts. Latam too is set for a big week, though a rate cut from Banxico still looks unlikely. Instead, it will be inflation numbers to keep an eye on. Developed markets still have their share of entertainment coming up however, notably down under with a policy decision set to land from the RBA. Cooling data could well see policymakers in Australia join with colleagues from other central banks and offer a more neutral outlook for policy at this latest meeting. One of the banks that did just that will be hoping that data this week validates their decision too. The BoC will have its fingers crossed that jobs data once again indicates that inflation pressures continue to ease, unlike data from south of the border this past week. For the US, however, a light data calendar means that traders will have plenty of time to chew that fat on Friday's jobs data, a dynamic that could well see the recent move higher for the dollar extending next week.

## CONTENTS

# ECONOMIC CALENDAR

*All times in GMT*

## Monday 05/02

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 00:00 | Australia | Melbourne Institute inflation MoM (YoY) | Jan | | 1.0% (5.0%) |
| | New Zealand | ANZ commodity price MoM | Jan | | 2.40% |
| 00:30 | Australia | Trade balance | Dec | A$10500m | A$11437m |
| | | ANZ-indeed job advertisements MoM | Jan | | 0.1% |
| | Hong Kong | S&P Global PMI | Jan | | 51.3 |
| | Singapore | S&P Global PMI | Jan | | 55.7 |
| 01:45 | China | Caixin PMI composite | Jan | | 52.6 |
| | | Caixin PMI services | Jan | 53.0 | 52.9 |
| 05:00 | Singapore | Retail sales MoM (YoY) | Dec | | 0.5% (2.5%) |
| 07:00 | Germany | Trade balance SA | Dec | | 20.8b |
| | Norway | Average monthly earnings YoY | 4Q | | 6.4% |
| | Turkey | CPI MoM (YoY) | Jan | 6.4% (64.6%) | 2.9% (64.8%) |
| | | Core CPI YoY | Jan | 67.3% | 70.6% |
| | | PPI MoM (YoY) | Jan | | 1.1% (44.2%) |
| | UK | ONS to publish LFS-based data for September to November 2023 | | | |
| 07:30 | Sweden | Swedbank/Silf PMI services | Jan | 52.1 | 50 |
| | | Swedbank/Silf PMI composite | Jan | | 49.7 |
| | Hungary | Trade balance | Dec P | | 1580m |
| 08:15 | Spain | HCOB composite PMI | Jan | | 50.4 |
| | | HCOB services PMI | Jan | | 51.5 |
| 08:40 | Eurozone | ECB's Centeno speaks | | | |
| 08:45 | Italy | HCOB composite PMI | Jan | 5 | 48.6 |
| | | HCOB services PMI | Jan | 50.4 | 49.8 |
| 09:00 | Switzerland | Domestic (total) sight deposits CHF | Feb-02 | | 463.2b (472.2b) |
| 09:30 | Eurozone | Sentix investor confidence | Feb | -15.0 | -15.8 |
| 10:00 | Eurozone | PPI MoM (YoY) | Dec | (-10.6%) | -0.3% (-8.8%) |
| | | OECD publishes interim economic outlook | | | |
| 11:25 | Brazil | Central Bank weekly economist survey | | | |
| 13:00 | Brazil | S&P Global composite PMI | Jan | | 50 |
| | | S&P Global services PMI | Jan | | 50.5 |
| 13:50 | Eurozone | ECB's Vujcic speaks | | | |
| 14:30 | Canada | S&P Global composite PMI | Jan | | 44.7 |
| | | S&P Global services PMI | Jan | | 44.6 |

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 15:00 | US | ISM services | Jan | 52.1 | 50.5 |
| | | ISM services prices paid | Jan | | 56.7 |
| | | ISM services new orders | Jan | | |
| 19:00 | US | Senior loan officer opinion survey on bank lending practices | | | |
| 23:30 | Japan | Household spending YoY | Dec | -2.0% | -2.9% |

## Tuesday 06/02

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 00:01 | UK | BRC sales like-for-like YoY | Jan | | 1.9% |
| 00:30 | Australia | Retail sales ex inflation QoQ | 4Q | 0.0% | 0.2% |
| 03:30 | Australia | RBA cash rate target | Feb-06 | 4.35% | 4.35% |
| | | RBA statement on monetary policy | | | |
| 04:30 | Australia | RBA Governor Bullock gives press conference | | | |
| 07:00 | Germany | Factory orders MoM (YoY) | Dec | 0.3% (-5.3%) | 0.3% (-4.4%) |
| 07:30 | Hungary | Industrial production MoM (YoY) | Dec | | -2.3% (-5.6%) |
| | | Retail sales YoY | Dec | | -5.4% |
| 08:00 | Sweden | Riksbank's Thedeen in parliament hearing | | | |
| 09:00 | Eurozone | ECB 1 year CPI expectations | Dec | | 3.2% |
| | | ECB 3 year CPI expectations | Dec | | 2.2% |
| 10:00 | Eurozone | Retail sales MoM (YoY) | Dec | -1.3% | -0.3% (-1.1%) |
| 11:00 | Brazil | Central Bank meeting minutes | | | |
| 12:00 | UK | BOE quarterly report on APF | | | |
| 15:00 | Canada | Ivey Purchasing Managers Index | Jan | | 56.3 |
| 17:00 | US | Fed's Mester speaks on economic outlook | | | |
| 21:45 | New Zealand | Unemployment rate | 4Q | 4.3% | 3.9% |
| | | Average hourly earnings QoQ | 4Q | | 2.0% |
| | | Employment change QoQ (YoY) | 4Q | 0.3% (2.1%) | -0.2% (2.4%) |
| TBA | Poland | Monetary policy council rate meeting | | | |
| | Mexico | Banamex survey of economists | | | |
| | | ANTAD same-store sales YoY | Jan | | 5.2% |
| | | Formal job creation | Jan | | -384.9k |

## Wednesday 07/02

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 05:00 | Japan | Leading index | Dec P | 109.4 | 107.6 |
| 06:45 | Switzerland | Unemployment rate | Jan | 2.2% | 2.2% |
| 07:00 | Germany | Industrial production MoM (YoY) | Dec | -0.1% (-2.3%) | -0.7% (-4.8%) |
| | Norway | Industrial production MoM (YoY) | Dec | | 2.4% (-6.2%) |

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 07:45 | France | Private sector payrolls QoQ | 4Q P | | 0.1% |
| | | Trade balance | Dec | | -5943m |
| 08:30 | Sweden | Riksbank meeting minutes | | | |
| 08:40 | UK | BOE's Breeden speaks | | | |
| 10:30 | Sweden | Riksbank's Thedeen speech | | | |
| 11:30 | Brazil | Net debt to GDP | Dec | 60.0% | 59.5% |
| 12:00 | US | MBA mortgage applications | Feb-02 | | -7.2% |
| | Brazil | Retail Sales MoM (YoY) | Dec | | 0.1% (2.2%) |
| | Mexico | Consumer confidence | Jan | | 46.8 |
| 13:30 | Canada | International merchandise trade | Dec | 1.10b | 1.57b |
| | US | Trade balance | Dec | -$62.3b | -$63.2b |
| 17:30 | US | Fed's Barkin speaks on outlook, regional economy | | | |
| 20:00 | US | Consumer credit | Dec | $16.500b | $23.751b |
| 23:50 | Japan | BoP current account adjusted | Dec | ¥1934.2b | ¥1885.4b |
| | Japan | Trade balance | Dec | ¥183.1b | -¥724.1b |
| TBA | Poland | Poland base rate announcement | | 5.75% | 5.75% |
| | Mexico | Nominal wages | Jan | | 9.0% |

## Thursday 08/02

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 00:01 | UK | RICS house price balance | Jan | | -30% |
| | | S&P Global, KPMG and REC UK report on jobs | | | |
| 01:30 | China | CPI YoY | Jan | -0.5% | -0.3% |
| | | PPI YoY | Jan | -2.6% | -2.7% |
| 04:30 | India | RBI cash reserve ratio | | 4.50% | 4.50% |
| | | RBI repurchase rate | | 6.50% | 6.50% |
| 05:00 | Sweden | Swedish housing price data from Maklarstatistik | | | |
| | Japan | Eco Watchers survey outlook | Jan | 49.3 | 49.1 |
| 07:00 | Sweden | Riksbank's Jansson speech | | | |
| 07:30 | Turkey | Central Bank of Turkey inflation report presentation | | | |
| 09:00 | Eurozone | ECB publishes economic bulletin | | | |
| 12:00 | Brazil | IBGE IPCA MoM (YoY) | Jan | | 0.56% (4.62%) |
| | Mexico | CPI MoM (YoY) | Jan | | 0.71% (4.66%) |
| | | CPI core MoM (YoY) | Jan | | 0.44% (5.09%) |
| | | Bi-weekly CPI (YoY) | Jan 31 | 0.38% (4.78%) | 0.49% (4.90%) |
| | | Bi-weekly core CPI (YoY) | Jan 31 | 0.27% (4.79%) | 0.25% (4.78%) |
| 13:30 | US | Initial jobless claims | Feb-03 | | 224k |
| | | Continuing claims | Jan 27 | | 1898k |

| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 13:30 | Czech Republic | CNB repurchase rate decision | | 6.50% | 6.75% |
| 15:00 | UK | BOE's Catherine Mann speaks | | 6.25% | 6.75% |
| 15:30 | Eurozone | ECB's Lane speaks | | | |
| 17:05 | US | Fed's Barkin speaks at Economic Club of New York | | | |
| 19:00 | Mexico | Overnight rate decision | | 11.25% | 11.25% |
| 22:30 | Australia | RBA Governor Bullock testimony | | | |

## Friday 09/02

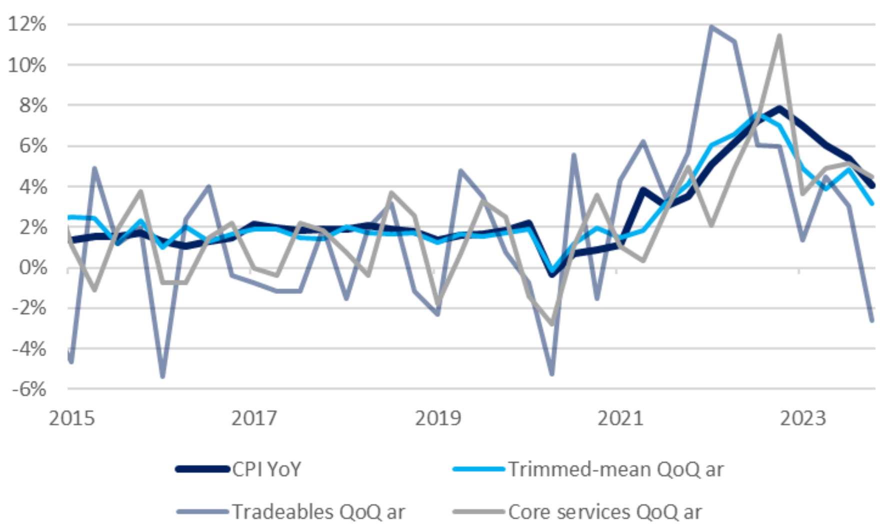
| Time | Country | Event | Period | Estimate | Prior |
|---|---|---|---|---|---|
| 07:00 | Norway | CPI MoM (YoY) | Jan | | 0.1% (4.8%) |
| | | CPI underlying MoM (YoY) | Jan | | 0.2% (5.5%) |
| | | PPI including oil MoM (YoY) | Jan | | -7.4% (-25.6%) |
| | Sweden | Household consumption MoM (YoY) | Dec | | -0.5% (0.1%) |
| | | Private sector production MoM (YoY) | Dec | | -0.3% (-1.2%) |
| 07:30 | Hungary | CPI MoM (YoY) | Jan | (4.4%) | -0.3% (5.5%) |
| 07:45 | France | Wages QoQ | 4Q P | | 0.5% |
| 10:30 | Eurozone | ECB's Nagel speaks | | | |
| 12:00 | Brazil | IBGE services volume MoM (YoY) | Dec | | 0.4% (-0.3%) |
| | Mexico | Industrial production MoM | Dec | | -1.0% (2.8%) |
| 13:00 | Poland | National Bank of Poland publishes minutes of rate meeting | | | |
| 13:30 | Canada | Unemployment rate | Jan | 5.9% | 5.8% |
| | | Hourly wage rate permanent employees YoY | Jan | | 5.7% |
| | | Net change in employment | Jan | 15.0k | 0.1k |
| | | Part time employment change | Jan | | 23.6k |
| | | Full time employment change | Jan | | -23.5k |
| | | Participation rate | Jan | | 65.4% |
| 14:15 | Eurozone | ECB's Cipollone speaks | | | |
| TBA | US | Revisions: CPI | | | |

# DATA PREVIEWS

## RBA preview: Moving closer to cutting

A brewing theme in G10 central banking this year so far has been the removal of hiking biases within policy statements to pave the way for future easing, even as policymakers stress that actual cuts remain some way away. In light of the softer-than-expected Q4 inflation data, evidence that the labour market is moving into better balance, and cooling growth data, we expect the RBA to also join this movement, tweaking the statement that "whether further tightening of monetary policy is required" to a more balanced view. For the same reasons, also expect the RBA to downgrade its near-term inflation forecasts. Longer-term inflation projections may also be marked down on marginally softer labour market trends and ongoing global disinflation. Despite this, we don't expect the Board to sound confident that inflation is sustainably converging towards their 2-3% target, noting that services inflation continues to exhibit signs of persistence. The meeting shouldn't alter pricing of the RBA's easing path as a result. The removal of the hiking bias and downgrade in inflation forecasts should leave the door open to a May cut, which is currently 66% priced into futures, while not making it a foregone conclusion ahead of the Q1 CPI report, due on April 24th. Despite our high conviction in this view, there remain considerable risks around the meeting, particularly given the updated Statement on the Conduct of Monetary Policy now requires the RBA to publish unattributed vote splits and more detailed forecast data.

Although inflation data is moving in the direction of rate cuts, persistence in core services inflation should keep the RBA on a more neutral footing




### *Macro data has printed softer since December, moving the focus from hikes to cuts*

Back at December's meeting, the RBA left the cash rate unchanged at 4.35% and retained its hiking bias within the accompanying statement. The minutes of the Board meeting also leaned in a hawkish direction, noting that members debated between hiking rates a further 25 basis points or holding. Since the meeting, the macro dataflow has generally pointed towards lower inflation pressures that should support more neutral guidance.

Indeed, headline CPI in Q4 rose 0.59% QoQ, with year-end price growth decelerating to 4.05% YoY. This undershot both consensus expectations (0.8% QoQ, 4.3% YoY) and the RBA's November projections (4.5% YoY). Trimmed-mean inflation also undershot at 0.78% QoQ, bringing the year-end rate down to 4.18% YoY (RBA 4.5% YoY). This was primarily due to electricity prices subsidies and weaker tradeable goods inflation. Core services inflation, although easing from elevated levels, remained sticky at 4.4% annualised, however. December's labour force survey also presented a less inflationary picture. While the unemployment rate was stable at 3.9%, employment fell by 65.1k, hours worked dropped by 0.5%, and the participation rate declined 0.44pp to 66.8%. Granted, some transitory factors were at play, making the data less concerning than it looks at first glance, but the data still trended towards a less inflationary labour market. Finally, retail sales for December fell by a greater than expected -2.7% MoM.

"Again, caution must be taken in reading these figures due to strong November sales due to discounting, but the data adds to a view that the Australian economy is moving back into better balance."

Reflecting this less inflationary data, we expect the RBA to downgrade its inflation projections for June 2024 from 4% for headline and trimmed-mean, towards 3.5%, and moderately downgrade their longer-term inflation forecasts from 3% to within their 2-3% target range. This should reinforce the adjustments in their policy statement towards a more neutral stance on policy rates.

### *RBA shouldn't be a gamechanger for easing expectations and AUD*

Although the updated Statement on the Conduct of Monetary Policy presents uncertainty around next week's decision, we generally expect the RBA to remain cautious in sounding too confident in the path for inflation. As such, next week's meeting should have limited impact on market pricing for the

RBA's easing path this year, which by our accounts is relatively well positioned given the recent data flow. For the Aussie dollar, which has underwhelmed consensus expectations at the start of the year, a consequence of investors becoming increasingly bearish on China and data that has undermined the view that the RBA may be the last DM central bank to move, next week's meeting shouldn't be too deterministic as a result.

### Brazil's inflation to reinforce "calls for caution"

Just a week after the latest decision from the BCB's Monetary Policy Committee (Copom), January's HICP inflation data in Brazil will keep the debate focused on the future of monetary normalisation. At its meeting this week, Copom unanimously decided to cut the Selic rate by 50 basis points for the fifth consecutive time, to 11.25%. While the communiqué accompanying the decision remained relatively comfortable with the evolution of core inflation, it also sounded a note of caution, suggesting that there is still work to be done. The statement also showed that all Directors expected the pace of rate cuts to be maintained for the foreseeable future should the Bank's baseline scenario materialise. That said, we continue to believe that a slowdown in the pace of rate cuts towards the end of the year is not out of the question, especially if the upward price pressures seen in recent months persist.

"As such, this next round of inflation figures is set to be closely watched, particularly after the last inflation readings for December came in higher than economists had expected."

This saw headline HICP falling only marginally from 4.68% in November to 4.62% at the end of the year, driven by a higher-than-expected monthly increase of 0.56%, substantially higher than November's 0.28% reading. That said, like many we had seen this coming due to positive base effects, a view confirmed by the rebound in the average monthly inflation rate from 0.20% in the third quarter to 0.36% in the fourth. Indeed, all nine categories recorded increases in December, with Food and Beverages being again the fastest growing and contributing the most to headline inflation for the second consecutive month, even though this component had suffered sharp declines throughout the year more generally. In addition, core services inflation, a measure closely monitored by the BCB, continued to make a large positive contribution in December.

Against this backdrop, the debate on what should be the optimal pace of monetary easing by the BCB in the coming months is more pertinent than ever, and one in which next week's figures will play a role. Whilst we do not think that there is a risk of broad reacceleration in price growth across the consumption basket, services inflation is likely to stay uncomfortably high, an outcome that should weigh in favour of reducing policy rates more slowly. Admittedly, Copom has made it clear that there is insufficient reason to deviate from the current roadmap at present, despite their call for caution, with more inflation reports needed to trigger a significant change in guidance. We think next week's inflation data will add evidence for doing just that, and expect that as this body of data grows in coming months, this could well see Copom reduce the pace of easing during the second half of the year, regardless of current plans.

### No change from the NBP

Unlike their Czech counterparts coming up later in the week, there is little uncertainty around the likely outcome of the National Bank of Poland's February meeting. There is complete unanimity across all 35 economists polled by Bloomberg that policymakers will hold rates at 5.75% next week, a view we share. More relevant for markets will be any hint on what is likely to happen in March, when a new set of inflation forecasts are set to be delivered by Bank staff. Some policymakers have pointed to this as a precondition for restarting the easing cycle, with this having been paused last year following the election of a new government.

"Admittedly, the inflation outlook has become very muddied since the election, with new fiscal plans and uncertainty around the release of EU funds compounding what was an already unsettled inflation outlook."

Whilst disinflation progress has appeared to stall over recent releases, we expect this to pick up once again in January as favourable base effects kick in, which should leave annual CPI within spitting distance of the NBPs tolerance band by the end of Q1. As such, we suspect that the NBP will likely begin easing policy in 25bp increments from March as this dynamic becomes apparent. Whether or not the Bank chooses to indicate as such next week, however, remains an open question. If they do, we expect PLN to pare back some recent gains. If not, then EURPLN could extend its recent downwards move, albeit we think any such move lower would likely be temporary.

### First Mexican inflation report and Banxico meeting of the year

Mexico faces its first test of the year next week. The publication of the January inflation report, followed shortly by their first meeting of 2024, will be decisive in shaping agents' expectations about the future of monetary policy. The publication of Q4 GDP already provided us with valuable information in this respect after it was confirmed that the Mexican economy had slowed down at the end of the year. The general reading of the data pointed to the fact that, although the economy had shown significant resilience in the first three quarters of the year, this momentum visibly softened during the fourth quarter, largely due to high interest rates that had dampened domestic demand to register weak growth of 0.1% quarter-on-quarter. Overall, this translates into good news for Banxico which can confirm, at least in general terms, the correct transmission of its monetary policy to the real economy. However, we continue to believe that risks to the inflation profile remain skewed to the upside.

The latest data, including the fortnightly inflation readings for the first two weeks of January, continued to confirm that the disinflationary process in Mexico was slowing. In the first two weeks of the year, CPI rose by 0.49% from the previous fortnight, 0.11 percentage points above the economist consensus, and on a year-on-year basis accelerated again, albeit slightly, to 4.90% from 4.86%. While the breakdown of the data showed that this increase was mainly due to an acceleration in the non-core component, due to higher agricultural commodity prices, core inflation also rose by 0.25%, in line with expectations, although clearly above the previous fortnight's -0.01% decline. However, it was not all bad news. Core inflation continued to decelerate year-on-year at the beginning of the year. Within this, services inflation, which has been the main focus of concern for Banxico, despite remaining elevated in early January, has registered an encouraging deceleration.

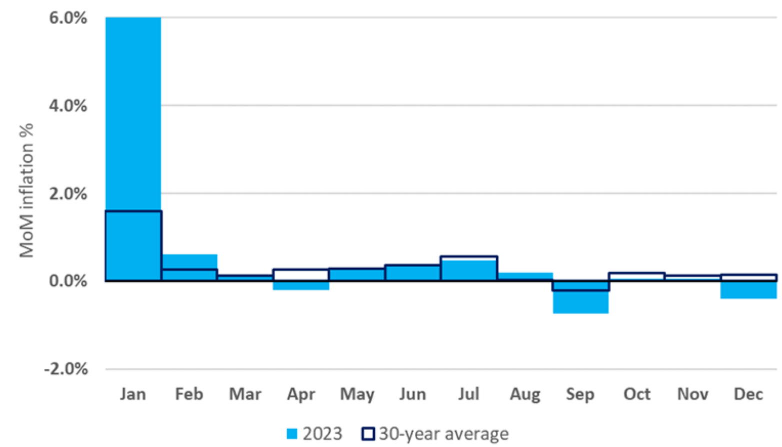
"Against this backdrop, we believe Banxico has a difficult decision to make when the Board of Governors meets on 8 February."

With officials hinting that the start of the easing cycle is near, we have reason to believe that, despite the positive progress in core inflation, the rise in the headline rate over the past two months, coupled with still elevated wage growth, may still limit policymakers' confidence to cut. Consequently, we continue to bet on the possibility that Banxico will maintain its tightening stance at least until March pending clear evidence that labour market conditions are easing, wage growth is moderating and/or productivity is picking up more strongly before signalling easing. In the absence of such data at present, we believe that Banxico's hawkish stance will continue to support the MXN throughout Q1.

## CNB easing to speed up

The Czech National Bank's first policy decision of 2024 is seen as a coin toss between a 25bp and a 50bp cut, with the inflation outlook set to be key when it comes to policymakers thinking. Whilst Czech inflation fell to 6.9% on an annual basis in December, significantly undershooting consensus estimates for prices to rise by 7.3%, price growth remains elevated. Most notably though, almost all of this inflation comes from a 6% monthly rise in January 2023, when an unusually large round of annual price resets took place. Once excluding January from the calculation, monthly price growth over the past year has been much softer, averaging just 0.1%. Moreover, if the price reset this year were to print in line with its thirty-year average, then the next round of inflation figures would see annual price growth fall to only 2.6% by our calculations. Admittedly, a slowdown of this size seems improbable to us, but we do think there is now a significant risk that inflation falls below the upper end of the CNB's +3.0% tolerance band within the next few months. The Bank's view on this is set to be key next week. A more optimistic set of forecasts could tip the balance of risks in favour of a larger 50bp cut at this meeting.

With a large rise in prices from January 2023 set to fall out of annual calculations, inflation is set to fall sharply in the Czech Republic




Given this outlook, the question now becomes when, rather than if, the CNB accelerates the pace of policy easing in our view, especially considering weak domestic growth and soft demand conditions. Dovish comments from Jan Frait and Tomas Holub certainly seem to indicate that larger rate cuts will be under consideration at next week's meeting. That said, the CNB's prior hawkish bias, and concerns around CZK weakness, make us think that another 25bp cut is more likely on this occasion, though it will be a very close call. Nonetheless, we do expect the size of cuts to increase to 50bps from March, with a notable risk that policymakers begin delivering these larger cuts one meeting earlier than we anticipate. For the koruna, maintaining the pace of cuts would likely facilitate a period of respite from the recent sell-off, though we continue to look for modest EURCZK appreciation over the longer term as carry protection is progressively eroded. In contrast, a move to 50bp cuts next week would likely see EURCZK's recent climb accelerate, suggesting that risks in advance of the meeting are skewed asymmetrically towards yet more koruna weakness.

## CAD jobs to keep BoC views dovish

Economic data out of Canada has provided mixed signals over recent months, evidenced this week by November's GDP data. Printing just a week after the Bank of Canada downgraded its growth forecasts to show an effective stagnation in the economy in the near-term, the GDP report showed the economy growing at 0.2% MoM. Not only that, preliminary estimates for December had Q4 growth projected at 1.2% QoQ annualised. The one economic measure that has shown consistent signals is the labour market. For three months now, labour demand has been struggling to keep pace with the increase in supply.

"While a lot has been said about the impact that high levels of immigration have had, what is also notable is that the pace of job creation has moderated significantly."

The 3-month average pace of net employment closed the year out at 14.18k, its slowest pace in the past year. Furthermore, job gains over that period have primarily been concentrated in professional services and public administration, both of which don't tend to reflect cyclical conditions. Industries that are more exposed to weak growth conditions have exhibited significant job losses over the course of Q4, with wholesale and retail trade shedding an average 19k employees per month, and accommodation and food services employment also consistently contracting.

The distribution of job gains throughout Q4 doesn't suggest the Canadian economy was strong

| Industry | Average MoM employment change in Q4 |
|---|---|
| All employees | 18,366.67 |
| Agriculture | - 4,566.67 |
| Forestry, fishing etc | 1,100.00 |
| Utilities | 1,800.00 |
| Construction | 6,933.33 |
| Manufacturing | - 1,500.00 |
| Wholesale and retail trade | -19,166.67 |
| Transportation and warehousing | 600.00 |
| Financial services | - 5,866.67 |
| Professional services | 14,333.33 |
| Business and building services | - 3,066.67 |
| Educational services | 1,133.33 |
| Health and social assistance | 9,500.00 |
| Information and culture | 6,633.33 |
| Accomodation and food services | - 2,766.67 |
| Other services | 5,033.33 |
| Public administration | 4,566.67 |

So, while headline data such as monthly GDP estimates and the BoC's core measures of inflation continue to point towards a later starting point for the easing cycle, our view that the Canadian economy remains considerably weaker than the data suggests remains intact. This view was reinforced recently by the BoC's forecasts, and subsequently by Governor Macklem, who passed up the opportunity to alter his view that the economy remains considerably weak at his Parliamentary testimony after the November GDP figures were released. January's labour market data should further confirm this stance, with net employment likely to slow further, alongside a further decline in the employment rate. Whether this starts to filter through into slower wage growth is yet to be seen, although we would once again de-emphasise this measure given the rising real wage growth has interestingly corresponded with a falling participation rate. Although we expect the data to show labour market conditions continuing to ease, it is unlikely to show enough weakness to force the BoC to ease in March. However, with an April cut only 50% priced by markets, there remains significant scope for more dovish expectations to be priced to the loonie's detriment.

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