Week Ahead May 8-12th: US CPI, Fed SLOOS, UK GDP, China Inflation, China Trade, BoJ SOO

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- **MON:** UK Bank Holiday, EZ Sentix Index (May), German Final CPI (Apr), Fed SLOOS
- **TUE:** Riksbank Minutes, NBH Announcement, EIA STEO, Chinese Trade Balance (Apr)
- **WED:** Norwegian CPI (Apr), US CPI (Apr)
- **THU:** BoE Announcement, BoJ Summary of Opinions, OPEC MOMR, Chinese Inflation (Apr), US PPI (Apr)
- **FRI:** New Zealand Inflation Forecasts (Q2), UK GDP (Mar/Q1), French CPI (Apr), University of Michigan Prelim. (May)

NOTE: Previews are listed in day-order

FED SENIOR LOAN OFFICER SURVEY (MON): The Fed's quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices will show that lending standards at midsized banks tightened in the latest period, Fed Chair Powell revealed at the May FOMC meeting. The survey is prepared in advance of the Fed's policy meetings, and officials use it in their deliberations. The Fed Chair argued that given the recent stresses in the banking sector, the Fed might not need to raise rates as high as it would have traditionally. But he emphasised that the impact was unclear, making it difficult for officials to determine when the policy rate had achieved a 'sufficiently restrictive stance'. At its policy meeting, the FOMC raised rates by 25bps to 5.00-5.25% in line with consensus expectations, and also hinted at a rate pause by dropping the language about anticipating more policy firming. The Fed said it will determine further policy firming based on tightening to date, policy lags, and other developments; it remains committed to bringing inflation back down to target, and will take a data-dependent approach to determine further rate hikes, while there will be an ongoing assessment of whether the Fed has reached sufficiently restrictive levels.

RIKSBANK MINUTES (TUE): Minutes which will be closely scrutinised following the dovish 50bp hike in April for further insight into the thought process of dissenters Breman and Floden and how close, if at all, the other three members were to voting for 25bp. On the dissenters, this was not entirely unexpected given the economy's sensitivity to tightening and the marked easing in March's headline inflation alongside market pricing heading into the meeting and the minority of calls from desks for a 25bp hike. Note, the dissenters were Breman and Floden who are typically on the dovish-side of the Riksbank. Finally, we look for any guidance in the minutes around whether the final hike will be in June or September; though, a discussion on this might be somewhat premature.

CHINESE TRADE BALANCE (TUE): The trade Balance is expected to narrow to a surplus of USD 74.30bln from a surplus of USD 88.20bln a month ago. Exports are expected to grow 8% (prev. 14.8%), while imports are expected to contract by 5.0% after printing -1.4% in March. In the prior month's release, China saw exports defy expectations and surprisingly rise 14.8% vs the 7% contraction forecast and break the downward trend observed over the previous five months. The rebound was driven mainly by electronic parts and products and is expected to support the first-quarter GDP. However, the slowdown in imports suggests that this rebound may be short-lived, with exports potentially slowing down in the coming months, according to analysts.

US CPI (WED): The consensus expects headline consumer prices to rise 0.4% M/M in April, accelerating from the +0.1% pace in March, while the annual measure is seen ticking up by 0.2ppts to 5.2% Y/Y. The core rate of inflation is expected to rise 0.3% M/M – moderating slightly from +0.4% M/M in March – while the annual rate of core inflation is seen unchanged at 5.6% Y/Y. Credit Suisse says core goods inflation will increase, with higher used auto prices from Q1 showing up in the CPI this month, while inflation in other goods categories is expected to remain flat. Services inflation will remain high, the bank thinks, with shelter inflation showing a slight decline in April, but not expected to meaningfully decline until later in the summer. CS writes that "a reading in-line with our expectations would remain uncomfortably high for the Fed, but is still consistent with gradual disinflation this year once shelter rolls over more significantly, "adding that low ex-shelter core inflation should be enough to keep the Fed on hold in the coming months as banking stress keeps uncertainty elevated."

BOE ANNOUNCEMENT (THU): Expectations are for the BoE to deliver a 25bps hike in the Base Rate to 4.5%, according to 55/56 analysts surveyed by Reuters, with just one looking for unchanged. Market pricing concurs with economists as 25bps is priced at around 85%. The prior meeting in March saw a 7-2 vote in favour of a 25bps hike with dovish dissent from Tenreyro and Dhingra, whilst the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. Data since March has leaned hawkishly with headline Y/Y CPI printing at 10.1%, which was some 0.9pp above the MPC's forecast, and the core rate at 6.2% vs. the MPC's projection of 5.8%. In the labour market, headline earnings growth advanced to 6.6% from 6.5%, whilst on the economic growth front, M/M GDP flatlined in February, and survey data showed an increase in the UK Composite metric, fuelled by the services sector. As such, further action from the MPC is expected with Governor Bailey (27th March) reminding markets that more tightening would be required if signs of persistent inflationary pressures become evident, adding that the FPC can focus on the financial system whilst the MPC's focus will be on returning inflation to target. Whilst there is currently no consensus on the vote split, Oxford Economics suggests another 7-2 decision with Dhingra and Tenreyro the lone dissenters. Focus will firmly be on whether the MPC makes any alterations to its forward guidance to indicate the possibility of a pause given that the likes of Chief Economist Pill has continued to remind markets that "there is a lot of policy-in-the-pipeline still to come through". As it stands, market pricing puts the terminal rate at around 4.75%, which would imply another 25bps hike beyond next week. For the accompanying macro projections, Oxford Economics anticipates an upgrade to near-term growth, downgrade to near-term inflation, whilst over the medium-term inflation will be materially below 2% in 2024 and 2025.

BOJ SOO (THU): The BoJ will release the Summary of Opinions from the April 27th-28th meeting where it kept its policy settings unchanged, as widely expected, in the first conclave under Governor Ueda's leadership, with the rate held at -0.10% and parameters of QQE with YCC maintained and the decision on the latter made via a unanimous vote. The central bank tweaked its forward guidance whereby it dropped the reference to the COVID-19 pandemic and the pledge to keep interest rates at current or lower levels, although it remained dovish by replacing this with a pledge to take additional easing steps without hesitation as needed while striving for market stability. The central bank also announced a broad-perspective review of monetary policy with a planned timeframe of one to one and a half years, which supported the notion of a slow exit from ultra-easy policy, although Governor Ueda later clarified during the press conference that they will make changes to monetary policy as needed during the review period and may announce results of the policy review in the interim if required.

CHINESE INFLATION (THU): CPI Y/Y is expected to tick higher to 1.0%, whilst PPI Y/Y is seen steady at -2.5%. Taking the monthly Caixin PMI as a proxy, the release suggested "Prices ticked up in April with the gauge for input costs remaining in expansionary territory for 34 consecutive months, due mainly to elevated labour costs. Some surveyed businesses also reported higher prices of raw materials and office supplies." China's March CPI data revealed cooler-than-expected inflation. The pullback in prices last month was likely on the back of several factors. 1) CPI is heavily influenced by food prices, which were mixed in March. Higher egg prices, caused by a bird flu outbreak, were offset by lower vegetable prices due to warmer weather. 2) A weaker PPI in the month may have been an indicator of slower industrial production in March. Weakening export demand can have a direct impact on industrial production, which in turn affects the inflation rate. Analysts at ING suggest "China should continue to show modest CPI inflation, and weaker manufacturing activities should continue to put deflationary pressures on PPI."

UK GDP (FRI): Expectations are for M/M growth of 0.1% in March (vs. prev. 0.0%) with the Y/Y rate expected to fall to 0.4% from 0.6%. The prior report was characterised by strike activity weighing on growth and overpowering a pick-up in private sector activity. This time around, analysts at Investec expect strike activity to have a clear impact on the data given action from teachers, junior doctors and civil servants. That said, Investec notes that the strikes will need to be weighed against "the reports of resilient business activity in the service sector in the PMI survey". Overall, Investec pencils in a 0.1% contraction in March which would equate to Q/Q growth of just 0.1%, but would mean that the UK avoided a recession this winter. Albeit, a potential H2 slowdown has prompted some to call for an eventual recession later in the year. From a policy perspective, it's hard to gauge what impact (if any) the release will have on the BoE given that it will take place the morning after the MPC's decision. It is possible that a soft report could see markets coalesce around the idea of a potential pause by the BoE in the event that the MPC refrains from offering hints of further tightening.

NEW ZEALAND INFLATION FORECASTS (FRI): The prior Survey of Expectations indicated that while inflation expectations remain high, the upward momentum has somewhat petered out. The two-year ahead measure experienced a decrease, dropping from 3.6% to 3.3%. Likewise, expectations for inflation five years ahead showed a minor decline, according to Westpac. The RBNZ's latest Financial Stability Report (FSR) suggested the financial system in New Zealand is well-prepared to manage the rising interest rate landscape and any disruptions in global financial markets. The FSR added that as monetary policy tightens due to elevated inflation, households and businesses face increased debt servicing expenses.

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