J.P.Morgan

Global Economic Research
28 October 2022

Global Data Watch

- **A pivot to slower rate hikes coming but requires inflation slide**
- **ECB hikes 75bp but more needed as inflation runs hotter**
- **China bounces in 3Q; EM financial stress idiosyncratic for now**
- **Up next: Fed/BoE (75), Norges (50), RBA (25); US payrolls (175k)**

Are we there yet?

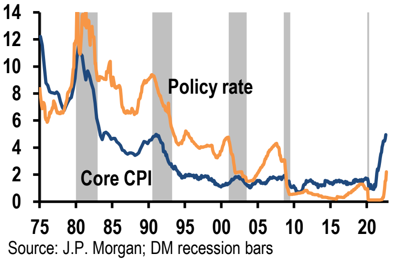
Markets are itching to see a peak in the aggressive hiking cycles that have lifted global policy rates (ex.-China) nearly 200bp in just seven months. However, it would be a mistake to expect central banks will call an early end to their fight against inflation (Figure 1). In the DM, core inflation remains at levels that are still multiple percentage-points above their targets. It is thus no surprise that monetary authorities remain focused on their price stability mandates and continue to tighten policy. This will be underscored next week with yet another Fed hike of 75bp further into restrictive territory, along with hikes from the BoE, Norges Bank, and RBA. We also add a 25bp ECB hike to early next year in response to improved views on growth and hotter inflation.

While an early end to tightening is not likely, a "second-derivative" shift does look to be on the near horizon. The read-through of the recent slowing in the pace of rate hikes from the RBA and BoC should be tempered by the higher interest-sensitivity of Australian and Canadian mortgage markets to front-end rates. However, hints of a shift can be seen elsewhere, too. This week's ECB meeting played to the script of a 75bp hike but a change in the statement toned down the commitment to a December move. Similarly, fading fiscal stress in the UK has opened the door to a possible 50bp hike at next week's BoE meeting rather than the 75bp we are expecting. We also see risks of a smaller hike from the Norges Bank (25bp rather than the expected 50bp) next week.

If our forecast is right, the most synchronized and aggressive global hiking cycle in 40 years will end by early next year. We expect the Fed to slow its pace of hikes to 50bp at the December meeting (consistent with recent

Figure 1: Policy rate and inflation, Dev Mkt

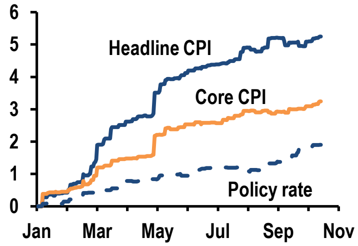
%oya (CPI); %p.a. (rate)



Source: J.P. Morgan; DM recession bars

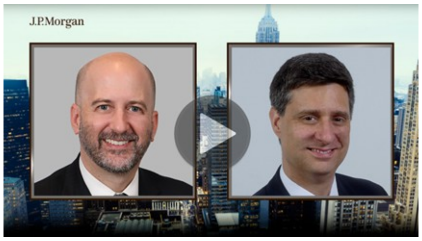
Figure 2: JPM forecast revision index, DM

Index, ytd; Cum. %pt revision Q+3 outlook



Source: J.P. Morgan Global Economics

See page 91 for analyst certification and important disclosures.



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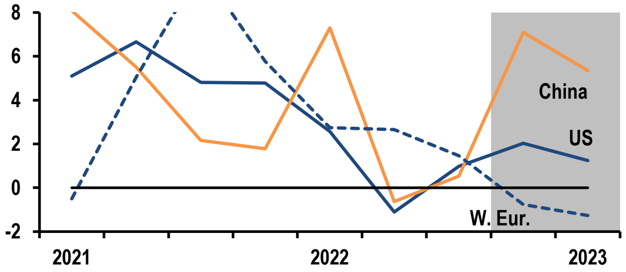
media reports and some Fed rhetoric) and pause after one more 25bp hike in 1Q23. We see the ECB and BoE also pausing by 1Q23. At this point, only the BoJ will be in motion with an expected upward adjustment in its YCC policy. However, it is important to recognize that the eventual end to the hiking cycle will first require a slowing in the pace of the expansion and a material step down in inflation.

The growth picture is mixed but consistent with a deceleration. Rates are turning restrictive as broader financial conditions have tightened considerably, dampening growth as intended. While GDP reports this week show a bounce back in the US and China last quarter, global growth is set to decelerate in the current quarter as both economies slow back to trend and Europe slides into recession (Figure 3). The higher frequency data are mixed but flag some concerns about the US. This week's October flash PMIs were less-bad than expected for the Euro area, but point to a sharper deceleration in the US. Next week's ISM (mfg: -0.9pt, serv: -1.7pts) and payrolls (175k) will be important for gauging the signal sent by the surprisingly large drop in this week's US PMIs.

Figure 3: Real GDP

%2q, saar; through 1Q23



Source: J.P. Morgan Global Economics

The news on inflation is even more mixed. The sequential three-month run rate of global (ex.-Turkey) inflation has tumbled 5.6%-pts to 4.1% annualized in September from its peak earlier this year. The large decline owes primarily to fading energy inflation along with some easing of food inflation. But more importantly, the pace of global (ex.-Turkey) core inflation also looks to have moderated in recent months. The moderation is even sharper outside of Europe. This is encouraging but the recent inflation outturns continue to surprise to the upside, as seen in this week's September reports for the US and early October reads from the Euro area that echo surprises across other parts of Europe. The concern is that inflation remains stickier than expected and requires central banks to stomp even harder on the brakes with much higher rates. On balance, our Forecast Revision Indexes for year-ahead outturns are barely hinting at a plateau (Figure 2). Which way our forecasts go from here will be decisive between managing a soft landing and sliding into a recession.

An even milder recession in Europe

Upside risks have been building in the Euro area for growth and inflation, which in turn add upside to ECB rates. On growth, the composite PMI slipped 1pt to a weak 47.1 in October. While flagging a stall in GDP growth, this is above our forecast for a contraction. We now see GDP contracting an even more modest 1.25%ar this quarter—revised up by 0.5%-pt. On inflation, this week's national flash inflation reports delivered another set of upside surprises for October. We now expect Euro area core inflation to rise 0.3%-pt to 5.1%oya in Monday's flash report. Despite this week's shift in tone to dial back the ECB's commitment for further hikes, we now see the policy rate reaching 2.25% early next year—revised up 25bp. Importantly, the ECB also shifted to a more data-dependent approach, rather than chasing actual inflation data. This puts more weight on lags in monetary policy transmission and focuses the debate on the medium-term inflation outlook and hence the next set of staff forecasts.

BoJ holds but bends to progress

The Bank of Japan kept policy unchanged as expected, but upward revisions to its inflation forecasts across all projection years represent additional (if gradual) progress toward policy normalization. Governor Kuroda maintained his dovish stance, citing the need for a virtuous cycle between strong economic growth and clear wage gains. But he also stated that the upward revisions to the BoJ's inflation forecasts mean it is making progress toward its inflation target. To that end, BoJ core inflation in the October Tokyo CPI report surprised smartly to the upside and exceeded 2% for the first time in almost 30 years (excluding consumption tax hikes). An expected strong bounce in domestic demand should further push up the BoJ's assessments on wage and price inflation, leading it to adjust YCC in March 2023.

A more centrally planned China

The 20th Party Congress produced the most significant political change in China in decades. President Xi won a third term and swept aside precedents established in prior decades about the leadership team—including age and term restrictions, gender representation, and factional balance. Significant personnel changes among nearly all top economic officials, which should be completed by early next year, contrast with the emphasis on policy continuity in the Party Congress report. We will get more insight into the thinking of the new economic team at the December Politburo meeting and Central Economic Work Conference. The delayed macro data revealed a strong 9%ar rebound last quarter that reversed the 7.3% Omicron-led contraction in 2Q. The September activity report continued to show a mix of strong manufacturing and construction output data and investment spending, but weak real estate FAI and sluggish retail sales amid a recent Omicron resurgence. Unexpected resilience in September exports complements strong IP, with a notable rise in ASEAN shipments suggesting that global supply chains are being restructured in a way that does not exclude China.

EM Asia: services surge could keep CPI up

While EM Asian (ex.-China) industry is feeling the pain from the tech overhang, the region is benefiting from a pandemic-related recovery in services. Resilience in domestic demand suggests that the core CPI could be slow to ease even as the headline CPI comes down. In Korea, strong reopening dynamics boosted 3Q private consumption 7.9%ar, with a surge in imports overwhelming solid export growth and producing a net trade drag on growth. Singapore's advanced 3Q GDP report also showed a boom in service-producing sectors (up 10%ar) that was led by those most impacted by mobility restrictions. By contrast, goods production fell 4.3%ar. This gap should narrow in coming quarters as pent-up demand fades and the labor market cools.

Brazil: Once more unto the breach

The much-anticipated second-round vote in Brazil's presidential election will take place Sunday. Polls have grown tighter as we move closer to the run-off, but they still suggest former center-left president Lula will emerge victorious. However, recent events have increased the risk of a protracted discussion around the election results in the near term—especially if the margin of victory is sufficiently narrow (2% or less)—and we will be closely monitoring this tail risk. We expect the election winners will be sworn in during 2023, and anticipate the focus in November will shift to the policy agenda of the transition team and potential cabinet members.

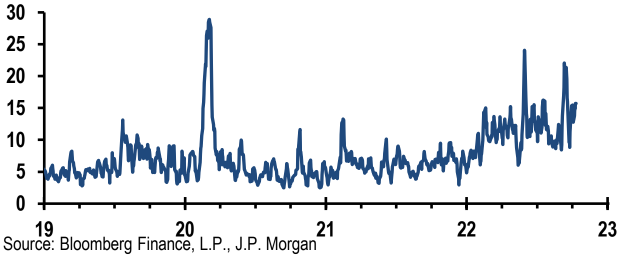
Frontiers feeling the heat

Pressures have been building in most frontier markets since the start of this year as global monetary and financial conditions tighten. The most fragile parts have seen the most intense pressure, with increased FX volatility, but inflation has not abated as well; for most of these economies we do not see inflation peaking until 1H23. As a result, we seen central banks tightening policy well into 2023 and leading to lower growth forecasts in places like Egypt. This situation has also led to more openness to approaching the IMF for support, despite unfavorable social and political backdrops. Egypt, Tunisia, Ghana, Sri Lanka, and El Salvador are all knocking on the IMF's door. But most frontier economies have large external financing gaps and will require further multilateral support. This week, Egypt became the latest economy to agree to an IMF deal worth US$3bn, but only after delivering a 200bp "out-of-cycle" hike and allowing its currency to depreciate 15% against the USD in one day.

Stepping up to salve market stress

The rapid global tightening of monetary policy is weighing on economic activity and reverberating through financial markets. One concern has been a notable rise in bond market volatility (Figure 4), and whether that may signal liquidity stresses. Rising volatility that has reached levels on par with recent periods of extreme stress in the EM has raised some alarm. But it is important to distinguish how much of this stress is a part of the monetary transmission of higher rates and a stronger USD, and how much is a product of dislocations that could spark a liquidity crisis. Where liquidity stresses are present, authorities appear to be responding appropriately. Supports range from providing liquidity in money markets, to FX interventions, to finance ministries smoothing out supply-demand imbalances in bond markets. More broadly, we look for policymakers to deploy targeted measures rather than to scale back the pace of rate hikes.

Figure 4: US 10y treasury yield, intraday volatility
Intraday high-low spread, bp, 5-day moving average



Source: Bloomberg Finance, L.P., J.P. Morgan

A case in point this week is Korea, where heightened volatility in the money and credit markets led to a series of measures by the government and BoK to mitigate the stress. The BoK emphasized that these measures were designed to alleviate market stress and not add to overall liquidity—a very similar stance to the one taken by the BoE a few weeks earlier in response to stresses facing its pension industry. In other cases, rising volatility and financial stresses reflect underlying vulnerabilities. Targeted inventions are still being used to address specific financial stability concerns, such as Colombia canceling local TES auctions through year-end and CEE economies shortening duration issuance and canceling bond auctions.

However, in the more vulnerable cases, stop-gap measures are unlikely to solve unsustainable twin deficits in an unfriendly global environment. The risk is that policymakers get drawn into repeated firefighting measures and avoid the hard-but-necessary policy choices. For its part, Colombia's BanRep made the difficult choice of hiking another 100bp to 11%. While a bit below market pricing, that the vote was unanimous signaled support from the Petro administration for an ongoing tightening cycle (contrasting with the president's earlier dissent and suggestion of capital controls).

Global Economic Outlook Summary

	Real GDP			**Real GDP**						**Consumer prices**			
	% over a year ago			% over previous period, saar						% over a year ago			
	2021	**2022**	**2023**	**2Q22**	**3Q22**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**4Q21**	**2Q22**	**4Q22**	**2Q23**
United States	5.9	**1.9** ↓	1.1	-0.6	**2.6** ↓	1.5	1.0	0.8	0.8	6.7	8.6	7.2	3.9
Canada	4.5	3.2	1.2	3.3	0.5	1.4	1.2	1.2	1.0	4.7	7.5	7.0	2.5
Latin America	6.6	**3.2** ↑	0.5	4.0	**1.7** ↑	-0.5	**-0.2** ↓	0.4	0.6	8.3	10.1	7.9	5.4
Argentina	10.4	4.7	-0.6	4.2	3.4	-4.0	1.0	-2.0	-2.0	51.4	61.8	94.0	111.3
Brazil	4.6	2.6	-0.1	5.0	0.4	-1.0	-1.4	-0.4	0.6	10.5	11.9	5.8	2.9
Chile	11.7	2.5	-1.0	0.0	-4.8	-1.6	-1.0	0.0	1.5	6.6	11.5	12.8	8.5
Colombia	10.7	7.7	1.7	6.0	2.0	1.5	-1.0	3.0	2.0	5.2	9.3	12.0	10.2
Ecuador	4.2	2.2	1.9	0.5	2.5	3.0	1.5	2.5	2.0	1.8	3.5	4.0	2.5
Mexico	4.8	**2.6** ↑	**1.3** ↑	3.7	**3.8** ↑	**0.4** ↑	**0.7** ↓	**1.0** ↓	0.6	7.0	7.8	8.5	6.8
Peru	13.6	2.5	2.5	1.0	3.3	2.0	2.5	2.5	2.0	6.0	8.3	7.6	5.3
Uruguay	4.4	5.2	2.1	4.3	0.8	1.5	2.5	2.0	2.5	7.9	9.3	9.3	7.4
Asia/Pacific	6.3	**3.4** ↑	3.6	**-1.7** ↑	**5.8** ↓	4.1	**4.1** ↓	3.3	**3.2** ↓	2.1	3.3	**3.9** ↑	**2.9** ↑
Japan	1.7	1.8	2.0	3.5	2.0	3.5	2.0	1.2	1.0	0.5	2.4	**3.6** ↑	**2.7** ↑
Australia	4.9	4.0	2.5	3.6	2.6	2.6	2.4	2.4	2.3	3.5	6.1	7.3	4.5
New Zealand	5.6	2.1	2.3	7.0	0.6	2.3	1.9	2.2	2.6	5.9	7.3	4.9	2.3
EM Asia	7.4	**3.7** ↑	**4.0** ↓	**-3.2** ↑	**6.9** ↓	4.3	4.8	3.9	3.8	2.4	3.4	3.7	2.8
China	8.1	**3.1** ↑	**4.5** ↓	**-7.3** ↑	**9.0** ↓	5.2	5.5	4.0	4.0	1.8	2.2	2.7	2.2
India	8.7	7.1	4.2	8.0	2.5	4.0	4.0	4.5	4.5	5.0	7.3	6.3	5.0
Ex China/India	4.5	**3.6** ↑	2.7	2.7	**3.2** ↑	2.1	**3.0** ↓	3.2	**2.7** ↓	2.9	4.5	5.2	3.4
Hong Kong	6.3	-0.8	4.4	4.1	8.0	6.0	3.0	4.5	2.4	2.0	1.5	2.2	2.3
Indonesia	3.7	4.8	3.0	6.4	3.0	3.0	4.4	4.0	4.0	1.8	3.8	6.5	4.8
Korea	4.2	2.7	**1.4** ↓	3.0	**1.1** ↓	1.3	1.5	1.5	**1.0** ↓	3.5	5.4	5.7	3.7
Malaysia	3.1	8.8	4.2	14.7	4.5	0.0	4.5	4.5	4.0	3.2	2.8	3.6	2.7
Philippines	5.7	6.2	5.5	-0.5	4.0	4.0	6.0	6.0	5.0	3.6	5.5	6.1	3.9
Singapore	7.6	3.0	1.4	-1.0	1.0	1.3	2.0	1.8	1.5	3.7	5.9	5.3	2.7
Taiwan	6.6	**3.0** ↑	**2.2** ↑	-7.0	**6.6** ↑	**2.2** ↓	**2.3** ↓	**2.3** ↓	**2.4** ↓	2.7	3.5	2.5	1.5
Thailand	1.5	3.0	3.3	2.7	2.9	0.6	3.8	4.9	4.3	2.4	6.5	6.6	3.6
Western Europe	5.6	3.3	**0.4** ↑	2.8	0.2	**-1.3** ↑	-0.8	1.6	1.7	4.6	8.2	**10.4** ↑	**5.9** ↓
Euro area	5.2	3.2	**0.5** ↑	3.1	0.5	**-1.3** ↑	-1.0	2.0	2.0	4.6	8.0	**10.5** ↑	**5.9** ↓
Germany	**3.4** ↑	**1.8** ↑	**0.2** ↑	**0.4** ↓	**1.1** ↑	**-1.5** ↑	-1.5	2.0	2.0	5.4	8.3	**11.4** ↑	**7.2** ↓
France	6.8	**2.5** ↑	**0.3** ↑	**2.0** ↓	**0.6** ↑	**-0.5** ↑	-1.5	1.5	1.8	3.3	5.9	**7.3** ↑	**5.5** ↑
Italy	6.6	3.3	-0.2	4.6	0.0	-3.0	-2.0	1.0	2.5	3.7	7.4	**12.7** ↑	**6.9** ↑
Spain	5.5	**4.5** ↓	**0.8** ↓	6.0	**0.9** ↓	-2.0	-0.5	2.0	3.0	5.8	8.9	**7.1** ↓	**2.4** ↓
Norway	4.2	3.1	1.0	2.8	1.8	0.5	0.8	1.0	1.0	4.6	5.8	6.2	4.3
Sweden	4.8	2.9	0.4	3.6	0.5	-1.0	-0.5	1.0	1.3	3.3	7.4	11.3	7.6
United Kingdom	7.5	4.2	-0.5	0.9	-1.6	-1.8	-0.4	0.0	0.4	4.9	9.2	10.2	6.0
EMEA EM	6.6	1.8	0.8	-5.8	0.2	-0.5	0.7	2.0	3.8	10.3	23.8	23.8	11.2
Czech Republic	3.3	2.9	0.8	1.8	1.0	-1.0	-1.0	1.8	3.5	6.1	15.8	18.9	10.9
Hungary	7.1	5.8	1.2	4.1	0.3	-0.5	-0.3	2.5	3.3	7.1	10.6	20.5	16.7
Israel	8.5	6.0	2.8	6.9	3.0	2.5	2.0	2.5	3.0	2.5	4.2	5.0	3.7
Poland	6.8	4.3	0.8	-8.1	0.3	1.5	-0.5	2.0	4.0	7.7	13.9	17.5	13.4
Romania	6.0	6.5	3.6	8.6	-3.2	2.0	6.1	0.0	8.2	8.0	14.4	15.7	13.2
Russia	4.7	-3.0	-1.5	-20.7	1.0	-3.0	-1.5	2.0	2.0	8.3	16.9	**12.7** ↓	3.8
South Africa	4.9	1.7	0.9	-2.9	0.0	0.9	1.8	1.2	1.2	5.4	6.6	7.4	5.6
Turkey	11.4	4.5	3.6	8.5	-2.0	0.0	4.1	2.8	7.4	25.8	74.1	75.3	29.4
Global	6.0	**2.9** ↑	**1.8** ↓	**-0.2** ↑	**3.1** ↓	**1.7** ↑	1.7	2.0	2.1	4.7	7.4	**7.6** ↑	4.4
Developed markets	5.3	2.5	1.0	1.4	**1.6** ↓	**0.7** ↑	0.5	1.2	1.2	5.1	7.6	**8.0** ↑	**4.5** ↓
Emerging markets	7.2	**3.4** ↑	**3.1** ↓	**-2.7** ↑	5.4	3.1	3.6	3.2	3.4	4.1	6.9	6.9	4.3
Emerging ex China	6.3	3.6	1.9	1.6	**1.9** ↑	1.1	**1.8** ↓	2.4	**2.8** ↓	6.4	11.4	11.0	6.2
Global — PPP weighted	6.4	**3.4** ↑	2.3	**-0.7** ↑	**3.3** ↓	**1.8** ↑	2.0	2.3	2.4	5.0	8.3	**8.4** ↑	4.8

Source: Government agencies and J.P. Morgan Global Economics. Details on request. Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

G-3 economic outlook detail

				2022		2023			
	2021	2022	2023	3Q	4Q	1Q	2Q	3Q	4Q
United States									
Real GDP	5.9	1.9	1.1	2.6	1.5	1.0	0.8	0.8	0.5
Private consumption	8.3	2.7	2.0	1.4	2.7	2.0	2.0	1.8	1.7
Equipment investment	10.3	4.6	2.5	10.8	1.5	2.0	2.0	1.0	1.0
Non-residential construction	-6.4	-9.1	-1.6	-15.3	-5.0	4.0	4.0	3.5	3.0
Intellectual property products	9.7	8.8	6.2	6.9	6.5	6.0	5.5	5.5	5.0
Residential construction	10.7	-9.9	-10.5	-26.4	-15.0	-5.0	-5.0	-3.0	-2.0
Inventory change ($ bn saar)	-19.4	119.9	86.2	61.9	93.0	96.0	88.0	84.9	76.0
Government spending	0.6	-0.9	1.8	2.4	1.8	2.3	1.9	1.9	1.6
Exports of goods and services	6.1	7.2	0.0	14.4	-2.0	-3.3	-3.3	-3.3	-3.3
Imports of goods and services	14.1	8.9	2.8	-6.9	5.0	4.5	4.3	4.0	4.0
Domestic final sales contribution	6.7	1.6	1.7	0.5	2.1	2.2	2.1	2.0	1.9
Inventories contribution	0.3	0.8	-0.1	-0.7	0.6	0.1	-0.2	-0.1	-0.2
Net trade contribution	-1.1	-0.4	-0.5	2.8	-1.2	-1.3	-1.2	-1.2	-1.2
Consumer prices (%oya)	4.7	8.0	4.0	8.3	7.2	5.7	3.9	3.3	3.0
Excluding food and energy (%oya)	3.6	6.2	4.2	6.3	6.0	5.3	4.6	3.8	3.2
Core PCE deflator (%oya)	3.5	5.0	3.4	4.9	4.7	4.1	3.7	3.2	2.8
Federal budget balance (% of GDP, FY)	-11.9	-5.4	-3.6						
Personal saving rate (%)	11.9	3.5	3.2	3.3	2.9	3.3	3.2	3.2	3.2
Unemployment rate (%)	5.4	3.6	4.0	3.6	3.6	3.7	3.9	4.1	4.3
Industrial production, manufacturing	5.7	3.6	0.7	1.9	0.0	0.5	0.5	0.5	0.5
Euro area									
Real GDP	5.2	3.2	0.5	0.5	-1.3	-1.0	2.0	2.0	2.0
Private consumption	3.7	4.0	0.4	1.0	-1.5	-1.5	1.5	2.0	2.0
Capital investment	4.1	2.7	0.4	1.0	-2.0	-2.0	2.0	3.0	3.0
Government consumption	4.2	1.9	1.3	1.0	1.0	1.5	1.5	1.0	1.0
Exports of goods and services	10.3	6.8	3.9	6.0	3.0	3.0	4.0	4.0	4.0
Imports of goods and services	8.0	7.6	4.2	7.0	3.0	3.0	4.0	4.3	4.3
Domestic final sales contribution	3.8	3.1	0.6	1.0	-1.0	-0.9	1.5	1.9	1.9
Inventories contribution	0.1	0.2	-0.1	-0.2	-0.4	-0.2	0.3	0.1	0.1
Net trade contribution	1.4	-0.1	0.0	-0.2	0.1	0.1	0.2	0.0	0.0
Consumer prices (HICP, %oya)	2.6	8.5	4.8	9.2	10.5	8.1	5.9	4.1	1.6
ex food, alcohol and energy	1.5	3.9	3.5	4.4	5.0	4.6	4.0	3.1	2.2
General govt. budget balance (% of GDP, FY)	-5.7	-3.8	-2.3						
Unemployment rate (%)	7.7	6.7	6.9	6.6	6.8	7.0	6.9	6.8	6.7
Industrial production	8.0	1.0	0.6	1.0	-2.0	-1.5	2.0	3.0	3.0
Japan									
Real GDP	1.7	1.8	2.0	2.0	3.5	2.0	1.2	1.0	1.0
Private consumption	1.3	3.1	2.6	1.0	4.5	3.0	2.0	1.2	1.2
Business investment	-0.6	2.3	5.5	9.0	8.0	5.0	3.0	3.0	3.0
Residential construction	-2.0	-4.3	0.2	-1.0	1.0	1.0	1.0	1.0	1.0
Public investment	-2.6	-7.7	-0.4	-1.0	-1.0	-0.5	-0.5	-0.5	-0.5
Government consumption	2.1	1.4	-0.6	0.0	-1.0	-1.0	-1.0	-1.0	-1.0
Exports of goods and services	11.9	3.6	2.1	5.0	1.5	1.5	1.5	1.5	1.5
Imports of goods and services	5.1	5.5	1.7	5.0	1.5	1.0	1.0	1.0	1.0
Domestic final sales contribution	0.8	1.8	2.1	1.8	3.5	2.2	1.4	0.9	0.9
Inventories contribution	-0.3	0.4	-0.2	0.2	0.0	-0.3	-0.3	0.0	0.0
Net trade contribution	1.1	-0.4	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Consumer prices (%oya)	-0.2	2.4	2.5	2.9	3.6	3.4	2.7	1.9	2.0
ex food and energy	-0.9	0.1	1.9	0.7	1.8	2.3	2.0	1.6	1.9
General govt. net lending (% of GDP, CY)	-8.0	-6.0	-4.4						
Unemployment rate (%)	2.8	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Industrial production	5.6	1.1	4.3	25.0	5.0	3.0	1.5	1.0	1.0
Memo: Global industrial production	8.3	3.2		8.1	2.4	2.1	2.3	2.5	2.8
%oya				3.8	3.4	2.6	3.6	2.3	2.4

Source: Government agencies and J.P. Morgan Global Economics. Details on request.

Global Central Bank Watch

	Official	Current	4-qrtr change (bp)		Last change	Next mtg	Forecast	Forecast (%pa)				
	rate	rate (%pa)	Last	Next			next change	Dec 22	Mar 23	Jun 23	Sep 23	Dec 23
Global		3.24	178	76				3.81	4.01	4.13	4.05	4.00
excluding US		3.23	143	47				3.54	3.72	3.89	3.78	3.71
Developed		2.30	216	108				3.13	3.37	3.37	3.37	3.38
Emerging		4.69	118	26				4.86	4.99	5.30	5.10	4.95
Latin America		11.41	589	-96				11.94	12.05	11.89	11.16	10.45
EMEA EM		7.45	145	182				7.42	7.59	10.27	9.79	9.28
EM Asia		3.19	44	15				3.35	3.47	3.40	3.34	3.34
The Americas		4.31	340	113				5.40	5.64	5.62	5.53	5.44
United States	Fed funds	3.25	300	150	21 Sep 22 (+75bp)	2 Nov 22	Nov 22 (+75bp)	4.50	4.75	4.75	4.75	4.75
Canada	O/N rate	**3.75**	350	50	26 Oct 22 (+50bp)	7 Dec 22	**7 Dec 22 (+25bp)**	**4.00**	**4.25**	**4.25**	**4.25**	**4.25**
Brazil	SELIC O/N	13.75	600	-225	3 Aug 22 (+50bp)	7 Dec 22	Jun 23 (-25bp)	13.75	13.75	13.50	12.50	11.50
Mexico	Repo rate	9.25	442	150	29 Sep 22 (+75bp)	10 Nov 22	10 Nov 22 (+75bp)	10.50	10.75	10.75	10.75	10.75
Chile	Disc rate	11.25	850	-275	13 Oct 22 (+50bp)	14 Dec 22	Jul 23 (-100bp)	11.25	11.25	11.25	9.75	8.50
Colombia	Repo rate	**11.00**	900	-100	28 Oct 22 (+100bp)	16 Dec 22	**16 Dec 22 (+100bp)**	**12.00**	12.50	12.50	**11.25**	**10.00**
Peru	Reference	7.00	550	-250	6 Oct 22 (+25bp)	10 Nov 22	10 Nov 22 (+25bp)	7.50	7.25	6.50	5.50	4.50
Europe/Africa		2.81	190	113				3.31	3.60	4.14	4.04	3.94
Euro area	Depo rate	**1.50**	200	75	27 Oct 22 (+75bp)	15 Dec 22	**Dec 22 (+50bp)**	2.00	**2.25**	**2.25**	**2.25**	**2.25**
United Kingdom	Bank rate	2.25	215	200	22 Sep 22 (+50bp)	3 Nov 22	Nov 22 (+75bp)	3.50	4.25	4.25	4.25	4.25
Norway	Dep rate	2.25	200	75	22 Sep 22 (+50bp)	3 Nov 22	3 Nov 22 (+50bp)	3.00	3.00	3.00	3.00	3.00
Sweden	Repo rate	1.75	175	75	20 Sep 22 (+100bp)	24 Nov 22	24 Nov 22 (+50bp)	2.25	2.50	2.50	2.50	2.50
Czech Republic	2-wk repo	7.00	550	-150	22 Jun 22 (+125bp)	3 Nov 22	Sep 23 (-50bp)	7.00	7.00	7.00	6.50	5.50
Hungary	Base rate	13.00	1120	0	27 Sep 22 (+125bp)	22 Nov 22	On hold	13.00	13.00	13.00	13.00	13.00
Israel	Base rate	2.75	265	75	3 Oct 22 (+75bp)	21 Nov 22	21 Nov 22 (+50bp)	3.25	3.50	3.50	3.50	3.50
Poland	7-day interv	6.75	625	25	7 Sep 22 (+25bp)	9 Nov 22	Nov 22 (+25bp)	7.25	8.00	8.00	7.75	7.00
Romania	Base rate	6.25	475	125	5 Oct 22 (+75bp)	8 Nov 22	8 Nov 22 (+75bp)	7.00	7.00	7.25	7.50	7.50
Russia	Key pol rate	7.50	0	-50	16 Sep 22 (-50bp)	16 Dec 22	Apr 23 (-25bp)	7.50	**7.50**	**7.25**	7.00	7.00
South Africa	Repo rate	6.25	275	125	22 Sep 22 (+75bp)	24 Nov 22	Nov 22 (+75bp)	7.00	7.50	7.50	7.50	7.50
Turkey	1-wk repo	10.50	-1600	1050	20 Oct 22 (-150bp)	24 Nov 22	Nov 22 (-150bp)	9.00	9.00	25.00	23.00	21.00
Asia/Pacific		2.59	46	16				2.74	2.84	2.79	2.74	2.75
Australia	Cash rate	2.60	250	75	4 Oct 22 (+50bp)	1 Nov 22	Nov 22 (+25bp)	3.10	3.10	3.10	3.10	3.35
New Zealand	Cash rate	3.50	300	125	5 Oct 22 (+50bp)	23 Nov 22	Nov 22 (+75bp)	4.25	4.75	4.75	4.75	4.75
Japan	Pol rate IOER[1]	- 0.10	-7	0	28 Jan 16 (-20bp)	20 Dec 22	On hold	-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw	3.50	-50	150	3 Mar 20 (-50bp)	-	Nov 22 (+75bp)	4.75	5.00	5.00	5.00	5.00
China	1-yr MLF	2.75	-20	-20	15 Aug 22 (-10bp)	-	2Q 23 (-10bp)	2.75	2.75	2.65	2.55	2.55
Korea	Base rate	3.00	225	75	12 Oct 22 (+50bp)	24 Nov 22	Nov 22 (+25bp)	3.25	3.75	3.75	3.75	3.75
Indonesia	BI RRR	4.75	125	100	20 Oct 22 (+50bp)	17 Nov 22	17 Nov 22 (+50bp)	5.50	5.75	5.75	5.75	5.75
India	Repo rate[2]	5.90	190	85	30 Sep 22 (+50bp)	7 Dec 22	Dec 22 (+50bp)	6.40	6.75	6.75	6.75	6.75
Malaysia	O/N rate	2.50	-175	75	8 Sep 22 (+25bp)	3 Nov 22	Nov 22 (+25bp)	2.75	3.25	3.25	3.25	3.25
Philippines	Rev repo	4.25	225	100	22 Sep 22 (+50bp)	17 Nov 22	Nov 22 (+50bp)	5.00	5.25	5.25	5.25	5.25
Thailand	1-day repo	1.00	50	75	28 Sep 22 (+25bp)	30 Nov 22	Nov 22 (+25bp)	1.25	1.75	1.75	1.75	1.75
Taiwan	Official disc.	1.63	50	25	22 Sep 22 (+12.5bp)	15 Dec 22	15 Dec 22 (+13bp)	1.75	1.88	1.88	1.88	1.88

Source: J.P. Morgan. [1] BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages.

Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China;
Hong Kong SAR (China) and Taiwan (China).

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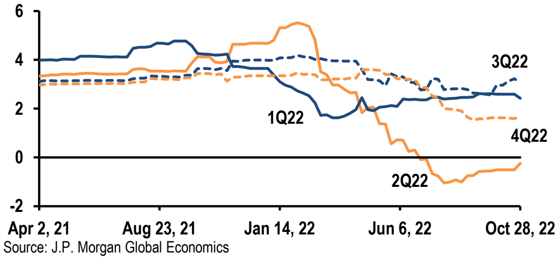
Nowcast of global growth: 3Q reporting season underway

Reports on 3Q GDP started to roll in this week. A 2.6%ar rise in US GDP was modestly below our forecast of 3% but still a solid gain after two quarters of contraction. China reported a strong bounceback as well from its 2Q slump, jumping 9%ar—albeit a bit weaker than our expectations. We also received results from Korea and Taiwan, both of which beat expectations. Incoming national GDP reports are consistent with our Euro area forecast for 0.5%ar growth last quarter. On net, this week's results lowered our tracking of 3Q global real GDP growth 0.1%-pt to 3.1%ar. We see global growth downshifting this quarter to a 1.7%ar. We will learn more about momentum at the start of the current quarter next week when the full global set of October PMIs are reported. The DM flash results signaled activity decelerating in both manufacturing and services.

Figure 1: J.P. Morgan global GDP

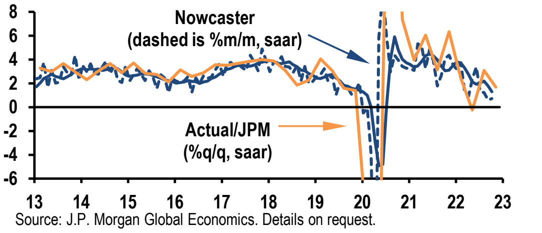
% change saar; forecast by date made



Source: J.P. Morgan Global Economics

Figure 2: Global real GDP

%q/q, saar. J.P. Morgan projection through 4Q22; Nowcaster through October

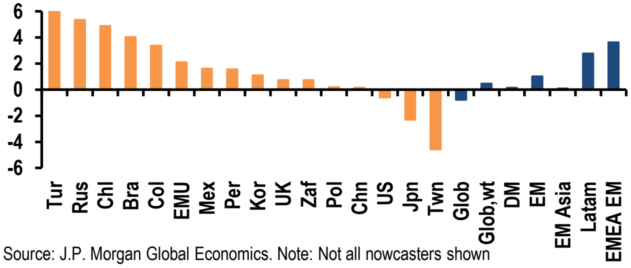


Source: J.P. Morgan Global Economics. Details on request.

The top-down global nowcaster is tracking 4Q global GDP real growth at a 0.9%ar, roughly half the pace of our official forecast (Figure 2). By contrast, the aggregate of our bottom-up nowcasters for 4Q stands 0.5%-pt above our forecast for the same country set. The nowcasters suggest upside risk to growth in the Euro area (+2.1%-pts) but modest downside risk to growth in the US (-0.6%-pt) (Figure 3, Table 1).

Figure 3: Risk bias, 4Q22

%-pts. Nowcast minus forecast



Source: J.P. Morgan Global Economics. Note: Not all nowcasters shown

Table 1: Real GDP

%q/q, saar. Underline indicates J.P. Morgan forecast.

	3Q22		4Q22	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	**3.1**	**1.8**	**1.7**	**0.9**
Weighted Avg*	**3.1**	**3.4**	**1.5**	**2.0**
Developed*	**1.5**	**1.4**	**0.7**	**0.8**
US	2.6	0.7	1.5	0.9
EMU	0.5	1.9	-1.2	0.8
UK	-1.6	-0.3	-1.8	-1.1
Canada	0.5	2.0	1.4	2.0
Japan	2.0	4.1	3.5	1.2
Emerging*	**5.9**	**6.9**	**3.0**	**4.1**
EM Asia*	**8.0**	**9.2**	**4.6**	**4.7**
China	9.0	10.5	5.2	5.3
Korea	1.1	3.0	1.3	2.3
Taiwan	6.6	-2.7	2.2	-2.4
Singapore	1.0	5.7	1.3	3.7
Latam*	**1.6**	**1.1**	**-0.6**	**2.2**
Brazil	0.4	2.8	-1.0	3.0
Mexico	3.8	2.7	0.4	2.0
Argentina	3.4	-6.6	-4.0	-3.8
Chile	-4.8	-1.3	-1.6	3.3
Colombia	2.0	1.4	1.5	4.9
Peru	3.3	-2.3	2.0	3.6
EMEA EM*	**-0.1**	**1.9**	**-0.8**	**2.8**
Poland	0.2	2.0	1.5	1.7
Hungary	0.2	4.9	-0.5	1.3
Czech Rep.	1.0	-0.4	-1.0	-1.2
Romania	-3.2	3.5	2.0	3.2
Russia	1.0	1.2	-3.0	2.3
Turkey	-2.0	3.0	0.0	6.9
South Africa	0.0	1.3	0.9	1.6

Source: J.P. Morgan Global Economics. * Aggregates are GDP weighted averages of constituents.The long-form nomenclature for references to China and Taiwan is Mainland China and Taiwan (China).

The main data event this week was the release of the October DM flash PMIs. The DM composite activity PMI fell 1.3pts to a level consistent with an 0.8%ar contraction in DM GDP. Our forecast sees DM GDP growing a modest 0.6%ar this quarter. Early in the quarter, survey data from businesses and consumers imply much weaker activity than the subsequent outturns we are seeing in hard data. Measures of aggregate global financial market stress have drifted higher in a choppy manner over the past several months but are unlikely to significantly dissuade most central banks from continuing to tighten policy given still-high inflation.

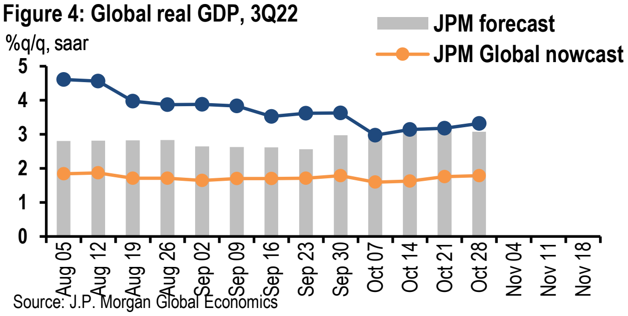
Table 2: J.P. Morgan global aggregates

%ch, sa (ar for qrt). PMIs are levels. Confidence is std.dev from 2010-19 avg

	3Q22	4Q22	Sep 22	Oct 22	Nov 22	Dec 22
PMI, mfg	49.4	49.5	48.8	49.0	49.5	50.2
PMI, serv	50.1	50.8	50.0	50.3	50.8	51.3
IP	4.3	-2.8	-0.8	-0.3	-0.2	0.1
Retail sales	4.0	1.2	0.0	0.1	0.1	0.2
Auto sales	45.9	-4.4	-0.6	-0.6	-0.4	-0.1
G-3 cap. ship.	10.7	-5.6	-0.6	-0.2	-0.5	-0.2
G-3 cap. orders	-3.5	-5.2	-0.7	-0.2	-0.4	-0.1
Cap. exports	14.1	2.5	1.4	-1.0	0.3	0.4
Bus conf	-0.8	-0.7	-0.8	-0.8	-0.7	-0.6
Cons conf	-1.5	-1.3	-1.5	-1.4	-1.3	-1.3
Nowcast (ar)	1.8	0.9	0.6	0.7	1.0	1.5

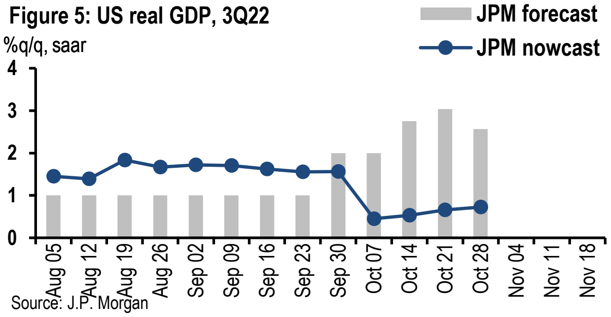
Source: J.P. Morgan Global Economics, S&P Global, and national statistical agencies. Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment.

Figure 4: Global real GDP, 3Q22



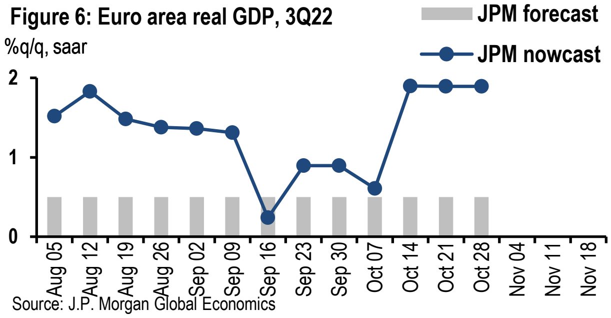
Source: J.P. Morgan Global Economics

Figure 5: US real GDP, 3Q22



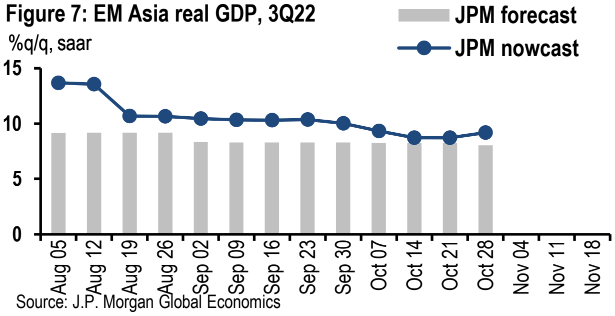
Source: J.P. Morgan

Figure 6: Euro area real GDP, 3Q22



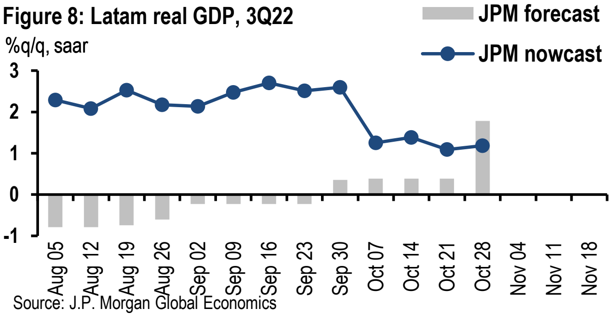
Source: J.P. Morgan Global Economics

Figure 7: EM Asia real GDP, 3Q22



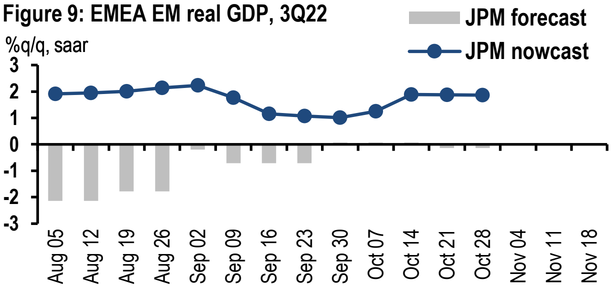
Source: J.P. Morgan Global Economics

Figure 8: Latam real GDP, 3Q22



Source: J.P. Morgan Global Economics

Figure 9: EMEA EM real GDP, 3Q22



Source: J.P. Morgan Global Economics

For a primer on our nowcaster suite, see methodology report and podcast.

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Note: Research notes listed have been published in *GDW; Special Reports and Global Issues* are stand-alone features, but may also have appeared in some form in *GDW*.

J.P. Morgan Market Watch

Bonds

Bonds rallied over the week amid cross-currents from ECB and BoC dovishness and stronger Euro area CPI data. In the **US**, ahead of the FOMC meeting our economists expect a 75bp hike but see some risk of a softening in the language around further rate hikes in the statement. With Fed pricing more balanced and valuations looking fair, we stay neutral duration. On the curve, 10s/30s stands out at the steep end of its range and is steep to its drivers. We enter tactical 10s/30s flatteners.

In the **Euro area**, the ECB meeting was unambiguously dovish with a shift to a more data dependent mode, though stronger inflation and weaker PMI prints highlighted a tug of war between inflation and a weaker growth outlook. We took profit on longs in 5Y Germany post-ECB and are neutral on duration. We stay short 10Y Italy vs. Germany on QT noise, heavy supply, a weakening growth outlook, and a risk of political noise. In the **UK**, we expect a 75bp hike from the MPC though with risks tilted to a smaller move. We take profit on Feb23 MPC OIS and stay long 30y real yields.

In **EM**, the past week has seen a range of policy responses amid rising bond market stress, which may ultimately be part of a peaking process for EM rates. While we see it as premature to jump into broad-based receivers yet, local yields have tended to peak around peak vol. We remain neutral local bond duration overall, with UWs in Czech, Hungary, Chile, Peru, and Thailand offset by OWs in Brazil and Romania as well as a long duration overlay (*EM FI Focus*, Oct 28).

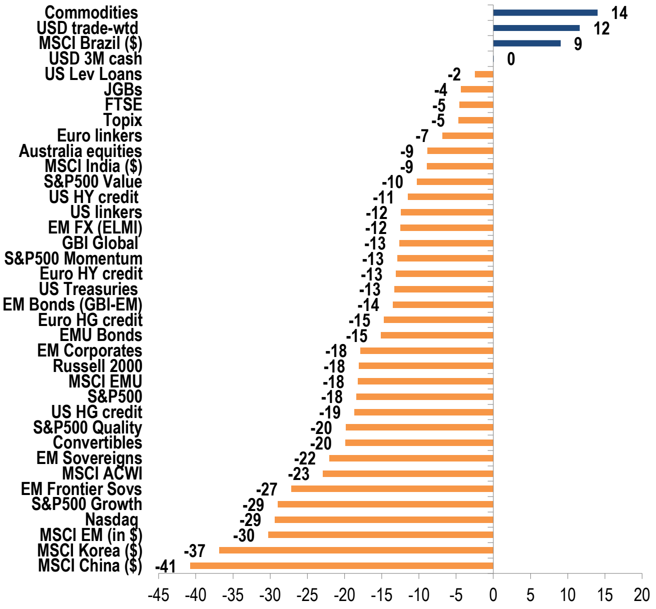
Credit

US HG bonds continue to lag, with ratings compression and sector decompression evident. A pickup in bond supply, lower UST yields, and fund outflows in recent weeks have all contributed to this underperformance. There are interesting trends in spread dispersion with some metrics at wides (HG sector dispersion, CDX.IG vs. 5yr bond spreads), while others are at tight levels (BB-BBB, most notably). Within HG the A-BBB spread relationship is in line, but there has been a general shift toward outperformance of non-cyclical sectors vs. cyclicals. It's notable that sector dispersion is at a wide while ratings dispersion is not. This suggests a greater focus on single-name performance concerns than on macro weakness going forward. We published trade ideas in both BB and BBB credits on the back of the spread compression between these rating buckets. Bond supply has picked up recently. We review the lack of historical correlation between supply and spread performance (*CMOS*, Oct 28).

The recent strength in Euro HG seems sustainable in our view, with spreads likely to tighten further into year-end. ECB policy rates could be close to peaking, a moderate recession is already in the price, and systemic risks are fading. We took profit on our 120-150bp bullish risk reversal and rotated that into EUR IG TRS. Issuance volumes remained light this week, with many issuers in their blackout period for 3Q earnings (*European Credit Weekly*, Oct 28).

Figure 1: Year-to-date returns

%



Source: J.P. Morgan

Currencies

This week's sharp dollar pullback echoes 3Q's Fed pivot optimism, but feels less organic given the antecedents of the move—JPY and CNY intervention, political relief in the UK—and the narrowness of the dollar drawdown (G10 more than EM). Against the backdrop of dovish central bank hikes (BoC, ECB, RBA earlier), a similar outturn at the November FOMC can prolong the dollar's pain, but is already priced into rates to a degree, and could be upended by a steadfastly hawkish Fed. Our suite of cyclical models suggest that most of the USD's 2-3% overshoot has corrected after this week, leaving dollar valuations much more balanced going into next week's FOMC. More strategically, all the pieces are likely not in place for a major USD top yet, hence we continue to run reduced long dollar risk, albeit in options after being stopped out on cash positions.

The USD's intra-week swoon was not kind to the portfolio, and we were stopped out of GBP, EUR, & NZD cash shorts vs. USD. We keep the cash portfolio light, wary of any further USD pullback ahead of next week's FOMC, however short-lived it may prove to be. Retain GBP, EUR, and CAD shorts vs. USD in options; hold USD/JPY longs in cash and options. Add long AUD/NZD in cash and take profits on EUR/CHF digi put. Remain UW EM FX (*FXMW*, Oct 28).

Commodities

It's not the demand-supply, but global tanker balances that will drive oil prices. From December 5, any vessel transporting Russian crude oil that sells above a predetermined price cap would be prohibited from obtaining European shipping, bunkering, insurance, and finance. Russia has made it clear that it will not comply with the US-led price cap and will try to legally find alternative buyers. If China and India do not use their own fleets, then Russia will need not only to find alternative markets for their 4.1 mbd crude oil and products that were being sold to countries that imposed embargoes, but also to secure insurance and tanker capacity to ship the other 2.9 mbd to those who are currently purchasing Russian oil using Western tankers and services. Tanker fleet availability suggests that today Russia is at least 1 mbd short of tanker capacity, necessitating production cuts of a similar magnitude this year and next. Only by 2024 will Russia likely be able to source sufficient tanker capacity to deliver its crude oil. Consequently, until 2024 we believe oil price will be strongly influenced by the availability of tankers that are willing to transport Russian oil rather than global supply-demand fundamentals, keeping oil price elevated. We maintain our forecasts of $100/bbl in 4Q22 and $98/bbl in 2023 (*Oil Weekly*, Oct 26).

Small build in soy inventories through October masks stability in wider commodity availability off historical lows. Amid macro weakness and geopolitical risks, commodity demand has remained resilient, and the October Global and Ex-China Commodity Inventory Monitors are at the lowest level for the month on record. An anticipated increase in soybean inventories through 2022/23 drove a third small monthly rise in both monitors off recent historical lows. Specifically, oil and product inventories declined, the first reduction since July, while grain inventories declined to the lowest level since 2014. Tradeable commodity stocks remain critically low, and the abundance of available inventories in leading commodity consumer and importer China remains sizeable (*Global Commodities*, Oct 25).

European natural gas storage congestion sends physical price to near-term lows while price cap uncertainty remains. European natural gas storage is climbing toward 94% full while NWE storage has surpassed 97% full and regasification capacity utilization has averaged ~75%. Record warmth in October has eroded as much as 10% of weather-related demand. Physical price has fallen significantly to find new demand in the near term. We lower our 4Q22 price forecast to 125 EUR/MWh, reflecting the current softness in the balance, but assume normal December weather. The use of a dynamic price cap has been discussed as the likeliest method to avoid high price moves in the TTF market (*European Natural Gas*, Oct 28).

JPM Forecast

Rates	Current	Dec-22	Mar-23	Jun-23	Sep-23
US (SOFR)	3.04	4.10	4.55	4.55	4.55
10-year yields	4.00	4.20	4.05	3.85	3.80
Euro area (depo)	1.50	2.00	2.25	2.25	2.25
10-year yields	2.10	1.50	1.35	1.25	1.15
Italy-Germany 10Y (bp)	207	240	210	200	200
Spain-Germany 10Y (bp)	105	115	100	90	90
United Kingdom (repo)	2.25	3.50	4.25	4.25	4.25
10-year yields	3.48	3.50	3.25	3.10	3.00
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.24	0.25	0.40	0.40	0.40
EM Local (GBI-EM yield)	7.44	7.33	6.88		
Currencies	**Current**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**
JPM USD Index	136	138	140	138	135
EUR/USD	0.99	0.95	0.90	0.97	1.03
USD/JPY	148	155	150	145	140
GBP/USD	1.16	1.05	1.08	1.10	1.11
AUD/USD	0.64	0.65	0.69	0.70	0.70
USD/CNY	7.25	7.30	7.40	7.30	7.20
USD/KRW	1422	1440	1460	1470	1470
USD/MXN	19.82	20.25	20.50	20.75	20.75
USD/BRL	5.33	5.30	5.25	5.25	5.30
USD/TRY	18.58	19.00	20.00	21.00	22.00
USD/ZAR	18.16	18.50	19.00	19.50	20.00
Commodities	**Current**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**
Brent ($/bbl, qtr end)	95	101	96	98	97
WTI ($/bbl, qtr end)	87	98	92	94	93
Gold ($/oz, qtr avg)	1,645	1,650	1,670	1,700	1,760
Copper ($/ton, qtr avg)	7,843	6,500	6,500	6,700	7,000
Aluminum ($/ton, qtr avg)	2,284	2,250	2,250	2,350	2,400
Iron ore (US$/dt, qtr avg)	78	140	125		
Wheat ($/bu, qtr avg)	8.3	10.0	10.0	9.0	9.0
Soybeans ($/bu, qtr avg)	13.9	16.5	16.3	16.0	15.0

Credit		Current	Dec-22
US High Grade (bp over UST)	JPM JULI	188	165
Euro High Grade (bp over Bunds)	iBoxx HG	242	250
US High Yield (bp vs. UST)	JPM HY	520	525
Euro High Yield (bp over Bunds)	iBoxx HY	664	750
EM Sovereigns (bp vs. UST)	JPM EMBIGD	554	575
EM Corporates (bp vs. UST)	JPM CEMBI	450	375

Source: J.P. Morgan, Bloomberg Finance L.P., Datastream

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ECB rate hikes pass through to lending rates

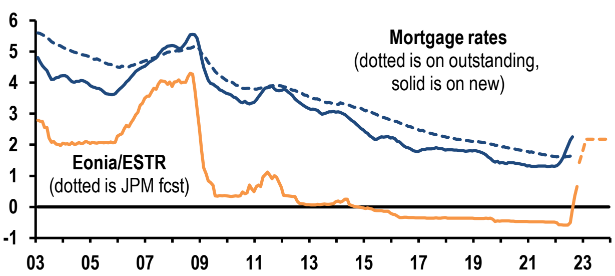
- **ECB rate hikes are being passed on to bank lending rates and standards**
- **ECB has moved to more data-dependent stance and is considering impact of its hikes on growth**
- **Mortgage rates less sensitive to higher rates**

While hawkish policymakers have argued against putting too much weight on the medium-term inflation forecast as a guide for policy decisions in the near-term, more dovish policymakers are not losing sight of the economy's cyclical position and how this is being impacted by the tightening in monetary policy. A recent speech by ECB chief economist Philip Lane looked at the traction that higher policy rates were having on key parts of the transmission mechanism, including the bank lending channel. He did not draw strong conclusions from this for upcoming policy decisions, noting only that changes in policy rates may have to be larger or smaller if the transmission mechanism is weaker or stronger than normal. But, he argued that the impact looked normal, which suggests that higher rates are acting to slow the economy.

Mortgage rates are moving higher

Our forecast has the ECB deposit rate moving to a terminal level of 2.25% in December, with risk skewed to one more 25bp move beyond this. There is a relatively strong correlation between short-term market rates and actual mortgage rates (Figure 1). But, available data through to August show that new mortgage rates in the Euro area have already increased 95bp to 2.26%, which is more than the 50bp of hikes the ECB had delivered by that time and hence reflecting also the move up in longer-term interest rates. Based on our ECB deposit rate forecast and using the average spread between new mortgage rates and overnight rates of just over 200bp, mortgage rates could be heading to 4%-4.5%.

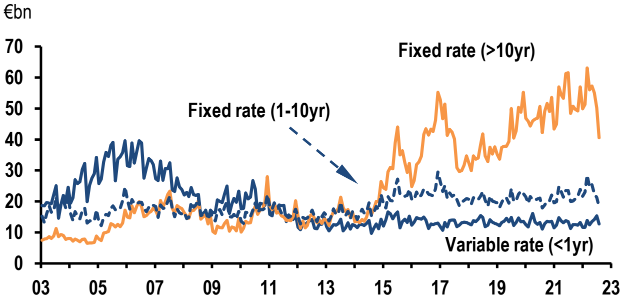
Figure 1: Euro area interest rates on mortgages



Source: ECB, J.P. Morgan

The passthrough to the rates on outstanding mortgages is much slower and these have increased by only around 5bp through to August. This is not surprising given the high share of mortgages with long rate fixation periods. According to the ECB bank interest rate statistics, only 18% of mortgages extended since 2015 were at variable rates (or rate fixation periods of under one year), whereas 20% had rates fixed for 5-10 years and 54% had rates fixed for over 10 years. The share of long-term fixed rates has increased sharply in recent years. It looks as if that share fell sharply in August, likely reflecting the increase in longer-term interest rates. But that does not alter the conclusion that only a small share of outstanding mortgage rates are likely to reset in the near-term at higher rates. In general, the same applies to consumer credit and other forms of household loans.

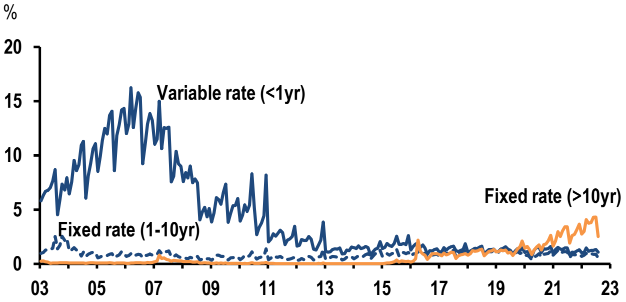
Figure 2: Euro area mortgage lending by rate fixation period



Source: ECB, J.P. Morgan

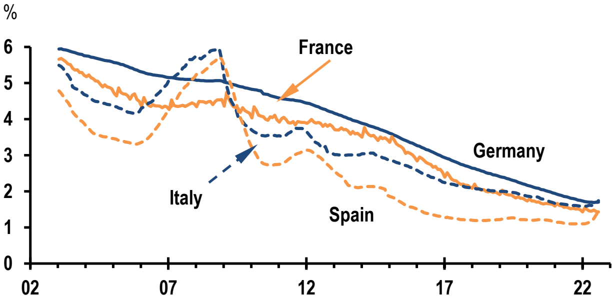
At the country level, fixed rate mortgages with long rate fixation periods have dominated the market in Germany and France, whereas Spanish mortgage lending has tended to be at variable rates, with Italy somewhere in the middle. However, in recent years, fixed rate mortgages have also played a larger role, for example, in Spain (Figure 3). This will not prevent mortgage rates on outstanding loans rising more quickly in Spain and also in Italy than elsewhere and that is already visible in the ECB's bank lending rate statistics (Figure 4). But, increases are from very low levels and could be a bit more dampened relative to changes in the ECB policy rate than in prior cycles, assuming bond spreads do not rise sharply.

Figure 3: Spanish mortgage lending by rate fixation period



Source: BDE, J.P. Morgan

Figure 4: Mortgage rates on outstanding loans

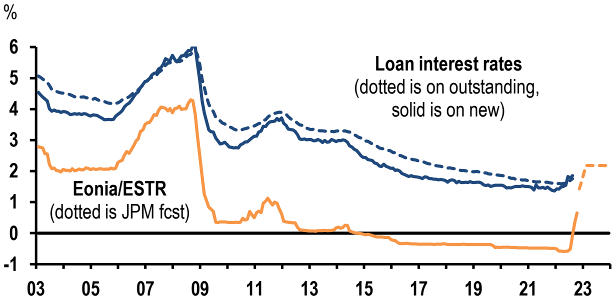


Source: ECB, J.P. Morgan

Faster passthrough to business loans

The passthrough from changes in ECB policy rates tends to be faster for corporate loans. The interest rates on new bank loans to nonfinancial corporates have only increased by around 50bp in August from the level since at the end of last year (Figure 5). This is because around 80% of bank lending to nonfinancial corporates is at variable rates and hence more closely linked to the policy rate. This explains why the interest rates on outstanding corporate loans, which have already increased by almost 20bp, more closely track the interest rates on new loans than is the case with household mortgages. This suggests that ECB rate hikes will have a significant impact on the financing costs facing corporates.

Figure 5: Euro area interest rates on corporate loans



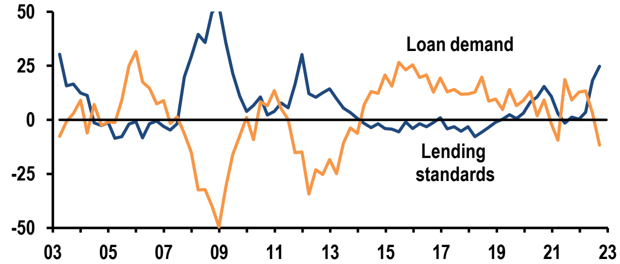
Source: ECB, J.P. Morgan

Possible amplification mechanisms

As noted by Lane, the extent to which the policy rate has to be lifted will depend not only on the inflation outlook but also on the effect that rate hikes are having through the transmission channels. In this context, the ECB may soon be moving along multiple dimensions. First, it is already raising rates. Second, the ECB has announced a change in TLTRO terms, which raises the cost to the banks of this funding source. The outstanding amounts on these loans are still €2.1 trillion. Third, the ECB may begin to scale back its asset purchases next year, which could generate some upward pressure on sovereign yields and spreads. Fourth, the combination of tightening monetary policy and a prospective recession is leading to a tightening in bank lending standards and a weakening in loan demand (Figure 6). This tightening is likely from a favorable starting point, but the change is nevertheless being amplified by growth concerns rather than just reflecting the impact of higher interest rates. This is suggested by the details of the bank lending survey, which show a large increase in banks' risk perception as a driver of tighter lending standards.

Figure 6: ECB bank lending survey: NFCs and households

Net %, higher values indicate tigher loan supply and higher loan demand



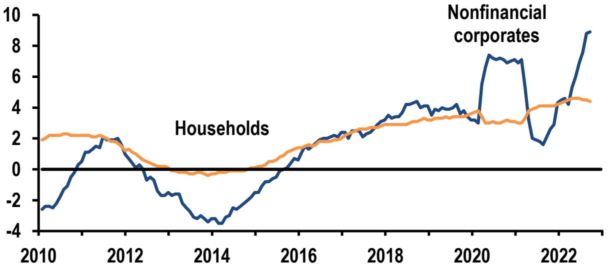
Source: ECB, J.P. Morgan

Bank lending has picked up recently

The impact of higher bank lending rates and tighter lending conditions tends to affect actual bank lending with a lag. And, weaker growth can even lead to a pickup in lending to corporates if they draw on existing credit lines, as occurred at the start of the pandemic and as may be occurring again at present (Figure 7). On the household side, there are some hints of a slowing, but this is still from solid levels and is very modest at this stage. But, as argued by Lane, earlier stages of the transmission mechanism through bank lending are more informative and more timely about the impact that ECB rate hikes are having. Hence, the pickup in actual lending is not a reason to ignore the impact that higher ECB policy rates are having on the economy through the bank lending channel.

Figure 7: Euro area bank lending to real economy

%oya, adj. for loan sales/securitizations



Source: ECB, J.P. Morgan

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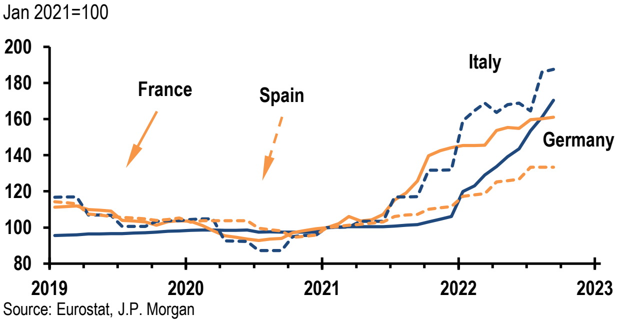
Italy and Spain: gas price pass-through and inflation

- **Pass-through of gas prices into measured inflation varies sharpy across countries**
- **Heterogeneity in government measures adds to differences in market structure and supply channels**
- **Italy has by far the strongest pass-through, as strong price signals coexist with very targeted measures**
- **Spanish pass-through likely to decline with a gas price cap in place and no dependence on Russia**

The pass-through of elevated gas prices into utilities bill is very different across Euro area countries, in turn contributing to significant differences in headline inflation. The reasons are several, due to differences in terms of market structure (with different domestic mix of regulated tariffs and free market tariffs, in turn both with fixed and variable prices), reliance on long-term vs. short-term contracts either on wholesale and retail level, the national energy production mix, the role of taxes and supply dependence on Russia. Wholesale natural gas prices have a direct impact not on only on gas tariffs but also on electricity tariffs, due to the adoption of marginal electricity pricing in the EU (gas is by far the production with the highest marginal cost).

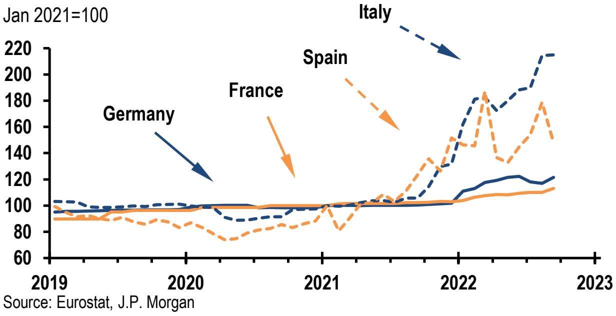
Figure 1: Euro area HICP gas prices



Source: Eurostat, J.P. Morgan

As a result of these factors, the link between the Dutch TTF, the Euro area natural gas benchmark, and the gas/electricity component of price indices varies wildly across countries (Figures 1 and 2). Among the largest four economies in the region, Italy and, to a lesser extent, Spain exhibit the most significant pass-through so far. Looking forward, national initiatives to cap retail prices will weaken further the link between gas prices and utility bills in Germany and France. That link is likely to remain strong in Italy, but it is set to weaken in Spain due to regulatory measures.

Figure 2: Euro area HICP electricity prices



Source: Eurostat, J.P. Morgan

Italy: faster and closer pass-through as targeted measures preserve price signals

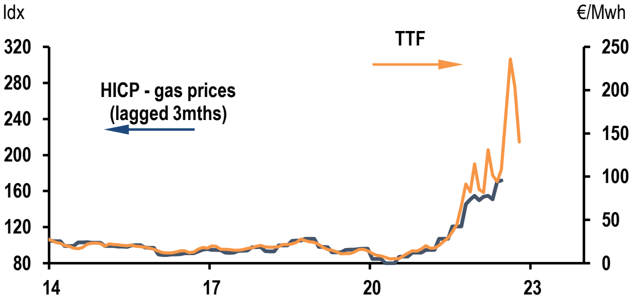
Italy stands out for a faster and more complete pass through both in gas and electricity prices. Simple regressions show that gas and electricity tariffs closely track the TTF benchmark with a 3 months lag (in line with the reset lag on regulated tariffs), and with an elasticity of 0.26 and 0.34 respectively.

On a structural level, a key reason is that Italy was very dependent from Russian gas but managed to diversify away within only a few months about 60-70% of that dependence through alternative sources, including LNG. This major and successful diversification effort has drastically reduced the risk of rationing ahead of the winter but has come at the cost of hefty wholesale gas prices, which explains the closer link in recent months with the TTF benchmark.

This close relationship with wholesale gas prices is also the result of a policy choice, in the sense that the Draghi government, in line with guidelines from the EU, has implemented a very targeted set of measures to support vulnerable households and firms, rather than broad price caps. Broader measures have been limited to a 5%-pt cut of VAT on gas bills (down from an average on 18%) and the cancellation of system charges from the electricity bill, which collectively are worth about 0.6% of GDP on an annual basis. Even though limited, these measures have dampened significantly the impact of high gas prices on electricity bills.

Inflation data show that natural gas and electricity measured inflation in Italy were, respectively, 73% and 100% in 3Q22 versus 2Q21, the last quarter associated with normal market conditions (Figures 3 and 4). In Italy, the energy regulator provides enough data (including details on the behavior of the average consumer) to estimate with reasonable accuracy the impact of change in utility bills at quarterly frequency. Our estimates, discussed below, are quite close to the actual inflation data, with discrepancies likely owing to the multiplicity of tariffs in the market and staggered resetting of prices.

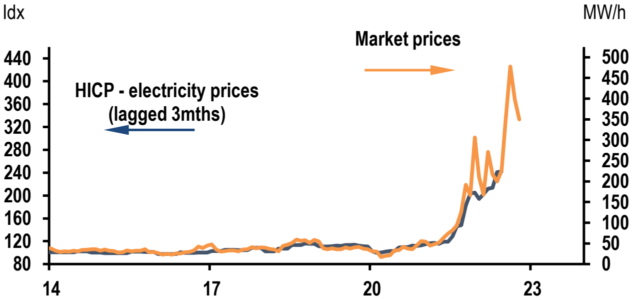
Figure 3: Italy gas prices



Source: Eurostat, Bloomberg, J.P. Morgan

Comparing 3Q22 with 2Q21, , the gas bill for the average consumer have risen by about 69%%, even though the cost of gas charged to end-consumers has risen 4-fold (versus a 6-fold increase in the TTF at the relevant 3-month lag). According to our calculation, the gas tariff would have risen by 150%, in the absence of a VAT cut. Comparable figures show that the electricity bill has risen by about 110%, versus a 4-fold increase in the cost of energy charged to the consumer. We estimate that without government intervention the increase in the gas tariff would have been 130%.

Figure 4: Italy electricity prices



Source: Eurostat, Bloomberg, J.P. Morgan

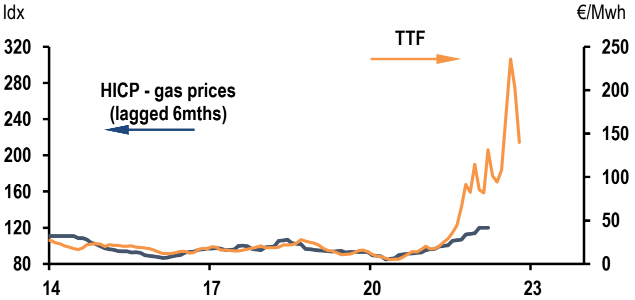
Looking forward, the spike in the TTF during 3Q22 is likely to trigger a massive increase in the electricity bills in Italy in 4Q22, close to 50-60% according to our calculations. Recent changes to the gas tariff (now updated on a monthly basis and underpinned by a domestic market benchmark instead of TTF) make it less predictable going forward, but it is likely that also gas bills will rise sharply in October at least. Beyond that, one would expect utility bills to start falling briskly in early 2023 if natural gas prices remain close to the recent lows. The TTF has declined near 100€/MWh in recent weeks, reflecting high storage levels, unusually warm weather and EC initiatives to replace the TTF with alternative indices.

Eventually, this rising energy pressure could add 0.5%-pt to Italian HICP in October. The cumulative impact by the end of the year could rise to around 1%-pt, but a sharp drop would then follow around the turn of the year if the relationship with TTF keeps holding tight. As a result, Italian HICP would be rising near 11%oya in 4Q22 (from 9% in 3Q22).

Spain: a separate market with decoupling of electricity tariffs from gas prices

Spain is a more complex case to analyse. Inflation data point to notable stickiness in gas prices, which rose only 30% in 3Q22 versus 2Q21, whereas electricity inflation rose 54%, amid notable volatility (Figures 5 and 6). Regression analysis shows that long standing close relationship between TTF and utility gas tariffs has broken since the middle of 2021, when the TTF market started to trend upwards. By contrast, the link between the TTF and electricity inflation is somewhat tighter but it has broken down after 1Q22.

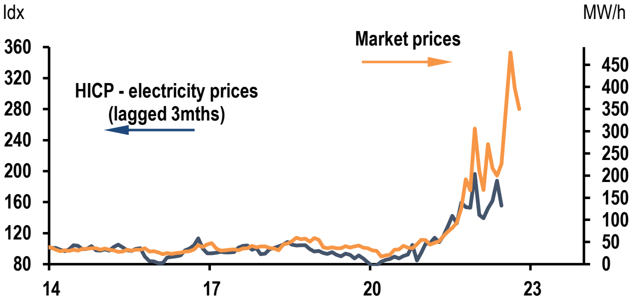
Figure 5: Spain gas prices



Source: Eurostat, Bloomberg, J.P. Morgan

On a structural level, the key factor behind this loose relationship with the TTF seems to be the basic fact that Spain is part of a separate market in Europe not dependent on Russian supply, given that is not connected by any pipeline to the bulk of the EU network. Spain has been traditionally sourcing gas from other LNG providers, fetching lower prices than countries in North-West Europe or Italy, arguably on account of existing long-term contracts in place.

Figure 6: Spain electricity prices



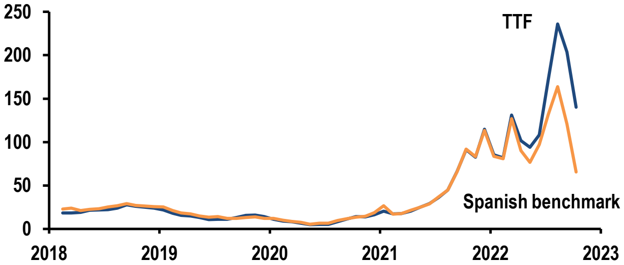
Source: Eurostat, Bloomberg, J.P. Morgan

The importance of Spain as a European LNG hub is well documented in EU plans to share gas across countries in case of major supply shocks, given that Spain is insulated from rationing risk and is uniquely placed to have export capacity (even though constrained by infrastructure bottlenecks). In fact, Spain has its own natural gas benchmark, whose dynamics has been sharply diverging from TTF since March 2022 (Figure 7).

Unfortunately, we have not been able to find sufficiently detailed information to estimate utility bills in Spain with any accuracy. The Spanish energy market is also quite complex, with a mix of regulated and free market tariffs. Be that as it may, the Spanish government has significantly intervened to prevent utility bills rising abruptly. While some interventions have been targeted to a set of vulnerable units, the government also made major tax cuts available to a broad audience.

Figure 7: TTF vs. Spanish gas index

€/MWh



Source: Bloomberg, J.P. Morgan

As regards electricity bills, VAT was cut from 10% to 5% in 2H22 and the 7% charge on power generation has been canceled. As regards gas bills, VAT has been cut from 21% to 5% for 4Q22, and the excise duty on gas usage has been cut to from 5% to 0.5%.

However, the major intervention has been in the electricity space, with the introduction in June of a price cap for gas used in electricity generation, the so called Iberian exception made possible exactly because of lack of interconnection with the EU network. Gas prices in power generation have been capped at an average of 50€/MWh for one year (up to May 2023), allowing to broadly stabilize, through some noise, the bills to levels well below the counter-factual.

In practice, the cap decouples electricity prices from gas prices, but does not translate one to one to measured inflation because it only applies to those consumers that are in the regulated tariff after end April 2022. Partly funded by a surcharge on customers and partly on firms, the cap has a variable cost depending on actual gas prices. It has been estimated close to 0.6% of GDP with natural gas prices around 120€/MWh.

Looking forward, we expect that the disconnect between TTF and Spanish utility prices will continue, in the light of the specificity of the Iberian market. Spanish gas prices are likely to hover around recent levels in 4Q22, whereas electricity prices should decline further below the September levels, in line with the effect of the cap. In our view, this falling energy pressure could subtract about 1%-pt from Spanish HICP in 4Q22, likely concentrated in Oct. As a result, Spanish inflation could be falling to near 7%oya in 4Q22 (from 10%).

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Mexico: Looking through the price reduction pact (PACIC)

- **Inflation has been running persistently high for long**
- **Regardless of causes, risks have risen of structural shift**
- **PACIC could help contain inflation expectations…**
- **…but we think the damage is already done**

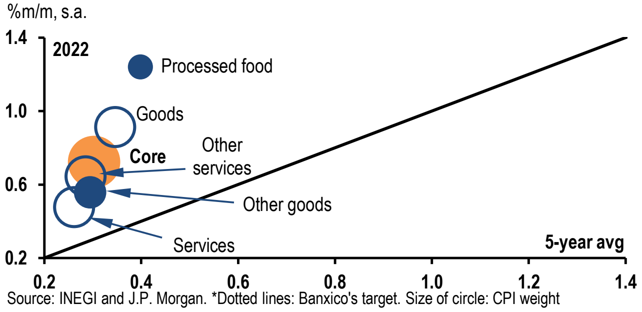
By almost any metric, consumer prices have risen sharply and persistently, driven by different impulses at different times. For the past 20 months or so, headline inflation has been running above the central bank's target range, and, of more concern, sequential core inflation has averaged 0.6%m/m, sa over the same time span, double its longer-term norm. Supply-chain bottlenecks, higher commodity prices, and the reopening of the economy have all been "transitory" shocks in theory, but nonetheless have persisted enough to create the perception that inflation is becoming entrenched at higher levels than in the five years prior to the pandemic. Government policies that have resulted in a wage-driven consumption-led growth model are an additional source of concern from an inflation perspective.

In mid-2021 we warned about the risks of inflation expectations becoming unanchored, and risks seem to indeed be materializing, as we elaborate in this note. By many metrics inflation expectations among analysts, firms, workers, and markets have shifted higher. We see a relatively low probability that shift can be undone, though it could be contained. One trigger that could help short-circuit the loop between high realized inflation and inflation expectations is the recently reinforced price reduction pact (PACIC). Again, we think it might help, but many other forces appear to be pulling in the opposite direction.

The current state of things

Inflation has been running high for many quarters now, and currently stands at more than double the upper bound of the central bank's target range (4%). Core inflation has seen a similar trend (Figure 1). Processed food prices, which in some cases arguably shouldn't be included in the core measure, have been a massive source of upside, running above 1%m/m, sa for many months. Nonfood goods prices have not increased as sharply, but nevertheless have been running at more than double their long-term norm. But to us, the sustained rise in services ex. housing and education prices represents the strongest warning signal, as it tends to be more isolated from imported inflation, and is generally more reflective of domestic factors.

Figure 1: Core 3m avg through Sep vs 5-year average pre-pandemic

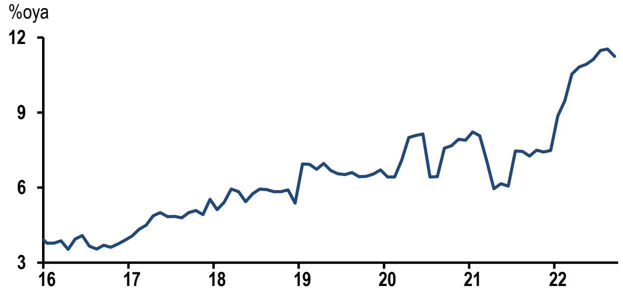


Source: INEGI and J.P. Morgan. *Dotted lines: Banxico's target. Size of circle: CPI weight

Things to come

We think that structural forces are at play. The way in which imported inflation can become entrenched is through inflation expectations, and persistently high inflation has indeed pushed expectations higher. This is not only evident in analysts' inflation expectations, but there are also signals that workers' and firms' inflation expectations likely have shifted higher. For example, formal sector wages ("wages" hereafter) have been growing more than 10%oya for some time now (Figure 2).

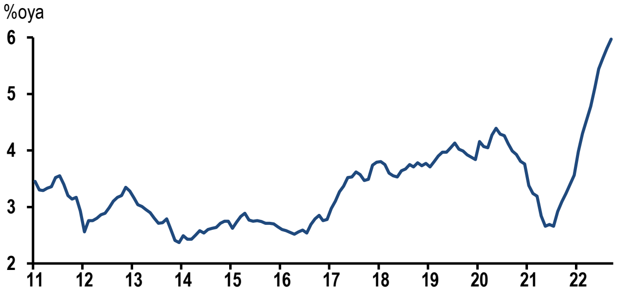
Figure 2: Formal sector wage growth



Source: J.P. Morgan with data from IMSS

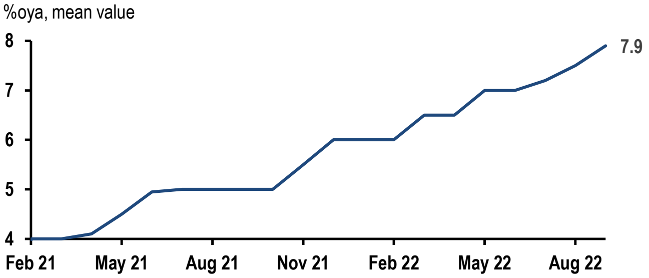
Other forces also contribute, chief among them the government's minimum wage policy. Another is the fact that wage negotiations are in some cases backward-looking, compensating for past inflation rather than hedging against future inflation. But even this latter case can contribute to higher future inflation through cost-push inflation. A few years ago, Banxico introduced a measure of inflation related to wages, but from a supply-side perspective (cost-push) rather than from a real demand perspective. This index is growing at by far its fastest pace on record (Figure 3). Another warning signal of this process unfolding is businesses' inflation expectations (Figure 4), which also suggest that price-setting behavior might be at risk.

Figure 3: Wage-related inflation



Source: Banxico

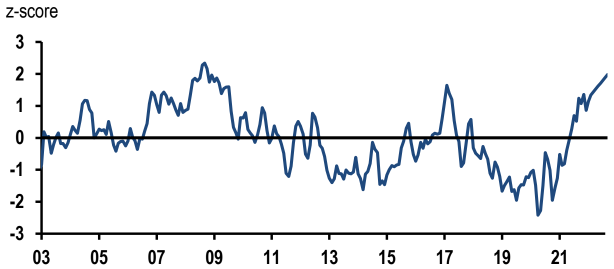
Figure 4: Year-ahead businesses' inflation expectations



Source: Banxico. Last survey is September 2022

Finally, another indicator that price-setting behavior has shifted is our diffusion index for core inflation, which is defined as the share of core CPI items rising on a seasonally-adjusted monthly basis. This index is currently close to its highest level in the past 20 years (below only 2008-09), and is two standard deviations above its 20-year mean (Figure 5).

Figure 5: Core CPI diffusion index[1]



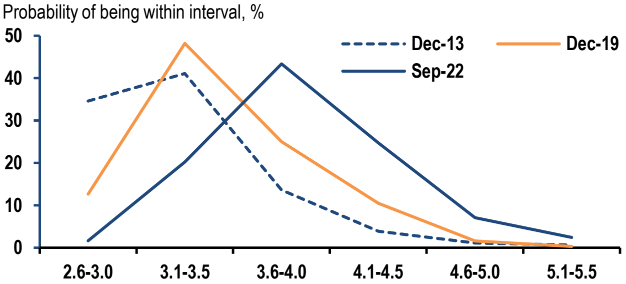
Source: J.P. Morgan with data from INEGI.[1] 3mma of % of core CPI items rising in the month, sa

Make way for tomorrow

At a more granular level of analysts' inflation expectations—given that data here are much richer than elsewhere—we can see continued deterioration in inflation expectations. Medium-term (four years out) core inflation expectations (headline inflation in Mexico tends to converge to core) have risen from a low of about 3.2% in 2013 to currently close to 4%, the upper bound of Banxico's target range. We ourselves have set our long-term (8y) inflation expectations at 3.9%.

An alternative way to look at this deterioration is through the probability distribution of inflation falling into different buckets derived from data from the central bank. Back in 2013, when this series starts, more than 75% of polled analysts expected core inflation below 3.5%, and 34% of those expected it to be below 3% (Banxico's point target). By 2019, before the pandemic, 60% of analysts expected core inflation to run below 3.5%, and only 12.7% below 3%. The latest survey data show that only 1.6% expect core inflation to stand below 3%. By contrast, roughly 70% see inflation above 3.6%, and roughly a quarter of analysts polled expect it to be above 4%. This can be seen in the aggressive shift to the right in the probability curve depicted in Figure 6.

Figure 6: Two-year ahead year-end inflation expectations



Source: J.P. Morgan with data from Banxico

PACIC could help, but only so far

The government has doubled down on its anti-inflation pact (basically soft price controls). This time it could be more effective, as allegedly several big firms have already committed to contributing. But these measures are temporary, and if underlying inflation pressures do not yield between now and their expiration in 1Q23, a rebound in prices is very likely. To assess underlying inflation pressure it will be important to monitor Banxico's truncated core inflation measure, which eliminates the 10% of the CPI posting the highest prints and the 10% posting the lowest prints. We expect targeted CPI prices (13.1% of the broad index) will fall within this lower 10%. Hence their removal would provide a more reliable gauge of underlying inflation. One important factor could help stop the deterioration in price-setting behavior: The shock and awe that could follow if inflation falls rapidly due to the reinforced PACIC in the next few months could, even if temporarily, work its way into inflation expectations, and short-circuit brewing negative feedback loops between the different prices in the economy.

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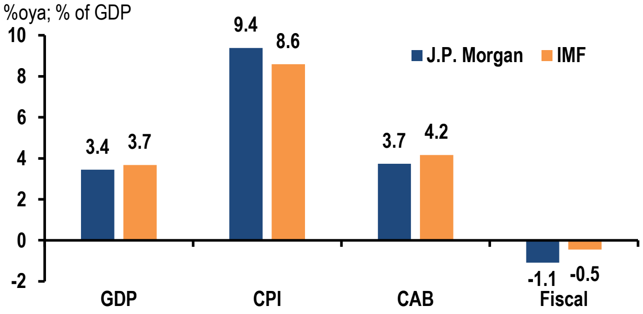
Tale of the tape in the EM Edge

Comparing IMF and J.P. Morgan forecasts

- **Relative to IMF, we forecast lower 2023 GDP growth, but after forecasting stronger 2022 growth**
- **Both we and IMF see limited disinflation in 2023**
- **IMF's fiscal outlook appears optimistic: we forecast a worse 2022 outturn and more slippage in 2023**
- **CA forecasts differ mostly due to energy prices**

Following the release of the IMF's October World Economic Outlook (WEO), we take stock of how our forecasts across the suite of EM Edge economies compare with those of the IMF over 2022-2023. Broadly speaking, our forecasts echo the IMF's downbeat assessment centred around a gloomy global growth outlook, tighter financial conditions and persistent inflationary pressures. In 2023 alone, we see lower growth, higher inflation, and worse fiscal balances than the Fund in the EM Edge economies (Figure 1).

Figure 1: 2023 macro forecasts - EM Edge aggregate*



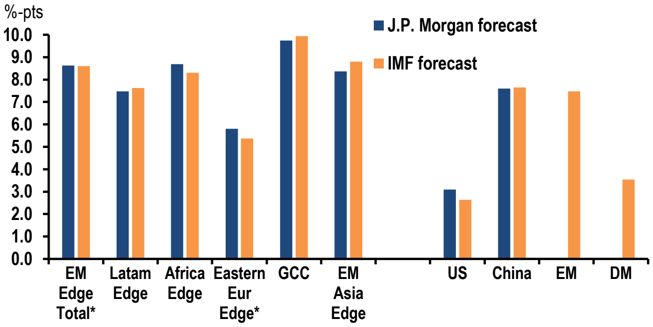
Source: J.P. Morgan, IMF *GDP-weighted agg excl. Ukraine, Fiscal excl. Ukraine & Sri Lanka

Growth slowing but from a higher 2022

While our growth forecasts are a tad below those of the IMF in 2023 (JPM: 3.4%, IMF: 3.7%), they come on top of a higher base expected for 2022. When taken together, we expect a marginally higher overall level of GDP over 2022-2023 and are broadly more optimistic than the IMF (Figure 2). By country, we have higher GDP levels in 19 out of 29 Edge economies over 2022-2023. Our optimism is not driven by the view on US growth, for which our forecast is above IMF's, or China, where we hold similar views.

Rather the optimism is coming out of Europe and Africa Edge. For Europe, the rationale is centred around the inflow of Russians and Russian companies into neighboring countries, which has carried growth in 2022 and is likely to persist in 2023. Azerbaijan, Uzbekistan and Georgia are unlikely to face BoP constraints despite the global environment and their growth could surprise higher. We are also more optimistic in Africa Edge, however, in countries facing significant domestic and external imbalances such as Ghana, Kenya, as well as Nigeria - so our forecasts here face downside risks. Elsewhere, the largest positive deviation between us and the IMF is in Sri Lanka, where we see a 2023 rebound.

Figure 2: 2022 + 2023 growth forecasts vs IMF



Source: J.P. Morgan, IMF *excludes Ukraine

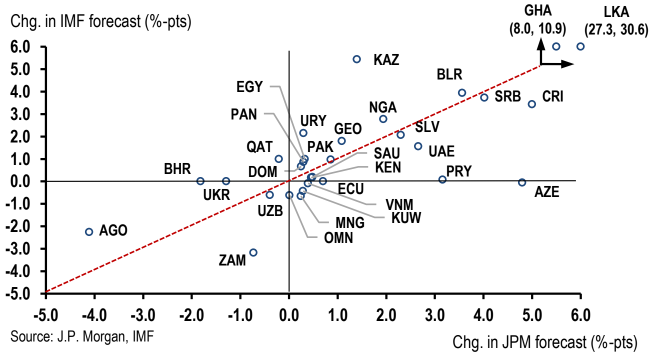
Conversely, we are more bearish on next year's growth in GCC and Asia Edge. For GCC (namely, Oman, UAE, Bahrain and Saudi Arabia) we take into account risks of oil output cuts following the latest OPEC+ deal, while the IMF likely does not. In Asia Edge, for Pakistan we see fiscal year (FY) growth at just 1.3% (IMF: 3.5%) as the IMF has not incorporated any damage from recent floods. Pakistan growth faces additional downside risks due to potential policy deviations being implemented ahead of November 2023 election. In Vietnam, our 2023 growth forecast of 5% is also below IMF's 6.2%, likely as we expect a bigger negative pass-through from the global growth slowdown.

Upside inflation risks for 2023

Since the April WEO, inflation forecasts have been revised mainly to the upside as the Russian invasion of Ukraine has generated stronger and more persistent inflation than both we and the IMF had expected (Figure 3). Upside revisions are most pronounced in Europe Edge countries, where the spillovers from the supply-side shock were the largest. Strong domestic demand drove upward revisions in some Latam countries (Costa Rica, El Salvador and Paraguay). Sharp currency devaluations drove especially large upside CPI revisions in Ghana and Sri Lanka. Only Zambia and Angola have seen meaningful downside revisions from ourselves and IMF, but this time mostly due to FX appreciation.

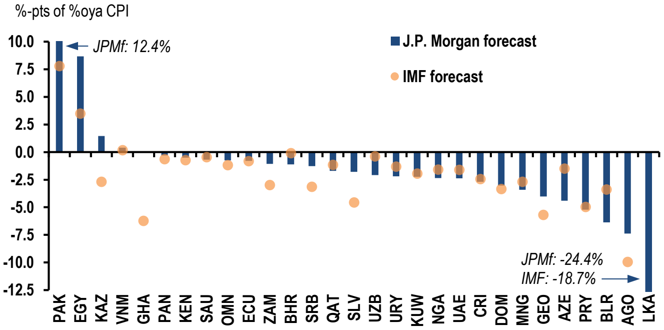
The high inflation environment is set to continue into 2023, and both ourselves and IMF see limited disinflation. On the one hand, our forecasts imply more disinflation than IMF estimates in Sri Lanka, Belarus, Azerbaijan and GCC (Figure 4). On the other hand, we see less disinflation in the rest of Europe and Africa Edge. In Europe Edge, we forecast only mild respite considering the view of robust growth and ongoing supply chain difficulties. In Africa Edge, we expect worse price dynamics especially in Egypt due to excess demand and FX adjustment (see - Egypt: Another big (Thursday) morning shift *Oct 27*). We also expect less disinflation in Ghana as the cedi remains weak and monetary policy struggles to address the problem.

Figure 3: Evolution of 2022 CPI forecasts: Latest vs. April-22



Source: J.P. Morgan, IMF

Figure 4: Change in annual CPI growth in 2023 vs 2022



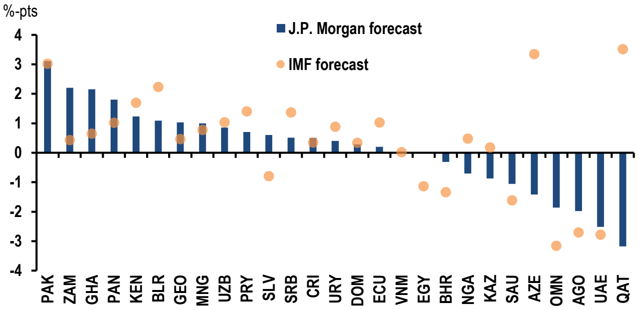
Source: J.P. Morgan, IMF

IMF fiscal outlook appears optimistic

While at Edge level growth and inflation forecasts are broadly aligned, we generally see worse fiscal outcomes than IMF. We see growth-oriented policies pressuring expenditure and Edge economies (excluding Ukraine and Sri Lanka) recording a fiscal deficit of -1.1% of GDP in 2023, whilst IMF forecasts just -0.5%. Most of the divergence stems from a worse starting point: our Edge fiscal deficit is -0.7% of GDP in 2022, against IMF's -0.3%, and we forecast more fiscal slippage next year due to weaker growth.

A large portion of the 2023 fiscal underperformance stems from hydrocarbon exporters, despite our higher oil price assumption. For GCC , our forecasts equate to a 2023 budget surplus of 4.4% of GDP, considerably below IMF's 5.8%. The most divergent view is in Qatar, where we see a the surplus shrinking and IMF see it growing (Figure 5). Natural gas-related revenues present an upside risk to our forecast there. In Europe Edge, our -0.4% of GDP deficit versus 0.3% IMF surplus is explained by pro-growth policies in Belarus and Serbia, as well as Azerbaijan, where - similarly to Qatar - gas assumptions underlie differences.

Figure 5: Change in annual fiscal balance as % of GDP in 2023 vs 2022

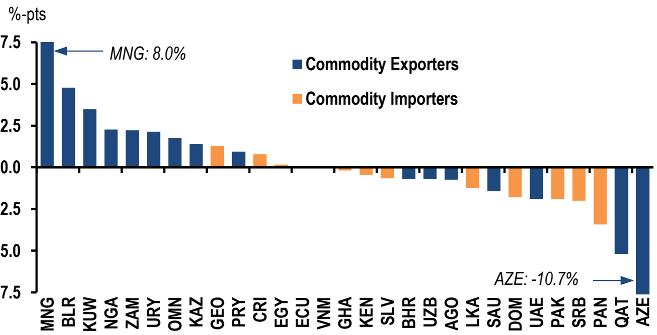


Source: J.P. Morgan, IMF Note: IMF uses General Govt fiscal balance, JPM uses national definition

CA balances hinge on energy prices

Turning to CA balances, the IMF has made greater downside revisions than us since April, particularly for GCC, and likely linked to the oil assumption. In 2023, IMF appears overly sanguine relative to our forecasts, with healthier CA balances in the majority of countries (Figure 6), likely due to energy and commodity price forecasts. IMF's optimism is mainly present in energy importers, which is expected given its assumption for Brent prices at US$85.5/bbl relative to US$98/bbl used by us. However, IMF are also far more optimistic on energy exporters Azerbaijan and Qatar, likely again because of gas prices and volumes, leaving room for upward revisions in our forecasts. In contrast, our Mongolia forecast stands out in the opposite direction. Whilst we expect improvement in Mongolia's heavy external deficit next year, we acknowledge downside risks given downward momentum in commodity export prices.

Figure 6: Difference in 2023 current account forecasts: JPM - IMF



Source: IMF, J.P. Morgan

The authors wish to thank Henry Burdon, of the EMEA EM Economics Research team, J.P. Morgan Securities plc, for his contribution to this report.

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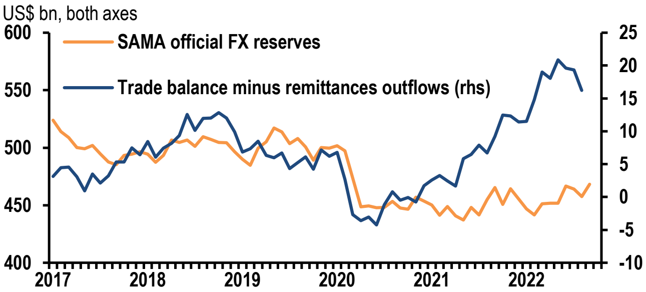
Saudi Arabia: Where did the big surplus go?

- **SAMA FX reserves remained stable despite a massive current account surplus**
- **Strong FPI, together with FX accumulation outside SAMA are key factors behind the limited uptick**
- **Other international assets of KSA have surged as investment in the US equity markets rose substantially**
- **Broader reserves metrics confirm peg sustainability**

Strong hydrocarbon revenues are generating a massive influx of cash for the Gulf area, and we believe the GCC current account surplus could reach about $340bn in 2022 from $154bn last year. Saudi Arabia is expected to record a surplus of $155bn from $44bn last year. Despite the wide surplus, and similarly to other countries in the region, Saudi Arabia has not seen any meaningful FX reserves accumulation. In 2021, SAMA FX reserves were broadly flat at US$ 455bn and so far this year (up to September), the increase was just $13bn (Figure 1). These dynamics could raise questions about macro stability and peg sustainability. However, as our analysis shows, we don't believe there are any material risks to the US$ peg in the short or medium term.

Figure 1: Saudi official reserves and current account tracker



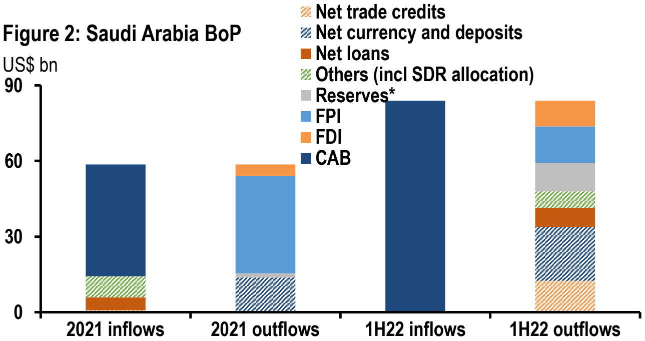
Source: SAMA, J.P. Morgan

Follow the BoP money flows

A natural question to ask in the face of massive FX inflows but little reserve accumulation would be "where has the money gone?" (Figure 2). In 2021, inflows mostly stemmed from the CA surplus (US$ 44.3bn), but the IMF SDR allocation (US$ 13.6bn), and some small external loan repayments also contributed. These inflows were matched by strong portfolio investment plus some direct investment and a notable cash accumulation outside SAMA. In the first half of 2022, certain dynamics persisted, although portfolio investment was not as dominant. FPI saw a pick-up only in 2Q after markets were shocked by the Russian invasion of Ukraine. As 1H22 inflows were fully associated with a wide current account surplus at $84bn, outflows in the first quarter came mainly in the form of strong FX accumulation outside SAMA ($23.1bn), large trade credits ($10.2bn) with almost no portfolio or direct investments. In 2Q there was some reversion to usual dynamics, with outflows mainly via FDI ($10.0bn) and FPI ($15.2bn), with some official reserves accumulation taking place ($15.3bn).

When analysing BOP dynamics and making cross-country comparisons, an important factor is what the "outflows" represent. In the Saudi case, the outflows are outward investments. Among other factors, the return on such investments (as investment income hit $15.8bn in 2021) is an important factor underpinning peg sustainability. We believe that large FPI and FDI are also likely linked to PIF (Saudi SWF) flows.

Figure 2: Saudi Arabia BoP

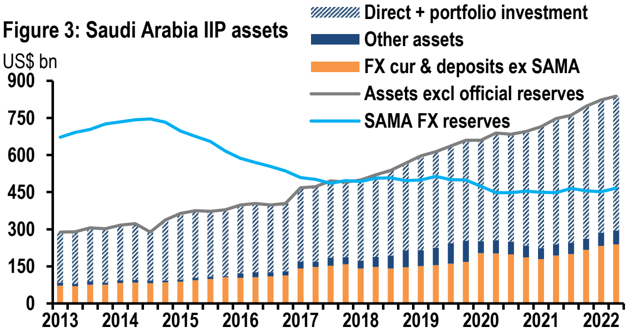


Source: SAMA, J.P. Morgan *build-up if on right column

IIP provides a clearer picture

As official reserves accumulation remains limited, international investment position (IIP) data can provide additional clarity. As of 2Q22, total foreign assets reached US$ 1.3tn, of which official central bank reserves represent only 36% (from a peak of 72% in 3Q14). As much as official reserves assets moved lower since 2014 before stabilizing in recent times, other external assets continued to increase, with an evident acceleration since 2017 (Figure 3).

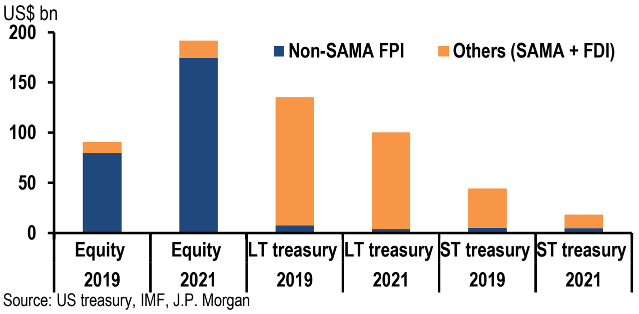
Figure 3: Saudi Arabia IIP assets



Source: SAMA

FX deposits outside SAMA have increased steadily, with the most recent print at $238bn. The rest is split between direct investment assets ($166bn) and portfolio investment ($378bn), of which more than 80% is equity and the rest debt securities. Looking at statistics for commercial banks and investment funds, total foreign asset holdings in 2Q22 were $75bn and $13bn, respectively. This represents about 10% of non-SAMA IIP assets. Together with large household and private businesses foreign assets, PIF accounts for an important share of the remaining $750bn. According to the PIF website, its AUM reached $620bn as of 1Q22, with the prospectus linked to the recent green-bond issuance pointing to non-SAR securities investment at $154bn at the end of 2021 ($128bn in 2020). Foreign PIF assets are likely to be even higher, but geographical and/or currency information on other assets is not fully available. As an example, PIF reported a large amount of cash and deposits outside SAMA equivalent to $56bn. The other big public player worth to consider is Saudi Aramco which at the end of 2021 reported USD denominated deposits for about $59bn ($34bn in 2020).

Figure 4: Saudi holdings of US securities



Source: US treasury, IMF, J.P. Morgan

The large uptick in FPI is well correlated with investment in the US stock market (Figure 4). Saudi holdings of US corporate stocks reached $200bn in August 2022 from $192bn in December 2021, more than doubling from 2019. US corporate stocks represent more than 61% of Saudi's equity investment portfolio, with a strong pick-up occurring in 2Q20 which appears to correlate with a $40bn SAMA transfer to PIF between March and April 2020.

Dynamics around SAMA reserves and investment reflect the change of mandates. Between 1971 and 2015, PIF was relegated to domestic investments with SAMA in charge of Saudi sovereign wealth. Since 2015, PIF has taken the mandate of investing with a shift towards more higher risk-reward equities rather than US treasuries.

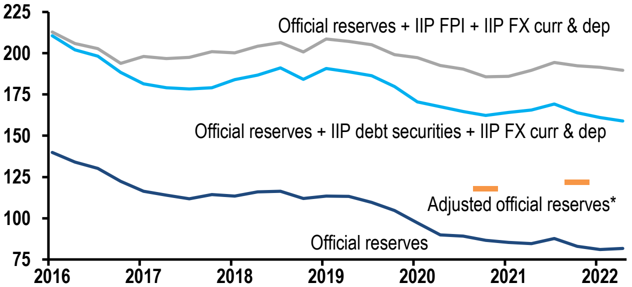
FX buffers are larger than SAMA reserves

We argue that the SAR peg to the USD is not under threat despite the fact that some metrics based on SAMA reserves alone could look worrying. One such metric compares official reserves to money supply. A peg should be sustainable if the request to exchange local currency is matched by the availability of the currency pegged to. Since the start of 2020 (Figure 5), money supply (M2) has been larger than official SAMA reserves with the ratio currently at 81% and declining since 2013. However, when metrics are adjusted to include available FX buffers, ratios appear much healthier (Figure 5). As an example, a conservative definition including non-SAR PIF investment securities to SAMA reserves would push the ratio towards 111%. Moreover, the broader definitions including other public foreign assets would improve the ratio further as the trajectory of these metrics also look much more stable.

Looking from another angle, even without considering extra PIF and Saudi Aramco buffers, government reserves at SAMA are about $186bn which is well-above public external debt at $96.5bn. Moreover, official reserves are sufficient to cover about two years of imports of goods and services. On top of that, CA surplus is strong as we expect it to reach 15% of GDP in 2022. Looking ahead, we continue to see a wide surplus in 2023 at 10.9% of GDP with an oil external breakeven price as low as $55/bl which should be able to guarantee comfortable surpluses in the years ahead.

Despite broader reserve metrics would include some investments that are less liquid than official FX reserves, a significant part of them are in public hands and should be considered for adequacy metrics purposes. It is therefore difficult to see the peg to the US$ coming under threat anytime soon. Wide total buffers and low oil external breakeven point will continue to guarantee the sustainability of it in the foreseeable future. As oil and oil related exports represent more than 80% of CA receipts, the peg continues to be a sensible choice as it provides valuable monetary and price stability (inflation has been low despite the global environment). We think that it is highly unlikely that the peg will be removed anytime soon. Over long-term, as the economy diversifies and transitions away from hydrocarbons, this could become a valid question.

Figure 5: Saudi Arabia external assets as % of money supply



Source: SAMA, GASTAT, J.P. Morgan -* SAMA reserves + PIF non-SAR securities

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Australia: Parsing pass-through

- **Pass-through from exchange rate movements to import prices is relatively complete in Australia**
- **So policy rate differentials can contribute to domestic inflation by influencing the exchange rate at the margin**
- **But, pass-through of goods/energy disinflation is also quite complete, providing a significant offset**
- **Empirically, the RBA has not responded to foreign monetary policy shocks by chasing the exchange rate**
- **And the Bank appears unperturbed by policy rate differentials, given the significant global factor to inflation which larger CBs' hikes are addressing**

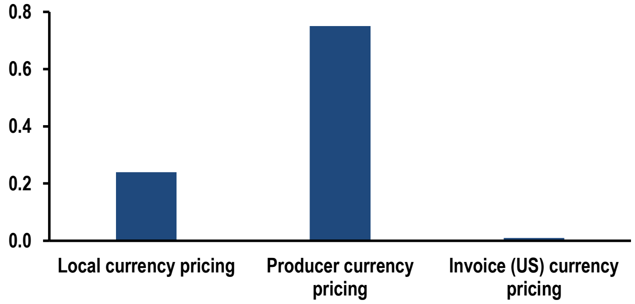
Most currencies have weakened against the USD this year, and the AUD is no exception. In practice, nominal rigidities and other frictions mean that import prices need not move one for one with exchange rate fluctuations. The extent of import price stickiness is important, as it dictates the contribution of import price fluctuations to domestic inflation, so influencing the monetary policy response. Taking near complete pass-through as given, one popular view is that the RBA policy cannot afford to lag global peers, as AUD devaluations exacerbate imported inflation.

In this note, we examine both pass-through to imported inflation, and the RBA's typical response to foreign monetary policy tightening. Exchange rate pass-through does appear substantially complete, with about 75% of currency fluctuations transmitted to import prices. But, the usually dormant contribution from global commodity pricing (in USD terms) has awoken, and looks to be imparting a large downward bias on imported inflation from here. Further, using a structural vector autoregression (SVAR) model of the Australian economy, we find that unanticipated tightening in US monetary policy (which appears to explain most of the more recent AUD weakness) is not typically associated with RBA tightening, as shocks to the Fed funds rate push domestic GDP and inflation below their baseline levels. This applies particularly well to the current situation, where domestic inflation has a significant common global component (goods/energy) which Fed tightening is already working to address and should bias imported inflation lower.

Sticky situation

Under the classical view, producer prices are assumed to be sticky in domestic currency, while prices are flexible in foreign currency. Exchange rate changes thus lead to variation in imported inflation, but also act as automatic stabilizers and help international goods markets to clear. Empirical support for complete pass-through is mixed however, and there is evidence in some economies that prices are sticky in local currency terms, so that exchange rate movements have a limited impact on import prices.

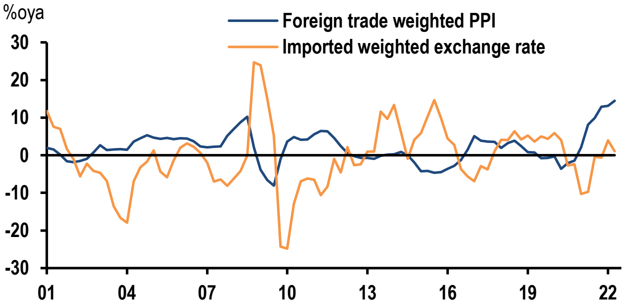
Figure 1: Exchange rate pass-through coefficients



Source: J.P. Morgan estimates

We test exchange rate pass-through by estimating a restricted regression between the annual log change in import prices and current and lagged values of the annual log change in the trade-weighted foreign PPI in Australian dollars, Australian PPI, and US PPI in Australian dollars. We restrict the coefficients on the regressors to sum to one on the basis that changes in import prices at the dock should be fully explained by changes in PPI, local or foreign. This specification also has the convenient interpretation that when summed over all the lags, the coefficients show the percentage of import price changes explained by prices at home and abroad. Figure 1 presents the (summed) coefficients.

Figure 2: Foreign PPI vs. exchange rate



Source: Haver, J.P. Morgan estimates

Import prices are most strongly influenced by changes in foreign producer prices, with 75% of changes in foreign PPI landing in import prices. This suggests high pass-through of the exchange rate to import prices, and historically, most of the variation in foreign PPI (AUD terms) has indeed been due to FX variation (Figure 2). However, today's situation is very different. Global goods and energy inflation have pushed the foreign PPI (in foreign currency terms) to a record high. This dwarfs the fairly muted impulse from AUD TWI depreciation. From recent levels, there is a strong downward bias to imported inflation, even with AUD depreciation.

Figure 1 also shows some contribution from domestic PPI, which accounts for just under 25% of the variation in import prices. Recent literature has emphasized that price changes in the currency of invoice have an additional impact on import prices (above the foreign PPI/TWI effect). But we find that including US producer prices (the majority invoice currency of Australian imports), in addition to its trade-weighted share, accounts for less than 1% of the changes in import prices. This tallies with previous RBA work that finds that exchange rate changes in invoice currencies are not completely passed through to import prices.

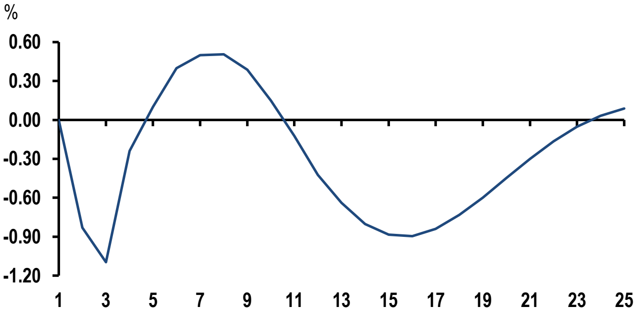
Policy prescriptions

Recent AUD weakness has been used as a justification for the RBA having to ‘follow the Fed.’ That is, it is argued that allowing rate differentials to widen will raise domestic inflation via the FX channel. Evidence of relatively high pass-through of exchange rate movements to import prices, established above, seemingly accords with this line of thinking. But this is an incomplete story. In models of optimal monetary policy in small open economies (such as Corsetti et al. [2010]), high exchange rate pass-through means that once policy closes domestic output gaps, international prices align as required, in an instance of ‘divine coincidence’. We would not even go this far, since import prices are more likely to fall from here with the moderation in global goods/energy inflation.

To take the empirical question of how the RBA responds at face value however, we estimate an SVAR model in the spirit of Lawson and Rees (2008) and examine the response of Australian domestic variables to a US monetary policy shock. We include both a foreign block (US GDP, world commodity prices, US inflation and the Fed funds rate) and a domestic block (Australian GDP, inflation, the cash rate and the real trade-weighted exchange rate) and identify structural shocks by placing restrictions on the contemporaneous relationships between the variables.

Amongst other identification restrictions, we allow the RBA policy rate to react contemporaneously to the exchange rate and commodity prices and the other variables with a lag, since the central bank receives only delayed information about these variables. Australian GDP and inflation are allowed to react to US GDP and world commodity prices contemporaneously and the other variables with a lag (including the cash rate), while the exchange rate responds contemporaneously to all the variables in the system. Figure 3 presents the impulse response of the Australian cash rate to a Fed funds shock.

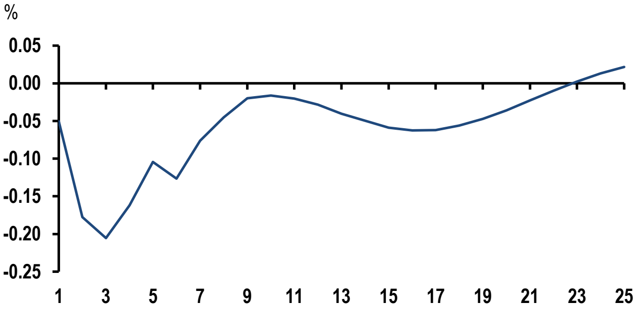
Figure 3: AUS cash rate response to Fed funds shock



Source: J.P. Morgan estimates

In line with the findings of Lawson and Rees (2008), the response of the Australian cash rate to the Fed Funds shock is negative over quarters 2-4. While this seems counterintuitive, observed (positive) correlation between US and Australian monetary policy is generally due to responses to common GDP shocks. However, in this framework, a US monetary policy shock is a movement in the Fed funds rate that the model is unable to predict based on the estimated reaction of policy-makers to movements in other variables in the system. The output is the marginal effect on the cash rate, relative to the path it would otherwise have been on. The unanticipated tightening dampens US domestic activity causing output and inflation to fall below their baseline levels (not shown). The decrease in US activity translates to declines in inflation (Figure 4) and GDP (not shown) in Australia and policy becomes more accommodative as a result.

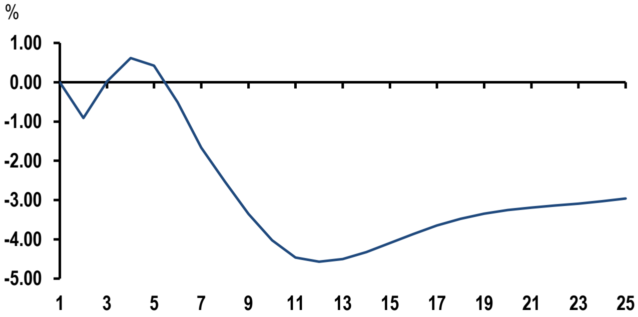
Figure 4: AUS CPI impulse to Fed funds shock



Source: J.P. Morgan estimates

Despite the initial fall in the real TWI and relatively complete pass-through from exchange rate changes to import prices, the preliminary impulse response from Australian CPI to the shock is still negative overall (and, in fact, is negative across nearly the entire forecast period). This implies the dampening in domestic inflation from the fall in both US and domestic growth is more powerful than pass-through from the fall in the exchange rate. This ties with previous research, in which we found that pass-through from import prices to domestic final goods prices is substantially incomplete, with a 1% increase in import prices at the dock leading to only just over a one-tenth increase in trimmed mean inflation over the next 12 quarters. In a recent speech RBA Deputy Governor Kent also reported that falls in the TWI have relatively modest pass-through to inflation, with a 2% decline in the TWI only producing a 0.2% increase in CPI over the course of a few years.

Figure 5: Real TWI response to Fed funds shock



Source: J.P. Morgan estimates

Unexpected tightening in the US also produces a fall in the Australian real trade weighted index (Figure 5), reflecting more limited upside prospects for global growth/risk assets as the Fed terminal pushes to new highs (we recently downgraded our AUD/USD forecast path by around 5% to account for these dynamics). Alongside the easing in the cash rate, the fall helps to cushion the initial decline in domestic GDP, because it both makes Australian exports cheaper compared to foreign goods and increases the price of imports in AUD, inducing expenditure switching by Australian consumers towards domestically produced goods and services. This results in a positive impulse to Australian GDP 4-7 quarters after the shock and the cash rate rises above its baseline level in response, lifting the real TWI higher.

Nothing to be fussed about

Collectively, the impulse response functions provide little evidence that the RBA responds to US monetary policy shocks by tightening domestic policy to stave off imported inflation. The RBA’s dovish surprise in October also suggests the Bank is comfortable with the current pricing of both spot and forward cross-market rate differentials (and, implicitly, the levels of the spot and forward exchange rates). Of course, unanticipated Fed tightening may be a catalyst for policy recalibration. However, as the IRFs demonstrate, foreign policy shocks have a negative impact on growth and inflation in Australia, mitigating inflationary pressures, including from exchange rate depreciation.

Falling foreign producer prices also look set to push against adverse moves in the currency, reducing imported inflationary pressures. Globally, manufacturing surveys suggest supply chain bottlenecks are easing and it remains our expectation that these pressures will ease further (see US: Inflation downshift is on its way). Fading energy price impulses should aid this disinflationary impulse and we expect global consumer price inflation to decelerate from 7.5%oya in 4Q22 to 4.5%oya in 2Q23. As shown at the start of this note, weaker global inflation should have significant pass-through to import prices in Australia, taking more heat off the RBA to respond to exchange rate deviations.

United States

- **Real GDP increased at a 2.6% annual rate in 3Q, helped by a large contribution from net trade**
- **Activity indicators point toward a step down in 4Q; we continue to project 1.5% growth this quarter**
- **Core PCE prices rose another firm 0.5% last month and are up 5.1% over the past year**
- **Next week: the Fed to deliver another mega-hike, October job growth may moderate to 175,000**

The marquee economic release this week was the first look at 3Q GDP, which was reported to have expanded at a 2.6% annual rate. On the surface, this would appear to present an economy accelerating after back-to-back output declines in 1Q and 2Q. However, the details of the report suggest that the momentum of economic activity is waning. Private domestic demand—the bulk of the economy and the part that responds to rate hikes—continues to decelerate and last quarter inched forward at only a 0.1% pace.

Activity reports for late 3Q and early 4Q were mixed but generally indicate that this sluggishness should carry over into 4Q. Nominal shipments of core capital goods in September suffered the first decline since early ‘21, suggesting that the gloominess surrounding the economy is starting to weigh on business investment spending. Real consumption in September rose a better-than-expected 0.3%, though at the expense of the saving rate slipping to only 3.1%.

Most business surveys released this week continued to move lower. Perhaps the most notable was the services PMI, which sunk further into contractionary territory at 47.3. The housing market continues to wheeze; the noteworthy development this week was the August house price data, which fell at the fastest rate in several years.

The inflation data this week were still hot. Core PCE prices were up 0.5% in September, which pushed the over year-ago reading up to 5.1%. The employment cost index (ECI) was up 1.2% in 3Q taking the year-ago reading to 5.0%. The glass-half-full take on the ECI is that the strong quarterly gain was slightly below the even frothier gains in 1Q and 2Q.

Next week’s key development will be the FOMC meeting, at which we and consensus expect the Committee will opt for a fourth consecutive 75bp rate increase on Wednesday, taking the target range to 3.75%-4.0%. The fun doesn’t stop there: The October jobs report will be released on Friday, and we look for a slowing in employment growth to 175,000 (consensus: 200,000). Another employment indicator that has recently become more closely watched is the job openings number in the JOLTS report, and the September figures are set to be released on Tuesday.

Fed ahead

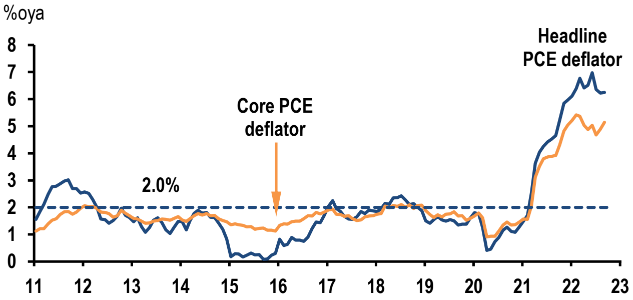
At the conclusion of next week’s FOMC meeting we expect the Committee will increase the funds rate target range by 75bp to 3.75%-4.0%. Since that is widely expected, and since there will be no new dots, the main development should be the forward guidance in the FOMC statement and in Chair Powell’s prepared remarks at the press conference. Since March, the post-meeting statement has indicated that the Committee “anticipates that ongoing increases in the target range will be appropriate.” We think this will be unchanged, but see a risk of it being softened to something like “…some further increases….”

In his prepared remarks at the last two press conferences Powell has relayed that “At some point, as the stance of monetary policy tightens further, it will become necessary to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation.” Here again we look for no changes, but any elaboration on this theme would likely reinforce the idea that a downshift could be coming in December. We look for no dissents.

Inflation still strong

The upcoming FOMC meeting is coming with a backdrop of continued strength across a variety of different inflation indicators. The PCE price index was up 0.3% in September and 6.2%oya, even with recent declines in energy prices. And the core PCE price index—which excludes the recent changes in energy prices (and food prices)—posted a hefty 0.5% monthly gain in September, with this measure now up 5.1%oya (Figure 1).

Figure 1: PCE price indexes

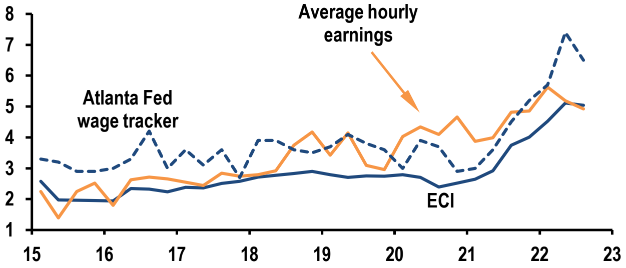


Source: BEA, J.P. Morgan

Wage inflation measures also have remained firm lately and the employment cost index rose 1.2% in 3Q, with this measure up 5.0%oya. While the tight labor market is likely continuing to put upward pressure on wages, there are a few tentative signs that we may have moved past the firmest period of wage inflation—year-ago readings for the ECI, average hourly earnings, and the Atlanta Fed's wage tracker all have eased up somewhat lately, while continuing to look pretty firm (Figure 2).

Figure 2: Select measures of employment costs

%oya, end of quarter



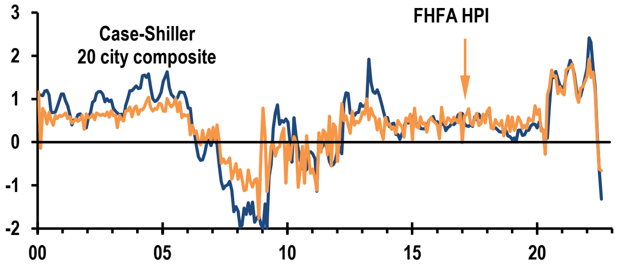
Source: BLS, Atlanta Fed, J.P. Morgan

Housing still hurting

While the labor market generally has held up well lately in the face of Fed tightening, the housing market has not. Real residential investment tumbled 26% saar in 3Q on top of the 18% 2Q drop and we see signs of additional weakness ahead. Pending home sales—a leading indicator of existing home sales—continued to push sharply lower into September, with a 10% drop reported for that month. The noisy new home sales data have held up better lately, but still have a weak recent trend.

Figure 3: Select house price measures

%m/m, sa



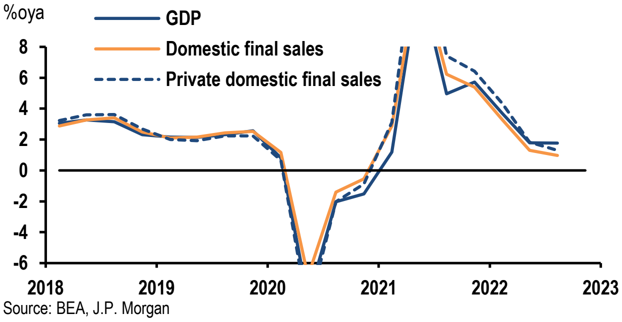
Source: S&P, FHFA, J.P. Morgan

With higher rates weighing on housing demand, we also have started to see prices move down in recent months. The Case-Shiller 20-city composite fell 1.3% samr in August, marking the weakest monthly change since the Great Recession, and the FHFA house price index also posted a large decline that month, falling 0.7% samr (Figure 3).

3Q GDP strength coming from trade

Real GDP increased 2.6% saar in 3Q, an outcome modestly above the consensus and modestly below our own forecast. Like we had anticipated, there was a big boost to growth coming from narrowing in the trade deficit, and net exports added 2.8%-pts to the headline print (real exports surged 14.4% saar while real imports dropped 6.9% saar). Apart from some of the swings related to trade and inventories, real final sales increased a modest 0.5% saar in 3Q; excluding the bounce in government spending, private domestic final sales barely edged up, rising just 0.1% saar, and the trends related to domestic demand clearly have been softening lately (Figure 4). Some of this was inevitable as the economy shifted away from the surge in activity that occurred as the economy “reopened” following severe COVID-related restrictions. But we also think high inflation and Fed tightening have been working to slow the economy.

Figure 4: Real GDP and select subaggregates



Source: BEA, J.P. Morgan

Consumer spending fared better than was expected in 3Q, with real consumption up 1.4% saar that quarter. And the momentum heading into 4Q looks stronger than we had been anticipating, with the September monthly change in real spending a little firmer than expectations at 0.3% and an upward revision to the August change. Consumer spending has been somewhat resilient—although certainly not very strong—in the face of the recent strength in inflation. While income growth has helped fuel spending, a lot of the recent growth in consumer spending has been driven by the draw-down of saving built up in the early stages of the pandemic. The saving rate declined to 3.1% in September, coming in close to its recent low of 3.0% from June and down significantly from pre-pandemic levels (the saving rate averaged close to 9% in 2019). This cushion of excess saving likely will continue to be used up over time.

Data releases and forecasts

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

Tue
Nov 1
9:45am

S&P Global manufacturing PMI (US)

Index, sa

			Flash	Final
	Aug	Sep	Oct	Oct
Composite[1]	51.5	52.0	49.9	49.9
New orders (30%)	48.8	51.1	46.7	
Output (25%)	49.2	50.6	50.7	
Employment (20%)	51.1	53.8	51.8	
Sup. del. (15%, inv.)	38.9	43.1	46.0	
Stks of purch (10%)	51.4	47.6	47.4	
New export orders	47.2	47.6	44.0	
Backlogs of work	51.0	51.9	46.5	
Output prices	62.9	64.1	60.1	
Input prices	68.1	65.2	63.9	
Stocks of finished goods	49.6	51.1	51.0	
Quantity of purchases	49.9	47.9	43.2	
ISM-weighted composite[2]	52.3	52.0	50.1	

[1] Weights in parentheses

[2] Attributes ISM-comp. weights (equal weights) to corresponding PMI series

We look for the manufacturing PMI's headline composite to be unrevised at 49.9 between the flash and final October reports, showing a 2.1pt decline relative to the final September reading. A variety of business surveys have moved down lately and looked weak in October and with this already evident in the flash PMI data for the month we don't see a reason to expect a large revision.

Tue
Nov 1
10:00am

ISM manufacturing survey

Sa

	Jul	Aug	Sep	Oct
Overall index	52.8	52.8	50.9	50.0
Production	53.5	50.4	50.6	
New orders	48.0	51.3	47.1	
Inventories	57.3	53.1	55.5	
Employment	49.9	54.2	48.7	
Supplier deliveries	55.2	55.1	52.4	
Export orders	52.6	49.4	47.8	
Imports	54.4	52.5	52.6	
Prices	60.0	52.5	51.7	

We forecast that the ISM manufacturing survey's headline composite declined 0.9pt to 50.0 in October. This survey has been trending lower lately and a variety of other business surveys also have looked weak recently, including some October prints already in hand. We therefore expect additional softening in the upcoming ISM report.

Tue
Nov 1
10:00am

Construction spending

%m/m, sa

	Jun	Jul	Aug	Sep
Nominal	0.6	-0.6	-0.7	-0.6
Private	0.4	-1.2	-0.6	-0.8
Residential	-0.8	-1.7	-0.9	-1.4
Nonresidential	2.6	-0.1	-0.1	0.1
Public	1.2	1.9	-0.8	0.2

We estimate that nominal construction spending declined 0.6% in September. Like we have seen in recent months, we expect a drop in private residential construction spending to weigh on the headline figure, with firmer—but still soft—changes in the other main details of the report. We forecast that private residential construction dropped 1.4% in September while private nonresidential spending inched up 0.1% and public spending increased 0.2%.

Tue
Nov 1

Motor vehicle sales

Millions, saar

	Jul	Aug	Sep	Oct
Light trucks and autos	13.3	13.1	13.5	14.3
Imports	2.5	2.8	2.9	
Domestics	10.8	10.3	10.6	
Autos	2.0	2.0	2.1	
Light trucks	8.8	8.3	8.5	

We look for light vehicle sales of 14.3mn saar in October. While this would represent a weak pace by the standards of pre-pandemic years, it would be one of the firmest months of sales over the past year and we think that the improvements in supply/inventories are allowing sales to pick up.

Wed
Nov 2
8:15am

ADP employment

Change from month ago, sa

	Jul	Aug	Sep	Oct
ADP	268	185	208	
BLS private payroll	448	275	288	

In the two months since the ADP report started releasing employment estimates using an updated methodology, the first prints of the ADP data have underestimated the first prints of the BLS data on private payrolls. In September, the change in the ADP data was 176,000 lower than the change in the BLS data, and in October, the change was 80,000 less. It will take time to evaluate how reliable the ADP report is in predicting the BLS data, but so far the report does not seem like a particularly accurate signal about the BLS data.

Thu
Nov 3
8:30am

Jobless claims
Thousands, sa

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless,%
Aug 20	237	246	1437	1428	1.0
Aug 27	228	241	1402	1421	1.0
Sep 3	218	232	1400	1413	1.0
Sep 10	208	223	1376	1404	1.0
Sep 17[1]	209	216	1346	1381	0.9
Sep 24	190	206	1365	1372	1.0
Oct 1	219	207	1364	1363	0.9
Oct 8	226	211	1383	1365	1.0
Oct 15[1]	214	212	1438	1388	1.0
Oct 22	217	219			
Oct 29	215	218			

[1]. Payroll survey week

We forecast that initial jobless claims declined 2,000 to 215,000 during the week ending October 29 after seasonal adjustment. We think that filings in Florida and Puerto Rico will continue to move down closer to levels that were reported prior to recent hurricanes in those areas and that this will weigh on the headline figure. But we don't expect particularly big changes in the data given that claims already have partially normalized in those places.

Thu
Nov 3
8:30am

International trade
$billion, samr

	Jun	Jul	Aug	Sep
Balance(BOP basis)	-80.9	-70.5	-67.4	-72.6
Services	18.4	20.6	20.2	20.0
Merchandise	-99.3	-91.1	-87.6	-92.5
Exports (%m/m)	1.7	0.3	-0.3	-1.1
Imports (%m/m)	-0.2	-2.8	-1.1	0.7

We look for the nominal trade balance to widen from -$67.4bn in August to -$72.6bn in September, with exports falling 1.1% and imports rising 0.7%. The advance trade data for September already showed noticeable widening in the nominal goods deficit that month, and with price data also released separately, we forecast that real goods exports declined 0.8% in September while real goods imports jumped 1.9%. For the nominal services data, we believe exports were basically unchanged in September and imports increased 0.5%.

Thu
Nov 3
8:30am

Productivity and costs
Nonfarm business sector, %q/q, saar, unless noted

	4Q21	1Q22	2Q22	Prel 3Q22
Productivity	6.3	-7.4	-4.1	1.1
%oya	1.9	-0.6	-2.4	-1.1
Output	9.0	-2.5	-1.4	2.8
%oya	6.9	4.1	1.7	1.9
Hourly compensation	10.5	4.4	5.7	4.2
%oya	6.3	7.6	6.7	6.2
Unit labor costs	3.9	12.7	10.2	3.2
%oya	4.3	8.2	9.3	7.4
Hours	2.5	5.3	2.7	1.6
%oya	4.9	4.8	4.2	3.0

We estimate that nonfarm productivity increased 1.1% saar in 3Q, with data in hand already pointing to output increasing by more than hours that quarter. This gain would reverse only a small portion of the plunge in productivity reported for the first half of the year and we think that productivity will be down 1.1%oya in 3Q.

The expected increase in productivity in 3Q should help alleviate some of the recent upward pressure on unit labor costs, but with a tight labor market we still expect a solid gain to be reported for the quarter. We forecast that unit labor costs increased 3.2% saar in 3Q, with this measure up 7.4%oya.

Thu
Nov 3
9:45am

S&P Global services PMI (US)
Index, sa

	Aug	Sep	Flash Oct	Final Oct
Business activity	43.7	49.3	46.6	46.6
Incoming new business	47.2	50.8	49.5	
Employment	53.0	52.2	49.4	
Business expectations	63.4	66.7	74.2	
Input prices	71.0	67.7	68.5	
Prices charged	59.2	57.7	58.0	
Backlogs of work	45.5	50.6	46.7	

We look for the services PMI's headline activity index to be unrevised at 46.6 between the flash and final October reports, continuing to show a 2.7pt decline off of the final September print. We don't see a reason to expect a large revision in the upcoming report as the PMI's headline has been bouncing around at weak levels in recent months, echoing weakness in a variety of other business surveys.

Thu
Nov 3
10:00am

ISM services survey
Sa

	Jul	Aug	Sep	Oct
Headline composite	56.7	56.8	56.6	55.0
Business activity	59.9	60.9	59.1	
New orders	59.9	61.8	60.6	
Employment	49.1	50.2	53.0	
Prices	72.3	71.5	68.7	

We believe the headline composite for the ISM services survey declined 1.7pts to 55.0 in October. While the survey has weakened in recent months, it still has looked more upbeat than a variety of other recent business surveys and we think we are due for additional softening in the ISM data ahead.

Fri
Nov 4
8:30am

Labor-market report
Sa

	Jul	Aug	Sep	Oct
Payroll employment				
(ch, m/m, 000s)	537	315	263	175
Private payrolls	448	275	288	180
Goods-producing	63	35	44	30
Construction	21	11	19	10
Manufacturing	37	27	22	5
Service-providing	474	280	219	145
Private service-providing	385	240	244	150
Wholesale trade	16	16	11	
Retail trade	16	43	-1	
Professional services	84	54	46	
Temporary help	13	13	27	
Education/health	122	75	90	
Leisure and hospitality	89	31	83	
Government	89	40	-25	-5
Average weekly hours	34.5	34.5	34.5	34.5
Index, hrs worked (%m/m)	0.3	0.3	0.2	0.1
Hourly earnings (%m/m)	0.5	0.3	0.3	0.3
(%oya)	5.2	5.2	5.0	4.7
Unemployment rate (%)	3.5	3.7	3.5	3.5
Participation rate (%)	62.1	62.4	62.3	

We forecast that nonfarm employment increased 175,000 in October while the unemployment rate held at 3.5%. There are a variety of signals that point to labor market strength continuing into October, including low levels of jobless claims filings and pretty favorable consumer responses about the availability of employment. But we also think that the pace of employment growth from early on this year is unsustainable and look for an additional downshift in employment growth in October coming on the heels of the September change that already was the most modest increase in employment reported so far this year. Recent hurricanes also may have negatively impacted the labor market in October considering elevated levels of jobless claims filings in some of the affected areas (although we should keep in mind that national totals for the establishment and household surveys do not incorporate data for Puerto Rico).

For the main categories within the establishment survey, we look for the private sector to add 180,000 jobs in October with goods industries adding 30,000 and the services sector adding 150,000. We think the October employment changes will be softer than recent trends across a variety of subsectors, but think that the retail sector and temp help sectors may stand out in terms of weakness in October. Hiring announcements for the retail sector heading into the holiday season are below seasonal norms this year, suggesting that the seasonally adjusted employment changes may be weak in 4Q. And the trend in the American Staffing Association's staffing index has been weakening noticeably lately, pointing to weakness in temp hiring. We also think that government employment may decline another 5,000 in October after falling 25,000 in September. Seasonally adjusted education employment fell in September as the jump in unadjusted hiring around the start of the school year came up short of the expected norms for September. Education-related employment also usually increases in October, so we think the seasonally adjusted data may be weak again that month.

For the other main details of the establishment survey, we believe the average workweek held at 34.5 hours in October, continuing its recent steady run at that level. With a flat workweek and our forecast for job growth, we think that aggregate hours will be up 0.1% in October. The tight labor market should keep upward pressure on hourly earnings but we think the labor market may have moved past the firmest period of wage inflation. We believe that average hourly earnings rose 0.3% in October, with this measure up 4.7%oya.

For the household survey, we don't expect the changes in many of the key measures to be significant enough to drive changes in the unemployment rate or participation rate after rounding. We think the unemployment held at 3.5% in October while the participation rate stayed at 62.3%. We do think the employment-population ratio may tick up from 60.1% in September to 60.2%.

Review of past week's data

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

S&P Global manufacturing PMI (US flash)(Oct 24)
Index, sa

	Aug	Sep	Oct	
Composite[1]	51.5	52.0	~~51.0~~	*49.9*
New orders (30%)	48.8	51.1		*46.7*
Output (25%)	49.2	50.6		*50.7*
Employment (20%)	51.1	53.8		*51.8*
Sup. del. (15%, inv.)	38.9	43.1		*46.0*
Stks of purch (10%)	51.4	47.6		*47.4*
New export orders	47.2	47.6		*44.0*
Backlogs of work	51.0	51.9		*46.5*
Output prices	62.9	64.1		*60.1*
Input prices	68.1	65.2		*63.9*
Stocks of fin. goods	49.6	51.1		*51.0*
Quantity of purchases	49.9	47.9		*43.2*
ISM-weighted comp.[2]	52.3	52.0		*50.1*

1. Weights in parentheses

2. Attributes ISM-comp. weights (equal weights) to corresponding PMI series

The US PMI data disappointed and looked weak in the flash October reports. The headline composite for the manufacturing survey fell from 52.0 in September to 49.9, hitting its lowest level since the early stages of the pandemic (June 2020). Overall the PMI data continued what has been a weak run across the business surveys in recent months that points to the economy losing momentum.

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Like the headline measures, many details throughout the PMI reports weakened in October and/or came in at low levels. For example, the new orders index from the manufacturing survey fell to 46.7 in October, hitting one of its lowest levels on record apart from periods during or immediately surrounding past recessions. The manufacturing survey's future output index also fell to a downbeat level of 56.2 in October. There were some PMI details that looked relatively more favorable, however, and the output index from the manufacturing survey edged up from 50.6 in September to 50.7 in October, hitting its highest level since May (although remaining soft).

S&P Global services PMI (US flash)(Oct 24)
Index, sa

	Aug	Sep	Oct	
Business activity	43.7	49.3	~~49.0~~	*46.6*
Incoming new business	47.2	50.8		*49.5*
Employment	53.0	52.2		*49.4*
Business expectations	63.4	66.7		*57.4*
Input prices	71.0	67.7		*68.5*
Prices charged	59.2	57.7		*58.0*
Backlogs of work	45.5	50.6		*46.7*

The headline activity index for the services survey declined from 49.3 in September to 46.6 in October, with this latest print still above the recent low from August but weak relative to norms for the series. In the services survey, the new business index edged down from 50.8 in September to 49.5 in October, with this latest reading low by broad historic standards although not much different from readings from the past few months. The services survey's employment index fell to 49.4 in October, hitting its lowest level since the early stages of the pandemic.

Consumer confidence (Oct 25)
Sa

	Aug	Sep	Oct	
Conference Bd index	103.6	107.8	~~109.0~~	*102.5*
Present situation	145.3	150.2		*138.9*
Jobs plentiful	47.6	49.2		*45.2*
Jobs hard to get	11.6	11.1		*12.7*
Labor mkt diff	36.0	38.1		*32.5*
Expectations	75.8	79.5		*78.1*

The Conference Board consumer confidence index showed a decline in its headline measure along with weakening in its gauge of labor market conditions. The headline index fell from 107.8 in September to 102.5 in October. While this latest reading disappointed, it was not as bad as a variety of other prints seen in this survey since COVID started spreading (85.7 is the low from recent years). Meanwhile, the survey's labor market differential declined from 38.1 in September to 32.5 in October. This measure generally has been trending lower throughout the year, but the latest reading was still pretty solid by broad historic standards, and outside of the Conference Board survey some other recent labor market indicators also point to continued strength in the labor market. Elsewhere in the survey, the mean year-ahead inflation expectation rose from 6.8% to 7.0%, undoing part of the decline reported over the past few months (the recent high for this measure was 7.9%, last seen in June).

International trade (adv.) (Oct 26)
$bn, samr, unless noted

	Jul	Aug	Sep	
Balance of goods, Cen. Basis	-90.2	-87.3	~~-91.2~~	*-92.2*
Exports (%samr)	0.4	-0.7	~~-1.0~~	*-1.5*
Imports (%samr)	-2.9	-1.5	*0.8*	*0.8*

In the trade data, the nominal goods balance widened from -$87.3bn in August to -$92.2bn in September as exports declined 1.5% and imports rose 0.8%. This September widening reversed just a small portion of the narrowing from the prior few months .

Business inventories (adv.) (Oct 26)
%m/m, sa, unless noted

	Jul	Aug	Sep	
Wholesale	0.6	1.4	~~0.4~~	*0.8*
Retail inventories	1.0	1.4	~~1.2~~	*0.4*
Ex autos	0.3	0.7	~~0.2~~	*-0.1*
Autos	3.5	3.5	~~4.2~~	*1.9*

In the nominal inventory figures, wholesale inventories rose 0.8% in September while retail inventories rose 0.4%. This retail figure was boosted by a 1.9% jump in inventories at motor vehicle and parts dealers, with vehicle inventories moving up in recent months from very depressed levels.

New home sales (Oct 26)

	Jul	Aug	Sep	
Total (000s,saar)	543	677	~~530~~	*603*
%m/m	-4.9	24.7	~~-22.6~~	*-10.9*
%oya, nsa	-29.0	-1.8	~~-27.6~~	*-15.5*
Months' supply	10.1	8.1		*9.2*
Median price (%oya)	18.2	7.8		*13.9*

New single-family home sales fell 10.9% to 603,000 saar in September. While this was a large decline, it wasn't as severe as was anticipated and it didn't fully reverse the 24.7% jump in sales reported for August. While sales have picked up off of the recent low of 543,000 saar reported for July, the broad trend over the past year still looks pretty weak through some of the noise in the monthly figures, and new home sales were reported down slightly on average in 3Q after dropping significantly in 2Q.

Other details of the new home sales report show that inventories of homes available for sale kept trending higher into September, and in recent months we have seen a pickup in the inventory of completed homes available for sale off of very low levels (until early this year, total inventories were rising mainly because of increases in homes under construction or not-yet-started). Despite inventories increasing and demand likely weakening as a result of higher mortgage rates, the median new home sale price has held up fairly well, with mixed changes across recent months and this measure up 13.9% oya. This gauge of house prices does not control for changes in the mix of sales and some other related price measures have looked weaker lately.

Durable goods (Oct 27)
%m/m, sa

	Jul	Aug	Sep	
New orders	-0.1	0.2	~~1.7~~	*0.4*
Ex transportation	0.2	0.0	~~0.0~~	*-0.5*
Nondef cap. gds ex air	0.7	0.8	~~0.4~~	*-0.7*
Shipments	0.2	1.3	~~0.0~~	*0.3*
Nondef cap. gds ex air	0.6	0.2	~~0.6~~	*-0.5*
Inventories	0.2	0.3		*0.2*

New orders for durable goods rose 0.4% in September, with this headline print boosted by a 21.9% surge in nondefense aircraft orders. The key details of the report tied to core capital goods—which exclude defense and aircraft—disappointed in September and looked weak, with related orders falling 0.7% during the month and shipments declining 0.5%. The monthly figures can be noisy and we don't want to extrapolate too much signal from just one monthly report. But the September weakening in the core capital goods data does look consistent with the idea that businesses are turning more cautious in terms of capex. And particularly after adjusting the data for price changes (that generally have been boosting the nominal figures lately), it looks like the trends in the core capital goods series have been cooling recently apart from just the latest monthly print.

Gross domestic product (Oct 27)
%ch, q/q, saar, unless noted

			Adv	
	1Q22	2Q22	3Q22	
Real GDP	-1.6	-0.6	~~3.0~~	*2.6*
Final Sales	-1.8	1.3	~~3.1~~	*3.3*
Domestic final sales	1.3	0.2	~~0.0~~	*0.5*
Consumption	1.3	2.0	~~1.0~~	*1.4*
Equipment	11.4	-2.0	~~-1.8~~	*10.8*
Intellectual property	10.8	8.9	~~7.4~~	*6.9*
Nonres. structures	-4.3	-12.7	~~-4.0~~	*-15.3*
Residential investment	-3.1	-17.8	~~-28.0~~	*-26.4*
Government	-2.3	-1.6	~~0.8~~	*2.4*
Exports	-4.6	13.8	~~14.7~~	*14.4*
Imports	18.4	2.2	~~-6.2~~	*-6.9*
Inventories (ch, $bn)	214.5	110.2	~~109.6~~	*61.9*
Net exports-pct.pt.contr.	-3.1	1.2	~~3.1~~	*2.8*
Inventories-pct.pt.contr.	0.2	-1.9	~~0.0~~	*-0.7*
Core PCE price index	5.6	4.7	~~4.5~~	*4.5*
(%oya)	5.3	5.0	~~4.9~~	*4.9*
GDP chain price index	8.3	9.0	~~6.3~~	*4.1*
(%oya)	6.9	7.6	~~7.6~~	*7.0*

Real GDP increased 2.6% saar in 3Q, an outcome modestly above the consensus and modestly below our own forecast. Like we had anticipated, there was a big boost to growth coming from narrowing in the trade deficit, and net exports added 2.8%-pts to the headline print (real exports surged 14.4% saar while real imports dropped 6.9% saar). The pace of inventory accumulation slowed in 3Q, subtracting 0.7%-pt from headline GDP. And real domestic final sales growth was modest at 0.5% saar, continuing what has been a lackluster run for this important measure of domestic demand throughout the year so far. There were mixed underlying details within domestic final sales. On the plus side, there was a surprisingly strong 10.8% saar jump in real equipment investment and a 2.4% increase in real government spending (the first quarterly gain for the government series since 1Q21). In more negative news, real residential investment tumbled 26.4% saar in 3Q while real nonresidential structures investment dropped 15.3% saar. The news on consumer spending was so-so, with the 1.4% saar gain in real spending a little better than expectations but still a fairly soft print.

The GDP deflator rose 4.1% saar in 3Q, a solid print but one that was below expectations and the softest quarterly reading since 4Q20. Much of the downside surprise (relative to our forecast) came from the details related to prices for imports and prices for government spending. The details related to PCE prices came in spot-on with our forecast, with the headline PCE price index up 4.2% saar in 3Q and the core PCE price index up 4.5% saar.

In the income space, real disposable personal income rose 1.7% saar in 3Q. The saving rate edged down from 3.4% in 2Q to 3.3% in 3Q, about in line with our forecast as both income and spending surprised to the upside by about half of a percentage point.

Personal income (Oct 28)
%m/m, sa, unless noted

	Jul	Aug	Sep	
Personal income	0.4	0.4	~~0.2~~	*0.4*
Wages & salaries	0.8	0.3	~~0.5~~	*0.6*
Consumption	-0.2	0.6	~~0.5~~	*0.6*
Real consumption	-0.1	0.3	~~0.2~~	*0.3*
PCE price index	-0.1	0.3	*0.3*	*0.3*
Core	0.05	0.54	~~0.38~~	*0.45*
Mkt-Based Core	0.2	0.5		*0.4*
Core (%oya)	4.7	4.9	*5.1*	*5.1*
Mkt-Based Core (%oya)	4.9	5.1		*5.4*
Saving rate	3.5	3.4	~~3.2~~	*3.1*

The core PCE price index was strong again in September, with this measure up 0.5% on the month (0.451% to three decimals). The monthly change in the headline PCE price index was softer, at 0.3%, as a decline in energy prices weighed on this figure. On a year-ago basis, inflation for both of these measures continue to look strong and significantly above the FOMC's 2% inflation target. The core PCE price index was up 5.1% oya in September, and the headline index was up 6.2% oya. But with energy prices dropping lately, the headline PCE price index increased only 1.9% saar over the most recent three reported months (though the core PCE inflation rate remained strong over these same three months at 4.2% saar).

Elsewhere in the PCE report, consumer spending fared a little better than expectations in September, and the August changes were revised up. Nominal spending rose 0.6% in September with real consumer spending up 0.3%. Overall, it looks like consumers have decent spending momentum heading into 4Q, with recent spending gains being supported by the drawdown of "excess saving" that was built up by households earlier in the pandemic. Nominal income rose 0.4% in September, with the saving rate moving down to 3.1% that month, getting back down near its recent low of 3.0% from June.

Pending home sales (Oct 28)
sa, unless noted

	Jul	Aug	Sep	
Total (mn, ar)	90.2	88.5	~~84.0~~	*79.5*
%ch m/m	-0.6	-1.9	~~-5.0~~	*-10.2*
%oya (nsa)	-22.2	-22.5	~~-27.1~~	*-30.4*

The pending home sales index fell by more than was anticipated in September, dropping 10.2% during the month. This continues a very weak trend for this measure of housing activity and the drop in sales from recent months has brought the index level fairly close to the low reported around the onset of the pandemic. Pending home sales usually lead existing home sales by one or two months so we likely will see additional declines in existing home sales to come.

Consumer sentiment (Oct 28)

	Sep	Pre Oct	Fin Oct	
Univ. of Mich. Index (nsa)	58.6	59.8	*59.9*	
Current conditions	59.7	65.3		*65.6*
Expectations	58.0	56.2		*56.2*
Inflation expectations				
Short-term	4.7	5.1		*5.0*
Long-term	2.7	2.9		*2.9*
		0		

The University of Michigan survey continues to show increases in its inflation expectation measures between September and October, but the move up in the short-term measure now looks somewhat less notable after a downward revision in the final October release. In the updated figures, the median one-year-ahead inflation expectation rose from 4.7% in September to 5.0% in October (5.1% in the preliminary October print) while the median five-year-ahead inflation expectation increased from 2.7% to 2.9% (unrevised from the preliminary reading). The latest readings for both of these measures look strong relative to the norms from pre-pandemic years but they remain below recent highs.

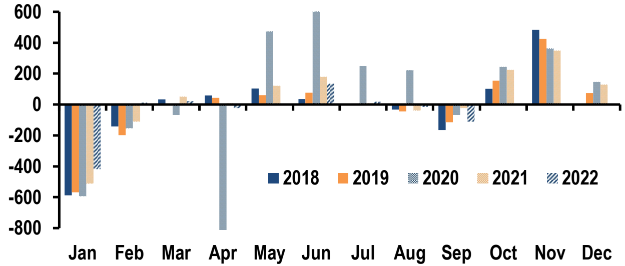
In terms of the headline sentiment measure, the Michigan survey continues to show modest improvement between September and October. There is a clear pickup in sentiment over the past few months off of the all-time low reported for June, but the latest figures still look very weak by broad historical standards. In the updated October data, the headline index rose from 58.6 in September to 59.9 (revised up a touch from 59.8 in the preliminary October report).

Focus: Watch out for weakness in retail employment

Announced retail hiring plans look weaker than normal heading into the holiday season this year. If related employment gains end up weaker than the seasonal norms, this should generate weakness in the seasonally adjusted employment data reported by the BLS. We think this could start to show up in the October employment report for which we forecast that retail employment declined by 25,000 after seasonal adjustment (for headline employment, we forecast a 175,000 gain). The seasonally adjusted retail data may weaken more in November given that November is the month in which the bulk of the seasonal hiring usually occurs for the retail sector.

Figure 1: Changes in retail employment by month and year

000s, nsa



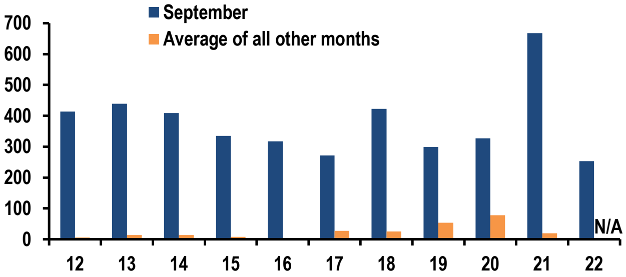
Source: BLS, J.P. Morgan

The spread of COVID-19 threw a wrench in some of the normal seasonal patterns, but there are still some clear seasonal tendencies for changes in retail employment across the year. Before seasonal adjustment, retail hiring generally ramps up during the fourth quarter of each year as the economy gears up for the holiday season and then the retail sector sheds a significant amount of jobs in January and also reduces employment in February. In 2019, for example, retail employment increased by about 650,000 across October (153,000), November (425,000), and December (74,000) before seasonal adjustment. Almost 600,000 jobs were cut the following January. These seasonal swings have been similar in recent years (Figure 1) even since COVID-19 started spreading.

Plans for end-of-year retail hiring generally are announced in September according to data reported by Challenger, Gray, and Christmas (Figure 2). September clearly has been the biggest month for retail hiring announcements over the past decade, with announcements for about 360,000 jobs on average in the eight Septembers leading up the pandemic. Announced hiring plans were close to this average in September of 2020 and then a boomy 668,000 in September 2021. Announced retail hiring plans look more modest this September than they have been in recent years, with announced plans for retail hiring of only 253,000.

Figure 2: Announced retail hiring plans by month and year

000s, nsa

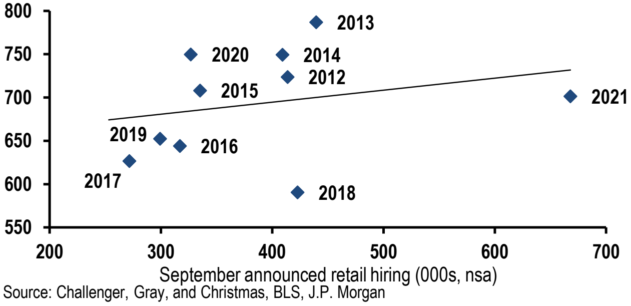


Source: Challenger, Gray, and Christmas, J.P. Morgan

Announced hiring plans are not a guarantee about future employment changes. For example, 2018 had weaker retail employment changes across the fourth quarter than 2017 did despite pretty strong hiring plans announced in September 2018, particularly when compared to the subpar hiring plans announced in September 2017. But the relative strength/weakness in September retail hiring announcements generally has corresponded well with relative strength/weakness in retail employment changes over the last three months of the year looking at the BLS's employment data both before and after seasonal adjustment (Figures 3 and 4, respectively). We therefore think that seasonally adjusted retail employment will decline across the last three months of this year, beginning with a 25,000 drop in the upcoming October report.

Figure 3: Retail hiring announcements and related employment (nsa)

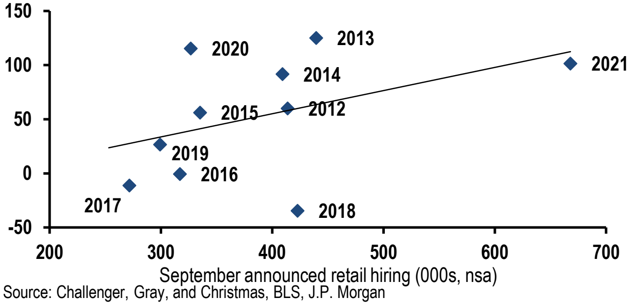
Change in retail employment across Oct, Nov, Dec (000s, nsa)



Source: Challenger, Gray, and Christmas, BLS, J.P. Morgan

Figure 4: Retail hiring announcements and related employment (sa)

Change in retail employment across Oct, Nov, Dec (000s, sa)



Source: Challenger, Gray, and Christmas, BLS, J.P. Morgan

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Euro Area

- **We now expect a shallower -1.25% ar contraction in 4Q22 GDP, but inflation pressures remain intense**
- **As a result, we added one 25bp hike in 1Q23, beyond the 50bp hike projected in December**
- **PMI edged into GDP contraction territory in October, as German IFO remains depressed**
- **ECB: back to forward looking mode. medium-term inflation back into the spotlight**

National GDP data released this week were consistent with Euro area GDP expanding 0.5%q/q ar in 3Q22. Reports for Germany (+1.1% ar), France (+0.6% ar) and Spain (+1% ar) were broadly in line with expectations, net of some modest noise. Italian GDP is due Monday and we continue to expect it to show stagnation. Even though high inflation and the war in Ukraine were already drags, the reopening of tourism was likely a support in 3Q22. At the same time, the flash composite PMI declined 1pt to 47.1 in October. This level signals stagnation rather than outright contraction, although with significant cross-country differences.

We expect further declines in the rest of the quarter, and nonlinearities in the PMI-GDP relationship can kick in as the PMI drops further. While we do not yet have any hard activity data for the current quarter, the PMI raised some upside risk versus our Euro area GDP forecast of a -1.75% ar contraction in 4Q22. Taking stock of this, we revised up German and French 4Q22 GDP growth by 1%-pt to -1.5% ar and -0.5% ar, respectively. These changes pushed our Euro area GDP estimate up by 0.5%-pt to -1.25% ar. As we we continue to expect a -1.0% contraction in 1Q23, we now project a milder recession overall.

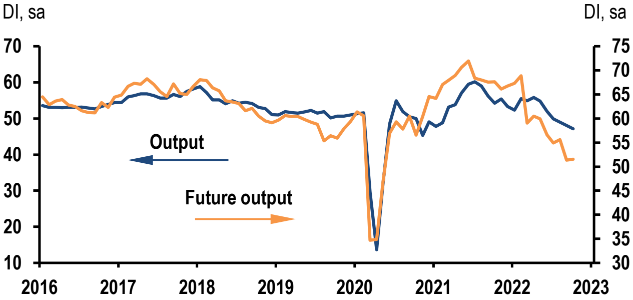
On inflation, today's national reports show noisy developments in energy, and a further pickup in food and core inflation ahead of next week's HICP inflation release for October. Despite dovish ECB communication this week (alongside the expected 75bp tightening) and even though wage growth remains quite modest, the combination of a shallower recession and a higher peak in core inflation prompted us to add one extra 25bp hike in 1Q23, beyond the the 50bp hike we already expected in December. In bigger picture terms, our new forecast of a 2.25% terminal rate still assumes that many of the current inflation pressures will fade and that inflation can settle at the target without a very restrictive stance.

PMI edges into contraction territory, with some drags likely not well captured

During the first part of the year, the Euro area economy was boosted by the services reopening following the Omicron wave. This boost has since faded and the Euro area economy has been facing intensifying drags (higher energy prices and tighter financial conditions in particular), which we expect will push the economy into recession this quarter.

The PMI survey is important to assess the pace of activity in the region and the flash reading shows that the survey continued to slide in October. At the composite level, the output index fell 1.0pt to 47.1 (Figure 1). Across sectors, the decline in the manufacturing output index was more pronounced (-2.1pts to 44.2), while the services output index declined moderately (-0.6pt 48.2). At the country level (Figure 2), the German and French composite PMI fell, respectively, 1.6pt (to 44.1) and 1.2pts (to 50.0). In the rest of the region, the composite PMI was only down 0.4pt (to 48.1).

Figure 1: Euro area composite output and future PMI



Source: Markit and J.P. Morgan

According to our model, the October print is consistent with a 0.1% ar contraction. Assuming a similar PMI decline in November and December would leave GDP down 0.5% ar. We think GDP will decline more forcefully as the PMI does not capture large drags in energy-intensive sectors, nor does it cover the retail and construction sectors, whereas a pullback in high social contact services (also not covered) is likely after the summer rebound.

On the demand side, the composite new orders index fell 1.4pts to 45.0 (with new orders down 1.8pts to 41.9), hinting at a further decline in the output index. Price pressure is also moderating a little, with the composite input price and output price indices down 0.9pt to 76.3 and 0.2pt to 64.1, respectively, although these surveys remain at high levels by historical standards. Meanwhile, the labor market continues to be resilient, with the composite employment index up 0.2pt to 52.6 despite sentiment remaining low (the future output index was up 0.2pt to 51.6).

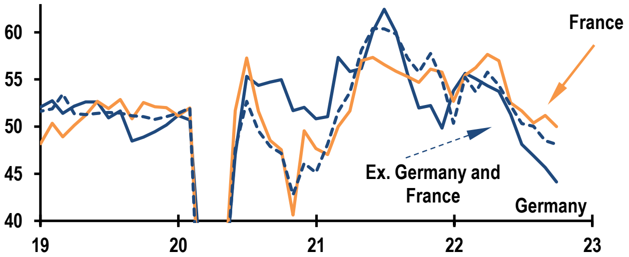
High energy prices are having a large impact on the manufacturing sector. The fall in the output index (-1.8pt to 46.6) was large and new orders in this sector fell 3.5pts to 37.8. The forward-looking orders-to-inventory also fell further in October. In our view, the recent decline in gas prices (although still high by historical standards) largely explains the 3.6pt decline in the manufacturing input price index to 72.9, although this is still failing to show on the output price index (-0.5pt to 67.0).

The survey also signaled shorter delivery times and lower backlogs of work, suggesting that pandemic-related supply chain issues continue to fade, even though the recent decline in demand may be also playing a role. In any case, these developments should reduce inflationary pressures going forward. Despite the high energy price drag, the resilience in the manufacturing employment index (+0.8pt to 53.2) is striking.

Regarding services, the decline in the output index (-0.6pt to 48.2) was much more modest and new orders also fell by a lesser extent (-0.6pt to 47.6). The employment and price indices, meanwhile, remained broadly unchanged. The move up in sentiment at the composite level was driven by the services sector, where the future output index was up 0.5pt to 54.0.

Figure 2: Euro area composite output PMI

DI, sa



Source: Markit and J.P. Morgan

German IFO stabilises at depressed level

The German IFO was broadly stable in October at an extremely low level. This reflected a small deterioration in current conditions (-0.4pt to 94.1) and a small improvement in business expectations (+0.3pt to 75.6). These results remain hard to interpret. Normally, the expectations index in the IFO correlates more closely with GDP growth (and the PMI) than the current conditions index. But, the collapse in the expectations index looks overdone and has gone far beyond the deterioration in the PMI .

The PMI has been moving down as well, but it is not clear how much further it will fall given the sharp declines in market-based gas prices and the building policy response. The German government has still not confirmed any of the parameters of the gas and electricity price brakes, but this should nevertheless act to put a lid on how far the bills of households and corporates can increase by. Hence, uncertainty over the winter has likely declined significantly.

ECB: the return to a forward looking, data-dependent attitude

The ECB hiked rates 75bp this week, taking the deposit rate to 1.5%. While the ECB “expects to raise interest rates further”, its rhetoric turned dovish. First, the ECB removed the “next several meetings” language and hence did not commit to hiking after December. Instead, the ECB is pivoting to a data-dependent and meeting-by-meeting phase. Second, the ECB said that “substantial progress” has now been made in withdrawing monetary policy accommodation. Third, the economic discussion has become significantly more downbeat/ cautious.

President Lagarde laid out a framework for making decisions at the upcoming meetings, which is closer in spirit to the speeches of Lane than to those of Schnabel. This bases future decisions on three factors, taking into account: (i) the inflation outlook and hence also the impact of weaker near-term growth (or recession); (ii) the decisions taken so far, including the 200bp of hikes delivered to date; (iii) that changes in monetary policy affect the economy and inflation with a lag, which reinforces the need to look forward.

Lagarde explicitly said that the ECB does not yet know what terminal policy rate level is needed to bring inflation back to 2%. But, the shift to a full meeting-by-meeting approach keeps all options open. Our inclination has been to think that the medium-term inflation outlook does not require a big shift into restrictive territory and therefore we have a terminal rate of 2.25% in our forecast.

Analytically, the biggest shift in the ECB’s thinking this week occurred on the growth side, reckoning a bigger risk of recession and noting the deterioration in high frequency data. There was less of a shift on the inflation side, with risks still seen “primarily on the upside”. It was noted however that the weakening of the economy could lead to “somewhat higher unemployment in the future”. In any case, the meeting put the focus firmly on the next set of ECB staff projections in guiding the needed monetary adjustment.

Data releases and forecasts

Week of October 31 - November 4

Output and surveys

	Real GDP				
		4Q21	1Q22	2Q22	3Q22
Mon	**Euro area (flash estimate)**				
Oct 31	%q/q, sa	0.5	0.6	0.8	0.1
11:00am	%q/q, saar	2.1	2.4	3.3	0.5
	%oya	4.8	5.5	4.3	

Euro area GDP likely increased 0.5%q/q saar in 3Q22. This would be consistent with the national flash estimates published so far and consistent with the signs of slowing in the main business surveys in 3Q22. One support was likely the reopening of the tourism sector, while high energy prices and uncertainties created by the war in Ukraine likely weighed on the broader economy. As the PMI declined more slowly than initially expected during the quarter, its trajectory into 4Q22 suggests a smaller contraction than we had initially thought. Confirmation of an increase in GDP in 3Q22 would reinforce the sense of some resilience in the economy.

		4Q21	1Q22	2Q22	3Q22
Mon	**Italy (flash estimate)**				
Oct 31	%q/q, sa	0.8	0.1	1.1	
10:00am	%q/q, saar	3.4	0.6	4.4	0.0
	%oya	6.6	6.4	5.0	

We expect Italian GDP to have stagnated in 3Q22. The rising impact of the energy crisis should have been a broad drag on the whole economy, broadly offset by the last tail of the post-COVID services rebound and by strong non resident spending.

	Purchasing managers index final (manufacturing)				
		Jul	Aug	Sep	Oct
Fri	**Euro area**				
Nov 4	Overall	49.8	49.6	48.4	46.6
10:00am	Output	46.3	46.5	46.3	
9:55am	**Germany**				
	Overall	49.3	49.1	47.8	45.7
	Output	45.0	45.3	47.0	
9:50am	**France**				
	Overall	49.5	50.6	47.7	47.4
	Output	44.6	46.6	43.3	
9:45am	**Italy**				
	Overall	48.5	48.0	48.3	
	Output	45.8	47.0	44.2	
9:15am	**Spain**				
	Overall	48.7	49.9	49.0	
	Output	48.5	50.1	47.8	

	Purchasing managers index final (services)				
		Jul	Aug	Sep	Oct
Fri	**Euro area**				
Nov 4	Overall region	51.2	49.8	48.8	48.2
10:00am					
9:55am	**Germany**	49.7	47.7	45.0	44.9
9:50am	**France**	53.2	51.2	52.9	51.3
9:45am	**Italy**	48.4	50.5	48.8	
9:15am	**Spain**	53.8	50.6	48.5	

	Purchasing managers index final (composite)				
		Jul	Aug	Sep	Oct
Fri	**Euro area**				
Nov 4	Overall region	49.9	48.9	48.1	47.1
10:00am					
9:55am	**Germany**	48.1	46.9	45.7	44.1
9:50am	**France**	51.7	50.4	51.2	50.0
9:45am	**Italy**	47.7	49.6	47.6	
9:15am	**Spain**	52.7	50.5	48.4	

The final Euro area PMI print should come in line with the flash release. With the survey continuing to trend down, the PMI is moving into contraction territory. According to our model, the October flash reading was consistent with a 0.1% ar contraction. Assuming a similar PMI decline in November and December would leave GDP down 0.5% ar. We think GDP will decline more forcefully as the PMI does not capture large drags in energy-intensive sectors and does not take into account parts of the retail sector.

Manufacturing orders

		Jun	Jul	Aug	Sep
Fri	**Germany**				
Nov 4	Volumes, sa				
8:00am	Total (%m/m)	-0.3	1.9	-2.4	1.0
	%oya	-8.9	-11.1	-4.0	
	Total ex. bulk orders (%m/m)	0.6	0.0	0.8	-0.3
	%oya	-6.2	-5.2	-0.1	
	Domestic (%m/m)	1.2	-3.7	-3.4	
	%oya	-12.7	-14.8	-7.9	
	Foreign (%m/m)	-1.4	6.0	-1.7	
	%oya	-6.0	-8.3	-1.2	

German orders have been quite resilient in recent months , especially in light of the sharp slide in the main business surveys. The decline in August was also largely due to a fall in bulk orders, likely related to weaker aircraft orders. A partial rebound is possible from this. In addition, the VDA car production data have shown a large increase in September, which could support orders for car components.

Industrial production

		Jun	Jul	Aug	Sep
Fri	**France**				
Nov 4	Ind production (%m/m, sa)	1.2	-1.6	2.4	-0.5
8:45am	%oya, sa	1.1	-1.2	1.2	
	Manuf prod (%m/m, sa)	1.0	-1.6	2.7	

French IP increased strongly in August, helped by a strong rebound in car production. High energy prices are having an impact on energy-intensive companies, although more modestly in France than in some other countries of the region as the French government has acted to limit the rise in gas and electricity prices for some companies. We expect IP to decline in September. This decline both reflects a technical effect after the large August gain and our view that the French industrial sector is generally suffering in the context of high energy prices.

Demand and labor markets

Unemployment

		Jun	Jul	Aug	Sep
Thu	**Euro area**				
Nov 3	Harmonized measure (Eurostat)				
11:00am	Unemployment rate (%, sa)	6.7	6.6	6.6	6.6
	Unemployment (ch m/m, 000s)	-32.0	-63.0	-30.0	

The Euro area unemployment rate was stable in August and in our view already reached a bottom. The slow pace of growth towards the end of 3Q and the contraction in activity that we expect in 4Q-1Q should prompt an increase in the unemployment in the coming quarters. However, we penciled in a small increase to 7.0% in 1Q23. We think companies will be reluctant to lay-off workers as they have struggled to hire workers in recent quarters.

		Jul	Aug	Sep	Oct
Wed	**Germany**				
Nov 2	Registered (ch m/m, 000s, sa)	45	27	13	10
9:55am	000s, nsa	2470.2	2547.3	2485.7	
	Unempl. rate (%, sa)	5.4	5.5	5.5	5.5

Employment

		Jun	Jul	Aug	Sep
Wed	**Germany**				
Nov 2	Change m/m, 000s, sa	23	19	-4	0.0
9:55am					

The German labor market has slowed recently, but only modestly. The employment indices are also still at elevated levels in the main business surveys, despite the sharp falls in the orders and new orders components. While unemployment has been moving higher, this reflects the impact of Ukrainian refugees, which could fade somewhat in October.

Retail sales

		Jun	Jul	Aug	Sep
Mon	**Germany**				
Oct 31	Sales ex. autos and petroleum, volumes, sa				
8:00am	%m/m	-1.2	1.0	-1.8	1.0
	%oya	-7.4	-1.3	-4.1	

German retail sales fell sharply in August. While higher energy costs are likely having an impact, the reopening of the tourism sector may also have shifted some spending away from domestic shopping to foreign holidays. This effect may have been larger than in recent years. As a result, we pencil in a partial recovery in September.

External trade and payments

Foreign trade

		Jun	Jul	Aug	Sep
Wed	**Germany**				
Nov 2	€ bn, values, sa				
8:00am	Trade balance	5.7	3.4	1.0	
	year earlier	12.8	15.8	13.7	
	Exports	133.1	131.0	135.2	
	%m/m	2.4	-1.6	3.2	
	Imports	127.4	127.6	134.3	
	%m/m	0.6	0.1	5.2	

Inflation

	Consumer prices	Jul	Aug	Sep	Oct
Mon	**Euro area (flash)**				
Oct 31	HICP (%oya, nsa)	8.9	9.1	9.9	10.7
11:00am	HICP (%m/m, sa ECB)	0.7	0.6	1.0	1.5
	HICP core (%oya, nsa)	4.0	4.3	4.8	5.1
	HICP core (%m/m, sa ECB)	0.6	0.4	0.6	0.6

National reports point to a large increase in Euro area inflation, driven by higher energy, food and core inflation. On core, we estimate a pickup of 0.3%-pt to 5.1%oya. We suspect this was mainly driven by core goods, although German services inflation also accelerated (in the national CPI report). If correct, the national data suggest no easing back yet in the sequential core inflation pressures. National CPI releases point to a broad-based pickup in food inflation and mixed developments in energy inflation. The latter fell in Spain due to government interventions, but rose sharply in Italy, which should partly reverse in January. Overall, we still expect Euro area inflation to decline rapidly next year toward the ECB target, but the peak looks set to be postponed yet again.

	Producer prices	Jun	Jul	Aug	Sep
Fri	**Euro area**				
Nov 4	%m/m, nsa	1.3	4.0	5.0	
11:00am	%oya, nsa	36.0	38.0	43.3	

	Import prices	Jun	Jul	Aug	Sep
Mon	**Germany**				
Oct 31	%m/m, nsa	1.0	1.4	4.3	
8:00am	%oya, nsa	29.9	28.9	32.7	

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Review of past week's data

Output and surveys

Purchasing managers index flash (manufacturing)

	Aug	Sep	Oct	
Euro area				
Overall	49.6	48.4	~~48.8~~	*46.6*
Output	46.5	46.3		*44.2*
Germany				
Overall	49.1	47.8	~~48.1~~	*45.7*
Output	45.3	47.0		*42.5*
France				
Overall	50.6	47.7	~~49.6~~	*47.4*
Output	46.6	43.3		*44.2*

Purchasing managers index flash (services)

	Aug	Sep	Oct	
Euro area	49.8	48.8	~~48.8~~	*48.2*
Germany	47.7	45.0	~~46.7~~	*44.9*
France	51.2	52.9	~~49.5~~	*51.3*

Purchasing managers index flash (composite)

	Aug	Sep	Oct	
Euro area	48.9	48.1	~~48.0~~	*47.1*
Germany	46.9	45.7	~~45.9~~	*44.1*
France	50.4	51.2	~~49.6~~	*50.0*

European Commission survey

	Aug		Sep		Oct	
Euro area						
% balance of responses, sa						
Economic confidence	97.3		~~93.7~~	*93.6*	~~92.2~~	*92.5*
Industrial confidence	~~1.0~~	*1.1*	~~-0.4~~	*-0.3*		*-1.2*
Construction confidence	~~3.4~~	*3.5*	~~1.6~~	*1.8*		*2.6*
Retail confidence	~~-6.5~~	*-6.4*	-8.4			*-6.9*
Service confidence	~~8.1~~	*7.7*	~~4.9~~	*4.4*		*1.8*
Consumer confidence	-25.0		-28.8			*-27.6*

National business surveys

	Aug		Sep		Oct	
German IFO survey						
2015=100, sa						
Business climate	88.6		~~84.3~~	*84.4*	85.0	*84.3*
Business situation	~~97.5~~	*97.6*	94.5		94.0	*94.1*
Business expectations	80.5		~~75.2~~	*75.3*	77.0	*75.6*

	Aug		Sep		Oct	
Italy (ISAE survey)						
2000=100, sa						
Producer confidence	~~104.0~~	*103.9*	~~101.3~~	*101.2*		*100.4*

	Aug	Sep	Oct	
Belgium (BNB survey)				
% balance of responses, sa				
Overall	-5.8	-11.8		*-15.5*
Manufacturing	-7.2	-13.9		*-19.7*
Commerce	-11.9	-24.1		*-23.5*
Construction	-5.6	-6.0		*-7.4*

Real GDP

	1Q22	2Q22		3Q22	
Germany (flash estimate)					
%q/q, sa	0.8	0.1			*0.3*
%q/q, saar	3.2	~~0.6~~	0.4		*1.1*
%oya	3.5	1.7			*1.1*

	1Q22		2Q22		3Q22	
France (1st estimate)						
%q/q, sa	-0.2		0.5			*0.2*
%q/q, saar	-1.0		~~2.2~~	*2.0*	~~0.5~~	*0.6*
%oya	4.7		4.2			*1.0*
GDP components (%q/q, saar):						
Private consumption	-4.7		~~1.4~~	*1.1*		*0.2*
Government consumption	~~0.2~~	*0.5*	~~-1.1~~	*-0.5*		*1.8*
Fixed investment	~~1.7~~	*2.2*	~~0.9~~	*1.6*		*5.2*
Exports	~~7.2~~	*8.3*	~~3.7~~	*5.5*		*2.7*
Imports	~~8.0~~	*7.0*	~~0.0~~	*4.9*		*9.1*
Contribution to GDP growth (%q/q, saar):						
Domestic final sales	~~-2.1~~	*-2.0*	~~0.7~~	*0.9*		*1.8*
Inventories	~~1.6~~	*0.8*	~~0.3~~	*1.1*		*1.1*
Net trade	~~-0.5~~	*0.2*	~~1.1~~	*0.0*		*-2.2*

	1Q22		2Q22		3Q22	
Spain (flash estimate)						
%q/q, sa	-0.2		1.5			*0.2*
%q/q, saar	-0.8		6.0		~~2.0~~	*1.0*
%oya	6.7		6.8			*3.8*

Demand and labor markets

Domestic consumption

	Jul		Aug		Sep	
France						
Consumption of goods, volumes, swda						
%m/m	~~-0.9~~	*-1.0*	~~0.0~~	*0.1*		*1.2*
%oya	~~-4.6~~	*-4.9*	~~-3.9~~	*-4.0*		*-3.0*

Inflation

Consumer prices

	Aug		Sep		Oct	
Germany (prelim)						
%m/m, nsa	0.3		1.9		~~0.6~~	*0.9*
%oya	7.9		10.0		~~10.0~~	*10.4*
HICP (%oya)	8.8		10.9		~~11.0~~	*11.6*
Baden Wuerttemberg (%oya)	7.3		9.5		~~9.5~~	*9.8*
Bavaria (%oya)	8.4		10.8		~~10.9~~	*11.0*
Brandenburg (%oya)	7.9		9.9		~~10.3~~	*10.8*
Hesse (%oya)	8.0		9.4		~~9.4~~	*9.9*
North-Rhine West (%oya)	8.1		10.1		~~10.3~~	*11.0*
Saxony (%oya)	7.3		9.2		~~9.4~~	*10.1*

	Aug		Sep		Oct	
France (prelim)						
%m/m, nsa	0.5		-0.6		~~0.4~~	*1.0*
%oya, nsa	5.9		5.6		~~5.5~~	*6.2*
HICP (%oya)	6.6		6.2		~~6.3~~	*7.1*

	Aug		Sep		Oct	
Italy (prelim)						
%m/m, nsa	0.8		0.3		~~1.1~~	*3.5*
%oya, nsa	8.4		8.9		~~9.3~~	*11.9*
HICP (%oya, nsa)	9.1		9.4		~~10.1~~	*12.8*

	Aug		Sep		Oct	
Spain (flash)						
%m/m, nsa	0.3		-0.7		~~1.4~~	*0.4*
%oya, nsa	10.5		8.9		~~8.3~~	*7.3*
HICP (%oya, nsa)	10.3		9.3		~~8.4~~	*7.3*

	Aug		Sep		Oct	
Belgium CPI						
%m/m, nsa	0.8		1.0			*2.4*
%oya, nsa	9.9		11.3			*12.3*

Producer prices

	Jul		Aug		Sep	
France						
%m/m, nsa	~~1.9~~	*1.8*	~~2.7~~	*2.8*		*1.0*
%oya, nsa	~~27.6~~	*27.4*	~~29.5~~			*28.5*

	Jul		Aug		Sep	
Italy						
%m/m, nsa	5.0		2.8			*2.8*
%oya, nsa	36.9		40.1			*41.8*

Financial activity and public finance

Money and credit data

	Jul		Aug		Sep	
Euro area						
M3 (%m/m sa)	~~0.6~~		~~0.9~~	*1.0*		*0.7*
M3 (%oya)	5.7		6.1			*6.3*
Loans (%oya)1.	6.3		~~6.7~~	*6.8*		*6.9*
Loans (m/m, €bn)1.	51.3		~~82.8~~	*94.2*		*70.7*
Of which						
To households	18.5		~~20.8~~	*21.1*		*15.1*
To nonfinancial corporates	44.1		~~67.2~~	*68.2*		*27.3*

1. Loans to nonbank private sector, adjusted for securitization

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

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Japan

- **The BoJ kept policy unchanged, but its forecasts sent a signal that policy normalization is approaching**
- **Services PMI rose firmly in October, supported by reopening dynamics, although the manufacturing index edged down**
- **Tokyo CPI surprised to the upside in October, and we revised up our inflation forecast**
- **The U-rate edged up temporarily in September, but the job offers ratio suggested further labor market tightening**

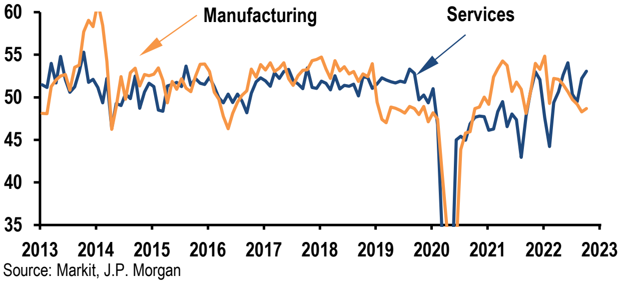
At this week's Monetary Policy Meeting, the BoJ kept policy unchanged, as expected. There were no changes to the policy statement, including the forward guidance. However, we see a clear change in the BoJ's inflation forecasts; the BoJ now looks for a sustained rise in inflation, backed by an improvement in the output gap, increases in medium- to long-term inflation expectations and in wage growth. The projected BoJ core inflation (excl. fresh food and energy) was revised up to 1.6% both for FY2023 (previously 1.4%) and FY2024 (1.3%). For growth rates, the BoJ lowered forecasts for FY2022 (from 2.4% to 1.9%) and FY2023 (from 2.0% to 1.9%), and this was attributable to the rise in the number of infections during the summer and slowing global demand. However, the BoJ raised its growth forecast for FY2024 from 1.3% to 1.5%, assuming that the increase in capex will boost the potential growth rate. Although there was no change in the policy, the BoJ's economic forecasts sent a clear signal that the BoJ's discussion is moving toward policy normalization.

This week's indicators showed that economic conditions which justify BoJ policy normalization are in place earlier than we had expected. The October PMI flash composite PMI rose firmly, led by the gain in the services index, reflecting reopening dynamics. Furthermore, in the October Tokyo CPI report, BoJ core CPI (ex. fresh food and energy)—the BoJ's key indicator to gauge inflation momentum for monetary policy decisions—surprised to the upside, and jumped well above 2%, earlier than our previous forecast. Based on the recent firmer inflation dynamics, we revised up our nationwide inflation forecast, and now look for BoJ core to exceed 2% in October, and accelerate close to 3% in 1Q23.

PMI indicated services bounce continuing

The October flash composite PMI rose 0.7pt to 51.7, marking a second consecutive rise. Services led the October gain, the same as in September, reflecting ongoing reopening dynamics (Figure 1). With domestic demand picking up backed by the removal of restrictions on foreign arrivals to Japan and the resumption of the travel subsidy program, both started from October, the services activity index rose 0.8pt to 53.0, matching our expectation. On the other hand, the manufacturing headline index edged down 0.1pt to 50.7, but the decline was smaller than our expectation of a 0.3pt fall. Yet, this weak signal in the manufacturing index contradicts the recent strong bounce in industrial production. While the manufacturing PMI continues to send a weak signal, industrial production data continued to post solid gains through August.

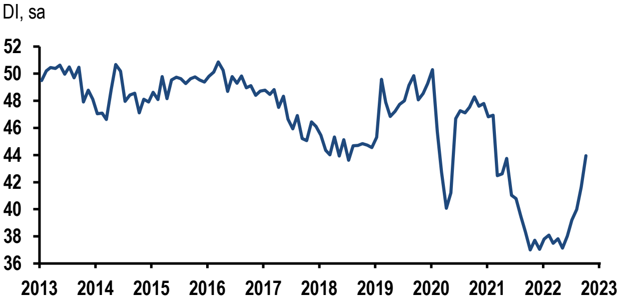
Figure 1: PMI output index
DI, sa



Source: Markit, J.P. Morgan

In the manufacturing sector, firms continue to face headwinds from higher costs and slower global demand, but supply bottlenecks continue to ease, supporting a production recovery. Both the output and the new orders indices rose in October, for the first month after having fallen for six consecutive months, rising 0.4pt to 48.7 and 1.9pts to 48.2, respectively. While external demand appears to remain weak, as indicated by a 0.1pt decline to 47.4 in the new export orders index, bottleneck pressures appear to continue to ease with the suppliers' delivery time index rising 2.3pts to 44.0 (Figure 2). Reflecting firms' rising expectation of normalization of pandemic-related disruptions, the future output index also rose 0.4pt to 59.4. Despite easing bottleneck pressures, however, price pressures remained elevated, and the input price index stayed near the historical high, at 73.3 in October even after a 2.3pt decline. Firms appear to increasingly be passing the higher costs on to customers, with the output price index reaching the highest level on record, with a 0.4pt rise to 63.0.

Figure 2: PMI suppliers' delivery times, manufacturing



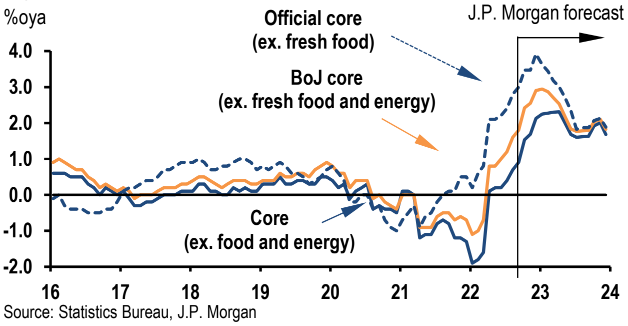
Source: Markit, J.P. Morgan

Services activity continued to recover, but there are rising concerns about a payback after the near-term surge. The services activity index rose 0.8pt to 53.0, 1pt lower than the post-pandemic high of 54.0 marked in June. With the recent surge in demand for services backed by the travel subsidy program, the new business index remained high at 52.6, even after a 0.4pt decline. However, persistent cost pressures and concerns about a possible decline in demand after the end of travel subsidies have increased uncertainty about the future, and the future index declined 1.4pts to 57.2. Although the level of the index remained high, this indicated rising concern about the sustainability of the ongoing bounce in services. That said, we continue to expect services demand to remain solid for quarters ahead, as accumulated excess savings held by households likely will cushion inflation headwinds this time.

Tokyo core CPI surprised to the upside

In the October Tokyo CPI report, BoJ core CPI rose 2.2%oya in October, accelerating 0.5%-pt from September. Based on the result, the nationwide BoJ core CPI should also exceed 2%oya in October, and we look for it to rise 0.3%m/m, sa and 2.4%oya. Also, reflecting this firmer inflation dynamics, we revise up our inflation forecasts; we now expect BoJ core and core CPI (ex. food and energy) to accelerate to 2.6% and 1.8% in 4Q22, and reach 2.8% and 2.3% in 1Q23, respectively (Figure 3). These temporary strong cost pressures should moderate from 2Q23, but we look for the trend of core CPI to shift up from the pre-pandemic norm of 0.5%oya to around 2% by the end of next year. As for core CPI (ex. fresh food, de facto headline CPI), it should reach its peak at 3.6%oya in 4Q22 from 2.7% in 3Q, and then decelerate sharply to around 2% by the end of 2023.

Figure 3: Core CPI forecast



Source: Statistics Bureau, J.P. Morgan

Although resumption of a travel subsidy program in the month dragged down core CPI by 0.2%-pt, the acceleration in food and core inflation was much stronger than our predictions. Especially, the hikes in food prices were concentrated in October, and they jumped 1.4%m/m, sa (seasonally adjusted by J.P. Morgan) and rose 5.9%oya, recording a historical high. Since Japanese food prices have a long 2Q-3Q lag with international food prices, their increasing pace is unlikely to decelerate until the beginning of next year. Core CPI (ex. fresh food and energy) inflation also firmed and was above 1%oya, rising 0.2%m/m, sa and 1.1%oya in the month, with firmer goods and services; core goods prices rose 0.5%m/m, sa and 3.1%oya, reflecting the recent sharp yen depreciation and supply bottlenecks, and services prices finally rose 0.1%m/m, sa in October, after 0% in September and -0.1% in August, in response to the reopening dynamics. Furthermore, the negative impact from the past large reduction in mobile phone charges faded completely from October, which pushed up year-ago rate of services prices to 0.8%oya, 0.3%-pt higher from September.

U-rate edged up temporarily in September

The unemployment rate unexpectedly edged up by 0.1%pt to 2.6% in September, after a 0.1%pt decline in August (Figure 4). This September rise was largely attributable to a 4.6%m/m, sa increase in the unemployed. However, this reflected the fact that the number of job seekers who are seeking better compensation in the tight labor market is tentatively increasing, in response to ongoing economic normalization. Indeed, the job-offers-to applicants ratio, another key indicator used to gauge labor market conditions, rose further to 1.34 in September, suggesting supply-demand conditions in the labor market have been on a gradual improving trend, supported by reopening dynamics. Also, in response to the decline in the number of infections, the number of of non-regular workers in face-to-face services, such as accommodations and restaurants, continued to increase firmly in the month. We expect the ongoing shift of the government's COVID-19 policy, such as the removal of limits on foreign arrivals and resumption of the travel subsidy program, will likely accelerate the

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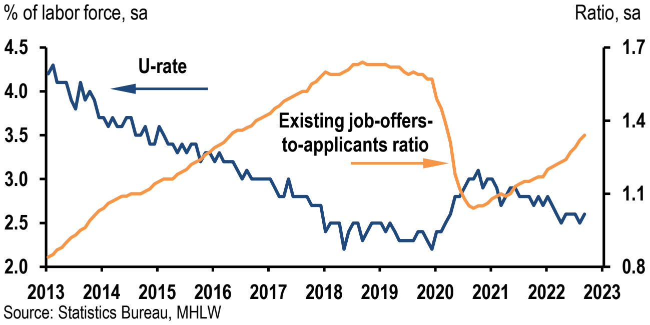
improvement in the labor market, especially from October. Therefore, we continue to look for the labor market to be tight in 4Q22, with the unemployment rate hitting the recent 2.4% low by the end of 2022.

Figure 4: Unemployment rate and job-offers-to-applicants ratio



Source: Statistics Bureau, MHLW

Data releases and forecasts

Week of October 31-November 4

Mon	Industrial production				
Oct 31	%m/m sa, base year 2010				
8:50am		Jun	Jul	Aug	Sep
	Production	9.2	0.8	3.4	-0.7
	Shipments	5.0	1.2	2.8	
	Inventories	1.9	0.6	0.7	
	Inventory/shipments ratio	-1.4	3.8	-3.0	

We expect industrial production to fall 0.7%m/m sa in September. The easing of supply bottlenecks had led to a production recovery starting from June, but the pace of recovery likely will slow, as the bottlenecks have yet to be fully resolved and global demand is slowing. That said, with manufacturers' production plans, including those for autos, remaining solid, we expect the trend recovery in production to continue in the coming months, albeit at a slower pace.

Mon	Commercial sales				
Oct 31	%m/m, sa				
8:50am		Jun	Jul	Aug	Sep
	Total retail sales	-1.3	0.7	1.3	0.8
	%oya	1.5	2.5	4.3	4.1

We expect September retail sales to rise 0.8%m/m, sa. With the number of COVID-19 infections having peaked out, people appear to be having an increase in opportunities to go out, leading to a solid rise in demand for goods related to leisure. Although the shortage of durable goods inventories due to supply constraints has yet to be fully resolved, we expect sales in department stores and convenience stores, those closely linked with leisure activity, to mark solid gains in September.

Mon	Consumer sentiment				
Oct 31	DI, sa				
2:00pm		Jul	Aug	Sep	Oct
	Consumer sentiment	30.2	32.5	30.8	30.5
	Standard of living	28.4	31.1	29.0	___
	Income growth	34.4	36.0	35.4	___
	Labor market conditions	34.3	37.1	35.4	___
	Durable goods purchases	23.6	25.7	23.2	___

1. The DI asks whether a respondent thinks that now is a good time to purchase durables.

We expect the consumer sentiment index to fall by 0.3pt to 30.5 in October. The decline in the number of infections and the government's policy shifts toward an endemic equilibrium likely will push up consumer confidence in October. However, we project the sentiment to edge down, since a lot of price hikes, especially in food and goods prices, concentrated in the month should have a larger negative impact.

Mon	Housing starts				
Oct 31					
2:00pm		Jun	Jul	Aug	Sep
	Housing units %oya	-2.2	-5.4	4.6	4.0
	%m/m, sa	2.1	-2.4	9.4	-3.0
	Mn units saar	0.84	0.82	0.90	
	Floor space, 6mma* (%m/m, sa)	-0.46	-0.33	0.15	

We expect housing starts to fall 3.0%m/m, sa in September after a 9.4% jump in August, leaving the annual rate at a moderate 4.0% increase. The recent trend of housing starts has declined, reflecting a suspension of construction activity, which reflected a shortage of materials due to recent lingering of supply constraints. The August print jumped temporarily, reflecting the one-off big project, but basically we look for the overall trend of housing starts to remain anemic in September.

Review of past week's data

Markit manufacturing/ services PMI, flash (Oct 24)

Diffusion index	Aug	Sep	Oct	
Manufacturing (headline)	51.5	50.8	~~50.5~~	50.7
Services (business activity)	49.5	52.2	53.0	

Services producer prices (Oct 27)

	Jul	Aug	Sep	
%oya	2.0	2.0	___	2.1
Ex. international transportation	1.4	1.5		1.6

The overall trend of the service producer prices index (SPPI) has been on a firm increasing trend. The SPPI rose 2.1%oya in September after a 2.0% increase in August. However, the recent solidness was partly due to still elevated international transportation fees, and measures excluding them rose 1.6%oya in the month, also 0.1%-pt higher than August. In September, other than international transportation, advertising fees rose solidly by 1.1%-pt to 2.8%oya, supported by the recovery of services business recovery. Furthermore, although its weight in SPPI is small, hotel services jumped 9.8%-pts to 31.6%oya, reflecting reopening dynamics and labor shortages in face-to-face services. Although there is not a very clear link between monthly SPPI and CPI data, the SPPI, services prices at the producer stage, tends to lead changes in prices at the consumer stage, and this result sends some positive signals for the CPI.

Labor force survey (Oct 28)

%m/m, sa

	Jul	Aug	Sep	
Unemployment rate (% sa)	2.6	2.5	~~2.5~~	2.6
Job offers ratio (% sa)	1.29	1.32	~~1.35~~	1.34

Tokyo consumer prices (Oct 28)

2020-based

	Aug	Sep	Oct	
%oya				
Overall	2.9	2.8	~~2.8~~	3.5
Core (ex fresh food)	2.6	2.8	2.8	3.4
Ex fresh food and energy	1.4	1.7	~~1.7~~	2.2
Ex food and energy	0.6	0.8	~~0.8~~	1.1
%m/m, sa				
Overall	0.3	0.3	~~0.1~~	0.5
Core (ex fresh food)	0.4	0.3	~~0.1~~	0.4
Ex fresh food and energy	0.1	0.3	0.1	0.3
Ex food and energy	0.0	0.0	~~0.1~~	0.2

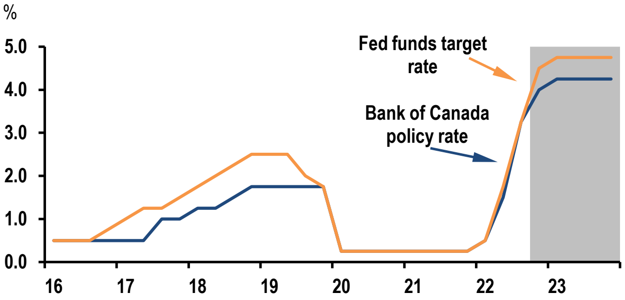
Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT,MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

Canada

- **The Bank of Canada raised the policy rate a smaller than expected 50bp this week**
- **We lower our terminal rate to 4.25% on the surprise**
- **Small business optimism dips notably**

The Bank of Canada raised the policy rate 50bp this week to 3.75%, a more dovish hike than the 75bp increase that we and the median consensus estimate had anticipated. Since inflation and inflation expectations were high and persistent before this week's announcement we expected the Bank to continue the strong pace of policy frontloading and match September's increase. Instead the Bank signaled that balancing the risks of under- and over-tightening has become a prevailing concern. While the Bank maintained the hawkish signal from September's forward guidance that the policy interest rate will need to rise further,Governor Macklem noted that "we are getting closer" to ending the current tightening phase (Figure 1).

Figure 1: Policy rate forecasts

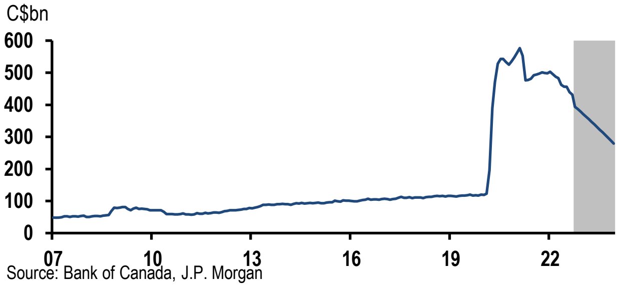


Source: Bank of Canada, Federal Reserve, J.P. Morgan forecasts

We believe this week's dovish hike signals the end of peak hawkish at the Bank of Canada and implies a change in the Bank's reaction function. The Bank has now successively dialed back the pace of policy tightening, with a 100bp hike in July followed by a 75bp hike in September and now a 50bp increase in October. And the natural run-off of the Bank's balance sheet (QT) will complement increases in the policy rate (Figure 2). To us this is consistent with the idea that the Bank will continue to ease up on the pace of policy tightening and we continue to look for 25bp hikes in both December and January followed by a period in which policy is held steady. We now expect the terminal rate to be 4.25%, 25bp lower than our prior forecast following the surprise this week. The Bank of Canada's growth outlook is somewhat more pessimistic than our view thus raising the risk that the terminal rate will be higher.

On the Bank's revised economic forecasts, real GDP growth in Canada is now expected to slow from 3.25% this year to just under 1.0% next year—a substantial downward revision compared with the July MPR—and 2.0% in 2024. Household spending was revised down on tighter financial conditions and lower aggregate wealth. The outlook for export growth was revised down reverberating off of the significant downward adjustment in the Bank's growth outlook for the US economy next year. The Bank's Monetary Policy Report notes that the next couple of quarters are just as likely to show a slight contraction as modest positive growth in Canada. On inflation in Canada, the Bank revised down its forecasts slightly over the forecast horizon. CPI inflation is forecast to decline from around 7% in 4Q22 to within the 1%-3% target range by the end of 2023. Inflation is still not expected to return to the 2.0% target until the end of 2024.

Figure 2: Balance sheet - BOC

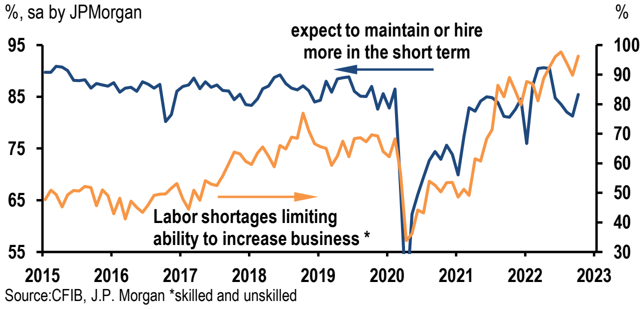


Source: Bank of Canada, J.P. Morgan

Small business blues

Canada's small business confidence took a hit in October. CFIB's Business Barometer index based on a 12-month outlook dipped to a level slightly below May 2020, the end of the first set of provincial pandemic lockdowns. Optimism in the energy provinces appears to be holding up while in the large provinces of Ontario and Quebec optimism in their outlooks saw fairly large declines. Nevertheless, the employment indicators in the survey still signal solid labor market demand (Figure 3).

Figure 3: Small firms' labor plans



Source:CFIB, J.P. Morgan *skilled and unskilled

Data releases and forecasts

Week of October 31- November 4

Thu
Nov 3
8:30am

International trade
Sa

	Jun	Jul	Aug	Sep
Balance (C$ bn)	4.54	2.37	1.52	1.7
Exports (%m/m)	2.4	-3.7	-2.9	1.3
Imports (%m/m)	2.1	-0.7	-1.7	1.0
Real balance	-4.88	-3.97	-4.39	

Thu
Nov 3
8:30am

Building permits
%m/m, sa, unless as noted

	Jun	Jul	Aug	Sep
Total	0.0	-7.3	11.9	-6.3
%oya	15.8	3.9	28.4	11.6

Fri
Nov 4
8:30am

Labor force survey
Sa

	Jul	Aug	Sep	Oct
Employment (mn)	19.57	19.53	19.55	19.56
(ch, m/m, 000s)	-30.6	-39.7	21.1	15.0
(%m/m)	-0.2	-0.2	0.1	0.1
(%oya)	3.6	3.1	2.2	2.2
Labor force (mn)	20.57	20.64	20.62	20.63
(%m/m)	-0.1	0.3	-0.1	0.1
(%oya)	0.9	1.2	0.3	0.5
Unemployment rate (%)	4.9	5.4	5.2	5.2
Avg hrly earnings (%oya)	5.4	5.6	5.2	5.0
Hours worked (%m/m)	-0.5	0.0	-0.6	0.5

Fri
Nov 4
10:00am

Ivey PMI

	Jul	Aug	Sep	Oct
Composite index[1] (sa)	58.3	59.7	57.0	57.2
Purchasing index (sa)	49.6	60.9	59.5	53.0

[1] Calculated and seasonally adjusted by J.P. Morgan

Review of past week's data

Monthly GDP (Oct 28)
sa

	Jun		Jul		Aug	
Total,%m/m	~~0.1~~	*0.2*	0.1		~~0.0~~	*0.1*
%oya	~~4.6~~	*4.7*	~~4.3~~	*4.4*	~~3.7~~	*4.0*

Source: Statistics Canada, Ivey Business School, CMHC, S&P Global, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

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Mexico

- **Economic activity surprised positively in August, pointing to a strong 3Q**
- **External demand in September, particularly manufacturing, remained resilient**
- **We now expect 3Q GDP at 3.8% saar, consistent with full-year growth at 2.6%y/y**
- **Core inflation still unabated in early October, but some encouraging signs arise**

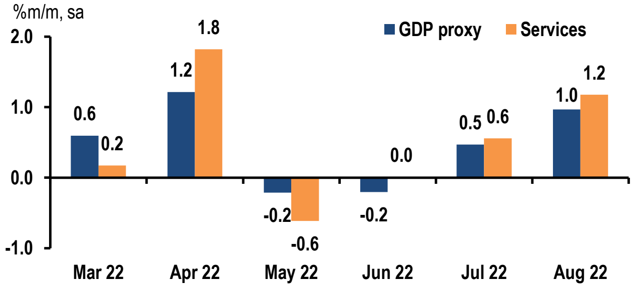
This week's GDP proxy for August (1.0%m/m; 2.8%3m/3m, saar) was a welcome positive surprise and confirmed not only the strength of the services sector (1.2%m/m and 3.9%3m/3m, saar, Figure 1) but also the resiliency of industrial production. We already knew IP was running at 2.8% saar; manufacturing in particular has held up quite well in sharp contrast with construction and mining. As such we now revise 3Q GDP to 3.8% saar from 1.5% before, which is consistent with full-year growth at 2.6%, up from 2.2% earlier. The services sector is tracking 4.5% saar for 3Q.

The positive feedback loop between manufacturing and services at this late stage of the pandemic has delivered stronger-than-expected results for the Mexican economy. Domestic demand conditions, in addition to the sharp recovery in auto exports in recent months, are playing an important part (see next section).

While we expect some exhaustion in consumption sooner rather than later given tighter global financial conditions and unabated inflation, we do not foresee a hard landing of the Mexican economy as things stand right now.

Figure 1: GDP proxy

%m/m, sa



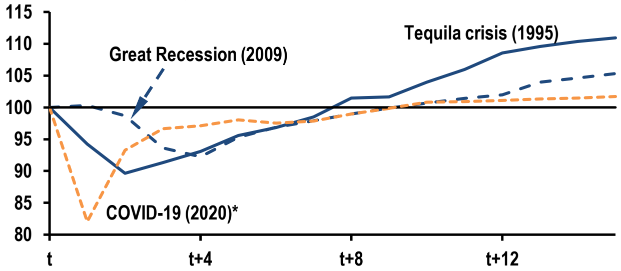
Source: INEGI

Notwithstanding US economists' recent upward revisions to their growth projections—which in addition to Mexico's August GDP confirmed that fears of a pothole in 3Q were unfounded—we remain cautious in terms of growth expectations from 4Q22 onward. The US manufacturing PMI seems to be weakening faster than the same gauge for Mexico and this could be a warning sign of what's to come.

Still, things are looking a bit brighter at the turn of the year than originally envisaged, and we now see the Mexican economy returning to pre-pandemic levels in 3Q22 (Figure 2). Finally, we now see 4Q GDP at 0.4%, up one-tenth from our previous forecast, and next year's growth at 1.3%, up from 1.2%.

Figure 2: Business cycles and economic crises

Index, t = 100 is the first quarter of each crisis



Source: INEGI and J.P. Morgan forecasts. *From t+10 onwards is forecast

Exports remained robust in Sept

September trade data add upside risk to our new GDP forecast, as robust exports, solid revisions to past data, and a breather in non-oil imports all point to a much smaller drag from net trade. Manufacturing exports surged 5.7%m/m, and about 16%ar in 3Q. Both auto and non-auto factory shipments were strong in the month, but it was auto exports that drove the large gain in the quarter, up nearly 35%ar.

We have pointed out that auto exports tend to define the underlying trend in the trade balance, specifically the non-oil trade balance. This is because auto exports have a high domestic value-added, and hence require fewer intermediate imports. Consistently, intermediate imports actually fell in 3Q as a whole—the 12m rolling non-oil trade balance improved in 3Q for the first time since May 2021.

The deterioration in the trade balance in 1H22 (Figure 3) has been driven by both weak auto exports and a sharp acceleration in non-oil imports as domestic demand recovered. We think the latter will remain a drag from a net trade perspective, but a sustained recovery in auto exports would temper, and possibly offset, the downward pull. Auto production as a whole (including auto parts) has also been recovering despite weak light-vehicle production data.

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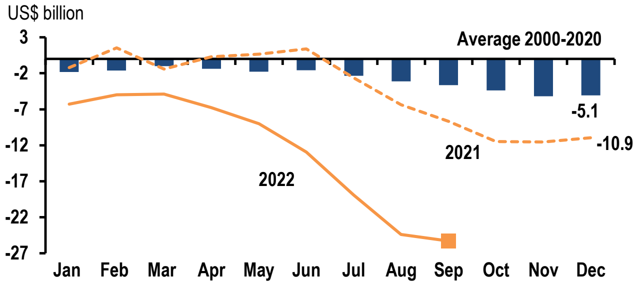
Figure 3: Year-to-date trade balance



Source: INEGI and J.P. Morgan. September boxed

Unabated core inflation in 1H Oct

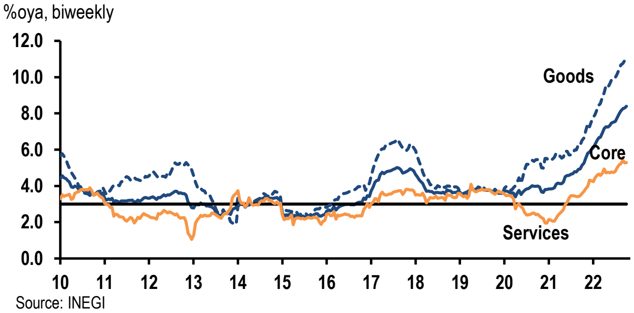
In what was a welcome sight, headline prices surprised to the downside, up 0.44%2w/2w vs. 0.52%2w/2w (we were expecting an even higher number at 0.59%). This drove annual inflation down again to 8.5% from the peak of 8.8% in September. The bulk of the downside surprise came from energy prices.

By contrast, trends in core inflation remain troublesome, with prices overshooting the consensus (0.35%), and coming in line with our expectations at 0.42%2w/2w—yearly inflation reached 8.4% (Figure 4). Goods inflation remains unabated. But more telling signs of underlying inflation pressures, like alternative CPI measures (e.g., core trimmed mean and wage-related inflation) show worrying trends. Core trimmed mean inflation jumped 0.2%-pt to 7.84%oya, a record high, while wage-related inflation—seen from a supply-side perspective—is also at an all-time high of 6.2%oya.

As for policy, this week's data do not change our view about Banxico's upcoming decisions, and we think risks around our call are balanced: we still look for 75bp, 50bp, and 25bp increases at the Nov/Dec/Feb meetings to bring the end-rate to 10.75%, where we expect it to be maintained through 2023. Even if Banxico decides to partially decouple from the Fed (in terms of the size of the hikes) in the next months, the hawkish bias will likely linger.

Of note, given that the trimmed mean for core inflation takes out 10% of the products at the low end of the price-change distribution, the government's inflation plan would likely not be reflected in this index, cautioning about the risk of a premature end to the hiking cycle on the basis of temporary, "soft" price controls. The impact could be larger on the fundamental core measure, but, still, products subject to price controls account for just under 10% of this index.

Figure 4: CPI: Core goods and services



Source: INEGI

Data releases and forecasts

Week of October 31 - November 4

Tue	**IMEF PMI survey**				
Nov 1	Index, sa				
1:00pm		**Jul**	**Aug**	**Sep**	**Oct**
	Manufacturing	51.2	49.5	50.1	49.3
	Non-manufacturing	51.9	51.5	50.9	50.7

Tue	**Remittances**				
Nov 1		**Jun**	**Jul**	**Aug**	**Sep**
1:00pm	Total (US$ bn)	5.1	5.3	5.1	5.1
	%oya	15.4	16.5	7.8	15.8

Review of past week's data

Consumer prices				
	Sep 1H	**Sep 2H**	**Oct 1H**	
%2w/2w	0.41	0.10	~~0.59~~	0.44
Core	0.44	0.15	0.42	
%oya	8.76	8.64	~~8.70~~	8.53
Core	8.27	8.29	8.39	

Economic activity index (IGAE) %oya, unless noted				
	Jun	**Jul**	**Aug**	
%oya	1.5	1.3	~~3.4~~	5.7
%m/m, sa	-0.2	0.5	~~0.2~~	1.0

Trade balance				
	Jul	**Aug**	**Sep**	
Balance (US$ bn)	-6.0	-5.5	~~-5.3~~	-0.9
Exports (US$ bn)	46.5	50.7	~~50.3~~	52.3
%oya	13.6	25.2	~~20.4~~	25.3
Imports (US$ bn)	52.5	56.2	~~55.5~~	53.2
%oya	16.7	27.0	~~25.9~~	20.8

Source: INEGI, Banxico, IMEF, and J.P. Morgan forecasts

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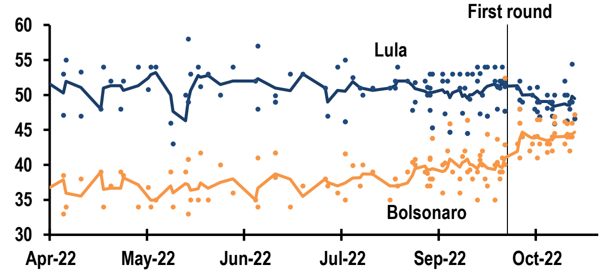
Brazil

- **Much anticipated second-round vote for presidential seat on Sunday**
- **Polls suggest former president Lula remains in the lead**
- **In widely anticipated decision, Copom kept the Selic rate at 13.75%**
- **Data reveal a cooldown in labor market, increase in NPLs, and more moderate CAD**

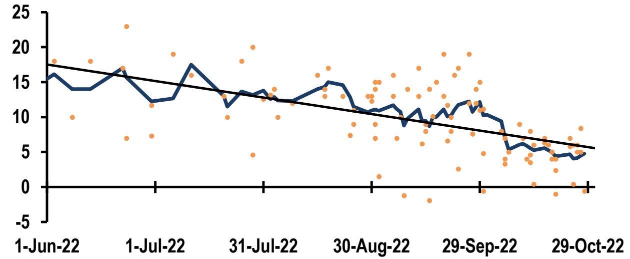
Since the general election's first round on October 2, all eyes have been glued to polls. Overall, those polls have grown tighter as we edge closer to the run-off, pointing to a diminishing margin in favor of former center-leftist president Lula (Figures 1 and 2). However, the dispersion remains high across the different institutes with some showing a tie within the margin of error. The second-round election will be carried out in much the same way as the first: the polling places will be open between 8am and 5pm local time this Sunday, and results will likely be known before the end of the day.

Figure 1: Voting intention for second round
as % of total votes



Source: J.P. Morgan, with data from different pollsters

Figure 2: Second-round Lula-Bolsonaro gap
as % of total votes



Source: J.P. Morgan, with data from different pollsters

Importantly, doubts also remain about the candidates' plans and potential cabinets from 2023 onwards. At one of his last public campaign events, Lula said that his government would not have only PT members in the cabinet, naming former members of his team that were from other parties, and referring to other politicians that were present, including Simone Tebet and Henrique Meirelles ("*Lula faz ato com políticos, artistas e intelectuais em teatro da PUC em São Paulo*", G1, October 24). No formal announcements were made, however. At the same time, noise around what the incumbent economic team would pursue has also plagued the headlines ("*Guedes nega 'pacote de maldades' na economia e culpa 'petistas': 'Fake news'*", Correio Braziliense, October 25).

As we have flagged for some time, while we see no reason to believe that the election winners won't be sworn in during 2023, we acknowledge that political tension may increase in the near term, and will be closely monitoring this tail-risk in the days to come. In our view, recent events have increased the risk of protracted discussion regarding the election results; these include a shoot-out between police officers and Bolsonaro allies ("*Caso Roberto Jefferson impacta campanhas à presidência*,", CNN, October 24), accusations of uneven allocation of campaign radio time in specific regions of the country ("*Rádios veiculam menos inseções de Bolsonaro, diz campanha ao TSE*", Poder360, October 24), and the strong response by Justice and Electoral Court president Alexandre de Moraes to the accusations ("*Moraes nega pedido para investigar inserções nas rádios e diz que campanha de Bolsonaro pode ter agido para 'tumultuar' as eleições*", G1, October 26).

Politics and tail-risks aside, the week was also filled with noteworthy economic releases, particularly on external accounts and unemployment. Finally, the Central Bank's board convened on Wednesday, releasing a post-meeting statement that does not change our views on next steps for monetary policy.

Copom: steady as it goes

Finally, in a unanimous and widely anticipated decision, Copom kept the policy rate at 13.75%, with only marginal changes in the communication. In among the changes, the board mentioned that the "stronger sensitivity to fiscal fundamentals including in advanced economies" requires more attention from developing economies, in our view using recent events in the UK as a subtle reminder of fiscal challenges ahead. On the domestic side, a more moderate rate of economic growth appears in line with a deceleration in inflation, but one that remains tied to volatile components according to BCB, while measures of underlying inflation are above the range "compatible with meeting the inflation target". Looking ahead, Copom's forecasts included small upward revisions for 2023, from 4.6% to 4.8%, and 2024, from 2.8% to 2.9%. Given the lack of relevant changes to forward guidance, we remain of the view that Copom will keep rates stable until mid-2023, with the first cut taking place in June.

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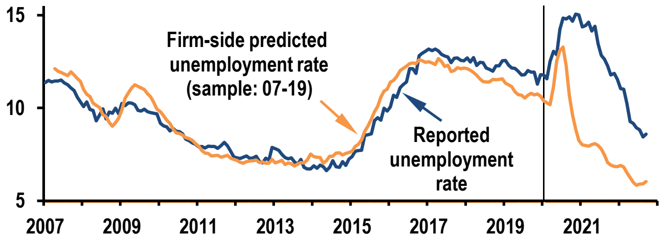
Labor market recovery stalled

In spite of a small decline in the unemployment rate, September's labor report suggests that the job market recovery may have stalled. The unemployment rate for September was 8.7%, in line with consensus but a tenth above our forecast, and 8.6% in seasonally adjusted terms. Employment contracted 0.3%m/m sa—the first decrease since August 2020—with widespread weakness across sectors. Our monthly proxy increased for the first time this year, and the firm-side unemployment rate has continued slowly rising since June (Figure 3). The labor market is probably still tight, but the September data were discouraging. Average real wages continued growing, rising 1.7%m/m, sa to reach the highest level in a year, but still significantly below the pre-pandemic level.

Figure 3: Firm-side predicted and reported unemployment rates

%, sa. Out-of-sample estimate of firm-side predicted unemployment rate



Source: IBGE, Labor Ministry and J.P. Morgan. Domash, Alex and Summers, Larry, How Tight are U.S. Labor Markets? (February 2022). NBER Working Paper No. w29739

New loans slow, while NPLs increase

September credit growth was more mixed after a series of solid reports. Coming from the highs of August, real new loans decreased 3.6%m/m, sa. NPLs reached the highest level since the pandemic started, driven by delinquencies on loans to individuals. This seems in line with the fact that companies' balance sheets are healthy, but households' income commitment has reached an all-time high of 29.4%. Lending rates stopped increasing as the average loan rate was 28.6% in September—down from the peak of 29.4% in July. The usual relationship between expectations for the policy rate and lending rates suggests that this fall is premature.

Stronger FDI, higher CAD

BoP data released this week pointed to a US$5.7bn current account deficit in September, above the US$3.0bn deficit penciled in by market consensus. The most recent 12-month rolling sum edged up from 2.1% to 2.5% of GDP between July and September (1.0pt higher than in the same period of 2021). Still, with stronger FDI and smaller-than-expected deficits on services, as well as positive trade balance dynamics, we expect a CAD of 1.8% instead of the 2.6% we previously projected.

Data releases and forecasts

Week of October 31 - November 4

Mon	**Fiscal sector**				
Oct 31					
8:30am		**Jun**	**Jul**	**Aug**	**Sep**
	BRL bn, minus denotes surplus				
	Primary	14.4	-20.4	30.3	-18.0
	12-month sum, as % of GDP				
	Primary	-2.2	-2.5	-2.0	-2.0
	Nominal	4.2	3.8	4.2	4.0
	Net debt, % of GDP	57.8	57.3	57.3	57.1
Tue	**Industrial production**				
Nov 1					
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	%m/m, sa	-0.4	0.6	-0.6	-0.7
	%oya, nsa	-0.4	-0.4	2.8	0.3

Review of past week's data

Current account balance				
	Jun	**Jul**	**Aug**	**Sep**
Current account (CA)	1.3	-4.1	*-5.4*	*-5.7*
CA, 12-month sum	33.6	36.6	*-42.4*	*-46.1*
CA, 12-month sum, %GDP	1.9	2.1	*-2.4*	*-2.5*
Foreign direct investment	3.7	3.7	*3.9*	*4.1*
Consumer prices (IPCA-15)				
	Aug	**Sep**	**Oct**	
%m/m	-0.73	-0.37	~~0.04~~	*0.16*
%oya	9.60	7.96	~~6.72~~	*6.85*
COPOM meeting				
	Aug	**Sep**	**Oct**	
Selic rate	13.75	13.75	*13.75*	
National unemployment rate				
	Jul	**Aug**	**Sep**	
Rate, 3-month average (nsa)	9.1	8.9	~~8.6~~	*8.7*
Wholesale prices (IGP-M)				
	Aug	**Sep**	**Oct**	
%m/m	-0.70	-0.95	~~-0.77~~	*-0.97*
%oya	8.59	8.25	~~6.73~~	*6.52*

Source: IBGE, FGV, BCB, and J.P. Morgan forecasts

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Argentina

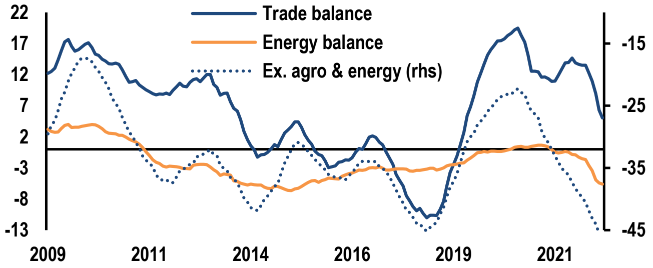
- **The effect of the increase in international prices on the trade balance YTD is flat**
- **An adverse global scenario would require much tighter import controls to avoid further reserve slippage**
- **3Q (revised) program fiscal target was met, thanks to soybean export-revenues windfall**
- **IMF program annual primary deficit target looks feasible for 2022**

September's (accrued) trade balance came in line with our forecast, posting a surplus of US$414mn, the first positive print after three months of deficit. The September merchandise trade data showed exports logging US$7.4bn (-1.9%oya), while imports remained robust at US$7.0bn on the month (+18.8%oya). The mild over-year-ago decline in exports was explained by volumes, which declined 12.5%oya, while prices did increase by 12.0%oya. Meanwhile, on the imports side, both volumes and prices showed significant increases on the month (+7.6%oya and 10.5%oya, respectively).

Breaking down the trade balance, we note the sharp deterioration in the ex. energy and agriculture trade balance, which has explained the bulk of the overall trade balance correction YTD. The last-12-m merchandise trade balance converged to US$5.0bn, as compared to US$14.7bn in 2021. But when setting aside energy and agricultural exports, the core trade balance printed at -US$46.0bn (12-m sum), vs. -US$45.5bn the prior month and -US$37.4bn in Dec-21 (Figure 1). Such a deficit is slightly above the prints from early 2018 (pre-sudden stop). Granted, the impact of higher freight prices has proved relevant when assessing the imports value (estimated at US$4.2bn YTD), and domestic demand is more vigorous than what we had forecast (see note). Yet the performance of the core trade balance puts into question the competitiveness of the real exchange level, which we had commented on a number of times. Finally, the energy shortfall printed at -US$5.6bn and the agro-sector surplus at US$56.7bn.

On a seasonally adjusted basis, exports increased 0.9%m/m, sa, in September due to a rebound in primary exports (+17.0%m/m, sa), while imports continued their downward trajectory at -5.4%m/m, sa, coming on the heels of an 11.9% decrease in August.The deceleration of imports was broad-based, with intermediate goods, capital goods, and fuels decreasing 12.3%, 10.6%, and 9.1% m/m, sa, respectively. In all, the 3-month imports sum annualized inched lower to US$84.5bn, from US$89.7bn last 3-month-average, with the annualized trade deficit narrowing to -US$0.1bn, from -US$1.4bn the previous month.

Figure 1: Trade balance, energy balance, ex.energy&agro balance
12-month moving sum, US$ bn



Source: INDEC and J.P.Morgan

Given the sizeable increases observed YTD in commodity prices driven by the Russian-Ukraine war, it is worth analyzing the net price effect on Argentina's trade balance as a net exporter of grains and net importer of energy. We calculate the net price effect as the difference between valuing the total quantities exported/imported YTD at current prices versus 2021 prices.

During the first nine months of the year (data through September), the average price of all goods exported by Argentina rose slightly below that of the goods it imported (18.9% versus 19.9%), implying a decrease in the terms of trade of 1.0% compared to the first nine months of 2021. Until 1H22, the net effect of the increase in international prices was slightly positive at US$1.1bn. However, during 3Q the need for higher energy imports reversed this trend, with the net price effect turning flat.

In all, Argentina was unable to take full advantage of the increase in export prices because the quantities imported rose much more than those exported: 17.1%oya versus -3.2%, respectively. Even though the value of exports will close 2022 at an all-time historical record at US$87bn, the quantities exported by Argentina are stagnant with the entire increase in exported value explained by the price factor. Indeed, export quantities are 0.8% below the last 10 years' average. On the other side, non-energy import volumes are running at the highest level since the 2017 peak,driven in part by strong growth, but also by the ill-designed incentives of the current FX framework.

We believe that absent a stabilization program that tackles the structural factors of the underlying USD liquidity issues (i.e., the FX gap), it is unlikely that reserves could grow in a sustainable manner. As a theoretical exercise, to show the risks ahead, if export prices returned to 2021 pre-war levels, but energy prices remain at current levels, Argentina would be running a trade balance deficit of US$2.4bn YTD (vs. actual US$2.7bn surplus). Thus, with export volumes proving stagnant, an adverse global scenario would require much tighter import controls to avoid further net reserves slippage, weigh-

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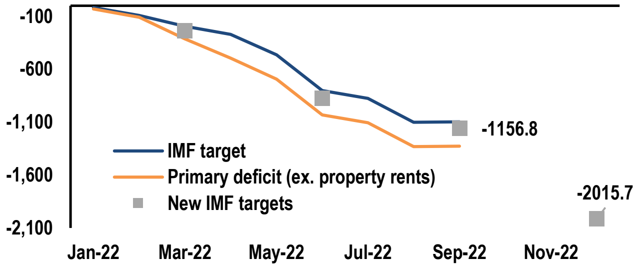
ing further on activity and the inflation outlook.

3Q IMF fiscal target met thanks to export revenue windfall

The (cash basis) primary balance posted a 1.1% of GDP primary deficit YTD (through September). The primary fiscal deficit logged at -ARS$887.3bn YTD (-1.1% of our 2022 estimated GDP), compared to a 0.3% shortfall in the same period of 2021. Meanwhile, the overall deficit (including interest payments) printed at -2.1% of GDP, 0.7%-pt above the same period last year. More important to gauge the Treasury's financial needs, when excluding non-genuine property rents, the YTD primary deficit printed at a sizeable -ARS$1,326.1bn (-1.6% of GDP), with the overall deficit at -2.7% of GDP.

The 3Q (revised) fiscal target was met. Excluding only the non-genuine property rents revenues which are above the limit imposed by the IMF, the primary deficit printed at -ARS$1,096.1bn (-1.3% of GDP) YTD, and the overall deficit was at -2.4% of GDP. Thus, the new 3Q nominal fiscal target of ARS$1,156.8bn (-1.4% of GDP) was met (Figure 2). Similar to what happened in the previous quarters, if it hadn't been for the extraordinary export revenues during September, the 3Q fiscal target would also have been missed, with the primary deficit printing at -ARS$1,336.7 (-1.6% of GDP).

Figure 2: Primary deficit
ARS$bn, YTD



Source: Ministry of Treasury, IMF and J.P. Morgan

YTD, real primary revenues decreased by 0.9%oya, while expenditures declined by 2.2%oya when deflating by headline inflation. When adjusting for seasonality, real primary spending momentum eased further in September, mainly explained by capital spending. Indeed, once excluding capital spending, real primary spending increased by 6.4%m/m, sa, with momentum running at -20%3m/3m saar, from -38% last month. In the meantime, adjusted primary revenues (ex. property rent) rebounded in September, mainly driven by higher soybean export taxes (see note). Export taxes explained the bulk of the positive revenues print for the month (+160%m/m, sa). Once excluding export revenues, primary revenues (ex. FGS rents) increased by just 2.1%m/m, sa, with sequential momentum moving deeper into negative terrain at -24.3%3m/3m, saar from -22.7% last month.

We believe the IMF program annual primary deficit target looks feasible, helped by higher inflation. The fiscal measures recently put in place, together with the upward revision to the Dec-22 inflation forecast (note), prompted us to adjust the 2022 primary fiscal deficit down to 2.5% of GDP, in line with the IMF's target. Thus, again helped by a higher inflation tax, the government would be able to narrow the fiscal imbalance.

We continue to emphasize that, despite the likely compliance with the fiscal targets embedded in the program, the prevailing macro imbalances make a scenario of inflation deceleration ahead unlikely, absent a consistent orthodox stabilization program.

The authors wish to thank Juan Goldin, of the Latin America Economics Research team, J.P.Morgan Chase Bank Sucursal Buenos Aires, for his contribution to this report.

Data releases and forecasts

Week of October 31 - November 4

Wed Nov 2	**Tax revenues**				
		Jul	**Aug**	**Sep**	**Oct**
	%oya, real terms	9.4	-3.5	19.0	-4.0

Review of past week's data

No data releases.

Source: INDEC, BCRA, and J.P. Morgan

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Andeans

- **Chile: minutes downplay inflationary risks ahead, despite persistency**
- **We see the policy rate unchanged at 11.25% until early 3Q23, declining to 8.5% by December 2023**
- **Peru: The last-12-m fiscal deficit narrowed further, to 1.1% of GDP**
- **2022 headline fiscal deficit revised to -1.7 of GDP; 2023 still -2.5%**

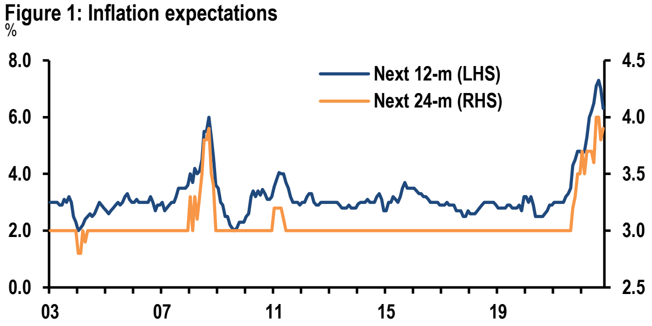
Chile: Let's talk minutes

The minutes for Chile's October policy meeting were published this week. At the meeting the Board hiked the policy rate by 50bp, to 11.25%, and called the end of the tightening cycle (see note). The minutes and discussion still raise a number of questions regarding the central bank's stance, in particular regarding the risky decision to call for the cycle end.

First, amid persistent inflation and de-anchored inflation expectations, the Board discussed only two options: hiking the policy rate by 25bp or 50bp. This is a bit surprising, as it had also been considering a 75bp option.

The discussion tidbits included in the minutes also offer insight on the Board's stance, seeming to minimize the inflationary risks ahead despite the insistence on persistency. Indeed, throughout the discussion, all factors pointed to higher inflation levels than those embedded in the 3Q22 Monetary Policy Report: core inflation continues to trend higher, exchange rate depreciation will pressure near-term inflation upward (though FX passthrough appears more limited now given the nature of the shock), and inflation expectations for the policy horizon remain "well above" 3% (Figure 1).

Figure 1: Inflation expectations



Source: CBC and J.P. Morgan

In all, the 3Q22 Monetary Policy Report projects inflation will decelerate to 3.3%oya by December 2023 (we forecast 5.5%oya, with upside risk).

The Board also discussed the 2023 fiscal budget law. They emphasized the fiscal consolidation and the absence of other macroeconomic stimulus, aimed at efficiently achieving the convergence of inflation to 3%. The Budget anticipates a 2.1% of GDP structural fiscal deficit for 2023, compared to the forecasted 0.9% of GDP surplus this year. Thus, fiscal policy is expected to be accommodative, with a fiscal thrust equivalent to +3.0% of GDP next year (once controlling for the cycle and copper prices).

In terms of the policy decision, the Board unanimously adopted the 50bp option, bringing the policy rate to 11.25%. This level is high enough to secure convergence of inflation to 3% within the two-year policy horizon, given the current macroeconomic backdrop. The Board emphasized that it would keep the policy rate stable for as long as necessary to reach this goal.

Our base case assumes the policy rate stays unchanged at 11.25% until early 3Q23, declining to 8.5% by December 2023. Such a nominal policy rate would still be consistent with an ex-post real rate close to 3%, and ex-ante rates around 4.0% and 3.3% when deflating by our own forecasts for inflation 12- and 24-m ahead.

Peru: The fiscal consolidation continues

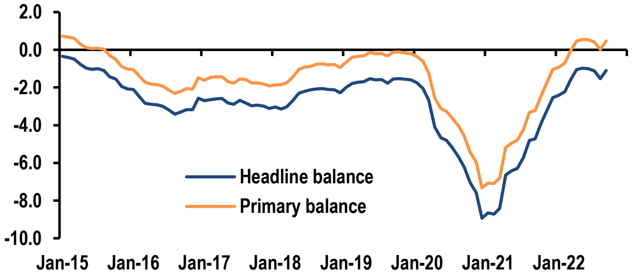
Peru's last-12-month fiscal deficit narrowed again in September, converging to 1.1% of GDP. The main factors underpinning the fiscal consolidation have been higher revenues on economic recovery, higher commodity prices, and the regularization of tax debts. But there also was a sustained expenditure drop, specially as COVID-19 emergency spending phases out.

These factors also helped revenues to climb to 22.6% of GDP in 3Q22, up 1.6%-pts compared with December 2021, and up 2.8%-pts of GDP versus 2019. The bulk (1.9%-pts of GDP) of the revenues windfall versus 2019 came from income tax revenues, associated mostly with higher commodity prices and also with regularization and clearing operations (0.9% of GDP).

On the spending side, the last-12-month primary fiscal expenditures declined to 21.8% of GDP in September, compared to 22.2% in 2021 and 20.1% in 2019. Importantly, compared to pre-COVID levels, current and not capital spending has been the main force raising overall expenditure (1.0% of GDP vs. 0.7% of GDP). As we have flagged in prior notes, going forward, the main risk is that the level of current spending proves rigid, which, amid lower commodity-price–related revenues and limited political scope for a tax reform increasing permanent revenues, would widen the fiscal deficit.

In all, the last-12-month primary balance logged a surplus equivalent to 0.5% of GDP, while the interest rate bill inched to 1.6% of GDP (Figure 2). Despite below-potential GDP growth, higher export prices and inflation have increased the Treasury coffers by about 2%-pts of GDP per year, a tailwind that has allowed the primary balance to reach close to zero, while expenditures have not yet declined to pre-pandemic real levels. Given the expenditure adjustment and the higher-than-expected revenues, we adjusted our forecast for the 2022 headline fiscal deficit lower to 1.7% of GDP, while maintaining 2023 at 2.5% of GDP (see note).

Figure 2: Fiscal balance
% GDP, last 12 months



Source: BCRP and J.P. Morgan

The authors wish to thank Juan Goldin of the Latin America Economics Research team, J.P.Morgan Chase Bank Sucursal Buenos Aires, for his contribution to this report

Colombia

Data releases and forecasts

Week of October 31 - November 4

Mon
Oct 31

Urban unemployment

	Jun	Jul	Aug	Sep
%, sa	11.70	11.20	11.30	__

Tue
Nov 1

Exports

	Jun	Jul	Aug	Sep
US$bn	5.5	5.9	4.6	5.1

Review of past week's data

Policy rate

	Aug	Sep	Oct	
%	9.00	10.00	~~11.50~~	11.00

Source: DANE and J.P. Morgan estimates

Chile

Data releases and forecasts

Week of October 31 - November 4

Wed
Nov 2

Economic activity

	Jun	Jul	Aug	Sep
%oya	3.3	1.0	0.0	0.5

Review of past week's data

Retail sales

	Jul	Aug	Sep	
%oya	-11.1	-13.4	~~-12.1~~	-14.3

Manufacturing

	Jul	Aug	Sep	
%oya	-5.1	-5.1	~~-4.7~~	-1.6

Unemployment

	Jul	Aug	Sep	
%	7.7	7.7	~~8.0~~	7.9

Source: INE, BCCh, and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of October 31 - November 4

Tue
Nov 1

CPI

	Jul	Aug	Sep	Oct
%oya	8.7	8.4	8.5	8.4

Review of past week's data

No data releases.

Source: INEI, BCRP, and J.P. Morgan estimates

United Kingdom

- **Sunak announced as Conservative leader, and delays the OBR's report to November 17**
- **Composite PMI dropped a further 1.9%-pts, nearing recession levels, but labor market remains resilient**
- **BoE to hike 75bp next week to 3%**

After a short contest, Rishi Sunak was appointed as Conservative Party leader and prime minister on Monday. This paved the way for a further delay of the OBR assessment, which will now be published on November 17, allowing Sunak to assert his own view on tax rises and spending cuts. Given Sunak and Hunt's emphasis on fiscal discipline, the announcement of the delay had only a muted reaction in financial markets. Relative to Hunt's statement last week, we expect the new PM will skew the planned fiscal tightening a little more in favor of tax hikes. This is unlikely to make a substantial difference to our forecasts published last week, unless the required additional tightening is now expected to be closer to £50bn (instead of the £40bn we assumed). We expect a 75bp hike from the BoE next week, but the coming fiscal tightening will leave it signaling that the pace will likely step down to 50bp from December.

Next week's BoE meeting: a 75bp hike

The BoE has faced a two-sided set of risks over the past month, staying open to an accelerated pace of tightening in response to a lack of fiscal discipline but also with an eye on mounting headwinds that threaten to weaken demand. Personnel changes in government have generated a large reaction in markets, stabilizing the currency and dramatically lowering expectations of what the BoE needs to do to bring inflation under control. This is turn has afforded the BoE scope to dial back on some of its previously very hawkish rhetoric. That has taken much of the upside out of our call for a 75bp hike next week, leaving more of a debate about whether the MPC might instead be closer to 50bp as a risk scenario. We feel fairly confident in expecting 75bp.

There are of course further growth challenges ahead, in the form of yet-to-be-announced fiscal tightening and the fallout from both rising mortgage rates and a sentiment shock following events of the past month. But despite GDP that now appears to be contracting, the labor market again looks resilient and tight. Meanwhile, underlying inflation pressures show no sign of abating. This was typified by upside surprises in business inflation expectations and wage growth, as well as strength in services inflation. The news on fiscal policy has been mixed since the MPC's September meeting. The scope of the energy price guarantee has been scaled back, but some elements of the Truss tax plan have survived (lower national insurance and stamp duty). As the OBR's assessment date has been moved to November 17, however, there will be a significant chunk of fiscal tightening that might have been announced next Monday but now the MPC won't be able to formally incorporate into its forecasts until February. This factor might steer the MPC away from the dovish 50bp scenario we discussed above. A factor in the MPC's decision-making that will receive little attention in the minutes but could still make a difference is what is expected of it. There is an almost unanimous consensus among economists and clear pricing in financial markets for a 75bp hike. If the MPC deviates from this, it would be a big surprise and leave the committee with a lot of explaining to do.

We expect the BoE will retain its "forceful" language in the statement accompanying the decision. The MPC's definition of this word appears fairly broad, so retaining it would provide cover for either a 50bp or 75bp hike at the subsequent meeting in December (our forecast for that meeting remains for 50bp). Only if the BoE had a different idea about how much tightening it will need to provide in December would we expect this language to change. If the MPC does want to signal that 75bp should not be seen as the default expectation for December, as we think is likely, there are two other signaling devices it could use instead. The first will happen naturally from the distribution of the vote. We would expect no dissents for 100bp and two for 50bp (Dhingra and Tenreyro). It is possible that Dhingra continues to vote for 25bp in light of growth disappointments and less expansionary fiscal policy. But either way the strength of dovish dissent will act as a signal about the next meeting.

BoE to maintain weak GDP forecast

The other signal is the BoE's forecasts versus August, which are likely to reiterate Broadbent's dovish comments. In August, the BoE had forecast a five-quarter recession with a 2.2% peak-to-trough drop in GDP. At the time, this had been almost universally viewed as too pessimistic because the forecast had not incorporated a likely fiscal easing. While there is now an energy price freeze in place that will prompt the BoE to lift its 4Q GDP forecast, that freeze is now scheduled to end in April. Hunt has said it will be replaced with a more targeted alternative, but that has not been specified and we think the BoE will hence have to shift at least some of the weakness it had in 4Q22 to 2Q23. Moreover, there is now only a very small part of the Truss tax plan that remains (around £13bn on net). This is a much smaller easing than the MPC will have expected to be incorporating, and hence arguably this could steer the center ground of the MPC toward 50bp (some members held off voting for 75bp in September as the fiscal ease hadn't been confirmed yet). However, in terms of inflation pressure there is still the resilience and tightening in the labor market to consider, which does argue for a faster pace.

Returning to growth, the MPC will be looking at a significantly higher profile for market interest rates. The expected peak in rates is now closer to 4.8% than the 3% seen before August. If the BoE follows its convention of using a 15-day average of market pricing, however, this would mean plugging in a 5.25% expected peak in rates. This would further depress growth. Relative to the MPC's August forecast, we think it won't be able to make a material upgrade. If it wasn't for the shift in the OBR assessment date—which is expected to usher in a further £50bn of tightening—the BoE would almost certainly have to revise the forecast lower and project something resembling a three-year recession (given the extreme weakness in its August projections to start with). Unless there is some better news on growth before February, this may be where its forecasts end up by then. For now, however, we think a better near-term global growth outlook, lower gas prices relative to August, and the stronger labor market will help the BoE to show a slightly better growth outlook overall.

Given the prospect of a large fiscal tightening to be announced in November, we think the MPC will be keen to emphasize in its communications that it is not on auto-pilot for 75bp hikes beyond next week's meeting. The BoE's three-year-ahead inflation forecast was shown at 0.8% in August. Even assuming slightly higher growth and a smaller rise in the unemployment rate, its hard to see how the MPC will revise that number up by more than a small margin. We assume it will be shown falling to 1.0% at the end of the forecast horizon (based on market rates; Table 1). That will be the MPC's way of again suggesting that it does not believe it will have to deliver as much tightening as the market expects. But the caveat is that it has been saying the same thing all year before having to backpedal and hike by much more.

Table 1: BoE forecasts
%, based on market rates assumption unless stated

	Aug				Nov (expected)			
	2022	2023	2024	2025	2022	2023	2024	2025
GDP (FY)	3.4	-1.4	-0.4	-	4.3	-0.9	0.0	0.6
CPI (Avg.)								
Mkt rates	9.6	9.6	2.6	-	8.9	7.9	3.0	1.2
Constant rates	9.6	9.9	3.1	-	8.9	8.3	3.5	1.6
CPI (EOP)								
Mkt rates	13.1	5.5	1.4	0.8	10.2	6.0	1.6	1.0
Constant rates	13.2	5.9	1.9	1.3	10.3	6.5	2.1	1.3
U-rate (EOP)	3.7	4.7	5.7	6.3	3.7	4.5	5.5	6.1

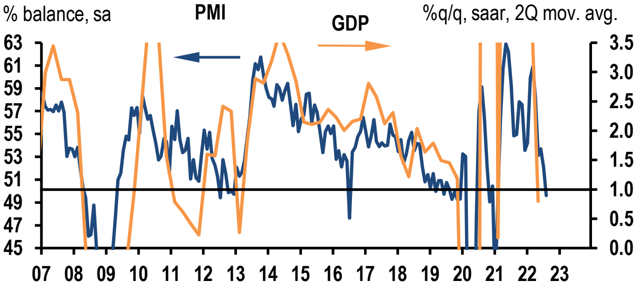
Source: J.P. Morgan

PMI nears previous recession levels

The composite flash PMI in October dropped from 49.1 to 47.2. We estimate the recession threshold of the PMI to be at the 45-46 mark, although given the survey doesn't capture retail spending it is arguably already consistent with falling GDP (Figure 1). That is in our forecast and, after a downgrade last week, we expect a 0.5%q/q (or 1.8% annualized) contraction in 4Q GDP.

Despite recent softening, the labor market still appears relatively resilient. The employment component of the PMI dropped 1.6%-pts but remains above average at 52.6. Online vacancies have also held up. However, downward momentum across activity components remains visible. New orders dropped by just under 4pts to 44.7, and there was a particularly concerning 7pt drop in the year-ahead business expectations reading to the lowest since the pandemic. Furthermore, the output reading of the manufacturing survey rose by 1.4%-pts, but is very weak at 45.6, and new orders plunged by 6pts to 38.6. Order backlogs within the manufacturing sector are running below average, and supplier delivery times have almost returned to normal levels.

Figure 1: PMI composite output and reported GDP growth



Source: Markit, ONS, J.P. Morgan

Data releases and forecasts

Week of October 31 - November 4

Mon
Oct 31
9:30am

Money supply
Sa

	Jun	Jul	Aug	Sep
M4 ex IOFCs (%m/m)	-0.2	0.6	0.1	
M4 ex IOFCs (%3m/3m, ar)	2.5	4.9	2.2	
M4 (%m/m)	-0.3	0.5	-0.2	
M4 (%oya)	4.0	4.4	3.8	
M4 lending (%m/m)[1]	0.1	0.4	-0.1	
M4 lending (%oya)[1]	2.6	3.9	3.5	

[1] Excludes the effect of securitization.

Mon
Oct 31
9:30am

Net lending to individuals (BoE release)
£ bn, average

	Jun	Jul	Aug	Sep
Consumer credit (ch, m/m)	1.8	1.5	1.1	
Mortgage approvals (000s, sa)	63.2	63.7	74.3	
Secured lending (ch, m/m)	5.4	5.1	6.1	

Thu
Nov 3
9:30am

PMI survey final, manufacturing

% balance, sa

	Jul	Aug	Sep	Oct
Overall index	52.1	47.3	48.4	
Output	48.9	42.7	44.2	45.6

Thu
Nov 3
9:30am

PMI survey final, services & composite

% balance, sa

	Jul	Aug	Sep	Oct
Services business activity	52.6	50.9	50.0	47.5
Composite				
Output	52.1	49.6	49.1	47.2
New orders	51.3	49.9	48.6	
Employment	55.8	54.4	54.2	

Thu
Nov 3
12:00pm

Bank of England monetary policy report & minutes

75bp hike to 3% in a 7-2 vote with two dovish dissents for 50bp (Tenreyro and Dhingra)

Fri
Nov 4
9:00am

New car registrations

%3m/12m, nsa

	Jul	Aug	Sep	Oct
Total	-19.0	-14.7	-0.1	
Private (ex. bus. and fleet)	-12.1	-10.0	-1.5	

Fri
Nov 4
9:30am

PMI survey final, construction

% balance, sa

	Jul	Aug	Sep	Oct
Overall index	48.9	49.2	52.3	

Review of past week's data

PMI survey flash

% balance, sa

	Aug	Sep	Oct	
Manufacturing				
Overall index	47.3	48.4		*45.8*
Output	42.7	44.2	~~45.0~~	*45.6*
Services business activity	50.9	50.0	~~48.0~~	*47.5*
Composite				
Output	49.6	49.1	~~47.5~~	*47.2*

CBI industrial trends

% balance

	Apr	Jul	Oct	
Domestic deliveries				
Expected	7	-4		*-5*
Reported	15	9		*-11*
Domestic orders				
Expected	1	2		*-12*
Reported	16	7		*-8*
Optimism	-34	-21		*-48*

CBI survey of distributive trades

% balance

	Aug	Sep	Oct
Volume of retailer sales	37	-20	*18*

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

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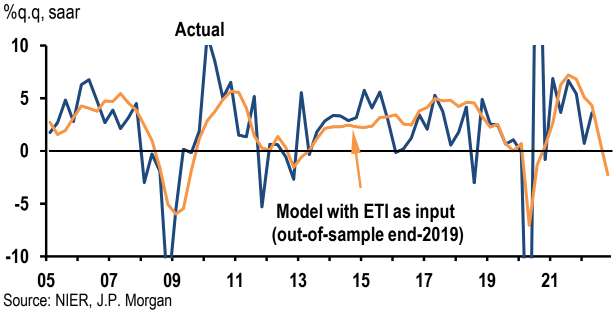
Sweden and Norway

- **NIER survey suggests Sweden is in a technical recession**
- **Norwegian data have surprised to the upside, suggesting some growth in 3Q**
- **Norges Bank to raise rates by 50bp next week, but risk skewed toward 25bp**

Sweden

The Swedish NIER survey for October gave a clear recessionary signal. The overall Economy Tendency Indicator plummeted 6.2-pts to 84.6, the lowest level since July 2020, and in isolation suggests 4Q GDP growth at -2.3% %q/q, saar (Figure 1). In turn, this leaves downside risks to both the Riksbank's (-1.7%, saar) and our forecast (-1%). That said, we think the index is overestimating the contraction somewhat given consumer confidence—which weighs 20% in the index—is currently out of sync with hard data such as household consumption and retail sales. Still, the survey strongly underpins our view that Sweden is in the midst of a technical recession. Labor market indicators have also worsened, although not to levels consistent with a full-scale recession.

Figure 1: Sweden GDP growth



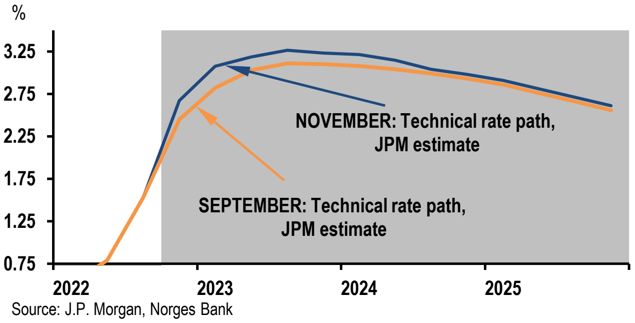
Source: NIER, J.P. Morgan

The NIER survey follows a string of other weak activity data such as the monthly GDP indicator, retail sales and housing prices. Together with the inflation data for September not being above the Riksbank´s forecast for the first time since November 2021 , this points to the Riksbank "only" raising rates by 50bp at the November meeting. The next couple of weeks offer few key releases. Most important will be the PMI numbers and household consumption data. The PMIs have shown a less gloomy outlook than the ETI survey, but we do expect a large decline in October for the composite index to just below 50 . After a flat development in September, we expect household consumption to have declined 0.2%m/m in September

Norway

While data releases in Sweden have generally been weaker-than-expected, the opposite is true for Norway. Core inflation landed 0.3%-above Norges Bank´s forecast at 5.3%oya, activity rebounded in August so the level of GDP is now 0.6% higher-than-assumed by Norges Bank, and the budget for 2023 was less contractionary than anticipated. Together with a weak NOK and hawkish central banks abroad we think Norges Bank will break with its forward guidance and raise rates by 50bp instead of 25bp at next week´s meeting. Our calculations of a "what-if" technical rate path suggest the rate path would have shown a raise to the terminal rate from 3.11% to 3.25% (Figure 1).

Figure 2: Norges Bank "what-if" rate path, Nov vs. Sep 2022



Source: J.P. Morgan, Norges Bank

The uncertainty around our call is high, however. First, the September rate path showed no probability of a 50bp rate hike in November. Second, the change of rhetoric at the September press conference was quite clear. Third, leading indicators still point to a slowdown in activity. Recall that Norway has a high transmission from its policy rate to lending rates with around 95% of both households and non-financial corporations having a 3-month variable loan. The high uncertainty going into the meeting is also demonstrated by markets pricing in around 38bps.

On the data front, the October inflation report and Norges Bank´s FX purchases are the most important. We project core inflation at 5.7%oya, 0.7%-pt above Norges Bank´s forecast, while headline inflation should rise to 7.1%oya (Norges Bank: 5.8%oya). Estimating the numbers for Norges Bank´s FX purchases in Nov-Dec following the budget release is notoriously difficult and even more so this year because of the elevated energy prices. However, our inclination is that the purchases should be lowered and if not by Nov-Dec, this should occur in January. Hence, the budget suggested FX purchases should in 2023, on average, be NOK 2.4bn/day, down 1.9bn from the current pace.

Sweden

Data releases and forecasts

Weeks of October 31 - November 11

Tues	**Purchasing managers' index (manufacturing)**				
Nov 1	% bal, sa				
8:30am		**Jul**	**Aug**	**Sep**	**Oct**
	Total manufacturing	52.3	50.2	49.2	49.5

Fri	**Purchasing managers' index (services)**				
Nov 4	% bal, sa				
8:30am		**Jul**	**Aug**	**Sep**	**Oct**
	Total services	58.5	58.6	55.1	

Wed	**Industrial production**				
Nov 9	Sa				
9:30am		**Jun**	**Jul**	**Aug**	**Sep**
	%m/m	1.6	7.8	-7.0	
	%oya	1.8	9.7	3.1	

Fri	**Production value index**				
Nov 11	%m/m, sa				
9:30am		**Jun**	**Jul**	**Aug**	**Sep**
	Total index	0.1	1.2	-1.3	
	Industrial production	-0.2	7.8	-6.4	
	Services production	0.7	-0.1	-1.4	

Review of past weeks' data

Weeks of October 10 - 28

Unemployment rate (Swedish Public Employment Service)

%

	Jul	Aug	Sep	
Statistics Sweden (sa)	6.6	6.5		*6.6*

Consumer prices

Nsa

	Jul	Aug	Sep	
CPI (%m/m)	0.1	1.8	~~1.1~~	*1.4*
CPI (%oya)	8.5	9.8	~~10.5~~	*10.8*
CPIF (%m/m)	-0.2	1.5	~~0.8~~	*1.1*
CPIF (%oya)	8.0	9.0	~~9.3~~	*9.7*
CPIF ex. energy (%oya)	0.4	0.6	~~0.6~~	*0.7*
CPIF ex. energy (%oya)	6.6	6.8	~~7.3~~	*7.4*

Unemployment rate (SCB)

%, sa

	Jul	Aug	Sep	
Total 15-74 years	7.0	6.9		*7.0*

Trade balance

SEK bn , nsa

	Jul		Aug		Sep	
Exports	~~152.9~~	*152.6*	~~148.5~~	*148.9*		*179.5*
Imports	~~156.8~~	*156.6*	~~166.9~~	*167.0*		*181.3*
Trade balance	~~-3.9~~	*-4.0*	~~-18.4~~	*-18.0*		*-1.8*

Retail sales

Sa

	Jul		Aug		Sep	
%m/m (ex. petrol)	~~-0.2~~	*-0.3*	-0.4		~~-0.5~~	*-0.4*
%oya (ex. petrol)	~~-3.6~~	*-3.8*	~~-4.9~~	*-5.2*		*-5.6*

GDP indicator

%m/m, sa

	Jul		Aug		Sep	
Total index	~~0.2~~	*1.0*	~~-1.4~~	*-1.2*		*1.0*

Source: SCB, Swedbank, Silf, AMS and J.P. Morgan forecasts

Norway

Data releases and forecasts

Weeks of October 31 - November 11

Tue	**Manufacturing PMI**				
Nov 1	DI, sa				
9:00am		**Jul**	**Aug**	**Sep**	**Oct**
	Total	53.6	51.9	50.0	

Thu **Norges Bank rate announcement**
3 Nov
10:00am Deposit rate 225bp, forecast to hike 50bp to 275bp.

Fri	**Industrial production**				
Oct 7	Sa				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	%m/m	-1.6	2.1	3.1	
	%oya	0.9	3.7	4.4	

Thu	**Consumer prices**				
Nov 10	Nsa				
8:00am		**Jul**	**Aug**	**Sep**	**Oct**
	CPI (%m/m)	1.3	-0.2	1.4	-0.1
	CPI (%oya)	6.8	6.5	6.9	7.1
	CPI - ATE (%oya)	4.5	4.7	5.3	5.7

Review of past weeks' data

Weeks of October 10 - 28

Consumer prices

Nsa

	Jul		Aug		Sep	
CPI (%m/m)	1.3		-0.2		~~0.5~~	*1.4*
CPI (%oya)	6.8		6.5		~~5.9~~	*6.9*
CPI - ATE (%oya)	4.5		4.7		~~4.9~~	*5.3*

Trade balance

NOK bn, nsa

	Jul		Aug		Sep	
Exports	228.8		~~287.8~~	*287.9*		*217.8*
Imports	75.5		~~90.2~~	*90.0*		*95.4*
Trade balance (incl. oil)	~~153.3~~	*153.4*	~~197.7~~	*197.9*		*122.4*
Trade balance (excl. oil)	~~153.2~~	*153.3*	~~197.7~~	*197.8*		*119.2*

Retail sales

Sa

	Jul		Aug		Sep	
%m/m (ex. petrol)	~~-2.2~~	*-2.1*	0.6			*0.0*
%oya (ex. petrol)	~~-8.5~~	*-8.4*	~~-4.0~~	*-3.9*		*-3.9*

Unemployment rate (Norwegian Welfare and Labour Org.)

%, nsa

	Aug		Sep		Oct	
% of labor force	1.6		1.6			*1.6*

Source: Statistics Norway, LFS and NAV and J.P. Morgan forecasts

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Emerging Europe

- **NBH: All rates on hold**
- **Russia: CBR on hold as expected**
- **CEE: Surveys signal warning for October CPI prints**

NBH's October meeting was one of the most uneventful on record, which after the intense action of the last month and without major new developments, was to be expected. The base rate was left unchanged at 13%, as were all other instruments in the corridor. The statement highlights the role of supply shocks and tighter global financial conditions in the Central Bank's current predicament, but takes reassurance from the fact that core CPI has in the latest data shown the first signs of cooling (lower but still extremely high levels). The text argues that the base rate of 13% is sufficient to manage inflation risks, which reinforces the idea that the NBH is for one reason or another keen to retain an optically flat rate while hiking via other rates matter more, but aren't called "base rate". In terms of guidance, the MPC pledges to maintain elevated rates for a prolonged period (which ones?) in order to bring inflation lower.

We believe the message lacks a genuine attempt to identify the causes of why the NBH was forced to lift marginal rates effectively to 18%, while others in the region are in the single digits despite having similar core CPI numbers (if measured in a standardized way). The whole argument of the base rate at 13% being sufficient to stabilize inflation is in itself concerning, because that base rate is nearly obsolete these days – it became so when the NBH introduced other rates paying as high as 18%. One can't help but read this as a revealed preference to, at the first sign of improvement, dismantle the complex multi-rate structure implemented last month, and move the effective rate lower to 13%.

For now, there is a window of relatively favourable market conditions (higher EUR/USD, talk of potential Fed slowdown, collapse in TTF), amidst which the NBH's effective emergency 500bp hike managed to stabilize the Forint. This allows for bland messaging to do the job. But structural challenges persist, inflation is running at an extraordinarily high pace, the current account is in deep deficit, markets are not trigger-happy about financing EM's and the only stable source of external financing in Hungary (EU funds) is under dispute. With some luck the NBH may not need to hike more, but the NBH is not out of the woods yet, and the current message suggests tightening will be removed prematurely.

Russia: CBR meditating in the midst of chaos

The CBR kept policy rate steady at 7.5% at past week's meeting as widely expected, and signaled a prolonged pause ahead. Dovish bias in communications on the rate outlook was removed and the governor implied that elevated uncertainty makes a wait-and-see mode most suitable in the near term. The impacts of mobilization and upcoming implementation of oil sanctions remain uncertain, but will be crucial for the inflation outlook; the board will need time to assess. For now, the midpoint of CBR's updated average policy rate forecast for next year remains at 7.5%, implying high likelihood that the CBR will stay put at upcoming meetings.

CBR's assessments of the current economic situation improved, even as the mid-term outlook became more uncertain. Logistical constraints eased, imports bounced, and recent growth performance surprised the regulator positively. The CBR lifted its 2022 growth forecast to -3.0-3.5% (JPM3 -3.0) from -4-6% previously, but kept next year's forecast cautious at -1.0-4.0% (JPMe -1.5).

Inflation assessments, if anything, turned slightly more dovish. Elevated momentum in services' inflation was downplayed. Mobilization is likely to affect demand more than supply in the near term; credit conditions are expected to tighten, while the consumer may remain cautious, all being disinflationary. A strong harvest should contain food inflation. That said, in CBR's view, medium-term inflation risks have increased due to global risks and export restrictions (read: lower potential output, weaker RUB) and a tighter labor market amid mobilization.

Our inflation forecast for next year (4.7%) is slightly lower than CBR's (5.0-7.0); hence, we continue to see chances for further marginal easing in 2023. Yet, given the CBR's communication it appears unlikely that the board will take any steps at the next few meetings. We therefore pushed back the expected timing of the next two 25bp cuts to 2Q and 3Q23 from 1H23. Our level of confidence around Russia rate forecasts remains low.

CEE: October surveys point to continued widespread inflation pressures

While we await the October CPI releases in the next couple of weeks, the message from the short-term business price surveys for October is simple: no respite in inflation pressures, both across countries, and across categories. Starting from the top down, our aggregate SWIPE index of near-term core CPI price pressures rebounded in both the Czech Republic and Hungary after earlier signs of slowdown, and was roughly flat in Poland. By categories, the acceleration in the core goods expectations index is the most obvious, especially in Hungary where a sharp drop in September provided a good signal for some slowdown in core CPI momentum. In core services, the indices show a flatter behavior, but no respite either. Outside core inflation, we can also highlight the new upward movement in food retailers' near-term pricing expectations. Hungary's reading, with a net balance of 70% of food retailers expecting to increase prices further is a near all-time high, and quite striking when food CPI is running already at approximately 40%oya.

The elevated result of the near-term price expectations surveys is joined by the series of strong flash CPI releases for Euro Area countries for October. In normal times, CE and EA inflation are rather uncorrelated, but given the strong common factor (not just in Europe but globally) in this inflationary outburst, this is an important signal not to be neglected. Our baseline forecast for October inflation has regional core prices evolving at a 16% annualized pace (sa) on average (CZ: 12.2%, HU: 21.1%, PL: 14%) compared to a 19% average momentum in the past three few months, which though still high would imply some deceleration. After the surveys, risks to our October forecast are skewed to the upside. For central banks the room for maneuver is narrowing, as the economic slowdown which is confirmed in the data is not being translated into any direct and obvious effect on core inflation.

Data releases and forecasts

Week of October 31 – November 4

Czech Republic:

Tue	**Real GDP, preliminary**				
Nov 1	%oya unless otherwise stated				
9:00am		**4Q21**	**1Q22**	**2Q22**	**3Q22**
	Real GDP, nsa	3.5	4.6	3.7	2.2
	%q/q saar	3.4	2.5	1.8	1.0

Tue	**PMI**				
Nov 1	Index				
9:00am		**Jul**	**Aug**	**Sep**	**Oct**
	PMI, Manufacturing	46.8	46.8	44.7	__

Thu	**CNB rate decision**
Nov 3	%

On hold: 7.0%

With a gloomy growth outlook, inflation tracking below the staff forecast, and upcoming Government energy supports set to exert downward pressure on the headline CPI, the dovish-leaning board's task is somewhat easier to justify. Although September CPI came stronger than expected, a Michl-led board has stopped the hiking cycle and the bar for returning to interest rate increases is extremely high. Unless we have a succession of upside surprises, we think the board will continue to prefer to keep rates unchanged and counter any FX weakness pressure through interventions.

Source: CNB, CZSO, J.P. Morgan forecasts

Hungary:

Wed	**External trade, final**				
Nov 2	EUR mn				
9:00am		**May**	**Jun**	**Jul**	**Aug**
	Trade balance	-109	-408	-1298	-1300
	Ytd	-1770	-2178	-3475	-4775
	Ytd a year ago	2874	3420	3246	2528
	Exports, %oya	30.0	14.6	12.8	37.1
	Imports, %oya	31.9	25.0	24.1	40.6

Source: NBH, KSH, J.P. Morgan forecasts

Israel:

Wed	**State of the economy indicator**				
Nov 2	%m/m, sa				
		Jun	**Jul**	**Aug**	**Sep**
	Composite index	0.2	-0.1	0.1	0.2

Source: BOI, J.P. Morgan forecasts

Poland:

Mon	**Consumer prices, preliminary**				
Oct 31	%oya, unless otherwise stated				
2:00pm		**Jul**	**Aug**	**Sep**	**Oct**
	All items	15.6	16.1	17.2	17.9
	%m/m, nsa	0.5	0.8	1.6	__

Wed	**PMI**				
Nov 2	Index				
9:00am		**Jul**	**Aug**	**Sep**	**Oct**
	PMI, Manufacturing	42.1	40.9	43.0	__

Source: NBP, GUS, J.P. Morgan forecasts

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Russia:

Tue	**PMI surveys**				
Nov 1					
10:00am		**Jul**	**Aug**	**Sep**	**Oct**
	PMI, Manufacturing	50.3	51.7	52.0	50.5
	PMI, Services	54.7	49.9	51.1	50.5

Wed	**Real economy indicators**				
Nov 2	Real terms, %oya				
4:00pm		**Jun**	**Jul**	**Aug**	**Sep**
	Construction	0.1	6.6	7.4	1.0
	Agriculture	2.1	0.8	8.8	7.0
	Transportation	-5.8	-5.2	-4.2	-4.0
	Retail sales	-9.6	-8.7	-8.8	-8.5
	Unemployment, %nsa	3.9	3.9	3.8	4.1
	Industrial output	-2.4	-0.5	-0.1	-3.1

Source: Local authorities, CBR, J.P. Morgan forecasts

Turkey:

Thu	**Consumer prices**				
Nov 3	% change				
10:00am		**Jul**	**Aug**	**Sep**	**Oct**
	Consumer prices				
	%oya	79.6	80.2	83.5	84.1
	%m/m	2.4	1.5	3.1	__
	Producer prices				
	%oya	144.6	143.7	151.5	__
	%m/m	5.2	2.4	4.8	__
	Core CPI (I)				
	%oya	61.7	66.1	68.1	70.7
	%m/m	3.5	3.1	2.7	__

Source: CBRT, National Statistics, J.P. Morgan forecasts

Review of past week's data

Hungary:

Average gross wages
%oya

	Jun	Jul	Aug	
Gross wages, nominal	15.4	15.3	__	*16.6*
Industry	14.1	15.1	__	*16.9*
Public sector	12.8	12.4	__	*16.5*

NBH rate decision
%

NBH held the policy rate at 13.0% as expected. See main text for details.

Source: NBH, KSH, J.P. Morgan forecasts

Israel:

International trade
US$ bn.

	Jul	Aug	Sep	
Trade balance	-3.8	-4.0	__	*-2.6*
Ytd	-24.9	-28.9	__	*-31.1*
Ytd a year ago	-18.9	-22.9	-25.5	
Exports %oya	12.9	14.0	__	*32.4*
Imports %oya	18.0	7.9	__	*19.5*

Source: BOI, J.P. Morgan forecasts

Russia:

Industrial output
%oya

	Jul	Aug	Sep	
Industrial output	-0.5	-0.1	~~-2.2~~	*-3.1*
Mining	0.9	1.0	__	*-1.8*
Manufacturing	-1.1	-0.8	__	*-4.0*
Electricity, gas, steam	-0.5	1.5	__	*-1.6*

IP surprised to the downside in September, declining 3.1%oya (JPMe -2.2). Seasonally adjusted, IP was down 0.3%m/m, we estimate, with mining output down 0.5% and manufacturing sliding 0.1%. In mining, the weakness was quite broad-based, while in manufacturing it was narrowly centered in metals, machines and transport equipment, which could be due to a drop in defence-related procurement and output. Otherwise, measures of breadth of growth in manufacturing looked solid in September and point to continued recovery in the sector. Worth noting, despite the September weakness, 3Q IP performance was strong. IP was up 4.7%3m/3m, saar, with mining up 5.5% and manufacturing 6.5% (utilities were down substantially). This supports our forecast for a modest (sequential) GDP gain in 3Q.

CBR rate decision
%

CBR left the policy rate unchanged at 7.5%. See main text for details.

Source: Local authorities, CBR, J.P. Morgan forecasts

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Turkey:

Capacity utilization

%

	Aug	Sep	Oct	
Total manufacturing	76.7	77.4	__	*76.9*
Durables	77.2	74.9	__	*74.0*
Nondurable	74.4	74.2	__	*74.9*

Foreign trade

US$ bn, except as noted

	Jul	Aug	Sep	
Trade balance	-10.7	-11.2	~~-10.4~~	*-9.6*
Exports	18.5	21.3	22.6	
%oya	13.1	13.1	9.2	
Imports	29.2	32.5	~~33.0~~	*32.2*
%oya	41.4	40.4	~~41.5~~	*38.1*

Source: CBRT, National Statistics, J.P. Morgan forecasts

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South Africa

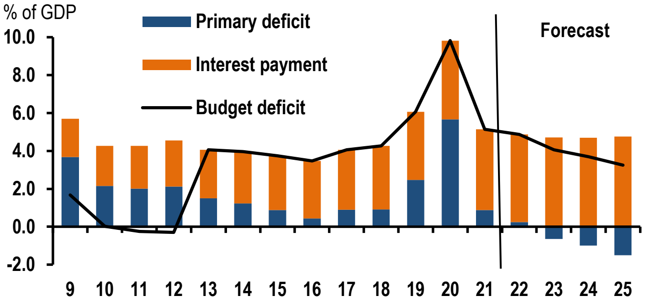
- **MTBPS projected substantial fiscal consolidation and a debt peak this year**
- **Yet revenue projections now seem too optimistic...**
- **...while expenditure framework has not provisioned for wage bill and SOE pressures**
- **We continue to look for 5.1% deficit in FY23 (MTBPS: -4.1%)**

Finance Minister Godongwana's medium-term budget policy statement (MTBPS) presentation embedded ambitious revenue projections with little room for spending pressures in FY23/24, setting the stage for a more sobering update in the February Budget. To be sure, the estimate for the current fiscal year FY22/23, ending in March, seems achievable and is fully in line with our forecast for a 4.9% fiscal deficit (from -6% in the Budget and -5.1% in FY21/22). Yet, beyond FY22/23, projections deviate significantly from our forecasts that incorporate the incremental updates in the MTBPS.

Ambitious revenue targets risk disappointment

The MTBPS anticipates a swiftly compressing fiscal gap, debt stabilization this year and a strong primary surplus. Specifically, Treasury forecasts a 4.1% deficit in FY23/24, easing further to 3.7% and 3.3% in FY24/FY25. The primary balance is pushed to a 0.7% surplus already next year and is expected to reach 1.5% in FY25, from -0.2% in FY22 (Figure1). Meanwhile, the debt-to-GDP ratio seemingly already peaked this year at 71.4%, and authorities project it to fall to 61.5% at the end of this decade.

Figure 1: South Africa main budget balance



Source: National Treasury, data for fiscal year (April-March)

However, the revenue projections assume a best case scenario that—in light of the current severity of binding electricity and logistics constraints—seem aspirational. Forecasts presume a cyclical strengthening over the next three years with 1.4% real growth in 2023 (JPMe: 0.9%) rising to 1.7% and 1.8% in the subsequent two years, unhindered by supply constraints and amid risks of slower global growth. More importantly, Treasury's growth outlook is compounded by terms of trade forecast to remain persistently elevated (although off the highs of 1H22), resulting in a permanently higher and rising tax-to-GDP ratio.

Regarding the details in the MTBPS, the FY22/23 tax revenue upward revision amounted to R84b (R107bn for fiscal revenue), pared down by expenditure upward revisions of R43bn to result in a 4.9% deficit as expected (from -6%). Additional spending this year is due to further SOEs support of R30bn, disaster relief expenditure after floods and a higher wage bill. At the same time, commodity prices helped boosted receipts beyond what was envisaged in the February Budget and corporate income tax receipts were strong more generally. Treasury substantially lifted revenue targets for FY23/24 and FY24/25, but expenditure projections are also raised with allocation to the social grant, health and education. As revenue upward revisions on the order of R100bn far outweighed additional spending (of around R50bn), the projected deficit now consolidates more swiftly to 4.1% (from 4.9%) in FY23/24 and 3.7% (from 4.5%) in FY24/25.

Fiscal outlook hinges on commodities

The MTBPS seems to serve as a place-holder as further support to SOE's and a wage settlement have not yet been finalized in time to be incorporated. Adjusting for spending pressures and taking into account our lower GDP growth forecasts, we project a 4.8% deficit in FY23/24 and 4.6% in FY24/25 in the event that commodity export prices remain at current elevated levels. However, our base case remains an easing commodity export prices over the next two years, which we believe more likely would result in a deficit is 5.1% in FY23/24 and 5.3% in FY24/25 (assuming no tax hikes in FY24/25).

Data releases and forecasts

Week of October 31 – November 4

Mon	**Monetary and credit aggregates**				
Oct 31	%oya, except as noted				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	M3	8.3	8.2	8.1	__
	M0	5.5	5.5	17.0	__
	Private sector credit	7.5	7.1	7.9	__

Mon	**Trade balance**				
Oct 31	R bn, except as noted				
2:00pm		**Jun**	**Jul**	**Aug**	**Sep**
	Trade balance	24.2	24.8	7.2	__

Tue	**New vehicle sales**				
Nov 1	%oya, except as noted				
		Jul	**Aug**	**Sep**	**Oct**
	Total vehicle sales	30.9	14.2	11.2	__
	%m/m nsa	5.4	9.4	1.3	__
Tue	**Barclays BER PMI**				
Nov 1	Index				
11:00am		**Jul**	**Aug**	**Sep**	**Oct**
	PMI (% weights)	47.6	52.1	48.2	__
	Business activity (25)	39.8	50.6	38.5	__
	New sales orders (30)	35.4	48.6	40.0	__

Source: Treasury and J.P. Morgan forecasts

Review of past week's data

Medium-Term Budget Policy Statement

The MTBPS promises a smaller budget gap over the medium term. While we agree with the FY22/23 forecasts for a 4.9% of GDP, the outer years appear ambitious. This is in part as spending pressures were not fully incorporated into the projections, in our view (see main text).

Source: Haver Analytics, StatsSA, J.P. Morgan

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Australia and New Zealand

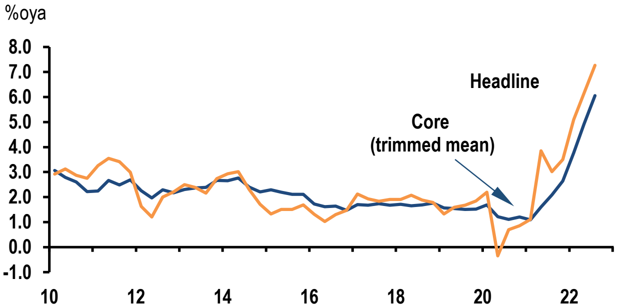
- **Australian 3Q headline and trimmed mean inflation exceeded expectations, with both printing at 1.8%q/q**
- **We retain our call for a 25bp hike in next week's November RBA meeting and the December meeting...**
- **...Although Wednesday's print adds upside risk for a higher terminal rate**
- **In NZ, we expect the unemployment rate to hold at 3.3% in next week's 3Q labor force data release**

Australian headline inflation printed at 1.8%q/q in 3Q, above both J.P. Morgan (+1.3%q/q) and consensus (+1.6%q/q). The annual rate is now 7.3%oya (Figure 1), a meaningful acceleration from the prior quarter (6.1%oya) and the fastest pace since the early 1990s. Inflation pressures, particularly from the goods and energy channel, are still feeding through, evident in the acceleration in trimmed mean inflation which also printed at 1.8%q/q or 6.1%oya.

Turning to the details, electricity prices were materially stronger than we had expected increasing +3%q/q versus our subsidy-affected forecast of -10%q/q. While subsidies in Western Australia had a dramatic influence on electricity inflation in that state (-85%q/q), prices across the remainder of the economy exceeded expectations, particularly in NSW where prices spiked 25%q/q.

New dwelling purchases (+3.7%q/q), gas (+11%q/q), food (+3.2%q/q) and rental inflation (+1.3%%q/q) were also strong, though broadly in line with forecast. The relative surprise from electricity is also consistent with the outperformance of trimmed mean vs the weighted median (+1.4%q/q), which usually reflects an upside surprise from a component with high CPI weight that cannot be fully stripped from the 15% trim (but still lands in the median).

Figure 1: Australia headline and core (trimmed mean) inflation



Source: ABS, J.P. Morgan

Business as usual for the RBA

Though the 3Q CPI report was stronger than expected, we do not think it is sufficient to disrupt the tapering plan set in place at the last RBA decision, and expect another 25bp hike. Sequential inflation only maintained 2Q's pace, and surprised more in intensity than breadth. The primary drivers of over the last year – food, home-building and utilities/fuel – increased in their share of inflation, and the disproportionate contribution of goods vs wage-driven services remains in stark contrast to others like the US and UK. Given that goods (and energy) inflation remain mostly globally-driven, this increases the extent to which Fed hikes act as a surrogate for domestic policy tightening.

We expect the RBA's headline forecasts to be unchanged in next week's SoMP, while near-term core inflation (trimmed mean) forecasts will be boosted. In explaining the lack of response to higher core forecasts, Governor Lowe is likely to emphasize policy lags, and the RBA's meeting frequency which allows time to catch up later if required (i.e., a longer string of 25bp moves). Our forecast remains for the RBA to hike 25bp in December as well before entering a pause, with this week's upside adding potential for the string to continue early next year. Of course, that departure vs our baseline scenario won't be tested for another three months, and there will be more monthly CPI indicators to gauge momentum in the interim. We expect the monthly data to maintain a message of deceleration as in this week's reading for September (after taking into account seasonality).

RBA forecasts largely unchanged in November SoMP

The RBA will also publish updated macro forecasts in the upcoming Statement on Monetary Policy. Following this week's 3Q inflation print it appears the Bank's headline CPI forecast is tracking and we don't expect any significant changes with inflation still anticipated to peak at 7.75% this quarter. In contrast, trimmed mean inflation (6.1%oya) is now above the RBA's projected peak (4Q22: 6%oya) and we expect the Bank to raise the near-term profile by 25bp-50bp. The real GDP and labor forecasts appear to be tracking and are unlikely to change materially, though the unemployment rate forecasts are biased marginally higher given the recent moderation in leading labor indictors such as new job ads and weekly payroll growth. The RBA expects wage growth to finish the year close to 3%oya, a forecast which is unlikely to change and broadly aligns with our own.

NZ unemployment rate to hold steady

GDP growth in New Zealand has slowed materially, particularly in consumption, and this is flowing through to labor

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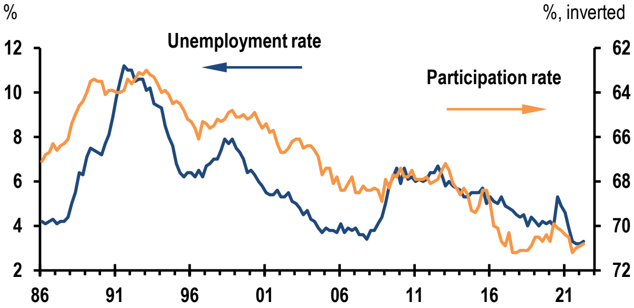
demand. However, the lags are quite long and so the labor market indicators are still showing quite mixed performance lately. Job advertisements have moderated from nearly 10%q/q growth a year ago, to 1.8% in 3Q22, though the monthly employment data have picked up relative to earlier in the year. In our view, the monthly employment figures have some extra seasonality nowadays given that primary, and some service sector employment has been disrupted by the absence of immigration and tourism flows earlier in the year. We also expect some pick-up in participation, back to levels similar to 2H21 (71.1%, Figure 2), as COVID drags wane and rising interest rates drag in more second income earners. Taking into account both rising participation and a pick-up in employment growth (+0.5%q/q) we look for the unemployment rate to hold steady at 3.3%. Accumulated tightness in the labor market suggests another strong quarter for wage growth (+1.1%q/q), but not as firm as the prior result which was boosted by the seasonal impulse from the minimum wage increase.

Figure 2: New Zealand unemployment and participation rates



Source: Stats NZ, J.P. Morgan

Australia

Data releases and forecasts

Week of 31 October - 4 November

Mon	Retail sales				
Oct 31		Jun	Jul	Aug	Sep
11:30am	%m/m	0.2	1.3	0.6	-
Mon	Private sector credit				
Oct 31		Jun	Jul	Aug	Sep
11:30am	%m/m	0.9	0.8	0.8	0.7
Tue	RBA official cash rate decision				
Nov 1		Aug	Sep	Oct	Nov
2:30pm	%	1.85	2.35	2.60	2.85
Wed	Building approvals				
Nov 2		Jun	Jul	Aug	Sep
11:30am	%m/m	0.3	-18.2	28.1	1.8
Wed	Housing finance				
Nov 2		Jun	Jul	Aug	Sep
11:30am	%m/m	-4.4	-8.5	-3.4	-4.0
Thu	Trade balance				
Nov 3		Jun	Jul	Aug	Sep
11:30am	A$bn	17.5	9.0	8..3	-
Fri	Retail sales volumes				
Nov 4		21Q4	22Q1	22Q2	22Q3
11:30am	%q/q	7.7	1.0	1.4	-

Review of prior week's data

Headline CPI			
	22Q1	22Q2	22Q3
%q/q	2.1	1.8	1.8
Export price index			
	22Q1	22Q2	22Q3
%q/q	3.5	14.6	-3.6
Import price index			
	22Q1	22Q2	22Q3
%q/q	5.0	4.3	3

New Zealand

Data releases and forecasts

Week of 31 October - 4 November

Wed	Labour force survey				
Nov 2		21Q4	22Q1	22Q2	22Q3
8:45am	Unemployment rate (%)	3.2	3.2	3.3	3.3
	Employment (%q/q)	-0.1	0.0	0.0	0.5
	Participation rate (%)	71.0	70.9	70.8	71.1
Wed	Private wages exc overtime				
Nov 2		21Q4	22Q1	22Q2	22Q3
11:30am	%q/q	0.72	0.70	1.30	1.1

Review of prior week's data

No data releases of note.

Source: ABS, Stats NZ, J.P. Morgan Forecast

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Greater China

- **China: A third term for President Xi**
- **3Q GDP growth beat expectations, lifting full-year GDP forecast to 3.1%y/y**
- **Weak housing activity and falling prices**
- **PBOC raises cross-border macro-prudential adjustment parameter to 1.25 from 1**
- **Taiwan: 3Q GDP beat on domestic demand rebound, despite a big miss in September IP**

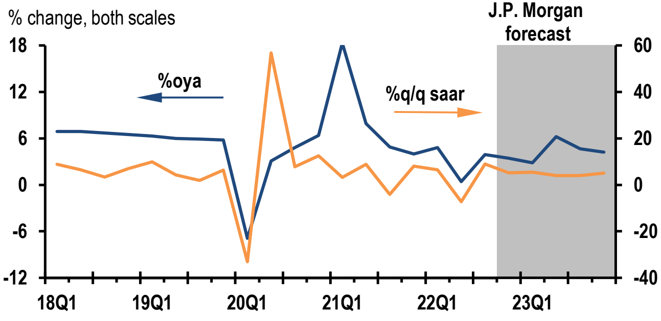
The 20th Party Congress concluded on October 22, and the new leadership team was announced after the 1st Plenary Session on October 23. President Xi was elected for a third term as the Party leader (General Secretary of the CPC and Chairman of the Central Military Commission), and his leadership role has been further strengthened. The Amendment to the CPC Party Constitution at this Party Congress further elaborates Xi's Thoughts on Socialist with Chinese Characteristics in a New Era, and adds "two establish" (establish Xi's core leadership position in the Party's Central Committee and the whole Party, and establish the guiding position of Xi's Thoughts) in the Party Constitution.

The leadership team at the NPC, CPCCC and the government will be announced at the NPC next March. An important change is that the team that decides on China's economic and financial policies will see a complete reshuffle, as Premier Li, first vice Premier Zheng Han, vice Premier He Liu, the PBOC governor Gang Yi, the CBIRC chairman Shuqing Guo, finance minister Kun Liu, will all be replaced next March. The new SC member, Qiang Li, should be the next Premier, setting a precedent for a new premier without having served the vice premier position.

3Q GDP growth beat expectations

China's 3Q GDP came in above expectations, growing 3.9%oya on a 9.0%q/q saar expansion, reversing the 7.3% contraction in 2Q (Figure 1). Industrial production activity was also stronger than expected, up 6.3% oya in September on a 1.5%m/m sa gain. This was perhaps attributable to the positive surprise in exports despite weak PMI readings. After a decent recovery in May and June, retail sales growth moderated to 2.5% oya or stayed flat in sequential terms, reflecting Omicron uncertainties and weak expectations about future income and employment. The story line for fixed investment remained largely unchanged: manufacturing investment (+10.7%oya) and infra FAI (+10.5%) continued to outperform, while real estate investment remained sluggish (-12.1%).

Figure 1: China real GDP growth



Source: NBS, J.P. Morgan

Our forecasts expect a moderation in 4Q GDP growth to 5.2%q/q saar, based on the following assumptions. First, the domestic policy stance will observe some fine-tuning or relaxation, but no dramatic change in the near term. More frequent COVID testing at the early stage can reduce the risk of major economic disruption as observed in March-April, but it means that recovery in consumption and services will only be gradual and incomplete. Second, we expect no new stimulus for the rest of the year. Third, housing market weakness will continue in the near term. Finally, the contribution of net exports to GDP growth will be lower in 4Q against the backdrop of global slowdown. Reflecting the stronger-than-expected 3Q GDP report, full-year GDP growth is revised up to 3.1%y/y from 3.0% previously.

Resilient exports but weak imports

China's September trade reported a mixed picture. Exports beat expectations by rising 5.7%oya on a 1.3%m/m sa gain, despite the soft reading in new export orders in September manufacturing PMI readings. Import growth moderated to 0.3%oya on a decline of 3.3%m/m sa. The trade surplus was registered at US$84.7bn. By product group, exports of lower-end consumer goods (including garments, clothing, footwear and toys) fell 2.6% m/m sa after August's 7.8% drop, while exports of tech products rebounded 4.7% m/m sa, roughly reversing the 4.8% drop in August (Figure 2). In addition, exports of mechanical and electrical products rose 2.7%m/m sa after August's 3.9% drop.

Despite concerns about weakened global demand and global supply chain relocation, China's exports have been more resilient than initially expected. There has been a clear shift of China's exports from the US to ASEAN economies. In 3Q, China's exports to the US fell 2.0%oya, while exports to ASEAN rose strongly by 29.4%oya. This suggests that global supply chain relocation has not hurt China directly; instead, it is a restructuring of the global supply chain where China is not left out. Nonetheless, given the global slowdown and tightened tech restrictions from the US, whether China's exports can maintain their resilience remains a risk factor. We

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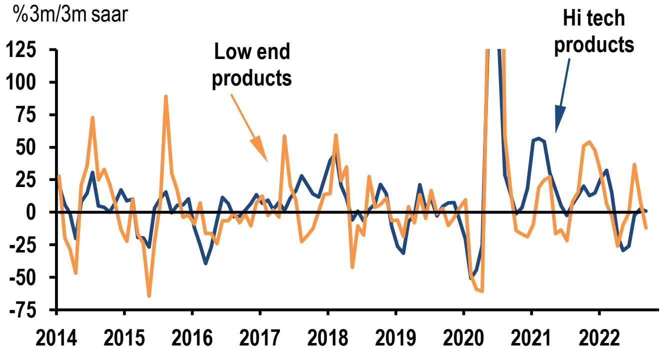
expect China's export growth to slow down and net exports' contribution to GDP growth to narrow going forward.

Figure 2: China major export categories

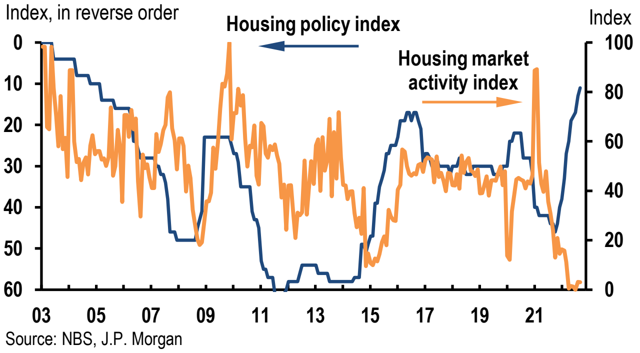


Source: China Customs; J. P. Morgan

Weak housing activity and falling prices

The year-on-year contraction in 70-city new home prices widened further to 2.3% in September from 2.1% in August, with a sequential decline of 0.3%m/m nsa. The PBOC and the CBIRC released a joint announcement on September 29, allowing eligible cities to lower the minimum mortgage rate for first-home buyers below the current floor of 4.1% with no change to the second-home mortgage rate. From June to August, cities with primary home prices falling in mom and yoy terms for three consecutive months , i.e. 23 out of the NBS 70-city sample, were qualified to further cut the first-home mortgage rate. With further housing price deceleration in September, the number of qualified cities rose to 31. According the tracking of Beike, 14 cities have lowered their first-home mortgage rate to below 4% as of mid-October.

Figure 3: Housing policy and housing market activity



Source: NBS, J.P. Morgan

The Party Congress report reiterates "Housing is for living, not for speculation", which remains the primary theme for the property sector. The housing system will be characterized by multi-body supply, multi-channel guarantee, and simultaneous development in the sales and rental markets. With that, we maintain our view that a nationwide housing policy easing (a repeat of the 2014-2015 practice) is unlikely. Our housing policy index slipped lower further in September, but the housing activity index shows continued sluggishness (Figure 3). We think that housing demand may maintain the recent pace with a marginal pick-up into the year end, and %oya housing price will stay in contractionary territory in the coming months.

PBOC raises cross-border macro-prudential adjustment parameter to 1.25 from 1

The PBOC and SAFE released a joint notice, raising the cross-border macro-prudential adjustment parameter for both corporates and financial institutions to 1.25 from 1. Domestic corporates and financial institutions' cross-border borrowing amounts are capped by an upper limit, and the upper limit is determined by the risk-weighted asset or capital value, adjusted by the cross-border financing leverage and macro-prudential adjustment parameter. The PBOC usually lowers the parameter when the CNY faces appreciation pressure and raises the parameter when CNY faces depreciation pressure. The general logic is as follows: a higher macro-prudential adjustment parameter will increase the upper limit for financial institutions' and corporates' capability to borrow overseas, encouraging foreign inflows. Meanwhile, it lowers the domestic foreign currency conversion demand, as corporates and financial institutions can directly borrow more from overseas, mitigating CNY depreciation pressure.

However, in the strong USD environment, we think the CNY depreciation pressure will continue and the policy effectiveness of the cross-border macro-prudential adjustment parameter tends to be limited. Our US team expects another 75bp mega hike next week in the November FOMC meeting, followed by a 50bp hike in December, leaving the year-end Fed funds rate at 4.5%. A more aggressive Fed has benefitted the USD via higher real rates, and our global fixed income team lifted its year-end target for USD to 116.6 from 115 previously. Our CNY strategist forecasts the year-end CNY/USD target at 7.3 and 1Q23 target at 7.4.

Industrial profits contract 2.3% oya ytd

China's industrial profits contracted 2.3% oya in January-September. Upstream mining and resource sectors continued to outperform. In particular, the mining sector's profits grew a strong 76.0%oya in Jan-Sep despite moderation compared to earlier months, which seems consistent with the latest easing in raw material and commodity prices. Mainstream manufacturing sector's profits showed a general soft trend, with overall manufacturing sector's profit falling 13.2% oya ytd. Looking ahead, industrial corporates will likely face downward pressure, given the subdued housing market activity, the uncertainties around domestic activity , as well as growing uncertainty around external demand conditions amid concerns of looming DM recession risks. Growth-supportive macro policies, including credit policy, further tax cuts and other fiscal measures remain crucial to support China's corporate sector.

Hong Kong: exports beat on solid bilateral trade with the Mainland

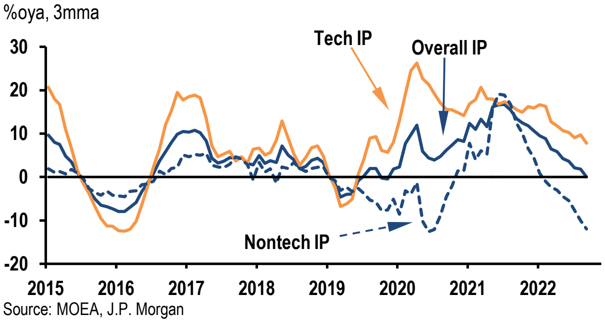
Hong Kong September exports beat market expectations on a 3.2%m/m sa rebound after disappointing prints in both July and August. Imports jumped 10.2%m/m sa, following the dramatic fall in the previous two months. As a result, the monthly trade deficit widened to HK$44.9bn in September (vs. HK$13.3bn in August). By destination, exports to Asia as a whole dropped 6.7%oya, but Hong Kong's imports from the Mainland gained a solid 8.1%m/m sa in September, together with a 8.5% rise in exports to the Mainland.

The ongoing supply chain restructuring may have supported the Mainland export sector's resiliency, partially benefitting Hong Kong. The boost from new smartphone model launches tends to be limited as Taiwan's export orders from the Mainland and Hong Kong have remained soft. Our global team expects the global economy to decelerate in the current quarter, casing a shadow on global final demand.

Taiwan: A big miss in September IP

Taiwan's September IP came in below expectations, falling 4.8%oya on a 4.9% m/m sa contraction, with the sequential trend contracting 9.5% 3m/3m saar in September (Figure 4). Further breakdown shows a significant decline in tech-related manufacturing IP, which plunged 8.3% m/m sa while non-tech manufacturing IP remained sluggish on a 0.8% fall. The sharp decline in September IP seems consistent with the disappointing export data (-6.1% m/m sa). In particular, the sharp decline in tech-related IP points at the same direction with the 2.4% contraction in tech exports.

Figure 4: Taiwan IP growth breakdown



Source: MOEA, J.P. Morgan

There was a significant rise in tech inventory (+7.3% m/m sa in August), partly related to the launch of new smartphone models. The tech sector's inventory to shipment ratio is remarkably high even compared to previous new product seasons. Going forward, the pressure of inventory correction will likely drag industrial activity, especially considering the downside risk on global demand outlook and likely slowing in tech sector demand in the coming quarters. On domestic front, recent Omicron wave's drag on consumer spending seems to have faded, as retail sales fell 0.6% m/m sa in September and the unemployment rate eased modestly to 3.64%.

3Q GDP grew a solid 4.1%oya

Taiwan's advanced 3Q GDP came in above expectations, growing 4.1%oya on a 6.6% q/q saar expansion, roughly reversing the 7.0%q/q saar contraction in 2Q. The upside surprise was driven by the 20.2% q/q saar rebound in domestic demand as the 2Q domestic Omicron drag on consumer sentiment and household spending faded. Exports of goods and services contracted 12.7% q/q saar in 3Q amid slowing global demand conditions. In addition, domestic fixed investment showed solid expansion of 8.2% q/q saar in 3Q.

Looking forward, the global goods demand outlook remains cloudy in the coming months, restraining the outlook for Taiwan's export sector. The pressure of inventory correction likely will also exert further drag on industrial activity. Meanwhile, domestic demand may show further moderate recovery as the pandemic drag fades, but the cloudy outlook for the global economy and financial market volatility may be a drag on consumer sentiment and restrain the pace of domestic demand recovery. The latest easing of capital goods imports also hints at growing concerns amongst Taiwan's corporate sector about external headwinds, hence restraining the capex spending outlook. We expect the Taiwan economy to show modest growth of 2.2% q/q saar in 4Q. Our forecast for full-year 2022 GDP growth stands at 3.0%y/y.

China:

Data releases and forecasts

Week of October 31 - November 4

Mon	Purchasing managers index				
Oct 31	Index				
9:30am		Jul	Aug	Sep	Oct
	Overall (Markit)	50.4	49.5	48.1	49.0
	Output	52.0	50.5	47.3	___
	Overall (NBS)	49.0	49.4	50.1	49.6
	Output	49.8	49.8	51.5	___

Review of past week's data

Real GDP (24 Oct)

% change

	22Q1		22Q2		22Q3	
%oya	4.8		0.4		~~3.6~~	*3.9*
%q/q saar	~~7.4~~	*6.5*	~~-8.7~~	*-7.3*	~~9.5~~	*9.0*

Fixed investment (24 Oct)

% change

	Jul	Aug	Sep	
%oya	3.6	6.4	~~7.2~~	*6.5*
%oya, ytd	5.7	5.8	~~6.0~~	*5.9*

Retail sales (24 Oct)

% change

	Jul	Aug	Sep	
%oya	2.7	5.4	~~2.2~~	*2.5*
%m/m sa	-0.3	-0.2	~~-0.1~~	*0.0*

Industrial production (24 Oct)

%

	Jul	Aug	Sep	
%oya	3.8	4.2	~~4.5~~	*6.3*
%m/m sa	1.6	1.4	~~1.0~~	*1.5*

Merchandise trade (24 Oct)

US$ bn

	Jul	Aug	Sep	
Balance	101.3	79.4	~~69.1~~	*84.7*
Exports	332.7	314.9	~~313.2~~	*322.8*
%oya	17.9	7.1	~~2.6~~	*5.7*
Imports	231.4	235.5	~~244.1~~	*238.0*
%oya	2.2	0.3	~~2.9~~	*0.3*

Hong Kong:

Data releases and forecasts

Week of October 31 - November 4

Mon	**Real GDP**				
Oct 31	% change				
4:30pm		**21Q4**	**22Q1**	**22Q2**	**22Q3**
	%oya	4.7	-3.9	-1.3	-0.1
	%q/q saar	0.0	-11.1	4.1	8.0

Tue	**Retail sales volume**				
Nov 1	% change				
4:30pm		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	-4.2	1.1	-2.9	0.6
	%m/m sa	0.0	3.0	1.5	0.3

Review of past week's data

Merchandise trade (25 Oct)

HK$ bn

	Jul	Aug	Sep	
Balance	-27.6	-13.3	~~-28.5~~	*-44.9*
Exports	379.6	371.9	~~357.0~~	*401.6*
%oya	-8.9	-14.3	~~-14.0~~	*-9.1*
Imports	407.2	385.1	~~385.1~~	*446.6*
%oya	-9.9	-16.3	~~-15.7~~	*-7.8*

Taiwan:

Data releases and forecasts

Week of October 31 - November 4

Tue	**Markit manufacturing PMI**				
Nov 1	Index, sa				
8:30am		**Jul**	**Aug**	**Sep**	**Oct**
	Overall	44.6	42.7	42.2	42.0
	Output	40.2	37.6	37.4	

Review of past week's data

Labor market survey (24 Oct)

%

	Jul	Aug	Sep	
Unemployment rate, sa	3.68	3.67	~~3.67~~	*3.64*
Unemployment rate, nsa	3.78	3.79	~~3.52~~	*3.66*

Industrial production (24 Oct)

% change

	Jul	Aug	Sep	
%oya	1.6	3.3	~~0.2~~	*-4.8*
%m/m sa	-0.7	1.1	~~-1.3~~	*-4.9*

Real GDP (28 Oct)

% change

	22Q1	22Q2	22Q3	
%oya	3.7	3.1	~~2.3~~	*4.1*
%q/q saar	6.5	-7.0	~~0.5~~	*6.6*

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

The long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

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Korea

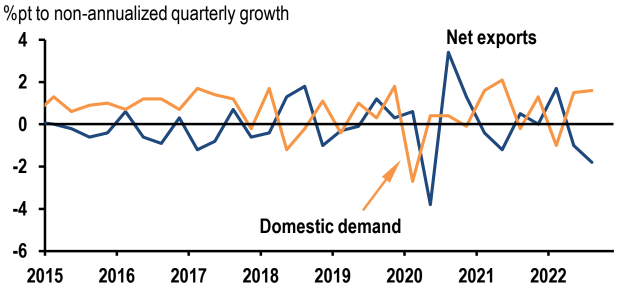
- **3Q GDP growth moderated as expected, we expect growth to slow in 2023**
- **Consumer sentiment index fell back in October**

Korea's real GDP grew 1.1%q/q, saar or 0.3%q/q, sa (JPMe and consensus 0.3%q/q sa) in 3Q22, moderating after growth averaged 2.8% annualized in 1H. The details were also in line with our expectation, as a negative contribution from net exports (-1.8%pt for %q/q, sa growth) was offset by a robust domestic demand contribution (+2.0%pt). Looking ahead, we expect quarterly growth momentum to slide further given slowing global demand growth and policy tightening, and our annual growth forecast marks 2.7%y/y for 2022 and 1.4% for 2023. In terms of policy, while the primary policy concern for the Bank of Korea has been stabilizing inflation, the cost of policy tightening on growth should gradually turn more evident in the coming quarters. The benefits from acting to stabilize inflation expectations had made tightening an obvious choice at prior meetings, but the balance between costs and benefits of policy tightening will become less obvious through time. Given this backdrop, we think the bar for another 50bp hike in November is higher than in October, and maintain our call for a 25bp hike at the next meeting.

3Q GDP growth moderated

In the demand side details of the 3Q real GDP data, domestic demand's components were strong enough to offset the drag from net exports (Figure 1).

Figure 1: Contribution to real GDP growth



Source: BoK and J.P. Morgan

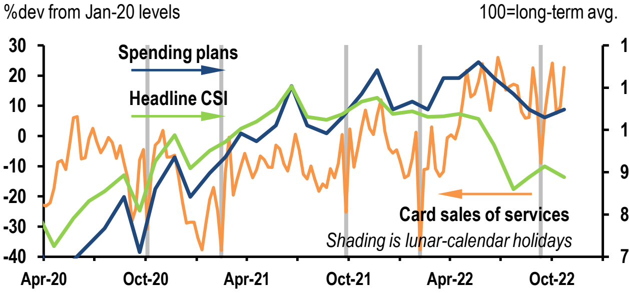
Private consumption grew strongly by 7.9%q/q, saar following 12.0% growth in 2Q as the growth impulse from the full reopening since 2Q continues. Fixed investment growth rebounded strongly as easing in supply bottlenecks should have contributed to a catch up of capex after the drag in earlier quarters. Meanwhile, real exports rose 4.1% after a 12.0% contraction in 2Q22, yet real imports rose significantly stronger than exports by 25.4% for net exports to drag down overall demand growth. The surge in 3Q real imports must reflect the easing of supply bottlenecks, including the reopening of regional trading partners' industrial activity in 3Q after COVID-19 related disruptions in the earlier quarter.

Looking ahead in the near term, by early 2023, similar details should be maintained with a drag from net exports being offset by domestic demand growth. We continue to expect 1.3%q/q, saar growth in 4Q22, which implies 2.7%y/y annual growth. That said, the robust growth impulse in domestic demand should ultimately expire in mid-2023, as the reopening pent-up demand should ease along with an impact of policy tightening (both monetary and fiscal; with a delayed impact from base rate hikes and fiscal consolidation planned for 2023).

Consumer sentiment fell in October

Consumer sentiment index fell back by 2.6pts to a near-two-year low of 88.8 in October. The headline index had recovered in August-September on easing of inflation concerns, but it was partially reversed in October as the expected inflation edged up again, impeding the sentiment recovery. News of a global economic downturn and tightening of financial conditions likely were a drag on consumer confidence as well; the outlook index of general economic conditions fell 6pts after a 12pt gain in August-September, more than that of consumers' own living standards which fell 2pts after a 7pt gain. Meanwhile, the index of spending plans was relatively resilient, inching up in October after a gradual decline in June-September, broadly in line with our tracking of credit card sales holding up in recent weeks (Figure 2).

Figure 2: Korea CSI survey and weekly credit card sales



Source: Aicel Tech, BoK, and J.P. Morgan

The one-year-ahead inflation expectations rose 0.1%pt to 4.3% in October, a break after a total 0.5%pt decline in the past two months, consistent with our view that inflation should come down only slowly considering a few factors—such as the deferred cost pass-through to utility prices and KRW depreciation. Consumers also cited utility prices as the strongest inflation driver for the next one year, with a larger share of respondents (62%) than a month ago (50%).

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Data releases and forecasts

Week of October 31 - November 4

Mon	**Industrial production**				
Oct 31	% change				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	1.4	1.5	1.0	1.3
	%m/m, sa	1.8	-1.3	-1.8	-2.0

Mon	**Producer shipments and inventories**				
Oct 31	%oya				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	Shipments	-4.2	-1.5	1.2	0.2
	Inventories	17.2	17.0	12.3	11.7

Mon	**Composite leading indicator**				
Oct 31	2015=100, sa				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	Index	129.2	129.4	129.5	129.6

Mon	**Service activity**				
Oct 31	% change				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	4.0	4.6	7.1	5.6

Mon	**Consumption goods sales**				
Oct 31	% change				
8:00am		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	-1.5	-1.9	2.3	3.1
	%m/m, sa	-1.0	-0.4	4.3	1.4

Tue	**Customs trade**				
Nov 1	US$ bn, nsa				
9:00am		**Jul**	**Aug**	**Sep**	**Oct**
	Trade balance	-5.1	-9.4	-3.8	-2.2
	Exports	60.3	56.7	57.4	51.8
	Imports	65.3	66.1	61.2	54.1

Tue	**Purchasing Managers Index**				
Nov 1	Index, sa				
9:30am		**Jul**	**Aug**	**Sep**	**Oct**
	PMI - Manufacturing	49.8	47.6	47.3	47.0

Wed	**Consumer prices**				
Nov 2	% change				
8:00am		**Jul**	**Aug**	**Sep**	**Oct**
	%oya	6.3	5.7	5.6	5.7
	%m/m, nsa	0.5	-0.1	0.3	0.3

Review of past week's data

Consumer survey (Oct 25)

100=neutral reading, nsa

	Aug	**Sep**	**Oct**	
Index	88.8	91.4	~~90.0~~	88.8

FKI business survey (Oct 26)

Index, sa

	Aug	**Sep**	**Oct**	
One-month outlook	96.0	87.4	~~86.0~~	86.5
Current conditions	94.8	87.1	~~88.0~~	90.1

Real GDP 1st estimate (Oct 27)

% change

	1Q22	**2Q22**	**3Q22**	
%q/q, sa	0.6	0.7	0.3	
%q/q, saar	2.6	3.0	~~1.3~~	1.1
%oya	3.0	2.9	3.1	

Source: NSO, Customs office, Markit, BoK, FKI, and J.P. Morgan forecasts

ASEAN

- **Malaysia's domestic demand momentum likely to persist given accommodative budget next year...**
- **...as external demand strength continues to abate alongside the softening in global demand**
- **Headline CPI momentum turns a corner while core CPI remains sticky, BNM to hike further**
- **Excess liquidity rises as LDR steadily declines, fiscal financing pressures abate**

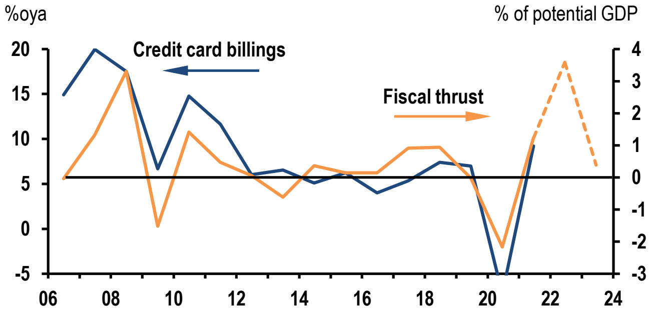
Malaysia's economic expansion is currently underpinned by a strong recovery in the services sector even against a softer external demand backdrop. Should the bulk of the details in Budget 2023 be preserved when it is re-tabled again before year-end, fiscal policy will be supportive for domestic demand in the near-term. This is most evident in the sticky nature of underlying core price pressures which continues to move upwards in recent months despite a turn in overall headline CPI. This informs our view of further monetary policy tightening action by Bank Negara through 1Q23, bringing the terminal OPR to 3.25%.

Despite the strong cyclical recovery in Malaysia, LDR has been trending down. Overall banking system liquidity, defined as deposits less loans, is currently at decade-highs owing to an expansion in local deposits. Despite the relaxation of the FEA regulations last year, business enterprises' local deposits have steadily risen even as individuals' precautionary savings are being drawn down. Should depositors' behaviors remain unchanged, this may arguably ease near-term fiscal financing pressures.

Fiscal support remains for 2023

The ongoing theme for Malaysia has been underpinned by a service sector pickup amid the softening in external demand backdrop. The recently tabled Budget 2023 suggests that these trends may persist into 2023. A caveat is that while the Budget 2023 will be re-tabled before the year-end owing to the dissolution of parliament this month, our baseline is that the bulk of the details will remain the same barring any surprise election outcome. The fiscal deficit next year is projected to reach 5.5% of GDP, marking a slight narrowing from the revised 5.8% of GDP deficit penciled in for this year. As the markets were expecting a deficit of around 5.0% of GDP, the fiscal thrust for Budget 2023 is estimated to remain slightly positive (Figure 1). Next year's subsidy bill is expected to fall to RM42 billion due to expectations of lower global crude oil prices and more notably, the gradual move towards targeted subsidies, though the timing of this remains uncertain. It is worth noting that the overall subsidy bill in 2023 is earmarked at 2.3% of GDP, which still remains high relative to the pre-COVID years. This points to the continuation of substantial fiscal support to the economy, which in turn implies the underlying momentum in domestic demand may persist through next year.

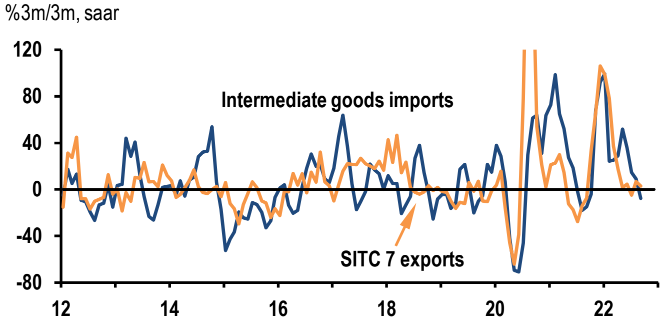
Figure 1: Malaysia credit card billings and fiscal thrust



Source: BNM, DOS, Dashed line denotes J.P. Morgan 2022-23 forecasts

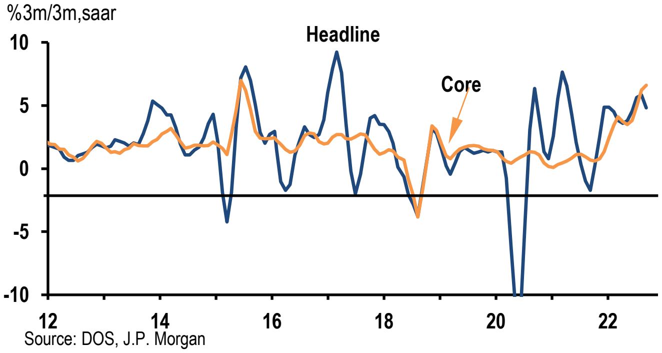
It is worth noting that the MoF projects steady external demand particularly in the tech sector, but we remain less optimistic on this front given the softening in demand particularly from the developed economies. Indeed, intermediate goods imports (which are key inputs in overall tech exports) have softened in recent months (Figure 2). All told, the risks around our FY22 GDP growth forecasts of 8.8%y/y remain broadly balanced at this juncture.

Figure 2: Malaysia intermediate goods imports and SITC 7 exports



Source: DOS, J.P. Morgan. SITC 7: Machinery and transport equipment (MT)

Figure 3: Malaysia core and headline CPI inflation



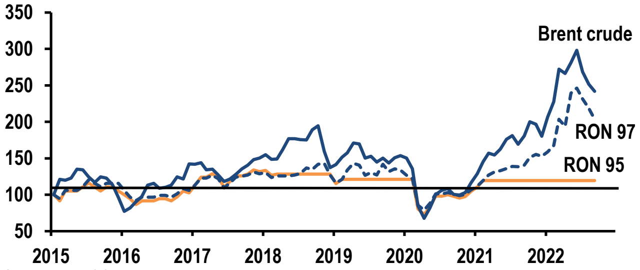
Source: DOS, J.P. Morgan

Headline CPI momentum turns, but not core

While the sequential pace of price expansion for September's headline CPI printed lower at 4.8%3m/3m, saar, underlying core CPI inflation ticked up to 6.6%3m/3m, saar (Figure 3). The easing in headline CPI momentum is in part driven by the easing in transport cost prices, particularly for the unsubsidized RON 97 as well as slower increases in food prices (Figure 4). As mentioned earlier, a recalibration in fuel subsidies in Malaysia will arguably lift headline CPI anew , although the extent of this depends on how it is implemented.

Figure 4: Malaysia motor gasoline retail prices and Brent crude oil

Index, 1Q15=100, MYR terms

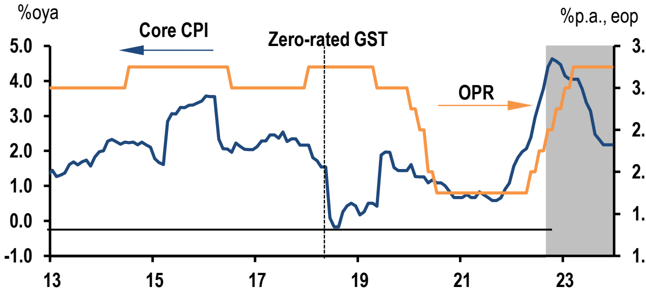


Source: MDTCC

Core CPI inflation in Malaysia remains notoriously sticky recently, with stronger evidence of demand-pull price pressures. Service-oriented categories, such as restaurants and hotels, and recreation and culture extended gains last month, both up 0.3%m/m, sa, which likely reflects the sustained reopening dynamics in the country. With a supportive fiscal stance and sustained economic recovery momentum, we continue to expect a 25bp hike at the November meeting and further 25bp policy rate hikes in 1Q23, bringing the terminal OPR to 3.25%, in line with our Taylor rule model estimations (Figure 5 and see here).

Figure 5: Malaysia core CPI and OPR

%oya %p.a., eop



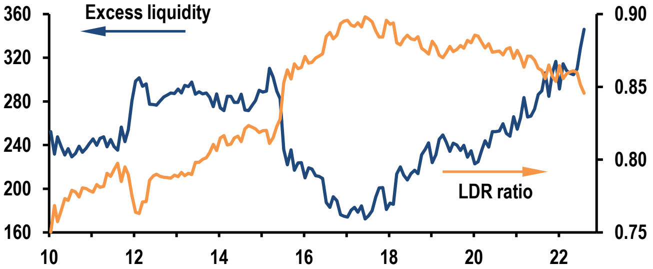
Source: DOS, BNM and J.P. Morgan forecasts in shaded area

Fiscal financing pressures allayed for now

With credit growth now back to pre-COVID levels, the loan-to-deposit ratio has continued to decline back to June 2015 levels (Figure 6). This has primarily been driven by an expansion in the local deposit base. While individuals' deposits in the banking system have slowed owing to solid private spending, local deposits by business enterprises have turned stronger (Figure 7). With the relaxation in the FX regulation last April that relaxes the export conversion rule, we had expected corporate FX deposits to rise as ringgit deposits ease. However, the steady rise in corporate local deposits is striking. In the last Fed tightening cycle, depositors were substituting away from local towards FX deposits. Thus, an illicit change in behavior towards FX deposits could have strong implications on overall banking system liquidity.

Figure 6: Malaysia banking system excess liquidity and LDR ratio

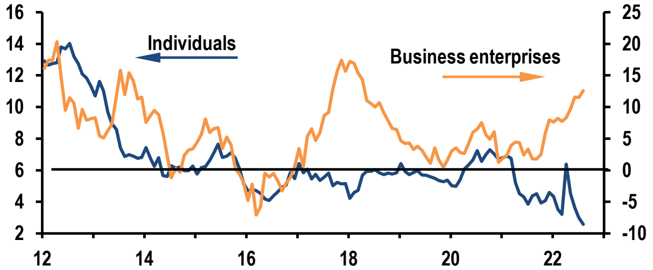
MYR billion, deposits less loans Ratio



Source: BNM, J.P. Morgan

Figure 7: Banking system local deposits by depositors

%oya, both scales

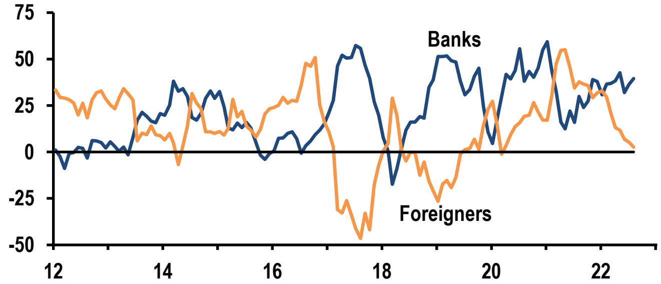


Source: BNM, J.P. Morgan

All told, the ample banking system liquidity will allow banks to step up bank bond holdings in an environment of lower foreign participation in the local fixed income markets which now stands at 23.1% of overall bonds outstanding (Figure 8).

Figure 8: Malaysia government bond holdings

MYR bn, change from year ago



Source: J.P. Morgan

ASEAN

Indonesia

Data releases and forecasts

Week of October 31 - November 4

Tue	**Consumer prices**				
1-Nov	% change				
11:00am		**Jul**	**Aug**	**Sep**	**Oct**
	Total, %oya	4.9	4.7	6.0	6.7
	%m/m, sa	0.5	1.0	1.5	0.8

Review of past week's data

No data released.

Malaysia

Data releases and forecasts

Week of October 31 - November 4

Thu	**BNM monetary policy meeting**				
3-Nov	% pa				
		May	**Jul**	**Sep**	**Nov**
	Overnight policy rate	2.0	2.25	2.50	2.75

Review of past week's data

No data released.

Philippines

Data releases and forecasts

Week of October 31 - November 4

Fri	**Consumer prices**				
4-Nov	% change				
9:00am		**Jul**	**Aug**	**Sep**	**Oct**
	Total, %oya	6.4	6.3	6.9	6.9
	%m/m, sa	0.6	0.4	0.6	0.5

Fri	**Merchandise trade**				
4-Nov	US$ bn, nsa				
9:00am		**Jun**	**Jul**	**Aug**	**Sep**
	Trade balance	-5.9	-6.0	-6.0	-5.4
	Exports, %oya	1.0	-4.1	2.0	6.4
	Imports, %oya	26.3	22.2	26.0	19.0

Review of past week's data

No data released.

Singapore

Data releases and forecasts

Week of October 31 - November 4

Wed	**Purchasing managers index**				
2-Nov	Index				
9:00pm		**Jul**	**Aug**	**Sep**	**Oct**
	PMI	50.1	50.0	49.9	49.8
	PMI—electronics	50.5	49.6	49.4	49.3

Review of past week's data

Consumer prices (Oct 25)
% change

	Jul	**Aug**	**Sep**	
%oya	7.0	7.5	~~7.3~~	*7.5*
%m/m, sa	0.6	0.5	~~0.3~~	*0.4*

September core CPI rose 0.5%m/m, sa and 5.3%oya, slightly above JPM estimate (5.1%oya). In trend sequential terms, core CPI slowed from 6.9%3m/3m, saar in August to 5.9%3m/3m, saar in September, driven by a potential turn in food services, which is a useful measure of upstream and downstream pricing behavior. The October CPI print will be key to ascertain if the inflection in price pressures has indeed arrived in tandem with the Domestic Supply Price Index (DSPI).

Industrial production (Oct 26)
% change

	Jul	**Aug**	**Sep**	
%oya	1.2	0.4	~~-2.6~~	*0.9*
%m/m, sa	-1.5	1.6	~~-0.9~~	*0*

September IP came in below both JPM (-2.6%) and consensus (2.1%oya) expectations. Production excluding electronics and biomedical, which tends to be a useful bellwether of broader capital spending, actually picked up materially and runs at odds with Taiwan's soft export orders. Going forward, we expect the manufacturing sector to decelerate gradually even as it is partially offset by the services recovery.

Thailand

Data releases and forecasts

Week of October 31 - November 4

Mon	**Manufacturing production**				
31-Oct	% change				
10:30am		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	-0.2	6.4	14.5	3.8
	%m/m, sa	1.3	0.7	0.8	0

Mon	**Merchandise trade**				
31-Oct	US$ bn, nsa				
2:30pm		**Jun**	**Jul**	**Aug**	**Sep**
	Trade balance	2.1	-0.4	-1.0	1.1
	Exports, %oya	11.1	3.4	8.2	3.2
	Imports, %oya	24.3	25.3	23.8	18.2

Mon	**Private consumption index**				
31-Oct	% change				
2:30pm		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	10.2	14.4	16.6	11.0
	%m/m, sa	0.2	0.1	0	0.3

Mon	**Private investment index**				
31-Oct	% change				
2:30pm		**Jun**	**Jul**	**Aug**	**Sep**
	%oya	5.9	5.1	9.7	4.1
	%m/m, sa	1.5	-0.9	2.2	-2.4

Fri	**Consumer prices**				
4-Nov	% change				
10:30am		**Jul**	**Aug**	**Sep**	**Oct**
	Total, %oya	7.6	7.9	6.4	6.3
	%m/m, sa	-0.1	0.1	0.1	0.6

Review of past week's data

No data released.

Vietnam

Data releases and forecasts

Week of October 31 - November 4

No data releases.

Review of past week's data

No data released.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts

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India

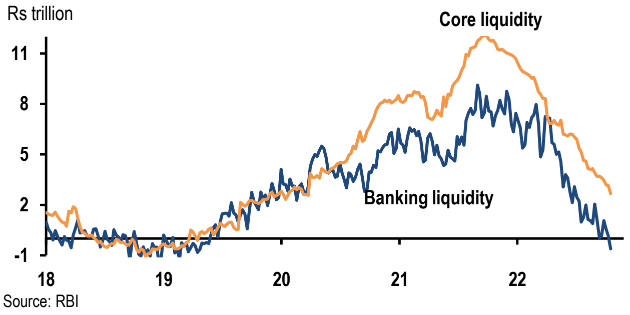
- **Banking liquidity has declined sharply**
- **Resulting in faster transmission of monetary policy**
- **Money market and bank lending and deposit rates continue to move up**
- **MPC meeting convened next week to discuss inflation target miss**

RBI began normalizing monetary policy back in April, cumulatively raising rates by 190 bps. The inter-bank liquidity surplus has also fallen sharply and is presently is in a neutral/deficit range. This, in conjunction with a strong uptick in credit growth, would mean fuller and faster transmission of monetary policy rates to lending and deposit rates. Meanwhile, the RBI announced an additional meeting of the MPC next week. However, even though it has been scheduled the morning after the Fed, this meeting is not meant to take a monetary policy decision. Instead, it is to complete the formalities of having missed the inflation target band of 2-6% for three consecutive quarters.

Banking liquidity declines sharply…

RBI began normalizing monetary policy back in April this year with the acceleration in inflation. From very accommodative levels, policy rates have been cumulatively raised by 190 bps, and further hikes are in prospect. In conjunction, inter-bank liquidity, which was in a significant surplus at the time of the pandemic, and whose normalization was expected to be a multi-year process, has been withdrawn at a very fast pace. Currently, liquidity is in negative territory and has been in only minor surplus from last month. To put this in perspective, banking liquidity was in a surplus of Rs7tn in April 2022 (the beginning of the fiscal year).

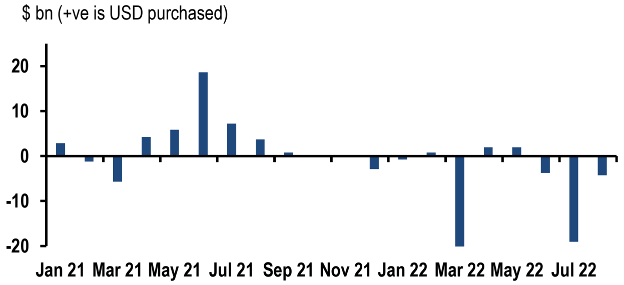
Figure 1: Banking liquidity



Source: RBI

The main reason for such a sudden withdrawal of liquidity has been FX interventions (dollar sell) by the RBI to calibrate the movements in FX rates. With the current account deficit (CAD) widening sharply amid large equity outflows, the BoP is expected to swing from a large surplus in FY22 to a deficit in FY23. Between April and August 2022, RBI intervened by $23bn on a spot basis (which directly impacts inter-bank liquidity). Furthermore, there are indications that RBI continued to intervene in September and October amid USD strength.

Figure 2: Spot FX interventions



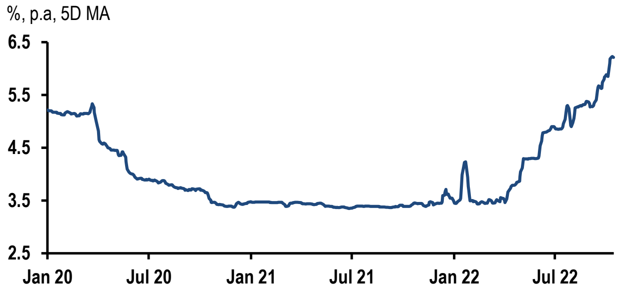
Source: Bloomberg Finance L.P.

Going forward, inter-bank liquidity is likely to again move back into slight surplus as near-term frictional issues normalize, before decisively moving into a deficit by the end of the year. The trends are similar in core liquidity (sum of banking liquidity and government balances). Core liquidity is still in a surplus of ~Rs3tn (~Rs8.5tn in April), as government has continued to maintain a large cash surplus since the pandemic.

...aiding transmission

Sharp tightening in inter-bank liquidity is helping a smooth transmission of monetary policy. Money market rates, which were hovering close to the lower end of the policy rate corridor as liquidity was in ample surplus, have moved even higher than the upper end of the policy corridor (repo rates) as liquidity is tightened. More specifically, money market rates, which were at 3.35% at end-March, are currently at 6.2%, higher than the repo rate of 5.90%.

Figure 3: Mumbai inter-bank rate



Source: CCIL

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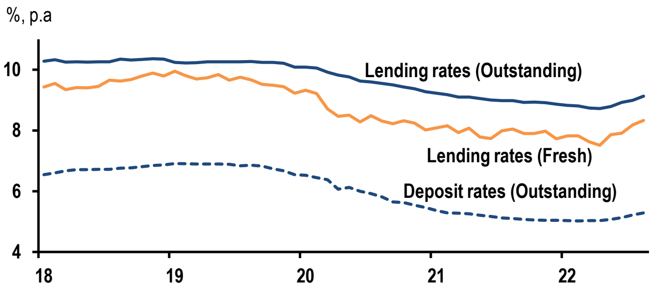
Banks’ lending and deposit rates have also kept pace

Tighter liquidity is also helping faster transmission of policy rates into lending and deposit rates. Through August, weighted-average lending rates for fresh loans had already increased by 80 bps. Both weighted-average lending and deposit rates, which are stickier, have also increased, by 40 bps and 30 bps, respectively.

Figure 4: Weighted average rates



Source: RBI

The transmission of the policy rates into lending and deposit rates continued in September and October as the credit-deposit ratio has continued to normalize to pre-pandemic levels, with credit growth far outstripping deposit growth.

All in all, tighter liquidity and ample credit growth would make sure that the transmission of policy rates is likely to be fuller and faster in this monetary policy cycle.

MPC meeting convened to discuss inflation target miss

India’s Central Bank has convened an additional meeting of the MPC on 3 November. However, even though it has been scheduled the morning after the Fed, this meeting is not meant to take a monetary policy decision. Instead, it is to complete the formalities of having missed the inflation target band of 2-6% for three consecutive quarters. This was made clear because the RBI noted that the meeting was convened under the provisions linked to inflation target miss. Recall, India’s inflation was above the upper tolerance band for three quarters between January and September 2022, which constitutes a failure of the target. With the September CPI printing on 12 October, the RBI has to send the report to the Central Government before 12 November, so the MPC has been convened for early November to facilitate meeting that timeline. We continue to expect the RBI’s next rate action to be at the December review.

Data releases and forecasts

Week of October 31 – November 4

Thu	**Composite PMI**				
Nov 3	Index				
		July	Aug	Sept	Oct
	Index	56.6	58.2	55.1	

Review of past week’s data

No data released

Source: Central Statistical Organization, RBI, Ministry of Commerce, IHS-Markit, and J.P. Morgan forecast

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **Dallas Fed manufacturing** (10:30am) Oct	**1 Nov** **Manufacturing PMI** (9:45am) Oct final 49.9 **Construction spending** (10:00am) Sep -0.6% **ISM manufacturing** (10:00am) Oct 50.0 **JOLTS** (10:00am) Sep **Dallas Fed services** (10:30am) Oct **Light vehicle sales** Oct 14.3mn **FOMC meeting**	**2 Nov** **ADP employment** (8:15am) Oct **Housing vacancies** (10:00am) 3Q Announce 3-year note $40bn Announce 30-year bond $21bn Announce 10-year note $35bn **FOMC statement (2:00pm) and press conference (2:30pm)**	**3 Nov** **International trade** (8:30am) Sep -$72.6bn **Initial claims** (8:30am) w/e Oct 29 215,000 **Productivity and costs** (8:30am) 3Q pre 1.1% Unit labor costs 3.2% **Services PMI** (9:45am) Oct final 46.6 **ISM nonmanufacturing** (10:00am) Oct 55.0 **Factory orders** (10:00am) Sep	**4 Nov** **Employment** (8:30am) Oct 175,000 Unemployment rate 3.5% Average weekly hours 34.5 Boston Fed President Collins speaks (10:00am)
7 Nov **Senior loan officer survey** (2:00pm) 4Q **Consumer credit** (3:00pm) Sep Boston Fed President Collins and Cleveland Fed President Mester speaks (3:40pm)	**8 Nov** **NFIB survey** (6:00am) Oct Auction 3-year note $40bn	**9 Nov** **Wholesale trade** (10:00am) Sep Auction 10-year note $35bn	**10 Nov** **CPI** (8:30am) Oct **Initial claims** (8:30am) w/e Nov 5 **Federal budget** (2:00pm) Oct Auction 30-year bond $21bn Announce 20-year bond $15bn Announce 10-year TIPS (r) $15bn Cleveland Fed President Mester speaks (12:30pm)	**11 Nov** **Consumer sentiment** (10:00am) Nov preliminary **Veterans Day, bond market closed**
14 Nov	**15 Nov** **PPI** (8:30am) Oct **Empire State survey** (8:30am) Nov	**16 Nov** **Retail sales** (8:30am) Oct **Import prices** (8:30am) Oct **Business leaders survey** (8:30am) Nov **Industrial production** (9:15am) Oct **Business inventories** (10:00am) Sep **NAHB survey** (10:00am) Nov **TIC data** (4:00pm) Sep Auction 20-year bond $15bn	**17 Nov** **Housing starts** (8:30am) Oct **Initial claims** (8:30am) w/e Nov 12 **Philadelphia Fed manufacturing** (8:30am) Nov **KC Fed survey** (11:00am) Nov Auction 10-year TIPS (r) $15bn Announce 7-year note $35bn Announce 5-year note $43bn Announce 2-year note $42bn Announce 2-year FRN (r) $22bn	**18 Nov** **Existing home sales** (10:00am) Oct **Leading indicators** (10:00am) Oct **QSS** (10:00am) 3Q advance
21 Nov Auction 5-year note $43bn Auction 2-year note $42bn	**22 Nov** **Philadelphia Fed nonmanufacturing** (8:30am) Nov **Richmond Fed survey** (10:00am) Nov Auction 7-year note $35bn Auction 2-year FRN (r) $22bn	**23 Nov** **Durable goods** (8:30am) Oct **Initial claims** (8:30am) w/e Nov 19 **Manufacturing PMI** (9:45am) Nov flash **Services PMI** (9:45am) Nov flash **Consumer sentiment** (10:00am) Nov final **New home sales** (10:00am) Oct **FOMC minutes**	**24 Nov** **Thanksgiving Day, markets closed**	**25 Nov**

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **Euro area** HICP & CPI flash (11:00am) Oct HICP: 10.7%oya, nsa GDP flash (11:00am) 3Q 0.5%q/q, saar **Germany** Retail sales (8:00am) Sep 1.0%m/m, sa Import price index (8:00am) Sep **Italy** GDP prelim (10:00am) 3Q 0.0%q/q, saar ECB Lane Speech (4:00pm)	**1 Nov**	**2 Nov** **Euro area** PMI Mfg final (10:00am) Oct Mfg: 46.6 **Germany** Foreign trade (8:00am) Sep Employment (9:55am) Oct Unemployment (9:55) Oct Unemployment rate: 5.5%, sa PMI Mfg (9:55am) Oct Mfg: 45.7 **France** Monthly budget situation (8:45am) Sep PMI Mfg (9:50am) Oct Mfg: 47.4 **Italy** PMI Mfg (9:45am) Oct **Spain** PMI Mfg (9:15am) Oct	**3 Nov** **Euro area** MFI interest rates (10:00am) Sep Unemployment rate (11:00am) Sep Unemployment rate: 6.6%, sa ECB Panetta Speech (9:10am)	**4 Nov** **Euro area** PMI Serv. & comp final (10:00am) Oct Serv: 48.2 Comp: 47.1 PPI (11:00am) Sep **Germany** Mfg orders (8:00am) Sep 1.0%m/m, sa PMI Serv. & comp (9:55am) Oct Serv: 44.9 Comp: 44.1 **France** Industrial production (8:45am) Sep -0.5%m/m, sa PMI Serv. & comp (9:50am) Oct Serv: 51.3 Comp: 50.0 **Spain** PMI Serv. & comp (9:15am) Oct **Italy** PMI Serv. & comp (9:45am) Oct ECB Guindos Speech (9:45am) ECB Lagarde Speech (11:30am)
7 Nov **Germany** Industrial production (8:00am) Sep	**8 Nov** **Euro area** Retail sales (11:00am) Sep **France** Foreign trade (8:45am) Sep **Netherlands** CPI (6:30am) Oct	**9 Nov**	**10 Nov** **Italy** Industrial production (10:00am) Sep	**11 Nov** **Germany** HICP & CPI final (8:00am) Oct
14 Nov **Euro area** Industrial production (11:00am) Sep	**15 Nov** **Euro area** Foreign trade (11:00am) Sep Employment prelim (11:00am) 3Q GDP final (11:00am) 3Q **Germany** ZEW bus. survey (11:00am) Nov **France** Unemployment (7:30am) 3Q HICP & CPI final (8:45am) Oct **Spain** HICP & CPI final (9:00am) Oct	**16 Nov** **Italy** HICP & CPI final (10:00am) Oct	**17 Nov** **Euro area** EA car regs (8:00am) Oct Construction output (11:00am) Oct HICP & CPI final (11:00am) Oct **Italy** Foreign trade (10:00am) Sep	**18 Nov**
21 Nov **Germany** PPI (8:00am) Oct	**22 Nov** **Euro area** Balance of Payments (10:00am) Sep EC cons. conf. (4:00pm) Nov **Belgium** BNB cons. conf. (11:00am) Nov	**23 Nov** **Euro area** PMI Mfg prelim (10:00am) Nov PMI Serv. & comp (10:00am) Nov **Germany** PMI Mfg (9:30am) Nov PMI Serv. & comp (9:30am) Nov **France** PMI Mfg (9:15am) Nov PMI Serv. & comp (9:15am) Nov	**24 Nov** **Euro area** ECB monetary policy account (1:30pm) Oct **Germany** IFO bus. survey (10:00am) Nov **France** INSEE bus. conf. (8:45am) Nov **Belgium** BNB bus. conf. (3:00pm) Nov	**25 Nov** **Germany** GfK cons. conf. (8:00am) Dec GDP final (8:00am) 3Q **France** INSEE cons. conf. (8:45am) Nov **Italy** ISAE bus. conf. (10:00am) Nov ISAE cons. conf. (10:00am) Nov

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **IP prelim** (8:50am) -0.7 %m/m, sa **Total retail sales** (8:50am) Sep 0.8 %m/m, sa **Consumer sentiment** (2:00pm) Oct 30.5 **Housing starts** (2:00pm) Sep -3.0 %m/m, sa	**1 Nov** **PMI manufacturing final** (9:30am) Oct **Auto registrations** (2:00pm) Oct Auction 10-year note	**2 Nov** Minutes of Sep 21, 22 BoJ Monetary Policy Meeting (8:50am)	**3 Nov** *Holiday: Japan*	**4 Nov** **PMI services final** (9:30am) Oct **CAO private consumption index** Aug Auction 3-month bill
7 Nov Auction 10-year note	**8 Nov** **All household spending** (8:30am) Sep **Employers' survey final** (8:30am) Sep **Coincident CI** (2:00pm) **Consumption activity index** (2:00pm) Sep Summary of Opinions at the Monetary Policy Meeting (Held on October 27, 28)	**9 Nov** **Bank lending** (8:50am) Oct **Current account** (8:50am) Sep **Economy watcher survey** (2:00pm) Oct Auction 6-month bill Auction 30-year note	**10 Nov** **M2** (8:50am) Oct	**11 Nov** **Corporate goods prices** (8:50am) Oct Auction 3-month bill
14 Nov	**15 Nov** **GDP prelim** (8:50am) 3Q **IP final** (1:30pm) Auction 5-year note	**16 Nov** **Private machinery orders** (8:50am) Sep **Tertiary sector activity index** (1:30pm) Sep	**17 Nov** **Trade balance** (8:50am) Oct Auction 1-year note Auction 20-year note	**18 Nov** **Nationwide core CPI** (8:30am) Auction 3-month bill
During the week: Nationwide department store sales (16-22 Nov)				
21 Nov	**22 Nov**	**23 Nov** *Holiday: Japan*	**24 Nov** **PMI manufacturing prelim** (9:30am) Nov **PMI services prelim** (9:30am) Nov **Coincident CI** (2:00pm)	**25 Nov** **Tokyo core CPI** (8:30am) Nov **Corporate service prices** (8:50am) Oct Auction 3-month bill

Note: Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct	**1 Nov** **S&P Global manufacturing PMI** (9:30am) Oct	**2 Nov**	**3 Nov** **Building permits** (8:30am) Sep -6.3% **International trade** (8:30am) Sep C$1.7bil Deputy Governor Paul Beaudry presents opening remarks before the The John Kuszczak Memorial Lecture at the Bank of Canada in Ottawa (1:30pm)	**4 Nov** **Labor Force Survey** (8:30am) Oct 15,000 (0.1%) Unemployment rate 5.2% **Ivey PMI** (10:00am) Oct 53.0 J.P. Morgan composite 57.2
7 Nov	**8 Nov**	**9 Nov**	**10 Nov** Governor Tiff Macklem speaks on "The evolution of Canadian Labor Markets" before the Public Policy Forum in Toronto (12:05pm)	**11 Nov** **Remembrance Day** **Government offices closed**
14 Nov **BoC Senior Loan Officer Survey** (10:30am) 3Q	**15 Nov** **Manufacturing sales** (8:30am) Sep **Wholesale sales** (8:30am) Sep **New vehicle sales** (8:30am) Sep **Existing home sales** (9:00am) Oct	**16 Nov** **Housing starts** (8:15am) Oct **CPI** (8:30am) Oct	**17 Nov**	**18 Nov** **IPPI** (8:30am) Oct **International transactions in securities** (8:30am) Oct **Teranet/National Bank HP Index** (8:30am) Oct
21 Nov	**22 Nov** **Retail sales** (8:30am) Sep **New housing price index** (8:30am) Oct	**23 Nov** **Food services and drinking places** (8:30am) Sep	**24 Nov** **CFIB Business Barometer Index** (6:00am) Nov **Payroll employment** (8:30am) Sep	**25 Nov**

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **Brazil** Primary fiscal sector Aug -BRL $18.0bn **Colombia** Unemployment Sep	**1 Nov** **Brazil** IP Sep -0.7%m/m; 0.3%oya PMI Manufacturing Oct Trade balance Oct **Mexico** Remittances Sep US$5.1bn; 15.8%oya IMEF manufacturing index Oct 49.3 IMEF nonmanufacturing index Oct 50.7 **Colombia** Exports Sep US$5.1bn **Peru** CPI Oct 8.4%oya	**2 Nov** **Argentina** Tax revenues Oct -4.0%oya **Chile** Economic Activity Sep 0.5%oya **Paraguay** CPI Oct 8.0%oya	**3 Nov** **Argentina** Vehicle production Oct Vehicle sales Oct **Brazil** FIPE CPI Oct	**4 Nov** **Uruguay** CPI Oct 9.4%oya
During the week: Colombia CPI Oct (5 Nov)				
7 Nov **Chile** Trade balance Oct **Mexico** GFI Aug Auto report Oct	**8 Nov** **Brazil** IGP-DI Oct	**9 Nov** **Brazil** Retail sales Sep **Mexico** Biweekly core CPI Oct Biweekly CPI Oct Core CPI Oct CPI Oct	**10 Nov** **Mexico** ANTAD same-store sales Oct Banxico meeting Nov **Brazil** IPCA Oct **Peru** Reference rate Nov	**11 Nov** **Mexico** IP Sep **Colombia** IP Sep Retail sales Sep **Uruguay** Industrial production Sep
During the week: Brazil Vehicle sales Oct (7-8 Nov) Brazil Auto production Oct (7-8 Nov) Chile Vehicle Sales Total Oct (8-11 Nov)				
14 Nov	**15 Nov** **Uruguay** BCU rate decision Nov **Peru** Economic Activity Sep National Unemployment rate Oct **Colombia** Trade balance Sep GDP 3Q Economic Activity Sep **Argentina** CPI Oct	**16 Nov**	**17 Nov**	**18 Nov** **Uruguay** National Unemployment rate Sep **Chile** Current Account Balance 3Q GDP 3Q
21 Nov	**22 Nov** **Paraguay** BCP rate decision Nov **Argentina** Budget balance Oct Trade balance Oct **Mexico** Retail sales Sep	**23 Nov** **Argentina** Economic activity Sep	**24 Nov** **Brazil** FGV: consumer confidence Nov IPCA-15 Nov **Mexico** Biweekly core CPI Biweekly CPI	**25 Nov** **Mexico** GDP monthly proxy Sep **Brazil** Current Account Oct FDI Oct
During the week: Peru GDP 3Q (21-25 Nov) Brazil Tax collections Oct (22-26 Nov)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **United Kingdom** Lloyds business barometer (7:01am) Oct M4 & M4 lending final (9:30am) Sep Net lending to individuals (9:30am) Sep Blue and pink books (9:30am) 2022 **Sweden** Wage stats (8:00am) Aug **Norway** Credit indicator growth (8:00am) Sep	**1 Nov** **United Kingdom** PMI Mfg final (9:30am) Oct Mfg: 45.6 **Sweden** PMI Mfg (8:30am) Oct Mfg: 49.5 **Norway** PMI Mfg (10:00am) Oct	**2 Nov** Treasury Committee meeting (2:15pm) Oct	**3 Nov** **United Kingdom** PMI Serv final (9:30am) Oct Serv: 47.5 Comp: 47.2 BoE Decision Maker Panel survey (9:30am) Oct BoE monetary policy report and minutes (12:00pm) Nov 75bp hike to 300bp **Sweden** PMI Serv (8:30am) Oct **Norway** Norges Bank rate announcement (10:00am) Nov	**4 Nov** **United Kingdom** New car regs (9:00am) Oct PMI Construction (9:30am) Oct BoE Pill Speech (12:15pm)
7 Nov **United Kingdom** Markit jobs report (12:01am) Oct Business investment prelim (7:00am) 3Q Halifax HPI (7:00am) Nov **Sweden** Budget Balance (8:00am) Oct **Norway** IP Mfg (8:00am) Sep	**8 Nov** **United Kingdom** BRC retail sales monitor (12:01am) Oct	**9 Nov** **Sweden** Industrial production (8:00am) Sep Household consumption (9:30am) Sep	**10 Nov** **United Kingdom** RICS HPI (12:01am) Oct **Norway** CPI (8:00am) Oct PPI (8:00am) Oct	**11 Nov** **United Kingdom** Business investment prelim (7:00am) 3Q Real GDP prelim (7:00am) 3Q Industrial production (7:00am) Sep Index of services (7:00am) Sep Trade balance (7:00am) Sep **Sweden** Production value index (9:30am) Oct
14 Nov **United Kingdom** Rightmove HPI (12:01am) Nov	**15 Nov** **United Kingdom** Labor market report (7:00am) Nov **Sweden** PES unemployment (6:00am) Oct CPI (8:00am) Oct **Norway** Consumer confidence (6:30am) 4Q Trade balance (7:00am) Oct	**16 Nov** **United Kingdom** CPI (7:00am) Oct ONS HPI (7:00am) Oct **Sweden** Prospera inflation expectations (8:00am) Nov	**17 Nov** OBR Fiscal Report (7:00am) Nov	**18 Nov** **United Kingdom** Gfk cons. conf. (12:01am) Nov Retail sales (7:00am) Oct **Sweden** LFS unemployment rate (9:30am) Oct **Norway** Monthly GDP (8:00am) Sep GDP (8:00am) 3Q Building statistics (10:00am) Oct
During the week: Trade balance Oct (15-20 Nov) CBI industrial trends (18-24 Nov)				
21 Nov **Sweden** Valueguard house price data (6:00am) Oct	**22 Nov** **United Kingdom** Public sector finances (7:00am) Oct	**23 Nov** **United Kingdom** PMI Mfg prelim (9:30am) Nov PMI Serv (9:30am) Nov	**24 Nov** **Sweden** Riksbank rate announcement (9:30am) Nov	**25 Nov** **United Kingdom** Car manufacturing (12:01am) Oct GfK consumer confidence (9:30am) Nov **Sweden** Household lending (8:00am) Oct PPI (8:00am) Oct Financial markets statistics (9:00am) Oct Riksbank monetary policy report (9:30am) Nov
During the week: CBI distributive trades (21-27 Nov)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request

Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **South Africa** Private sector credit (8:00am) Sep Trade balance (3:00pm) Sep **Poland** CPI prelim (10:00am) Sep 17.9%oya **Serbia** GDP prelim (12:00pm) 3Q 1.7%oya **Kenya** CPI Oct 8.7%oya	**1 Nov** **Russia** Manufacturing PMI (9:00am) Oct 50.5 **Turkey** PMI (9:00am) Oct **Czech Republic** GDP flash (9:00am) 3Q 1.0%q/q, saar PMI (9:30am) Oct **Nigeria** PMI (8:45am) Oct **South Africa** Barclays PMI (11:00am) Oct Vehicle sales Oct **Kazakhstan** CPI Oct 18.6%oya	**2 Nov** **Poland** PMI (9:00am) Oct **Hungary** Trade balance final (9:00am) Sep PMI (9:00am) Oct **Russia** Retail sales -8.5%oya, Unemployment & Investment (7:00pm) Oct **Israel** State of the economy index Sep 0.2%m/m, sa	**3 Nov** **Turkey** CPI (9:00am) Oct 84.1%oya **Czech Republic** CNB rate decision (2:30pm) Nov On hold: 7.0%	**4 Nov**
During the week: Israel Unemployment rate Sep (30 Oct)				
7 Nov **South Africa** Gross reserves (8:00am) Oct **Czech Republic** Industrial output (9:00am) Sep Trade balance (9:00am) Sep	**8 Nov** **Romania** Retail sales (9:00am) Sep NBR rate decision Nov **Hungary** Industrial output (9:00am) Sep Retail sales (9:00am) Sep	**9 Nov** **Romania** Trade balance (9:00am) Sep **Hungary** CPI (9:00am) Oct Trade balance (9:00am) Sep **Russia** CPI (7:00pm) Oct **Poland** NBP rate decision Nov	**10 Nov** **Czech Republic** CPI (9:00am) Oct **Serbia** NBS rate decision (12:00pm) Nov **Ukraine** CPI (3:30pm) Oct **Egypt** CPI Oct	**11 Nov** **Romania** CPI (9:00am) Oct **Turkey** Current account (9:00am) Sep Industrial output (9:00am) Sep
During the week: Israel Trade balance Oct (13 Nov)				
14 Nov **Romania** Industrial output (9:00am) Sep Current Account Sep **Czech Republic** Current account (10:00am) Sep **Serbia** CPI (12:00pm) Oct **Poland** Current account (2:00pm) Sep	**15 Nov** **Romania** GDP flash (9:00am) 3Q **Hungary** GDP prelim (9:00am) 3Q **Poland** CPI (10:00am) Oct GDP prelim (10:00am) 3Q **Israel** CPI (6:30pm) Oct **Nigeria** CPI Oct	**16 Nov** **Czech Republic** PPI (9:00am) Oct **South Africa** Retail sales (1:00pm) Sep **Israel** GDP flash (1:00pm) 3Q **Poland** Core inflation (2:00pm) Oct **Russia** GDP flash (7:00pm) 3Q	**17 Nov** **Serbia** Current account Oct	**18 Nov**
During the week: Poland Budget balance Oct (15-30 Nov) Kenya CBK rate decision Nov (18-25 Nov)				
21 Nov **Israel** Unemployment rate (1:00pm) Oct BoI rate decision (4:00pm) Nov	**22 Nov** **Poland** Industrial output (10:00am) Oct PPI (10:00am) Oct Average gross wages and Employment (10:00am) Oct **Hungary** NBH rate decision (2:00pm) Nov **Nigeria** CBN rate decision Nov	**23 Nov** **South Africa** CPI (10:00am) Oct **Poland** Retail sales (10:00am) Oct **Russia** Industrial output (7:00pm) Oct PPI (7:00pm) Oct **Zambia** BOZ rate decision Nov	**24 Nov** **Turkey** Capacity utilization (9:00am) Nov CBRT rate decision (1:00pm) Nov **Hungary** Average gross wages (9:00am) Sep **South Africa** SARB rate decision Nov	**25 Nov** **Hungary** Unemployment (9:00am) Sep **Poland** Unemployment (10:00am) Oct
During the week:				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 Oct **South Korea** IP (8:00am) Sep 1.3%oya **Australia** Pvt. sector credit (11:30am) Sep 0.7%m/m Retail sales (11:30am) Aug 0.6%m/m **China** PMI mfg. (NBS) (9:00am) Oct 49.6 **Thailand** Mfg. Production (11:00am) Sep 3.8%oya Trade balance (2:30pm) Sep US $1.1bn PCI (2:30pm) Sep 11.0%oya PII (2:30pm) Sep 4.1%oya **Hong Kong** GDP flash (4:30pm) 3Q -0.1%oya	**1 Nov** **New Zealand** Building permits (10:45am) Oct **South Korea** Trade balance (9:00am) Oct -US $2.2bn PMI mfg. (9:30am) Oct 47.0 **Taiwan** PMI mfg. (8:30am) Oct 42.0 **Australia** RBA official rate announcement Nov 25bp hike **Indonesia** CPI (11:00am) Oct 6.7%oya **India** PMI mfg. (10:30am) Nov **Hong Kong** Retail sales (4:30pm) Sep 0.6%oya *Holiday: Philippines*	**2 Nov** **South Korea** CPI (8:00am) Oct 5.7%oya **Australia** Building approvals (11:30am) Sep 1.8%m/m **Singapore** PMI (9:00pm) Oct 49.8	**3 Nov** **New Zealand** ANZ commodity price (1:00pm) Oct **Australia** Trade balance (11:30am) Sep A $8.3bn **Malaysia** BNM monetary policy meeting Nov 25bp hike	**4 Nov** **Philippines** CPI (9:00am) Oct 6.9%oya Trade balance (9:00am) Sep -US $5.4bn **Thailand** CPI (10:30am) Oct 6.3%oya
7 Nov **Australia** ANZ job advertisements (11:30am) Oct **Indonesia** GDP (11:00am) 3Q **China** Foreign Exchange Reserves Oct Trade balance Oct	**8 Nov** **South Korea** Current account balance (8:00am) Oct **Australia** NAB business confidence (11:30am) Oct **Taiwan** CPI (4:00pm) Oct Trade balance (4:00pm) Oct *Holiday: India*	**9 Nov** **South Korea** Unemployment rate (8:00am) Oct **China** PPI (9:30am) Oct CPI (9:30am) Oct	**10 Nov** **Philippines** GDP (10:00am) 3Q	**11 Nov** **New Zealand** Business NZ PMI (10:30am) Oct **Malaysia** Current acct. Balance (12:00pm) 3Q GDP (12:00pm) 3Q **Hong Kong** GDP (4:30pm) 3Q **India** IP (5:30pm) Sep
During the week: China Money supply/TSF Oct (9-15 Nov)				
14 Nov **India** WPI (12:00pm) Oct CPI (5:30pm) Oct	**15 Nov** **South Korea** Export price index (6:00am) Oct Import price index (6:00am) Oct Money supply (12:00pm) Sep **China** IP (10:00am) Oct FAI (10:00am) Oct Retail sales (10:00am) Oct **Indonesia** Trade balance (11:00am) Oct	**16 Nov**	**17 Nov** **Singapore** NODX (8:30am) Oct **Malaysia** Trade balance (12:00pm) Sep **Philippines** BSP monetary policy meeting (3:00pm) Nov **Indonesia** BI monetary policy meeting (2:20pm) Nov **Hong Kong** Unemployment rate (4:30pm) Oct	**18 Nov** **Indonesia** Current acct. Balance (10:00am) 3Q
During the week: India Trade balance Sep (14-15 Nov)				
21 Nov **Thailand** GDP (9:30am) 3Q **Taiwan** Export orders (4:00pm) Oct **Hong Kong** CPI (4:30pm) Oct	**22 Nov** **South Korea** Consumer survey (6:00am) Nov **Taiwan** Unemployment rate (4:00pm) Oct	**23 Nov** **South Korea** FKI Business Survey (6:00am) Oct **Singapore** CPI (1:00pm) Oct **Taiwan** IP (4:00pm) Oct	**24 Nov** **South Korea** PPI (6:00am) Oct BOK monetary policy meeting Nov	**25 Nov** **Malaysia** CPI (12:00pm) Oct **Singapore** IP (1:00pm) Oct
During the week: Thailand Mfg. Production Oct (25-30 Nov) Vietnam CPI Nov (25-30 Nov) Vietnam Exports (25-30 Nov) Vietnam Industrial output (25-30 Nov)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
29 Oct - 4 Nov	**31 October**	**1 November**	**2 November**	**3 November**	**4 November**
	Australia ●Retail sales (Aug) China ●NBS mfg PMI (Sep) Euro area ●CPI (Oct, prl) ●GDP (3Q, prl) Hong Kong ●GDP (3Q) Japan ●Cons snt (Oct) ●IP (Sep) ●Retail sales (Sep) Korea ●IP (Sep)	Australia ●**RBA mtg: +25bp** Brazil ●IP (Sep) Czechia ●GDP (3Q) Indonesia ●CPI (Oct) Japan ●Auto regs (Oct) Korea ●Trade balance (Oct) United States ●ISM mfg (Oct) ●JOLTS (Sep) ●Light vehicle sls (Oct)	Korea ●CPI (Oct) United States ●ADP employment (Oct) ●**FOMC mtg: +75bp** ●Housing vacancies (3Q) Global ●Mfg PMI (Oct)	Euro area ●U-rate (Sep) Czechia ●**CNB mtg: no chg** Malaysia ●**BNM mtg: +25bp** Norway ●**Norges Bank mtg: +50bp** Turkey ●CPI (Oct) United Kingdom ●**BoE mtg: +75bp** United States ●Factory orders (Sep) ●ISM non-mfg (Oct) ●Prod and costs (3Q, prl) ●Trade balance (Sep)	Germany ●Mfg orders (Sep) United Kingdom ●New car regs (Oct) United States ●Labor mkt report (Oct) Global ●All-ind PMI (Oct)
5 - 11 November	**7 November**	**8 November**	**9 November**	**10 November**	**11 November**
	China ●FX reserves (Oct) ●Trade balance (Oct) Czechia ●IP (Sep) Germany ●IP (Sep) Indonesia ●GDP (3Q) United States ●Cons credit (Sep) ●SLOOS (4Q)	Euro area ●Retail sales (Sep) Japan ●CAI (Sep) Romania ●**NBR mtg: +75bp** Taiwan ●CPI (Oct) United States ●NFIB (Oct)	Brazil ●Retail sales (Sep) China ●CPI (Oct) Hungary ●CPI (Oct) Japan ●Econ watchers srvy (Oct) Mexico ●CPI (Oct) Poland ●**NBP mtg: +25bp** Russia ●CPI (Oct) United States Wholesale trade (Sep)	Brazil ●CPI (Oct) Czechia ●CPI (Oct) Mexico ●**Banxico mtg: +75bp** Peru ●**BCRP mtg: +25bp** Philippines ●GDP (3Q) United States ●CPI (Oct)	India ●IP (Sep) Malaysia ●GDP (3Q) Romania ●CPI (Oct) Turkey ●IP (Sep) United Kingdom ●GDP (3Q) ●IP (Sep) United States ●UMich cons snt (Nov, prl)

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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