

Key events in developed market next week

US data should cement expectations of a Fed taper announcement in November while in Europe, PMIs and consumer confidence figures will provide early insights into whether consumers are feeling the effects of soaring gas prices



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US: Renewed strong case for Fed tapering

With the economy posting stronger activity numbers, as the Delta Covid wave subsides, and with inflation pressures showing no sign of abating, the case for a tapering of the Federal Reserve's quantitative easing programme is very strong. OK, jobs growth of 194,000 in September was disappointing, but this is a supply problem with workers reluctant, unwilling, or unable to return. There is no issue with demand given that there are the best part of 11 million job vacancies in the US with wages clearly on the rise. The minutes to the September FOMC meeting show that a 3 November announcement is highly probable, and the tapering could actually start that month. Based on a \$15b reduction in purchases each and every month, this would mean QE ends in June. However, given decent demand and obvious supply problems right through the economy, we wouldn't be surprised to see the Fed bring QE to an even earlier conclusion.

The Fed's Beige book will give us anecdotal updates on the state of the economy, and this could help cement expectations of the taper. Last time, rising corporate pricing power and the ever-

tightening jobs market were cited as key factors that were keeping upward pressure on inflation. This is likely to be emphasised even more next week. As for the data, industrial production is likely to be held back by supply chain problems. Order books remain very strong and customer inventories are low, so once again there is absolutely no problem with demand. Housing numbers should be OK with the recent pick-up in mortgage applications suggesting a renewed uptick in activity after a softening through the spring and summer.

UK inflation less of an issue for the Bank of England than current data implies

UK inflation may have held steady in September, but it won't last. Headline CPI is set to rise above 4% by the end of the year and will peak at 4.5% or above when the next energy price cap rise comes through next April. Markets are taking this as a sign that the Bank of England will need to act aggressively over coming months to stem a possible de-anchoring of inflation expectations. We're less sure. We agree with markets that an interest rate hike is drawing nearer, though are still less convinced we'll see a rate hike this year (February is growing more likely). But we think the UK wage growth story is a little less exciting than headlines about shortages of lorry drivers imply. Remember too, that any more than two rate rises next year will trigger the gradual unwinding of the BoE's balance sheet, which would add to the tightening environment. We therefore think a lot needs to go right for market expectations of a 1% Bank rate by end-2022 to come through.

Eurozone: Consumer confidence and PMI figures to show negative impact of soaring energy prices

Next week's survey indicators for the eurozone will be watched with great interest. Consumer confidence, often overlooked by markets, will provide early insights into whether consumers are already feeling the effects of soaring gas prices. While the impact on consumer prices is lagged for a few of the larger economies, announcements in the news of higher bills could already be having an impact on spending expectations. PMIs will show how one of the other concerns 'du jour' is developing: labour and input shortages. Eurozone GDP growth seems to be past its initial rebound boom and is dropping to more normal levels in the fourth quarter. This release should show how high that growth rate could potentially be as the economy still has quite some ground to recover.

Developed Markets Economic Calendar

Monday 18 October					
US	1415	Sep Industrial Production (MoM%)	0.2	0.2	0.4
Tuesday 19 October					
US	1330	Sep housing starts (000s)	1625	1610	1615
Wednesday 20 October					
US	1400	Federal Reserve Beige Book	-	-	-
UK	0700	Sep CPI (MoM%/YoY%)	0.4/3.2		0.7/3.2
Canada	1330	Sep CPI Inflation (MoM%/YoY%)	-/-		0.2/4.1
Portugal	-	Aug Current Account Balance	-		-2.15
Euro Zone	0900	Aug Current Account SA, EUR	-		21.61
	1000	Sep CPI (YoY%)	-	3.4	3.4
Thursday 21 October					
US	1330	Initial Jobless Claims	305		293
	1330	Cont Jobless Claims	2550		2593
	1500	Sep existing home sales (mn)	6.05	6.00	5.88
Sweden	0830	Sep Unemployment Rate	-		8.5
Euro Zone	1500	Oct Consumer Confidence Flash	-5.1		-4.0
Friday 22 October					
US	1445	Oct Markit Manufacturing PMI Flash	60.2	60	60.7
	1445	Oct Markit Services PMI Flash	55.2	55	54.9
	1445	Oct Markit Composite Flash PMI	55.0	-	55.0
Germany	0830	Oct Markit Manufacturing Flash PMI	56.0		58.4
	0830	Oct Markit Services Flash PMI	57.0		56.2
	0830	Oct Markit Composite Flash PMI	55.0		55.5
France	0815	Oct Markit Manufacturing Flash PMI	-		55.0
	0815	Oct Markit Services Flash PMI	-		56.2
	0815	Oct Markit Composite Flash PMI	-		55.3
UK	0700	Sep Retail Sales (MoM%/YoY%)	1.7/0.7		-0.9/0
	0930	Oct Flash Manufacturing PMI	56.5		57.1
	0930	Oct Flash Services PMI	55.5		55.4
Canada	1330	Aug Retail Sales (MoM%)	-		-0.6
Euro Zone	0900	Oct Markit Manufacturing Flash PMI	57.1		58.6
	0900	Oct Markit Services Flash PMI	56.1		56.4
	0900	Oct Markit Composite Flash PMI	56.1		56.2

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