International Personal Bank

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FX Market Headlines

United States

United Kingdom

Euro Zone

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United States: Looking Beyond Tapering - Fed officials appear poised to begin cutting back the pace of asset purchases on a small scale of $10 billion to $15 billion. Although unemployment is declining faster than policymakers expected, Citi Analysts think they will still anticipate ending Quantitative Easing (QE) toward the middle of next year. A decision to taper now would acknowledge substantial improvement in labour markets but also would reflect diminishing risks to the outlook. With incoming data suggesting an upward revision to 2 Quarter GDP growths in a range of 2½% to 3%, the earlier warnings that modest budget cuts could undermine growth have not played out. Early 3 Quarter data on consumer spending and small business plans also suggest that key sectors are not being weighed down by earlier tax hikes. Medium-term economic forecasts among Fed officials may show the economy at or very near full employment in 2016. But policymakers' projected rate paths are likely to remain safely below levels that traditional policy rules or past Fed behaviour would anticipate. Forward guidance is likely to emphasize that normalization can proceed gradually with a late-2016 funds rate below 2½%.

United Kingdom: Scenarios for the Jobless Rate: The latest labour market data leave the interest rate debate finely balanced. Citi Analysts base case remains that a rebound in productivity, coupled with inflows of foreign workers, rising participation rates and some absorption of part-time workers into full-time work will cause the jobless rate to be sticky on the way down, not falling to 7% until 2016-17. However, it is possible that these factors, especially the expected productivity rebound, will come through more slowly than Citi Analysts expect – back-loaded in the recovery – so that the jobless rate initially falls quite quickly. This appears to be the case at present, with the participation rate levelling off and continued weakness in productivity (with the growth of hours worked still above growth in GDP). If these trends continue, it is quite plausible that the jobless rate will hit the Monetary Policy Committee (MPC)'s 7% threshold in the next 12-18 months, but then fall more slowly as productivity rebounds. Although it is not Citi Analysts base case, it is conceivable that the MPC's guidance threshold will be hit much earlier than Citi Analysts base case.

Euro Zone: Loan Dynamics: Ample and cheap credit is a thing of the past in most euro area countries, with negative flows being the norm. However, the acute deleveraging phase is probably over. Improvements in lending standards and loan demand trends should resurrect bank lending in coming quarters, even if flows will likely amount to a trickle. Citi Analysts fear that this economic upswing will be a 'credit-less' recovery. The combination of rising (Nonperforming Loans) NPLs and question marks about capital requirements suggests that banks will probably remain conservative about their lending behaviour. Overall, the uncertainty related to the slow progress towards banking union, the European Central Bank (ECB)'s Asset Quality Review and subsequent bank stress tests will likely constrain the credit rebound, in Citi Analysts view. Hence, the ECB will likely adhere to forward guidance until the time when credit flows are no longer a drag on economic activity.

The Week Ahead

USD:

- ***Sep 18, The Federal Open Monetary Committee (FOMC) will post its interest rate decision and monetary policy statement.***
- ***Sep 18, Fed Chairman Bernanke to hold a press conference on the monetary policy decision.***
- ***Sep 20, Kansas City Fed President George to speak on the at the Manhattan Institute for Policy Research.***
- ***Sep 20, Fed Governor Tarullo to speak on macroprudential regulation in New Haven.***

- ***Sep 20, St. Louis Fed President Bullard to speak on monetary policy to New York Association for Business Economics.***
- ***Sep 20, Minneapolis Fed President Kocherlakota to speak at a conference on risk in option prices in New York.***
- ***Sep 16, August Industrial Production and Capacity Utilization (Percent Chg. Unless Noted): Total – Citi 0.3 %, July 0.0 %, June 0.2 %, May 0.0 %; Capacity Utilization – Citi 77.7 %, July 77.6 %, June 77.7 %, May 77.7 % -*** *Manufacturing production likely rebounded smartly in August after two months of lackluster growth. The employment report indicated that lengthening of the factory workweek, combined with an increase in the number of workers, yielded a sizable rise in hours worked. A solid gain in factory output would be consistent with the ISM manufacturing index, which has been signaling a resurgence. The headline production figure may have been dampened by another drop in utilities usage.* ***Note:*** *Part of the rise in manufacturing output reflected a pickup in motor vehicle assemblies. The continued increase in demand for vehicles is being matched by production.*
- ***Sep 17, August Consumer Price Index (Percent Change): Total – Citi 0.1 %, July 0.2 %, June 0.5 %, May 0.1 %; Excl. Food & Energy – Citi 0.1, July 0.2, June 0.2, May 0.2 –*** *Citi Analysts look for a small rise in consumer prices in August. Energy prices were fairly subdued and not likely to skew the headline.* ***Note 1:*** *The core CPI index has been locked in an extremely tight range between 0.1% and 0.2% per month for the past two years. About half of the readings in the past year have been at the lower end of that range. So, although the core index has increased by 0.2% in each of the past three months, Citi Analysts expectation of a 0.1% rise would by no means be a shift in the trend. Citi Analysts think the core index was held back by soft apparel prices.* ***Note 2:*** *Although the core CPI is moving back toward the Fed's 2% target, the core PCE deflator remains extremely low, near 1¼%.*
- ***Sep 18, August Housing Starts and Building Permits (Thousands): Housing Starts – Citi 880, July 896, June 846, May 919, April 852; Building Permits – Citi 930, July 954, June 918, May 985, April 1,005 -*** *New home starts likely dipped slightly in August but remained within the wide range that has prevailed since the spring. The sluggish recovery in the new home market is currently not putting much upward pressure on builders to break ground. This is especially true in the larger single-family home market, where starts remain at levels that historically would have been consistent with the very bottom of recession.*
- ***Sep 19, Q2'13 U.S. Current Account ($ Billions): Merchandise Trade – Citi -176.0, Q1'13 -179.1, Q4'12 -182.4, Q3'12 -179.0; Percent of Nominal GDP – Citi -2.3, Q1'13 -2.7, Q4'12 -2.6, Q3'12 -2.7 -*** *The current account probably narrowed in the second quarter, based on the already reported improvement in the monthly balance on goods and services. Income and transfers could help shrink the deficit as well.* ***Note:*** *Citi Analysts forecast implies a sizable drop in the current account deficit to nominal GDP ratio. If Citi Analysts are correct, then the current account deficit would be the smallest relative to the overall size of the economy since 1998. While the dip would be a welcome development, both exports and imports seem to have stalled, signaling soft demand both in the United States and abroad.*
- ***Sep 19, August Existing Home Sales (Millions of Homes): Citi 5.30, July 5.39, June 5.06, May 5.14, April 4.97 -*** *Existing home sales likely dipped in August, following the July surge. While the sales level probably remained quite strong, Citi Analysts are looking for early signs of a pullback caused by the rise in rates.* ***Note:*** *This summer's run up in mortgage rates probably helped spur the July sales surge. However, after pushing buyers off the fence, higher rates will likely harm sales growth, and restrict what buyers can afford.*
- ***Sep 19, September Philadelphia Business Outlook Survey: Citi 5.0 %, August 9.3 %, July 19.8 %, June 12.5 % -*** *Citi Analysts expect that the Philly Fed business gauge dipped again in September. The index jumped to heights in the summer that did not correlate with other measures of business activity. And the details of the Philly survey, which capture changes in a number of specific activity metrics, were much more subdued than the headline measure. The top-line index is based on evaluations of the general business climate rather than actual comparisons of activity.*

AUD:

- ***17 Sep, Reserve Bank of Australia (RBA) Board Minutes, Sep -*** *The RBA releases the Minutes of the most recent Board meeting. In Citi Analysts opinion, the Minutes provide the most policy information of any of the RBA's regular publications. There are early signs the cycle is starting to turn. The improvement in business and consumer confidence, rising asset prices, better financial conditions and promising developments in the global economy give us greater conviction on Citi Analysts above consensus forecast for a pick-up in growth next year. For the RBA the risks to the outlook are now more 2 sided: If the AUD rebounds then it could cut again but if house prices surge higher rates are possible.*

NZD:

- ***19 Sep, GDP, Q2 Forecast: 0.2%, Previous: 0.3% -*** *Economic activity is set to decelerate into mid-year. Citi Analysts forecast a 0.2% GDP gain that slows yearly growth from 2.4% to 2.3%. This is half the growth rate forecast by the RBNZ. However, investors should not view such a result as a signal for a weakening trend. Growth in the second half of the year is likely to be stronger.*

CAD:

- ***Sep 20, Consumer Price Inflation (Aug): Total CPI M/M – Citi 0.1%, Consensus 0.1%, Previous 0.1%; Y/Y: Citi 1.1%, Consensus 1.1%, Previous 1.3%; Core CPI M/M - Citi 0.4%, Consensus 0.2%, Previous 0.0%; Y/Y – Citi 1.4%, Consensus 1.3%, Previous 1.4% - Total CPI Slows*** *– The total Consumer Price Index (CPI) likely rose by 0.1% m/m in August, but the rate of inflation slowed to 1.1% y/y from 1.3%. Despite the softer headline rate of inflation, total CPI is still on course to return to the Bank of Canada's 2% target by mid-2015, by Citi Analysts estimates. The BoC injected doubt about this timing in the September 4 policy statement. In particular, lower costs for necessities like food and energy probably partially offset anticipated increases prices for a variety of discretionary items. Food costs likely were down by 0.2% and gasoline prices dipped by about 0.6%, while new car prices rose by 1% following five months of decline and clothing costs increased by 0.7% after falling for four months in a row. Mortgage interest costs likely were less of a drag.* ***Sticky Core Inflation*** *– Meanwhile, the CPIX, which excludes 8 volatile components and indirect taxes, probably rose by 0.4% m/m during the reference period, and the rate of inflation held at 1.4%.*

Again, firmer clothing and new car prices are anticipated in this report. Costs for healthcare and personal care probably jumped following a string of negative monthly readings, and non-energy shelter costs like electricity (+2.5%), rent (+0.2%) and owner replacement costs (+0.2%), which are linked to new home prices, also boosted the core. Citi Analysts are above consensus likely due to Citi Analysts higher estimates for electricity costs, which tend to spike over the summer, and car prices. These two components are wild cards that can also be big movers of both overall and underlying inflation.

EUR:

- ***Sep 16, Euro area Harmonized Index of Consumer Prices (HICP), Aug F Forecast: 1.3% YY Prior: 1.6% YY -** HICP inflation likely to be confirmed at 1.3% YY in August, down from 1.6% YY in July. Core inflation also likely to be reaffirmed at 1.1% YY, stable relative to July. Large favorable base effects in the energy component contributed to bring the headline rate lower in August. Barring major surprises in oil prices in the remainder of the year, euro area inflation has probably reached the bottom for the year in August and it is likely to hover around this level until year-end.*
- ***Sep 17, German ZEW Current Situation, Sep Forecast: 18.8 Prior: 18.3; ZEW Economic Sentiment, Sep Forecast: 38.0 Prior: 42.0 -** A number of German sentiment indicators have continued to improve in recent releases, but after last month's large increases for both the current sentiment and the expectations indicators of the ZEW survey, Citi Analysts expect the September reading to be roughly flat from the current situation indicator and a decrease for the expectations component, also affected by the Syria crisis, the associated increase in oil prices and some mixed hard data releases in Germany, including for IP, exports and industrial orders.*
- ***Sep 20, Euro area Consumer confidence, Flash Forecast: -14.0 Prior: -15.6 -** Consumer confidence in September has likely continued posting a small but constant improvement (about 0.2 standard deviations every month) in line with the trend of the past four months. The index level is still slightly below its long-run average, so not really supportive of a rebound in consumer spending, but probably less of a drag on it compared to the beginning of the year.*

GBP:

- ***Sep 17, Consumer Prices (Aug) Forecast: 0.4% MoM, 2.6% YoY Prior: 0.0% MoM, 2.8% YoY; CPI Ex Food, Drink, Tobacco, Energy (Aug) Forecast: 0.4% MoM, 2.0% YoY Prior: -0.2% MoM, 2.0% YoY; Retail Prices (Aug) Forecast: 0.4% MoM, 3.2% YoY Prior: 0.0% MoM, 3.1% YoY; RPIX – Excludes Mortgages (Aug) Forecast: 0.4% MoM, 3.2% YoY Prior: 0.0% MoM, 3.2% YoY -** Helpful base effects from the relatively strong CPI reading a year ago (which, in turn, was partly a payback for the weak readings of May-June 2012) probably will bring the YoY rate for CPI inflation a little lower this month. Lead guides for inflation are subdued for both goods and services, although gains in regulated and administered prices probably will keep the headline rate above 2% for a few more months. Nevertheless, unless there is some new external cost shock, Citi Analysts expect that CPI inflation will fall to about 2% around yearend.*
- ***Sep 17, Producer Input Prices (Aug) Forecast: 0.0% MoM, 2.9% YoY Prior: 1.1% MoM, 5.0% YoY -** Oil prices picked up in August, but Citi Analysts suspect this will be offset by the appreciation of sterling and slight decline in prices for metals and agricultural commodities to leave input prices roughly unchanged.*
- ***Sep 17, Producer Output Prices (Aug) Forecast: 0.1% MoM, 1.6% YoY Prior: 0.2% MoM, 2.1% YoY; Output Prices Ex Tax (Aug) Forecast: 0.1% MoM, 1.7% YoY Prior: 0.3% MoM, 2.2% YoY; Excluding Food, Drink, Tobacco, Energy (Aug) Forecast: 0.1% MoM, 1.1% YoY Prior: 0.1% MoM, 1.1% YoY -** Output price inflation has remained subdued in recent months, and surveys suggest that manufacturers' expectations for their selling prices remain weak. The lack of inflation pressure evident in these data suggests that underlying CPI inflation also will remain subdued in coming months.*
- ***Sep 19, Retail Sales Volumes (Aug) Forecast: 0.5% MoM, 3.2% YoY Prior: 1.1% MoM, 3.0% YoY -** A strong set of data releases suggests that the UK economy is growing quite strongly at present, and hence Citi Analysts expect another solid gain in retail sales volumes. A figure in line with v forecast would put the average level of retail sales in July-August about 2% above the Q2 average. However, it is worth noting that the last two years with a relatively warm August (1995 and 1997) both saw retail sales fall MoM, and with the temperature again above average in August this year there may be some weather-related downside risks to Citi Analysts forecast.*

JPY:

- ***Sep. 19, Customs-Clearance Trade Balance (Aug) Forecast: -¥1130.5bn NSA; -¥841.1bn SA -¥1122.5bnNSA (-1252.0~916.6bn), Previous: -¥1027.9bn NSA; -¥944.0bn SA** -¥829.0bnSA (-1045.0~645.4bn) - The customs clearance trade balance likely came to a ¥1.1305trn deficit before seasonal adjustment and a ¥841.1bn deficit after it in August. Exports probably increased 16.2%YoY in the month (+12.2% YoY in July). If Citi Analysts are on the mark, real exports (the seasonally-adjusted export value divided by the seasonally-adjusted export price index) likely rose 3.9% MoM, offsetting a 3.6% MoM fall in July. Even so, the July/August average probably stayed 0.1% below the second quarter average. Meanwhile, imports likely expanded 20.5% YoY in August (+19.6% YoY in July). With crude oil prices elevated as tension intensifies in the Middle East, imports of mineral fuels probably rose substantially. Citi Analysts expect the trade deficit will trend downward as yen depreciation pushes up export volume, but a slow overseas economy (mainly in emerging nations) combined with crude oil spikes will likely result in a temporary deficit increase in the third quarter.*