



## DOVISH BANK OF ENGLAND AND ECB RHETORIC TO PERSIST

- UK services PMI expected to rebound, mirroring rises in the manufacturing and construction surveys
- US economy added 151k jobs in August, less than expected
- UK policymakers may maintain easing bias at the Treasury Select Committee next week
- ECB to maintain stimulus, but dovish rhetoric expected, with possible policy parameter tweaks

## STERLING RALLIES ON REBOUND IN UK SURVEYS

The debate continues to intensify around prospects for US policy tightening this year and the potential for further easing in other jurisdictions such as the UK, euro area and Japan. The G-20 meeting in China this weekend, meanwhile, is expected to emphasise the need for fiscal policy and structural reforms, as well as monetary policy, to play their part in supporting global growth. The pound was propelled above \$1.33 for the first time in a month after the strong rebound in the UK manufacturing PMI survey in August to 53.3, which more than retraced the post-referendum drop, and a weak US manufacturing ISM survey. US nonfarm payrolls rose by 151k, less than the 180k markets had anticipated, while the unemployment rate stayed at 4.9% against expectations of a slight fall. Meanwhile, ahead of next week's ECB policy decision, euro area inflation was weaker than market consensus forecasts, with annual headline CPI unchanged at 0.2% in August.

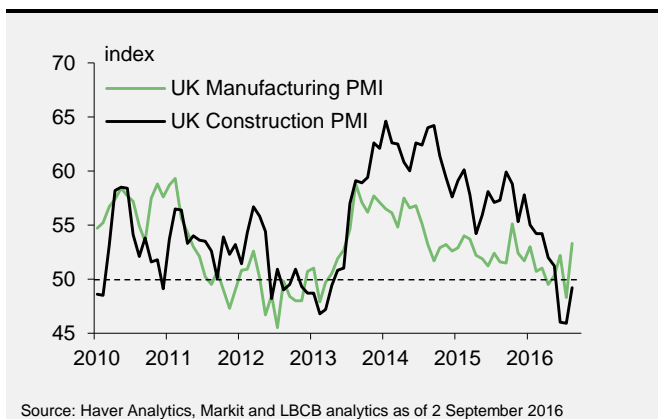
Domestically for the week ahead, the services PMI survey (Mon) will be closely watched as it covers the bulk of the economy. We expect the main business activity index in August to rebound to 49.6 from 47.4, hence remaining below the key 50 level which, nominally at least, separates growth and contraction. The market consensus is slightly firmer at 50.0. Our own Business Barometer was a little weaker in August, but it followed a strong rebound in July which is beginning to surface in other surveys.

Markets will also be scanning the UK July industrial production report (Wed) and construction output (Fri) for confirmation whether the 'hard' data are so far suggesting the UK economy continued to grow at the start of Q3. We are looking for a 0.4% monthly rise in manufacturing output and a 0.2% rise in broader

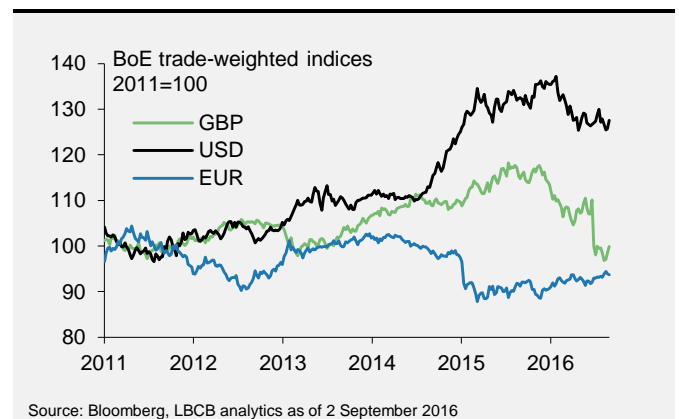
## RECAP OF LAST WEEK

- UK manufacturing PMI more than retraced the post-referendum drop
- US nonfarm payrolls rose by 151k, while unemployment rate stayed at 4.9%
- Euro area inflation disappointed market expectations
- Chinese official PMI data show signs of resilience

**Chart 1: UK PMI surveys rebounded in August**



**Chart 2: Has sterling found a bottom?**



industrial production, while construction output is seen edging up by 0.4%. More up-to-date evidence for August will come from the British Retail Consortium for retail spending (Tue) and from RICS for housing activity (Thu).

## **MPC MEMBERS TO KEEP THE OPTION TO EASE FURTHER**

Despite signs that the UK economy may be holding up well, we expect Bank of England Governor Carney and other MPC colleagues to remain circumspect in their appearance before the Treasury Select Committee (Wed). Although the initial impact of the EU referendum has been less negative than had been feared, policymakers are likely to defend the forecasts in the August Inflation Report, which pointed to expectations of a marked slowdown in economic growth in the second half of the year. As such, officials will keep open the possibility of a further reduction in Bank rate, with November as the earliest likely opportunity. The reopening of the UK Parliament next week will also see Chancellor Hammond questioned by the House of Lords Economic Affairs Committee (Thu) about financial policy, the City of London and infrastructure projects.

## **ECB PRESIDENT DRAGHI TO MAINTAIN DOVISH RHETORIC**

Outside of the UK, the Reserve Bank of Australia (Tue), the Bank of Canada (Wed) and Sweden's Riksbank (Wed) are all likely to keep their policy rates unchanged. Most attention will be given to the ECB's policy announcement (Thu). We believe continued weak inflation in the euro area will require an eventual step-up in policy stimulus, but not necessarily next week. Although annual headline inflation, currently stuck at 0.2% in August, is likely to head higher in the coming months, this merely reflects the energy price base effect. More relevant for policymakers is underlying inflation pressures which, on the 'core' measure excluding food and energy, is showing little sign of a pickup.

Nevertheless, the euro area economy seems to have weathered the impact of the UK's EU referendum vote relatively well, with confidence – even if it has fallen in some surveys – remaining at levels consistent with positive economic growth. Overall, we expect policy rates and the monthly pace of asset purchases to stay unchanged next week. Still, possible small downward revisions to the ECB's updated staff forecasts for growth and inflation could lead to a tweaking of current policy parameters, such as extending the 'soft' end date of asset purchases, perhaps by six months to September 2017. President Draghi is expected to maintain a dovish tone at the press conference.

Monday is a public holiday in the US. Fed speakers Williams (Wed) and Rosengren (Fri) will feature in a relatively quiet week, as markets continue to assess the likelihood of a rate rise this year, possibly as soon as 21 September. Fed Funds futures currently price a 26% probability of a September hike and 56% probability of a rate rise by December. We think the pricing for September is fair, with our central view for the next hike in December.

### **UPCOMING GLOBAL HIGHLIGHTS**

ECB policy decision

Bank of Canada policy decision

Sweden's Riksbank policy decision

RBA policy decision

US non-manufacturing ISM (Aug)

German factory orders, IP (Jul)

Euro area final GDP (Q2)

### **UPCOMING UK HIGHLIGHTS**

Services PMI (Aug)

Industrial production (Jul)

Construction output (Jul)

BRC retail report (Aug)

RICS housing report (Aug)

BoE Carney and others testifying at Treasury Select Committee

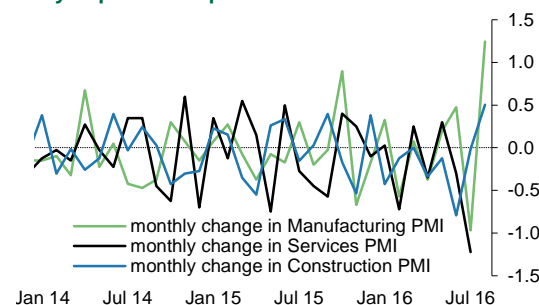
Chancellor Hammond answering questions at Lords Committee

## UK SERVICES PMI (AUG)

	Headline
LBCB	49.6
Cons	50.0
Prev	47.4

The services PMI fell to 47.4 in July, the biggest monthly fall in the survey's history that took the headline balance to its weakest since March 2009. August data for the manufacturing and construction PMIs saw sharp bounces of around 3 and 1.5 times their respective standard deviations of historic monthly changes. The unusual commonality of the moves points to some unwinding of economic uncertainty as a likely underlying factor. That leads us to expect a partial retracement in August's services PMI as well, though by less than in manufacturing. We look for a move upwards to 49.6 in August.

### Bounce in manufacturing and construction PMIs likely to portend improvement in services as well



Source: Markit and LBCB analytics as of 2 September 2016

## UK INDUSTRIAL PRODUCTION (JUL)

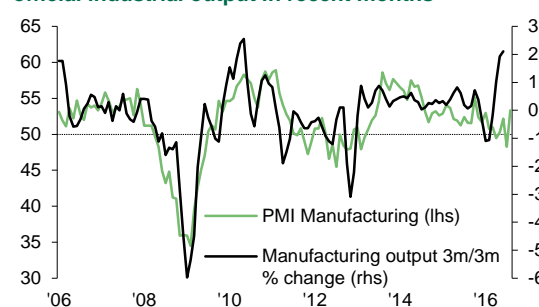
IP	M/M	Y/Y
LBCB	0.2%	2.4%
Cons	-0.2%	1.9%
Prev	0.1%	1.6%

Manu	M/M	Y/Y
LBCB	0.4%	2.4%
Cons	-0.3%	1.7%
Prev	-0.3%	0.9%

Industrial production rose by 0.1% m/m in June, only partly retracing the 0.6% drop in May. Within overall production, a pullback in manufacturing of 0.3% m/m reinforced the 0.6% drop in May. With August's manufacturing PMI rising to its strongest since October 2015, there are signs that the 10% post-referendum depreciation of sterling is beginning to support the sector. Nevertheless, buffeted by sentiment around the referendum, the PMI has recently given a poor steer to output trends in official data. Given the pronounced recent weakness, we anticipate a recovery with a 0.2% m/m rise in production in July.

### Manufacturing PMI has given a duff steer to trends in official industrial output in recent months



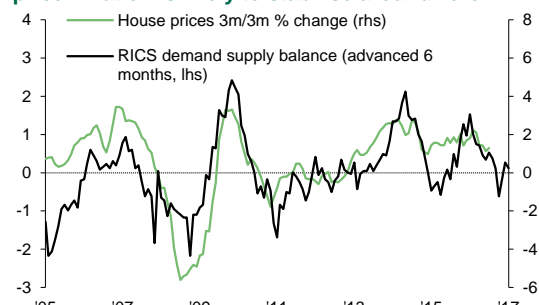
Source: ONS, Markit and LBCB analytics as of 2 September 2016

## UK RICS HOUSING SURVEY (AUG)

	Headline
LBCB	+2
Cons	+2
Prev	+5

The headline price balance of the RICS housing survey fell to +5 in July, the lowest since April 2013. Still, the forward-looking survey balances, including price and sales expectations, showed some recovery after a post-referendum drop in July. Moreover, the overall market demand-supply imbalance was little changed as improved new buyer enquiries were broadly matched by new instructions to sell. Historically, that has had some leading tendency for future price pressures and suggests that the market may be settling in a low transaction equilibrium. For August, we look for a modest headline dip to +2.

### Housing demand supply imbalance suggests house price inflation is likely to stabilise around zero



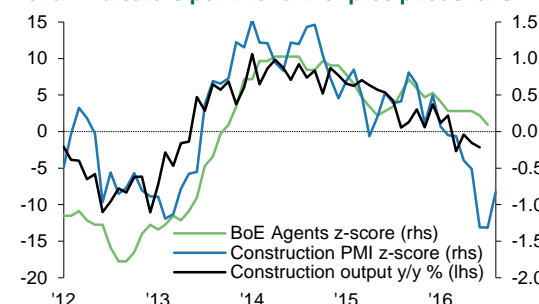
Source: RICS, LBCB analytics as of 2 September 2016

## UK CONSTRUCTION OUTPUT (JUL)

	M/M	Y/Y
LBCB	0.4%	-2.4%
Cons	-0.7%	-3.4%
Prev	-0.9%	-2.2%

UK construction activity remains weak, shrinking by 0.7% q/q in 2016 Q2 after a 0.3% q/q drop in 2016 Q1. Moreover, even after a bounce in August, the headline balance of the construction PMI, at 49.2, continues to indicate contraction. Although the weakening in construction sentiment is common to most indicators, some, including the BoE Agents' report, have fallen less sharply. As the official ONS construction data are volatile and prone to revision, overall we see scope for a modest recovery in August. A 0.4% m/m gain would still see the annual rate of growth decline to -2.4% from -2.2% in July.

### UK construction data have recently been weak, but not all indicators point to further precipitous falls



Source: ONS, Markit, BoE, LBCB analytics as of 2 September 2016

## ECONOMIC DATA AND EVENTS CALENDAR

Ctry	Time	Release/Event	Period	Consensus	Forecast	Previous
<b>SATURDAY 3 SEPTEMBER</b>						
EZ	07:30	ECB's Mersch speaks in Cernobbio, Italy				
<b>SUNDAY 4 SEPTEMBER</b>						
WD		G-20 Summit in Hangzhou, China (day 1 of 2)				
GE	18:00	German Regional Elections				
<b>MONDAY 5 SEPTEMBER</b>						
US		Labour Day Public Holiday - markets closed				
UK		Parliament returns from summer recess				
UK	00:01	BRC Shop Price Index	Aug	--	--	(-1.6%)
JN	01:30	Services PMI	Aug	--	--	50.4
CH	02:45	<b>Caixin Services PMI</b>	<b>Aug</b>	<b>--</b>	<b>--</b>	<b>51.7</b>
JN	03:30	BoJ's Kuroda Speaks at a Kyodo News event				
FR	08:50	Services PMI	Aug (F)	52.0	52.0	52.0
GE	08:55	Services PMI	Aug (F)	53.3	53.3	53.3
EZ	09:00	<b>Services PMI</b>	<b>Aug (F)</b>	<b>53.1</b>	<b>53.1</b>	<b>53.1</b>
UK	09:30	<b>Services PMI</b>	<b>Aug</b>	<b>50.0</b>	<b>49.6</b>	<b>47.4</b>
EZ	09:30	Sentix Investor Confidence	Sep	5.5	--	4.2
EZ	10:00	Retail Sales	Jul	0.5% (1.8%)	0.7%	0.0% (1.6%)
<b>TUESDAY 6 SEPTEMBER</b>						
UK	00:01	BRC Sales Like-For-Like	Aug	--	--	(1.1%)
AU	05:30	<b>RBA Cash Rate Target</b>	<b>06-Sep</b>	<b>1.50%</b>	<b>1.50%</b>	<b>1.50%</b>
GE	07:00	<b>Factory Orders</b>	<b>Jul</b>	<b>0.6% (-0.1%)</b>	<b>--</b>	<b>-0.4% (-3.1%)</b>
UK	09:00	New Car Registrations	Aug	--	--	(0.1%)
EZ	10:00	GDP	2Q (F)	0.3% (1.6%)	0.3% (1.6%)	0.3% (1.6%)
US	14:45	Markit Services PMI	Aug (F)	51.1	51.1	50.9
US	15:00	Federal Reserve's Labor Market Conditions Index	Aug	--	--	1.0
US	15:00	<b>ISM Non-Manufacturing Composite</b>	<b>Aug</b>	<b>55.3</b>	<b>55.7</b>	<b>55.5</b>
<b>WEDNESDAY 7 SEPTEMBER</b>						
CH		Foreign Reserves	Aug	\$3191.0b	--	\$3201.1b
US	02:15	Fed's Williams Speaks on Outlook in Reno, Nevada				
GE	07:00	<b>Industrial Production</b>	<b>Jul</b>	<b>0.1% (0.1%)</b>	<b>0.1% (0.1%)</b>	<b>0.8% (0.5%)</b>
FR	07:45	Trade Balance	Jul	-€3700m	--	-€3440m
UK	08:30	Halifax House Prices (3m/12m)	Aug	-0.1% (7.0%)	--	-1.0% (8.4%)
SW	08:30	Riksbank Interest Rate	07-Sep	-0.50%	-0.50%	-0.50%
UK	09:30	<b>Industrial Production</b>	<b>Jul</b>	<b>-0.2% (1.9%)</b>	<b>0.2% (2.4%)</b>	<b>0.1% (1.6%)</b>
UK	09:30	<b>Manufacturing Production</b>	<b>Jul</b>	<b>-0.3% (1.7%)</b>	<b>0.4% (2.4%)</b>	<b>-0.3% (0.9%)</b>
UK	14:15	<b>BoE's Carney, Cunliffe, Forbes, McCafferty Testify to TSC</b>				
CA	15:00	Bank of Canada Rate Decision	07-Sep	0.50%	0.50%	0.50%
UK	15:00	NIESR GDP Estimate	Aug	--	--	0.3%
US	15:00	JOLTS Job Openings	Jul	--	--	5624
US	19:00	<b>US Federal Reserve Releases Beige Book</b>				
<b>THURSDAY 8 SEPTEMBER</b>						
CH		<b>Trade Balance</b>	<b>Aug</b>	<b>\$58.35b</b>	<b>--</b>	<b>\$52.31b</b>
CH		<b>Exports</b>	<b>Aug</b>	<b>(-3.9%)</b>	<b>--</b>	<b>(-4.4%)</b>
CH		<b>Imports</b>	<b>Aug</b>	<b>(-5.0%)</b>	<b>--</b>	<b>(-12.5%)</b>
UK	00:01	<b>RICS House Price Balance</b>	<b>Aug</b>	<b>2%</b>	<b>2%</b>	<b>5%</b>
JN	00:50	Trade Balance	Jul	¥579.4b	--	¥763.6b
JN	00:50	GDP Annualised	2Q (F)	0.2%	--	0.2%
JN	00:50	GDP Deflator	2Q (F)	(0.8%)	--	(0.8%)

Ctry	Time	Release/Event	Period	Consensus	Forecast	Previous
JN	06:00	Economic Watchers Survey Current	Aug	45.2	--	45.1
JN	06:00	Economic Watchers Survey Outlook	Aug	46.8	--	47.1
GE	07:00	Labour Costs	2Q	--	--	1.7% (3.1%)
FR	07:30	Bank of France Business Sentiment	Aug	99	--	98
<b>EZ</b>	<b>12:45</b>	<b>ECB Main Refinancing Rate</b>	<b>08-Sep</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>EZ</b>	<b>12:45</b>	<b>ECB Deposit Facility Rate</b>	<b>08-Sep</b>	<b>-0.40%</b>	<b>-0.40%</b>	<b>-0.40%</b>
<b>EZ</b>	<b>12:45</b>	<b>ECB Marginal Lending Facility</b>	<b>08-Sep</b>	<b>0.25%</b>	<b>0.25%</b>	<b>0.25%</b>
<b>EZ</b>	<b>12:45</b>	<b>ECB Asset Purchase Target</b>	<b>Sep</b>	<b>EU80b</b>	<b>EU80b</b>	<b>EU80b</b>
<b>EZ</b>	<b>13:30</b>	<b>ECB's Draghi Holds Press Conference</b>				
US	13:30	Initial Jobless Claims	03-Sep	--	265k	263k
<b>UK</b>	<b>15:35</b>	<b>UK Chancellor Philip Hammond Testifies to Parliament</b>				
US	20:00	Consumer Credit	Jul	\$15.100b	--	\$12.320b

#### FRIDAY 9 SEPTEMBER

<b>CH</b>	<b>02:30</b>	<b>CPI</b>	<b>Aug</b>	<b>(1.7%)</b>	<b>--</b>	<b>(1.8%)</b>
<b>CH</b>	<b>02:30</b>	<b>PPI</b>	<b>Aug</b>	<b>(-1.0%)</b>	<b>--</b>	<b>(-1.7%)</b>
JN	05:30	Tertiary Industry Index	Jul	0.4%	--	0.8%
GE	07:00	Trade Balance	Jul	€23.7b	--	€24.9b
FR	07:45	Industrial Production	Jul	0.2% (0.7%)	--	-0.8% (-1.3%)
EZ	08:00	Euro-Area FinMins, Central Bankers Meet in Bratislava (day 1 of 2)				
<b>UK</b>	<b>09:30</b>	<b>Construction Output</b>	<b>Jul</b>	<b>-0.7% (-3.4%)</b>	<b>0.4% (-2.4%)</b>	<b>-0.9% (-2.2%)</b>
<b>UK</b>	<b>09:30</b>	<b>Trade Balance</b>	<b>Jul</b>	<b>-£4.2b</b>	<b>-£4.3b</b>	<b>-£5.1b</b>
UK	09:30	Visible Trade Balance	Jul	-£11.8b	-£11.6b	-£12.4b
UK	09:30	Trade Balance Non EU	Jul	-£3.6b	-£3.5b	-£4.2b
UK	09:30	BoE/TNS Inflation Next 12 Mths	Aug	--	--	2.0%
US	12:45	Fed's Rosengren to Deliver Economic Forecast in Boston				
US	15:00	Wholesale Inventories	Jul (F)	0.1%	--	0.0%

#### DURING THE WEEK

CH		Foreign Direct Investment	Aug	(5.0%)	--	(-1.6%)
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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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