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Week Ahead 8-12th April: Highlights include US CPI, ECB, FOMC Minutes, BoC, RBNZ, China inflation

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- **MON:** Bank of Israel Announcement, Japanese Earnings (Feb), Swiss Unemployment Rate (Mar), German Trade Balance (Feb)/Industrial Output (Feb), EZ Sentix Index (Apr)
- **TUE:** EIA STEO
- **WED:** FOMC Minutes (Mar), BoC Announcement, RBNZ Announcement, US CPI (Mar)
- **THU:** ECB Announcement, OPEC MOMR, Eurogroup Meeting, Chinese Inflation (Mar), US PPI (Mar)
- **FRI:** IEA OMR, Chinese Trade Balance (Mar), German Final CPI (Mar), Swedish CPIF (Mar), UK GDP (Feb), University of Michigan Prelim. (Apr)

NOTE: Previews are listed in day order

JAPANESE EARNINGS (MON): Cash Earnings are seen ticking higher to 3% in Feb from 2% in Jan. The figures could attract some focus given the recent RENGO wage negotiations alongside the BoJ commentary on wages after it lifted itself out of NIRP. BoJ Governor Ueda on Friday 5th May said that given the annual wage talks outcome so far, the trend inflation is likely to gradually accelerate. Ueda earlier commented that the chance of sustainably and stably achieving the bank's 2% inflation target is in sight and likely to keep heightening, while he added the BoJ will adjust the level of interest rates by the distance towards sustainably and stably achieving 2% inflation. Furthermore, Ueda noted that as long as trend inflation is below 2%, it is necessary to maintain accommodative monetary conditions. Analysts at ING expect “a more meaningful rebound in cash earnings from April and May as the newly agreed wage negotiations kick in.”

FOMC MINUTES (WED): The Fed held rates at 5.25-5.50% in March, as was widely expected. Its updated economic projections continue to see three rate cuts this year, though it sees fewer rate reductions in 2025 and 2026 than it was forecasting in December. It also raised its view of the neutral rate higher (to 2.6% from 2.5%). On the inflation front, it revised its view for core PCE higher this year, despite seeing fewer rate cuts, and continues to see inflation back at target in 2026. "Our interpretation is that Chair Powell and a narrow majority of the Committee feel strongly about not delaying cuts for too long, and are targeting the June FOMC meeting for the first cut," Goldman Sachs said, "in fact, the somewhat higher inflation forecast lowers the bar slightly for incoming inflation data to meet the FOMC’s expectations and keep a June cut on track." Regarding the neutral rate, GS argues that with the median longer-run dot revised upwards, and the median 2026 dot rising by 25bps to 3.125%, the FOMC will likely raise its estimates of both the long-run and short-run neutral rates over time, and that the terminal rate will be meaningfully higher than last cycle. At his post-meeting press conference, Fed Chair Powell did not show too much concern regarding the hotter-than-expected January and February inflation readings, noting that the data did not provide the Committee with any incremental confidence that inflation was falling sustainably back towards target, and added that the road to inflation falling to 2% would be bumpy. Powell did not show any concerns about the economy, noting the solid labour market and growth conditions. The FOMC's 2024 growth view was raised (to 2.1% from 1.4% - and above the longer-run growth view of 1.8%), but Powell said that the better growth dynamic was made possible after the recent growth in labour supply, and the resilient employment environment was not an argument against rate cuts. Meanwhile, there were no adjustments to the Fed's balance sheet runoff plans, but Powell said policymakers think it will be appropriate to slow the pace of tapering "fairly soon. Since the meeting, Fed Chair Powell has spoken on a couple of occasions; speaking in wake of the February PCE data, Powell said the report was in line with his expectations, and that was something he wanted to see more of. He added that in order to gain confidence on inflation, the Fed wants to see more good readings, as seen over the last year. He warned that risks are two-sided, where reducing rates too soon could be disruptive, while reducing rates too slowly might mean unneeded damage to the economy and the labour market, though added that the Fed does not need to be in a hurry to cut rates.

BOC ANNOUNCEMENT (WED): Analysts expect the Bank of Canada to begin the rate-cutting cycle in June, and therefore, rates are expected to remain unchanged at 5.00% at the April policy meeting. Minutes from the March meeting suggested that the BoC was on the fence regarding the timing of rate cuts; policymakers think it is still too early to cut rates, but if the economy evolves in line with its expectations, then rate cuts may be seen sometime this year; that said, the minutes noted a "diversity of views" among officials about when there would sufficient evidence to start the cutting cycle. Ahead of the March meeting, analysts were of the view that there were greater risks that the first rate cut

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would come later than forecast rather than sooner than forecast. The Q1 business outlook survey revealed that 27% of firms surveyed expect Canada to be in a recession this year (down from 38% in Q4), and 40% of firms expect inflation to be above 3% for the next two years (down from 54% in Q4).

RBNZ ANNOUNCEMENT (WED): RBNZ is expected to keep the OCR unchanged at 5.50% with money market rates pricing around a 95% probability for the OCR to be maintained at the current level and less than a 5% chance of a 25bps cut, while a recent Reuters poll showed economists were unanimous in their forecasts for no change in rates. As a reminder, the central bank kept its rates unchanged at the last meeting in February and stated the OCR needs to remain at a restrictive level for a sustained period and that the committee remains confident that the current level of the OCR is restricting demand. RBNZ noted core inflation and other measures of inflation expectations have declined and that risks to the inflation outlook have become more balanced but added that headline inflation remains above the 1%-3% target band, limiting the committee's ability to tolerate upside inflation surprises. However, the key takeaway from that meeting proved to be the projections for the OCR which were dovish as the central bank reduced its OCR forecast with the June 2024 view lowered to 5.59% from 5.67% and the March 2025 view lowered to 5.47% from 5.56% suggesting the unlikelihood of a hike. Furthermore, the minutes from the meeting noted that ongoing restrictive monetary policy settings are necessary to guard against the risk of a rise in inflation expectations and the committee agreed interest rates need to remain at a restrictive level for a sustained period of time. The rhetoric from the central bank since then continues to suggest a lack of urgency for the central bank to tweak policy in the near-term as RBNZ Governor Orr stated the economy is evolving as anticipated and inflation is still too high but is declining, while he added policy needs to stay restrictive for some time and expects to begin normalising policy next year. Data also supports the case for no adjustments as above-target inflation narrows the scope for near-term loosening, while further tightening is also seen as unlikely especially as recent GDP data showed a surprise contraction in New Zealand's economy which entered into a technical recession during Q4 with GDP Q/Q at -0.1% vs. Exp. 0.1% (Prev. -0.3%) and Y/Y at -0.3% vs. Exp. 0.1% (Prev. -0.6%).

US CPI (WED): The consensus view is for headline CPI to rise +0.3% M/M in March (vs +0.4% in February), while the core rate of CPI is expected to rise +0.3% M/M (prev. +0.4%). "The March CPI report will be a key indication of whether the pickup in inflation at the start of 2024 was a function of early-year noise or if inflation's journey back to the Fed's target has been drawn out materially," Wells Fargo said, "we believe it will show hints of both dynamics at play." Wells is above consensus in looking for CPI to rise at a rate of 0.4% for a second straight month, and it says that would push the annual rate up to a six-month high of 3.5% (vs 3.2% in February). Wells is in line with the consensus on the core reading, and says that while it will be a tick softer than in January and February, it is essentially similar to the pace averaged in Q4, "a sign that underlying progress remains stubbornly slow."

ECB ANNOUNCEMENT (THU): Analysts are unanimous in expecting the ECB to stand pat on the deposit rate at 4.0% with markets assigning a circa 89% likelihood of such an outcome. Since the prior meeting, headline inflation in March has pulled back to 2.4% from 2.6% with the super-core metric now below 3% for the first time in two years. That being said, services inflation remains uncomfortably high at 4%. With Q1 GDP not released until 30th April, expectations for the bloc's growth prospects have instead been guided by survey data which has seen the EZ March composite PMI climb into expansionary territory for the first time since June last year. The accompanying report noted that "expectations for business activity were at their most optimistic since February 2022 during March". Despite the progress on inflation, messaging from the ECB continues to suggest that sufficient confidence on inflation will not be gained until the release of Q1 wage data at the end of May. Accordingly, policymakers continue to guide participants towards a June reduction with even the likes of arch-hawk Holzmann falling into line with such an outcome. With the April decision itself seemingly a given, focus will naturally fall on any tweaks to the policy statement and any hints over forthcoming action. ING suggests that the GC's lightest-touch option for a change in communication would be to alter the existing "confident" but "not sufficiently confident" phraseology. Alternatively, the GC could explicitly declare an outright intention to cut rates at the June meeting (possibly with or without attached conditionality). In terms of market pricing beyond April, June is fully priced for a 25bps reduction with the next cut thereafter fully priced in September and a total of 88bps of loosening seen by year-end.

CHINESE INFLATION (THU): There are currently no expectations for the Chinese inflation data, with the CPI in February printing at 1.0% Y/Y, 0.7% M/M and the PPI at -2.7% Y/Y. Using the most recent Caixin PMI commentary as a proxy, the release suggested "While average input prices continued to rise amid evidence of higher raw material, labour and transport costs, the rate of inflation fell further below the series average in March", thus enabling service providers to raise prices at a slower rate. Manufacturers meanwhile saw "Both gauges for input costs and output prices reach new lows since July 2023." February inflation data saw consumer prices turn positive, but factory activity remained subdued - for the 17th month in a row. The return to inflation in the CPI was framed by analysts as temporary amid volatility in food and tourism prices around the Lunar New Year holiday. The desk at Swiss Re, in a recent note dubbed "China's inflation challenge", suggests "A higher unemployment rate, slower income growth, and the real estate market downturn led to

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very weak domestic demand. We expect deflationary pressures to ease in 2024, with muted but positive inflation resulting from stable core CPI growth, higher food prices and greater policy leeway for the PBoC as the Fed ends its tightening cycle. Therefore, we forecast full-year CPI inflation at 0.5% this year, higher than 2023."

CHINESE TRADE BALANCE (FRI): There are currently no expectations for the Chinese Trade Balance. In terms of the prior month, China's exports rose by 7.1% in combined figures for January and February Y/Y, while imports rose by 3.5% Y/Y to the same period last year, with the figures combined to "smooth out" the impact of the Lunar New Year holiday. The data will be used to gauge the health of demand domestically and abroad. Using the Caixin PMI as a proxy, the release highlighted that "Incoming new orders, including export orders, grew at accelerated rates as both domestic and external market conditions improved according to panellists. Although modest, the rate at which new export orders rose was the fastest in just over a year." At the time of the prior Trade Balance release, Nomura suggested "The stronger-than-expected export growth was mainly led by robust exports to some of China's emerging market trade partners, such as Africa, Latin America, India and Russia". In terms of imports CapEco said, "Import volumes rebounded, but they are likely to rise more gradually in the coming months, given limited potential for an uptick in fuel imports." ING meanwhile suggests "Positive momentum from the first few months, typical seasonality, and a recovery of export orders in the March PMI will likely lead to sequential solid growth – but YoY numbers may look poor due to a strong March 2024, potentially dropping to negative levels again before recovering in the next few months."

SWEDISH CPIF (FRI): SEB expects the core Y/Y measure to continue to moderate in March and print at 3.1% (prev. 3.5%), while the headline Y/Y is seen at 2.5% once again. For reference, the Riksbank forecasts the core figure at 3.3% and as such if SEB is correct a cooler-than-projected number would likely sway the balance to May vs June in the deliberations between which meeting sees the first rate reduction. Given the May meeting is on the 8th, the March inflation data is the last one before the Riksbank needs to decide whether to cut in May (i.e. ahead of the ECB) or wait until June. As a reminder, the minutes of the last gathering did not have any overt bias towards one of the two meetings from the individual members with the development of inflation cited as a key factor in deliberations ahead.

UK GDP (FRI): Expectations are for M/M GDP in February to expand by 0.1% vs. the 0.2% increase seen in the prior month. As a reminder, growth in March was bolstered by "a strong rebound in retail activity after an unexpectedly weak Christmas trading period", according to ING. Subsequently, the release supported calls that the UK economy is set to recover from its H2 recession endured last year. For the upcoming release, analysts at Investec suggest that services output likely increased by 0.1% with the services PMI metric holding above 50, whilst in the manufacturing sector, growth was likely supported by another "good month" for the car industry. For industrial production as a whole, the desk suggests that growth was likely flat, whilst construction was likely held back by adverse weather conditions. Putting this together, Investec is in line with the consensus for a 0.1% M/M expansion. Looking beyond the upcoming release, Investec expects a 0.3% Q/Q outturn for Q1. From a policy perspective, (volatile) M/M growth releases will likely continue to play second fiddle to the MPC's focus on services inflation and real wage growth.

BOK ANNOUNCEMENT (FRI): The Bank of Korea is likely to maintain its base rate at the current level of 3.5% where rates have been since January last year. As a reminder, the previous meeting in February continued to suggest a lack of urgency for a policy adjustment as the Board voted unanimously to stand pat, while the central bank stated it will maintain a restrictive policy stance for a sufficiently long period and will monitor the inflation slowdown, financial stability and economic growth risks, household debt growth and monetary policy operations in major countries. The BoK kept its 2024 and 2025 GDP growth forecast at 2.1% and 2.3%, respectively, although it acknowledged that uncertainties to the growth outlook are high and it sees 2024 CPI at 2.6% and 2025 CPI at 2.1% but noted that it is premature to be confident inflation will converge on the target level. Furthermore, Governor Rhee revealed that five board members said the current interest rate should be maintained at least for the next three months and one board member said the door for a rate cut should be opened for the next three months, while Rhee still doesn't see much chances of a rate cut in H1 and noted that most members view it is too early to discuss rate cuts. The recent data releases have been mixed and support the case for no policy adjustments as CPI Y/Y in March matched estimates and the prior reading at 3.1% after accelerating from 2.8% the month before but CPI M/M printed softer-than-expected at 0.1% (exp. 0.3%), while Industrial Production was also varied as the latest Y/Y reading for February missed forecasts at 4.8% (exp. 5.8%, Prev. 12.9%) but M/M Industrial Output returned to expansion at 3.1% (exp. 0.5%, Prev. -1.5%).

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