Week Ahead June 12-16th: US CPI, FOMC, Retail Sales; ECB; PBoC, China activity data

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- **MON:** NY Fed Survey of Consumer Expectations.
- **TUE:** OPEC MOMR, German Final CPI (May), UK Jobs Data (Apr/May), German ZEW Survey (Jun), US CPI (May).
- **WED:** FOMC Announcement, IEA OMR (2024 Forecast), UK GDP (Apr), Swedish CPIF (May), EZ Industrial Production (Apr), US PPI (May), New Zealand GDP (Q1).
- **THU:** ECB Announcement, PBoC MLF Announcement, Eurogroup meeting, Japanese Trade Balance (May), Australian Job Report (May), Chinese Retail Sales and Industrial Production (May), US Philly Fed (Jun), US Retail Sales (May).
- **FRI:** BoJ Announcement, ECB TLTRO III.5-10 Repayment, EZ Final CPI (May), Uni. of Michigan Prelim. (Jun), Quad Witching.

NOTE: Previews are listed in day-order

UK JOBS REPORT (TUE): Expectations are for the headline unemployment rate in the 3-months to April to rise to 4.0% from 3.9%, whilst average earnings (ex-bonus) are set to rise to 6.9% from 6.7%; no consensus has been published for the other metrics. The prior report was characterised by an unexpected increase in the unemployment rate to 3.9% from 3.8% amid an increase in participation, whilst the timelier HMRC payrolls measure for April recorded its first decline since early 2021. On the wages front, average earnings held at 5.8%, as expected, suggesting that some of the upside momentum in wage growth is beginning to slow. This time around, analysts at Oxford Economics notes that based “on higher recent single-month readings, and the fact that January's low outturn will fall out of the three-month average, we expect unemployment to edge up to 4% in the February to April period”. On pay growth, the consultancy notes that “data has remained strong in recent months and we think both main measures are likely to have accelerated further in April because of the near-10% increase in the national minimum wage that month”. From a policy perspective, given that 25bps is nearly fully-priced for June on account of the April inflation data, the release will unlikely cause too much of a reshaping in BoE expectations.

US CPI (TUE): CPI is expected to rise 0.3% M/M in May, a little cooler than the prior 0.4%; the annual gauge is seen easing to 4.1% Y/Y from 4.9%. Bank of America is in line with the consensus in expecting the headline annual rate to fall to 4.1%, which would be the lowest reading since March 2021. BofA says the headline will be driven by a 3.0% decline in energy prices. It says that seasonal factors are also expected to contribute to the downward pressure. Food prices are anticipated to increase slightly due to a rise in food away from home, partially offset by a decline in food at home. Meanwhile, analysts expect the core measure to rise 0.4% M/M, matching the pace in April; the annual core measure is seen paring to 5.2% Y/Y from 5.5%. BofA says core inflation's rise will be led by a significant increase in used car prices, while core goods prices excluding used cars are expected to remain little changed. For core services, BofA sees a 0.4% increase, underpinned by shelter inflation, but offset by a decline in lodging away from home. BofA says it is closely monitoring supply chain pressures, trends in consumption spending on goods, and the ongoing deceleration in rent and owners' equivalent rent, and looking ahead, it expects a continued moderation in inflationary pressures.

FOMC POLICY ANNOUNCEMENT (WED): A Reuters poll revealed that economists generally expect the FOMC to hold rates at 5.00-5.25% next week, with only 8 of the 86 surveyed forecasting a 25bps rate rise. Looking ahead, 32 of the 86 economists surveyed still foresee at least one more rate hike later this year. Goldman Sachs thinks the Fed will pause at the June meeting to assess the impact of previous rate hikes, as well as tighter bank credit, before considering another rate increase, with officials likely seeing a pause as a prudent measure to avoid accidentally overtightening. Goldmans says that economic downside risks have diminished, with resilience seen in hard data like spending and the labour market outweighing weakness in other survey data. The bank recently lowered its outlook on a recession, assigning a 25% probability (from 35%), and argues that progress towards a soft landing is on track, supported by improvements in the jobs market, reduced labour shortages, and cooling wage growth. GS also notes that although core PCE inflation has fallen less than expected, a significant deceleration is anticipated later this year. The bank says Fed officials have less reason to be concerned compared to last summer as inflation psychology normalizes and signs of cooling emerge.

UK GDP (WED): Expectations are for M/M GDP in April to rise by 0.3% vs. the 0.3% contraction seen in March. The prior release saw a downturn amid softness in a range of sectors with some of the impact as a consequence of adverse weather and strike action. This time around, Pantheon Macroeconomics suggests that its forecast of 0.2% M/M would imply that the MPC's forecast of 0% Q/Q growth in Q2 would be "in the right ballpark". Drilling into the data, PM sees a strong case for expecting GDP to fare worse than indicated via business surveys given the exclusion of the construction sector, whereby construction output could fall by around 2.2% M/M which would trim GDP by 0.15pp. Furthermore, strike action is likely to have played a similar role in April as it did in March. Looking beyond April, the consultancy expects May's data to be impaired by the additional public holiday which will have weighed on output, whilst a 0.4% increase in June should see Q2 GDP steady at around Q1 levels. Thereafter, growth in H2 will likely benefit from a recovery in household disposable income amid the reduction in OFGEM's price cap.

NEW ZEALAND GDP (WED): Expectations are for a Q/Q print of -0.1%. The economy contracted by 0.6% in the last quarter of 2022, with several economists predicting a further contraction in Q1 this year. It's worth noting that Current Account data for Q1 is due a day before the GDP report and thus may change expectations. Ratings agency S&P previously stated that "Recession risks and reconstruction costs from Cyclone Gabrielle are delaying New Zealand's post-COVID fiscal repair." In the latest budget, the NZ Treasury now expects the economy to grow 1% in the 12 months to June, as opposed to moving into recession in the second half of this year. It noted that the cyclone rebuilds and the return of tourists were boosting activity. The RBNZ meanwhile recently said it expects the economy to have expanded slightly in the first quarter. It continues to see a shallow recession in the second and third quarters of this year.

CHINESE RETAIL SALES AND INDUSTRIAL PRODUCTION (THU): Expectations are for Y/Y Retail Sales in May to rise 13.9%, whilst there is currently no consensus for the IP data. To recap last month's data, both Retail Sales and IP missed analysts' forecasts and subsequently cast a shadow on the pace of China's economic recovery. Retail Sales printed at 18.4% (vs exp. 21%) and IP at 5.6% (exp. 10.9%). Desks, following the disappointing April data, suggest more fiscal support may be on the cards to support the economy. Reports last week suggested China is reportedly mulling a property-market support package to bolster the economy, while reports via China's Securities Journal this week suggested a RRR cut may be on the cards for H2. It was also reported earlier in the week that China has asked the largest banks to cut deposit rates to boost the economy, according to Bloomberg sources.

ECB ANNOUNCEMENT (THU): All 62 economists surveyed expect the ECB to come to market with another 25bps hike, taking the deposit rate to 3.5%. Market pricing concurs, with 26bps of hikes priced in for the announcement. To recap events at the previous meeting in May, the ECB stepped down to a 25bps increment from the previous 50bps adjustment with the need to keep on hiking justified by the judgement that the "inflation outlook continues to be too high for too long". The reason for the smaller size rate rise was based on the view that "past rate increases are being transmitted forcefully to euro area financing and monetary conditions". Since the prior meeting, headline Eurozone CPI has cooled to 6.1% from 7.0%, whilst the "super-core" measure fell to 5.3% from 5.6%. Furthermore, the ECB's Consumer Expectations survey for April saw the 1yr ahead inflation expectation decline to 4.1% from 5.0% and 3yr view fall to 2.5% from 2.9%. That said, despite the disinflationary impulses, President Lagarde has reiterated that inflation "is too high and is set to remain so for too long", adding that the ECB will "keep moving forward". In terms of what happens beyond June, as it stands, markets assign a roughly 75% chance of a further 25bps move in July. However, for now, the ECB will likely continue to stress its "data-dependent approach" and therefore any calls for next month will need to be premised on how the data plays out between now and then. Beyond July, markets will be paying attention to the accompanying macro projections and how medium-term inflation forecasts align with the ECB's mandate. On which, ING expects the 2025 headline and core inflation forecasts to be held at 2.1% and 2.2% respectively. That said, due to the recent inaccuracy of ECB projections, they will likely be taken with a large pinch of salt in some quarters.

US RETAIL SALES (THU): The consensus expects May's advance retail sales data to be unchanged vs the prior +0.4% M/M; the ex-auto and gas component is seen rising 0.3% M/M, paring from a rate of 0.6% previously, while the Retail Control Group is expected to rise 0.2% M/M following the 0.7% gain in April. Credit Suisse says the main factor driving the May weakness is likely to be a decline in nominal gasoline spending. However, when excluding auto and gas sales, retail sales are still expected to increase. Ahead, the bank has a bearish outlook for retail sales, noting that recent strength in the volatile non-store sales category is not sustainable. CS also expects sales of large durable goods related to housing to remain under pressure due to weakness in the housing market. Additionally, tighter financial conditions, diminishing excess savings, slower household income growth, and the resumption of student loan debt service in Q3 are expected to weigh on consumption growth.

BOJ ANNOUNCEMENT (FRI): The BoJ is expected to keep policy settings unchanged at its meeting next week with the Bank Rate to be kept at -0.10% and QQE with YCC to be maintained at the current parameters. As a reminder, the BoJ kept its policy settings unchanged at the last meeting in April which was the first policy decision under Governor Ueda's leadership, with the decision on QQE with YCC made unanimously, while it tweaked its forward guidance whereby it dropped the reference to the COVID-19 pandemic and its pledge to keep interest rates at current or lower levels, although the new guidance remained dovish with the BoJ 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, but 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. Since then, rhetoric from the central bank has continued to suggest a lack of urgency to normalise policy as Governor Ueda has repeated that there is still some distance before hitting the inflation target stably and sustainably and the BoJ will patiently sustain easy monetary policy, while he added that the BoJ must avoid tightening prematurely and should stick to its 2% inflation target. Ueda also warned that premature tightening could hurt companies even in good health and may weaken the economy's potential, as well as noting that patiently maintaining easy policy would heighten Japan's potential growth in the long run. The recent data releases have been mixed which support the view of keeping policy settings unchanged with the Revised GDP for Q1 stronger than expected at an annualised growth rate of 2.7% vs. Exp. 1.9% (Prelim. 1.6%), although the latest Industrial Production, Retail Sales and Household Spending figures all disappointed, while inflation metrics were mostly in line with expectations with the headline and core CPI at 3.5% and 3.4%, respectively, but CPI Ex. Fresh Food & Energy YY showed the fastest pace of increase since September 1981 at 4.1%. Nonetheless, this is not expected to spur a policy shift from the central bank as Governor Ueda has noted that they haven't achieved sustainable 2% inflation and inflation is to slow greatly around the middle of FY23.

ECB TLTRO REPAYMENT (FRI): The repayment figure for ECB TLTRO III.5-10 will be announced on June 16th at 11:05BST, by which point EZ banks should have repaid around half the outstanding TLTRO funding and Goldman Sachs looks for some EUR 500bln of repayments. Subsequently, the key repayment date GS identifies is March 2024, though when that arrives over 90% of the TLTRO funds will have been repaid. In terms of reaction, the bank does not believe the announcement will result in banking system tensions. Given much of the focus for TLTRO is on Italy, it is worth highlighting that the BTP-Bund yield spread remains steady below 180bps. On June 28th, the TLTRO.III 4 operation will mature and SocGen writes this will represent flows of circa. EUR 480bln with the bulk potentially arising from Italy given domestic data points to borrowing of near EUR 250bln in this tranche. SocGen highlights that whether the maturity has an impact is dependent on a number of factors and as such expects some risk premia to emerge in the Italian repo market; but adds that if this passes by without incident, so should the remainder of 2023.