Week Ahead June 26-30th: Highlights include US PCE, EZ Flash CPI, Canadian CPI, Riksbank and ECB TLTRO

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- **MON:** BoJ SOO, German Ifo Survey (Jun)
- **TUE:** Canadian CPI (May)
- **WED:** ECB TLTRO-III.4 Operation Matures, German GfK (Jul), Italian CPI (Jun)
- **THU:** Riksbank Announcement, Japanese Retail Sales (May), EZ Sentiment Survey (Jun), German Prelim. CPI (Jun), US GDP Final (Q1) and PCE (Q1)
- **FRI:** Japanese Tokyo CPI (Jun), Chinese NBS PMIs (Jun), German Unemployment (Jun), EZ Flash CPI (Jun), US PCE (May), US Chicago PMI (Jun), and Uni. of Michigan Final (Jun)

NOTE: Previews are listed in day-order

BOJ SOO (MON): The BoJ will release the Summary of Opinions from the June 15th-16th meeting where the central bank maintained its ultra-easy policy settings, as widely expected, with the Bank rate kept at -0.10% and QQE with YCC left unchanged at the current parameters to target 10yr JGB yields at around 0% within a +/-50bps band. The BoJ's statement from the meeting provided very little in the way of fresh insight as it maintained the view that core consumer inflation is likely to slow the pace of increase towards the middle of the current fiscal year and noted that inflation expectations are moving sideways after heightening. Furthermore, its language on the economy was mixed in which it noted that Japan's economy is picking up and is likely to continue recovering moderately, but also stated that uncertainty is very high, which is supportive of the view that the Bank will continue to take a cautious and patient approach. The commentary from BoJ Governor Ueda at the post-meeting press conference also pointed to a lack of urgency to tweak policy as he stated that more time is needed to meet the 2% inflation target and warned that responding to an inflation undershoot after a premature rate hike is more difficult than responding to an overshoot, but also noted they are weighing the benefits and side-effects of YCC and will update regarding the progress of the review of past policies on the BoJ website starting from July.

CANADIAN CPI (TUE): Currently, there are no expectations for the Canadian inflation metrics next week, but it will be a key input in determining the BoC's next move after they resumed rate hikes at the last meeting. The BoC's minutes stressed data dependence and noted the hike in June was decided after data since April tipped the balance of inflation risks to the upside. Markets currently assign a 70% chance of another 25bp hike in July, and this data may help further cement expectations, while the jobs report on July 7th will also be key. The headline inflation will likely ease thanks to a decline in energy prices, but the core metrics will help determine how sticky inflation is, particularly the BoC-eyed trimmed, median and common measures. All three are gauges of core inflation, with the former excluding data points located in the tails of the distribution of price changes, removing 20% of the weighted price variations at the top distribution, as well as the 20% at the bottom. The Median is a measure of the price change located at the 50th percentile, the midpoint of the whole CPI basket. Common measures the common price changes across the basket, which helps filter out price movements that might be caused by factors specific to certain components.

ECB TLTRO Maturity (WED): On June 28th, the ECB's TLTRO.III 4 operation will mature and represent flows of around EUR 480bln, of which the bulk will potentially arise from Italy as domestic data points to as much as EUR 250bln worth of borrowing in the associated tranche. For reference, the relevant early repayment window to the ECB in March saw EUR 87bln voluntarily paid back. Heading into the May announcement, there was some expectation that the ECB could unveil a new funding facility or similar in order to plug the liquidity gap that the maturity could cause. However, no such measures were announced at either the May or June meetings, Lagarde once again pointed participants towards the MRO and LTRO facilities. The likes of SEB and BNY Mellon make the case that a new measure would be "strange" and there is already too much liquidity relative to issuance. In terms of market reaction, SocGen highlights that whether the maturity impacts is dependent on numerous factors and therefore they would expect some risk premia to emerge in Italy's repo market; UniCredit forecast such rates lifting 5-10bp above the ECB's 3.50% Deposit Rate. By extension, Italian banking names will be subject to enhanced scrutiny on and around the 28th of June.

RIKSBANK ANNOUNCEMENT (THU): The Swedish Central Bank is expected to hike by 25bp to 3.75%, with SEB judging risks around the decision as being broadly neutral given market pricing is essentially entirely for a 25bp move.

However, 50bp cannot be dismissed given the ongoing SEK depreciation and the hot May CPIF. Thereafter, these factors mean the Policy Path will likely see an upgrade to imply some further tightening by end-2023, though a typical 25bp increment may not be fully priced to provide optionality, in fitting with the approach of previous gatherings. Rates aside, bond divestments could be used as another tightening tool and perhaps a compromise for 25bp rather than another 50bp hike. On this, SEB expected the current SEK 3.5bln/month pace to increase to SEK 6-7bln/month; and while it is unclear how the summer sale pause will be addressed, divestments of some form are likely. Analysts at Nordea suggest that the Riksbank is likely to raise the policy rate by 25bps to 3.75% in June due to the ongoing depreciation of the SEK exchange rate. The bank predicts a further 25bps hike in September, peaking the policy rate at 4.00% this year. To further tighten monetary policy, Nordea expects the Riksbank to increase government bond sales volumes from SEK 3.5bln to SEK 5bln per month after the summer. “Another potential measure is extending the maturity of Riksbank certificates. This could raise market rates and make investments in SEK more attractive to foreign investors.”, according to the Swedish bank.

JAPANESE TOKYO CPI (FRI): Tokyo inflation data for June is due next Friday and largely viewed as a leading indicator for national price trends and participants will be keen to see if there is a further slowdown from the 3.2% increases for both the capital region’s headline CPI and Ex. Fresh Food CPI price growth in May which were both softer than the market estimates of 3.9% and 3.3%, respectively. These were also slower than the previous readings of 3.5% each which suggests that inflation was stabilising, although Ex. Fresh Food & Energy CPI continued to accelerate, as expected, to 3.9% from 3.8% for its fastest pace of increase since 1982 as companies continued to pass on higher costs to customers. Therefore, markets will be looking at the upcoming data to see what trend inflation may take, although the release is not expected to have any ramifications for BoJ policy unless there is a large enough shock to alter the current thinking that the pace of core consumer inflation is likely to slow towards the middle of the current fiscal year.

CHINESE NBS PMIS (FRI): There are currently no expectations for the upcoming “official” Chinese PMI data, although an improvement could be on the cards after last month’s disappointing metrics and following the recent slew of rate cuts by the PBoC and reports of stimulus seen in June. The 10bps cut to the PBoC's benchmark lending rates (LPRs) earlier in the week was unsurprising after the central bank recently delivered similar cuts to the 7-day reverse repo rate (13th June), standing lending facility and 1yr MLF (15th June). The rate cuts also followed mid-June reports that Beijing is planning major steps to revive the country’s flagging economy, including the possibility of billions of dollars in new infrastructure spending, and looser rules to encourage property investors to buy more homes, according to the WSJ citing sources, while Bloomberg sources reported that China is said to be weighing broad stimulus with property support and rate cuts. On Friday 2nd June, it was reported that China is mulling a property-market support package to bolster the economy, according to Bloomberg sources who said regulators are considering reducing the down payment in some non-core neighbourhoods of major cities, alongside lowering agent commissions on transactions, and further relaxing restrictions for residential purchases under the guidance of the State Council. The report added that China is working on a new basket of measures to support the property market after existing policies failed to sustain a rebound. Analysts continue to flag China’s sluggish recovery from its zero-COVID-related hit, with several desks cutting their GDP forecasts for 2023 – the latest names including Nomura, Goldman Sachs and Citi. Analysts at ING anticipate more cuts to follow, although in iterations, suggesting that “more will likely follow in the months ahead as the economy continues to struggle”.

EZ FLASH CPI (FRI): Expectations are for Y/Y HICP to fall to 5.7% from 6.1%, but with the super-core metric expected to rise to 5.5% from 5.3%. The prior report saw a notable decline in the headline rate of inflation from 7.0% to 6.1% with the fall broad-based across categories, whilst the core was distorted by a public transport discount in Germany. For the upcoming release, Credit Agricole expects the headline rate to be dragged lower by strong negative base effects from energy and food prices with the former set to delve further into negative territory. However, there will be a large positive base effect for services "coming from Germany’s EUR9 ticket last year, which will fuel services inflation in Germany, and by extension in the Eurozone, from June to August". From a policy perspective, a 25bps hike from the ECB is priced at around 85%. Evidence of a sticky core rate will likely solidify the chance of a move next month given that policymakers from the Bank have continued to talk up the possibility of further tightening in July.

US PCE (FRI): Headline PCE is expected to show signs of cooling once again, markets look for a 0.1% rise, down from the prior 0.4%, and while there is currently no estimate for the Y/Y, which previously rose 4.4%, analysts at Credit Suisse look for a decline to 3.9% due to lower energy prices. Core PCE is also expected to cool M/M, but not to the same extent. Core PCE is seen rising 0.3% in May from the 0.4% pace in April, with the Y/Y seen at 4.7%, matching the prior rate. PCE, the Fed's preferred gauge of inflation will be viewed in helping determine the Fed's next move. Recent inflation reports, including the May CPI and PPI, were cooler than expected, and we will be looking to see if that trend follows suit in the PCE report. The latest Fed meeting saw them initiate a "skip", with Powell noting the July meeting is a live one. Currently, markets are pricing in a c. 75% probability of a 25bp hike in July, and just a 25% chance of another unchanged outturn. The Fed's recent dot plots have guided us to two more rate hikes, taking rates to between 5.50-5.75%, however markets are pricing in a peak rate between 5.25-5.5%. Therefore this data will also be eyed to garner how much tightening is required to help bring inflation back down to the Fed's 2% target. However, given their highly data dependent stance, it will only be one part of the puzzle. Ahead of the July 26th FOMC, we will be seeing another jobs and CPI report to also help gauge expectations, and it will be more timely June data - but all will be key.