

GLOBAL ANXIETIES MOUNT

UPCOMING GLOBAL HIGHLIGHTS

IMF World Economic Outlook (Oct)
BoJ policy decision
RBA policy decision
FOMC Minutes (Sep)
US ISM non-manufacturing (Sep)
GE factory orders (Aug)

UPCOMING UK HIGHLIGHTS

MPC policy decision
Services PMI (Sep)
Industrial production (Aug)
Construction output (Aug)
RICS housing survey (Sep)

- *Emerging market stresses to resonate further following weak US employment report*
- *Global growth anxieties could prompt policy loosening in Japan and Australia*
- *MPC still on hold, despite stronger domestic cost pressures in revised data*

Weak US employment data push focus back on emerging market anxieties. With worries about the external environment contributing to the Fed's September decision to leave policy unchanged, evidence of ebbing strength in the US labour market will cast doubt on whether a first tightening in 2015 still remains a viable prospect. While the week's Fed speakers - including Williams, Lockhart and Evans - and the minutes of the September FOMC meeting (Thu) still hold scope to influence the perceived timing of liftoff, developments in emerging markets remain highly relevant to the policy outlook. Notably, the IMF's updated World Economic Outlook (Tue) is expected to highlight increasing fragility in emerging market prospects. China's Golden Week - which leaves local markets closed until 7 October, and with no data releases due - should offer some respite.

Brazil a possible flashpoint. A worsening situation in Brazil could provide the trigger for wider market stress. A constellation of deepening economic weakness, a worsening political climate - with impeachment calls for President Rousseff mounting - and a fiscal impasse could prompt a second agency to downgrade Brazil, possibly below investment grade. Although downward pressure on the currency has abated this week, renewed turmoil could bring the central bank's lack of options to manage the slide of the Brazilian real into much sharper relief.

Global growth worries adding to calls for further ECB policy loosening. With Eurozone inflation slipping below zero in last week's data and softness in closely watched measures of inflation expectations (Chart 1), comments from ECB President Draghi (Tue) and the minutes of the ECB's September policy meeting (Thu) will be judged in the context of a possible extension of the ECB's QE. Nevertheless, with the political capital for an expanded programme hard to amass, the ECB is likely to await more convincing evidence of slippage relative to its recent forecasts.

BoJ and RBA could be readier to act. With Australia on the front line of weakness of commodities and emerging markets, and its monetary policy still having scope to readily ease from its current 2% rate, the RBA could adopt a pro-active stance (Tue). The likelihood of a move, however, was seen as remote by markets in advance of the weak US labour market data. Similarly, the BoJ's policy decision (Wed) was seen as having an outside chance of an expanded stimulus, against a backdrop of accumulating evidence of economic weakness and softening inflation expectations. However, BoJ Governor Kuroda has given no strong steer on an imminent expansion of QE, and the BoJ's next end-Oct meeting would give sight of further data in the interim.

Contrast between domestic and external pressures sharpening for the MPC. The BoE's policy decision (Thu) - with no change still universally expected - was arguably becoming a more balanced call. Following Blue Book revisions to the profile of recent GDP growth, the acceleration in domestic cost pressures is sharper than on previous estimates, with unit labour cost growth now close to historic averages (Chart 2). Meanwhile, the recent softening of the sterling trade-weighted exchange rate should ease concerns about imported disinflation. These could prompt some more hawkish MPC members to see the balance of risks becoming more skewed to an inflation overshoot. As the November Inflation Report would provide a natural stocktake of the competing influences - including any weaker assessment of UK-weighted world growth prospects - we do not expect a shift in the voting pattern.

UK activity data to show signs of recovery. The coming week also sees a number of key UK releases which will flesh out the Q3 activity picture. The services PMI (Mon), industrial production (Wed) and construction output (Fri) will all need to be seen in the context of the revised activity profile following the Blue Book revisions.

Global anxieties are likely to balance signs of stronger domestic cost growth, leaving the MPC firmly on hold

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CHART 1: Global inflation expectations softening, though still relatively resilient in the UK

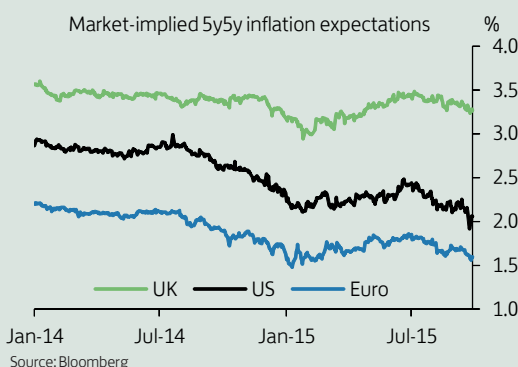


CHART 2: Blue Book revisions render sharper the acceleration in UK cost pressures



Services PMI (Sep)

The headline services PMI slipped to 55.6 in August from 57.4 in July, leaving it only marginally above the long-term average of 55.2, but still consistent with ongoing expansion in the dominant sector of the UK economy. Meanwhile, the forward-looking business expectations component - which historically has provided a more reliable steer to official estimates of output in the services sector - remained consistent with ongoing growth. For September, some recovery in the headline business activity measure looks likely, consistent with the strength reported in other areas of the survey. We anticipate a modest rise to 55.9. That would still stand in contrast to the better momentum seen in service sector output data following last week's Blue Book revisions.

	Index
LB CB	55.9
Cons	56.0
Prev	55.6

CHART: Survey points to softer service sector momentum than revised ONS data



SOURCE: Haver Analytics

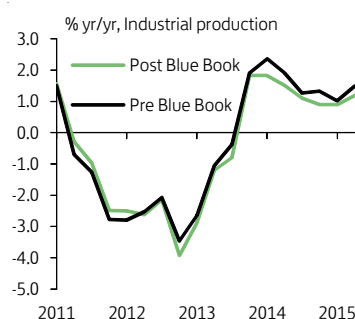
Industrial production (Aug)

Recent changes to historical output data as part of the annual Blue Book process means the current vintage of monthly data is inconsistent with these methodological changes. This adds to the uncertainty over the August outturn. With the weakness of manufacturing at least partly attributable to sterling's strength in recent months, the outlook for the sector looks challenging, with some signs of softness already seen in surveys such as the PMI and CBI Industrial Trends. Nevertheless, we look for manufacturing output to pare back some of July's decline and forecast expansion of 0.3% on the month. Other areas of production are expected to drag overall, with a further scaling back in mining activity likely to weigh on overall gains in industrial activity. We forecast overall industrial output growth of 0.2% on the month.

IP	M/M	Y/Y
LB CB	0.2%	1.0%
Cons	0.3%	1.2%
Prev	-0.4%	0.8%

Manu	M/M	Y/Y
LB CB	0.3%	-0.6%
Cons	0.3%	-0.2%
Prev	-0.8%	-0.5%

CHART: Blue book revisions point to weaker industrial growth momentum



SOURCE: Haver Analytics

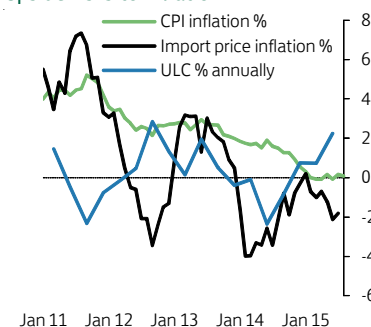
MPC meeting (Oct)

With the MPC universally expected to leave rates unchanged at its October meeting, the simultaneous publication of the meeting minutes and the vote split will provide a ready sense of how the perceived balance of risks is shifting in the eyes of the MPC. The Blue Book revisions suggested lower GDP growth momentum in recent history, by implication suggesting less productivity growth and therefore stronger cost pressures. This, added to some easing in disinflation concerns from a softer trade-weighted sterling exchange rate, could prompt more members to voice concern over the upside risks to inflation. For now, we see an unchanged 8-1 vote split as the most likely outcome. Of particular interest would be whether the minutes voice concern over the shallow profile of market-implied rate expectations.

Decision	Rates	APF
LB CB	0.50%	£375bn
Cons	0.50%	£375bn
Prev	0.50%	£375bn

Vote	Rates	APF
LB CB	1-8-0	0-9-0
Cons	1-8-0	0-9-0
Prev	1-8-0	0-9-0

CHART: Firmer unit labour costs point to upside risks to inflation



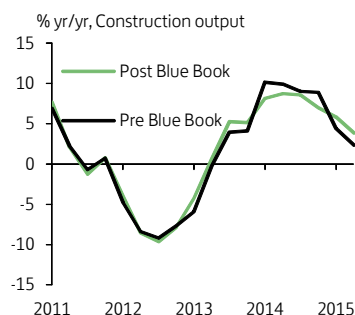
SOURCE: Haver Analytics

Construction output (Aug)

Similar to the August industrial production release, the absence of a monthly series consistent with the recent methodological changes adds more uncertainty to the August construction output outturn. Nevertheless, timely survey-based sectoral indicators, including the construction PMI and BoE Agents' scores, suggest that the activity outlook for the sector remains broadly positive. Monthly estimates of ONS output are volatile at the best of times but the 0.9% monthly decline in July alongside survey data suggest the current monthly vintage understates recent momentum in the sector. Overall, we expect output to have risen by 0.4% in August which, alongside revisions, would be consistent with only a limited contribution to GDP growth in 2015Q3.

	M/M	Y/Y
LB CB	0.4%	2.1%
Cons	1.0%	1.4%
Prev	-1.0%	-0.7%

CHART: Blue Book revisions upgrade construction sector momentum



SOURCE: Haver Analytics

ECONOMIC DATA AND EVENTS CALENDAR

COUNTRY	TIME	RELEASE/EVENT	PERIOD	CONSENSUS	FORECAST	PREVIOUS
SUNDAY 4 OCTOBER						
EZ		Portugal holds parliamentary elections				
MONDAY 5 OCTOBER						
JN	02:35	Nikkei Services PMI	Sep	--	--	53.7
SP	08:15	Services PMI	Sep	58.5	--	59.6
IT	08:45	Services PMI	Sep	54.1	--	54.6
FR	08:50	Services PMI	Sep (f)	51.2	51.2	51.2 (p)
GE	08:55	Services PMI	Sep (f)	54.3	54.3	54.3 (p)
EZ	09:00	Services PMI	Sep (f)	54.0	54.0	54.0 (p)
UK	09:30	Services PMI	Sep	56.0	55.9	55.6
EZ	09:30	Sentix investor confidence	Oct	12.0	--	13.6
EZ	10:00	Retail sales	Aug	-0.1% (1.7%)	-0.1% (1.7%)	0.4% (2.7%)
EZ	14:00	Eurozone finance ministers meet in Luxembourg				
US	14:45	Markit services PMI	Sep (f)	55.7	55.7	55.6 (p)
EZ	14:45	ECB Publishes Monthly QE Breakdown				
US	15:00	ISM non-manufacturing	Sep	58.0	58.5	59.0
US	15:00	Fed's Labour Market Conditions Index	Sep	--	--	2.1
TUESDAY 6 OCTOBER						
WD		IMF releases its World Economic Outlook				
AU	04:30	RBA Cash Rate Target	Sep	2.00%	2.00%	2.00%
GE	07:00	Factory orders	Aug	0.5% (5.6%)	0.7% (5.8%)	-1.4% (-0.6%)
EU	08:00	EU finance ministers meet in Luxembourg				
UK	10:30	UK to sell GBP1.5bn 4.5% 2034 bonds				
GE	10:30	Germany to sell EUR500m 0.1% I/L 2046 bonds				
US	13:30	Trade balance	Aug	-\$42.5bn	-\$47.3bn	-\$41.9bn
US	14:15	Fed's George Keynote Speaks at Event in Chicago				
CA	15:00	Ivey PMI	Sep	--	--	58.0
EZ	18:00	ECB President Draghi speaks in Frankfurt				
US	18:00	US to sell \$24bn 3-year notes				
US	22:30	Fed's Williams gives outlook speech in San Francisco				
WEDNESDAY 7 OCTOBER						
CH		Foreign reserves	Sep	\$3.48tn	--	\$3.56tn
UK	00:01	BRC shop price index	Sep	--	--	(-1.4%)
JN	04:00	Bank of Japan Monetary Policy Statement & BoJ Gov Kuroda's press conference				
JN	06:00	Leading index	Aug(p)	103.4	--	105.0
GE	07:00	Industrial production	Aug	0.2% (3.3%)	-0.1% (3.1%)	0.7% (0.5%)
SP	08:00	Industrial output	Aug	-0.4% (4.7%)	--	0.6 (5.2%)
UK	09:30	Industrial production	Aug	0.3% (1.2%)	0.2% (1.0%)	-0.4% (0.8%)
UK	09:30	Manufacturing production	Aug	0.3% (-0.2%)	0.3% (-0.6%)	-0.8% (-0.5%)
GE	10:30	Germany to sell EUR4bln 1.0% 2025 bonds				
UK	15:00	NIESR GDP estimate (3m/3m)	Sep	--	--	0.5%
US	18:00	US to sell \$21bn 10-year notes				
THURSDAY 8 OCTOBER						
UK	00:01	RICS House price balance	Sep	55%	51%	53%
JN	00:50	Machine orders	Aug	3.0% (3.5%)	--	-3.6% (2.8%)
JN	00:50	Trade Balance	Aug	-¥395.1bn	--	-¥108.0bn
JN	00:50	Current account balance	Aug	¥1226.9bn	--	¥1808.6bn
GE	07:00	Trade balance	Aug	€18.7bn	--	€25.0bn
FR	07:30	Bank of France business sentiment	Sep	100	--	98
UK	12:00	MPC policy announcement (Bank rate)	Oct	0.5%	0.5%	0.5%
UK	12:00	MPC minutes (Bank Rate) (hike-unch-lower)	Oct	1-8-0	1-8-0	1-8-0
EZ	12:10	ECB's Praet speaks in Mannheim, Germany				
EZ	12:30	ECB's account of the 3 September monetary policy meeting				
US	13:30	Initial jobless claims	we 3/10	272k	270k	277k
US	14:30	Fed's Bullard speaks at symposium on savings				
UK	17:30	BoE Deputy Governor Minouche Shafik moderates seminar in Lima				
US	18:00	Fed's Kocherlakota speaks in Mankato, MN				
US	18:00	US to sell \$13bn 30-year bonds				
US	19:00	Fed releases minutes of 16-17 Sep FOMC meeting				
UK	19:00	BoE Governor Mark Carney speaks on a panel in Lima				
US	20:30	Fed's Williams gives outlook speech in Spokane				

ECONOMIC DATA AND EVENTS CALENDAR

COUNTRY	TIME	RELEASE/EVENT	PERIOD	CONSENSUS	FORECAST	PREVIOUS
FRIDAY 9 OCTOBER						
WD		World Bank and IMF annual meeting in Lima (9-11 October)				
FR	07:45	Industrial production	Aug	0.6% (0.2%)	--	-0.8% (-0.8%)
FR	07:45	Manufacturing output	Aug	0.8% (0.5%)	--	-1.0% (-1.3%)
IT	09:00	Industrial production	Aug	-0.3% (0.8%)	--	1.1% (2.7%)
EZ	09:00	ECB's Nowotny briefs journalists in Vienna				
UK	09:30	Construction output	Aug	1.0% (1.4%)	0.4% (2.1%)	-1.0% (-0.7%)
UK	09:30	Trade in goods and services	Aug	£2.0bn	£2.15bn	£3.4bn
UK	09:30	Visible trade balance	Aug	£9.9bn	£9.85bn	£11.1bn
UK	09:30	Non-EU trade balance	Aug	£3.0bn	£2.4bn	£3.5bn
CA	13:30	Unemployment rate	Sep	--	--	7.0%
CA	13:30	Net change in employment	Sep	10.0k	--	12.0k
US	13:30	Import price index	Sep	-0.5% (-11.0%)	-0.5%	-1.8% (-11.4%)
US	14:10	Fed's Lockhart speaks on economy in New York				
US	18:30	Fed's Evans speaks on monetary policy in Milwaukee				
SATURDAY 10 OCTOBER						
CA	19:30	Bank of Canada Governor Poloz speaks in Lima				
DURING THE WEEK						
UK	--	Halifax House Prices (3m/yr)	Sep	--	--	2.7% (9.0%)

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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