



MONEX

Week Ahead

8th - 12th January 2024

New year, same concern

AUTHORS

SIMON HARVEY

Head of FX Analysis

+44 (0) 203 650 6472

Simon.Harvey@monexeurope.com

MARÍA MARCOS

FX Market Analyst

+34 911 988 460

Maria.Marcos@monexeurope.com

NICK REES

FX Market Analyst

+44 (0) 203 650 3736

Nicholas.Rees@monexeurope.com



INTRODUCTION

This week saw markets return to action following the holiday break, though price action started on a sluggish note as traders slowly drifted back into the office. With limited data set to land until Friday, this largely meant a reversal of some holiday moves, notably concerning Fed expectations and the dollar, both of which had drifted significantly over the Christmas period. In the case of the former, the year started with a full rate cut close to fully priced for March as traders returned to their desks on Tuesday morning, while the dollar was just barely off its lows after the DXY index briefly threatened to break below 100 just before the turn of the year. The first part of the week saw this positioning unwind, with the greenback climbing a percentage point through to Thursday evening as traders removed almost a full rate cut for the year. Friday, however, brought a change of pace, with nonfarm payrolls and ISM services data throwing a spanner in the works for Fed officials trying to sell a high for longer stance. Though a headline beat on NFPs initially sent the dollar higher, the report details painted a far more nuanced picture of the strength of the US labour market. That saw the dollar wipe out its early gains just in time for the ISM release to significantly undershoot expectations. The employment sub-index in particular slid notably, dropping from to 43.3 in the December print from 51.0 prior. This saw markets re-engage with the prospect of a March rate cut from the Fed, which having dropped to 50/50 immediately following the NFP release soon climbed to 80%. The move in Fed expectations also weighed on the dollar, seeing the DXY give up most of the week's gains through Friday afternoon.

Looking ahead to next week, focus is likely to remain on the path for interest rate cuts. The week kickstarts with inflation data out of Switzerland, which despite an uptick in the headline measure due to technical factors, is likely to keep the SNB concerned about deflation risk. On Tuesday, inflation data out of Mexico should determine whether Banxico cuts rates as early as February or waits until March. In Poland, the central bank is likely to sit on its hands until it releases its March projections. Thursday will then bring with it inflation data out of Brazil and the US, with the former unlikely to change minds at the BCB in the near-term but provide reason to suggest a deceleration in the easing cycle may be imminent. Meanwhile, December's US inflation report could break the deadlock for markets that have spent the past week flip-flopping between pricing a more conservative or dovish Fed this year. Rounding off the week is UK GDP for November, which should show a rebound from October and prevent the BoE from joining the ECB and BoC in cutting rates earlier on recession concerns.

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ECONOMIC CALENDAR

All times in GMT

Monday 08/01

Time	Country	Event	Period	Estimate	Prior
00:01	UK	REC report on jobs			
07:00	Germany	Factory orders MoM (YoY)	Nov	1.0%	-3.7% (-7.3%)
		Trade balance	Nov		17.7b
	Norway	Industrial production MoM (YoY)	Nov		-0.6% (-17.7%)
		Industrial production manufacturing MoM (YoY)	Nov		0.6% (-0.6%)
07:30	Switzerland	CPI MoM (YoY)	Dec	-0.1% (1.6%)	-0.2% (1.4%)
		Core CPI YoY	Dec	1.4%	1.4%
		Retail sales YoY	Nov		-0.1%
	Hungary	Retail sales YoY	Nov		-6.5%
09:00	South Africa	Absa manufacturing PMI	Dec		48.2
	Switzerland	Domestic (total) sight deposits CHF	Jan 5		453.2b (462.9b)
09:30	Eurozone	Sentix investor confidence	Jan	-15.5	-16.8
10:00	Eurozone	Retail sales MoM (YoY)	Nov	0.3%	0.1% (-1.2%)
		Consumer confidence	Dec F		-15.1
		Economic confidence	Dec		93.8
11:25	Brazil	Central bank weekly economist survey			
12:00	Mexico	Consumer confidence	Dec		47.3
16:00	US	NY Fed 1-year inflation expectations	Dec		3.36%
17:00	US	Fed's Bostic speaks on the economic outlook			
23:30	Japan	Tokyo CPI YoY	Dec	2.5%	2.7%
		Tokyo CPI ex-fresh food, energy YoY	Dec	3.5%	3.6%
		Household spending YoY	Nov	-2.3%	-2.5%
TBA	Mexico	ANTAD same-store sales YoY	Dec		5.3%

Tuesday 09/01

Time	Country	Event	Period	Estimate	Prior
00:01	UK	BRC sales like-for-like YoY	Dec		2.6%
00:30	Australia	Retail sales MoM	Nov	1.2%	-0.2%
06:00	Switzerland	SNB publishes preliminary 2023 results			
06:45	Switzerland	Unemployment rate	Dec	2.3%	2.1%
07:00	Germany	Industrial production MoM (YoY)	Nov	0.0%	-0.4% (-3.5%)
07:30	Hungary	Industrial production MoM (YoY)	Nov		-0.6% (-2.8%)
07:45	France	Current account balance	Nov		-2.9b
10:00	Eurozone	Unemployment rate	Nov	6.6%	6.5%
11:00	US	NFIB small business optimism	Dec	90.5	90.6

Time	Country	Event	Period	Estimate	Prior
12:00	Mexico	CPI MoM (YoY)	Dec	0.67% (4.62%)	0.64% (4.32%)
		Core CPI MoM (YoY)	Dec	0.50% (5.15%)	0.26% (5.30%)
		Bi-weekly CPI MoM (YoY)	Dec 31	0.40%	0.52% (4.46%)
		Bi-weekly core CPI MoM (YoY)	Dec 31	0.11% (5.10%)	0.46% (5.19%)
13:30	Canada	International merchandise trade	Nov		2.97b
	US	Trade balance	Nov	-\$64.8b	-\$64.3b
17:00	US	Fed's Barr speaks on bank regulation			
17:30	Eurozone	ECB's Villeroy speaks			
TBA	Poland	Poland base rate announcement		5.75%	5.75%

Wednesday 10/01

Time	Country	Event	Period	Estimate	Prior
00:00	New Zealand	ANZ commodity price MoM	Dec		-1.3%
00:30	Australia	CPI YoY	Nov	4.5%	4.9%
07:00	Sweden	Retail sales MoM (YoY)	Nov		1.4% (-1.0%)
		GDP MoM (YoY)	Nov		1.0% (0.2%)
		Household consumption MoM (YoY)	Nov		0.1% (-0.2%)
		Industrial orders MoM (YoY)	Nov		-4.8% (-0.4%)
	Norway	CPI MoM (YoY)	Dec		0.5% (4.8%)
		CPI core MoM (YoY)	Dec		-0.2% (5.8%)
		PPI including oil MoM (YoY)	Dec		-0.3% (-15.6%)
07:45	France	Industrial production MoM (YoY)	Nov		-0.3% (1.8%)
		Manufacturing production MoM (YoY)	Nov		0.1% (1.0%)
12:00	US	MBA mortgage applications	Jan 5		-10.7%
	Mexico	Private consumption YoY	Oct		4.5%
13:00	Hungary	Hungarian central bank minutes			
15:00	US	Wholesale inventories MoM	Nov F	-0.2%	-0.2%
		Wholesale trade sales MoM	Nov		-1.3%
20:15	US	Fed's Williams gives speech on 2024 economic outlook			

Thursday 11/01

Time	Country	Event	Period	Estimate	Prior
00:30	Australia	Trade balance	Nov	A\$7500m	A\$7129m
08:00	Spain	Industrial production MoM	Nov		-0.5%
09:00	Eurozone	ECB publishes Economic Bulletin			
09:30	Eurozone	ECB's Vujcic speaks			
11:00	South Africa	Manufacturing production MoM (YoY)	Nov		-0.2% (2.1%)
12:00	Brazil	IBGE IPCA MoM (YoY)	Dec		0.28% (4.68%)

Time	Country	Event	Period	Estimate	Prior
	Mexico	Industrial production MoM (YoY)	Nov		0.6% (5.5%)
		Manufacturing production YoY	Nov		1.1%
13:00	Poland	National Bank of Poland publishes minutes of rate meeting			
13:30	US	CPI MoM (YoY)	Dec	0.2% (3.3%)	0.1% (3.1%)
		CPI ex food and energy MoM (YoY)	Dec	0.2% (3.8%)	0.3% (4.0%)
		Initial jobless claims	Jan 6		202k
		Continuing claims	Dec 30		1855k
14:00	Sweden	Riksbank's Jansson speaks			
23:50	Japan	BoP current account adjusted	Nov	¥2177.0b	¥2621.7b
		Trade balance BoP basis	Nov	-¥533.0b	-¥472.8b

Friday 12/01

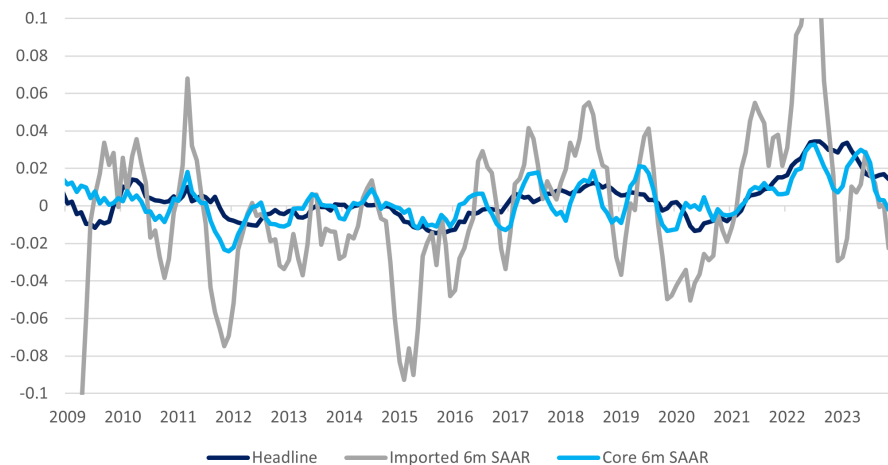
Time	Country	Event	Period	Estimate	Prior
01:30	China	CPI YoY	Dec	-0.4%	-0.5%
		PPI YoY	Dec	-2.6%	-3.0%
05:00	Sweden	Swedish housing price data from Maklarstatistik			
	Japan	Eco watchers survey current	Dec	49.8	49.5
		Eco watchers survey outlook	Dec	49.5	49.4
07:00	UK	Monthly GDP MoM (3M/3M)	Nov		-0.3% (0.0%)
		Industrial production MoM (YoY)	Nov		-0.8% (0.4%)
		Manufacturing production MoM (YoY)	Nov		-1.1% (0.8%)
		Index of services MoM	Nov		-0.2% (0.1%)
		Construction output MoM (YoY)	Nov		-0.5% (1.1%)
		Trade balance GBP/Mn	Nov		-£4480m
	Norway	House price index QoQ	4Q		-1.1% (0.0%)
07:30	Hungary	CPI MoM (YoY)	Dec	(5.9%)	0.0% (7.9%)
07:45	France	Consumer spending MoM (YoY)	Nov		-0.9% (-1.3%)
08:00	Sweden	Riksbank's Bunge speaks			
12:00	India	CPI YoY	Dec	5.80%	5.55%
12:30	Eurozone	ECB's Lane speaks			
13:00	Poland	Current account balance	Nov	1626m	2036m
		Trade balance	Nov	889m	1324m
13:30	US	PPI final demand MoM (YoY)	Dec	0.2% (1.4%)	0.0% (0.9%)
		PPI ex food and energy MoM (YoY)	Dec	0.2% (2.0%)	0.0% (2.0%)
TBA	China	Trade balance CNY	Dec		490.82b

DATA PREVIEWS

Swiss inflation to put CHF under pressure

Released on Monday 8th at 07:30 GMT, December's Swiss inflation report should reflect the growing deflation risk that arguably turned the [SNB markedly more dovish](#) at the end of 2024. While the headline CPI measure is expected to tick up from 1.4% to 1.6% YoY, this is likely to be purely mechanical in nature, with December 2022's reading providing a 0.22% positive base effect. In fact, with energy prices relatively stable last month, recent CHF appreciation favouring continued deflation on imports, and the 6-month annualised core inflation rate now flipping negative, we think risks to headline inflation are tilted to the downside. Even if consensus expectations are met, however, the details of the report will likely read soft, vindicating the SNB's December decision to remove its stated preference for continued CHF appreciation, in line with our off-consensus call. Markets appeared to have not gotten the message, however. The Swiss franc currently sits over 2% stronger on a trade-weighted basis relative to before the SNB decision, which scans as inconsistent with the central bank's core messaging and the weak run rate of underlying inflation pressures. While there are no signs of the SNB actively pushing back on the market's continued tightening in Swiss financial conditions through a stronger franc, we think that could change should deflation risks remain prominent in December's inflation data. Current levels in USDF and EURCHF provide good entry points for fresh longs on this view.

While headline inflation may tick up, the trend in underlying inflation is likely to remain concerning



Latin America's disinflationary progress to be tested at the end of 2023

Focus in Latin America next week is back on how inflation progressed towards the end of last year, with monthly readings set for release from both Mexico and Brazil. If there has been any talk, especially during the last quarter of the year for both economies, it is of a possible slowdown in the disinflationary pace observed. In Brazil, the publication of the November IPCA pointed to only a marginal slowdown in headline inflation, from 4.82% in the previous month to 4.68% year-on-year, placing the final reading still well above the 3.25% target for 2023. All this, coupled with a tight labour market and uncertainty about the effects of the recently passed tax reform, supports our view that inflation could continue to decline more slowly than many think, leading Copom to slow the pace of easing earlier than the economist consensus. In Mexico, this slowdown has been even more evident. Headline inflation rose by 0.64% in November, up from 0.38% of the previous month and the 2018-2023 average of 0.40%. On a year-on-year basis, headline inflation rose by 6 basis points from October to 4.32%. Meanwhile, core inflation rose by 0.26% MoM, slightly below the 0.29% that the economists' consensus was pointing to and by 5.30% year-on-year, although well below the cyclical peak of 8.51% in November last year. However, the focus was once again on services inflation, which remains high, printing in line with its year-to-date average of 0.42% month-on-month.

While we believe that headline inflation will continue to decelerate in the coming months, wage growth and the strength of private consumption, evidenced in the third quarter GDP reading, are likely to keep it above the 3.00% bank target for 2024 in the near term. In addition, a possible resurgence of fiscal tensions at the beginning of the year, similar to that experienced during the first half of 2023, could limit the scope for lowering the Selic rate in the near to medium term.

“Meanwhile, in Mexico, the exact timing of the start of monetary easing is still unknown.”

It seems that right now the debate amongst analysts is centred on whether the date chosen will be the February meeting, the first meeting of 2024, or the March meeting. While we lean more towards the second option, having pointed out on multiple occasions that we believe the risks are tilted towards an even later start, we believe that regardless of the exact timing of the first cut, the recently released minutes of the December meeting seem to point to rates probably coming down slowly in 2024.

NBP to stand pat whilst awaiting new inflation forecasts

Next week brings a first policy meeting of the year for the National Bank of Poland, though we expect this to be a non-event. Policy rates are expected to remain unchanged at 5.75% as policymakers continue to assess the impact of recent developments on inflation, and in particular the spending plans of the new Tusk administration.

This latest decision is set to come against the backdrop of flash December inflation readings that significantly undershot economist expectations, showing annual CPI growth of 6.1% and a monthly increase of just 0.1%. This not only leaves inflation running some way below expectations, but short-term risks now look somewhat more favourable than anticipated too. Specifically, the new government choosing to extend freezes on electricity and gas prices into the middle of 2024, mechanically depressing price growth over coming months.

The counterpoints to this, however, are twofold. First, these energy price caps are too expensive to maintain indefinitely. As such we expect the government to begin easing measure from July, pushing up inflation from the second half of this year. Second, this extension of energy price subsidies will require either trimming to other areas of spending, or a much higher budget deficit than envisaged by the outgoing Government last September. The Tusk administration appears to have opted for these choices, with this likely to add to inflationary pressures over the medium term.

“Given the uncertainty faced by policymakers in predicting the inflation outlook, we expect the MPC will almost certainly sit on their hand until March, when a new set of macroeconomic forecasts are presented.”

Indeed, this has been precisely the guidance offered by some MPC members as justifying policy holds over the last two meetings. With analysts widely expecting rates set to stay unchanged, and meaningful guidance on future rate moves unlikely until March, next week's meeting should therefore have little impact on the zloty absent a major surprise.

November GDP to suggest UK growth bottomed in Q3

We expect to see UK GDP pick up in November when figures are released next week, setting the stage for the UK economy to dodge recession at the end of last year following a 0.1% contraction in Q3. Admittedly, we see this projection as finely balanced, especially following the 0.3% MoM contraction in activity recorded for October. However, an improvement in forward looking indicators suggests that the UK economy rebounded into year end, with this likely to show up in the November figures.

“Looking at more timely activity indicators in detail, it is notable that having contracted in both September and October, retail sales showed a sharp upturn in November to grow by 1.3% MoM.”

Moreover, net consumer credit provision expanded too, rising from £1.3bn to £2.0bn, beating expectations that had projected a modest £0.1bn rise and suggesting that consumer activity should offer some upwards support to economic activity for the month. Positive signs, however, were not just limited to the consumer. November also saw the composite PMI reading return to expansionary territory for the first time since July, albeit the print was only modestly above the 50 no-change level. Additionally, also expect that two factors that have weighed on activity readings over recent months, namely strikes and weather, were relatively less impactful in November. All together we think this means the economy expanded modestly on the month, likely reversing October's contraction.

Zooming out, it is notable that real wages grew once again in October on an annual basis and have now done so every month since June. With leading indicators showing no signs that this has subsequently slowed either and UK economic conditions generally improving in our view, we think that Q3 will mark a bottom for growth conditions if next week's GDP can show the economy expanding. Given this, BoE policymakers are unlikely to feel under pressure to cut rates to support the economy, supporting our call that Bank Rate will stay at the current peak of 5.25% into the second half of the year.

For sterling, whilst the stagnant growth hardly sounds positive, with the eurozone and Canada likely already in recession, the UK should still look good by comparison. Therefore, if next week's data does land as we expect, then a combination of relatively better growth and higher for longer policy rates should see the pound trading higher on crosses.

Will US inflation be the deciding factor?

Markets have started 2024 indecisively. After correcting the late December slip in the dollar, the focus of FX markets quickly returned to rates and what short-term interest rate markets were pricing for DM central banks. Here, as we noted in December, 160bps of policy easing from the Fed seemed aggressive, a point indirectly made by multiple FOMC members in recent weeks. This view was also shared in December's meeting minutes, which read considerably more neutral than alluded to by Powell in last month's press conference. This saw markets begin to curb their enthusiasm heading into Friday's jobs data, with higher rates benefitting the dollar. Friday's jobs report initially confirmed the markets initial bias as employment growth crushed expectations with a print of +216k, leading the dollar higher. However, as traders digested the softer details of the report, the early leap in the greenback soon reversed. Then came the ISM services PMI which offered conflicting evidence to the S&P measure released last month.

“All told, markets were struggling to make heads or tails of where the US economy was currently tracking and what this meant for both the timing and magnitude of Fed easing in 2024.”

It is in this context that December's CPI data lands next Thursday at 13:30 GMT. Having ticked higher in November, the first question markets will ask is if the pace of core inflation continued to track higher. The next area of investigation will be the breadth of core inflation pressures. In November, the bulk of this stemmed from housing components, but even so it was notable that the pace of core services ex housing inflation more than doubled from 0.217% to 0.44% MoM. If December sees inflation pressures remain at these elevated levels, markets are likely to pull back on easing bets once again, but given the contradictions in the macro data flow at present, we don't think the CPI data will present the level of clarity required to see significant and sustained market moves.

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