Week Ahead January 16-20th: Highlights include US retail sales, China activity data, ECB minutes, UK data

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- **MON:** Eurogroup Meeting; Chinese GDP (Q4), House Prices, Industrial Output & Retail Sales (Dec).
- **TUE:** OPEC MOMR; German Final CPI (Dec), UK PPI (Nov), Unemployment (Nov), German ZEW (Feb), Canadian CPI (Dec), Australian Consumer Sentiment (Jan).
- **WED:** UK CPI (Dec), EZ Final HICP (Dec), US PPI (Dec), Retail Sales (Dec), NAHB (Jan), Canadian Producer Prices (Dec), Japanese Trade Balance (Dec).
- **THU:** ECB Minutes (Dec), Norges Bank, and CBRT policy decisions; Australian Employment (Dec), EZ Current Account (Nov), US Housing Starts/Building Permits (Dec), IJC (w/e 9th Jan), Philadelphia Fed (Jan), Japanese CPI (Dec).
- **FRI:** PBoC LPR; UK GfK (Jan), Retail Sales (Dec), Canadian Retail Sales (Nov), German Flash GDP (Q4), UK CBI (Jan).

NOTE: Previews are listed in day-order

CHINESE GDP & ACTIVITY DATA (MON): Chinese GDP data scheduled next week will provide the latest insight into the health of the world's second-largest economy and is likely to show a slowdown in annual growth for 2022 from the revised 8.4% expansion in 2021. Furthermore, Chinese President Xi Jinping recently estimated during a New Year's Eve speech that GDP exceeded CNY 120tln to suggest growth of at least 4.4% for the year which would top general expectations between 2.7%- 3.3%, although would be slower than the nation's 'abandoned' growth target of about 5.5% that it set early last year and which was the lowest target in three decades. China faced several challenges during the past year including weakening external demand as global central banks tightened monetary policies and with rising global inflation that was stoked by the war in Ukraine, while its economy was severely impacted by the strict Zero-COVID policy which prompted officials to drop references to the growth target. Nonetheless, the GDP data in Q3 had provided some encouragement with a return to expansion Q/Q of 3.9% vs Exp. 3.5% (Prev. -2.6%) and Y/Y growth also rebounded by more than expected at 3.9% vs Exp. 3.3% (Prev. 0.4%), while China's shift away from restrictive COVID policies and the reopening of its borders instils optimism for the year ahead with many cities that have a GDP of more than CNY 1tln also lifting their growth target for this year to around 5%-7%. The release will coincide with the latest activity data for December in which participants will be hoping for an improvement following the prior month's dismal figures which showed weaker than expected Industrial Production at 2.2% vs. Exp. 3.6% and a wider than anticipated contraction in Retail Sales of -5.9% vs. Exp. -3.7% for November, although this was prior to the easing of COVID measures in early December.

BOJ POLICY ANNOUNCEMENT (TUE): The BoJ is expected to refrain from conducting any policy adjustments at next week's meeting with the central bank likely to maintain its negative rate at -0.10% and stick to its QQE with Yield Curve Control to flexibly target 10yr JGB yields at 0%, although a hawkish surprise cannot be ruled out after a recent press report noted that the BoJ will review the side effects of its massive monetary easing at the upcoming meeting. As a reminder, the BoJ threw markets a curve ball last month when it unexpectedly tweaked its QQE by widening the tolerance band to allow 10yr JGB yields to move freely between -0.50% and +0.50% parameters from a previous +/-25bps deviation from the target, but also increased the amount of outright JGB purchases with the adjustment intended to "improve market functioning and encourage a smoother formation of the entire yield curve while maintaining accommodative financial conditions". BoJ Governor Kuroda noted shortly after that the decision was not an exit of YCC nor was it a change in policy and that it is appropriate to continue easing policy. Kuroda also stated that there is no need to further expand the tolerance band and there is no intention to hike rates or tighten policy, while sources recently noted that the BoJ sees little need to rush major yield curve adjustments. Furthermore, attention will also be on the Outlook Report for the latest projections by Board members in which Kyodo cited sources stating that the BoJ mulls raising Japan's inflation forecasts amid policy speculation whereby revisions would include raising its core consumer inflation outlook for fiscal 2022 to the 3% level from the October projection of a 2.9% rise, while sources added that the BoJ would also raise forecasts for the following two years close to its 2% target from its previous forecasts of 1.6%.

UK LABOUR MARKET DATA (TUE): Expectations are for the ILO unemployment rate in the three months to November to hold steady at 3.7%, whilst average weekly earnings (ex-bonus) are set to rise to 6.3% from 6.1%. The prior report was characterised by a pick-up in the unemployment rate in the three months to October to 3.7% from 3.6%, whilst headline average weekly earnings rose to 6.1% from 6.0% and the number of payroll employees in November rose 0.4% on a M/M basis. Ahead of the upcoming release, Pantheon Macroeconomics notes “most survey indicators of employment growth have been deteriorating since last spring, but they had not quite reached levels consistent with outright declines in November”. PM states that “December's payroll employee data likely will paint a weaker picture, but this won't suffice for the MPC to stand pat in February”. PM adds that average weekly earnings, excluding bonuses, likely rose by 0.5% M/M in November, pushing up the headline growth rate to 6.3%, from 6.1% and therefore will persuade the MPC to deliver another rate hike in Feb.

CANADA CPI (TUE): The data will be framed in the context of the BoC's January 25th policy meeting (the Business Outlook Survey out on January 16th will also feed into the central bank's deliberations). Having peaked at 8.1% Y/Y in June 2022, the BoC projects headline inflation will fall to around 2.8% later this year following the seven rate hikes fired in this cycle, which have taken the policy rate to 4.25%; the BoC then sees inflation returning to its 2% target in 2024. The central bank wants to see price pressures cool and is worried that elevated inflation will become entrenched. Governor Macklem recently said that the longer inflation remains high, and the higher it is, the harder it is for Canadians to plan their spending and savings. He noted the challenging policy decision for the central bank, stating that if it hikes rates too much, it risks tilting the economy into an “unnecessarily painful recession and undershoot the inflation target,” whereas if it does not raise enough, “inflation will remain elevated, and households and business will come to expect persistently high inflation.” He added that if the high rates of inflation stick, then much higher interest rates will be required to restore price stability, and the economy would need to slow even more sharply. Analysts at SGH Macro argue that policymakers will not ease up on policy tightening until price stability has been restored. The consultancy says that the December language change within its policy statement prompted many investors to assume that the BoC was done hiking, but argues that “the Governing Council’s enthusiasm over the mere changed direction of recent inflation data produced a language tilt that went too far tactically,” and the last thing that the BoC needs is a financial market that prematurely loosens conditions, based on a presumption that it will reverse course and cut rates in its next breath.

US RETAIL SALES (WED): Headline retail sales are expected to slip by 0.5% M/M in December (prev. -0.6% M/M in November). The ex-autos measure is expected to fall 0.2% M/M, matching the November decline. The Control Group is also seen declining 0.2% M/M, again matching the November decline. Having disappointed expectations in November (headline slipped by the most in 11 months vs expected decline of -0.1%), analysts will be watching the data to see how Americans spent over the key holiday season. Credit card company Mastercard's data has showed that US retail sales rose by 7.6% between the start of November and Christmas eve, with steep discounts said to have lured consumers. That compares to a rise of 8.5% in the same period in 2021, with consumers pulling back in 2022 due to high inflation, rising rates and the threat of an economic slowdown. Still, investors may be more interested to see how trends fare after December, with many now speculating that consumers will have pulled back sharply after the holiday spending season. Indeed, the initial reads of the RedBook's series of weekly retail sales data appears to allude to that theme, falling to a rate of 5.3% Y/Y in the first week of January vs 10.2% in the last week of December. Any downside in the December data may not change the narrative too much for the February FOMC (where a 25bps rate rise is expected), although would likely be used by analysts to further build the case for a growth slowdown.

UK CPI (WED): Expectations are for headline Y/Y CPI to fall to 10.6% from 10.7% with the core Y/Y rate set to fall to 6.2% from 6.3%. The prior report was characterised by a pullback from the October peak of 11.1% to 10.7% amid a decline in motor fuel and tobacco inflation, whilst food inflation continued to rise. This time around, analysts at Investec expect that the biggest downward contribution will come from petrol prices, which declined by close to 5% on the month, against a flat outturn 12 months earlier, whilst clothing and footwear could also act as a drag following retailer discounting. Investec highlights that focus will also be on the behaviour of food prices following the 16.6% annual increase in November; Investec expects a slight moderation on this front. From a policy perspective, this could sway the MPC to step down from the 50bps increment hiking pace in December to a more modest 25bps adjustment. That said, recent GDP data from the UK has seen more of a bias towards sticking with 50bps with the prospect of a Q4 growth contraction now in doubt.

ECB MINUTES (THU): As expected, the ECB stepped back from its 75bps cadence of rate hikes and opted to raise its key three rates by 50bps a piece. Furthermore, the Governing Council judged that "interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive". On the balance sheet, from the beginning of March 2023 onwards, the APP portfolio will decline at an average pace of EUR 15bln per month until the end of Q2 with its subsequent pace to be determined over time. The accompanying macro projections saw 2022 HICP upgraded to 8.4% from 8.1%, 2023 raised to 6.3% from 5.5%, with 2024 and 2025 seen at 3.4% and 2.3% respectively. On the growth front, 2022 GDP was upgraded to 3.4% from 3.1% and 2023 is seen at just 0.5% (prev. 0.9%), with the upcoming recession likely to be shallow and short-lived. At the follow-up press conference, Lagarde noted that info predicates a 50bps hike at the next meeting, "possibly the next one as well and possibly thereafter". In terms of the unanimity of the Board, Lagarde stated that there was a very broad majority view that the ECB should show perseverance. However, some wanted to do a bit more and some a bit less. Later, sources showed that over a third of ECB policymakers wanted to opt for a larger 75bps hike. Any further colour on what compromise was made to get the hawks on board with the smaller 50bps hike will be noted by the market. That said, market participants will likely place greater emphasis on recent commentary from officials given the December CPI report which showed a cooling in headline inflation to 9.2% from 10.1%, whilst the super core rose to 5.2% from 5.0% and therefore had prompted the discussion that although the headline may well have peaked, the core rate might prove to be stickier.

NORGES BANK POLICY ANNOUNCEMENT (THU): The Norges Bank is likely to keep rates on hold at 2.75% at the January meeting, in fitting with guidance from December's gathering that rates will most likely increase further some time in Q1. Specifically, the repo path implied circa. 35bp of tightening before a peak around March 2023; i.e. a 25bp move in the first quarter this year and then some optionality for another move if inflation remains hot. This time, the Bank is likely to stand-pat as December's headline inflation measure encouragingly saw a marked downturn to 5.9% YY from 6.5%, and while the core measure ticked up slightly to 5.8% from 5.7%, this essentially matched the Norges Bank's December CPI-ATE forecast of 5.75%. While another 25bp increase cannot be entirely outruled for the January gathering, the likes of SEB believe a hike in March is more likely

CBRT POLICY ANNOUNCEMENT (THU): Having cut rates by 150bps in November (and by 500bps altogether since August 2022), the overnight repo rate is back into single digits at 9.00%, and the CBRT has signalled that its rate cut cycle has concluded. Accordingly, analysts expect rates to stay at current levels until after the Turkish elections, which are set to take place in June, though there are still risks that President Erdogan could compel the central bank to again lower rates ahead of the election. The central bank's latest survey sees end-2023 CPI at 32.46% (prev. 34.92%), and is seen at 30.44% in 12-months (34.92%). End-2023 growth is seen at 4.1% (prev. 4.1%). USDTRY rate seen at 23.1161, and the repo rate is seen at 13.65% in 12-months (prev. 14.86%). Capital Economics has said that "with political pressure driving central bank decision making and President Erdogan recently suggesting that rates should remain in single-digits, the CBRT won't deliver the hikes that are desperately needed to control inflation and regain credibility anytime soon." However, the consultancy still flags risks of cuts, pointing out that inflation will fall sharply after December, once the effects of its currency crisis falls out of the annual price comparison, which could result in the President applying more pressure on the central bank. "Even if interest rates aren't cut further, the CBRT's deeply negative real policy stance and precarious external position means that the lira is highly vulnerable to a large adjustment," CapEco writes, "'Lira-isation' policies and foreign financing have helped stabilise the currency in recent months, but this is unsustainable and we are forecasting it to fall by around 20% against the dollar by end-2023."

AUSTRALIAN EMPLOYMENT (THU): Australian jobs data for December is scheduled next week and although there are no expectations yet for the release, it is likely to show a continued gain in payrolls amid seasonal factors which would keep the Unemployment Rate near 50-year lows. The prior reading for November topped forecasts in which the Employment Change showed a larger than expected increase of 64k (exp. 19.0k) and the Unemployment Rate remained at its lowest in nearly five decades at 3.4% despite a return in the Participation Rate to a record high of 66.8%, which underscored the tightness in the labour market amid a rebound in the economy and lack of migration. There are currently no expectations yet for the upcoming release, although there has been a trend in the past years of a continued increase in jobs for December albeit at a slower pace than November when businesses conduct much of their hiring for the Christmas season, while the data is unlikely to have any major ramifications for RBA policy with participants eyeing the quarterly CPI data from Australia later in the month.

UK RETAIL SALES (FRI): Expectations are for December retail sales to decline 4.2% Y/Y, with the M/M figure expected at +0.4% vs. prev. -0.4%. Ahead of the release, ING notes that "until November, retail figures had risen by roughly 4% in value terms through 2022 but fallen by an even greater percentage in volumes, neatly encapsulating the cost of living squeeze that's dominating the UK outlook this year." This time around, the bank expects "a small bounce-back in December, though that's likely to reflect volatility surrounding Christmas more than anything else." In terms of recent retail indicators, BRC like-for-like retail sales rose 6.5% in December; commenting on the data, KPMG said that "whilst the numbers for sales growth in December look healthy, with sales values up by nearly 7% on last year, this is largely due to goods costing more and masks the fact that the volume of goods that people are buying is significantly down on this time last year." Elsewhere, Barclaycard consumer spending data revealed that "overall retail spending grew 1.2% when compared to the same period last year, and this is an increase in spend growth of 0.5% compared to November 2022," adding "December was an overall positive month for retailers, particularly for clothing outlets who saw increased trade."

CHINESE LPR (FRI): The PBoC is likely to keep its benchmark lending rates unchanged next week with the 1-Year and 5-Year Loan Prime Rates expected to be kept at 3.65% and 4.30%, respectively. The central bank has refrained from any adjustments to the 1-Year LPR and the 5-Year LPR since it last cut in August and is anticipated to continue maintaining the current level to avoid unwanted pressure on the local currency and as China's recent border reopening also reduces the urgency for further policy support. Nonetheless, the PBoC has reiterated that it will use various monetary policy tools to keep liquidity reasonably ample in 2023 and take steps to lower financing costs for market entities. Participants will be also eyeing next week's decision on the 1-Year MLF rate which serves as a fairly accurate precursor to the central bank's intentions for its benchmark lending rate, while the chances of a reduction in the 5-Year LPR, which is the reference rate for mortgages, cannot fully be dismissed given that the PBoC recently loosened mortgage rates for cities with home price declines and said it will establish a dynamic adjustment mechanism for first time home loan interest rates, although these seem to be more of a targeted approach.