

POLICY CROSS-CURRENTS SET TO STRENGTHEN

UPCOMING GLOBAL HIGHLIGHTS

- ECB policy decision
- US Employment report (Nov)
- OPEC meeting
- Global PMIs (Nov)
- EZ 'flash' CPI (Nov)
- RBA/BoC policy decisions

UPCOMING UK HIGHLIGHTS

- Financial Stability Report and BoE stress test results
- PMIs (Nov)
- BoE mortgage approvals (Oct)

- *ECB easing alongside US employment report gives scope for big currency moves*
- *Macroprudential policy action could buy the BoE time before raising rates*
- *Global activity trends a focus alongside geopolitical risks*

Global policy divergence comes into sharp relief. With December's FOMC meeting still expected to herald the first US tightening of policy in close to a decade (Chart 1), Friday's US employment report provides the last meaningful opportunity for the data to change the facts on the ground. A firm outturn for November payroll growth and the labour market more broadly is expected. But with FOMC officials having in recent comments lowered the bar for 'acceptable' outturns to a range only modestly above 100k per month, a December lift-off seems unlikely to be delayed. Indeed, hardening expectations following a solid report should see a further dollar appreciation, sending the Euro below the recent 1.06 or so. Yet, Thursday's ECB policy decision is likely to be even more important as it seeks to address a disappointing outlook for Eurozone inflation. If the ECB is able to meet ever-increasing market clamour for a big policy loosening, a move towards parity could loom.

Expectations mount for Draghi's big stimulus package. With ECB President Draghi only last week noting that "we will do what we must to raise inflation", expectations are widespread for a multi-faceted easing. This is likely to include a 20bp deposit rate cut, and both a larger and longer asset purchase programme (Chart 2). Some uncertainty remains about what other measures the ECB could adopt that could yet be clarified by judiciously-timed leaks. A two-tier approach to a reduction in the deposit rate is apparently being considered for larger balances. The ECB might also make changes to the main refinancing rate. Overall, the market consensus is mostly around the view that Draghi will not want to disappoint. Yet, any desire to keep some policy powder dry means that the checklist of announced measures could underwhelm, even if compensated by hints of future action. Meanwhile, Eurozone-wide inflation data (Wed) will provide an update in advance of the policy decision and updated ECB economic projections.

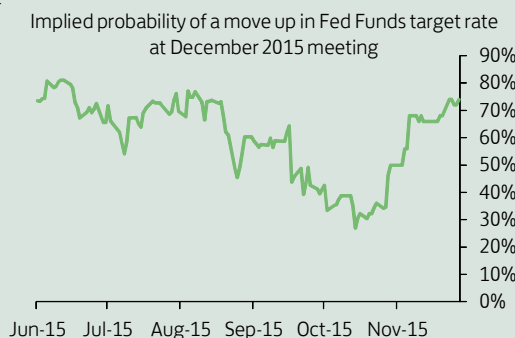
BoE likely to opt for tighter macroprudential policy measures. Expected ECB easing and Fed tightening are likely to leave sterling buffeted by cross-currents. UK data this week are unlikely to provide much of a policy steer, with PMIs (Tue, Wed, Thu) expected to reinforce an impression of a moderate pace of activity. Tuesday's publication of the BoE's Financial Stability Report could be of more interest, potentially heralding new macroprudential policy actions. Last week's appearance by BoE Governor Carney at the Treasury Select Committee dropped hints about an increase in banks' counter-cyclical capital buffer. Separate action could also be announced to cool buy-to-let lending, adding to tax measures from the Autumn Statement.

Global activity trends still bear watching. This week's central bank policy actions also include decisions by the RBA and BoC, though no change is expected from either. FOMC speakers, including two sets of remarks from Chair Yellen in advance of Friday's employment report, seem more likely to focus on the path of policy beyond a first move, with the emphasis on gradualism consistent with expectations of a 'dovish hike'. But global PMIs - including readings for China (Tue) and the US (Tue, Thu) - still hold potential for a renewal of anxiety about the pace of global activity growth. In this light, any abrupt weakening - a possible impetus for a renewal of financial market volatility - would be the most likely reason to stay the Fed's hand in December.

Oil market and geopolitical risks in focus. Against a backdrop of subdued oil prices and weakness in global headline inflation rates, Friday's OPEC meeting holds some risk of a reversal of the cartel's current stance of continued high output. Any hint of cooperation with non-member producers, or better output discipline, could challenge the bearish consensus at recent low prices. Likewise, any serious flaring of geopolitical tensions could add to the risk premium built into prices.

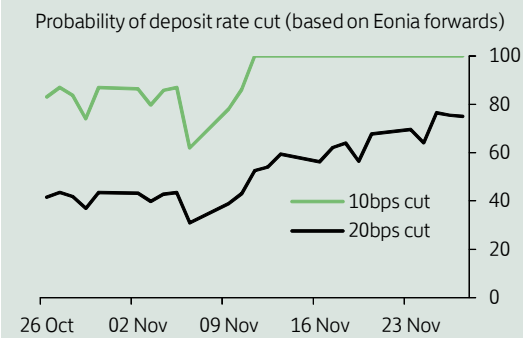
Expectations of ECB policy easing are overwhelming; but Draghi could opt to keep at least some powder dry for future action

CHART 1: US December 'lift-off' expectations firm prior to November's employment report



Source: Bloomberg, LBCB calculations

CHART 2: Expectations of ECB policy easing are mounting, including of a deposit rate cut



Source: Bloomberg, LBCB calculations

CONTRIBUTORS

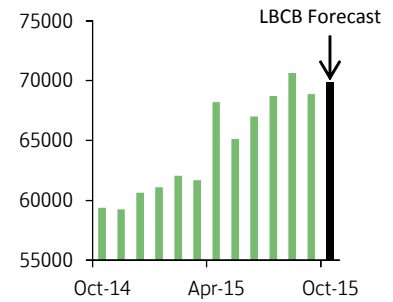
- Michael Sawicki**
Senior Economist
T: 020 7158 1746
- Jonathan Thomas**
Senior Economist
T: 020 7158 1750

BoE Mortgage Approvals (Oct)

September saw a dip in mortgage approvals from a downwardly revised 70.7k in August to 68.9k. This was the first decline since May and, in itself, did not really upset the upward trend seen since November last year. The underlying drivers of transactions including an expanding labour market, rising pay growth, buoyant consumer confidence, easing credit constraints and low mortgage rates, point to a pickup in October. Moreover, BBA approvals, which cover around 70% of the BoE data, rose by 1.4% on the month. However, these positive growth signals may be countered by signs of weakening activity from the latest RICS survey which showed that newly agreed transactions, new enquiries and new instructions had all fallen during October, although expected sales had increased. On balance, we expect approvals to tick up to 69.8k.

	Approvals
LB CB	69.8k
Cons	69.9k
Prev	68.9k

CHART: BoE mortgage approvals set to edge up in October



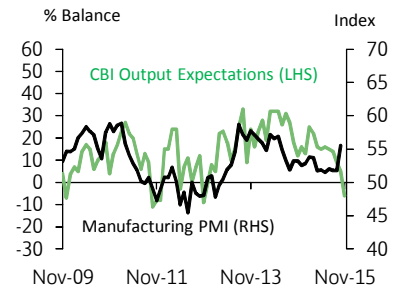
SOURCE: Haver Analytics, LBCB

Manufacturing PMI (Nov)

The October release belied expectations with a 3.7 point climb to 55.5, pushing the headline index to a 16-month high. This was underpinned by large gains in several components including output, new orders, and employment. Moreover, despite concerns about global growth and sterling strength, export orders rose for the fourth successive month to 52.0. In the past, headline rises of last month's magnitude have usually been immediately followed by a partial retracement. In addition, the seemingly buoyant near-term outlook is tempered by an ongoing decline in work backlogs, while the November CBI Industrial Trends survey showed another easing of output expectations. Consequently, we anticipate a decline to 54.3, which would still leave the index well above its annual average.

	Index
LB CB	54.3
Cons	53.6
Prev	55.5

CHART: CBI data indicate a pullback from last month's sharp PMI rise



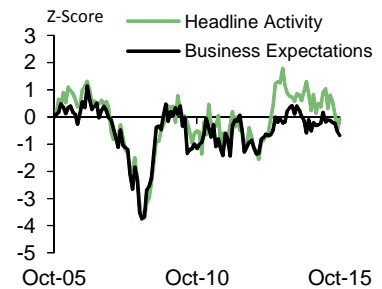
SOURCE: Haver Analytics

Services PMI (Nov)

Following three months of decline in Q3, the services PMI rose to 54.9 in October from 53.3 in September. Alongside the October spurt in its manufacturing counterpart and a solid construction PMI print of 58.8, this signals a pickup in Q4 GDP growth from the 0.5% q/q Q3 outturn. However, the October increase may have reflected a one-off impact from the Rugby World Cup. Indeed, the underlying indices suggest that much of Q3's service sector weakening persisted into October. For example, the forward-looking business expectations index, which has historically provided a more solid steer for official services sector output than the headline measure, fell for the fifth month in a row, while incoming orders remained at September's 29-month trough of 55.0. Against this backdrop, we foresee a softening of the headline index to 54.3.

	Index
LB CB	54.5
Cons	55.0
Prev	54.9

CHART: Business expectations point to softening service sector activity



SOURCE: Haver Analytics, LBCB

ECONOMIC DATA AND EVENTS CALENDAR

COUNTRY	TIME	RELEASE/EVENT	PERIOD	CONSENSUS	FORECAST	PREVIOUS
SUNDAY 29 NOVEMBER						
JN	23:50	Industrial Production	Oct (P)	1.8% (-0.9%)	--	1.1% (-0.8%)
JN	23:50	Retail Sales	Oct	0.3% (0.9%)	--	0.8% (-0.1%)
MONDAY 30 NOVEMBER						
JN	01:00	BoJ Governor Kuroda speaks in Nagoya	--	--	--	--
GE	07:00	Retail sales	Oct	0.3% (2.9%)	0.3% (2.9%)	0.0% (3.4%)
GE	08:00	CPI Saxony (first of several regional CPI releases)	Nov	--	--	0.0% (0.2%)
SW	08:30	GDP	Q3	0.4% (3.4%)	--	1.1% (3.3%)
UK	09:30	Mortgage Approvals	Oct	69.9k	69.8k	68.9k
UK	09:30	Money Supply M4	Oct	--	--	-1.0% (-0.6%)
UK	09:30	M4 Money Supply -ex OFCs (3m annualised)	Oct	--	--	4.0%
UK	09:30	Lloyds Business Barometer	Nov	--	--	50
GE	13:00	CPI	Nov (P)	0.1% (0.4%)	--	0.0% (0.3%)
GE	13:00	HICP	Nov (P)	0.1% (0.3%)	0.1% (0.3%)	0.0% (0.2%)
US	14:45	Chicago Purchasing Managers Index	Nov	54.0	54.0	56.2
US	15:00	Pending Home Sales	Oct	1.5%	2.0%	-2.3% (2.5%)
TUESDAY 1 DECEMBER						
CH	01:00	Manufacturing PMI	Nov	49.9	--	49.8
CH	01:00	Non-Manufacturing PMI	Nov	--	--	53.1
JN	01:35	Manufacturing PMI	Nov (F)	--	--	52.8
CH	01:45	Caixin Manufacturing PMI	Nov	48.3	--	48.3
CH	01:45	Caixin Services PMI	Nov	--	--	52.0
AU	03:30	RBA Cash Rate Target	Dec	2.00%	2.00%	2.00%
SZ	06:45	GDP	Q3	0.2% (0.8%)	--	0.2% (1.2%)
UK	07:00	BoE publishes Financial Stability Report & Bank Stress-Test Results	--	--	--	--
FR	08:50	Manufacturing PMI	Nov (F)	50.8	--	50.8
GE	08:55	Unemployment Change	Nov	-5k	-5k	-5k
GE	08:55	Unemployment Claims Rate	Nov	6.4%	6.4%	6.4%
GE	08:55	Manufacturing PMI	Nov (F)	52.6	52.6	52.6
EZ	09:00	Manufacturing PMI	Nov (F)	52.8	52.8	52.8
UK	09:00	BoE Governor Carney holds press conference on FSR & Stress-Test Results	--	--	--	--
UK	09:30	Manufacturing PMI	Nov	53.6	54.3	55.5
EZ	10:00	Unemployment Rate	Oct	10.8%	10.8%	10.8%
CA	13:30	GDP (saar)	Q3	2.4%	--	-0.5%
US	15:00	Construction Spending	Oct	0.5%	0.6%	0.6%
US	15:00	ISM Manufacturing	Nov	50.5	50.6	50.1
US	17:45	Chicago Fed President Evans speaks in East Lansing	--	--	--	--
WEDNESDAY 2 DECEMBER						
AU	00:30	GDP	Q3	0.7% (2.3%)	--	0.2% (2.0%)
US	01:00	Fed Governor Brainard speaks in Stanford	--	--	--	--
JN	01:30	BoJ Deputy Governor Iwata speaks in Okayama	--	--	--	--
UK	09:30	Construction PMI	Nov	58.5	58.9	58.8
EZ	10:00	PPI	Oct	-0.4% (-3.2%)	-0.4% (-3.2%)	-0.3% (-3.1%)
EZ	10:00	CPI 'flash' estimate	Nov (P)	(0.2%)	(0.3%)	(0.1%)
EZ	10:00	CPI Core	Nov (P)	(1.1%)	(1.1%)	(1.1%)
UK	10:30	UK to sell £3.75bn 1.5% 2021 Bonds	--	--	--	--
US	13:10	Atlanta Fed President Lockhart speaks in Florida	--	--	--	--
US	13:15	ADP Employment Change	Nov	190k	190k	182k
US	13:30	Nonfarm Productivity	Q3 (F)	2.2%	2.0%	1.6%
US	13:30	Unit Labour costs	Q3 (F)	1.0%	1.0%	1.4%
CA	15:00	Bank of Canada Rate Decision	Dec	0.5%	0.5%	0.5%
US	16:00	Fed Chair Yellen speaks in Washington	--	--	--	--
US	19:00	Federal Reserve release Beige Book	--	--	--	--
US	20:40	San Francisco Fed President Williams speaks in Portland	--	--	--	--
THURSDAY 3 DECEMBER						
GE	08:55	Services PMI	Nov (F)	55.6	55.6	55.6
EZ	09:00	Services PMI	Nov (F)	54.6	54.6	54.6
UK	09:30	Services PMI	Nov	55.0	54.5	54.9
EZ	10:00	Retail Sales	Oct	0.2% (2.6%)	-0.1% (2.4%)	-0.1% (2.9%)
EZ	12:45	ECB Main Refinancing Rate	Dec	0.05%	0.05%	0.05%
EZ	12:45	ECB Deposit Facility Rate	Dec	-0.30%	-0.40%	-0.20%
EZ	12:45	ECB Marginal Lending Facility	Dec	0.30%	0.30%	0.30%
US	13:30	Initial Jobless Claims	we 28/11	--	265k	260k
US	13:40	Cleveland Fed President Mester speaks in Washington	--	--	--	--
US	15:00	Fed Chair Yellen addresses Congress on the economic outlook	--	--	--	--
US	15:00	Factory Orders	Oct	1.0%	1.8%	-1.0%
US	15:00	ISM Non-Manufacturing	Nov	58.0	58.5	59.1
US	18:10	Fed Vice Chair Fischer speaks in Washington	--	--	--	--

ECONOMIC DATA AND EVENTS CALENDAR

COUNTRY	TIME	RELEASE/EVENT	PERIOD	CONSENSUS	FORECAST	PREVIOUS
FRIDAY 4 DECEMBER						
WD		OPEC meeting in Vienna	--	--	--	--
GE	07:00	Factory Orders	Oct	1.2% (-2.5%)	1.0% (-2.5%)	-1.7% (-1.0%)
US	13:30	Change in Nonfarm Payrolls	Nov	200k	200k	271k
EZ	13:30	ECB Council Member Visco speaks in Rome	--	--	--	--
US	13:30	Change in Private Payrolls	Nov	190k	195k	268k
US	13:30	Unemployment Rate	Nov	5.0%	5.0%	5.0%
US	13:30	Average Hourly Earnings	Nov	0.2% (2.3%)	0.2% (2.3%)	0.4% (2.5%)
US	13:30	Average Weekly Hours	Nov	34.5	34.5	34.5
US	13:30	Trade Balance	Oct	-\$40.65bn	-\$38.9bn	-\$40.81bn
EZ	16:45	ECB President Draghi speaks in New York	--	--	--	--
US	20:45	St Louis Fed President James Bullard speaks in Philadelphia	--	--	--	--
US	21:00	Minneapolis Fed President Kocherlakota speaks in Philadelphia	--	--	--	--

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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SME & CORPORATE MARKETS

GLOBAL CORPORATE FX

anders.nilsson@lloydsbanking.com
+44 (0)20 7050 6006

MID MARKETS

glen.manning@lloydsbanking.com
+44 (0)20 7158 1677

SME

thorsten.seeger@lloydsbanking.com
+44 (0)20 7158 1670

FINANCIAL INSTITUTIONS

adam.barrett@lloydsbanking.com
+44 (0)20 7158 1685