



Week Ahead May 15-19th: Highlights include: US retail sales, China activity data, Japan CPI, jobs data from UK and Australia

Week Ahead May 8-12th

- **MON:** Eurogroup Meeting, South Korean Trade Balance R (Apr), German Wholesale Prices (Apr), EZ Industrial Production (Mar).
- **TUE:** IEA OMR, Chinese Retail Sales (Apr)/Industrial Production (Apr), UK Labour Market Report (Mar/Apr), EZ Employment and GDP Flash (Q1), German ZEW (May), US Retail Sales (Apr), Canadian CPI (Apr), US Industrial Production (Apr).
- **WED:** Japanese GDP (Q1), Australian Wage Price Index (Q1), EZ CPI Final (Apr).
- **THU:** European Ascension Day, Japanese Trade Balance (Apr), Australian Labour Market Report (Apr), US Philly Fed (May), New Zealand Trade Balance (Apr).
- **FRI:** G7 Summit (Japan), SARB Announcement, Japanese CPI (Apr).

NOTE: Previews are listed in day-order

TURKISH ELECTIONS (SUN): The upcoming elections on May 14th, which include both Presidential and Parliamentary votes, could end incumbent President Erdogan's nearly 20-year rule amidst an economic crisis and public criticism over the government's handling of the February earthquakes. These earthquakes hit Erdogan and AK Party strongholds, potentially impacting around 1mn votes, according to some desks. However, polls still suggest a high voter turnout and a close contest between Erdogan and the main opposition candidate, Kemal Kilicdaroglu. Observers predict a possible power struggle if Kilicdaroglu wins and a likely second round of elections. The Turkish electoral system requires Presidential candidates to secure over 50% of the vote in the first round to win. If no majority is achieved, a second round occurs between the top two candidates. Other contenders initially included centrist candidate Muharrem Ince (now withdrawn) and right-wing candidate Sinan Ogan. The economic backdrop is uncertain, with early growth signs post-earthquakes, but high inflation impacting purchasing power. In terms of market views, an Erdogan defeat could potentially result in a rally of Lira assets as orthodox policies will likely return. Recent polls suggest a slim lead for Kilicdaroglu, though this prediction has been made in prior elections.

PBOC MLF (MON): Ahead of the Loan Prime Rates (LPRs) announcement next Monday, the PBoC is expected to maintain its 1yr Medium Term Facility Rate (MLF) at 2.75%. Analysts note that ongoing improvements in consumption, partly aided by the Golden Week Holiday, suggest that a recovery is underway, whilst a cut to the MLF would be perceived by the market that the economy is not on the desired path of recovery. Analysts at ING suggest "the challenge from a weaker external sector cannot be addressed by a rate cut. It is possible that the central bank may add more liquidity to the money market via the MLF operation. But that should not lower the market interest rate significantly unless the scale of liquidity injection is large, which is not our expectation."

RBA MINUTES (TUE): The RBA minutes will largely focus on the reasoning behind the surprise 25bps hike at the May meeting. To recap, the RBA blindsided markets at this month's meeting when it delivered an unexpected rate increase to resume its policy tightening cycle with its 11th hike in 12 meetings. The language remained hawkish as the Board expects some further tightening of monetary policy will be needed and remains resolute in its determination to return inflation to target whereby it will do what is necessary to achieve that goal. It also stated that the central forecast remains that it will take a couple of years before inflation returns to the top of the target range. The Board noted inflation in Australia has passed its peak, but is still too high at 7% and it will be some time yet before it is back within the target range. Furthermore, RBA Governor Lowe commented in a speech hours after the meeting that the Board had a strong consensus to raise rates and is deadly serious about bringing inflation back down, while the RBA's quarterly Statement on Monetary Policy stuck with the hawkish tone in which it reiterated that it will do what is necessary to return inflation to target and some further tightening may be required to do that over a reasonable timeframe.

CHINESE RETAIL SALES/IP (TUE): Retail Sales Y/Y are forecast to accelerate to 20.1% in April (vs 10.6% in March), with Industrial production seen at 10.1% (vs 3.9% in March), and Fixed Asset Investments at 5.2% (vs 5.1% in March). Desks highlight that interpreting the data may be more convoluted amid base effects from last year. Industrial production



is expected to indicate the domestic market's recovery despite a decelerating external market. Retail sales, ING says, may only display moderate strength in April due to consumer savings for leisure trips planned in May. The bank suggests the focal point of this data set is fixed asset investments (FAI), providing insights into the pace of Government-led infrastructure investment. A slight monthly improvement is anticipated in FAI, offering a better understanding of the Government's investment strategies and the country's economic trajectory.

UK LABOUR MARKET REPORT (TUE): Expectations are for the unemployment rate in the three months to March to hold steady at 3.8%, employment change to fall to 50k from 169k and headline earnings growth to slow to 5.1% from 5.9%, whilst the ex-bonus metric is seen declining to 6.2% from 6.6%. The prior report was characterised by a pick-up in pay growth to 6.6% from 6.5% and was perceived to be an influencing factor on the MPC's decision to deliver another 25bps hike in May (alongside a hot CPI report for March). This time around, analysts at Investec expect a downtick in the unemployment rate to 3.7%, largely as a result of the December single month observation of 3.9% dropping out of the calculation. Similarly for earnings, Investec forecasts that earnings ex-bonus will tick higher to 6.7% "thanks to the dynamics of the underlying monthly numbers". However, its expectation for the headline rate is for a decline to 5.7% from 5.9% "as weaker bonuses helps to drive overall earnings growth down". From a policy perspective, a 25bps hike in June from the BoE is priced at around 62% and therefore a hot labour market report could prompt a further increase in pricing for an additional hike, however, it will not likely be fully priced until the release of CPI data on May 24th.

US RETAIL SALES (TUE): Headline retail sales are seen rising 0.7% M/M in April, offsetting some of the 1.0% M/M decline in March; core retail sales are seen up 0.5% M/M (prev. -0.8%), while the Control Group is expected to contract by 0.3% M/M, matching the March decline. Bank of America's April 'Consumer Checkpoint' report presented further signs that consumer spending was softening; total card spending per household dropped to -1.2% Y/Y, the first negative Y/Y reading since February 2021. Seasonally-adjusted spending was up 0.3% in April M/M, however. BofA said that in aggregate, the labour market landscape remains solid, but its data suggested some deterioration at the higher end of the income distribution. "Unemployment is rising fastest amongst higher-income households, while their pay growth is weakest," BofA said, "higher-income spending growth on discretionary items has also fallen below lower- and middle-income households." With that said, BofA highlights that consumer savings buffers remain elevated, and its own internal data on household savings and checking balances shows the median balance continues to be over 40% higher than the average in 2019 across all income cohorts.

CANADIAN CPI (TUE): Headline consumer prices are expected to rise 0.5% M/M in April, matching the March rate; the annual measure is also seen unchanged at 4.3% Y/Y, although the core measure of annual inflation is seen ticking up by 0.1ppts to 4.4% Y/Y. Traders will frame the release within the context of the BoC's potential to resume rate hikes. In its April policy statement, the BoC said it expects CPI inflation to fall quickly to around 3% in the middle of this year, then decline more gradually to the 2% target by the end of 2024. Recent data suggests inflation will continue to decline in the next few months, but it warned that getting back to 2% could prove to be more difficult as inflation expectations are coming down slowly, service price inflation and wage growth remain elevated, and corporate pricing behaviour has yet to normalise. Speaking in early May, BoC Governor Macklem said there was a risk that inflation becomes stuck above its 2% target, and if that is the case, the BoC is prepared to raise interest rates further. Macklem made clear that the job on inflation was not done, and while tighter policy was working, there was still work to do.

JAPANESE GDP (WED): Japan's preliminary GDP for Q1 is due next week and will provide the latest insight into the health of the economy, which is the third largest in the world and expected to show a marginal 0.1% Q/Q expansion and annualised growth of 0.7%. As a reminder, Japan's economy barely averted a recession during the final quarter of 2022 with revised GDP Q/Q flat and annualised GDP at just 0.1%, which was weaker than analysts' estimates of 0.2% and 0.8%, respectively, while the figures had been downgraded from their preliminary readings, but were an improvement from the economic contraction in Q3. The tepid performance of the economy in Q4 was a result of weak consumption which accounts for more than half of the country's GDP and only grew by 0.3% in the face of rising prices, while capital expenditure contracted by 0.5%. Furthermore, the weak spending profile is likely to have persisted in Q1 and evident in the streak of disappointing household spending data for Japan during the past months, while rate increases by central banks abroad are also headwinds for the global and Japanese economies.

AUSTRALIAN LABOUR MARKET REPORT (THU): The employment change is expected to show the addition of 25k jobs in April, with the unemployment and participation rates seen steady at 3.5% and 66.7% respectively. The most recent RBA meeting, which saw a surprise 25bps hike (vs expectations for another hold), suggested "The recent Australian data also confirmed that the labour market remains very tight, with the unemployment rate at a near 50-year low. Many firms continue to experience difficulty hiring workers, although there has been some easing in labour shortages and the number of vacancies has declined a little." Analysts at Westpac have aligned their forecasts with marked expectations as they suggest "underlying dynamics [elevated job vacancies and the recovery of immigration] present clear upside risk to employment outcomes, at least over the near-term."



NEW ZEALAND TRADE BALANCE (THU): Ahead of the 2023 Budget, the New Zealand Government cautioned against high expectations given the sluggish economy and heightened inflation. Particularly in the wake of Cyclone Gabrielle, the Government signalled that it will do what is needed to address cost-of-living pressures, accelerate economic recovery, and sustain key public services, but without significant additional measures. Westpac says its economic predictions are less optimistic than the Treasury's Half-Year Update, leading to a reduced tax revenue projection, with the Government adhering to its fiscal rules of maintaining small surpluses. To achieve this, the Budget allowances will remain unchanged, with around NZD 4bn savings being allocated towards the Government's priorities, according to Westpac. The bank anticipates a NZD 12bn increase in the bond programme over the five-year forecast period compared to Budget 2022, mostly due to forecast deficits and a small increase in borrowing for Cyclone recovery.

G7 SUMMIT (FRI): The heads of the G7 will convene for a summit held from May 19-21 in Hiroshima, Japan. Leaders will deliberate on a range of topics, including geopolitical dynamics, the health of the global economy, inflation and global food security, and climate-related matters against the backdrop of the Ukrainian conflict and escalating tensions between the United States and China. It is currently unclear if US President Biden will attend the summit in person amid the ongoing negotiations with US Congressional leaders on the debt ceiling. All-in-all, nothing major or immediate is expected from the G7 summit thus far, while some suggest discussions surrounding artificial intelligence (AI) could be an ad-hoc item that could be added to the agenda given the rapid rise of generative artificial intelligence (AI) chatbots.

JAPANESE CPI (FRI): Japanese inflation data for April is due next week and will likely remain elevated after the 3.2% increase in headline National CPI and the 3.1% rise in the Core (Ex. Fresh Food) CPI in March which were both in line with expectations and above the BoJ's 2% price goal, while CPI Ex. Fresh Food & Energy accelerated to 3.8% (exp. 3.4%, prev. 3.5%), which was the fastest pace of increase in over four decades. The rise in the 'core-core' reading points to a broadening of price pressures, although increases in food prices, gas and household goods remained the main drivers for inflation. In addition, the Tokyo CPI data for April, which provides a leading indicator for national price trends, showed a further acceleration in prices beyond the market consensus whereby headline and core inflation both rose to 3.5% from previous readings of 3.3% and 3.2%, respectively.

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