Week Ahead 6-10th June: Highlights include US CPI, China CPI, ECB, RBA

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- **MON:** Chinese Services PMI Final (May).
- **TUE:** RBA Announcement; EZ Sentix (Jun); EIA STEO.
- **WED:** RBI Announcement; NBP Announcement; Japanese GDP Final (Q1); EZ Employment Final (Q1) and GDP (Q1 Revisions).
- **THU:** ECB Announcement; Chinese Trade Balance (May).
- **FRI:** CBR Announcement; Chinese Inflation (May); Norwegian CPI (May); US CPI (May); Canadian Labor Market Report (May); University of Michigan Prelim (Jun).

NOTE: Previews are listed in day-order

RBA ANNOUNCEMENT (TUE): The RBA is expected to continue hiking rates, and analysts expect a 25bps increase to the Cash Rate Target, taking it to 0.60% from the current level of 0.35%; OIS fully priced in a 25bps hike, and imply that there is probability for a more aggressive move. As a reminder, the central bank surprised markets at its last meeting by delivering a larger-than-expected increase of 25bps (exp. 15bps), and stated that further rises in interest rates would be required in the period ahead, adding that it was committed to doing what is necessary to ensure that Australian inflation returns to target over time. Minutes from that policy meeting noted that the Board considered three options: a 15bps, a 25bps and a 40bps rate rise, ultimately coming to the conclusion that a 15bps increase would have been inconsistent with the historical practice of changing the Cash Rate in 25bps increments, while an argument for a 40bps increase could be made given the upside risks to inflation and current very low level of interest rates. Governor Lowe has also kept the door open regarding the pace of rate increases, recently stating that he does not preclude bigger or smaller rate moves in the future, and that the Board was not on a pre-set path. As such, there are varied expectations for the upcoming meeting. Goldman Sachs anticipates the RBA will lift rates by 50bps at its next two meetings; Westpac has upgraded its call for June to a 40bps hike from a prior view of 25bps; AMP Capital expects the RBA to stick with a 25bps move; ANZ Bank suggested that a 40bps RBA hike in June will likely be discussed, but caveated that a Wage Price Index of +1.0% would be needed to trigger a 40bps move, and this failed to materialise with the Wage Price Index softer than expected at 0.7% vs. Exp. 0.8%.

RBI ANNOUNCEMENT (WED): Although India's central bank is expected to lift rates, there are a wide range of views regarding how far the MPC will increase its Repurchase Rate (currently at 4.40%, Reverse Repo Rate at 3.35%, Cash Reserve Ratio at 4.50%). The RBI surprised markets with a rate hike during an off-cycle meeting last month, raising the Repurchase Rate by 40bps via a unanimous decision, and also increased its Cash Reserve Ratio by 50bps. MPC members unanimously decided to remain accommodative, while focusing on the withdrawal of accommodation, to ensure that inflation remains within the target going forward, while supporting growth. Since that decision, policymakers have made clear that rates will continue moving higher. Governor Das noted that it broadly wants to increase rates in the next few meetings, and that "the expectation of a hike is a no-brainer". The Governor also said that a reason for the off-schedule meeting last month was to avoid a much stronger move at the upcoming meeting, while MPC member Varma said more than a 100bps rate increase is needed very soon. These intentions to tighten policy by the central bank are not too surprising given the surging inflationary environment; the latest CPI data rose to 7.79% vs. Exp. 7.5% (Prev. 6.95%), for instance, a level above the central bank's 2-6% tolerance range, and has divided analysts' forecasts between hikes of 25bps-75bps for next week.

ECB ANNOUNCEMENT (THU): Since its previous meeting, Eurozone inflation has continued to pick up, with the headline rising from 5.9% Y/Y to 7.4% Y/Y in April, and then extending to 8.1% in May. This has struck a sense of alarm at the central bank, which has resulted in an increasingly hawkish tone from members of the Governing Council. A blog post in May penned by President Lagarde deviated from her usually non-committal stance; she now expects "net purchases under the APP to end very early in the third quarter. This would allow us a rate lift-off at our meeting in July". Furthermore, she added that "we are likely to be in a position to exit negative interest rates by the end of the third quarter", going on to state that "even when supply shocks fade, the disinflationary dynamics of the past decade are unlikely to return". This was viewed as giving the green light for purchases under APP to cease as of July 1st, paving the way for rate hikes at the July and September meetings, analysts said. Note, despite the pressing need to move on rates, the current sequencing between asset purchases and rate hikes means that a hike to the deposit rate will not take place at the June confab. For some of the more hawkish voices on the GC, such as Austria's Holzmann, the recent inflation metrics emphasise the need for a 50bps hike. However, this is an issue that is unlikely to be resolved at the upcoming meeting given that the discussion around the magnitude of a hike will likely be a feature of the July gathering. In terms of market pricing, at the time of writing, the market looks for around 120bps of tightening this year, which would imply 25bps hikes at the four meetings after June, with an increasing likelihood of a 50bps hike at one of those meetings. Given the need for flexibility and lack of certainty surrounding the Eurozone outlook, it is hard to see how much vindication market participants will get for the aforementioned rate path. We will also be presented with the latest batch of macro projections from the Bank which will inevitably see an upgrade to the current 5.1% forecast for 2022 inflation. Of potentially greater interest will be the more medium-term forecasts and how they align with the Bank's 2% target. Finally, reporters will likely use the Q&A segment to question Lagarde on reports over a "new tool" designed to combat fragmentation in the Eurozone as the ECB begins to normalise policy. That said, it is unlikely that Lagarde will give much away on this front and instead stress the flexibility of existing tools.

CHINESE TRADE BALANCE (THU): May's trade balance is expected to have contracted modestly to a surplus of USD 50.65bln (prev. USD 51.12bln). Lockdowns and port backlogs during the month are likely to have adversely affected the data. Since then, however, China has taken measures to stabilise the headwinds caused by its COVID situation on supply chains, cautiously lifting restrictions into June. Ahead, analysts will also be eyeing trade developments between the US and China; Deputy US Treasury Secretary Adeyemo this week said that the Biden Administration was considering whether to cut some tariffs on Chinese goods, whilst this sentiment was also echoed by Deputy US Trade Representative Bianchi, who suggested that all options were on the table regarding tariff decisions on Chinese imports, while the USTR is seeking strategic realignment with China and a tariff structure that makes sense.

CHINESE INFLATION (FRI): Inflation is expected to have eased in May, with the annual rate of consumer prices forecast at 1.8% Y/Y (prev. 2.1%), while annual PPI is seen at 7.7% Y/Y (prev. 8.0%). The month was restricted by lockdowns in Beijing and Shanghai, which have eased since. Further, the expected downside also comes alongside reports that China has been purchasing Russian oil at a discount – thus addressing one of the main drivers of the cost-of-living increases across almost all nations. On the flip side, desks have been flagging that the rally in pork prices that began in mid-March may continue.

CBR RATE DECISION (FRI): Some believe that less hawkish policy from Russia's central bank has helped to stabilise the growth outlook. A Reuters poll saw economic forecasts improve in May despite the sanctions being slapped on the country in wake of its aggression against Ukraine. On the prices front, the Reuters poll suggested that inflation is seen rising from 8.4% in 2021 to 16.4% by the end of this year, with analysts cutting their view from forecasts made in April, when the consensus expected inflation would rise to above 20% this year. The poll said that this should continue to give the CBR space to lower rates further; it cut its key rate by 300bps to 11.00 in an unscheduled May meeting, and analysts think that rates could fall to 8.00% by the end of this year (in April, there was an expectation that rates would eventually fall to 10.5% this year).

US CPI (FRI): As seen by the market's response to the April data, slowing annual rates of inflation may not be enough to fuel 'peak inflation' narratives, with traders seemingly wanting to see downside in the monthly metrics too. For the May report, the street looks for core CPI prices to rise 0.5% M/M, slowing from the +0.6% pace in April; the headline measure of CPI is seen picking up, however, to +0.7% M/M from the +0.3% seen in April, buoyed by food and energy components as gasoline prices continue to rise, and amid supply chain disruptions brought on by Russia's aggression in Ukraine. Credit Suisse writes "the gap between CPI and PCE airfares (which is based on PPI) has now closed," and the bank expects "strong summer travel and a continued shift from goods to services spending to support an elevated level of airfares, but growth should slow sharply from its elevated readings in the past two months." Analysts will also continue to monitor the component for used vehicle prices; CS notes that the Manheim data for wholesale prices in May picked up, which could suggest that the declines seen in the last three CPI reports are unlikely to be repeated in May. CS also thinks that shelter prices will remain firm, while risks for goods inflation are tilted towards the upside given supply chain disruptions due to lockdowns in China. "Overall, we expect YoY inflation likely peaked in March, but monthly inflation readings are likely to stay uncomfortably above the Fed's target in coming months," the bank writes, "the Fed is set on raising rates by 50bps at the June and July meetings, but is looking for signs of deceleration in inflation to support shifting to 25bps in September."

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