Week Ahead May 22-26th: Highlights include FOMC Minutes, US PCE, RBNZ, EZ/UK/US Flash PMIs

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- **SUN**: Greek Elections
- **MON:** PBoC LPR Announcement
- **TUE:** BoK Announcement, EZ/UK/US Flash PMIs (May), US Richmond Fed (May)
- **WED:** FOMC Minutes, RBNZ Announcement, UK Inflation (Apr), German Ifo Survey (May)
- **THU:** CBRT Announcement, SARB Announcement, German GDP (Q1), GfK Consumer Sentiment (Jun), US GDP 2nd (Q1)/PCE Prices (Q1)
- **FRI:** Japanese Tokyo CPI (May), UK Retail Sales (Apr), US PCE (Apr), University of Michigan Final (May)

NOTE: Previews are listed in day-order

GREEK ELECTIONS (SUN): Voters will head to the polls for what is likely to be the first of two rounds of voting where the result is very likely to see a continuation of incumbent PM Mitsotakis' New Democracy (ND) rule. Currently, polling indicates that an outright victory is unlikely for ND in the Sunday, May 21st election; while a coalition is possible, Mitsotakis has indicated that he would not look to form one at this stage. Assuming no coalition occurs, a second round will be held in early July, with a sliding-scale bonus system for the largest party likely to be sufficient to secure a majority for ND. Albeit, if this is not the case then a coalition between ND-PASOK is the most likely option and one that is unlikely to spark significant fiscal change. Following the election(s), Morgan Stanley expects a return to IG by all agencies ex-Moody's by H1-2024 and continues to favour Greek banks for exposure to the relatively strong macro backdrop.

PBOC LPR (MON): The PBoC is expected to maintain both its 1yr and 5yr Loan Prime Rates (LPRs) on Monday, at 3.65% and 4.30% respectively. Expectations for a hold in rates come after the One-Year Medium-Term Lending Facility Rate (MLF) was held at 2.75% on May 15th. Furthermore, the latest PBoC Monetary Policy Implementation Report for Q1 suggested Inflation may rebound gradually in H2 2023, while the central bank added that the temporary fall in CPI should not be exaggerated - which backs the argument for not reducing rates. On the other hand, recent activity data from China has disappointed across the board, and the latest inflation prints give flexibility for rate cuts. Analysts at Oxford Economics believe targeted easing is the most likely path – "Targeted easing could come in the form of liquidity support, RRR cuts, and re-lending support to earmarked industries", whilst adding that RRR cuts are likely "particularly towards the end of the quarter to meet increased liquidity needs (the last 25bp RRR cut was effective 27 March)." Earlier this week, Chinese Premier Li also suggested more targeted measures should be taken to expand domestic demand and stabilise external demand.

BOK ANNOUNCEMENT (TUE): The Bank of Korea is likely to keep rates unchanged again at next week's meeting to maintain the 7-Day Repo Rate at the current level of 3.50%. The BoK held rates over the past two meetings and was unanimous in its decision to stand pat at the last policy decision in April, although five of the seven Board members wanted to keep the door open for one more possible future rate hike. Furthermore, the central bank has stated that headline inflation is likely to show a slowing trend through to mid-2023, but added that the easing of core inflation is likely to be slower than headline inflation and uncertainty remains high over the future inflation path. The central bank also suggested a cautious approach due to large FX volatility and several Board members saw the need to provide a warning against early rate cut expectations, while Governor Rhee thinks it is premature to talk about a policy pivot and said it is time to wait and see as core inflation remains high. In terms of the latest key data releases, softer-than-expected inflation in April provides some encouragement that inflation is moving in the right direction with CPI Y/Y at 3.7% vs. Exp. 3.75% (Prev. 4.2%), although advanced GDP for Q1 was mixed as the Q/Q reading topped forecasts and showed the economy averted a recession with an expansion of 0.3% vs. Exp. 0.2% (Prev. -0.4%), while the Y/Y reading disappointed and slowed to 0.8% vs. Exp. 0.9% (Prev. 1.3%), which adds to the case for a patient approach.

EZ FLASH PMI (TUE): Expectations are for the EZ manufacturing PMI to rise to 46.2 from 45.8, services to fall to 55.6 from 56.2, leaving the composite at 53.5 vs. prev. 54.1. The prior survey saw the EZ-wide manufacturing PMI fall from 47.3 to 45.8, services rise to 56.2 from 55.0, leaving the composite at 54.1 vs. prev. 53.7. The accompanying report noted "April's robust increase in output solely reflected growth in services activity…as manufacturing production fell for the first time since January. Similarly, a strong improvement in demand for services offset beleaguered manufacturing sector order books, which shrank again." This time around, analysts at Investec suspect that "the continued acceleration in service sector activity will pause, given the 6.8pt rise over the last six months, to what represents a buoyant level of growth". In the manufacturing sector, weak underlying trends in new orders will likely mean that activity will remain subdued. From a policy perspective, a 25bps hike by the ECB is priced at around 85% for June and therefore there is some scope for pricing to move closer to 100%, however, traders will likely prioritise the next inflation report (flash due on June 1st) when shaping expectations for next month

UK FLASH PMI (TUE): Expectations are yet to be published for the data. However, the prior report saw the services PMI rise to 55.9 from 52.9, manufacturing tick lower to 47.8 from 47.9, leaving the composite at 54.9 vs. prev. 52.2. The accompanying report noted "UK private sector output expanded for the third consecutive month in April, despite a back-to-back reduction in manufacturing production. Faster growth in the service economy meant that overall private sector output expanded at the strongest pace since April 2022". This time around, Oxford Economics notes that although it expects GDP to have temporarily fallen back in May because of the extra bank holiday, business survey data tends not to be affected by such events and therefore looks for a strong services PMI print of 56. In the manufacturing sector, Oxford Economics notes that "manufacturing results have been much weaker, despite the official manufacturing output series bouncing back strongly in Q1, and April's survey reported that new orders fell at the fastest pace for three months". As such, the consultancy expects another soft showing for the sector, of 47.5 which would leave the composite reading at around 55.0.

FOMC MINUTES (WED): The minutes are stale, given the more recent Fedspeak we have heard. At the May meeting, the FOMC raised rates by 25bps to 5.00-5.25%, in line with expectations, while also hinting at a 'pause' (more on that in a moment) by dropping the language about anticipating more policy firming. The Fed will determine further policy firming based on tightening to date, policy lags, and other developments, Fed Chair Powell said, adding that the central bank 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 a sufficiently restrictive level. The Senior Loan Officer Opinion Survey was consistent with banks tightening lending standards and the pace of lending slowing, while the Committee has a view that inflation is not going to come down so quickly. Powell also said that they are much closer to the end than the beginning, and feels like they are close or maybe even there. Since the May meeting, officials have been emphasising that their latest policy actions should not be read as a 'pause', and the Committee is prepared to act further to tame inflation pressures. Post-FOMC, Fedspeak has become more nuanced in terms of the differences in view over the policy outlook, and some divergences are emerging. In the outright hawkish camp, Logan (current voter) argued that the data does not yet show that skipping a rate hike in June is appropriate, and Governor Bowman (also 2023 voter) said additional rate hikes were likely appropriate. In the neutral-but-with-hawkish elements camp, Bullard (non-voter) said he will keep an open mind going into the June meeting, but was inclined to support another rate hike, Kashkari (voter) said the Fed has more work to do, Bostic (2024) said there was still a ways to go to beat inflation. Vice Chair nominee Jefferson has spoken about how inflation remains too high, and a year is not enough time to assess the full impact of hikes thus far. In the circumspect camp, Williams (perma voter) has advocated a wait-and-see approach on rates, while Goolsbee (voter) said it is too soon to be talking about the Committee's next decision, but he was cautious about the May 25bp hike. Analysts will be looking to see the extent to which the minutes reflect these divergent views.

RBNZ ANNOUNCEMENT (WED): The RBNZ will conduct a monetary policy meeting next week where the central bank is likely to continue its hiking cycle with money markets pricing in a 57% chance that the RBNZ hikes the OCR by 25bps to 5.50% and a 43% chance of a 50bps increase. As a reminder, the RBNZ surprised markets at the last meeting in April whereby it delivered a larger-than-expected rate increase of 50bps (exp. 25bps hike), which was the central bank's 11th consecutive rate hike, while its language remained hawkish as it stated that the OCR needs to increase and the Committee agreed it must continue to raise the OCR to return inflation to the 1%-3% target band and to fulfil its remit. Members also observed that inflation was still too high and persistent, as well as viewing that risks to inflation pressure from fiscal policy were skewed to the upside, but acknowledged that the rapid pace and extent of tightening to date implies monetary policy is now in contractionary territory. Furthermore, the Committee expects to see a continued slowing of domestic demand and moderation in core inflation and inflation expectations with the extent of this moderation to determine the direction of future monetary policy. The rhetoric suggests the potential that the central bank could downshift gears to a less aggressive pace of tightening at next week's meeting, while softer-than-expected inflation in Q1 also supports this view with New Zealand CPI QQ at 1.2% vs. Exp. 1.7% (Prev. 1.4%) and YY (Q1) 6.7% vs. Exp. 7.1% (Prev. 7.2%). Furthermore, inflation expectations have eased with the 1yr view at 4.3% (Prev. 5.1%) and 2yr at 2.8% (Prev. 3.3%), although further rate hikes remain likely given that the current level of inflation remains firmly above the central bank's 1%-3% target range, while New Zealand's recent budget announcement which included significant fiscal measures is also seen to raise the odds for further rate increases.

UK INFLATION (WED): Expectations are for Y/Y CPI to decline to 8.2% in April from 10.1% in March with the core rate seen ticking lower to 6.1% from 6.2%. The prior report saw headline Y/Y CPI decline to 10.1% from 10.4% in February, which was 0.9pp above the MPC's forecast with some of the upside attributed to an increase in food inflation to 19.1%

from 18.0%. From a core perspective, Y/Y inflation held steady at 6.2%, which was above the MPC's forecast of 5.8% and was a driving factor behind the BoE's decision to raise rates by a further 25bps in May. For the upcoming release, Pantheon Macroeconomics expects headline inflation to fall to 8.3% (vs. MPC forecast of 8.4%) as a consequence of the combined contribution of the electricity and natural gas CPIs falling by 1.71pp. From a core perspective, Pantheon expects that services CPI inflation held steady at 6.6% in April, undershooting the MPC's 6.7% forecast. Overall, the consultancy concludes that the release should lay the foundations for an unchanged rate in June. However, it is worth noting that such calls would not likely be cemented based on the April inflation data given that there is another inflation report and further jobs data to be released before next month's meeting. As it stands, market pricing puts a 25bps hike in June at around 80%.

CBRT ANNOUNCEMENT (THU): CBRT is expected to hold its benchmark rate at 8.5%, according to the median estimate of 12 economists polled by Reuters. The meeting comes after the first round of Turkish Presidential elections failed to yield a victor, as Erdo#an and K#l#çdaro#lu both missed hitting the 50% threshold – with the second round slated for the 28th of May – although Erdo#an's ruling AK Party and allies won a majority in the Parliamentary election. In terms of recent data, inflation has been on a favourable trend, declining from a rate of 85.51% Y/Y in October 2022, to 43.68% in April 2023, but still multiple times above the CBRT's 5% target. The latest CBRT survey showed the 12-month ahead Repo Rate forecast cut to 11.11% from the prior 13.75%, while the CPI forecast was downgraded to 29.84% from 31.02% in the prior survey.

SARB ANNOUNCEMENT (THU): The consensus looks for South Africa's Reserve Bank to lift rates by 25bps to 8.00% at its May meeting to help cool sticky inflation, but is then expected to keep rates on hold until Q1 2024, when it is seen beginning to lower rates, according to a poll by Reuters. The SARB's MPR released in April highlighted that the central bank is taking into account fiscal risks in its outlook and decision making, and analysts said that the weak state of public finances could push the central bank towards a more hawkish policy path. Additionally, SARB Deputy Governor Naidoo has recently said that internal shocks, like load shedding and the weakening ZAR, posed a risk of further interest rate hikes. It is worth noting that South African inflation data is due to be published a day before the SARB meeting, and BofA's analysts expect the data to continue showing stickiness in inflation. "Overall, inflation should decelerate from here," BofA writes, "upside risks are linked to food prices, currency weakness, and additional load-shedding costs."

TOKYO CPI (FRI): Core Tokyo CPI is expected to have eased to 3.3% from 3.5% amid stabilising energy prices and base effects. The release is seen as a leading indicator of the National metrics due a couple of weeks later. In terms of the latter, latest data was mostly in line, but increased in pace from the prior month, with the "super core" Y/Y rising at the fastest rate since September 1981, but still printed marginally below expectations (4.1% vs exp. 4.2%, prev. 3.8%). The BoJ April meeting Summary of Opinions, released last week, stated that the central bank must continue its current easy policy given uncertainty over the global outlook and must support wage hike momentum through monetary easing, with Governor Ueda underlining dovish guidance since.

UK RETAIL SALES (FRI): Expectations are for M/M retail sales to contract 0.5% vs. prev. -0.9% with the core rate seen declining 0.7% vs. prev. -1%. In terms of recent retail indicators, BRC retail sales rose 5.2% Y/Y on a LFL basis with the Consortium noting "while retail sales grew in April, overall inflation meant volumes were down for both food and non-food as customers continued to adjust spending habits". The BRC added that "retailers hope sales will improve over the warmer summer months, especially as consumer confidence stabilises and inflation begins to ease." Elsewhere, the Barclaycard Consumer Spending report noted "overall Retail spending grew 2.2% compared to this time last year, a small increase on the 2.1% growth seen in March 2023." The report added that "Grocery spend increased by 5.5% this month, however this is less than the growth of 7.1% seen in March 2023 as 67% of consumers look for ways to reduce the cost of their weekly shop".

US PCE; PERSONAL INCOME, SPENDING (FRI): Core PCE prices are expected to rise 0.3% M/M in April, matching the rate of growth seen in March, while the annual measure is likely to remain at 4.6% Y/Y, Credit Suisse says. "The PCE deflator is likely to confirm that gradual disinflation continued in April, but the run rate remains above the Fed's target," the bank points out. Although the two series have differences, CPI data for April showed core goods prices picking up, but Credit Suisse says that disinflation in shelter (which has a smaller weight in the PCE series vs the CPI) should offset most of this so to keep the monthly inflation rate flat. Meanwhile, analysts expect both Personal Income and Personal Spending to register 0.4% M/M growth in April (from the prior 0.3% and 0.0% respectively). As a reference point, the April retail sales data was mixed (the headline disappointed, but the details were more encouraging); Capital Economics said the data indicated that the economy remained resilient to the impact of higher interest rates and tightening lending standards, but real consumption growth was still likely to slow quite sharply in H2.

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