Week Ahead 10-15th April. Highlights include US CPI, Retail Sales; ECB, BoC, RBNZ; French Presidential Election; China data

Week Ahead 10-15th April 2022:

- **SUN:** French Presidential Election.
- **MON:** Chinese CPI/PPI, UK GDP.
- **TUE:** German ZEW, UK Jobs Data, US CPI.
- **WED:** RBNZ, China Trade, BoC.
- **THU:** BoK, ECB, US Retail Sales.
- **FRI:** Good Friday.

NOTE: Previews are listed in day-order

FRENCH PRESIDENTIAL ELECTION (SUN): On April 10th, French voters will take to the polls to elect the nation's next President. However, the victor is unlikely to be revealed until a second round of voting takes place on April 24th with no candidate set to attain the 50% threshold required for victory in the first round. At the start of the year, current President Macron was polling at around 26% of the vote before moving to as high as 30% in March with voters showing support for his handling of the Ukraine crisis. Since then, Macron has drifted back to around 27% of the vote with far-right candidate Le Pen's share rising to around 22%. As such, both candidates are expected to make it to the second-round face-off with the next best performing candidate leftist Melenchon. Polling suggests that the vote will likely be closer than the 2017 result (66.1% vs. 33.9%) with Politico's Poll of Polls currently at 54% vs. 46% in favour of Macron, with Le Pen having made up ground in recent weeks as support for far-right candidate Zemmour began to dwindle and as she looks to address the cost-of-living crisis. In terms of Macron's policy platform, as highlighted by ABN AMRO, one of the main areas of focus is reform of the pension system with policy proposals including increasing the retirement age to 65 from 62. Elsewhere, tax policy will involve EUR 7bln in corporate tax cuts and a EUR 7bln tax reduction for households. From a spending perspective, spending on education, the energy transition, health care and families would amount to EUR 50bln, but not result in additional government debt. Note, the policy platform will need to be viewed in the context of the June parliamentary elections which will determine the ease with which Macron could legislate his proposed policies. A Le Pen victory would likely be viewed as less of a market positive than Macron with less certainty on economic and fiscal policies beyond addressing the cost-of-living crisis. However, contagion into Eurozone-wide assets would likely be more contained than they would have been in 2017 with Le Pen having scaled back her anti-EU ambitions. As it stands, ING notes, "if we exclude the March-April 2020 Covid-induced market turmoil, the 10-year OAT-Bund spread (now at 53bp) is at the widest since the 2017 election period". Therefore, despite a few weeks ago being deemed to not be much of a market event, there is now some political premium in French assets, whether this will extend to the EUR remains to be seen with the multi-bloc currency currently more susceptible to ECB policy expectations and Ukraine/Russia developments.

CHINA INFLATION (MON): CPI YY is seen ticking higher to 1.2% in March from 0.9% in February, whilst PPI is expected to cool to 7.9% from 8.8% in the prior month. Taking the latest Caixin release as a proxy, the composite suggested "The prices gauges remained in expansionary territory, indicating that business costs grew further. Employment was relatively stable. Businesses were less optimistic", whilst "the overall rate of input price inflation accelerated to a five-month high, but prices charged inflation eased slightly." China is expected to further ease its policy, with reports via China's Securities Journal also noting a PBoC RRR cut is likely in Q2. "Policymakers should look out for vulnerable groups [amid COVID] and enhance support for key industries and small and micro businesses to stabilize market expectations.", according to the Senior Economist at Caixin Insight Group.

UK GDP (MON): Expectations are for M/M GDP in February to rise 0.3% vs. the 0.8% increase observed in January. Ahead of the release, Moody's who forecast a 0.5% M/M increase attribute their call to tailwinds from the unwinding of COVID restrictions which will have helped carry consumption forwards. The ratings agency does note however, that "downside risks are considerable though, with the increasing toll of inflation and ongoing supply disruptions". Adding "the outbreak of conflict in Ukraine also added a high degree of uncertainty, though we do not expect the invasion to show up much in the February figures". The most recent BoE policy statement noted that "business confidence has held up and labour market activity data have remained robust. Consumer confidence has, however, fallen in response to the squeeze on real household disposable incomes”. Looking ahead, guidance from the MPC suggests that policymakers expect GDP growth to slow to subdued rates during the course of the year.

US CPI (TUE): Headline consumer prices are seen rising 1.1% M/M in March, which should push the annual rate up to 8.3% Y/Y from 7.9%; headline measures will likely be driven by higher gasoline prices. Core inflation is seen rising 0.5% M/M, matching the pace in February, lifting the annual rate to 6.6% Y/Y from 6.4%; food prices were likley supported by higher underlying commodity prices in the month. The data is not expected to be too influential in altering expectations of Fed policy in the near-term; money markets are now assigning almost 90% probability of a 50bps rate rise at the May meeting, as the Fed looks to tackle high inflation pressures; over the course of 2022, money markets fully price rates rising to 2.25-2.50%, with some risks of 2.50-2.75%; the Fed's latest projections had pencilled in rates rising to 1.75-2.00 at the end of this year.

UK JOBS (TUE): Expectations are for the unemployment rate in the 3-month period to February to decline to 3.9% from 3.8%. Given the current inflation dynamics in the UK, wage data will be eyed for signs of second-round effects. There is currently no consensus published for wage metrics, however, analysts at Investec expect an increase in the 3M/Y headline metric to rise to 5.6% from 4.8% with the ex-bonus figure seen climbing to 4.2% from 3.8%. In terms of recent indicators, the February HMRC payroll data revealed a 275k addition of employees which marked the largest monthly gain on record. Subsequently, Investec expects this momentum to be reflected in the official ONS release with analysts of the view that the ending of Plan B covid restrictions acted as a confidence booster for hiring plans. That said, Investec cautions that employment gains could be tempered in the coming months as inflationary pressures squeeze real household expenditure. Current guidance from the MPC notes that labour market activity data have remained robust.

RBNZ POLICY ANNOUNCEMENT (WED): The Reserve Bank is expected to lift its Cash Rate by 25bps to 1.25%. Westpac's analysts say that, like the February confab, it is a close call between a 25bps increment and a larger 50bps hike, a situation not helped by minimum data releases between the two reviews. "The data that we have had suggests that near-term inflation is a growing headache for businesses and households," Westpac writes, "But it also shows that monetary policy moves to date are getting the intended traction via the housing market." Westpac adds that the central bank has not provided very much guidance on how it views recent developments, "but its decisions to date suggest to us that the hurdle for larger OCR hikes is quite high."

CHINESE TRADE BALANCE (WED): COVID will likely impact the data as cases began rising in China in early March, and by the end of the month, the virus made its way to 29 of China's 31 provinces, according to the National Health Commission (NHC). Further, the metric will not be comparable to last month’s release which comprised of a Jan-Feb joint number due to the Lunar New Year disruption. The trade balance is expected at a surplus of 22.4bln, with exports at 13% and imports at 8%. The release will likely not carry much weight given the developing COVID situation and the backwards-looking/incomparable nature of the data.

UK CPI (WED): Expectations are for March Y/Y CPI to rise to 6.7% from 6.2% with the core metric expected to climb to 5.4% from 5.2%. The February report saw the fastest pace of price growth since March 1992 with Investec noting that price pressures were broad with 10/12 main product groups adding to the upside for the Y/Y rate. This time around, Investec expects that the Russian invasion of Ukraine will have placed further upside pressure on food and energy prices with timelier data indicating a 10% increase in fuels and lubricant prices M/M. That said, Investec notes that the report might take somewhat of a backseat to the April release given that it will encapsulate the 54% increase in the OFGEM price cap and therefore should prompt a further surge in inflation. As it stands, current guidance from the MPC notes that inflation is expected to increase further in coming months, to around 8% by 2022 Q2, and perhaps even higher later this year when the OFGEM price cap is revisited. Further out, inflation is expected to fall back materially, as energy prices stop rising and as the squeeze on real incomes and demand puts significant downward pressure on domestically generated inflation.

BOC POLICY ANNOUNCEMENT (WED): After a 25bps rate rise in March, the consensus expects the Bank of Canada will hike by 50bps at its April meeting, taking its main rate to 1.00%, according to a Reuters poll. Some desks forecast a smaller +25bps increment, but all five of the major Canadian banks are expecting the larger increase, and also see another +50bps move at the June confab too. The bigger move has been flagged by remarks made by the Deputy Governor Kozicki, who pledged a 'foreceful' response to manage inflation, while the US Fed has also signalled intent to lift rates aggressively, and is expected to continue doing so. Money markets are pricing rates rising to 2.75% by the end of this year. There is also a possibility that the Bank begins the process of QT; Governor Macklem said QT was the logical next step after rate rises begin. Traders will be assessing the pace of the process; Macklem has noted that around 40% of the BoC's bonds will mature within the next two years, when the Bank stops reinvestments, and has previously said that wage growth and longer-run inflation expectations will determine the pace at which QT happens. Meanwhile, updated macroeconomic forecasts will likely see inflation projections raised.

ECB POLICY ANNOUNCEMENT (THU): After pivoting its APP at the March meeting in a more hawkish direction, the upcoming announcement is expected to be more of a stock-take on how the Eurozone economy is responding to the fallout from the Ukraine/Russia crisis and subsequent impact on inflation. As it stands, the Eurozone is facing a deteriorating growth outlook given the economic reverberations from the Russia and Ukraine conflict whilst trying to tame rampant inflation which saw Y/Y HICP jump to 7.5% in March from 5.9% in February. Accordingly, ING suggests that the ECB's 2022 inflation projection of 5.1% presented in March is already looking outdated with a risk of double-digit prints to come. The possibility of stagflation in the Eurozone will naturally lead to a split in views between the doves and the hawks on the Governing Council with the former represented by the likes of Panetta who suggests that asking the ECB to bring down high inflation in the near-term would be extremely costly. At the more hawkish end of the spectrum, Belgium's Wunsch expects the deposit rate (currently -0.5%) to reach 0% by year-end. The ECB will ultimately not be forced into making a policy decision at the upcoming meeting with uncertainty surrounding Ukraine providing some cover. However, various desks expect that by June, the Bank will need to offer greater guidance on how it intends to navigate the current economic climate. ING suggests that one compromise that might be sought on the Governing Council would be a more explicit distinction between policy normalisation and monetary policy tightening whereby the former would include an end to net asset purchases and bringing the deposit rate back to zero whereas tightening would be the start of a longer rate hike cycle. In terms of the latest polling, Reuters reported that of the 41/53 respondents who forecast the deposit rate to rise from a record low of -0.50% this year, 31 expect it to do so in Q4, 10 say it will happen as soon as July-Sep.

US RETAIL SALES (THU): US retail sales are forecast to rise 0.6% M/M in March (prev. +0.2%), and the ex-autos measure is seen rising 0.7% M/M (prev. +0.3%). Analysts at Credit Suisse note that unit vehicle sales fell for the second straight month in March, which suggests auto sales will drag on overall retail sales in the month. However, higher gas prices (which were up around 18% in the month) linked to the impact from the Russia-Ukraine War will boost the headline, CS says. "Nominal goods spending has remained far above trend even as fiscal support largely disappeared last year and inflation has eaten away at purchasing power quickly," it writes, "real goods spending is slowing and we expect a continued gradual decline throughout this year." CS says household balance sheets are in good shape, "but a sharp inflationary shock due to the Russia-Ukraine conflict paired with rising rates may quickly eat away at the buffer households have built up through the pandemic," implying that risks around consumer spending are skewed to the downside in the months ahead.

BOK POLICY ANNOUNCEMENT (THU): The BoK is likely to hold rates at 1.25% in a meeting that will take place without its Governor (lawmakers are due to hear the nomination of Chang-Yong Rhee on April 19th). The Bank's policymakers will be aware of energy prices stoking inflation above the 4% level amid tight labour market conditions; however, Fed hawkishness, as well as the War in Ukraine and COVID are risks to the growth outlook, while consumer caution on taking on new debt is also set to drive the wait-and-see approach, according to Societe General. "Our base scenario is still for one 25bps hike per quarter, resulting in a year-end (and terminal) rate of 2.0%," The French bank said, "we expect rate hikes to resume at the following meeting in May." The bank argues that although it sees risks of a higher terminal rate to manage rising inflation, it awaits more information on the Governor nominee's stance before reviewing its call.