Week Ahead 15-19th April: Previewing US and UK retail sales, UK, NZ, Canada and Japan inflation, China activity data and PBoC MLF

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- **MON:** PBoC MLF, Swiss PPI (Mar), EZ Industrial Production (Feb), US Retail Sales (Mar), South Korea Import /Export Price Growth (Mar)
- **TUE:** Chinese GDP (Q1)/Industrial Production (Mar)/Retail Sales (Mar), UK Jobs Report (Mar/Feb), German ZEW Survey (Apr), US Building Permits (Mar), Canadian CPI (Mar), US Industrial Production (Mar), New Zealand CPI (Q1)
- **WED:** Special European Council, Japanese Trade Balance (Apr), UK Inflation (Mar), EZ CPI Final (Mar)
- **THU:** Special European Council, Australian Employment (Mar), Swiss Trade (Q1), US Philly Fed (Apr)
- **FRI:** Japanese CPI (Mar), UK Retail Sales (Mar), German PPI (Mar)

NOTE: Previews are listed in day order

PBOC MLF (MON): The PBoC will conduct its Medium-term Lending Facility operation next week where the central bank will likely maintain the 1-year MLF rate at the current level of 2.50%. As a reminder, the central bank refrained from any adjustments to the 1-year MLF rate last month and opted not to fully roll over expiring funds as it conducted CNY 387bln in 1-year MLF loans vs. CNY 500bln maturing, while it also held off from any adjustments to its benchmark Loan Prime Rates with the 1-year and 5-year LPRs unsurprisingly maintained at 3.45% and 3.95%, respectively. The central bank's actions have continued to point to a lack of urgency for adjustments in short-term funding rates with daily open market operations mostly kept to within modest amounts, while an improvement in China's key activity and manufacturing data including the latest Industrial Production and Retail Sales data, as well as a surprise return to expansion territory for Chinese Official Manufacturing PMI also suggests there is less likelihood for policy loosening. Conversely, support measures cannot be ruled out in the near future given that recent CPI data was softer-than-expected and PPI remained in deflation, while China continues to struggle with the ongoing property sector woes. Furthermore, the PBoC previously vowed to help consolidate and strengthen the economic recovery, while Governor Pan had also stated that there is still room for cutting RRR and that the central bank still has sufficient room for monetary policy.

US RETAIL SALES (MON): Headline retail sales are expected to rise +0.3% M/M in March (vs +0.6% in February); the ex-autos measure is seen rising +0.4% M/M (vs prev. +0.3%). Bank of America's monthly consumer checkpoint data for the month suggested that spending softened in March, but ahead, it said that continued wage growth, tax refunds, and easing rent inflation should support consumer momentum. BofA's data showed total card spending per household was up +0.3% Y/Y following the leap-year boosted 2.9% Y/Y increase in February; BofA said the early Easter holiday likely brought some spending from April into March. "Controlling for these seasonal impacts, spending fell 0.7% M/M," it wrote, "but while spending was soft on the month, the solid labour market continues to sustain consumer momentum," noting the strong jobs data in the month, which appears to have been reflected in strengthening after-tax wages and salaries growth within its data. "Tax refunds may also provide additional support to households, with average refunds up by 5% this year through the end of March, and while most consumers appear to be planning to save or pay down debt, there is a small rise in people saying they will go shopping." Ahead, BofA says it is seeing signs that easing rent inflation is providing a tailwind to renters' spending, with their spending levels look to be improving most in retail categories.

CHINESE GDP/ACTIVITY DATA (TUE): Q1 GDP Q/Q is seen at 1.4% (prev. 1.0%; range: 0.9-1.8%) and GDP Y/Y is expected at 4.6% (prev. 5.2%; range 3.3-5.2%). Retail Sales are forecast at 4.5% (prev. 5.5%; range 1.0-5.8%) and Industrial Output at 5.4% (prev. 7.0%; range 4.0-8.8%). The expected slowing in Y/Y GDP growth is attributed to several factors, including a prolonged property downturn, mounting local government debts, and weak private-sector spending. Despite signs of economic steadiness in early 2024, the overall recovery is still fragile, according to desks. In terms of recent data, PMI data initially painted a more constructive picture of China's economy, but the most recent sub-forecast CPI and PPI data cast doubts over China's economic health and in turn, raised hopes for near-term policy support. "Some analysts believe the central bank faces a challenge as more credit is flowing to production than into consumption, exposing structural flaws in the economy and reducing the effectiveness of its monetary policy tools.", according to

Reuters. SCMP meanwhile wrote “Beijing has defended its ambitious goal of growing the economy by ‘around 5 per cent’ this year, insisting it matches China’s potential for economic growth. Analysts say China must roll out proactive fiscal policies and a ‘flexible and appropriate’ monetary policy, while also fixing the ailing property market.” Meanwhile, ING is more optimistic – “First quarter growth forecasts have largely been revised higher after stronger-than-expected data in the first two months of the year, and markets are now looking for 5% year-on-year GDP growth.”

UK JOBS REPORT (TUE): Expectations are for the unemployment rate in the 3M period to hold steady at 3.9% with no consensus published yet for the other metrics. As a reminder, the prior release showed an unexpected uptick in the unemployment rate whilst earnings growth saw a marginal cooling and vacancies declined further. This time around, analysts at Investec continue to highlight concerns around the accuracy of the data given collection issues at the ONS. That being said, the desk is of the view that survey metrics and anecdotal data tend to suggest that the trend for unemployment is currently in an upward direction. On wages, Investec’s forecast is “for headline earnings growth is for a small moderation to 5.5%, while ex-bonuses we expect a drop to 5.9% from 6.1%. Private sector regular pay should show a similar deceleration, to 5.8% from 6.1%”, adding that over “the next few months the annual rates are set to decline further, bearing in mind that pay accelerated sharply last spring, thus providing a helpful base effect”. From a policy perspective, the wage metrics will likely have the greatest impact on market pricing should they deviate from the consensus. However, the solidifying of market expectations may be tentative with traders awaiting the UK inflation data the following day.

CANADIAN CPI (TUE): The BoC's latest policy statement was dovish, removing a line that noted it was concerned about risks to the inflation outlook. The statement added that, while inflation is still too high and risks remain, CPI and core inflation have eased further in recent months. Its updated MPR saw Q1 CPI forecasts revised lower into the top end of its target range (at 2.8% vs its target range of 1-3%), although Q2 CPI is seen at 2.9%. Governor Macklem echoed BoC guidance that, as policymakers consider how much longer to hold rates at current levels, they are looking for evidence that the recent further easing in underlying inflation will be sustained. Macklem acknowledged that shelter cost inflation was still very high and remains the biggest contribution to overall inflation. Some other services, like restaurant meals, also remain persistently high. On the prospects of a June rate cut, Macklem suggested that such a move was in the realm of possibilities, but noted that the decline they have seen in momentum is very recent. He also said the BoC discussed when to reduce rates, and while there was a clear consensus to hold at this month's meeting, there was some diversity of views on the Governing Council as to when they are going to see what they are looking for.

NEW ZEALAND CPI (TUE): Q1 CPI Q/Q is forecast to tick higher to 0.7% from 0.5% in Q4 2023 with the Y/Y expected to cool to 4.1% from 4.7%. Westpac projects the quarterly increase to be slightly higher at 0.8%. For the annual rate, Westpac anticipates a reduction to 4.2%, which is a decrease from the previous 4.7%, but slightly above market expectations. The deceleration in Y/Y inflation is mainly attributed to softer tradable goods prices, while domestic non-tradables remain robust. The RBNZ, which initially projected a more conservative Q1 rise of 0.4% based on earlier data, has acknowledged potential upside risks to this forecast following recent data. Key factors to watch include persistent firmness in domestic prices, which may have greater implications than fluctuations in more volatile categories like airfares, according to Westpac.

UK INFLATION (WED): Expectations are for Y/Y CPI to slow to 3.1% from 3.4%, core Y/Y to tick lower to 4.3% from 4.5% and the headline M/M rate is forecast at 0.4% vs. prev. 0.6%. As a reminder, the prior release showed a pullback in headline, core and services inflation with the latter aided by the removal of unfavourable Y/Y base effects and falling in-line with the BoE’s latest forecast but still uncomfortably high for members of the MPC. This time around, economists at Pantheon Macroeconomics are of the view that services inflation likely printed at 5.9% vs. MPC Exp. 6.0% forecast “despite a boost from the early Easter, as last year’s huge price rises continue to drop out of the annual comparison”, whilst the headline metric will be dragged lower primarily by food and core goods. Beyond the upcoming release, the consultancy notes that “the Easter effects will reverse in April, cutting services inflation sharply to 5.2%, 0.1pp weaker than the MPC assumes”. From a policy perspective, the release will likely have some way on rate cut expectations in the coming months with a June cut priced at a near-enough coinflip and a total of 52 bps of easing seen by year-end.

AUSTRALIAN EMPLOYMENT (THU): Headline employment is expected to print at +15.5k for March (prev. +116.5k) while the unemployment rate is seen ticking up 2ppt to 3.9% (prev. 3.7%) and the participation rate at 66.7% (prev. 66.7%). After the February report showed an unexpected surge in employment, Westpac highlights the observed volatility in the jobs data and suggests that March figures will likely provide a clearer read on the labour market conditions and might show more moderate growth reflecting a correction from the unusually strong February. Their forecast of a -40k in employment would bring the Q1 2024 total to around +90k, below the +150k from the same period last year but an improvement from the previous two quarters. Regarding the unemployment rate, Westpac says “With the influence of large seasonal dynamics (hopefully) fading, we expect participation to nudge back down to 66.6%. That would see the unemployment rate jump back up to 4.0% in the month, an outcome that would be broadly in line with the well-established gradual uptrend over 2023.”

JAPANESE CPI (FRI): Core CPI Y/Y is expected to rise 2.6% (prev. 2.8%). The overall Consumer Price Index (CPI) for Japan is forecasted to maintain a steady rate of 2.8% Y/Y for March. A breakdown of the inflation components suggests that while higher commodity prices and a weaker yen have propped up the headline inflation, while core inflation (excluding fresh food) is anticipated to ease, reflecting the high base effect from last year. Increased service sector costs are also expected, notably in hospitality and other services, according to desks. Analysts at ING also highlight additional data points such as the Tertiary Industry Index, which indicates an optimistic outlook for services activity, while core machinery orders, a key indicator of business investment, are projected to rebound, driven by heightened demand in sectors like semiconductors and electrical machinery.

UK RETAIL SALES (FRI): Expectations are for headline M/M retail sales to match the prior month's print in showing no growth. In terms of recent retail indicators, the BRC retail sales metric rose 3.2% Y/Y in February vs. the 1.0% expansion the prior month. The accompanying release noted "While retail sales growth improved last month, this was largely driven by Easter falling unusually early and the subsequent uplift to food sales in the week preceding the long weekend". Elsewhere, the Barclaycard Consumer Spending report showed "overall Retail spending grew 0.7% in March 2024, a decline compared to the year-on-year growth of 1.4% in February 2024. This comes as the continued wet weather in March led to another challenging month for high street retailers".