Week Ahead June 19-23rd: BoE, SNB, PBoC, Norges; UK & Japan CPI, Flash PMIs

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- **MON:** US Juneteenth Market Holiday
- **TUE:** PBoC LPR Announcement, RBA Minutes, NBH Announcement, German PPI (May), US Building Permits (May)
- **WED:** BoC Minutes, BCB Announcement, CNB Announcement, UK Inflation (May), New Zealand Trade Balance (May)
- **THU:** BoE Announcement, SNB Announcement, Norges Bank Announcement, CBRT Announcement, Banxico Announcement, Bank of Indonesia Announcement
- **FRI:** Japanese CPI (May), UK Retail Sales (May), EZ/UK/US Flash PMIs (Jun)

NOTE: Previews are listed in day-order

PBOC LPR (TUE): The PBoC is likely to cut its Loan Prime Rates next week with the 1-Year LPR, which most loans are based on, currently at 3.65% and the 5-Year Loan Prime Rate, the reference rate for mortgages, currently at 4.30%. Expectations for the PBoC to cut its benchmark lending rates follow the recent developments in China where the Big 4 banks and other lenders reduced their deposit rates at the request of authorities in Beijing to support the economy after a spate of weaker-than-expected data releases. Soon afterwards, the PBoC cut its 7-day Reverse Repo rate by 10bps for the first since August, which was then followed by similar cuts to its Standing Lending Facility and the 1-year MLF rate which serves as a fairly accurate precursor for the central bank's intentions for its benchmark lending rates. The ongoing growth concerns have prompted other support measures from Beijing with the state planning agency pledging that China will steadily lower loan interest rates and introduce targeted tax and fee reduction policies in science and tech, as well as guiding financial institutions to raise medium and long-term loan issuance for the manufacturing industry, while sources also noted that China is said to be weighing broad stimulus with property support and rate cuts which the State Council may discuss this Friday.

RBA MINUTES (TUE): Desks will be dissecting the minutes for more colour surrounding the RBA's latest hike. To recap, the Central Bank surprisingly raised the Cash Rate Target by another 25bps to 4.10% (exp. 3.85%), while it reiterated that the Board remains resolute in its determination to return inflation to target, and some further tightening of monetary policy may be required. It also repeated that inflation in Australia has passed its peak, but at 7% is still too high and it will be some time yet before it is back within the target range. The Bank stated that this further increase in interest rates is to provide greater confidence that inflation will return to target within a reasonable timeframe, as well as noting that recent data indicates that upside risks to the inflation outlook have increased and the Board has responded to this. Following the decision, analysts at Deutsche Bank suggested markets should price in more than just one additional rate hike.

BOC MINUTES (WED): The minutes will be eyed for commentary around an appetite for further rate hikes after the central bank hiked by 25bps at its June confab. Expectations in June were split between a hike or an unchanged rate. The BoC noted the decision to lift the overnight rate was based on the view that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target level. However, it did remove language from April that it was prepared to raise rates further if needed. In a following speech by Deputy Governor Beaudry, he noted the Bank is taking it one meeting at a time and that nothing is determined looking forward when asked whether the BoC has a bias to further tightening. Nevertheless, the latest poll via Reuters found that 20/25 analysts expect another 25bp hike in July, taking its key rate to 5.0%, while all those surveyed said there is a larger risk of the terminal rate being higher than expected. The last monetary policy statement noted that the labour market remained tight and excess demand in the economy looks to be more persistent than anticipated, although the May Canadian jobs report was a shock disappointment (-17k, exp. +23k), so commentary on the labour market will also be eyed, albeit given the data came after the meeting, it is unlikely the jobs report was incorporated into the decision. Analysts at Oxford Economics suggest the BoC needs to see wage growth slow to 3-3.5% to be confident of inflation returning sustainably to target.

UK INFLATION (WED): Expectations are for headline Y/Y inflation in the UK to fall to 8.5% from 8.7% with the core rate seen ticking lower to 6.7% from 6.8%. The prior report saw a decline in headline inflation to 8.7% from 10.1%, however,

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this was a far cry from the consensus of 8.2%, whilst services inflation climbed to 6.9% from 6.6%, which was above the MPC's forecast of 6.7%. Pantheon Macroeconomics noted that the upside surprise appeared to have come from "a wide range of services prices, especially insurance premiums, which are continuing to rise very quickly". The reaction to the data saw market pricing for a June hike move to 100% vs. 83% pre-release and nudged the terminal rate forecast higher to 5.25% from 5.0%. For the upcoming report, Pantheon Macroeconomics expects the headline rate to fall to 8.5% from 8.7%, which would be an overshoot of 0.2pp on the MPC's forecast. PM expects declines in the headline rate to be driven by non-core components amid declines in motor fuel prices and food inflation. The consultancy adds that "all three of the survey indicators we use to forecast the core goods CPI point to a slight loss of momentum in the pace of price rises". On services inflation, PM looks for an uptick to 7.0% from 6.9% in April on account of an increase in the transport services component. From a policy perspective, the release will take place on the morning before the BoE rate decision, however, with a 25bps rate hike fully priced in, the data is unlikely to cause a reassessment of views at the Bank.

BCB ANNOUNCEMENT (WED): Brazilian Central Bank is expected to maintain the Selic rate at 13.75%, once again, which comes after the hold at 13.75%, as expected, in the prior meeting. However, in a dovish twist the BCB said that "although a less likely scenario, will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected." Accompanying commentary noted it will "assess if its strategy to maintain the Selic rate for a long period will be sufficient to ensure the convergence of inflation to target." Since then, ICPA inflation data for May fell to 3.94% Y/Y (exp. 4.04%, prev. 4.18%), with M/M dipping to 0.23% (exp. 0.33%, prev. 0.61%), which led Pantheon Macroeconomics to add "with inflation at its lowest rate since late 2020, and leading indicators pointing to a benign outlook in the near term, it is opening the door for rate cuts as soon as Q3." Since this data, BCB Chief Neto said inflation started to fall earlier and has been falling reasonably lately, but will have inflation between 4.5-5% this year, better than we had expected, but core inflation is still high. In response to government calls for rate cuts, the Chief further noted he hopes every day they can cut rates but stressed need to do it with credibility. Lastly, and most recently retail sales, albeit for April, rose 0.1% M/M (exp. 0.2%, prev. 0.8%) and 0.5% Y/Y (prev. 3.3%). As such, Pantheon noted it is a "relatively decent start to the year confirming that lower inflation, the boost from the BRL rebound, and government cash transfers, are offsetting the drag from tighter financial conditions, at least for now and at the headline level." Overall, it concludes, risks remain tilted to the downside, and some of the retail sales details are confirming that increased borrowing costs are starting to bite but the good news is that we expect these downside forces to ease from late Q3 onwards, as the COPOM begins cutting interest rates.

BOE ANNOUNCEMENT (THU): 64/64 economists surveyed by Reuters expect the BoE to raise rates by another 25bps, taking the Base Rate to 4.75%. Markets concur with a 25bps hike priced in and a small chance of a 50bps move. The expectation for the Bank to deliver further tightening stemmed from the April inflation release which saw the headline Y/Y fall to 8.7% from 10.1%, but not meet market expectations for a decline to 8.2%, whilst the core reading rose to 6.8% vs. expectations that it would hold steady at 6.2%. The release was then followed up by a jump in headline earnings growth in the 3M/YY period in April to 6.5% from 6.1%, whilst the unemployment rate unexpectedly fell to 3.8% from 3.9% (consensus was for an increase to 4.0%). In terms of commentary from the MPC, Governor Bailey has stated that the Bank has put more inflation persistence into its models and food inflation is taking a lot longer to come down than expected. Elsewhere, known-hawk Mann has stated that services inflation is a concern and inflation expectations remain high. With a June hike nailed-on, attention will be on any guidance provided by the Bank. As it stands, existing guidance notes that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". In terms of market pricing, a total of 125bps (including June) is currently expected. However, many analysts suggest that this looks a bit aggressive with 50bps further hikes judged to currently be the base case. Note, the upcoming release will not be accompanied by a MPR and therefore, the MPC will not have an explicit quantitative means by which they can push back on this pricing. It remains to be seen if the policy statement will push back on such an aggressive rate path.

SNB ANNOUNCEMENT (THU): Expected to continue the tightening cycle from the current 1.50% policy rate in order to bring inflation back into the 0-2.0% target band from the May 2.2% YY figure. Further tightening is expected given that inflation remains above forecast alongside the tone of recent SNB commentary. On the latter, expectations for a hike were cemented by hawkish remarks from Chairman Jordan, speaking after May's CPI, that inflation is more persistent than thought and both second- and third-round effects are being seen. Additionally, Jordan made clear furthering policy tightening is on the cards by adding that "Swiss rates are relatively low, and it is not a good idea to wait for inflation to increase and then having to hike". Currently, market pricing looks for a 25bp hike to 1.75% which would be a step-down from the recent 50bp pace that would be merited by the marked pullback from the prior in May's CPI data; albeit, inflation is ultimately still above target. However, the domestic economy is experiencing a relatively mixed performance with the ZEW in particular highlighting areas of concern. Overall, the above remarks from Jordan mean the SNB is unlikely to be dissuaded from further tightening, though the trajectory for inflation means the peak is near and thus the prudent magnitude is likely to be 25bp.

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NORGES BANKS ANNOUNCEMENT (THU): Forecast to hike by 25bp to 3.50% from 3.25%, a move which would chime with the guidance from May and is justified as a balancing act between a CPI resurgence and surprisingly soft growth data; though recent releases mean 50bp cannot be dismissed. On the growth data, SSB points out that “there might be indications that increased interest rates and inflation are starting to have an impact on disposable income. The decline in April appears in parts of the economy that are affected by changes in household purchasing power.”. While 25bp is expected, the mentioned resurgence in price pressures across the board within May’s CPI release arguably merits a 50bp hike. Finally, the Regional Network report was constructive on the growth front overall, and as such seemingly provides the Norges Bank with enough cover to continue tightening and adds further credence to those calling for 50bp. Rates aside, accompanying guidance will be crucial as the current repo path implies a 3.60% peak and given the above is likely to be lifted to or perhaps even over 4.00%. Additionally, the timing for the first rate cut could be pushed out in order to convey the Bank’s conviction in bringing inflation sustainably back to target. As of the March MPR, a cut is not fully implied until around the mid-point of 2025.

CBRT ANNOUNCEMENT (THU): There are currently no expectations for what the CBRT will opt to do at its upcoming meeting – the first under new and first female Governor Hafize Gaye Erkan. Desks have suggested that Turkey may return to more orthodox policies following the fallout from the elections and a record-low Lira. The bets for policy normalisation came in part after the newly-appointed Finance Minister Simsek vowed to restore “rational” policies in Turkey. Analysts have made some big calls for the upcoming meeting, with JP Morgan expecting the CBRT to hike rates from the current 8.5% to 22% on June 22, and the bank expects the rate to be at 30% by year-end, with risks to the upside. Goldman Sachs meanwhile said "fully orthodox" policymakers would raise rates to 40%. That being said, it’s important to remember the slew of central bankers fired by President Erdogan in the past for hiking rates against his will, which brought to question the CBRT’s independence.

BANXICO ANNOUNCEMENT (THU): The Central Bank of Mexico is expected to leave rates unchanged at 11.25% again at the June meeting after pausing in May and saying it "considers that it will be necessary to maintain the reference rate at its current level for an extended period". The May meeting minutes saw one member suggest it is too early to be considering rate cuts, while another suggested it cannot be ruled out that greater or lesser tightening may be required. The prior meeting did reveal that Banxico considers the economy has begun to undergo a disinflationary process, given that many pressures have eased. However, it repeated that the balance of risks for the trajectory of inflation remain biased to the upside throughout the end of 2024, when it expects inflation to return to the 3% target level. Governor Rodriguez has also repeated the guidance since, saying it is still necessary to maintain the reference rate at its current level for a prolonged period, while Deputy Governor Espinsoa noted it is important to keep rates restrictive. Looking ahead, analysts at Pantheon Macroeconomics expect the central bank to turn dovish soon, and open up the door for rate cuts in H2 23. PM note the MXN has performed well recently and if sustained it will help to continue pushing down inflation expectations and actual inflation in the near term. Pantheon suspect Banxico will likely remain on hold over the coming meetings, but gradually adopt a dovish tone as disinflation continues. It is worth noting the last meeting saw Banxico lower its 2023 headline inflation forecasts, while the May inflation report came in cooler than expected and the prior on both headline and core metrics, with M/M CPI declining 0.22%, a welcome sign for the Banxico in its fight against inflation.

JAPANESE CPI (FRI): Japanese inflation data for May is due next Friday and will likely remain elevated after the 3.5% increase to headline National CPI and the 3.4% rise in the Core (Ex. Fresh Food) reading in April which were both in line with expectations and accelerated from previous levels of 3.2% and 3.1%, respectively, while CPI Ex. Fresh Food & Energy was softer than expected at 4.1% (exp. 4.2%, prev. 3.8%), but still showed the fastest pace of increase since September 1981. The rise in prices is largely being driven by a weaker currency and Japan’s dependence on imports with food prices remaining among the largest contributors to inflation and offsetting the effects of a decline in fuel prices, as well as the government’s electricity subsidies. However, the Tokyo inflation data for May, which provides a leading indicator for national price trends, showed that headline and core inflation eased to 3.2% from 3.5%, and softer than the respective 3.9% and 3.3% estimates to suggest inflation was stabilising, although Ex. Fresh Food & Energy CPI continued to accelerate, to 3.9% from 3.8%, as expected.

UK RETAIL SALES (FRI): Expectations are yet to be published for the release. However, in terms of recent retail indicators, BRC retail sales in May rose 3.7% Y/Y on a LFL basis with the consortium noting “the trio of bank holidays failed to get shoppers spending as sales growth slowed to its lowest level in six months. While food sales got a boost from the Coronation weekend, this was not sustained for the rest of the month. Meanwhile, growth in discretionary spend continued to tumble as the high cost of living squeezed households”. Elsewhere, the Barclaycard Consumer Spending report stated “overall Retail spending grew 3.2% compared to this time last year, with the growth driven by an increase in Grocery spend of 8.9% this month”. Ahead of the release, Oxford Economics states that it expects the headline Y/Y rate to rise to -2.3% from -3.1% with the M/M print seen falling to 0.1% from 0.4%. The consultancy notes “May had an extra bank holiday to celebrate the King's coronation. Past experience has shown that the positive impact extra bank holidays have on food-store sales tends to be offset by a larger drop in activity in other retail sub-sectors”.

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EZ FLASH PMI (FRI): Expected to show incremental deterioration from the prior prints with Manufacturing moving further into contractionary territory, while the Services and Composite continue to show expansion, though at a slower pace. May's EZ PMIs were slightly softer than expected overall, but nonetheless pointed to Q2 GDP growth given the "healthy state of the services economy"; since then, revised Q1 GDP pushed the EZ into a technical recession. For June, the first indication for the month via ZEW was marginally softer than the previous given mixed, but ultimately bleak accompanying German figures which point towards a third consecutive quarter of contraction for the bloc's largest economy. For the ECB, the release is unlikely to change the near-term narrative and comes after a 25bp hike in June. Though, as mentioned after the ZEW release, if Q2 EZ GDP points to continued economic contraction/stagnation then it may well embolden the dovish side of the Board somewhat, but ultimately the ECB remains inflation-driven.

UK FLASH PMI (FRI): Forecast to show a slight deterioration from the prior readings and keep the marked divergence between Services and Manufacturing intact, with the former pointing to ongoing UK strength overall. May's release was incrementally softer than expected and was judged to be consistent with Q2 GDP of 0.4% after Q1's 0.1% print. Since then, domestic data has remained strong with April Retail Sales firmer than expected and a hot April/May labour market report and particularly strong April wage metrics. Given essentially all inputs released since the May PMIs have been hawkish from a BoE perspective, the June Flash release will be scrutinized and especially for any factors that serve to push back on the current markedly hawkish BoE pricing. Irrespective, barring a significant turnaround in price pressures or a pullback in the broader economic performance, the BoE is seen highly likely to take the Bank Rate to around 5.00%; thereafter, substantial discrepancies exist between market pricing and bank calls.

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