Week Ahead 25-29th April: Highlights include US PCE, US Employment Costs, US Advance GDP, EZ Flash CPI, Aussie CPI, BoJ, Riksbank, CBR

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- **MON:** German Ifo (Apr), US National Activity Index (Mar).
- **TUE:** NBH Policy Announcement; Japanese Unemployment (Mar), UK PSNB (Mar), US New Home Sales (Mar).
- **WED:** Chinese Industrial Profits (Mar), Australian CPI (Q1), German GfK (May), New Zealand Trade Balance (Mar).
- **THU:** BoJ & Riksbank Policy Announcements, CBRT Inflation Report; Japanese Retail Sales (Mar), EZ Consumer Confidence Final (Apr), German Prelim. CPI (Apr), US GDP Advance (Q1), PCE Prices Advance (Q1).
- **FRI:** CBR Policy Announcement, Chinese Caixin Manufacturing PMI Final (Apr), German Import Prices (Mar), German GDP Flash (Q1), Swiss KOF (Apr), EZ Flash CPI (Apr), Flash Prelim. GDP (Q1) & M3 (Mar), US PCE Price Index (Mar), University of Michigan Final (Apr), Canadian GDP (Feb).

NOTE: Previews are listed in day-order

FRENCH PRESIDENTIAL ELECTION (SUN): The first round of voting saw no overall winner with incumbent President Macron falling short of the 50% threshold required for victory. As such, the race will now go to a “winner takes all” second round involving Macron and far-right candidate Le Pen. Ahead of the first round, polls had Macron at 53% for the second round and Le Pen at 47% despite the spread between the two being as wide as 58% - 42% throughout March. In the aftermath of the first round vote and ahead of the TV debate on April 20th, Macron managed to extend his lead to 55% from 53%. Whilst there hasn’t been a great deal of polling fully encapsulating the post-debate period, many commentators are of the view that it will not be a gamechanger in terms of the race. The base case for the market remains one of continuity with Macron widely expected to be awarded a second term. Macron’s policy platform will need to be viewed in the context of the June parliamentary elections which will determine the ease with which he can legislate his policy agenda. That said, a Macron victory will likely provide support for French stocks and bonds and some upside in EUR as risks of a disruptive Le Pen Presidency are priced out; however, the sustainability of any EUR move would be questionable given that the currency is likely to be more sensitive to the fallout from the Ukraine crisis and the path of monetary policy at the ECB. A Le Pen victory would be viewed as less of a market positive, and may result in downside for the EUR, underperformance in French bonds and stocks. Economic policies would likely centre around addressing the cost-of-living crisis with UBS of the view that such policies could be more fiscally expansive than those presented by Macron. Contagion into Eurozone-wide assets would likely be more contained than it would have been in 2017 with Le Pen having scaled back her ambitions for France to leave the EU. However, questions would be raised over what tensions would arise from Le Pen’s more conciliatory tone towards Russia in the run up to the election. Furthermore, some commentators have suggested that Le Pen would look to play a similar role to that of Hungarian PM Orban who has proved to be a disruptive force within the Union. In the FX space, a Le Pen victory could prompt calls for parity between EUR and USD.

CHINESE INDUSTRIAL PROFITS (WED)/PMI (FRI): There are currently no forecasts for the industrial profits metric, but the release comes against the backdrop of the COVID-related shut-downs in the region; thus expectations will likely be skewed towards a Y/Y decline and will likely be overlooked. Greater focus may fall on the anecdotal commentary within the PMI releases on Friday, particularly on inflation and growth. Nonetheless from a policy perspective, Chinese authorities are seemingly more concerned about growth. Note, that Chinese markets will be closed from May 1-5th due to Chinese Labor Day.

AUSTRALIAN CPI (WED): Australian consumer prices are expected to have broadly picked up in Q1. Headline CPI is expected at 1.7% Q/Q (prev. 1.3%) and 4.6% Y/Y (prev. 3.5%), with the Trimmed Mean gauge seen rising to 1.2% Q/Q (prev. 1.0%) and 3.4% Y/Y (prev. 2.6%), while the Weighted Mean is expected to rise to at 1.1% Q/Q (prev. 0.9%) and 3.3% Y/Y (prev. 2.7%). Aussie bank Westpac sees inflationary pressures building due to continued supply disruptions, rising commodity and energy prices, and robust domestic demand. From a policy perspective, the RBA’s April meeting minutes stated saw the central bank note the pick up in recent inflation, and it expects further increases ahead, with the measure of underlying inflation in the March quarter expected to rise above 3%. The minutes also suggested that recent developments brought forward the likely timing of the central bank's first-rate increase of the cycle. Westpac believes the RBA will begin the process of raising rates in June.

NEW ZEALAND TRADE BALANCE (WED): There is not yet a consensus formed for the NZ March trade data, but analysts at Westpac are expecting a deficit, amid the surge in oil prices. In terms of the prior month's metrics, the headline printed at a deficit of NZD 8.37bln; the breakdown saw exports at NZD 5.49bln and imports at NZD 5.88bln. From a policy standpoint, the RBNZ is expected to hike rates nonetheless and the March release will not likely impact pricing.

BOJ PREVIEW (THU): The Bank of Japan is expected to keep its policy settings unchanged in April, likely maintaining rates at -0.10% and its QQE with yield curve control to flexibly target 10yr JGB yields at 0.0%. Its latest Outlook Report is likely to see growth projections cut and inflation forecasts raised due to effects from the Ukraine war and China's COVID outbreak. Traders will also be attentive to any commentary or measures taken on the currency, given the recent rapid decline of the JPY, which has seen USD/JPY briefly climbing to 129.00, the highest levels in around 20 years. The central bank must also contend with a rising yield environment, which has already prompted it to intervene via special operations for an unlimited amount of JGBs purchases after yields breached the top-end of its target range. In terms of the rhetoric on monetary policy, the BoJ has remained dovish in the face of the policy normalisation by other major central banks across the world, and Governor Kuroda has reiterated that it is too early to debate an exit from stimulus policies, adding that the BoJ will maintain ultra-loose policy to stably achieve its 2% price target, and is prepared to ease further without hesitation if needed. The data releases have been varied and support a pause by the BoJ: headline CPI for March was in line with market expectations at 1.2% and 0.8% for the Core measure, which were both the fastest increases since October 2018 and January 2020 respectively; the Tankan data was mixed, where the headline Large Manufacturing Index topped estimates, although sentiment among Large Manufacturers and Non-Manufacturers worsened for the first time in seven quarters.

RIKSBANK PREVIEW (THU): The Riksbank is expected to keep its policy rate unchanged at 0.00% in April, despite multiple hot CPIF readings and commentary from officials pointing to earlier than forecast tightening (currently, lift-off is forecast in Q1 2024). Standing pat on the Repo Rate will likely be justified by the view that the central bank wants any tightening to be gradual, as expressed by policymakers Floden and Ohlsson, and more prudently to allow the Bank to communicate a potential tightening cycle to participants through a formal policy meeting before its commencement, likely in June with further 2022 hikes thereafter. On the flip side, market pricing for a 25bps hike in April is now over 90%, with around 23bps worth of tightening implied. Arguments to begin the tightening process at the April meeting are supported by headline and core CPIF measures at levels well above the Riksbank's "obsolete" February forecasts, and are seemingly yet to peak. Additionally, an earlier commencement to the cycle may allow the terminal rate to be lower than if lift-off was delayed – an argument that has been used by some other global central banks too. Irrespective of the rate decision, participants will be attentive to how much tightening the Riksbank is pencilling in this year, and where it estimates the eventual terminal rate. Elsewhere, the pace of QE was a highlight of the February gathering after hawkish dissent; the Q3 pace is likely to see a reduction from the maintained Q2 pace of SEK 37bln.

US GDP (THU): Advance data is expected to show that the rate of US economic growth slowed to 1% Q/Q annualised in Q1 after expanding by 6.9% in Q4. As a proxy, the Atlanta Fed's GDPNow model is tracking growth of 1.3% in the quarter. However, as is always the case with the advance data, the consensus view is subject to revisions given many of the key inputs of the report will be released in the early part of the week. In terms of the details, analysts at Credit Suisse explain that a large reversal in inventory accumulation will be the chief culprit of the growth slowdown in Q1. But while the trade and inventories components are likely to be a large drag, CS argues that personal consumption should contribute to the acceleration in domestic demand, business investment has been rising steadily and is expected to continue, while residential investment should also remain solid despite the rise in mortgage rates. The commentariat will naturally focus on the slowdown and the potential for a recession in the context of aggressive monetary policy tightening by the Federal Reserve as it tries to put a lid on inflation, and as these high prices weigh on consumer spending power. But ahead, Credit Suisse is looking for more trend-like growth, and sees 2022 GDP rising by 1.9% after the 5.5% growth in 2021. "Solid fundamentals and easy financial conditions now limit the risk of a recessionary downturn this year, but risks are on the rise from both tighter financial conditions and growth weakness overseas," CS says.

EZ FLASH APRIL CPI (FRI): Expectations are for HICP to rise further to 7.5% Y/Y in April (prev. 7.4%), with the core metric (ex-food and energy) seen rising to 3.3% Y/Y (prev. 3.2%). The March data saw inflation soar to 7.4% from 5.9%, with upside driven by surging energy and food prices amid the conflict in Ukraine, whilst pressure was also seen in the core reading following a pick-up in goods and services inflation. This time around, Moody's expects an above-consensus 7.9% print with its analysts of the view that there is "still room for core prices to grow with costs staying high. Food prices will also contribute largely to the headline inflation rate, while energy prices will rise further as utility contracts are renegotiated in view of the higher wholesale prices of the past months". From a policy perspective, the upcoming release will be of particular importance given the increasingly aggressive market pricing triggered in part by commentary from the typically dovish ECB Vice President de Guindos, who said that a move on interest rates was possible as soon as

July. As it stands, a full 25bps hike is priced in for the July meeting with three rate rises fully priced by year-end. Analysts at ING think the release will be a key test for the hawkish pricing, arguing that a cooling of inflation would be needed for any easing of these hawkish expectations. The bank notes that such an easing would be required for markets to realign with their baseline scenario which looks for the ECB to hike rates in September and December and then twice again next year, bringing the deposit rate to 0.5% by the end of 2023.

CBR PREVIEW (FRI): After Russia's central bank lifted its key rate to 20% in February to stabilise the currency and ease inflation pressures following the country's aggression against Ukraine drew a strong sanctions response from the West, it made an unscheduled rate cut of 300bps on April 8th. Markets have also been guided to expect further rate reductions ahead. Speaking to lawmakers this week, Governor Nabiullina suggested that the central bank would consider a reduction at future meetings, but did not explicitly say that this could be forthcoming on April 29th; previously she has talked about how officials will assess gradual rate reductions at future meetings. Deputy Governor Zabotkin has recently said similar, noting that we should not expect or fear that rates will remain at the current high levels, and they would be lowered as inflation eases. The CBR analyst survey this week revealed a view that inflation would not sustainably fall until 2023, and was set to remain elevated in the near-term. But it won't be until 2024 that inflation approaches the central bank's 4% target, the Governor has recently argued, adding that combating high prices was the central bank's most important challenge. Still, many analysts expect rates to be lowered again in April; according to Reuters, the head of Russia's second-largest lender VTB is expecting the CBR to cut rates to 15% this week, and sees the key rate at 12-13% by the end of the year. Elsewhere, analysts will be looking for any updates on the currency, after Nabiullina suggested that the CBR would consider forex controls to avoid the RUB's deviation from official levels.

US PCE PRICE INDEX (FRI): PCE data for March is expected to show core prices rising by 0.3% M/M (prev. +0.4%), with the annual rate seen rising one-tenth of a percentage point to 5.5% Y/Y. Although not directly comparable, the US CPI report for March showed consumer prices rising by 1.2% M/M, lifting the annual rate by 0.6ppts to 8.5% Y/Y – a forty year high. The core measures, however, rose less than analysts were expecting (6.5% Y/Y from 6.4%), leading some to declare that the top in inflation was in. Using the March CPI report as a proxy to estimate how Personal Consumption Expenditures (which is the Fed's preferred gauge of inflation) will fare in the month, analysts at UBS suggested that core PCE prices will have risen by 0.3% M/M, though they see the annual measure falling to 5.2% Y/Y from 5.4% in February – this would represent the first decline in the 12-month core PCE inflation measure since February 2021, which the bank says "will mark the first step past peak inflation."

US EMPLOYMENT COSTS (FRI): Employment costs are expected to have risen by 1.1% in Q1, picking up from the rate of 1.0% in Q4 2021. Although the data is backwards looking, analysts tend to place more stock in this series rather than the Average Hourly Earnings metrics within the BLS' labour market report or the Atlanta Fed's own wage tracker – both of the latter measures have outperformed employment costs in the post-pandemic era. Analysts will be framing the employment costs data within the context of the current high inflation, and will be looking for any signs that the current inflationary pressures are feeding so-called second-round effects – something which is likely to influence how aggressively the Fed moves to normalise policy in the months ahead.