Week Ahead April 17-21st: Highlights include: Flash PMIs; CPI data from Canada, Japan, NZ, UK; PBoC LPR, China activity data; Minutes from the ECB, RBA

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- **MON:** South Korean Trade Balance R (Mar), German Flash GDP (Q1).
- **TUE:** RBA Minutes, Chinese GDP (Q1)/ Retail Sales (Mar)/ Industrial Production (Mar), UK Jobs Report (Feb /Mar), US Building Permits (Mar), Canadian CPI (Mar).
- **WED:** UK Inflation (Mar), EZ Final CPI (Mar), New Zealand CPI (Q1).
- **THU:** PBoC LPR Announcement, Japanese Trade Balance (Mar), US Philly Fed (Apr).
- **FRI:** Japanese CPI (Mar), UK Retail Sales (Mar), EZ/UK/US Flash PMIs (Apr).

NOTE: Previews are listed in day-order

RBA MINUTES (TUE): Market participants will closely scrutinise the minutes for further insight following the recent hawkish hold in policy. As a reminder, the central bank maintained the Cash Rate at 3.60%, in line with market expectations, though analysts were nearly evenly split between a 25bps hike and a pause. The RBA reiterated its hawkish stance, suggesting that additional monetary tightening is anticipated and reaffirming its commitment to achieving the inflation target. The decision to maintain interest rates was made to allow time to assess the impact of past increases and the economic outlook. Governor Lowe reiterated in a speech the following day that the decision to hold fire did not mean interest rate hikes were over, and the Board was following a similar practice from earlier interest rate cycles, whereby multiple rate moves were made before waiting to assess the economic response. Lowe also suggested that a slightly slower return to the inflation target was acceptable, but the balance of risks favoured further rate rises.

CHINA GDP (TUE): There are currently no market expectations for the Y/Y and Q/Q metrics, although SGH Macro Advisors suggest that consensus forecast for Y/Y growth stands at 3.8%. Following the zero-COVID policy abandonment in January, the desk notes that recent data indicates that China's economy is experiencing a "fast lane" recovery with stable improvements across the board. "It appears China's year on year Q1 GDP may come in above consensus forecasts of 3.8%, on a 4% handle", the desk says, which it attributes to aggressive policy measures implemented by Premier Li - including tax and fee cuts worth almost CNY 500bln and nationwide campaigns to improve the business environment. The recovery is expected to continue in Q2, all-things-being-equal, and "Beijing expects the country will be able to achieve an economic growth rate of 5.5-6.0% this year, even as they keep a wary eye on slowdowns in the US and Europe", SGH says. On Friday, PBoC Governor Yi Gang said he expects China's 2023 GDP growth at around 5% (in line with the government target), and China's economy is stabilising and rebounding, according to the statement from the G20 meeting. He added that inflation is staying at low levels and the property market is showing positive changes.

CHINA RETAIL SALES, INDUSTRIAL PRODUCTION (TUE): Retail Sales is expected to print at 3.5% for March – in line with the February metric, whilst Industrial production is seen ticking higher to 2.6% from 2.4%. Analysts at ING are more optimistic on consumption and suggest a ~5% Y/Y rise judging by the PMI data. "We should see a broad-based recovery of retail sales, except for automobiles, which should suffer from the end of subsidies for electric vehicles", the desk says, adding that "The speed of recovery of retail sales, representing the growth of the domestic market, should pick up faster in the second quarter."

UK JOBS REPORT (TUE): Expectations are for the unemployment rate in the three months to February to rise to 3.8% from 3.7%, employment to rise by 52k vs. the previous addition of 65k, whilst headline earnings growth is set to cool to 6.3% from 6.5% on a 3M/YY basis. The takeaway from the prior release was the stubbornness of the unemployment rate which held steady at 3.7% in the three months to January with ING suggesting that there were clear signs that wage growth may finally have peaked. For the upcoming report, Pantheon Macro expects the data to show "a further—albeit modest—increase in employment" of around 70k which would put it broadly in line with the 65k addition in January. From an earnings perspective, PM expects to see "further evidence that wage growth lost momentum over the winter" and pencils in a "0.4% month-to-month increase in AWE excluding bonuses, which would drag down the headline rate to 6.3%, from 6.5%". Such an outturn, PM believes, would bolster the case for an unchanged rate in May. Note, the tightness of the labour market was a key factor for the seven members who voted for a 25bps hike in March on the basis that “renewed and sustained demand for labour could still reinforce the persistence of higher costs in consumer prices”.

CANADA CPI (TUE): Consumer prices are seen rising 0.5% M/M in March, with the annual rate of inflation expected to pick up to 5.4% Y/Y from 5.2%. There will also be attention on the BoC’s three core measures of inflation, which averaged 5.36% Y/Y in February. The Bank of Canada’s updated economic projections released this week show that the central bank expects inflation to fall quickly to around 3.0% by mid-2023 (sees an average of 3.5% this year), and then return to the 2% target slowly by the end of 2024. It also reiterated its warning that unless a surprisingly strong pickup in productivity growth is seen, current levels of wage growth between 4-5% are not consistent with its inflation goal; it added that bringing inflation back down to target is becoming more challenging due to inflation expectations falling only slowly, while services price rises and wage growth remain elevated. And the Governor said that while officials were encouraged by the recent decline in prices, inflation is still well above target, and they are more concerned about upside risks to projections.

UK INFLATION (WED): Expectations are for headline Y/Y CPI to fall to 9.8% from 10.4% with the core reading set to cool to 6.0% from 6.2%. The prior report saw an unexpected jump in headline Y/Y CPI to 10.4% from 10.1% (vs. consensus 9.9%), whilst the core rate unexpectedly advanced to 6.2% from 5.8%. At the time, ING highlighted that cause for concern at the BoE would have stemmed from the surprise dip in January services CPI that could have been a temporary one. ING added that “policymakers have signalled this is an area they’re paying particular attention to, not least because service-sector inflation tends to be more ‘persistent’”. For the upcoming report, Pantheon Macro expects a decline in the headline rate to around 9.9% which would exceed the MPC’s forecast in February’s Monetary Policy Report by 0.7pp. However, PM anticipates that the “MPC’s measure of ‘core services’ inflation likely continued to undershoot its expectations, leaving the Committee’s interest rate decision on May 11 finely balanced between a 25bp hike and no-change”. When it comes to interpreting inflation releases with reference to the BoE, it is worth noting that the MPC is focused on the persistence of inflationary pressures and therefore the broader trend as opposed to one-off indicators, as opined by ING. In terms of market pricing for the May meeting, 25bps is seen at 67% with unchanged at 33%.

NEW ZEALAND CPI (WED): The consensus view is for CPI to rise 1.8% Q/Q in Q1, while the annual rate of inflation is expected to have remained at 7.2%. Aussie bank Westpac is beneath both the consensus as well as the RBNZ’s economic projections (the central bank has forecast 1.8% Q/Q in Q1, and for the annual rate to rise to 7.3%), and it expects prices to rise 1.6%, and sees the annual measure at 7.0%: “Food prices will account for a large part of the quarterly increase, with disruptions to food production that are only partly due to Cyclone Gabrielle,” the bank says, adding that “rising homebuilding costs and rents, and the annual increase in tobacco excise, will also make sizeable contributions.” Its below consensus view is motivated by energy prices, which are significantly down Y/Y. On the implications for policy, Westpac says that “while we think that headline inflation has passed its peak, it will still take a substantial amount of time for tighter monetary policy to bring inflation back to the 1-3% target range.”

ECB MINUTES (THU): Despite market pricing ahead of the meeting being around 65% in favour of a 25bps hike at the meeting, the ECB defied calls for such a move and stuck with its February guidance of a 50bps increase. The Governing Council justified such a move by noting that inflation was projected to remain too high for too long. With regards to financial stability, the statement noted that “the euro area banking sector is resilient, with strong capital and liquidity positions. In any case, the ECB’s policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed”. From a guidance perspective, the GC is no longer guiding towards rate hikes and merely refers to “rate decisions”, which will be data-dependent. At the follow-up press conference, Lagarde noted the Board proposed no other option compared to the one taken. This decision was adopted by a very large majority, though three or four did not support the decision and wished to wait for more time. In the wake of the meeting and press conference, Reuters ECB sources noted the debate at the meeting was for either 50bps, or an unchanged decision, and that policymakers opted for the 50bp move after the SNB lifeline to Credit Suisse, while there was no discussion of a 25bp move. Bloomberg sources also noted that policymakers feared that ditching their 50bp hike guidance might panic investors, while on the terminal rate, hawkish officials still saw rates well above the current 3% level, although the doves questioned whether the peak may be lower than initially thought. Any further colour on these discussions and what they could mean for the May meeting will be of note for the market, however, as always, the account of the decision may be deemed as stale in some quarters.

PBoC LPR (THU): The PBoC is expected to maintain its benchmark lending rates, with the 1-Year and 5-Year Loan Prime Rates (LPRs) at 3.65% and 4.30%, respectively. Thus far, the LPRs have remained unchanged since last August, and analysts anticipate the central bank will continue to refrain from making any adjustments due to the improving economy after strict COVID policies were lifted in late 2020 and China’s borders reopened, which reduces the need for policy support. The decision comes after the Q1 GDP data on Tuesday which has a non-zero chance of shifting expectations. PBoC recently said some Chinese banks cut deposit rates in April as part of the normal interest rate self-discipline mechanism, according to Bloomberg. Following these recent announcements by several small and mediumsized banks to lower deposit rates, discussions have emerged about whether the LPR would be adjusted in April. However, experts widely predict that the LPR will likely remain unchanged, according to China's Securities Daily. The article suggests this is due to strong Q1 financial and credit data, along with signs of recovery in weak sectors such as real estate and consumption, reducing the need for further monetary easing. That being said, analysts at ING suggest a 10bps cut to the 1Y Medium Lending Facility policy rate may be on the horizon if data does not meet the government's expectations. "We expect that if there is a cut of 10bp by the PBoC then banks will cut the 1Y and 5Y Loan Prime rates by 5bp and 15bp, respectively", ING says.

JAPANESE CPI (FRI): National Core CPI is expected to remain at 3.1% in March. The timelier Tokyo CPI data released at the end of March, which showed the headline Y/Y decelerating at a slower pace than expected, whilst super-core CPI unexpectedly accelerated. Analysts point out that the Tokyo and National metrics differ slightly due to different weightings of gas prices between the two series. The data also comes against the backdrop of a new BoJ Governor after Kuroda retired. New Governor Ueda this week said the BoJ will continue monetary easing until the price target is stably and sustainably achieved; domestic consumer inflation is currently around 3%, but likely to slow ahead, and the BoJ should pay more attention to the risk of failing to achieve the 2% inflation target with a premature end to easing rather than the risk of being behind the curve on inflation. Earlier this month, Ueda warned against a sudden normalisation of policy. Other officials also noted they are not expecting an abrupt shift in policy under the new Governor.

EZ FLASH PMI (FRI): Expectations are for Eurozone manufacturing PMI to rise to 48.0 from 47.3, services to fall to 54.6 from 55.0, leaving the composite at 54.0 vs. prev. 53.7. The prior report saw the composite reading advance to 53.7 from 52.0 with the jump in the services metric offsetting the declines in the manufacturing sector. The accompanying report noted that "The eurozone economy continues to bounce back from the lull we saw at the back-end of 2022 and the latest PMI survey will add fresh conviction to the view that, at least for now, the euro area is clear of a recession". This time around, analysts at Investec look for the data to record a further rise in activity. However, going forward, the focus will be on how the recent banking woes affect activity. The desk notes that the survey period for March "failed to show any discernible impact from the banking woes during the month". However, Investec says it "would expect the tightening of credit conditions, which began before the issues of last month to weigh on activity through this year".

UK FLASH PMI (FRI): Expectations are for the services PMI to fall to 52.5 from 52.9, with the manufacturing print set to rise to 48.4 from 47.9. The prior report saw the composite reading slip to 52.2 from 53.1 amid declines in both the services and manufacturing sector, with the former still holding above the 50 mark and latter delving deeper into contractionary territory. The accompanying report noted "March data pointed to rising business activity across the UK private sector economy, while inflationary pressures continued to ease from the peaks seen in the first half of 2022". This time around, Investec suggests that "since the last data collection period, the banking troubles do look to have eased, with an immediate crisis seemingly averted for now". As such, the desk states that "this could shore up confidence and be one factor reversing March's decline, even with concerns remaining regarding credit conditions".

UK RETAIL SALES (FRI): Expectations are for headline Y/Y retail sales to contract 4.7% in March vs. the previous -3.5%, with the core reading also forecast at -4.7% vs. prev. -3.3%. In terms of recent indicators, the BRC retail sales report for March printed at 4.9% Y/Y with the consortium noting "with consumer confidence edging up and big events on the horizon such as the King's Coronation, retailers have reason for a spring in their step. However, extensive cost pressures on business remain…Unless these future costs are brought to a heel, we will likely see high inflation continue for UK consumers who already face rising household bills from this month". Elsewhere, the Barclaycard Consumer Spending report noted "Consumers continue to carefully manage their discretionary spend by saving on purchases in Clothing, whilst the slowdown in in-store shopping indicates that customers may be looking online for bargains". Ahead of the upcoming release, Oxford Economics notes retail sales growth in January and February "pointed to a retail revival". However, "with consumers still facing serious cost of living pressures, retail sales may have given up some of those gains in March, a possibility supported by relatively subdued results from retail surveys by the CBI and the BRC".