Week Ahead 25-29 July

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- **MON:** Germany Ifo Survey (Jul), US National Activity Index (Jun)
- **TUE:** NBH Announcement, US Monthly Home Prices (May), US Richmond Fed Index (Jul)
- **WED:** FOMC Announcement, Chinese Industrial Profits (Jun), Australian CPI (Q2), US Durable Goods (Jun)
- **THU:** EZ Sentiment Survey (Jul), US GDP Advance (Q2), US PCE Advance (Q2)
- **FRI:** Australian PPI (Q2), German Flash GDP (Q2); German Unemployment (Jul), EZ Flash CPI (Jul), US PCE (Jun), US Chicago PMI (Jul), Canadian GDP (May), US Dallas Fed PCE (Jun), BoJ SOO

NOTE: Previews are listed in day-order*

NBH ANNOUNCEMENT (TUE): Based on recent commentary the NBH will likely decide to conduct a further hike to their Base Rate which currently stands at 9.75%, at the same level as their One-Week Deposit Rate following a 200bp increase. ING looks for a 1.25% increase given it's the average of the last two meetings 50bp and 200bp moves; however, caveating that with expectations so high, the bar for a disappointment is low and EUR/HUF could revert back to 410 over the summer. At the last update, Deputy Governor Virag said hikes will continue in determined steps, altering from their prior "gradual" language. Adding, that hikes are set to continue until such a time as when CPI is seen peaking; for reference, the last inflation release was prior to the One-Week's 200bp move and had the headline YY lifting to 11.7% (prev. 10.7%, exp. 11.5%). The next inflation print is due on August 9th. Elsewhere, at the meeting, Virag added that they will be acting against FX movements which pose a sustained threat to price stability. A pledge that has been followed by days of concerted action from the NBH on this front, providing over EUR 1.5bln of liquidity to banks since at daily swap tenders.

FOMC ANNOUNCEMENT (WED): The FOMC is largely expected to raise its Fed Funds target range by 75bps to 2.25-2.50%, a territory considered to be 'neutral', to which it will guide smaller hikes ahead as policy becomes restrictive. Some signs/expectations of a cooling growth outlook (as evidenced by survey data and corporate commentary), and a lack of deterioration in inflation gauges post-June CPI (UoM inflation expectations fell), have taken the heat off of a 100bps rate hike that gained traction after the headline Y/Y consumer inflation print in June rose again to a multi-decade high of 9.1% from 8.6%. The consensus for 75bps was emboldened in the wake of comments from Fed hawks, Waller and Bullard, after the CPI, indicating their preference remaining for 75bps despite the speculation for a larger hike. Money markets now imply just a 10% chance of a 100bps move, as opposed to the greater than 70% implied in the immediate aftermath of CPI. With no SEPs at this meeting, traders will look to the statement and Powell's presser for guidance on the rate path/terminal rate, with expectations for smaller hike increments at a 'measured' pace now that the Fed Funds rate is being lifted above neutral (2.5% according to June median Dot Plot). Markets are currently pricing in a year-end Fed Funds rate at 3.25-3.50%, which also now happens to be the market-implied terminal rate with rate cuts priced in Q1 '23. When June FOMC Dots were released they implied a terminal of 3.75-4.00%, so there is a disconnect between markets and the Fed's forecasts as the former prices in risk of a growth/employment slowdown later this year while Fed officials are conducting policy on the knowns: solid job growth and consumer spending that is fueling consecutive increases in inflation. The Fed has said it will remain undeterred in its tightening path until inflation shows signs of returning to target, so to expect anything otherwise at the June FOMC appears unlikely.

CHINESE INDUSTRIAL PROFITS (WED): There are currently no forecasts for the June Industrial profit figures, but again, the metrics will likely be affected by the targeted tightening of COVID restrictions in some Chinese districts. As a reminder, the May data saw profits of industrial firms falling at a slower pace vs April as manufacturing resumed. May's improvement was led by surging profits in coal, oil and gas – commodities which saw prices fall in recent weeks.

AUSTRALIAN CPI (WED): Q2 inflation is expected to tick lower to 1.9% Q/Q from 2.1%, whilst the Y/Y rate is seen accelerating to 6.3% from 5.1%. The Trimmed Mean metrics are both expected to rise, to 1.5% from 1.4% Q/Q, and 4.7% from 3.7% Y/Y. The Weighted Means are also forecast to rise, to 1.4% from 1.0% Q/Q and to 4.2% from 3.2% Y/Y. Desks flag significant unknowns regarding the supply distribution impact on downstream goods such as food, clothing & footwear, as well as household goods. Analysts suggest the recent drop in crude should provide some reprieve for Q3, "The surge in domestic energy prices is set to have a significant impact on retail electricity prices, and thus the CPI, but we don’t expect it to appear until the second half of the year, and even then state government rebates will offset this in the September quarter so the full impact will not appear until the December quarter.”, analysts at Westpac say, as they forecast that another 50bps hike in August seems highly likely.

EZ FLASH CPI (FRI): Headline Y/Y CPI is expected to rise to 8.8% in July vs. the 8.6% rate seen in June with the super-core metric seen rising to 3.8% from 3.7%. The prior report was once again characterised by a combination of rising energy and food prices, whilst remarks from President Lagarde at the most recent ECB press conference saw the policy chief note that price pressures are spreading across more and more sectors, in part owing to the indirect impact of high energy costs across the whole economy. Accordingly, the ECB expects inflation to remain "undesirably" high for "some time" with upside pressures also a by-product of EUR depreciation. On a more positive footing, the July S&P Eurozone PMI survey stated that "rates of inflation of both selling prices and input costs moderated amid an easing of supply constraints and weakened demand". GDP metrics for Q2 will also be released alongside the CPI report whereby Q/Q growth is seen coming in at 0.2% vs. the 0.6% expansion observed in Q1, with the Y/Y rate expected at 3.4% vs. prev. 5.4%. Given that the ECB has already pulled the trigger on rates and the outturn for the September meeting is likely to be more guided by the inflation backdrop, the GDP figures are unlikely to shift the dial for the ECB. From a growth perspective, greater attention has been placed on the recent S&P Global PMI release which saw the Eurozone Composite metric slip to 49.4 from 52.0 with the report noting that "The eurozone economy looks set to contract in the third quarter as business activity slipped into decline in July and forward-looking indicators hint at worse to come in the months ahead"

US PCE (FRI): Core PCE M/M, the Fed's main inflation gauge, is seen rising 0.5% in June compared to the 0.3% rise in May, while the Core Y/Y figure is seen rising 4.7%, the same pace as the prior. Bank of America's economists are on the softer side, calculating a +0.4% M/M core PCE rise (+0.44% unrounded) after the June CPI and PPI M/M prints rose by 1.3% and 1.1%, respectively. They suggest the gap between core PCE and CPI to persist after forecasting the third consecutive month where the former comes in around 0.3ppts below the latter, "The wedge is mainly driven by the differences in weights and scope of the two measures."

US ECI (FRI): The Q2 Employment Cost Index is seen falling to +1.2% from +1.4%. The Fed will be hoping for a fall in the index after the Q1 figure ramped up to 1.4%, the highest since the early 1990s; Powell has previously touted the index as a key gauge he watches. A sustained high figure will only deepen concerns around second-round inflation effects and affirm a "higher for longer" outlook among the FOMC.

BOJ SOO (FRI): The BoJ will release the Summary of Opinions from the July meeting on Friday in which the central bank kept its policy settings unchanged, as expected, with rates at -0.10% and QQE with yield curve control maintained to target 10yr JGB yields at around 0%. The BoJ reiterated it will offer to buy 10yr JGBs at 0.25% every business day unless it is highly likely that no bids will be submitted and repeated its guidance on policy bias that it will take additional easing steps without hesitation as needed with an eye on the pandemic's impact on the economy, as well as keeping forward guidance for short- and long-term rates to remain at present or lower levels. Furthermore, it stated that it must be vigilant to financial and currency market moves and their impact on Japan's economy and prices, while it lowered the Real GDP growth forecast for the current fiscal year to 2.4% from 2.9%, but raised the Real GDP view for the two years after and increased CPI projections through to FY24. The policy announcement lacked any major surprises and the adjustment to the current fiscal year’s projection was previously flagged by source reports, while Governor Kuroda made it clear in the post-meeting press conference that there is no intention to raise interest rates under Yield Curve Control and no plan to widen YCC's 0.25% cap range, as well as noting that increasing rates a little bit would not stop JPY weakness and a large hike would be needed to stop JPY weakness which would bring substantial damage to the economy and he does not believe such a policy is rationally feasible.