

## Week ahead: December 26th-30th

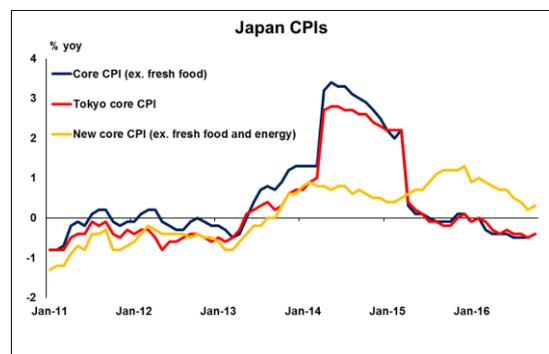
### Japan's CPI data in focus, market holidays across the globe

#### Next week's market movers

- In a particularly light calendar week with market holidays across many G10 nations, the most noteworthy data release will probably be Japan's CPI for November.
- In the US, pending home sales could confirm that the housing market remains on a solid footing, though we have some concerns over the future performance of home sales.

**On Monday**, markets will remain closed in the US, Europe, Canada, Australia and New Zealand.

**On Tuesday**, Japan will release its CPI data for November. Expectations are for the core rate to have risen somewhat, but to have remained in the negative territory, while no forecast is available for the headline print. Our view is that the headline rate is also likely to rise and move further into the positive territory, given that the nation's Tokyo CPI for the month surged. Rising inflationary pressures are likely to be welcome news to the BoJ, which at its latest policy meeting took the sidelines and shifted to a more optimistic tone with regards to Japan's economic outlook. We hold the view that the BoJ is likely to keep its policy unchanged for some time, primarily due to the yen's collapse following the US election.



A weaker yen raises the prices of imported products and thus, may exert upward pressure on the nation's inflation rate in the coming months, making the Bank's job of returning inflation to its target somewhat easier.

**On Wednesday**, the indicator that may attract the most attention is US pending home sales for November. The forecast is for the figure to have ticked up from the previous month. The US housing market has posted gains throughout 2016, with most of the housing indicators such as new and existing home sales being on an uptrend. However, we remain skeptical as to whether this positive trend will continue throughout 2017 as well, in an environment of rising interest rates. The fact that US mortgage lending rates have already risen considerably following the US election outcome, makes us believe that some home buyers may be discouraged from entering the market in the coming year, potentially causing home sales to slow somewhat. Having said that, the risk to our forecast is a possible surge in home sales early in the year on expectations of even higher borrowing costs by the end of 2017.

**On Thursday**, the BoJ will release its summary of opinions from the December policy meeting. Even though this is usually not a major market mover, it may attract some special attention this time, considering that the Bank upgraded its assessment of Japan's outlook at this meeting. It would be interesting to see the individual thoughts of the Policy Board members following the yen's collapse. Generally optimistic comments with regards to the inflation outlook could amplify our view that the Bank is unlikely to touch the easing trigger again in the foreseeable future.

**On Friday**, markets will close early in Germany and the UK.

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