Week Ahead July 10-14th: US and China CPI; BoC, RBNZ, BoK; ECB and Riksbank Minutes; UK Data

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- **MON:** Riksbank Minutes, Bank of Israel Announcement, Chinese Inflation (Jun), Norwegian CPI (Jun), Chinese New, Yuan Loans (Jun)
- **TUE:** EIA STEO
- **WED:** BoC Announcement, RBNZ Announcement, German CPI Final (Jun), UK Jobs Data (May/Jun), German ZEW Survey (Jul), US CPI (Jun)
- **THU:** ECB Minutes, BoK Announcement, OPEC MOMR, IEA OMR, EU-Japan summit, UK GDP (May), US PPI final Demand (Jun)
- **FRI:** US University of Michigan Prelim. (Jul), German Wholesale Price

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NOTE: Previews are listed in day-order

RIKSBANK MINUTES (MON): June's meeting saw a 25bp hike as expected and guidance for further tightening ahead alongside a step up in the pace of bond sales. All measures which were more or less expected heading in. From this, the minutes will be scrutinised for just how much further tightening is likely, with the statement stating "at least one more hike this year". Additionally, it will be interesting to see if any member(s) would have preferred another 50bp increment. The increased pace of bond sales to SEK 5bln from 3.5bln was shy of SEB's 6-7bln forecast, and as such any discussion around alternative magnitudes will be closely monitored. Most interestingly, though not designed for monetary policy purposes, details on the Riksbank announcing it is considering hedging some of its FX reserves are keenly sought. Given that details are currently light, particularly on the monetary/SEK implications; though, desks are viewing it as a balance-sheet-related measure, not a behind-the-scenes way of influencing inflation and/or the SEK.

CHINA INFLATION (MON): There are currently no expectations for the June inflation metrics. In terms of last month's print, annual inflation rose slightly to 0.2% in May 2023, falling short of the 0.3% market forecast, albeit rising from April's 26-month low of 0.1%. Increased costs for fruit and cooking oil helped push up food inflation, while transport and housing costs dropped. Core consumer prices rose 0.6% year-on-year. Consumer prices saw a 0.2% monthly drop, marking a fourth consecutive m/m decrease. Using the Caixin PMIs as a proxy, the release suggested "Average input prices fell for the first time in just over three years, albeit fractionally, which in turn was driven by a drop in manufacturing costs. Output charges fell slightly and for the third month in a row", although the Senior Economist at Caixin also suggested, "A slew of recent economic data suggests that China's recovery has yet to find a stable footing." Analysts at ING suggest "Weak domestic demand is the main culprit, though there are also some helpful base effects and we should see inflation return to around a 2% rate over the coming months. PPI inflation will remain strongly negative, reflecting weak factory gate prices as well as subdued commodity prices."

NORWAY CPI (MON): In May, the core YY figure printed markedly above forecast at 6.7% (exp. 6.2%, and the Norges Bank's expected 6.01%) and was a key driver behind the Norges Bank's decision to hike by 50bp in June. In terms of the forecasts from that meeting, the Bank significantly upgraded the June view to 6.58% (prev. 6.01%) for CPI-ATE. As it stands, the Norges Bank's guidance is for another hike "most likely" occurring in August, with the rate seen increasing to 4.21% by end-2023. In the scenario that CPI-ATE remains around the May figure, i.e. above the new June forecast, this week then it may well serve to cement expectations for a hike in August and make another 50bp move a real possibility.

UK JOBS DATA (TUE): The ex-bonus average earnings (May) print is expected to moderate slightly from 7.2% to 7.1%, while the Unemployment rate (May) is seen remaining at 3.8%. While the employment metrics will draw focus, and have influence for GDP ahead along with BoE expectations, the main focal point of the release will be wages, particularly after the particularly firm data in June for the April period. Reminder, that release showed the largest growth rate for regular pay outside of the COVID period, and (when Gilts opened) sparked a marked hawkish reaction. For May, the associated CPI and PMI prints have had hawkish implications; in particular, the May Services PMI highlighted "Intense wage pressures continued across the service economy, despite a moderation in employment growth.", with the latter remark also of note for the accompanying unemployment metrics. For the BoE, the data is another piece in the puzzle before the August 3rd meeting where the wage figures and the June CPI (due July 19th) will be key in determining whether another 50bp is delivered or if a return to 25bp is justified.

RBNZ POLICY ANNOUNCEMENT (WED): The RBNZ is likely to keep the Official Cash Rate unchanged at next week's meeting at the current 5.50% level, with money markets pricing in a 92% probability that the central bank holds rates and just an 8% chance of a 25bps hike. As a reminder, the RBNZ unsurprisingly hiked rates by 25bps at the last meeting in May which was made by a majority of five votes to two and was the first time the Monetary Policy Committee voted on the decision. The announcement was seen as a dovish hike as the central bank maintained its peak rate forecast at 5.50%, and therefore implied that its hiking cycle is done, while it also omitted prior language regarding further rate increases and stated that the OCR is set to remain restrictive for the foreseeable future. The central bank also noted that the level of interest rates is constraining spending and inflation, while inflation is expected to continue declining from the peak and it forecast negative GDP growth for Q2 and Q3. Since that meeting, Governor Orr stated that rates are restrictive and well above neutral, as well as noting that economic growth and inflation are weaker than expected, while Assistant Governor Silk suggested being mindful of over-tightening monetary policy and that they can halt to see how things go. Furthermore, the latest GDP data showed that the economy dipped into a recession with Q2 GDP Q/Q at -0.1% vs. Exp. -0.1% (Prev. -0.6%, Rev. -0.7%) which further reduces the prospects of a rate hike.

US CPI (WED): Consumer prices are seen rising +0.2% M/M in June (prev. 0.1% M/M), while the annual measure is expected to pare back to 3.0% Y/Y from 4.0% in May. Core consumer prices are expected to rise 0.3% M/M (prev. 0.4% M/M), while the annual measure of core inflation is expected to slip to 5.0% Y/Y from 5.3% in May. Credit Suisse says the easing core inflation would be welcome for the Fed since it has been stuck around a monthly rate of 0.4% this year. The bank notes that the volatile used auto prices component is are expected to decline after a period of strong increases, while other goods categories are likely to have minimal inflation. Meanwhile, on the services inflation front, CS says that services inflation including shelter is expected to continue declining, with hotel prices weighing; ex-shelter, the bank predicts that services inflation will be slightly below 0.3%. CS is slightly below consensus in looking for core inflation to rise 0.2% M/M; it says that a reading in-line with its estimates would represent the lowest run rate for core inflation in 22 months, and the first time core inflation has been broadly in-line with target over that period. It adds that the decline is likely to be exacerbated by volatile components, which could reverse higher later in the year, but nonetheless, this would be encouraging for the Fed after months of disappointment.

BOC POLICY ANNOUNCEMENT (WED): After a five month 'pause', the consensus looks for the Bank of Canada to lift interest rates by 25bps for the second straight meeting in July, takings it key rate to 5.00%, according to Reuters. Recent inflation data showed a significant declin in price pressures, with the annual rate diving to 3.4% Y/Y from 4.4%, though some analysts suggested that it might be a result of base effect. The BoC itself does not see inflation returning to its 2% target until early 2025. "The slowdown may not be enough to remove another BoC rate hike from the table given stickier core rates of inflation, while a decent GDP report coupled with a tight job market suggests the economy remains sturdy," BMO Capital Markets said. Analysts at another Canadian bank, RBC, said that data is pointing to more persistent momentum in consumer spending as well as labour demand, and the question is when are we going to be able to see a material slowdown in labour market conditions as well as the economic outlook; "in our heads, it is really a question of when, not so much whether it is going to happen," RBC adds. The Reuters poll also finds that analysts are more split on the prospects of a recession, and ahead, analysts think that after the July hike, the BoC will likely keep rates unchanged well into 2024.

ECB MINUTES (THU): The ECB Minutes will be closely watched for any signs of a potential September hike, with a July hike wholly expected by markets, as pricing currently infers an 88% chance of a 25bps hike and 12% for a 50bps move. To recap the June meeting, the ECB delivered another 25bps hike to the Deposit Rate, taking it to 3.5%. The decision to raise rates was once again premised on the judgement that inflation "is projected to remain too high for too long". Going forward, policy decisions will continue to follow a data-dependent approach and be taken on a meeting-by-meeting basis. Perhaps the main takeaway from the initial announcement came via the accompanying macro projections which saw upgrades to headline and core inflation for 2023 through 2025 with the core 2025 print expected above-target at 2.3%. From a growth perspective, 2023 and 2024 forecasts were revised lower by 10bps. Elsewhere, the GC confirmed that it will discontinue reinvestments under the asset purchase programme as of July 2023. At the follow-up press conference, when questioned on whether the GC expects to keep raising rates, Lagarde replied that there was still "more ground to cover" and that the ECB is not done on hikes. Note, Lagarde again refused to comment on where she saw the terminal rate. Since the June meeting, Bloomberg sources suggested the ECB is set for a "tough debate" next month over whether a possible September rate hike is needed. Meanwhile, at the ECB Sintra Forum (26-28th June), GC members largely kept the door open for a September hike, whilst refraining from telegraphing a terminal rate and keeping a data-dependent approach. On that front, EZ CPI for June was mixed vs expectations, with the core Y/Y rate narrowly topping forecasts (6.8% vs 6.7%), although headline and super-core both printed 0.1ppts under expectations.

BOK POLICY ANNOUNCEMENT (THU): The Bank of Korea is likely to maintain its 7-Day Repo Rate at the current level of 3.50% for the 4th consecutive meeting next week as softening inflation and expectations of weak economic growth reduce the urgency for the central bank to resume its hiking cycle. The BoK Board was unanimous in its decision to keep rates unchanged at the last meeting in May, although prospects of a future rate increase cannot be ruled out as six of the seven members saw the need to keep the door open for one more rate hike, while the accompanying statement noted that economic growth is to remain weak for some time and inflation will likely fall considerably before rebounding slightly for the rest of the year. Governor Rhee also stated that core inflation is not easing as much as Board members had expected and uncertainty increased over whether inflation will approach the 2% target before year-end, while a senior official pushed back against the view that monetary tightening is over and warned it is still too early to be relaxed over inflation. Nonetheless, an immediate policy adjustment is seen as unlikely given that inflation continued to soften in June with South Korean CPI YY at 2.7% vs. Exp. 2.9% (Prev. 3.3%), albeit remaining above the central bank's target.

EU-JAPAN SUMMIT (THU): The upcoming NATO summit on July 11th and 12th is expected to see a push by US President Biden to secure Sweden's membership in the alliance, amid Turkey's ongoing objections. Biden met with Swedish Prime Minister Kristersson and expressed support for its NATO bid, despite the country's entry being hindered by mainly Turkey. The summit also coincides with a host of diplomatic events for Biden, including a visit to the UK and a stopover in Finland, the alliance's newest member. The discussions will likely centre on NATO's expansion, transatlantic coordination on key global issues, and efforts to support Ukraine against Russia's invasion. The summit is not expected to see Sweden's membership secured yet. Sticking with geopolitics, Japan and the EU are planning to issue a joint statement declaring an increase in their maritime, cyberspace, and supply chain security cooperation. The decision will likely follow a summit scheduled for July 13 involving Japan's PM Kishida, European Council President Michel and European Commission President von der Leyen. The statement may include a commitment to enhancing joint activities in the Indo-Pacific region and strengthening Southeast Asian countries' maritime defences. This move comes as tensions rise in the region, particularly concerning China's growing influence and activities in the East and South China seas, according to Kyodo.

UK GDP (THU): April's data showed 0.2% MM growth, but failed to entirely reverse the 0.3% contraction in March. At the time of this release, Pantheon wrote that it expects to see GDP over Q2 to be relatively unchanged QQ, a view that can be explained via soft consumer confidence generally and also the additional Coronation Bank Holiday. However, the May PMI reported that its "surveys are consistent with GDP rising 0.4% in Q2 after 0.1% in Q1" and continuing the theme of PMIs implying a stronger economic performance than the hard data shows. Further out and of concern on the growth outlook, the June PMI indicated that the economy lost momentum again after the brief spring uptick and "looks set to weaken further in the months ahead", with emphasis placed on signs of faltering around services. For the BoE, the findings are noteworthy, but the MPC remains committed to breaking inflation's persistence and thus the GDP metrics are unlikely to change their focus. Though, it may have an influence on market pricing which currently implies a 6.5% peak by February 2024.