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Week Ahead August 7th - 11th: Highlights include US & China CPI, BoJ SoO and UK GDP

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- **MON:** BoJ Summary of Opinions, German Industrial Output (Jun), EZ Sentix Index (Aug)
- **TUE:** EIA STEO, Chinese Trade Balance (Jul), German Final CPI (Jul), Canadian Trade Balance (Jul)
- **WED:** Chinese Inflation (Jul)
- **THU:** RBI Announcement, Banxico Announcement, OPEC MOMR, US CPI (Jul)
- **FRI:** IEA OMR, UK GDP (Jun), French/Spanish Final CPI (Jul), US PPI (Jul), US Uni of Michigan Prelim. Survey (Aug)

NOTE: Previews are listed in day order

BOJ SUMMARY OF OPINIONS (MON): The BoJ Summary of Opinions will be closely watched following the BoJ's back-door YCC tweak seen at the end of July. To recap, the BoJ kept its policy settings unchanged, as expected with the Bank Rate held at -0.10% and YCC parameters maintained to target 10yr JGB yields around 0%, but it will guide yield curve control more flexibly with its daily fixed-rate purchases of 10yr JGBs at a rate of 1.0% (prev. 0.5%). This essentially means the +/- 50bps band for the 10yr JGB target will now be used as a reference point in market operations, allowing for greater flexibility. This means that the actual yield could occasionally move outside of this range. The BoJ also increased the amount of purchases to JPY 900bln from JPY 875bln. Meanwhile, the Outlook Report saw an upgrade to the FY23 Core CPI forecast to above the BoJ's 2% inflation target. Delving a bit deeper into the core CPI forecasts, the fiscal 2023 median forecast was raised to 2.5% from 1.8%, but the 2024 median forecast was trimmed to 1.9% from 2.0%, and the 2025 median forecast was maintained at 1.6%. At the post-meeting presser, Governor Ueda emphasised the need for continued monetary easing, stating that the Bank is prepared to further ease policy if required. Since then, the BoJ intervened in markets twice with unscheduled BoJ purchases in a bid to suppress yields – which topped 60bps. Analysts at Oxford Economics "continue to believe that Governor Ueda is determined to avoid premature tightening and will spend another year or so to carefully assess whether the economy is on track to achieve 2% inflation within his five-year term".

CHINESE TRADE BALANCE (TUE): There are currently no expectations for the Chinese Trade Balance. Last month saw Chinese exports contracting at the fastest pace since the start of the COVID pandemic, a sign global demand was hit. Meanwhile, imports in June declined more severely than expected, suggesting domestic demand remains weak. In a press conference last month, a spokesperson for China's Customs Bureau warned China's trade still faces rather great pressure in the second half of the year, partly due to high inflation in developed countries and geopolitics. The latest Caixin PMI suggested "The contraction in exports was relatively pronounced, input costs have risen slightly, and output prices have dropped slightly. Expectations for future output were still optimistic, but the gauge recorded a new low since November." Furthermore, shipping giant Maersk offered some bleak commentary alongside their Q2 earnings: "Overall, the environment for container trade and logistics services remains challenging. Currently, there is no sign of a substantial rebound in volumes in the second half of the year...Final demand has started to weaken, with investment spending, both capital expenditure and housing, suffering from the rapid increase in interest rates...In Q2, the demand for containers declined between 4.0% and 6.5% year-on-year, due to weak import growth into North America, Oceania and Far East Asia...The gap between demand and supply growth continued to widen in Q2 in year-on-year terms." Analysts at ING suggest the trade data will likely show another period of contraction for both exports and imports – "Soft electronic exports due to weak global demand should continue to weigh on exports." Soft metrics on both fronts may spark fears surrounding global growth.

CHINESE INFLATION (WED): There are currently no expectations for the Chinese inflation metrics. Taking the Caixin PMI as a proxy, the release suggested: "Cost pressures continued to subside, as average input prices fell for the fourth straight month, which in turn supported a further reduction in selling charges." Delving deeper into the PMIs, the Senior Chief Economist at Caixin suggested "The gauges for prices remained weak, with the reading for input costs and output prices coming in below 50 for the fourth and fifth consecutive months, respectively. Deflationary pressure continued to build. The decline in the prices of bulk commodities such as industrial metals has dragged down the costs of production, and the market downturn and insufficient demand have prevented companies from raising prices for their customers." Analysts at ING expect China's July CPI to be "almost unchanged", whilst the recently adopted measures by the

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government have yet to take full effect. “While the Politburo reiterated support for the economy, we await further details on the said measures. Meanwhile, we expect PPI inflation to remain in negative territory. Despite the recent increase in oil prices, mining and manufacturing prices are likely to drop further as evidenced by data releases this week (Caixin and property prices).”

RBI ANNOUNCEMENT (THU): The RBI is likely to keep rates unchanged when it concludes its 3-day policy meeting next week with the Repurchase Rate expected to be held at 6.50% in what would be the MPC’s third consecutive pause. As a reminder, the central bank unanimously voted to keep rates unchanged at the last meeting in June and it also maintained its policy stance of remaining focused on the withdrawal of accommodation through a 5-1 vote in which external member Varma expressed reservations against the policy stance. The language from the meeting pointed to a lack of urgency to hike rates in the immediate term as it noted the near-term inflation outlook looks more favourable and the full effect of policy rate hikes will be seen in the coming months, while the minutes from the meeting stated that the current level of the repo rate is high enough to keep inflation below the upper tolerance band on a sustained basis. Nonetheless, the central bank has kept the door open for further adjustments in which it noted that the MPC is to remain vigilant on the evolving situation and growth outlook, as well as take further action promptly. It also stated that headline inflation is still above the target and that being within the tolerance band is not enough, which suggests that a surprise hike, though unlikely, cannot be fully ruled out especially given that the latest CPI data showed inflation edged higher in June to 4.81% vs. exp. 4.58% (prev. 4.25%).

BANXICO ANNOUNCEMENT (THU): Banxico's Survey of Expectations poll suggested that Mexican inflation is seen decreasing, growth is set to improve, and the central bank’s policies will remain stable, with analysts expecting the key rate to close out this year at 11.00% vs the current 11.25%. This week, Banxico policymaker Jonathan Heath said the central bank has set the right interest rate and does not plan to increase it, even if the Federal Reserve hikes its rates again. After the March hike to 11.25%, it has kept rates steady, and Heath explained that while global inflation pressures are easing, Banxico is more focussed on local price increases; analysts said that Heath's comments suggest that officials might not change the interest rate soon.

US CPI (THU)/PPI (FRI): The consensus view looks for US consumer prices to rise +0.2% M/M in July (prev. +0.2%), though the annual rate is seen ticking up to 3.2% Y/Y from 3.0%. The core rate of inflation is also expected to rise +0.2% M/M, matching the pace seen in June, with the annual rate of ore inflation seen unchanged at 4.8% Y/Y. Credit Suisse says the rise in annual headline inflation will likely be driven by unfavourable base effects and modestly higher gas prices, but services inflation should continue to decline. "Shelter inflation now appears to be easing with the expected 12-month lag from measures of new rents and house prices," the bank notes, adding that it expects a further gradual decline, with hotel prices contributing negatively; that said, it still sees the monthly run rate of shelter prices to remain above target nonetheless. Ex-shelter, it expects services inflation of +0.3% M/M. Used auto prices are also seen falling for a second straight month, as alluded to in the recent Manheim data, which CS says typically leads used autos CPI by a couple of months. "A reading in-line with our expectations would represent the second consecutive month that monthly core inflation has been broadly in-line with the Fed’s target," Credit Suisse writes, "to some extent, negative contributions from volatile components are still driving the decline, but these could reverse higher later in the year." The bank thinks that after this print, CPI inflation is likely to look increasingly encouraging for the Fed.

UK GDP (FRI): A consensus is yet to be published for the release. The prior report saw a M/M contraction of 0.1% which was not as bad as the feared 0.3% with the impact of King Charles’ coronation and subsequent bank holiday not as extensive as expected. In the aftermath of the release, ING noted that the upshot from the release was that the economy is no longer likely to contract in the second quarter. For the upcoming release, analysts at Investec expect 0% M/M as upside from factors such as retail sales and the expected bounceback in construction is offset by the overall declining trend in the manufacturing sector, loss of momentum in services and junior doctor strikes. If this forecast plays out, Investec suggests this would equate to 0% Q/Q growth for Q2. From a policy perspective, inflation and wage developments in the labour market remain the core focus. However, a soft outturn in the growth data could see markets scale back expectations of an expected additional 25bp hike after September.

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