



September 2, 2016

## The week ahead: What to watch for...

### US

- **ISM non-manufacturing (Tue):** Following a surprisingly weak read from its manufacturing counterpart, we look for this more critical ISM metric to print near current trends. Indeed, our 54.5 call is consistent with the performance of some of the more pertinent regional services PMIs on the month.

### Canada

- **BoC meeting (Wed):** We expect the BoC to keep the overnight rate unchanged at 0.50% at Wednesday's statement-only meeting (no MPR or forecast update). Wednesday's Q2 GDP report was slightly weaker than the BoC's latest forecast (-1.6% q/q annualized vs. -1.0%), however this was driven by a larger than expected impact from the Alberta wildfires in the quarter. Real non-energy exports have continued to disappoint of late (-16.2% q/q annualized in Q2) and there is a chance the statement references this if the September 2<sup>nd</sup> merchandise trade report (for July) continues this trend. The BoC has been patient to date despite the poor export performance and is also counting heavily on the ongoing implementation of announced fiscal stimulus. We looked at these issues – and their implications for monetary policy – in a [Special Report](#) last week.
- **Employment (Fri):** We are forecasting an 18K employment gain in August following a 31.2K decline in July. We expect services sectors to account for 10K of the gain following a 26.9K decline in August, with public administration expected to be flat (anticipated decline from census workers likely to be offset by a reversal of last month's weakness). Meanwhile, goods sectors (down ~85K in 2016) should register an 8K gain. We see an increase in the labour force similar to the headline employment gain, resulting in the unemployment rate remaining unchanged at 6.9%.

### Europe

- **UK Services PMI (Mon):** The emerging pattern of survey data since the referendum suggests that there could well be a significant rebound in the August Markit/CIPS Services PMI after the record one-month fall of 4.9 points in July. The Manufacturing PMI more than recovered its entire post-referendum drop in July and although the GfK consumer confidence indicator only made a partial rebound, some of the CBI survey indicators have made full recoveries too. In reality these observations could well give more of an indication of the outturn for Services PMI than the traditional models given the unusual circumstances. With that in mind we think a bounce from 47.4 in July to 49.5 is reasonable but there is a lot more uncertainty than usual.

- **UK IP (Wed):** The July IP report will provide the first direct hard data to input into the Q3 GDP calculation, so in the aftermath of the referendum where survey evidence has been in focus up to this point, this will be closely followed. If the survey evidence for July was accurate it should be expected that IP would contract month-over-month, but given the nature of the decline in survey indicators it could be that those sentiment indicators are more sensitive to the referendum result than actual output. Nevertheless, aside from the outsized gain in April, recent outturns help form the broad expectation of IP output being close to stagnation on average in the near-term.
- **ECB Governing Council (Thu):** August's HICP release will have done little to assuage the GovCo's concerns, revealed in the minutes of the July meeting, at the lack of any underlying upward price pressure in the euro area. With inflation unchanged, core inflation weakening to 0.8% and the impacts of the UK Brexit vote to be factored into the latest set of staff forecasts the ECB will want, and need, to retain its ability to respond. We don't expect any new measures to be announced, but we do expect that to retain the ability to extend QE beyond its current March 2017 expiry, a drop in the deposit rate floor for bond purchases will be announced with discussions about the capital key to begin in earnest.

### Australia/New Zealand

- **RBA cash rate announcement (Tue):** We expect the cash rate to be left at 1.50% for Governor Stevens' final board meeting. Having cut 25bps in August and provided a full macro run-down around its reasoning, a period of stability seems likely to stretch into next year. The language in the post meeting statement will likely border on plain and provide little forward guidance.
- **AU Q2 GDP (Wed):** We look for GDP to have grown 0.4%q/q, 3.2%y/y in Q2. The deceleration from Q1's quarterly outturn reflects our expectation of a smaller, but still positive, contribution from net exports, modest household spending and ongoing expansion in residential activity. Business investment will likely post another large fall and provide significant drag. Looking into 2017, growth will likely moderate further as cyclical sectors slow, revealing a slow-growing underbelly of activity.

## Data and Events Calendar

MONDAY 05									
Region	EDT	BST	AEST	Period	Data/Event	RBC	Consensus	Prior	
Australia	21:30+	2:30	11:30	Q2	Nonfarm inventories, company profits q/q (%)	0.1, 2.0		0.4, -4.7	
China	21:45+	2:45	11:45	Aug	PMI: services, composite index			51.7, 51.9	
Spain	3:15	8:15	17:15	Aug	PMI: services, composite index	...,54.2		54.1, 53.7	
Italy	3:45	8:45	17:45	Aug	PMI: services, composite index	...,51.7		52.0, 52.2	
France	3:50	8:50	17:50	Aug	PMI: services, composite index ('flash': 52.0, 51.6)	52.0, 51.6		50.5, 50.1	
Germany	3:55	8:55	17:55	Aug	PMI: services, composite index ('flash': 53.3, 54.4)	53.3, 54.4		54.4, 55.3	
Euro area	4:00	9:00	18:00	Aug	PMI: services, composite index ('flash': 53.1, 53.3)	53.1, 53.3		52.9, 53.2	
UK	4:30	9:30	18:30	Aug	PMI: services, composite index	49.5, ...		47.4, 47.5	
Euro area	4:30	9:30	18:30	Sept	Sentix investor confidence index			4.2	
Euro area	5:00	10:00	19:00	Jul	Retail sales m/m (%)	0.9		0.0	
TUESDAY 06									
Region	EDT	BST	AEST	Period	Data/Event	RBC	Consensus	Prior	
Australia	21:30+	2:30	11:30	Q2	Current account (A\$bn), net exports (ppt contr to GDP)	-19.3, 0.3		-21, 1.1	
Australia	0:30	5:30	14:30	...	RBA cash rate announcement	1.50	1.50	1.50	
Germany	2:00	7:00	16:00	Jul	Factory orders m/m (%)			-0.4	
UK	4:00	9:00	18:00	Aug	New car registrations y/y (%)			0.1	
Germany	4:00	9:00	18:00	...	Finance Minister Schaeuble to present Budget to Parliament				
Euro area	5:00	10:00	19:00	Q2	GDP q/q, y/y (%) (previous est: 0.3, 1.6)	0.3, 1.6		0.6, 1.7	
US	10:00	15:00	0:00#	Aug	ISM non-manufacturing	54.5	55.3	55.5	
WEDNESDAY 07									
Region	EDT	BST	AEST	Period	Data/Event	RBC	Consensus	Prior	
Australia	21:30+	2:30	11:30	Q2	GDP q/q y/y (%)	0.4, 3.2		1.1, 3.1	
Germany	2:00	7:00	16:00	Jul	Industrial production m/m (%)			0.8	
France	2:45	7:45	16:45	Jul	Trade balance (€mn)			-3440	
France	2:45	7:45	16:45	Jul	Current account, sa (€bn)			-0.6	
UK	3:30	8:30	17:30	Aug	Halifax House Prices, m/m (%)			-1	
Sweden	3:30	8:30	17:30	Sept	Riksbank interest rate decision (%)			-0.5	
UK	4:30	9:30	18:30	Jul	Industrial production m/m (%)			0.1	
UK	5:15	10:15	19:15	...	BoE's Cunliffe Speaks at Brugel event in Brussels				
UK	9:15	14:15	23:15	...	BoE's Carney, Cunliffe, Forbes and McCafferty to appear before Treasury Select Committee				
UK	10:00	15:00	0:00#	Aug	NIESR GDP estimate 3m/3m (%)			0.3	
Canada	10:00	15:00	0:00#	...	BoC Rate Decision (%)	0.50	0.50	0.50	
Canada	10:00	15:00	0:00#	Aug	Ivey PMI			57.0	
THURSDAY 08									
Region	EDT	BST	AEST	Period	Data/Event	RBC	Consensus	Prior	
Australia	18:55+	23:55+	8:55	...	RBA's Lowe speaks				
Japan	19:50+	0:50	9:50	Jul	Current account (JPYbn)			974	
Japan	19:50+	0:50	9:50	Q2	GDP q/q (%) (2nd estimate)			0.0	
Australia	21:30+	2:30	11:30	Jul	Trade balance (A\$bn)	-2.8		-3.2	
China	22:00+	3:00	12:00	Aug	Trade balance (US\$bn), imports, exports y/y (%)			52.3, -12.5, -4.4	
France	1:30	6:30	15:30	Q2	Non-farm payrolls q/q (%)			0.2	
France	2:30	7:30	16:30	Aug	BdF business sentiment index			98	
Euro area	7:45	12:45	21:45	...	ECB Governing Council decision: refi rate, deposit rate (%)	0.0, -0.4		0.0, -0.4	
Euro area	8:30	13:30	22:30	...	ECB President Draghi holds press conference				
Canada	8:30	13:30	22:30	Q2	Capacity Utilization Rate (%)			81.4	
Canada	8:30	13:30	22:30	Jul	New Housing Price Index y/y (%)			2.5	
Canada	8:30	13:30	22:30	Jul	Building Permits m/m (%)			-5.5	
US	8:30	13:30	22:30	03-Sep	Initial jobless claims (K)	260		263	
Canada	12:05	17:05	2:05#	...	BoC Deputy Chair Lane speaks				
FRIDAY 09									
Region	EDT	BST	AEST	Period	Data/Event	RBC	Consensus	Prior	
China	21:30+	2:30	11:30	Aug	CPI y/y (%)			1.8	
Australia	21:30+	2:30	11:30	Jul	Housing finance m/m (%)	-3.0		1.2	
Germany	2:00	7:00	16:00	Jul	Trade balance (€bn)			24.7	
Germany	2:00	7:00	16:00	Jul	Current account (€bn)			26.3	
France	2:45	7:45	16:45	Jul	Budget balance, ytd (€bn)			-61.8	
France	2:45	7:45	16:45	Jul	Industrial production m/m (%)			-0.8	
Spain	3:00	8:00	17:00	Jul	Industrial production m/m (%)			0.2	
UK	4:30	9:30	18:30	Jul	Trade balance: total, visible (€mn)			-5084, -12409	
UK	4:30	9:30	18:30	Jul	Construction output m/m (%)			-0.9	
Canada	8:15	13:15	22:15	Aug	Housing Starts m/m (K)	182.0		195.0	
Canada	8:30	13:30	22:30	Aug	Unemployment Rate (%), Net Change in Employment m/m (K)	6.9, 18.0		6.9, -31.2	
Finland	...	...	...	...	Sovereign debt rating - DBRS			AAA, Stable	

Variable release date, # Following day, + Previous day.  
 Source: Bloomberg, Reuters, RBC Capital Markets estimates

## RBC Economics and Yield Forecasts

	Real GDP, % q/q											
	2015 Q4	2016			2017				2015	2016	2017	
<b>US (q/q saar %)</b>												
RBC (Sep)	0.9	0.8	1.1	3.5	3.0	2.7	2.6	2.5	2.5	2.6	1.6	2.7
Fed (q4/q4)	-	-	-	-	-	-	-	-	-	-	2.0	2.0
<b>Canada (q/q saar %)</b>												
RBC (Sep)	0.5	2.5	-1.6	3.7	1.9	1.9	1.8	1.6	1.6	1.1	1.3	1.8
BoC (Jul)		2.4	-1.0	3.5	2.8					1.1	1.3	2.2
<b>Euro area</b>												
RBC (July)	0.3	0.6	0.3	0.2	0.2	0.3	0.3	0.4	0.4	1.6	1.5	1.2
ECB (June)	...	...	...	...	...	...	...	...	...	1.6	1.6	1.7
<b>UK</b>												
RBC (Jul)	0.6	0.4	0.6	-0.1	0.1	-0.1	0.0	0.0	0.1	2.3	1.6	0.1
BoE (Aug)										2.2	2.0	0.8
<b>Australia</b>												
RBC (Sep)	0.7	1.1	0.3	0.6	0.7	0.7	0.7	0.8		2.5	3.0	2.7
RBA (Aug)	2½		3¼		2½-3¼		2½-3¼			2½	2½-3¼	2½-3¼

	Headline inflation (avg), % y/y											
	2015 Q4	2016				2017				2015	2016	2017
<b>US</b>												
RBC (Sep)	0.5	1.1	1.1	1.0	1.4	1.8	1.6	1.8	1.7	0.1	1.1	1.7
Fed (PCE)	-	-	-	-	-	-	-	-	-	-	1.4	1.9
<b>Canada</b>												
RBC (Sep)	1.3	1.5	1.6	1.5	2.0	2.4	2.5	2.5	2.2	1.1	1.7	2.4
BoC (Jul)	1.3	1.6	1.6	1.5	1.8	1.3	1.8	2.1		1.3	1.8	2.1
<b>Euro area</b>												
RBC (July)	0.2	0.0	-0.1	0.1	0.3	0.8	1.2	1.4	1.5	0.0	0.1	1.2
ECB (June)	...	...	...	...	...	...	...	...	...	0.0	0.2	1.3
<b>UK</b>												
RBC (Jul)	0.1	0.3	0.3	0.8	1.3	1.7	2.1	2.0	1.8	0.0	0.7	1.9
BoE (Aug)										0.0	0.8	1.9
<b>Australia</b>												
RBC (Sep)	1.7	1.3	1.0	1.2	1.4	2.2	2.5	2.6	2.7	1.5	1.2	2.5
RBA (Aug)	1.7		1.0		1½		2.0		2.0			

<b>USD</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>Fed IOER</b>	0.50	0.50	0.50	0.50	0.75	0.75	1.00
3m T-bill	0.32	0.15	0.15	0.25	0.50	0.50	0.75
2y TSY	0.79	0.62	0.78	0.88	1.00	1.15	1.25
5y TSY	1.18	1.05	1.20	1.30	1.40	1.55	1.65
10y TSY	1.57	1.55	1.70	1.80	1.90	2.00	2.10
30y TSY	2.23	2.40	2.55	2.65	2.75	2.85	2.90
2y ASW	25	25	20	15	15	15	15
10y ASW	-13	-5	-10	-10	-10	-10	-10
30y ASW	-53	-40	-45	-45	-45	-45	-45
<b>EUR</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>ECB Depo rate</b>	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3m EONIA	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
2y Schatz	-0.62	-0.70	-0.60	-0.60	-0.60	-0.60	-0.60
5y OBL	-0.51	-0.65	-0.55	-0.50	-0.45	-0.40	-0.40
10y Bund	-0.07	-0.25	0.00	0.00	0.10	0.20	0.25
30y Bund	0.48	0.00	0.20	0.30	0.35	0.40	0.50
2y ASW	42	50	50	50	50	50	50
5y ASW	38	50	50	50	50	50	50
10y ASW	36	60	50	45	45	45	45
30y ASW	28	70	50	40	40	40	40
<b>AUD</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>RBA Rate</b>	1.50	1.50	1.50	1.50	1.25	1.25	1.25
3m Bank Bill	1.73	1.75	1.75	1.75	1.50	1.50	1.50
2y TSY	1.46	1.40	1.40	1.30	1.20	1.20	1.30
5y TSY	1.53	1.60	1.60	1.60	1.60	1.70	1.80
10y TSY	1.84	1.95	2.10	2.10	2.20	2.40	2.50

<b>CAD</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>BoC rate</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3m CTB	0.53	0.45	0.45	0.45	0.45	0.50	0.60
2y CAN	0.56	0.50	0.55	0.60	0.65	0.70	0.80
5y CAN	0.64	0.65	0.70	0.80	0.95	1.15	1.35
10y CAN	1.00	1.15	1.25	1.40	1.60	1.75	1.90
30y CAN	1.62	1.80	1.90	2.05	2.25	2.45	2.65
<b>GBP</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>BoE rate</b>	0.50	0.25	0.10	0.10	0.10	0.10	0.10
3m SONIA	0.19	0.20	0.05	0.05	0.05	0.05	0.05
2y Gilts	0.12	0.10	0.10	0.10	0.10	0.10	0.10
5y Gilts	0.22	0.40	0.45	0.50	0.55	0.60	0.65
10y Gilt	0.67	0.85	0.90	1.00	1.10	1.20	1.25
30y Gilt	1.28	1.75	1.80	1.85	1.90	2.00	2.10
2y ASW	34	40	40	40	40	40	40
5y ASW	30	20	25	25	25	25	25
10y ASW	7	0	0	0	0	0	0
30y ASW	-40	-55	-50	-45	-45	-45	-45
<b>NZ</b>	1-Sep	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
<b>RBNZ Rate</b>	2.00	1.75	1.75	1.50	1.50	1.50	1.50
3m Bank Bill	2.25	2.00	1.90	1.75	1.75	1.75	1.75
2y Swap	2.00	1.90	1.90	1.80	1.75	1.75	1.90
5y Swap	2.10	2.00	2.00	2.00	2.00	2.10	2.20
10y Swap	2.40	2.50	2.60	2.60	2.60	2.70	2.80

Source: Bloomberg, Fed, BoC, ECB, BoE, RBC Capital Markets estimates



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