Week Ahead

9th - 13th September 2024

Too early for a sustained dollar turnaround

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INTRODUCTION

It has been hard to look past US labour market data this week, with all eyes on the unemployment side of the Fed's dual mandate as the key dynamic underpinning the likely path for US rates. Even so, despite a whole raft of data prints, the sum total has hardly been conclusive. There are clear signs that the labour market has normalised, while some indicators are pointing to the possibility of a more troubling slowdown. In our view, however, downside risks look overstated at present. With this in mind, we continue to look for a succession of 25bp rate cuts from the Fed rather than anything more aggressive, an outcome that would leave the dollar looking cheap at current levels.

That said, next week is likely too early to see a turnaround in the greenback's fortunes. US CPI data should be the focus, but this also looks set to be inconclusive for the Fed, a fact that is likely to keep the dollar treading water next week. The ECB however is likely to offer a dovish steer on the path for eurozone inflation while simultaneously cutting rates, while UK jobs data and LatAm CPI offer plenty of action outside the US next week.

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ECONOMIC CALENDAR

All times in BST

Monday 09/09

Time	Country	Event	Period	Estimate	Prior
00:01	United Kingdom	S&P Global, KPMG and REC UK Report on Jobs			
02:30	China	PPI YoY	Aug	-1.50%	-0.80%
		CPI YoY	Aug	0.70%	0.50%
09:00	Switzerland	Domestic Sight Deposits CHF	Sep-06		448.6b
13:00	Mexico	CPI MoM	Aug	0.06%	1.05%
		CPI YoY	Aug	5.05%	5.57%
		CPI Core MoM	Aug	0.23%	0.32%
		CPI Core YoY	Aug	4.01%	4.05%
16:00	United States	NY Fed 1-Yr Inflation Expectations	Aug		2.97%

Tuesday 10/09

Time	Country	Event	Period	Estimate	Prior
07:00	Norway	CPI MoM	Aug		0.50%
		CPI YoY	Aug		2.80%
		CPI Underlying MoM	Aug		0.80%
		CPI Underlying YoY	Aug		3.30%
	Sweden	GDP Indicator SA MoM	Jul		0.90%
		GDP Indicator WDA YoY	Jul		1.90%
	United Kingdom	Average Weekly Earnings 3M/YoY	Jul		4.50%
		Weekly Earnings ex Bonus 3M/YoY	Jul		5.40%
		ILO Unemployment Rate 3Mths	Jul		4.20%
		Employment Change 3M/3M	Jul		97k
		Payrolled Employees Monthly Change	Aug		24k
07:30	Hungary	CPI MoM	Aug	0.20%	0.70%
		CPI YoY	Aug	3.60%	4.10%
11:00	United States	NFIB Small Business Optimism	Aug	93.7	93.7
13:00	Brazil	IBGE Inflation IPCA YoY	Aug	4.26%	4.50%
		IBGE Inflation IPCA MoM	Aug	0.00%	0.38%
22:05	New Zealand	RBNZ Assistant Governor Karen Silk Speaks			

Wednesday 11/09

Time	Country	Event	Period	Estimate	Prior
01:20	Australia	RBA's Hunter-Speech			
02:30	Japan	BOJ Board Nakagawa Speech in Akita			

Time	Country	Event	Period	Estimate	Prior
07:00	United Kingdom	Monthly GDP (3M/3M)	Jul		0.90%
		Monthly GDP (MoM)	Jul		0.00%
13:00	Hungary	Hungarian Central Bank's Minutes			
13:30	United States	CPI MoM	Aug	0.20%	0.20%
		CPI Ex Food and Energy MoM	Aug	0.20%	0.20%
		CPI YoY	Aug	2.60%	2.90%
		CPI Ex Food and Energy YoY	Aug	3.20%	3.20%

Thursday 12/09

Time	Country	Event	Period	Estimate	Prior
02:00	Australia	Consumer Inflation Expectation	Sep		4.50%
	Japan	BOJ Board Tamura Speech in Okayama			
05:00	Sweden	PES Unemployment Rate	Aug		3.60%
07:00	Sweden	CPI MoM	Aug		0.10%
		CPI YoY	Aug		2.60%
		CPIF MoM	Aug		0.10%
		CPIF YoY	Aug		1.70%
		CPIF Excl. Energy MoM	Aug		0.30%
		CPIF Excl. Energy YoY	Aug		2.20%
09:00	Norway	Regional Network Survey: Output Current Quarter QoQ	3Q		0.20%
13:00	India	CPI YoY	Aug	3.45%	3.54%
13:15	Eurozone	ECB Deposit Facility Rate	Sep-12	3.50%	3.75%
		ECB Main Refinancing Rate	Sep-12	3.65%	4.25%
		ECB Marginal Lending Facility	Sep-12	3.90%	4.50%
13:30	United States	PPI Final Demand MoM	Aug	0.20%	0.10%
		PPI Ex Food and Energy MoM	Aug	0.20%	0.00%
		PPI Final Demand YoY	Aug	1.80%	2.20%
		Initial Jobless Claims	Sep-07		227k
13:45	Eurozone	ECB President Christine Lagarde Holds Press Conference			

Friday 06/09

Time	Country	Event	Period	Estimate	Prior
09:30	United Kingdom	BoE/Ipsos Inflation Next 12 Mths	Aug		2.80%
	Eurozone	ECB's Rehn Speaks in Helsinki			
10:00	Eurozone	Industrial Production SA MoM	Jul	-0.30%	-0.10%
		Industrial Production WDA YoY	Jul	-2.10%	-3.90%
15:00	United States	U. of Mich. Sentiment	Sep P	69	67.9

DATA PREVIEWS

Softer inflation in LatAm does not mean dovish central banks

Although political events in Mexico and Brazil have dampened the focus on economic events in recent months, we suspect that next week's August inflation figures will see some attention returning to disinflation progress. In Mexico, we expect inflation will continue to cool, supporting further rate cuts by Banxico. In Brazil, by contrast, recent inflation persistence has seen markets start to discount a possible resumption of the hiking cycle.

"However, we suspect that the August inflation report may signal renewed disinflation progress, puncturing that narrative next week."

Looking at the upcoming data in more detail, in Mexico, headline inflation is expected to rise by 0.06% month-on-month, virtually unchanged from July's reading. In year-on-year terms, consensus suggests that price growth will slow to 5.05%, down from 5.57% the previous month. Meanwhile, core inflation is expected to slow down too, albeit only marginally. The month-on-month reading is expected to come in at 0.23%, down from 0.32% previously, while the year-on-year reading is expected to move from 4.05% in July to 4.01% in August. Taken as a whole, we think this will help to calm nerves on Banxico's Governing Board which, despite deciding at the last meeting to cut the reference interest rate by 25 basis points, continues to indicate some concern about the evolution of inflation towards the target.

In Brazil, we also expect inflation to slow, which would be in line with the recently reported cooling in real wages, which fell by -0.8% m-o-m in July. Headline inflation is expected to soften to 4.26% YoY, down from 4.50% in July, which would coincide with a stagnation in month-on-month price growth. This should be enough for the BCB to avoid hiking rates for the time being. That said, policy tightening remains a risk in the longer term, especially given disagreements over debt sustainability and the government's inability to reduce the fiscal deficit.

UK wages will slow again next week

Next week sees the publication of UK pay data for July – the last such reading scheduled for release before the BoE delivers a policy decision on September 19th. We expect to see further declines in headline wage growth numbers. Both overall pay and ex-bonus pay should see falls on a 3m/YoY basis from the 4.5% and 5.4% recorded for each measure respectively in June. That said, the focus for the MPC is once again likely to be on the private sector regular pay measure of wage growth due to the assumed passthrough to services inflation. The August MPR predicted this would print at 5.1% 3m/YoY in June – the reading actually landed at 5.2%. A repeat of last month's single-month print would see private sector wage growth fall to 4.9% 3m/YoY. More importantly, this would keep the data on track to meet Bank staff projections for Q3 that suggest private sector regular pay growth will fall to 4.8%.

Where there are risks to next week's release, more timely indicators provide a mixed steer. The July REC Report on Jobs showed a modest uptick in the permanent placements index, albeit, at 47.7, this reading still suggests that the labour market is loosening at the margin. The accompanying permanent salaries index, however, remains elevated at 56.5. Granted, this is down from 57.1 in June, but when compared with a 54.9-point average reading over the three months to May, this suggests only limited cooling in pay growth. Arguably, PMI reports have been more conclusive in recent months, signalling an ongoing slowdown in wage input costs. All told then, we are inclined to see risks as skewed marginally towards a softer-than-expected set of prints next week, but with relatively low conviction. For the MPC this would be welcome news, albeit not definitive ahead of a September policy meeting that remains in the balance.

"With recent messaging suggestive that policymakers are taking a more holistic view of the data, we think that the August CPI release will be needed to see market pricing start to firm, which should keep the FX reaction relatively muted next week, barring any major surprises."

ECB preview: We need more cuts

After several weeks focused on the other side of the Atlantic and the effects on the Federal Reserve's future monetary policy decisions, next week it is the eurozone's turn. The ECB will hold its first meeting after the summer break and although there is a consensus among analysts and traders on the most likely outcome, this does not detract from the event's importance. Overall, the disinflationary trend of the last few months and, especially, the favourable July inflation data, point to a further cut in the ECB's three key interest rates as a given, bringing the deposit rate to 3.50%. This would be in line with the latest dose of forward guidance offered by policymakers when, in July, they warned about the possible effects of the weak eurozone economy on inflation, leaving the door open to further cuts after the holidays.

That said, there is greater uncertainty around the future path for eurozone rates. Markets are currently discounting a further 1-2 rate cuts before year-end. We suspect Bank officials are unlikely to make a precise statement to steer current pricing. Rather, we think Lagarde will default to her traditional data dependence. Even so, looking at the recent data, growth is weak - as are forward-looking indicators, evidenced by further signs of softening in the August PMIs. Combined with inflation moving at a more than acceptable pace towards target, this should see ECB officials not only easing policy in September but also considering further cuts later this year.

> "In our view, expectations of a 3.25% deposit rate by the end of 2024 could be too high if incoming inflation and activity data continue the trend evidenced in the last month."

As such, despite the ECB's typical reticence in offering forward guidance, next week a new round of updated forecasts from Eurogroup experts should bring forward an adjustment in traders' rate expectations. Given that the latest inflation forecast for 2024 unexpectedly rose from 2.5% to 2.6% YoY, while core inflation stagnated at 2.9% YoY, we suspect that, if there is a revision, this time it will be downwards. This is not only due to more favourable disinflationary developments since June, but also the better outlook for commodity prices which should also weigh on the inflation outlook. If realised, this should see an acceleration in ECB easing bets, likely seeing the euro give up some recent gains against the dollar.

US CPI still overshadowed by the labour market

Perhaps the most notable shift for markets in recent weeks has been away from inflation persistence, and towards labour market resilience, as the key determinant for the likely pace of Fed easing. This has left market expectations hanging in the balance ahead of the Fed's September 18th rate announcement, following an inconclusive August labour market report. Markets are split between looking for a rate cut of 25 or 50bps.

> "We doubt next week's CPI data will do much to alter this balance of risks."

Markets expect to see both headline and core price growth of 0.2% MoM in August, matching the previous July prints. This would see headline inflation fall to 2.6% on an annual basis, down from 2.9% previously, with core inflation would stabilising at 3.2% YoY. Amongst the details, we expect to see broad but marginal cooling, in keeping with other recent prints. Perhaps most importantly, now that shelter inflation has turned a corner, this should continue to weigh on underlying price growth next week. That said, barring any surprises, this kind of modest but unspectacular disinflation progress should keep markets guessing on the likely path for US rates. Cuts at every FOMC meeting for the remainder of the year look guaranteed, but the pace of easing is likely to remain an open question next week.

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