



15 November 2024

Dollar in seventh heaven (for now)

- US dollar up for a seventh straight week on firm US data and market speculation on Trump policy impact
- UK economy slowed more than expected in Q3, but we see scope for a positive surprise in the November PMI report
- UK CPI forecast to jump higher; retail sales and GfK survey expected to signal caution
- Eurozone wage data and PMI signals could raise the risk of a larger ECB December rate cut

This report provides a summary of key economic indicators, important events and financial market trends over the past week, and looks ahead to the coming week.

The art of the hire

While parts of the global financial markets remain exuberant, major equity indices came under pressure this week. US Treasury bond yields rose and the trade-weighted dollar appreciated for a seventh consecutive week. The pound fell below \$1.27, but also slipped versus the euro below €1.20. UK Q3 GDP growth was softer than forecast at 0.1%, confirming a marked slowdown after a strong first half of the year. Wage stickiness in the labour market data, however, reaffirmed the likelihood of ‘gradual’ UK interest rate cuts ahead.

Markets continue to assess the implications of the US election result, including President-elect Trump’s promise to impose import tariffs on foreign goods and their impact on global trade. Full results confirmed a Republican ‘clean sweep’ of the White House and both chambers of Congress. Trump has wasted no time in announcing his picks for various key posts in his new administration, including Robert Lighthizer as Trade Representative, who was the original author of tariffs on Chinese goods. Some analysts see it as a signal of greater intent on tariff policy.

Central bank policymakers have focused on economic data. US October inflation pointed to signs of a potentially difficult ‘last mile’ in returning to target. Headline CPI rose to 2.6% in October, mainly due to energy prices, while core inflation was stuck at 3.3%. Retail sales were mixed in October, but there were sharp upward revisions for September. Fed Chair Powell said there is no ‘hurry’ to lower interest rate, suggesting that a December cut is by no means a ‘done deal’.

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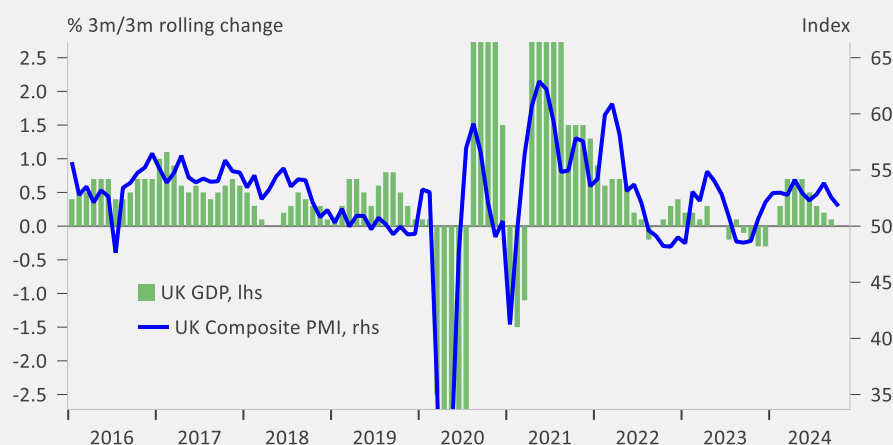
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Chart 1: UK GDP growth has moderated in recent months as attention turns to the PMI survey



Sources: Macrobond, S&P Global, ONS, Lloyds Bank Market Insights

Policy preview

- UK CPI – Wed 20 November (07:00 GMT)
- UK Flash PMI – Fri 22 November (09:30 GMT)

Scope for upside UK PMI surprise

Several UK data releases will occupy sterling markets in the coming week. After today's disappointing Q3 GDP release, the November flash PMI will be watched for indications of activity in the middle of Q4. Against consensus, we see scope for improvement after last month was weighed by uncertainties around the Budget and US election. We expect the overall composite PMI to rise to 52.4 from 51.8 in October, consistent with quarterly expansion of between 0.2% and 0.3%. That, though, would reaffirm a loss of momentum compared with the first half.

We expect indications of consumer caution in the week ahead data with the release of October retail sales and November GfK consumer confidence. Headline retail sales is forecast to fall 0.6%, partly reflecting the mild weather weighing on clothing sales and also the quirk that most school half terms fall outside of this year's October retail reporting period. We also forecast a further fall in the consumer confidence index to -24 from -21.

The other important UK release is October CPI inflation. We expect the annual rate to increase to 2.2%, from 1.7% in September, largely on the back of the reset of the Ofgem energy price cap, while services inflation remains uncomfortably high. That outturn would be in line with the Bank of England's forecast. Governor Bailey will testify in parliament next week along with other MPC members, including newly appointed Alan Taylor.

Eurozone PMI may increase risk of larger ECB rate cut

In the Eurozone, the recent positive Q3 GDP surprise has not ignited hopes of an economic turnaround. In contrast, the potential impact of Trump tariffs has added to concerns. The November PMI will offer the latest signal of activity and prices. In October, the composite PMI was bang on the 50.0 no-growth mark, with the two biggest Eurozone economies, Germany and France, below water.

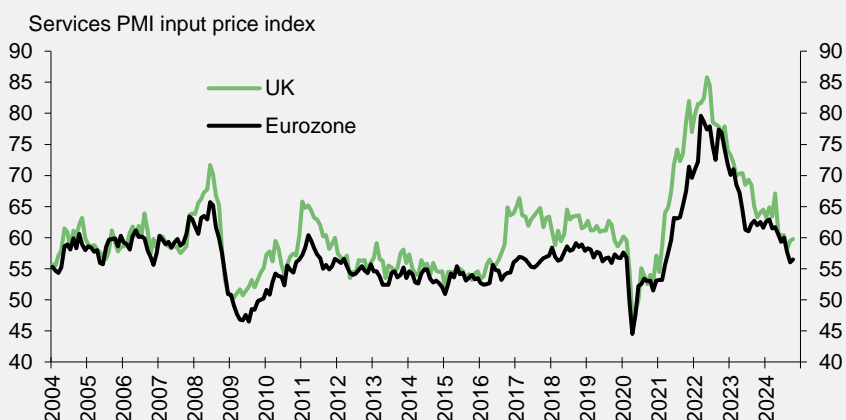
For November, our central view is for the Eurozone composite PMI to stay at 50.0, but weaker outturn into contraction territory cannot be ruled out. For the ECB, the survey's price signals are also important as a potential gauge of future inflation. The ECB's Q3 negotiated wage data will also be closely watched. Eurozone CPI, currently at 2.0% in October, is set to increase temporarily in the remaining months of the year due to base effects.

The question is how quickly Eurozone inflation returns to target in 2025. Weak price signals from the PMI survey may portend a quicker fall next year. While a further US rate cut in December is seen as finely balanced and the next BoE cut is expected early next year, conviction levels for an ECB rate cut next month are much higher. In fact, the question is whether markets might be underpricing the possibility of a larger 50bps reduction.

UK inflation is set to rise back above target and we see scope for a positive surprise in UK PMIs.

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Chart 2: Firms' cost inflation moderating more quickly in the Eurozone



Source: S&P Global, Lloyds Bank Market Insights

Data preview:

18-22 November 2024

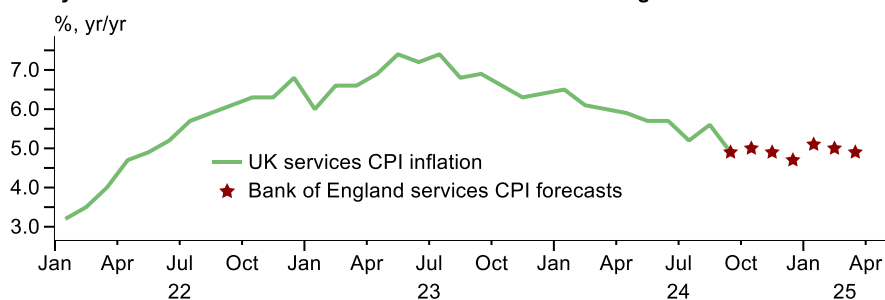
UK CPI (Oct) – Wed 20 Nov (07:00 GMT)

The annual rate of UK CPI inflation eased to 1.7% in September, to register its first sub-2% reading since April 2021. However, we expect its foray below the Bank of England's target rate to have been short-lived and forecast the October print to show an acceleration in the annual rate of price growth to 2.2% – in line with the Bank of England's projection from its recent Monetary Policy Report. A major contribution to the move is expected to come from increases in household energy bills associated with the latest reset of the Ofgem energy price cap. Variable rate energy tariffs rose by c.9.5% last month, relative to a 7.2% fall last October, which will provide a significant upside base effect. Outside of energy-related effects, the rate of services inflation – a key metric watched by the Bank of England – is forecast to be unchanged at 4.9%/y in October, remaining at an uncomfortably high level. Meanwhile, the core rate is forecast to edge down to 3.1% from 3.2% due to moderations in clothing & footwear and household goods price inflation.

Headline CPI	M/M	Y/Y
Lloyds Forecast	0.5%	2.2%
Consensus	0.5%	2.2%
Previous	0.0%	1.7%

Services CPI	Y/Y
Lloyds Forecast	4.9%
Consensus	4.8%
Previous	4.9%

Sticky services inflation remains a concern for the Bank of England



Source: Macrobond, Bank of England, Lloyds Bank Market Insights

UK Flash PMI (Nov) – Fri 22 Nov (09:30 GMT)

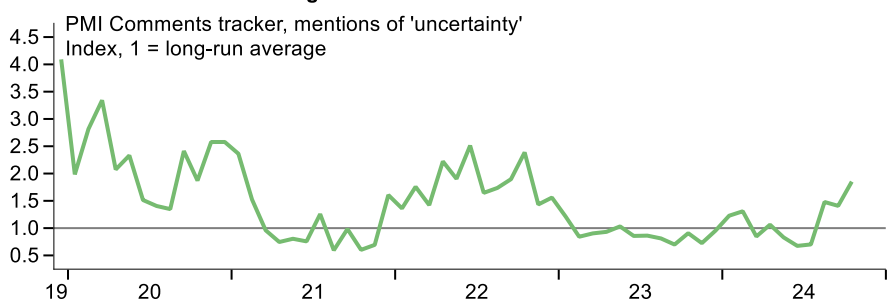
The October PMIs showed the UK economy lose further momentum at the start of the fourth quarter, with the Composite reading slipping to an 11-month low of 51.8. The slowdown was due to weaker expansions in both services and manufacturing, with the latter only just reporting an increase in activity. Unique insights into the UK PMIs provided by our UK Sector Tracker report indicate that the number of firms mentioning “uncertainty” has picked up since the summer. However, with key events now out of the way, we suspect the November PMIs may show firms feeling clearer about the outlook. Accordingly, we expect the composite measure to edge up to 52.4, with the manufacturing (50.9 vs 49.9) and services (52.6 vs 52.0) readings also moving higher relative to October.

Manufacturing PMI	
Lloyds forecast	50.9
Consensus	50.0
Previous	49.9

Services PMI	
Lloyds forecast	52.6
Consensus	52.0
Previous	52.0

Composite PMI	
Lloyds forecast	52.4
Consensus	51.8
Previous	51.8

More UK firms mention feeling uncertain in recent months



Source: Macrobond, S&P Global, UK Sector Tracker, Lloyds Bank Market Insights

Weekly economic calendar

Ctry	Time (GMT)	Time (EST)	Release/Event	Period	Consensus	Forecast	Previous
MONDAY 18 NOV							
UK	00:01	19:01*	Rightmove House Prices	Nov	--	--	0.3% (1.0%)
EZ	08:00	03:00	ECB's Guindos Speaks in Frankfurt				
US	15:00	10:00	NAHB Housing Market Index	Nov	42	42	43
EZ	18:30	13:30	BoE's Greene & ECB's Vujcic Speak in London				
TUESDAY 19 NOV							
EZ	10:00	05:00	CPI	Oct F	0.3% (2.0%)	--	0.3% (2.0%)
EZ	10:00	05:00	Core CPI	Oct F	(2.7%)	(2.7%)	(2.7%)
EZ	10:00	05:00	ECB Publishes Euro Area Negotiated Wages Indicator for Q3 2024				
UK	10:15	05:10	Bailey, Lombardelli, Mann and Taylor speak at Portcullis House in London				
US	13:30	08:30	Building Permits	Oct	1.2%	1.7%	-3.1%
US	13:30	08:30	Housing Starts	Oct	-1.4%	-1.3%	-0.5%
CA	13:30	08:30	CPI	Oct	0.3% (1.9%)	--	-0.4% (1.6%)
WEDNESDAY 20 NOV							
UK	07:00	02:00	CPI	Oct	0.5% (2.2%)	0.5% (2.2%)	0.0% (1.7%)
UK	07:00	02:00	Core CPI (excluding food and energy)	Oct	(3.1%)	(3.1%)	(3.2%)
UK	07:00	02:00	RPI	Oct	0.5% (3.4%)	0.5% (3.3%)	-0.3% (2.7%)
UK	07:00	02:00	Retail Price Index	Oct	390.8	390.4	388.6
UK	16:00	11:00	BoE's Ramsden Speaks in Leeds				
THURSDAY 21 NOV							
UK	07:00	02:00	PSNB Excluding Banking Groups	Oct	£13.3bn	--	£16.6bn
UK	07:00	02:00	Public Sector Net Borrowing	Oct	£14.0bn	--	£16.6bn
UK	11:00	06:00	CBI Industrial Trends Total Orders	Nov	-25	--	-27
US	13:30	08:30	Initial Jobless Claims	Nov 16	--	220k	217k
US	13:30	08:30	Philadelphia Fed Business Outlook	Nov	5.8	6.5	10.3
US	15:00	10:00	Existing Home Sales	Oct	2.3%	--	-1.0%
EZ	15:00	10:00	Consumer Confidence	Nov P	-12.4	-12.3	-12.5
JN	23:30	18:30	National CPI	Oct	(2.3%)	--	(2.5%)
JN	23:30	18:30	National Core CPI (excluding food)	Oct	(2.2%)	--	(2.4%)
FRIDAY 22 NOV							
UK	00:01	19:01*	GfK Consumer Confidence	Nov	-22	-24	-21
UK	07:00	02:00	Retail Sales Including Automotive Fuel	Oct	-0.3% (3.4%)	-0.6% (3.1%)	0.3% (3.9%)
UK	07:00	02:00	Retail Sales Excluding Automotive Fuel	Oct	-0.4% (3.3%)	-0.4 (3.2%)	0.3% (4.0%)
GE	07:00	02:00	GDP	3Q F	0.2% (-0.2%)	--	0.2% (-0.2%)
GE	08:30	03:30	Manufacturing PMI	Nov P	43.1	--	43.0
GE	08:30	03:30	Services PMI	Nov P	51.8	--	51.6
EZ	09:00	04:00	Manufacturing PMI	Nov P	46.1	45.8	46.0
EZ	09:00	04:00	Services PMI	Nov P	51.6	51.6	51.6
UK	09:30	04:30	Manufacturing PMI	Nov P	50.0	50.9	49.9
UK	09:30	04:30	Services PMI	Nov P	52.0	52.6	52.0
US	14:45	09:45	Markit Manufacturing PMI	Nov P	48.0	48.8	48.5
US	14:45	09:45	Markit Services PMI	Nov P	55.0	55.3	55.0
US	15:00	10:00	University of Michigan Sentiment	Nov F	73.0	73.0	73.0

Bold text denote those releases/events that are expected to attract most market attention.

Data in brackets denote YoY unless stated otherwise. Market consensus estimates are taken from Bloomberg on the date of publication.

* Released overnight, (r) revised, (p) preliminary, (f) final

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