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Week Ahead 13-17th June: Highlights include FOMC, BoE, BoJ and China activity data

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- **MON:** UK GDP Estimate (Apr).
- **TUE:** UK Jobs Data (Apr/May); Swedish CPI (May); German ZEW Survey (Jun); US PPI (May); OPEC MOMR.
- **WED:** FOMC Announcement; BCB Announcement; Chinese Industrial Production and Retail Sales (May), French CPI (May), US Retail Sales (May), New Zealand GDP (Q1); IEA OMR.
- **THU:** BoE Announcement; SNB Announcement; Australian Labor Market Report (May).
- **FRI:** Quad Witching; BoJ Announcement; EZ CPI Final (May).

NOTE: Previews are listed in day-order

UK GDP ESTIMATE (MON): Expectations are for April's GDP data to show an expansion of 0.2% M/M vs the 0.1% contraction observed in March. Ahead of the release, Pantheon Macroeconomics (which looks for growth of just 0.1%) said that the recovery in April's retail sales appears to have come at the expense of spending on consumer services. Furthermore, "the contribution of Covid-related government expenditure to the level of GDP dropped by 0.4pp to 0.7pp in April" and "unlike in some prior months, this drag on healthcare output does not appear to have been offset by a pick-up in non-Covid activities". The consultancy notes that "broadly unchanged GDP would put it on course in Q2 to undershoot the MPC forecast for growth of 0.1% q/q, given that output will fall sharply in June, due to the extra bank holiday".

UK JOBS REPORT (TUE): Expectations are for the unemployment rate in the three months to April to hold steady at 3.7%. There is no formal consensus at the time of writing for the earnings components, however, Investec expects headline 3M/YY earnings to show growth of 7.5% vs previous 7.0%, with the ex-bonus metric seen remaining at 4.2%. Ahead of the release, Investec expects the upcoming report to follow suit with those seen in recent months, and indicate an extremely tight labour market. Analysts also note that "although reported employment growth, measured on the headline ILO basis, may have accelerated, the fall in unemployment could have slowed as participation crept up." Looking further ahead, Investec sees "the margin squeeze on firms, not least as a result of rate rises, to cool the demand for labour at the same time as participation recovers. Unemployment should therefore rise." From a policy perspective, such an outturn would be manageable, however, the risk of too aggressive a response to inflation and a subsequent sharp increase in unemployment cannot be ruled out.

FOMC ANNOUNCEMENT (WED): Fed officials have heavily guided towards a +50bps rate rise at its June 15th FOMC, a move which is fully priced by money markets; the Committee is also expected to lift rates by the same magnitude at its July 27th confab. If the Fed next week raises rates in line with consensus expectations, focus will fall onto its updated economic projections. Since the Fed has pledged that it will 'expeditiously' be lifting rates towards neutral, traders will take note of the updated Staff Economic Projections for guidance on where the Fed sees the eventual terminal rate of the cycle and the longer-run neutral interest rate. The now-stale March forecasts envisaged rates rising to 1.75-2.00% by the end of this year (money markets are pricing rates at 2.75-3.00% by year-end), before peaking at 2.75-3.00% in 2023 (money markets see 3.25-3.50% by mid-2023); money market pricing, remarks from officials and analysts suggests these so-called 'dots' will be lifted. Meanwhile, the Fed's assessment of the longer-run neutral rate, which was cut in March to 2.4% from 2.5%, may see another revision lower in the June forecasts; when taking out the extremes, the general run of Fed commentary going into the June meeting has put the rate of neutral at around 2.25% among the Governors, though the regional Presidents seem to have a higher assessment than that. "If the two new Fed governors join their colleagues in their estimate of the neutral rate, the central tendency estimate will decline again in June," Moody's has explained, "at 2.25%, the Fed's estimate would still be higher than the most referenced model for estimating neutral fed funds, which puts it closer to 2%." Finally, updated economic projections, in addition to revising up the foreseen trajectory of rates, it is likely that the profile of inflation will be raised in the near-term, and growth expectations will be lowered, as has been seen in the OECD's recently updated economic projections. At Chair Powell's post meeting press conference, traders will be looking towards any commentary that gives clues on what the Fed will do after it has raised rates by 50bps increments in June and July; while some had envisaged that the central bank would pause and assess the situation, remarks from some officials, like the influential Governor Brainard, suggest that falling back to smaller increments of rate rises are the base case, dependent on the progress of inflation. Chair Powell will also likely emphasise that tackling soaring prices remains the priority of the Committee. Additionally, many market participants are

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now of the view that the Fed will need to hike rates more aggressively to manage price pressures, and after the hot May CPI data–where the annual rate of inflation rose to 40yr highs, while core measures of inflation continued to rise in the month–Powell will be asked about how prepared the Fed is to raise rates above the neutral level, which would place activity into restrictive territory, potentially triggering a US recession. Fed officials in the passed have suggested that they stand ready to do exactly that if the data requires.

BCB ANNOUNCEMENT (WED): Brazil's May IPCA-15 data showed inflation rising by +0.6% M/M (exp. 0.5%), while the annual rate rose to +12.2% Y/Y (exp. 12.0%, prev. 12.0%). Pantheon Macroeconomics noted that Brazil's inflation dynamics continues to deteriorate. "Upside risks persist due mostly to worsening supply chains, high commodity prices, particularly fuel, and a relatively resilient domestic recovery, following the Omicron wave," but adds "that said, upside pressures in some key components are no longer increasing." PM expects inflation will ease in the months ahead, to around 8.5% Y/Y by the end of 2022 on the back of favourable base effects. "We think that the headline rate will hover around its current level over the next few months, but that a gradual headline inflation downtrend will emerge over Q3," it says, "the COPOM probably will hike by 50bps to bring expectations down, but will recognise that further rate increases will put the economy under severe strain."

CHINESE INDUSTRIAL PRODUCTION AND RETAIL SALES (WED): May data in China will be impacted by the tight COVID restrictions seen in Beijing and Shanghai. Industrial Production Y/Y is expected at 6.0% (vs prev. 6.8%) whilst Retail Sales is expected to have contracted 7.3% in the month (vs prev. -11.1%). Although desks are likely to overlook this data amid the ever-developing nature of the situation, analysts at S&P global suggest "a slower deterioration of conditions had been seen for mainland China in May's PMI surveys which, if supported by the official data, could see investor focus shift more positively towards China, and also anticipate some easing of global supply constraints."

US RETAIL SALES (WED): US retail sales are seen rising by +0.2% M/M in May (prev. +0.9%), while the measure which excludes autos is expected to rise +0.8% M/M (prev. +0.6%). Credit Suisse, which is much more pessimistic than the consensus, is looking for the four-month run of growth in nominal goods spending will be snapped in May, forecasting a -1.1% print. "We estimate the retail sales deflator at 0.7%, implying real retail sales fell even further, by 1.8%," CS writes, "May unit auto sales fell sharply, suggesting autos weakness likely dragged headline retail sales down this month," while "gas prices rose quickly this month, raising nominal gas spending." For the ex-autos measure, CS says that high-frequency card tracking data indicates a sharp decline in goods spending; "the end of a stronger-than-normal tax season is likely contributing to this reversal in goods spending," the bank writes, explaining that greater spending on services was acting as a headwind to purchases of goods, while high inflation is weighing on consumers' real purchasing power. "Nominal retail sales have been relatively strong this year, but real goods spending has weakened, and we continue to expect a continued decline through the year," adding that "overall, risks to the path of real goods spending are skewed to the downside for 2022."

NEW ZEALAND GDP (WED): The Q1 GDP data will be viewed as very much in the rear-view mirror as the final month of Q2 gets underway and with growth expected to slow ahead. Nonetheless, Q/Q is expected at 0.6% vs a Q4 post-COVID rebound of 3%, whilst Y/Y is expected at 3.3% vs prev. 3.1%. Analysts at ASB downplay the relevance of the data and say "the future is ultimately what matters." From a monetary policy perspective, the RBNZ remains poised to hike despite the threat to growth as it attempts to get inflation under control. ASB says they "still see the OCR hitting 3.50% and mortgage rates moving a bit higher over the remainder of the year. 2023 is when the calculus will start to get a bit tougher, particularly if the housing market slowdown deepens more than we expect."

BOE ANNOUNCEMENT (THU): Policymakers are expected to continue with the rate hiking cycle by delivering another 25bps rate rise, taking the Bank Rate to 1.25%. The decision to move on rates is expected to be unanimous, however, the split of views regarding the magnitude of the move remains to be seen, given that there were three dissenters at the May meeting. The need to continue raising rates was underscored by the jump in April's CPI metrics, which printed 9.0% from 7.0%. With further increases in inflation likely in the months ahead, and the MPC expects consumer prices to average a little over 10% at its peak in Q4 2022. From a growth perspective, the recent survey data from S&P Global highlighted the difficult economic backdrop in the UK, and the likelihood of a stagflationary environment going forwards, with the services metric slipping to 53.4 in May from 58.9. Accompanying commentary from S&P Global noted "the monthly loss of momentum for business activity expansion was a survey record outside of lockdown periods." That said, policymakers will have found some comfort in the latest government support measures aimed at addressing the cost-of-living crisis, which could boost nominal GDP by around 0.7% in H2 2022. In terms of guidance from the MPC itself, Governor Bailey has flagged concerns that pay growth will feed into inflation and is prepared to raise rates again if needed. Furthermore, Chief Economist Pill has stated that when it comes to lifting interest rates, "further work needs to be done." Note, current market pricing has continued to pick up since the prior meeting and now looks for around another seven 25bps hikes by year-end. This continues to remain at odds with guidance from the MPC itself which at the May meeting noted that the implied market path would see inflation firmly below target in three years-time at around 1.3%. Therefore, as the year progresses, desks are still widely of the view that some of this exuberant pricing will need to be taken out of the market.

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SNB ANNOUNCEMENT (THU): Overall, likely to keep the Policy Rate at -0.75% at the June gathering as, on balance, financial conditions do not merit an unguided deviation from current policy at this point in time. However, widening interest differentials, particularly with relation to the EZ as the ECB are set to hike in July and September are of note and imply further currency-driven inflationary pressures ahead. Pressure that Switzerland is already cognisant of with CPI surpassing market expectations for the last three readings to a YTD peak, thus far, of 2.9% YY; a measure that already exceeds the SNB's expected peak of 2.2% for 2022, via March forecasts. As such, the June forecasts will receive upward revisions and attention will be on what they expect the peak to be and when it is forecast to occur – note, while elevated, Swiss inflation is far from the levels exhibited by global peers. From the SNB itself, we have seen somewhat mixed commentary from officials on the inflation situation; with Chairman Jordan acknowledging the increase in global inflation, Board Member Maechler taking a more 'hawkish' line, making clear that they will not hesitate to increase rates if inflation remains outside the target. Most recently, and perhaps pertinently, outgoing Vice-Chairman Zurbrugg spoke on May 31st, when he would have been privy to the embargoed May CPI print (2.9% YY), commenting that inflation is low vs other nations and believes the drivers are temporary; remarks which perhaps serve to dilute some of the notion around the SNB taking near-term action. Note, while the September and December meetings may well be considered 'live' from a rates perspective, and particularly September if the ECB does deliver more than 25bp at that point; the likes of Credit Suisse expect the SNB to drop its "highly valued" classification amid a lessening of sight deposit activity, as any notable currency depreciation would fan inflation further. Finally, although the SNB is unlikely to pre-empt the ECB and hike in June, its most recent rate alterations came via unscheduled announcements, thus, a post-ECB move in July cannot be ruled out but, as mentioned, September/December are the focal points.

AUSTRALIAN JOBS REPORT (THU): Employment Change is expected to show 25k additions in May vs 4k additions in April. The Unemployment Rate is seen dipping to 3.8% from 3.9%, whilst the Participation Rate is expected to remain steady at 66.3%. Analysts at Westpac expect only 5k job additions in the headline metric – "We had thought that the April recovery in hours worked was a prelude to a stronger recovery in employment in May. However, Weekly Payrolls jobs to 14th of May were very weak. Comparing the May to April reference weeks Payrolls are down 0.3%; it is usually a seasonally strong month with a positive change in the ABS seasonal factors", the desk explains. From a policy perspective, the RBA is concentrating on controlling inflation, whilst China's COVID situation also poses a fluid challenge to the Aussie economy – thus the jobs release is unlikely to have any broader/sustained ramifications.

BOJ ANNOUNCEMENT (FRI): BoJ is expected to stick to its ultra easy policy with rates to be kept at -0.1% and QQE with yield curve control maintained to flexibly target 10yr JGB yields at around 0%. As a reminder, the BoJ doubled down on its efforts to contain yields at the last meeting by announcing it will conduct special operations on every working day aside from when it is not expected, which went against the outside calls for the BoJ to adjust its tolerance band and the global trend of central banks pivoting towards normalisation, while it also reiterated it will ease policy without hesitation as needed and maintained forward guidance on interest rates. Since that meeting, the BoJ has continuously reinforced its dovish tone with Governor Kuroda stating that Japan is absolutely not in a situation that warrants tightening monetary policy and the biggest priority is to support Japan's economy by continuing powerful monetary easing. Kuroda also noted that the BoJ will be unwavering in its stance of maintaining monetary easing to ensure the recent rise in inflation expectations lead to a sustained price increase, while other officials have echoed the dovish tone including Deputy Governor Wakatabe who said they must maintain powerful monetary easing and sustain an environment where wages can rise, as well as noted that the BoJ shouldn't rule out additional easing steps if risks to the economy materialise and that widening the range around the BoJ's 10yr JGB yield target would be tantamount to a rate increase. Furthermore, the central bank has made it clear that policy is unlikely to be influenced by the recent depreciation in the JPY or the rise in inflation whereby Core CPI rose by its fastest pace since March 2015 at 2.1% vs. Exp. 2.1% (Prev. 0.8%) as Governor Kuroda noted that the FX market is regaining stability and doesn't think rapid Yen weakening was caused by BoJ easing, while he said rising inflation expectations are being driven mostly by energy costs and are lacking sustainability.

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