The Week Ahead World

Conservative party conference, Brazil elections, Paris Motor show

Your FT guide to this week's big events

SEPTEMBER 30, 2018

Monday

CONSERVATIVE PARTY CONFERENCE

Britain's Conservative party annual conference in Birmingham gets properly under way. It will be an acutely sensitive moment for prime minister Theresa May, who faces growing pressure from ministers, MPs and grassroots members over her stalling Brexit strategy. Many will be urging her to drop plans for a softer Brexit and instead pursue a looser relationship with the EU. In turn, Mrs May will argue that her strategy is the only one that can result in a sensible Brexit deal.

Recommended

Questions about Mrs May's position will also be raised — this could well be her last conference as prime minister and party leader. The obvious potential successors — Boris Johnson, Sajid Javid and Jeremy Hunt, — will be vying for media attention when laying the groundwork for their pitches to take over. Given that the opposition Labour party enjoyed a successful conference in Liverpool last week, the pressure has increased on Mrs May to show leadership and prove she is still in command of her party. Mrs May will address conference on Wednesday

- Conference Agenda 2018

QUEBEC ELECTION

Controversial proposals on immigration are likely to factor as the Canadian province of Quebec goes to the polls. A close general election between Canadian prime minister Justin Trudeau's incumbent Liberals and their centre-right rivals is expected. In 2014, the Liberal party topped the poll with 70 seats in the 125-member National Assembly. The Parti Québécois won 30 seats, the Coalition Avenir Québec won 22 seats, and Québec solidaire three seats.

- US and Mexico put trade deal on hold in wait for Canada to join

MANUFACTURING DATA

Japan's **Tankan Large Manufacturing index** is expected to show the sector fared well in the third quarter, helped by solid vehicle production and semiconductor-related shipments. Consensus

Feedback

forecasts put the manufacturing index down to expand from 21 to 22 while the service sector index is expected to fall from 24 to 23. US-China trade tensions and natural disasters such as the typhoon Jebi are expected to weigh on the outlook for both sectors.The UK monthly **IHS Markit purchasing manufacturers index** fell to 52.8 in August compared with 53.8 in July, the survey's lowest reading for 25 months. Analysts had expected the pace of growth in the sector to remain the same as the previous month. The consensus forecast for September is a slight fall from 52.8 to 52.5. The US **Institute for Supply Management manufacturing index** came in at 61.3 in August, its highest since May 2004. That improved on the previous reading of 58.1 and soared easily past consensus expectations for 57.6. The latest round of regional manufacturing surveys for September points to strong, broad-based growth in activity. The headline ISM composite index is forecast to fall modestly to 60.1 for September from 61.3 in August, while the prices paid index is expected to fall slightly to 72.0 from 72.1.

Tuesday

EUROPEAN CAR EMISSIONS VOTE

The European Parliament is to debate and vote on a new law setting a 45 per cent target, proposed by the environment committee, for reducing carbon dioxide emissions for new cars by 2030, with an intermediate target of 20 per cent by 2025. Carmakers would also have to increase the market share of electric cars and low- emission vehicles. The debate takes place on Tuesday with the vote on Wednesday.

US CAR SALES

Carmakers post their US new vehicle sales data for September. After a strong month for sales in September 2017 when many thousands of flood-damaged vehicles were replaced in the wake of Hurricane Harvey, sales this year are expected to be down roughly 6 per cent to 8 per cent.

- European car sales rev up in August ahead of new EU testing scheme

CORPORATE EARNINGS

Pepsi posts third-quarter results, the last earnings report under the stewardship of Indra Nooyi. Investors will watch for signs of recovery in the drinks business as it invests in less-sugary products to drive sales, while the Frito-Lay snacks unit is again expected to help boost revenue.

Wednesday

MERKEL VISITS ISRAEL

German chancellor Angela Merkel begins a visit to Israel, where she will meet prime minister Benjamin Netanyahu, for a round of talks on Thursday. She is also due to receive an honorary doctoral degree from Haifa University and attend the Israel Museum. It is her first visit to the country since February 2014.

CORPORATE EARNINGS

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US housebuilder **Lennar** is expected to report a rise in profit and revenue, boosted by strong demand for homes. However, there have been concerns about a slowdown as mortgage rates continue to inch up and affordability declines. Investors will look for the company's updates on its financial forecast and comments on impacts from Hurricane Florence. UK retailer **Tesco**, much in the news thanks to its new budget brand, Jack's, designed to compete with Aldi and Lidl, posts second-quarter results.

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Analysts expect business to have slowed in recent months, and that cost savings rather than volume growth will drive an improvement in retail profit margin to around 2.5 per cent. The Carrefour tie-up, which comes into effect in October, is also expected to cut costs, while the Booker acquisition continues to pay off, with like-for-like sales forecast to have grown 14 per cent.

Thursday

PARIS MOTOR SHOW

The world's carmakers gather at the Paris Motor Show amid uncertain times for the global automotive industry. Trade tensions with the US threaten global production models of many manufacturers, while new EU testing rules have forced some cars off the road while manufacturers seek approval for their vehicles under new rules.

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But EU rules over CO_2 emissions, designed in part to spur development and sale of electric vehicles, will be at the forefront of most companies' minds. Carmakers need to hit the targets of an average of 95 grammes of CO_2 per km in 2020 across their fleets, or face crippling fines. Electric cars, which gain "super credits" and help them offset against more polluting vehicles, will be key to these, which is why a deluge of battery models are coming to market in the next two years. But with low-CO_2 diesel models in decline, the industry is facing a sense of urgency over its electric ambitions.

CORPORATE EARNINGS

Warehouse-club retail chain **Costco** is expected to post a rise in fourth-quarter revenue and same-store sales, helped by membership growth, lower prices and increased footfall in the US. Investors will watch for signs of improvement in the company's gross margins which has been under pressure from freight costs and price cuts. **Constellation Brands** releases second-quarter earnings. A rise in demand for its high-end beers, including the recently launched Corona Familiar and Premier, is expected to boost quarterly revenue and profit. Investors will wait for any comments by the management on how the company's investments in the cannabis market is paying off.

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US JOBS DATA

The US Labor Department is expected to report that non-farm payrolls increased by 185,000 jobs in September after rising 201,000 in August. The unemployment rate is forecast to have fallen one-tenth of a percentage point to 3.8 per cent, while average hourly earnings are seen increasing 0.3 per cent after rising 0.4 per cent in August. That would lower the annual increase in wages to 2.8 per cent from 2.9 per cent in August. The impact of Hurricane Florence is a possible downside risk to the jobs numbers, as the storm led to evacuations along the Carolina coastline early in the month. Historically, the effects of severe weather on the payroll employment data has varied.

PUTIN AND MODI ARMS TALKS

Russian president Vladimir Putin will discuss a deal to sell Russian S-400 missile complexes to India with prime minister Narendra Modi during the annual summit between the two countries. The deal is believed to be compatible with India's efforts to maintain strategic autonomy and not be dependent on any one nation for its military hardware imports, but would risk inflaming tensions with the US, which opposes the deal. Weapons sales from the US to India have risen from negligible amounts 10 years ago to reach a cumulative total of $15bn for the past decade, with billions of dollars of further sales in the pipeline.

- US paves way for sales of arms to India with security pact

Saturday

LATVIA ELECTIONS

Latvia holds parliamentary elections with corruption and money-laundering high on the agenda for voters in the Baltic nation. The country's financial system is seen by many as a battleground for Russia and the west and the election will be seen as a gauge of whether public sentiment leans towards Moscow or Europe.

- Latvian foreign minister urges bigger defence spend

Sunday

BRAZILIAN ELECTION

Brazil goes to the polls for the presidential election. There is widespread anger at the political class among Brazil's 147m voters who have been bombarded with tales of corruption in recent years. For analysts, this is turning out to be the most polarising vote in Brazil's recent history. For markets, it is turning into a "nightmare scenario" — the left against the far-right — sentencing Brazil to another four years of gruesome political infighting. It is also making investors increasingly nervous that voters could elect a president who is unwilling or unable to implement necessary, but politically thorny, economic reforms to fix Brazil's fiscal imbalances.

- Brazil election: top contenders from left to far-right

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BOSNIA ELECTION

Bosnia and Herzegovina holds a general vote which is seen as deciding if the country will progress towards the EU and Nato integration. Nearly 3.4m voters will choose Croat, Serb and Bosniak members of the tripartite presidency and members of parliament's lower house, plus regional leaders and assemblies, the Central Election Commission. Bosnia has struggled to recover from the 1992-95 war, and its weak institutions have struggled to clamp down on corruption, a key demand of the EU. Immigration has also become a key issue, with the country rapidly emerging as a new stopping point for migrants desperate to reach Europe after previous routes were shut down following a 2016 deal between Turkey and the EU.

- Migrant influx stirs fresh tensions in Bosnia

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