

Our view on next week's key events

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By James Knightley, Bert Colijn and 2 others



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US: Hitting new heights

The US economy looks set to grow 3% this year, and with all the key inflation measures at or above the Federal Reserve's 2% target, monetary policy hardly looks restrictive at this point. The case for further rate hikes is likely to increase this week, with the October jobs report set to rebound after a weather-depressed September reading caused by Hurricane Florence. We would have hoped for an even stronger outcome than our 200,000 forecast for payrolls, but Hurricane Michael hit Florida the week of October payrolls data collection. Nonetheless, the underlying story is strong, with the recent Federal Reserve Beige Book highlighting the tightness of the jobs market. It suggested that pay pressure was increasing - which is evident in other surveys too and that companies were using additional methods to recruit labour including offering flexible working, more vacation days and signing on bonuses.

In terms of wages, we think the annual rate will move up to 3.2%, which would make the fastest rate of pay growth since April 2009, while the unemployment rate could drop to the lowest since December 1969. With business surveys, such as the ISM manufacturing survey, pointing to a positive outlook for activity, we expect to see the Fed raising rates in December with three more rate hikes coming in 2019.

✓ Eurozone GDP and inflation data up next

After the ECB meeting, German inflation data should get the most attention next week. This should provide further evidence of whether or not core inflation in the Eurozone could eventually pick up.

But taking centre stage will be Eurozone data, as both GDP for the third quarter and inflation data for October will be released. Even though the ECB portrays confidence in the medium-term outlook for inflation, the September decline in core inflation (down to 0.9% YoY) disappointed. This makes the October data all the more interesting.

For GDP, risks have also moved to the downside over the past few months, so the question is whether Eurozone growth has maintained its cruising speed of 0.4% QoQ. Also look out for unemployment data, usually overshadowed by inflation data, but does provide key information about domestic demand potential in the months ahead.

✓ 'No deal' buffer vs. ending austerity? Tough balance for UK Chancellor in Autumn budget

Given all the near-term unknowns of Brexit, UK Chancellor Philip Hammond appears keen to avoid making any dramatic changes as part of next week's Autumn Budget. But that could prove tricky, following the government's recent commitments to boost spending on health, as well as to bring the long-running austerity programme to an end from 2019. If Hammond wants to stick to his fiscal goals, which include bringing debt down as a percentage of GDP by the end of the current Parliament, he knows he will need to find extra sources of funding to help square the circle.

Admittedly, the UK's independent forecasting body – the Office for Budget Responsibility – will reportedly gift Hammond with the timely news that tax revenues should be significantly higher than previously thought. But this is unlikely to be enough to plug the gap entirely, and with neither Parliament nor the prime minister likely to back tax rises, Chancellor Hammond faces a tough balancing act. Reports suggest he is banking on the economy gaining momentum next year if a Brexit deal is struck, which would help boost revenues and take some of the pressure off the Treasury to make tough policy trade-offs in future budgets.

✓ Bank of England to hold tight as 'no deal' risk rises

In any other situation, we suspect the Bank of England would be looking to increase interest rates pretty soon. Wage growth – something which has been at the heart of the Bank's rate hike rationale – has been surprisingly strong over the past few months. But inevitably, Brexit remains policymakers' number one consideration, and given that there may still be some time before we know for sure whether a deal will be in place before the UK formally leaves the EU – there is a risk growth slows as businesses and consumers grow more cautious.

That means we're likely to see a unanimous vote to keep policy unchanged next week, and we don't expect a rate hike before May 2019 at the earliest. But having stayed relatively quiet on Brexit risks at recent meetings, probably the most interesting question for markets next week will be whether Governor Carney voices greater concern about the short-term outlook.

Scandi PMIs in focus

The key data next week will be the PMI surveys on Friday. We expect the Swedish survey to fall further (down to 52.5 from 55.2), after the weakening in the ESI indicator and the Eurozone PMI this week. Norway should hold up a bit better to around 55.

Another issue to keep an eye on is the continued political stalemate in Sweden, which reaches another deadline on Monday when Social Democrat leader Lofven's mandate to propose a new government expires. There is little sign of a compromise emerging, which means the task to propose a new government may pass to Centre Party leader Annie Loof.

Canadian growth story still shiny

Despite August posting the first trading surplus (0.526 CAD billion) since December 2016, negative prints for both retail sales and wholesale trade are likely to weigh slightly on Canada's August GDP. We forecast no change from July in the August growth figure. But at an estimated 2.4% YoY, the growth story is still upbeat as Canada continues to reap benefits from the strong foreign demand.

We see the unemployment rate stable at 5.9%. Possible upward pressure should be noticeable in the full-time employment figures. Firms hinted recently in the Bank of Canada's 3Q Business Outlook survey that hiring plans will be extended. But the typical post-summer dip we see in participation rate could put a ceiling on the availability of labour, slightly dampening employment figures.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 28 October					
Japan	2350	Sep Retail Trade (SA, MoM/YoY%)	-/4.4	-/-	0.92.7
Monday 29 October					
US	1345	Fed's Evans Speaks at Conference on Regional Competitiveness			
UK	-	Chancellor to Announce Autumn Budget			
Tuesday 30 October					
US	1400	Oct Consumer Confidence	134.0	136.8	138.4
Japan	2350	Sep P Industrial Production - Prel (MoM/YoY%)	0.6/1.3	-/-	0.2/0.2
Eurozone	1000	3Q A GDP (QoQ/YoY%)	0.4/1.8	-/-	0.4/2.2
Germany	0855	Oct Unemployment Change ('000's)	-	-	-23.0
	0855	Oct Unemployment Rate (%)	5.2	-	5.1
	1300	Oct P CPI (MoM/YoY%)	0.3/2.2	-/-	0.4/2.3
Italy	0900	3Q P GDP (QoQ/YoY%)	0.1/0.9	-/-	0.2/1.2
Spain	0800	Oct P HICP (MoM/YoY%)	-/-	-/-	0.6/2.3
Australia	0201	RBA's Bullock gives Speech in Sydney			
Norway	0700	Sep Credit Indicator (YoY%)	-	-	5.8
	0700	Sep Retail Sales (Ex. Motor Vehicles, SA, MoM%)	-	-	0.6
Portugal	1000	Portuguese Parliament Holds Initial Vote on 2019 Budget			
Wednesday 31 October					
US	1215	Oct ADP Employment Change ('000's)	200.0	193.5	229.6
Japan	0500	Oct Consumer confidence index	43.5	-	43.4
	-	Policy Rate	-0.1	-	-0.1
	-	BoJ 10-year Yield Target (%)	-	-	0.0
	-	BoJ Outlook Report			
Eurozone	1000	Sep Unemployment Rate (%)	8.1	-	8.1
	1000	Oct A Core CPI (YoY%)	1.0	-	0.9
	1000	Oct Flash CPI (YoY%)	2.0	-	2.1
Italy	1000	Oct P HICP (YoY%)	1.6	-	1.5
Canada	1230	Aug GDP (MoM/YoY%)	0.0/2.4	-/-	0.2/2.4
Australia	0030	3Q CPI (QoQ/YoY%)	0.7/2.1	-/-	0.4/2.1
Norway	1215	Norges Bank Governor Olsen Speaks in As			
Sweden	1000	Riksbank Governor Ingves at Banco de Portugal			
Thursday 1 November					
US	1400	Oct ISM Manufacturing	58.9	59.5	59.8
	-	IMF 19th Jacques Polak Annual Research Conference			
Japan	2350	Oct Monetary Base (JPY tr)	512.0	-	505.0
UK	0930	Oct Market/CIPS Manufacturing PMI	53.3	-	53.8
	1200	BoE Policy Rate	0.75	-	0.75
	1200	Bank of England Inflation Report & Press Conference			
Australia	0030	Sep Trade Balance (A\$m)	1865	-	1604
Norway	0800	Oct DNB/NIMA Manufacturing PMI	55.0	-	55.7
	1215	Norges Bank Governor Olsen Speaks in Bergen			
Sweden	0730	Oct Swedbank/Silf Manufacturing PMI	52.5	-	55.2
Friday 2 November					
US	1230	Sep Trade Balance (US\$bn)	-53.8	-52.0	-53.2
	1230	Oct Change in Nonfarm Payrolls ('000s)	200.0	190.0	134.0
	1230	Oct Unemployment Rate (%)	3.6	3.7	3.7
	1230	Oct Average Hourly Earnings (MoM/YoY%)	0.3/3.2	0.2/3.1	0.3/2.8
	1230	Oct Participation Rate	62.7	-	62.7
Canada	1230	Oct Net Change in Employment	-	-	63.3
	1230	Oct Unemployment Rate (%)	5.9	-	5.9
Australia	0030	3Q PPI (Q) (QoQ/YoY%)	0.6/1.9	-/-	0.3/1.5
	0030	Sep Retail Sales (MoM%)	0.2	-	0.3
Norway	0900	Oct Unemployment Rate	-	-	2.3
Sweden	0830	Riksbank Minutes			
Portugal	0930	Portugal's Centeno to Speak at Conference on 2019 Budget			

Source: ING, Bloomberg

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Asia week ahead: Malaysia to unveil budget for 2019

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Source: Shutterstock

3.2%

Malaysia fiscal deficit in 2018

ING forecast - percent of GDP

➔ Malaysia 2019 budget – a balancing act

Malaysia's finance minister Lim Guan Eng will present the 2019 budget to the parliament on 2 November - the first budget of the new Pakatan Harapan [Alliance of Hope] government. The Mid-term review of the 11th Malaysia Plan 2016-2020 unveiled by Prime Minister Mahathir earlier this month sets a clear tone for the upcoming budget - a deferred fiscal consolidation.

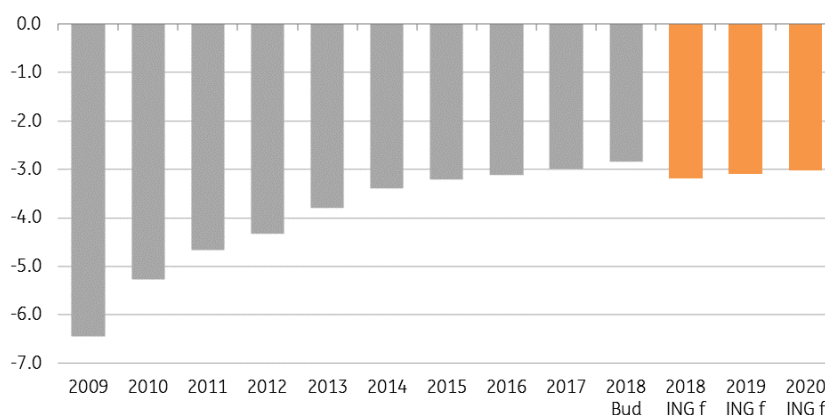
Sweeping policy changes under the government's drive to improve peoples' standard of living and clean the corrupt political machinery have strained public finances. The revenue loss from consumer tax reforms is unlikely to be pared by savings from suspending development projects undertaken by the previous government. This comes as overall economic performance continues to weaken and thereby depress government revenue. These factors are likely to push the budget deficit above 3% of GDP in the current year, marking an end to the decade-long fiscal consolidation trend.

We anticipate the deficit to rise to 3.2% in 2018, surpassing the 2.8% initial target and 3.0% in 2017

The tighter policy stance combined with sustained external risk suggests Malaysia's GDP growth will remain under pressure in 2019, more likely staying close to the low end of 4.5-5.5% target. And with the pressure to trim public debt, estimated over MYR 1 trillion (80% of GDP), getting the fiscal situation under control will be a challenging task in the near-term. We expect only a slight reduction in the deficit to 3.1% of GDP in 2019.

The downside risk to our budget deficit forecasts stems from a significant reduction in development spending, though that also means a greater downside GDP growth risk. Hopes also rest on higher oil price providing positive terms of trade shock to Malaysia's net oil exporting economy. Higher oil price will not only soften the impact of the global trade war, but it also will increase the petroleum revenue to the government. However, it also means higher government expenditure on fuel subsidies to the public.

End of Malaysia's fiscal consolidation trend - deficit as percent of GDP



Source: CEIC, ING

➔ Likely weak start to Asian economies in 4Q18

Elsewhere in Asia, the week is packed with October economic data on trade, manufacturing, and inflation, which will provide a sense on the region's performance coming into the final quarter of the year.

China's PMI will be released this week and will be closely watched for what they say about the trade war impact, though the seasonal slack in activity due to the Golden Week holiday distorts the picture. We expect the manufacturing index to drop 50.3 in October from 50.8 in September. The manufacturing PMI's from the rest of Asia are expected to show some softness as well.

Korea's October exports, the first export data for the month from Asia (and probably from the world), will also be pursued for the trade war impact. Don't be misled by our strong, 15% year-on-year export growth forecast. It's merely a hope of some clawback of the weakness in the previous two months, while the positive base effects boost the year-on-year growth print. Korea has been a leading Asian economy in export slowdown this year, prompting yet another cut to the central bank's growth outlook for this and next year.

Indonesia's CPI release is an important one from the central bank's policy perspective after their decision this week to pause tightening. We don't think a slight uptick in inflation to 3% from 2.9% will be a big deal. With currency stability remaining the key policy driver, we don't think their tightening cycle is over just yet. We have pencilled in one more 25bp policy rate hike before the end of the year.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 27 October					
China	0230	Sep Industrial Profits (YTD, YoY%)	7.0	-	9.2
Monday 29 October					
South Korea	2100	Nov BoK Business Survey Index, mfg	77.0	-	78.0
	2100	Nov BoK Business Survey Index, non-mfg	76.3	-	77.0
Tuesday 30 October					
Thailand	0330	Sep Manufacturing Index (YoY%)	-0.5	-	0.7
South Korea	2300	Sep Industrial production (MoM/YoY%)	-0.5/0.9	-/-	1.4/2.5
Wednesday 31 October					
China	0100	Oct Non-manufacturing PMI	54.5	-	54.9
	0100	Oct Manufacturing PMI	50.3	-	50.8
India	1100	Sep Fiscal Deficit (INR crore)	-	-	51034
Taiwan	0800	3Q P GDP (YoY%)	2.0	-	3.3
Thailand	0730	Sep Current Account Balance (US\$bn)	1180	-	753
South Korea	2300	Oct CPI (MoM/YoY%)	-/2.1	-/-	0.7/1.9
Thursday 1 November					
China	0145	Oct Caixin Manufacturing PMI	49.5	-	50.0
India	0500	Oct Nikkei Manufacturing PMI	51.9	-	52.2
Hong Kong	0830	Sep Retail Sales Value (YoY%)	7.5	-	9.5
	0830	Sep Retail Sales Volume (YoY%)	7.0	-	8.1
Indonesia	0400	Oct CPI (YoY%)	3.0	-	2.9
	0400	Oct CPI core (YoY%)	-	-	2.8
Malaysia	0030	Oct Nikkei Manufacturing PMI	51.0	-	51.5
Taiwan	0030	Oct Nikkei Manufacturing PMI	50.5	-	50.8
Thailand	0030	Oct Nikkei manufacturing PMI	49.8	-	50.0
	0300	Oct CPI (YoY%)	1.3	-	1.3
	0300	Oct Core CPI (YoY%)	0.8	-	0.8
South Korea	0000	Oct Exports (YoY%)	15.4	-	-8.2
	0000	Oct Imports (YoY%)	13.4	-	-2.1
	0000	Oct Trade balance (US\$m)	8762	-	9565
	0030	Oct Nikkei Manufacturing PMI	51.0	-	51.3
Friday 2 November					
Singapore	1300	Oct Purchasing Managers Index	52.2	-	52.4
Malaysia	0800	2019 Budget Deficit (% of GDP)	3.1	-	3.2

Source: ING, Bloomberg

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Key events in EMEA and Latam next week

In EMEA and Latam next week, our main focus is on whether the Czech central bank will hike for the fourth consecutive time at its meeting next Thursday



Source: Shutterstock

✓ Czech National Bank still in hiking mode

Though CPI slowed down to 2.3% in September, due to falling prices for package holidays and newly-introduced bus and rail fare discounts for pensioners and students, this is no game changer for the central bank of Czech Republic.

Economic activity remains solid, and inflationary pressures are gradually mounting across the monetary policy horizon, due to an overheated labour market and accelerating wages. And importantly, the koruna remains relatively weak, which therefore isn't delivering the tightening of monetary conditions the central bank had assumed for the 4Q18 (EUR/CZK at 25.25).

This altogether means that the CNB should deliver its fourth consecutive hike next Thursday.

EMEA and Latam Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Saturday 27 October					
Kazakhstan	-	Sep M3 Money Supply (MoM%)	-	-	-0.3
Monday 29 October					
South Africa	0600	Sep M3 Money Supply (YoY%)	-	-	7.0
	0600	Sep Private Sector Credit (YoY%)	-	-	6.7
Israel	1100	Aug Industrial Production (SA, MoM%)	-	-	2.5
Tuesday 30 October					
Croatia	1000	Sep Industrial Production (SA, YoY%)	-	-	-1.0
South Africa	0930	3Q Unemployment Rate (%)	-	-	27.2
	1200	Sep National Budget Balance (ZARbn)	-	-	-7.9
Brazil	1100	Sep Unemployment Rate (%)	12.0	-	12.1
Mexico	1400	3Q P GDP (YoY%)	-	-	2.6
Wednesday 31 October					
Turkey	0700	Sep Trade Balance (US\$m)	-1.9	-	-2.4
	0730	Central Bank Inflation Report			
Poland	0900	Oct P CPI (MoM/YoY%)	-/-	-/-	0.2/1.9
Hungary	0800	Sep PPI (MoM/YoY%)	0.1/6.8	-/-	-0.1/8.1
Romania	0700	Sep Unemployment Rate Total 15 - 74 Yrs, SA	-	-	4.3
Serbia	1100	Sep Industrial Production (YoY%)	-	-	-4.3
	1100	3Q P GDP (YoY%)	-	-	4.8
	1100	Sep Trade Balance (€m)	-	-	-485.3
	1100	Sep Retail Sales (YoY%)	-	-	5.5
Croatia	-	Sep M1 Money Supply (HRKmn)	-	-	115315
South Africa	1200	Sep Trade Balance (ZARbn)	-	-	8.8
Israel	1100	Sep Monthly Unemployment Rate (%)	-	-	4.0
Brazil	-	Selic Rate	6.5	-	6.5
Thursday 1 November					
Russia	0600	Oct Market Manufacturing PMI	-	-	50.0
Turkey	0700	Oct Market/ISO Manufacturing PMI	-	-	42.7
Czech Rep	0830	Oct Market Manufacturing PMI	53	-	53.4
	1200	Repo Rate	1.75	-	1.5
	1300	Oct Budget Balance (CZKbn)	-	-	16.8
Romania	-	Oct FX Reserves (€bn, Net)	-	-	34824.7
Kazakhstan	-	Oct CPI (MoM/YoY%)	-/-	-/-	0.4/6.1
	-	Oct PPI (MoM/YoY%)	-/-	-/-	2.2/23.9
South Africa	0900	Oct Kagiso PMI	-	-	43.2
	-	Oct NAAMSA Vehicle Sales (YoY%)	-	-	-2.0
Israel	-	Sep Leading 'S' Indicator (MoM%)	-	-	0.4
Brazil	1100	Sep Industrial Production (YoY%)	2.8	-	2.0
Friday 2 November					
Poland	0800	Oct Market Manufacturing PMI	-	-	50.5
Romania	0700	Sep PPI (MoM/YoY%)	-/-	-/-	0.6/5.9

Source: ING, Bloomberg

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