Week Ahead May 1st-5th: FOMC, NFP, ISMs, ECB, RBA, EZ CPI, NZ jobs, Norges

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- **MON:** South Korean Import/Export Growth (Apr), US S&P Global Manufacturing PMI Final (Apr), US ISM Manufacturing PMI (Apr), European Labour Day Holiday, UK Early May Bank Holiday
- **TUE:** RBA Announcement, South Korean CPI (Apr), German Retail Sales (Mar), EZ Flash CPI (Apr), US Durable Goods R (Mar), New Zealand Jobs (Q1)
- **WED:** FOMC Announcement, RBNZ FSR, CNB Announcement, BCB Announcement, Japan Constitution Day Holiday, EZ Unemployment (Mar), US ADP National Employment (Apr), US S&P Global Services and Composite PMI Final (Apr), US ISM Services PMI (Apr)
- **THU:** ECB Announcement, Norges Announcement, Japan Greenery Day Holiday, Australian Trade Balance (Mar), Chinese Caixin Manufacturing PMI (Apr), German Trade Balance (Mar), EZ PPI (Mar),
- **FRI:** RBA SoMP, Japan Children's Day Holiday, Chinese Caixin Services PMI (Apr), EZ Retail Sales (Mar), US Labor Market Report (Apr), Canadian Labor Market Report (Apr)

NOTE: Previews are listed in day-order

US ISM MANUFACTURING PMI (MON)/SERVICES PMI (WED): The consensus looks for the manufacturing ISM to rise to 46.6 from 46.3. Analysts look for the services gauge to rise to 51.6 from 51.2. Using the S&P Global PMI data series as a proxy, traders might expect some upside potential, given that the surveys revealed stronger demand conditions supporting sharper growth in April, but also highlighted renewed inflation momentum. "The latest survey adds to signs that business activity has regained growth momentum after contracting over the seven months to January," adding that "growth is also reassuringly broad-based, led by services thanks to a post-pandemic shift in spending away from goods, though goods producers are also reporting signs of demand picking up again." The data also showed that jobs growth had accelerated alongside the resurgence of demand. That said, S&P said that the upturn in demand has also been accompanied by a rekindling of price pressures; "average prices charged for goods and services rose in April at the sharpest rate since September of last year, the rate of inflation having now accelerated for three successive months," S&P writes, "this increase helps explain why core inflation has proven stubbornly elevated, and points to a possible upturn – or at least some stickiness – in consumer price inflation."

RBA ANNOUNCEMENT (TUE): The RBA is to decide on rates next week with 26 out of 34 economists surveyed by Reuters forecasting the Cash Rate Target to remain unchanged at the current level of 3.60%, while money markets recently priced in an 85% likelihood of a pause and just a 15% chance for a 25bps increase. As a reminder, the RBA kept rates unchanged at the last meeting in April, which was the first time it paused after 10 consecutive rate increases, with the decision to keep rates steady to provide additional time to assess the impact of tightening to date and the economic outlook. Despite the pause in rates, the central bank's rhetoric was hawkish as it stated that the Board expects some further tightening of monetary policy may well be needed and it remains resolute in its determination to return inflation to target and will do what is necessary to achieve that. The minutes from the meeting also noted that the Board considered a rate hike before deciding to pause and that it is important to be clear policy may be tightened again to curb inflation in a timely manner with inflation still too high, while RBA Governor Lowe stated during a speech the following day that the decision to hold rates steady does not imply interest rate rises are over and although he was not 100% certain they will have to hike rates again, the balance of risks lean towards further rate rises. In terms of the recent data releases, inflation figures for Q1 were somewhat mixed and slightly favoured the likelihood of a pause as the headline CPI readings topped forecasts (QQ 1.4% vs. Exp. 1.3%, YY 7.0% vs. Exp. 6.9%), but all other components were softer than expected and supported the view that the economy had passed peak inflation. Nonetheless, a future rate hike cannot be ruled out given that inflation remains firmly above the RBA's 2-3% target band.

EZ FLASH CPI (TUE): Expectations are for headline Y/Y CPI to fall to 6.8% from 6.9% with the super-core metric set to hold steady at 5.7%. The prior release saw a notable decline in the headline rate to 6.9% from 8.5% amid lower energy inflation, however, greater focus was placed on the increase in core inflation to 7.5% from 7.4% as a result of rising services inflation. This time around, analysts at Moody's suggest the possibility of a slight rebound in energy inflation as base effects partially reverse, whilst the "main detractor from headline inflation will be the food, beverage and tobacco segment". That said, it is worth acknowledging that inflation for countries worth around 60% of the eurozone-wide print

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has been published on Friday. On which, French inflation data was firmer-than-expected, whilst Spain was softer. For the German print, it saw the headline Y/Y cool to 7.2% from 7.4% and therefore could skew the current consensus lower. From a policy perspective, ING argues that only a significant upside surprise could lead the market to think the hawks have enough of a case to convince their colleagues to vote for a 50bp hike (please see our full ECB piece below). Conversely, ING suggests that the bar is high for the BLS to be used as an argument by the hawks for a 50bp hike and therefore the inflation print will carry greater importance.

NEW ZEALAND JOBS (TUE): The Q1 Employment Change is expected at 0.2% (prev. 0.2% in Q4), with the Unemployment Rate seen ticking higher to 3.5% from 3.4, whilst the Participation Rate is expected to remain steady at 71.7%. The Labour Cost Index is expected to rise to 4.6% Y/Y (from 4.3%), while the M/M metric is expected to remain at 1.1%. With forecasts similar to the RBNZ's for the March quarter, these figures are unlikely to significantly influence the May monetary policy decision. However, Westpac suggests the RBNZ will require evidence in the coming months that the labour market is slowing down to be confident that interest rates have reached an appropriate level. The desk adds that businesses continue to hire, while wage growth typically lags behind the broader economic cycle. Annual wage growth is expected to accelerate further, despite consumer price inflation now past its peak.

FOMC ANNOUNCEMENT (WED): The consensus expectation is for the FOMC to lift rates by 25bps at its May meeting, and then the market expectation is for the central bank to stand pat on policy. Chair Powell will likely be quizzed on whether the central bank is on pause, and while some expect the Fed chief to confirm that the hiking cycle has now run its course, he has previously batted-off such lines of questioning, reiterating that the Fed remains data dependent in its policy approach. And while inflation has come off pandemic peaks, it remains significantly above the Fed's 2% target (it was 4.9% in Q1, according to the latest GDP report). For reference, the Fed has historically stayed at terminal for between 3-15 months, with the average being around 6.5 months; if the historical playbook is used, then traders might expect rate cuts by the end of the year. Indeed, this is what money markets are pricing. At pixel time, the market is pricing in about 30bps of rate cuts this year after the Fed lifts rates in May – which is at odds with what Fed officials were guiding ahead of their pre-meeting blackout window – as the banking crisis stokes concerns about credit tightness, and growth dynamics cool. According to a Bloomberg survey, 43% expect that the statement will signal a likely pause at the next meeting, while 26% think that the FOMC will give no guidance on future rates, 22% think that the FOMC will repeat that it 'anticipates that some additional policy firming may be appropriate', or even include other language signalling a tightening bias; the survey also finds that 59% do not think there will be any dissenters, while 41% think that there will be one or more. Elsewhere, Powell will also be quizzed on the banking sector; most see the tightening of credit conditions the equivalent to around 25-50bps of rate hikes; Powell didn't give an exact figure at the previous meeting, but may be asked to provide more details on how commercial and industrial loans are expected to be impacted.

US QUARTERLY REFUNDING (WED): The Treasury's quarterly refunding announcement on May 3rd is expected to see all coupon sizes left unchanged, again: expected to sell USD 40bln of 3yr notes, USD 35bln of 10yr notes, and USD 21bln of 30yr bonds. That comes as the Treasury looks to increase bills as a share of the marketable debt; the share is currently at the low end of the TBAC's recommended 15-20% range. However, the share will not meaningfully increase until a resolution on the debt limit is reached, which desks don't expect until later in the year, although we may get an updated view from the Treasury on when they expect the "X-date" to occur. Treasury Secretary Yellen recently estimated it to be in early June, although depending on tax receipts, that could extend to later in the summer. On coupon supply, some desks do expect the Treasury to increase auction sizes again from the end of this year once the debt limit is resolved and bill share has increased, so the TBAC minutes might give us some colour on that. Finally, a Treasury buyback facility remains the wildcard, where nothing concrete is expected from this refunding, but a facility does appear closer following the recent questionnaire sent out to primary dealers on buybacks. BofA, to whit, "these questions combined with TBAC communication at the February refunding continues to suggest that the rollout of a buyback program at both the 0 - 1Y & 1Y+ tenors is more likely than not."

BCB ANNOUNCEMENT (WED): The Copom held the Selic at 13.75% at its previous meeting, and struck a hawkish tone, revising inflation forecasts higher and warning that "the de-anchoring of long-term inflation expectations raises the cost of the disinflation", and that it "will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected." This week's IPCA-15 inflation data for April showed inflation falling to a 30-month low amid declines in food prices; Pantheon Macroeconomics said "all told, the inflation picture continues to improve in Brazil, thanks to favourable base effects, the lagged effect of stiflingly high interest rates, and softening domestic demand," adding that "the effect of a relatively stable BRL and falling raw material prices are also helping to offset the hit from the resumption of key taxes." Pantheon sees inflation continuing to fall ahead, though could still tick up towards the end of the year as favourable base effects fade. "Key components, including services, and core measures, particularly EX3—which is closely linked to the output gap—remains relatively sticky. But we suspect price pressures will ease further over the next three-to-six months, on the back of weaker demand." The most recent BCB survey revealed that economists see the Selic at 12.50% by the end of this year (unchanged vs the previous survey), and it is seen at 10.00% by the end of 2024 (also unchanged vs the previous survey). This week, BCB chief Campos Neto told lawmakers that it will not cut rates until inflation risks are contained, and has previously suggested that rates were at an appropriate level for

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containing the demand-driven inflation. "The central bank seems determined not to change its stance and to focus instead on bringing inflation expectations down to target," SocGen writes, "as such, we do not expect the Copom to begin easing in May. And there is now a rising possibility that the Copom will extend its pause in June too."

ECB ANNOUNCEMENT (THU): Consensus looks for a 25bps hike in the Deposit Rate to 3.25%, according to 57/69 analysts surveyed by Reuters, whilst the remaining 12 look for a 50bps increase. Market pricing concurs with the consensus with 25bps priced at around 70% vs. 30% for 50bps. The March meeting saw the ECB defy expectations for a 25bps hike (was priced at around 65% heading into the meeting) and opt for a 50bps adjustment on the basis that "inflation is projected to remain too high for too long". Furthermore, the Bank downplayed financial stability concerns, stating that "the euro area banking sector is resilient, with strong capital and liquidity positions". Since March, inflation data has seen Y/Y HICP decline to 6.9% from 8.5%, whilst the super-core reading rose to 5.7% from 5.6%. The influential Schnabel of Germany has cautioned that when it comes to policy, "we need to see a sustained decline in core inflation that gives us confidence that our measures are starting to work" and therefore even if core inflation was to peak it wouldn't necessarily bring about a pivot from the GC. It's worth noting that April inflation figures will be released on Tuesday whereby expectations are for Y/Y CPI to fall to 6.8% from 6.9%, with the super-core metrics set to hold steady at 5.7%. In the banking sector, nothing has transpired since March to test its resilience and therefore is unlikely to act as an impediment to the upcoming decision. That said, there will be attention ahead of the announcement on Tuesday's Bank Lending Survey given the importance placed on it by various members of the GC. Any signs of slower lending in the Eurozone could provide some ammunition to the doves given that the account of the March meeting showed that "some members would have preferred not to increase the key rates until the financial market tensions had subsided". Danske Bank notes that "we take it as given that the BLS will point to tightening credit standards, as the ECB is already in a tightening cycle, which means that we see the focus of this BLS to be on what additional tightening the recent turmoil has added". As it stands, messaging from policymakers has suggested that the policy options will be between a 25bps and 50bps hike with the Bank required to deliver further tightening to bring inflation back to target. Given the political nature of the GC, it is expected that 25bps will be the compromise between the hawks and doves who will also be jostling over how high the terminal rate will reach in the coming months, with markets currently priced for the Deposit Rate to reach 3.75% in July.

NORGES ANNOUNCEMENT (THU): Expected to hike by 25bp to 3.25%, given domestic data remains strong and while CPI-ATE is in-line with the Norges Bank's forecast the figure remains elevated with the trend erring higher and above market consensus. Tightening which would be in-fitting with the guidance from March. Rates aside, participants will be focused intently on the repo path, particularly after the dovish-hike from the Riskbank. Currently, the path implies a rate reduction by end-2024 to 3.45% from the current 3.60% peak which is seen by end-2023; conversely, markets are pricing over 75bp worth of easing by end-2024. Given the recent up-tick in CPI-ATE, the Norges Bank may well err on the side of caution and leave the policy path unaltered in order to underscore their commitment to bringing inflation under control. On this, SEB writes the Norges Bank will either maintain the policy rate higher for longer, in-fitting with the aforementioned justification, or the Scandi's higher rate sensitivity will prompt additional cuts in the path, relatively speaking.

AUSTRALIAN TRADE BALANCE (THU): The headline Trade Balance for March is seen contracting to USD 12.75bln from USD 13.87bln in February. Desks highlight that Australia has been consistent in achieving substantial trade surpluses, with 2023 off to a positive start. Analysts at Westpac believe the import bill is expected to increase by 0.7% due to higher goods prices, influenced by the weaker currency in the month. The analysts suggest export earnings are likely to remain steady, with the decline in global commodity prices affecting goods exports. However, this is anticipated to be counterbalanced by a rise in services, as student and holiday visitor numbers continue their recovery trend, the desk said.

US LABOR MARKET REPORT (FRI): The US economy is expected to add 181k nonfarm payrolls in April, cooling from the 236k added in February, which would also be beneath recent trend rates (for reference, the three-month average is currently 345k, 6-month 315k, and the 12-month 345k). The unemployment rate is expected to rise by 0.1ppts to 3.6% - the Fed projects the jobless rate will rise to 4.5% this year, and then tick-up to 4.6% next year and in 2025. "Labour demand appears to have cooled further, but this is a slow and gradual tailing off rather than an abrupt collapse," Capital Economics said, "after a brief turnaround to start the year, weekly hours worked and temporary employment, which are forward-looking indicators of employment, started to fall back again in March." Analysts also point to series like the JOLTs data, and job posting websites like Indeed and LinkUp, which allude to fewer job postings in recent months. The signal from business surveys has been more mixed, with ISM data for March showing Employment sub-indices easing (note: April ISM data is out next week too), although the S&P Global PMI data was more constructive. Weekly jobless claims data has been ticking up, boosted after the recent revisions to the data, although economists say the levels still remain historically low. There have also been clear signs of a cooling in wage growth recently, although Capital Economics is expecting average hourly earnings to increase by a slightly bigger 0.4% M/M in April, due to a survey sample period which includes more weekend dates and can often cause temporary distortions.

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