Week Ahead 20-24th June: Highlights include PBoC LPR, RBA Minutes, Global PMIs, UK Inflation, Norges, CBRT and Banxico Rate Decisions

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- **MON:** PBoC LPR
- **TUE:** New Zealand Trade Balance (May); Canadian Retail Sales (Apr); RBA Minutes
- **WED:** CNB Announcement; UK Inflation (May); Canadian Inflation (May)
- **THU:** Norges Bank Announcement; CBRT Announcement; Banxico Announcement; EZ/UK/US Flash PMIs (Jun)
- **FRI:** Japanese CPI (May); UK Retail Sales (May); German Ifo Survey (Jun)

NOTE: Previews are listed in day-order

PBOC LOAN PRIME RATES (MON): There are mixed views on whether the PBoC will maintain or cut its Loan Prime Rates on Monday with the 1-Year LPR currently at 3.70% and the 5-Year LPR at 4.45%. As a reminder, the PBoC defied expectations of a 5bps cut to the 1-Year LPR last month and kept it unchanged, but delivered a surprise 15bps cut to the 5-Year LPR (exp. unchanged) which is the reference for mortgages, although this wasn't too much of a shock given that the central bank had maintained the 1-Year MLF Rate and effectively cut interest rates for first-time homebuyers by 20bps in the days before the decision. Since then, there has been an easing of COVID restrictions in China and the data releases have also improved with Industrial Production showing a surprise expansion of 0.7% vs. Exp. -0.7% (Prev. -2.9%) in May and Exports also firmer than expected at 16.9% vs. Exp. 8.0% (Prev. 3.9%), which suggests less urgency to cut the benchmark lending rate. Nonetheless, UOB still sees downside risks to the economic recovery in H2 due to China's zero-COVID policy and has lowered its forecast for GDP growth to 4.1% from 4.9% for this year, while it continues to see room for further monetary policy easing, including a 5bps cut to the 1-Year LPR next week and a future RRR cut as MLF maturities increase in H2.

RBA MINUTES (TUE): The RBA will release minutes from the June meeting where the central bank hiked rates by 50bps to 0.85% (exp. 25bps increase) and noted that inflation in Australia has increased significantly, while it reiterated its commitment to doing what is necessary to ensure that inflation returns to the target over time. The RBA also stated that inflation is likely to be higher than expected a month ago and that the Board expects to take further steps in normalising monetary conditions over the months ahead, with the size and timing of future interest rate increases to be guided by incoming data and the assessment of the outlook for inflation and the labour market. Furthermore, it noted that the Australian economy is resilient, although one source of uncertainty about the outlook is how household spending evolves, given the increasing pressure on finances from higher inflation.

CANADIAN INFLATION (WED): Canadian CPI will be used to gauge the reaction from the BoC at the July 13th meeting after the Bank hiked by 50bps in June, while adding language that it is prepared to be more forceful to combat rising inflation which is sitting comfortably above the top end of the BoC's forecast range. Recent commentary from Governor Macklem has suggested they may need to make a larger than 50bps move and a hot inflation print will likely cement those expectations, especially after the Fed's 75bps hike. A hot inflation report will also likely mean the BoC will have to move rates above neutral (which is seen between 2-3%), Deputy Governor Beaudry has signalled rates will have to rise above 3%, while Governor Macklem noted the chances of that occurring have risen. A surprisingly cool print would likely be needed to dissuade the BoC from more "forceful" hikes, but even then they would like to see several reports to show inflation is cooling and would likely be hesitant to declare any victory so early.

UK INFLATION (WED): Expectations are for the Y/Y CPI print for May to tick higher to 9.1% from 9.0%, whilst the core metric is seen remaining at 6.2%. The jump in the April print from 7.0% to 9.0% was predominantly a by-product of the increase in the OFGEM price cap, a phenomenon which will not be repeated in the May release. This time around, analysts at Investec (forecast an unchanged headline rate of 9%) suggest that food and energy will likely continue to place upward pressure on prices. However, this could be moderated this time around by clothing and footwear given the surge seen in May'21. Investec also expects to see a decline in the core reading back to 6.0%, but ultimately remaining at highly elevated levels. As it stands, current guidance from the MPC notes that CPI inflation is expected to be over 9% during the next few months and to rise to slightly above 11% in October, which is expected to see another jump in the

Ofgem price cap. From a more medium-term perspective, inflation is expected to dissipate over time amid a stabilisation in the price of commodities and other tradable goods.

CBRT (THU): The Central Bank of Turkey will likely keep rates unchanged once again next week, leaving its one-week repo rate at 14.00% despite super hot inflation. Analysts at Credit Suisse expect headline inflation to remain in the 60-70% area through November, and while the CBRT is monitoring the "cumulative impact of the recent policy decisions", it suggests to Credit Suisse that the Central Bank will keep policy on hold for the foreseeable future. "This means that the real policy rate will move deeper into negative territory in the coming period, leaving the lira vulnerable to further depreciation and keeping the risks to our inflation forecasts firmly to the upside". The desk also believes uncertainty from Lira depreciation in context of inflation is larger than prior experiences of TRY deterioration and expects authorities in Turkey will "continue to implement ad-hoc measures as long as they can in order to sustain what we view as this ultimately unsustainable policy stance".

UK PMI (THU): At the time of writing, there is currently no consensus for the release. However, analysts at Investec expect the services metric to decline to 53 from 53.4 with the manufacturing print set to tick lower to 54.2 from 54.6. As a reminder, the May report saw a notable decline in the headline composite metric amid a chunky drop in the services print, which fell from 58.9 to 53.4 with S&P Global noting that “the latest round of input cost inflation was the steepest since this index began in July 1996, while the monthly loss of momentum for business activity expansion was a survey record outside of lockdown periods.” This time around, Investec expects “more of the same” when compared to the May release with economic uncertainty set to weigh on demand. That said, analysts at the firm expect a more modest decline in the composite release, to 52.7 from 53.1. It is also worth noting that the recent messaging from PMIs appears to contradict the outcome of the contractionary April GDP print and therefore any optimism in the upcoming release might be questioned by market participants.

EZ PMI (THU): Expectations are for the June manufacturing metric to fall to 54.1 from 54.6, services to decline to 55.5 from 56.1, leaving the composite at 54.1 vs. the 54.8 observed in the May report. As a reminder, the May release saw a downtick for the composite metric, but ultimately remaining in expansionary territory with the survey stating that the driving force for the expansion was the dominant services sector as “ongoing supply-side disruptions, the war in Ukraine and subdued demand for goods restrained manufacturing output growth”. This time around, analysts at Nordea are of the view that the release will “show that higher costs are hurting the cyclical manufacturing industry” as energy prices continue their relentless surge. Nordea adds that softness in manufacturing also reflects “a pickup in services as consumers rotate their spending to services and away from goods – as the economy keeps reopening. This is also why we expect the services sector to remain robust, despite the increasing economic headwinds”. From a policy perspective, the upcoming release is unlikely to have much bearing on the ECB’s decision-making process with policymakers seemingly on a pre-set course to raise rates by 25bps in July with a potential larger increase forthcoming at the September meeting, at which point, the ECB will be armed with its latest round of staff economic forecasts.

NORGES BANK (THU): Within the May policy announcement, the Norges Bank pointed markets towards a hike taking place at the June gathering. At that point in time, the general assumption was that the June increase would be 25bp in magnitude taking the Policy Rate to 1.00%. However, we have seen pronounced and unexpected monetary policy tightening since then with the Fed lifting rates by 75bp and the SNB by 50bp, while the ECB held an emergency meeting on fragmentation. Given this, the bar for a 50bp move has, perhaps, been lowered. Typically, the Regional Network report is one of the key contributors for policy makers in terms of assessing the economy, but given the dated survey period and above developments since publication, the value of the findings are somewhat diminished. Reminder, the Norges Bank has previously intimated conditionality between the prospect of persistently higher inflation and quicker rate hikes occurring. May’s headline ATE inflation print was 3.4% YY, significantly above the Norges Bank’s 2.9% 2022 peak prediction and its May forecast of 2.6% for the metric. Given the hotter than expected inflation reading and recent global Central Bank policy action, a 50bp move is a possibility; although, SEB does not view this as necessary, believing inflation is not showing signs of “persistence” and a 50bp move could be detrimental to households.

BANXICO (THU): After Banxico's 50bps hike in May expectations have been building towards a 75bps hike after it added language that taking more forceful measures to attain its inflation target may be considered due to growing complexities in the environment for inflation and its expectations. The vote split in May was not unanimous either, where Espinosa voted to raise the Bank Rate by 75bps instead. Meanwhile, the minutes saw that all members noted inflation expectations for 2022 and 2023 have increased considerably. Since then, the FOMC has also hiked by 75bps, which will likely see Banxico follow suit. Analysts at Rabobank expect Banxico to hike by 75bps on Thursday, but looking ahead the desk expects another 75bp move in August, followed by two more 50bps and then a final 25bp hike in December to end the tightening cycle at 9.75%. Rabo notes this is a faster and higher terminal rate than they initially expected and is a result of the Fed's increased pace of normalisation, hawkish Banxico rhetoric and a continued rise in core inflation. The latest inflation data for May saw M/M core inflation rise 0.59%, cooling from 0.78%, but still above the 0.55% expectation while headline inflation rose 0.18%, only marginally above expectations. Y/Y core inflation rose 7.28%, up from 7.22% and above the 7.24% forecast, while the headline Y/Y print rose 7.65%, from 7.68% and above the 7.26% consensus.

Although Rabo revised higher its rate forecast for the Banxico, they have maintained their USD/MXN view and expect it to trade within a 20-21 range over the coming months.

UK RETAIL SALES (FRI): Expectations are for headline M/M May retail sales to fall 1% vs. the 1.4% increase seen in the prior report, whilst the core metric is expected to decline 0.2% vs. the prior increase of 1.4%. The upcoming release will follow the April report which saw an unexpected expansion for headline and core M/M metrics after two consecutive months of decline. At the time, Pantheon Macroeconomics highlighted that food store sales posted a 2.8% M/M increase with upside driven by spending on alcohol and tobacco, potentially as a result of people spending less in pubs and bars as the cost-of-living crisis squeezes real household incomes. This time around, Moody’s highlights that “inflation will weigh on retail sales, but we are forecasting some upwind factors in May. Households likely spent in preparation for the Jubilee festivities. But retail sales will likely fall back in the coming months as households switch expenditures to services and their disposable incomes are tightened by inflation and rate hikes". In terms of more recent retail indicators, May’s BRC retail sales release saw a 1.5% Y/Y decline with the consortium noting that “It is clear the post-pandemic spending bubble has burst, with retailers facing tougher trading conditions, falling consumer confidence, and soaring inflation. Supply chain issues including rising commodity and transport costs, a tight labour market and higher energy bills are forcing retailers to increase their prices, contributing to wider inflation”.