



Week Ahead May 29th - June 2nd. Highlights include: US jobs report, US ISM, China PMI; inflation data from EZ and AUS

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- **MON:** US Memorial Day, UK Late May Bank Holiday.
- **TUE:** Japanese Labour Market Report (Apr), EZ Sentiment Survey (May).
- **WED:** Japanese Retail Sales (Apr), Chinese Official PMIs (May), Australian CPI (Apr), French, Italian, German Prelim CPI (May), German Unemployment (May), Canadian GDP (Q1).
- **THU:** ECB Minutes, CBRT Minutes, South Korea Import/Exports Growth (May), Chinese Final Caixin Manufacturing PMI (May), German Retail Sales (Apr), EZ/UK/US Final Manufacturing PMIs (May), EZ Flash CPI (May), US ADP National Employment (May), US ISM Manufacturing PMI (May), New Zealand Terms of Trade (Q1).
- **FRI:** US Labor Market Report (May).

NOTE: Previews are listed in day-order

TURKEY RUNOFF ELECTION (SUN): In the first round, the incumbent President Recep Erdogan received 49.5% of votes, narrowly missing an outright victory, while the main opposition leader, Kemal Kilicdaroglu, gained 44.9%. Erdogan's People's Alliance, comprising nationalist and Islamist parties, also retained a parliamentary majority, enhancing his re-election prospects. Sinan Ogan, the nationalist candidate who finished third in the first round of the Turkish presidential elections, has publicly endorsed Erdogan for the runoff vote scheduled for 28 May. Ogan, who garnered 5.17% of the votes, may be pivotal in determining the election outcome. Despite Ogan's endorsement, analysts suggest that not all his supporters may vote for Erdogan, with some potentially shifting to Kilicdaroglu or abstaining. Umit Ozdag, leader of the anti-migrant Victory party, distanced himself from Ogan's decision, indicating it didn't represent the party's stance. The latest opinion polls for the second round, by GEHSC / Globe Elections and Politico (on 25th and 24th May respectively), suggest Kilicdaroglu is trailing Erdogan, meanwhile, USD/TRY has risen back above 20. In terms of implications for the CBRT, analysts suggest that the trajectory of monetary policy will likely be significantly influenced by the result of the election run-off. They emphasise that whether the incoming administration after the second round of the presidential elections decides to alter or reassess the current economic model will be the factor to watch for the Turkish economy.

JAPAN RETAIL SALES (WED): Japanese Retail Sales are seen slowing to 5.8% Y/Y in April from 7.2% the month before. In March 2023, Japan saw increases in most sectors of wholesale and retail sales compared to the previous year, with particularly strong growth in food and beverage wholesaling and automobile retailing. Department stores and supermarkets also saw sales growth, albeit at a slower rate. However, some sectors such as miscellaneous good wholesaling and machinery, and equipment retailing saw decreases. Nonetheless, from the BoJ's standpoint, Governor Ueda said we are beginning to see good signs in the economy, but there is still some distance before stably and sustainably hitting the inflation target, and the BoJ will patiently sustain easy monetary policy as a result.

CHINA OFFICIAL PMI (WED): The official NBS PMIs are due on Wednesday, whilst the Caixin Manufacturing PMI is expected on Thursday. Both Manufacturing prints are forecast to return to expansion territory, with the NBS expected at 51.4 (prev. 49.2) and the Caixin expected at 50.3 (prev. 49.5). In April, China's manufacturing sector experienced an unexpected contraction for the first time this year. This downturn, which appears to be more than a transient setback, has primarily been driven by a weakening export market, reflected in a decline in export orders and import rates. This has resulted in reduced wages and employment in export-related industries, affecting the broader jobs market, including the service sector. Although the non-manufacturing sector witnessed a predictable slowdown in April due to the impending long holidays in May, the contraction in manufacturing could exert downward pressure on wages and subsequently slow retail sales growth, according to ING, which adds that in response to these challenges, China's government is expected to introduce stimulus measures to bolster both manufacturing and service sectors, potentially through initiatives like reinstating electric vehicle subsidies and fast-tracking infrastructure investments.



AUSTRALIA CPI (WED): The monthly CPI for April is expected to tick higher to 6.4% Y/Y from 6.3% in March. Last month saw an uptick in food prices, notably the 1.1% increase in fresh fruit & vegetables, and a 1.8% rise in dairy products. Meat and seafood prices saw a slight dip of 0.2%. Other sectors contributing to the rise included a 0.2% gain in clothing and footwear, and 2.6% hike in healthcare costs, counterbalanced by a 2.2% drop in auto fuel prices. RBA Governor Lowe will be delivering a speech on Tuesday, a day before the Australian CPI metrics, as he appears before the Senate in Canberra at 09:00AEST.

CANADA GDP (WED): Expected to rise +0.2% M/M in March (prev. +0.1%); that would be better than the StatsCan flash estimate released after the February data, were the agency said it was tracking growth of -0.1% M/M in March. Meanwhile, for Q1 as a whole, the expectation is for growth of 1.5% Q/Q annualised (prev. 0.0%). Ahead, Bank of Canada Governor Macklem mid-May said officials were not forecasting recession in Canada, but their base case is for a few quarters of slower but positive growth.

ECB MINUTES (THU): As expected, the ECB stepped down to a 25bps cadence of rate hikes from the 50bps unveiled in March. The decision to implement further tightening was based on the Governing Council's judgement that the "inflation outlook continues to be too high for too long". The smaller increment of tightening was likely amid concerns that "past rate increases are being transmitted forcefully to euro area financing and monetary conditions, while the lags and strength of transmission to the real economy remain uncertain". Moving forward, future "decisions will ensure that the policy rates will be brought to levels sufficiently restrictive...". The main surprise from the announcement came via the balance sheet, where the GC now expects to discontinue the reinvestments under the APP as of July 2023. Some observed that the decision on the balance sheet could have been part of a compromise between the doves and the hawks, with the latter favouring a 50bps hike or a potentially more aggressive rate path going forward, something which President Lagarde later denied. However, sourced reports later suggested that there was a deal involved, but the hawks apparently gave up on a 50bps hike without much of a fight. At her follow-up press conference, Lagarde stated that the policy decisions were not to be read as a "pause", and the ECB still had "more ground to cover", giving the announcement a more hawkish skew than the initial policy statement. In terms of the balance of views on the GC, Lagarde said that the decision was not unanimous, with some members preferring a 50bps adjustment. However, no members argued for an unchanged outing. Looking beyond May, Lagarde said she does not have an exact number for what "restrictive" will mean for the ECB with regards to the terminal rate, however, she judges the Bank will know when it gets there. The sources later revealed that some policymakers see two-to-three hikes ahead. As always, the account of the meeting will be deemed as stale to some. Furthermore, with a June hike fully priced in and the Bank in data dependent-mode, it's hard to see what, if anything, the account can reveal to help shape expectations for policy after next month's meeting.

CBRT MINUTES (THU): The Turkish Central Bank maintained its One-week Repo Rate at 8.50%, in line with market expectations. It reiterated that the current rate level was sufficient to facilitate a recovery from the early 2023 earthquakes. The CBRT's forward guidance was consistent with its previous report, emphasising financial stability concerns due to various factors, including a potential global recession. The domestic outlook was more optimistic, highlighting an expedited recovery in the earthquake-stricken region. It also restated the need for supportive financial conditions in response to the earthquakes, underscoring the alignment of all policy instruments with 'lirisation' targets. Following the first round of elections, the CBRT briefly expanded security maintenance requirements to encompass additional commercial and consumer loans, only to backtrack ahead of the electoral run-off. Despite these actions, increased regulations on daily bank FX transactions and 'lirisation' targets remain in effect. The future of CBRT policy could largely reside with the outcome of the election run-offs – "whether the new administration after the second round of the Presidential elections is to change/revise the new economy model will be a key issue for watchers of the Turkish economy", ING said.

EUROZONE FLASH CPI (THU): Headline inflation is expected to cool to 6.3% Y/Y in May from 7.0% prior; the "super core" metric is seen easing slightly to 5.5% Y/Y from 5.6%. Participants will be keeping an eye on the core and super-core metrics as lower energy prices and base effects temper the headline readings. "There should also be a slight negative effect from the food segment as cost pressures gradually ease," analysts at Moody's write, "however, we expect annual core inflation to be unchanged at 5.6% as an increase in services inflation balances out a decline in core goods inflation." The common denominator among recent speeches from ECB members is high persistent inflation. ECB hawk Knot recently suggested no sign underlying inflation is abating, and the ECB will hold rates at their peak for a significant time, adding that they need rate hikes of 25bps in both June and July, but is open-minded for September. Meanwhile, Vujcic said inflation momentum was still persistent and it is questionable that we will be able to get to 2% in the next two years. Chief Economist Lane highlighted there is no sense of certainty in the terminal rate, and added that uncertainty in models is high. The most recent S&P Global PMI data warned the ECB "will have a headache with the PM price data," because "selling prices in the services sector actually rose more than in the previous month and "upward momentum" is preventing the ECB from pausing.



US ISM MANUFACTURING PMI (THU): The consensus expects the headline to be little changed at 47.0 (prev. 47.1). Credit Suisse is a little more optimistic, but still expects the index to remain subdued at 47.5. Despite a slight decrease in the S&P Global manufacturing PMI in May, CS highlights that regional surveys indicate stabilisation, and point to improvements in ISM supplier deliveries, slight production growth in recent months, and declining inventories since January. "We expect global industrial production momentum to peak in May before declining into the third quarter," the bank writes, "tighter financial conditions and weak sentiment continue to exert pressure on goods demand from households and businesses, which will likely keep manufacturing growth below trend."

US LABOUR MARKET REPORT (FRI): The consensus looks for 180k nonfarm payrolls to be added to the US economy in May, and despite the upside surprise seen in April, the rate of payroll additions continues to ease (3-month average 222k, 6-month 278k, 12-month 333k). In terms of other gauges of labour market strength, the sub-indices within the PMI data saw a rebound, but the ISM equivalent was little changed, regional Fed surveys have been trending lower, while the NFIB's hiring intentions index is near a three-year low. The unemployment rate forecast to tick up by one-tenth to 3.5%, and the rate of average hourly earnings growth is seen paring to 0.4% M/M from 0.5% in April. Capital Economics says that wage growth is easing, but the unemployment rate remains low (the FOMC's March projections see the jobless rate rising to 4.5% by the end of this year).

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