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Week Ahead 16-20th May: Highlights include US retail sales, EU Foreign Ministers meeting, China data

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- **MON:** Chinese Retail Sales (Apr).
- **TUE:** EZ Flash GDP and Employment (Q1); US Retail Sales (Apr); UK Jobs Report (Mar).
- **WED:** Japanese GDP (Q1); EZ Final CPI (Apr); Canadian CPI (Apr); UK Inflation (Apr).
- **THU:** ECB Minutes; SARB Announcement; Australian Jobs Report (Apr); US Philly Fed (May); New Zealand Trade Balance (Apr).
- **FRI:** PBoC LPR; Japanese CPI (Apr); Canadian Retail Sales (Mar); EZ Consumer Confidence (May).

NOTE: Previews are listed in day-order

CHINESE RETAIL SALES/INDUSTRIAL PRODUCTION (MON): Lockdown effects of China's Zero-COVID policy will be felt within this release. Retail Sales are seen contracting 6.0% Y/Y vs the March contraction of 3.5%. "The focus will be on the degree of contraction in the retail sales figures, as well as the corresponding extent of growth in infrastructure investment to cushion the economy." ING says. The data is backwards looking but will shine a light on the effects of Beijing and Shanghai's latest outbreak. That being said, recent rhetoric out of China suggested the COVID situation is improving, whilst other reports also noted that China aims to implement existing policies to support the economy in H1. Focus from a China-point of view will then turn to the Chinese Loan Prime Rates (LPR) settings on Friday the 20th May.

EU FOREIGN MINISTERS MEETING (MON): EU Foreign Ministers are set to meet on May 16th with a focus on the Russian oil embargo impasse. For context, as part of the sixth sanctions package against Russia, European Commission President von der Leyen on May 4th proposed a gradual ban on Russian oil imports alongside oil products by year-end, with the ban aimed at pipeline and seaborne crude and refined products. The proposal received pushback from Hungary, Slovakia, the Czech Republic, and Greece amid their high reliance on Russian oil imports – with Hungary the most outspoken against the proposal. The European Commission initially proposed an extension of the exemption from the ban on Russian energy to Hungary and Slovakia until the end of 2024, according to an EU diplomat. The concerns from Hungary, Slovakia and the Czech Republic arise mainly from the fact they are all linked to Russia's Soviet-era Druzhba pipeline. Hungary wanted a five-year extension and suggested it will not support proposals that undermine its energy security. The embargo as it stands requires the support of all 27 member states to be approved, Hungary said it will veto the EU's proposal to ban imports of Russian oil. Sources via Politico (and Bloomberg) suggested that "One idea circulating would see other elements of the [Russian sanctions] package move ahead… But the complete ban on all imports of Russian crude and refined fuels could be put aside for now, while work continues on a compromise deal that Hungary can accept. " Weekend headlines will be eyed for any new proposals/shift in sentiment.

US RETAIL SALES (TUE): US retail sales are seen rising 0.7% M/M in April, matching the prior month's rise and the third straight month of gains. April saw a rebound in unit vehicle sales, which Credit Suisse says should contribute to the headline strongly; gas prices meanwhile declined, unwinding some of the sharp upside seen in reaction to the Ukraine-Russia war, and will likely result in lower nominal gas spending, the bank says. The ex-autos measure is seen rising +0.3% M/M, cooling from the pace of +1.4% M/M in March. In terms of current retail spending trends, CS says "a final batch of lump sum payments associated with the expanded Child Tax Credit is being distributed, and tax refunds totalled around USD 25bln higher than last year, keeping spending well supported in the short term," adding that "income growth remains strong amid labour market tightness." That said, the bank argues that the shift from spending on goods and onto services will likely continue, and that may act as a headwind to real goods retail sales. "Elevated inflation has eaten away at purchasing power and global supply disruptions will likely keep goods prices elevated," the bank says, "nominal retail sales are strong but real goods spending has weakened sharply and we continue to expect a decline through the year."

UK JOBS REPORT (TUE): The unemployment rate in the 3-month period to March is expected to hold steady at 3.8% with the employment change metric forecast at 50k vs. prev. 10k. On the earnings front, headline average earnings 3M/YY for March are expected to remain at 5.4% with the ex-bonus metric also set to come in unchanged from the prior at 4.0%. Ahead of the release, Pantheon Macroeconomics suggests that although the S&P Global/CIPS composite PMI employment balance rose to a seven-month high in February and the Bank of England's agents' scores of employment

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intentions pointed to year-over-year growth of about 2% in Q1, the consultancy holds a less optimistic view of the labour market. Pantheon notes that actual employment growth has been much weaker than suggested by these surveys over the past six months. Furthermore, “the PAYE measure of payroll employee numbers rose by just 0.1% month-to-month in March, below the 0.3% average increase of the previous six months”. On the wages front, Pantheon looks for just a modest increase in March’s earnings metrics compared to February, adding that given declining consumer confidence and the absence of a wage-price spiral, the BoE could be minded to soon pause its tightening cycle.

JAPANESE GDP (WED): Q1 GDP is expected to contract in both Y/Y and M/M terms, with the former seen at -1.8% (prev. +4.6%) and the latter at -0.4% (prev. +1.1%). “We expect 1Q22 Japanese GDP to have contracted by 0.6% from the previous quarter (on a seasonally adjusted basis) as both domestic demand and exports were dampened.” Analysts at ING say. The release comes as the BoJ maintains a dovish stance in the face of rising inflation and recession fears. The BoJ April Summary of Opinions suggested BoJ must continue to support the economy with powerful monetary easing and it would be inappropriate to change monetary policy when the Ukraine crisis adds to existing downside risks for Japan's economy.

UK INFLATION (WED): Headline Y/Y CPI for April is expected to rise to 9.1% from 7.0% with the core metric seen picking up to 6.3% Y/Y from 5.7%, according to Investec. The March report saw price pressures driven by a near 10% pick-up in fuel prices relative to February as well as a material jump in a broad-range of categories. This time around, the impact of the 54% increase in OFGEM's price cap is likely to be the main focus of the release, which Investec suggests could add 1.6ppts between March and April. Beyond the OFGEM price cap, Investec suggests that price pressures are expected to have increased in a number of other areas such as VAT on hospitality, social rents and transport fuel. Such an outturn will likely keep the pressure on the MPC to continue with its rate hiking cycle with BoE’s Ramsden this week overlooking soft GDP metrics for March by stating that more rate hikes are required. Looking beyond the upcoming release, the May MPR revealed that the MPC expects CPI “to rise further over the remainder of the year, to just over 9% in 2022 Q2 and averaging slightly over 10% at its peak in 2022 Q4”. As it stands, market pricing looks for an additional four 25bps rate hikes by year-end. Many desks remain of the view that such pricing remains too aggressive with analysts at ING expecting the MPC to hit pause on hikes after hiking a few more times in the coming months.

ECB MINUTES (THU): As expected, the ECB refrained from tweaking its monetary policy settings with rates left unchanged and the parameters of its bond-buying operations maintained. As such, the ECB stated it will lower purchases under APP to EUR 30bln from EUR 40bln in May and then to EUR 20bln in June before concluding in Q3. The initial market reaction to the statement was a dovish one with a lack of specificity on when in Q3 purchases will conclude, serving as a disappointment to some who had been hoping for greater clarity. At the accompanying press conference, introductory remarks from Lagarde stated that several factors point to low growth ahead, new pandemic measures in Asia are contributing to supply chain issues and inflation pressures have intensified across many sectors. On policy measures, Lagarde refrained from providing any firmer pointers on when in Q3 purchases under APP will conclude. However, since the meeting, consensus has coalesced around the view that asset purchases will be concluded on July 1st. Lagarde also reiterated her line from the previous press conference that the "some time" linkage between the end of APP and start of rate hikes could mean "weeks" or "several months". In the wake of the meeting, Reuters ECB sources suggested that policymakers saw a July hike as still possible, but they were unanimous in their support for April’s decision. Meanwhile, Bloomberg sources suggested there was a growing consensus for a 25bp rate hike in Q3. Note, on May 11th, Lagarde placed particular emphasis on the “weeks” aspect of this guidance with other officials at the Bank endorsing a move on rates in July. Finally, during her remarks, Lagarde didn't add anything to the reports ahead of the meeting which suggested that the Bank was looking at crafting a crisis tool if bond yields were to jump.

SARB PREVIEW (THU): The South African Reserve Bank is likely to lift rates by a 50bps increment, taking its Repo Rate to 4.75%, as it looks to manage the impact of higher inflation and potential second round effects. Elize Kruger, an independent South African economist cited by Reuters, said “workers will demand higher wages to compensate for higher living costs, also adding to the production costs in the economy and in this process prices in most of the CPI basket will show increases,” adding that “the SARB would be very uncomfortable if second round effects start to appear in a meaningful way.” A 50bps increment move has not been made by the SARB in over six years, and some analysts still expect a smaller 25bps, but they are in the minority. According to a Reuters poll, since the last meeting, analysts have been hawkishly revising their expectations towards the larger move. The latest survey, however, sees the central bank moving back to 25bps hikes per quarter until rates are lifted to 6.00% in Q3 next year.

AUSTRALIAN JOBS REPORT (THU): Headline employment change is expected to show an addition of 40k jobs in April vs 17.9k jobs added in March (marking the fifth month of consecutive job additions), with the unemployment rate seen ticking lower to 3.9% from 4.0%. Analysts at Westpac see a lower number of job additions: “We have revised our forecast from +32k to +20k to acknowledge a softer momentum in employment while still allowing for a softer than expected recovery in hours worked.” The bank shares the view of a fall in the unemployment rate to 3.9%. The data however is unlikely to change the course of the RBA’s monetary policy given the shift in focus to inflation from jobs.

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NEW ZEALAND TRADE BALANCE (THU): There are currently no market expectations for the release. Westpac however expects the M/M trade balance deficit to contract to NZD 200mln from NZD 392mln deficit in March. The desk expects dairy price strength to run up against the oil price surge. Though, the release is unlikely to change the course of the RBNZ's policy, with a 100% chance of a 25bps OCR hike currently baked into the markets.

PBOC LPR (FRI): PBoC will decide on its Loan Prime Rates with the central bank likely to keep the 1-Year Loan Prime Rate at 3.70% and the 5-Year Loan Prime Rate at 4.60%. As a reminder, the PBoC defied expectations for a 5bps reduction last month as it opted to keep its benchmark lending rates unchanged, while the 25bps RRR cut it announced in April was viewed as conservative as this was smaller that what many anticipated and less than last couple of 50bps reductions. This suggests the central bank is staying true to its prudent approach to monetary policy and its recent support pledges have been more of a targeted nature including focusing on support for small firms and sectors hit by COVID, as well as agricultural production and energy, while it also announced to launch a CNY 100bln lending facility to support financing of transport and logistics sectors. The recent weakening of the yuan is another factor that would likely influence the PBoC to hold off on immediate rate cuts as the central bank would want to avoid exacerbating the pressure on the currency and it even reduced the RRR on FX deposits by 100bps effective May 15th which is seen as a move aimed at slowing the yuan's depreciation. Conversely, future rate cuts cannot be ruled out given the slowing of the economy amid lockdown and virus-related restrictions affecting Shanghai and Beijing as China sticks to a zero-Covid policy, which has already resulted in sharper than expected contractions to Chinese PMI data and a significant slowdown in Chinese Exports for April.

JAPANESE CPI (FRI): National Core CPI is expected to rise to 2.1% from 0.8% in March – above the BoJ's inflation target and marking the highest reading since 2015. "Last year's one-off cuts in mobile phone rates create an environment for low base effects to take hold. When taken together with a weaker yen and rising energy prices, this should translate to higher price pressures overall.", analysts at ING said. In terms of follow-through to monetary policy, the BoJ has largely passed off inflation as temporary and has repeatedly reaffirmed its dovish tone. BoJ Governor Kuroda, on 13th May, said the expected rise in inflation is driven mostly by energy costs and is lacking sustainability, and added they are not seeing signs of a sharp rise in medium and long-term inflation expectations in Japan. Kuroda suggested Japan's inflation situation is completely different from the US and Europe and reiterated it is appropriate to maintain BoJ's current dovish forward guidance on interest rates.

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