Week Ahead July 17-21st: Highlights include; China activity data, PBoC LPR, US retail sales, UK, NZ, Canada & Japan CPI, RBA minutes & Aussie jobs

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- **MON:** PBoC MLF, South Korean Trade Balance Revised (Jun), Chinese GDP (Q2), Retail Sales, and Industrial Output (Jun)
- **TUE:** RBA Minutes, SARB Press Release, US Retail Sales (Jun), Canadian CPI (Jun), New Zealand CPI (Q2)
- **WED:** UK Inflation (Jun), EZ Final CPI (Jun),
- **THU:** PBoC LPR, CBRT Announcement, Japanese Trade Balance (Jun), Australian Jobs Report (Jun),
- **FRI:** CBR Announcement, Japanese CPI (Jun), UK Retail Sales

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NOTE: Previews are listed in day order

CHINESE GDP, RETAIL SALES & INDUSTRIAL OUTPUT (MON): Chinese GDP data for Q2 is due next week and will provide the latest insight into the health of the world's second-largest economy after the recent streak of softer-than-expected releases. As a reminder, GDP data in Q1 matched estimates Q/Q, at 2.2%, while Y/Y growth topped forecasts at 4.5% vs. Exp. 4.0% and was the fastest pace of expansion in a year amid a rebound in activity following the end of China's strict COVID restrictions. Conversely, the data releases since then have mostly underwhelmed and suggest a slow recovery amid weak external demand, including softer-than-expected consumer inflation data and a deeper contraction in factory gate prices, while China's factory activity has deteriorated with the official manufacturing PMI in contraction territory for every month in Q2. The slowdown has prompted several measures from China to spur consumption and support the economy, while the PBoC has also reduced short-term funding rates and benchmark Loan Prime Rates for the first time in 10 months. China's GDP release will also coincide with the latest activity data for June which have been slowing and missed forecasts with the May reading for Industrial Production YY at 3.5% vs Exp. 3.6% (Prev. 5.6%) and Retail Sales YY at 12.7% vs Exp. 13.6% (Prev. 18.4%).

RBA MINUTES (TUE): The RBA will release the minutes from its July 4th meeting where the central bank kept rates unchanged at 4.10% vs near-evenly split analyst expectations between a 25bps hike and a hold. The language from the meeting remained hawkish as it noted that the Board remains resolute in its determination to return inflation to target and further tightening of monetary policy may be required to ensure that inflation returns to the target level within a reasonable timeframe, but added that it will depend upon how the economy and inflation evolve. Furthermore, the central bank reiterated that inflation is still too high and will remain so for some time yet, as well as noting that a significant source of uncertainty continues to be the outlook for household consumption and that the Board remains alert to the risk that expectations of ongoing high inflation will contribute to larger increases in both prices and wages.

US RETAIL SALES (TUE): US retail sales are seen rising 0.5% M/M in June (prev. +0.3%), while the ex-autos measure is seen increasing by 0.3% M/M (prev. +0.1%), and the Control Group is likely to rise 0.2% M/M, matching the pace seen in May. Ahead, Credit Suisse expects retail sales to soften, with housing market weakness affecting sales of durable goods, like furniture, electronics, and appliances. The bank adds that tighter financial conditions, slowing income growth, and student loan debt will further impact consumption growth in the months ahead.

CANADA CPI (TUE): The BoC this week raised rates by 25bps to 5.00%, amid continuing concerns over inflation. The central bank believes that underlying price pressures have been more persistent than expected, with core inflation rates running at around 3.5-4.00% since September. It also alluded to strong consumer demand and tight labour market conditions, which have led to elevated wage pressures, and adds to concerns about future inflation. It sees inflation remaining around 3% for the next year before returning to the 2% target in 2025. It warned that it will continue to monitor core inflation dynamics, inflation expectations, wage growth, and corporate pricing behaviour to assess if further action is necessary. After the rate decision, money markets were heavily positioned for another rate rise at the September meeting.

NZ CPI (TUE): New Zealand's CPI data for Q2 is set for release next week and policymakers will hope it continues to slow after the softer-than-expected readings in Q1 which printed at 1.2% vs. Exp. 1.7% (Prev. 1.4%) Q/Q and 6.7% vs.

Exp. 7.1% (Prev. 7.2%) Y/Y. This was driven by a jump in food inflation which rose by its fastest pace in 34 years during March and the building of new houses, while Statistics New Zealand noted that non-tradable inflation remained at its highest level since 1999 at 6.8%. As inflation remains well above the RBNZ's 1%-3% target band, participants will be eyeing whether the data continues to soften towards the target which the central bank expects to reach by H2 2024 and with core inflation anticipated to decline as capacity constraints ease, while a surprise return towards last year's peak could force the central bank to rethink its signalling which currently suggests it is done with hiking rates.

UK CPI (WED): Expectations are for Y/Y CPI to decline to 8.2% from 8.7%, but with the core metric seen remaining at 7.1%. The prior release was an unwelcome upside surprise with the headline rate remaining at 8.7% vs. the BoE forecast of 8.3%, whilst core inflation unexpectedly advanced to 7.1% from 6.8% and (alongside firm wage metrics) pushed the MPC into delivering a 50bps hike at its June meeting. The upside in inflation was driven by "rising prices for air travel, recreational/cultural goods and services and second-hand cars", according to Credit Suisse. This time around, analysts at Investec note that its forecast of 8.1% for the headline rate would be above the baseline forecast in the May Monetary Policy Report (7.9%). However, this would represent less of an overshoot than the 0.4%ppts seen last month and therefore would "be welcomed". That said, the desk notes any such welcome would come with a clear degree of caution, particularly as core inflation is expected to hold steady at 7.1% and therefore a decline in the headline "would not deter additional tightening". In terms of market pricing, another 50bps increase at the August meeting is seen at around 60%, whilst 25bps is priced at around 40%. Beyond August, markets price a peak rate of around 6.15% by March 2024 which would imply around 115bps of hikes from current levels. It is worth noting that consensus from surveyed analysts suggests a terminal rate closer to 5.75%.

PBOC LPR (THU): The PBoC is likely to maintain the levels of its Loan Prime Rates next week with the 1-Year LPR, which most loans are based on, currently at 3.55% and the 5-Year Loan Prime Rate, the reference rate for mortgages, currently at 4.20%. The expectations for the PBoC to maintain its benchmark lending rates are due to the timing as the central bank only just cut its short-term funding rates and benchmark LPRs by 10bps last month, which was the first reduction in 10 months following a spate of weaker-than-expected data releases. Therefore, the central bank is likely to hold off from any further immediate adjustments with local press reports suggesting the potential for fiscal stimulus and even a RRR cut in H2. Officials would also want to avoid pressuring the Yuan considering China's recent efforts to stem the currency's decline, while participants will be eyeing the decision regarding the 1yr MLF rate first early next week as that serves as a fairly accurate precursor of the central bank's intentions for the Loan Prime Rates.

AUSTRALIAN JOBS REPORT (THU): Australian jobs data for June is scheduled for next Thursday and market participants will be eyeing the report to see if the labour market remains rampant after the blockbuster numbers in May. As a reminder, the prior seasonally adjusted reading topped forecasts in which the Employment Change showed a larger than expected increase in jobs of 75.9k (exp. 15.0k) and the Unemployment Rate unexpectedly declined to 3.6% from 3.7% despite an increase in the Participation Rate to a new record high of 66.9% although, in trend terms, the unemployment and participation rates remained at 3.5% and 66.8%, respectively. There are currently no expectations for the upcoming jobs data which participants will be looking to for clues of potential ramifications on monetary policy as persistently strong reports could be seen to increase inflationary pressures and support the argument for the RBA to resume its rate hikes.

CBRT POLICY ANNOUNCEMENT (THU): In June, the CBRT raised its key weekly repo rate by 650bps to 15.0%, which was still short of the consensus view for interest rates to rise to around 20% (the range of forecasts was between 15-40%). That said, analysts like those at Capital Economics were encouraged by the central bank's communications, which provided some signs that it will take further action ahead. "The central bank mentioned that this is the start of a tightening process in order to lower inflation as soon as possible and to anchor inflation expectations, and provided a more realistic assessment of inflation developments than at recent meetings," CapEco wrote, noting that the statement said monetary tightening would be delivered "in a timely and gradual manner"; CapEco says this appears intended to minimise the adverse implications of this policy shift on the economy as a whole and is likely to mean smaller interest rate hikes at the upcoming meetings." The economic consultancy thinks that the CBRT will eventually lift rates to between 25-30% this year, warning that the "CBRT will have to follow through on this to limit the risk of more disorderly falls in the currency."

SARB POLICY ANNOUNCEMENT (THU): The SARB is expected to keep rates unchanged at 8.25% at its July policy meeting, as inflation slows and will likely continue easing in the coming months as the previous 425bps cumulative amount of rate hikes begin tightening conditions. Some economists surveyed by Reuters, however, still expect a 25bps rate rise next week. "We see little reason for the SARB to hike its policy rate further from the current 8.25%, with June 2023 inflation likely to have fallen back within the 3-6% target range, and July inflation potentially below 5.0% on base effects," Standard Chartered's analysts said, adding that as inflation approaches the midpoint of the target range, there is scope for officials to avoid excessive tightening. Others, like the analysts at Scope Ratings, see risks of hikes, arguing that although headline inflation is slowing, core inflation remains near peaks; Scope says that this makes the hawkish SARB uneasy about fully halting rate hikes prematurely. Ahead, the Reuters survey suggests that analysts look for 75bps of rate cuts between Q1-Q3 2024, taking rates to 7.50%.

CBR ANNOUNCEMENT (FRI): The consensus view looks for the Central Bank of Russia to hike its key rate by 50bps to 8.00% in July. Analysts at Moody's say that the recent weakening of the RUB currency, as well as the turnaround in inflation, makes it necessary for the CBR to tighten policy.

JAPANESE CPI (FRI): Japanese inflation data for June is scheduled next week and will be eyed to see if there is a further slowdown in the headline CPI and Fresh Food CPI price growth as in May which printed 3.2% vs. Exp. 3.2% (Prev. 3.5%) and 3.2% vs. Exp. 3.1% (Prev. 3.4%), respectively. This continued to suggest that inflation was stabilising, with the slowdown in the headline and core CPI driven by government subsidies on electricity prices and lower global commodity prices, while Ex. Fresh Food & Energy CPI accelerated to 4.3% vs. Exp. 4.2% (Prev. 4.1%), which was the highest pace in over four decades and points to increased underlying inflationary pressures with the rise driven by service costs and house prices. Nonetheless, this is unlikely to impact BoJ policy unless there is a persistent ramp-up in prices that would force the central bank to alter its current view that the pace of core consumer inflation will likely slow towards the middle of the current fiscal year. Furthermore, the Tokyo readings for June which provide a leading indicator for national price trends showed the capital's headline and Ex. Fresh Food & Energy inflation slowed to 3.1% from 3.2% and to 3.8% from 3.9%, respectively, while Tokyo Core CPI remained at 3.2%, but was softer than forecast.

UK RETAIL SALES (FRI): At the time of writing there is no consensus for the release. In terms of recent retail indicators, BRC retail sales for June rose 4.2% Y/Y with the accompanying release noting "Retail sales growth ticked up slightly in June as hot weather prompted purchases of summer essentials…People were much more cautious about big-ticket purchases like furniture and technology equipment." Elsewhere, the Barclaycard Consumer Spending report revealed "overall Retail spending grew 6.0% in June 2023, compared to year-on-year growth of 3.2% seen in May 2023. Spending on Clothing grew positively at 4.0% this month for the first time since January 2023 as the warm weather encouraged consumers to snap up summer clothes. For similar reasons, the spend at Department Stores also increased by 8.6% this month". Ahead of the release, analysts at Moody's note "retail sales likely suffered again from high prices and a recoiling effect in the wake of the coronation spending. We expect retail sales marked zero growth in June after a 0.3% rise in May. Moreover, to the extent households are consuming, we think they will continue to prioritise services above goods, adding to the likelihood that retail sales stall or decline during the month".