Week Ahead 22nd-26th April: Highlights include US PCE & GDP, BoJ, PMI data

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- **SAT**: Bitcoin Halving Event (estimate)
- **MON:** PBoC LPR, US National Activity Index (Mar), South Korean PPI Growth (Mar)
- **TUE:** EZ/UK/US Flash Manufacturing PMI (Apr), US Richmond Fed (Apr), NBH Announcement, New Zealand Trade Balance (Mar)
- **WED:** Australian CPI (Mar), Bank of Indonesia Announcement, EZ/UK/US Flash Services and Composite PMI (Apr), German Ifo Survey (Apr), US Durable Goods (Mar), Canadian Retail Sales (Feb)
- **THU:** CBRT Announcement, South Korean GDP (Q1), US GDP/PCE (Q1), German GfK Consumer Sentiment (May)
- **FRI:** BoJ Announcement and Outlook Report, CBR Announcement, Japanese Tokyo CPI (Apr), US PCE (Mar)

NOTE: Previews are listed in day order

BITCOIN HALVING EVENT (SAT): The Bitcoin halving is an event that occurs approximately every four years (at every 210,000 blocks mined) in which the reward for mining new blocks is halved. The mechanism is built into the code of Bitcoin to reduce the rate at which new bitcoins are generated. Since Bitcoin aims for a block generation time of 10 minutes, the halving events are roughly spaced four years apart. The specific date and time are based on the current average block generation time being maintained at 10 minutes. Desks suggest the halving will occur between April 19-21st. The Block estimates April 20th at around 13:00 ET/18:00 BST, as things stand. Historically, halvings precede periods of price increases due to the anticipated reduction in new bitcoin supply. However, each halving occurs under unique market conditions. Factors surrounding this cycle include 1) the fact BTC hit fresh ATHs earlier this year - which led to speculation that the market may have already priced in the halving's effects, a diversion from the pattern observed in prior halving cycles where significant price action occurred post-halving. 2) The recent introduction of spot Bitcoin ETFs has seen substantial inflows, significantly impacting the demand and, subsequently, the price of Bitcoin. 3) “Bitcoin available to trade (i.e. the difference between circulating and illiquid supply) has been in decline since early 2020, a major shift from previous cycles,” according to Coinbase – i.e. more people are holding onto Bitcoins than trading it. 4) The halving comes at a time when market expectations for rate cuts are being pushed further out. The investor sentiment aspect of rate cut expectations adds another layer of complexity to this halving cycle.

PBOC LPR (MON): The PBoC kept its 1-Year Medium-term Lending Facility Rate unchanged at 2.50%, as widely expected and opted again not to fully roll over expiring funds as it conducted CNY 100bln in 1-year MLF loans vs. CNY 170bln maturing, while this serves as a fairly accurate indicator for China’s benchmark Loan Prime Rates next week. As a reminder, the central bank unsurprisingly maintained the 1-year LPR at 3.45% last month which is the rate on which most new loans are based on, while it also kept the 5-year LPR at 3.95% which is the reference rate for mortgages. The central bank’s actions since then 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 the latest data releases from China have been mixed which also supports the case for no immediate rate changes as Chinese GDP in Q1 topped forecasts with Y/Y growth of 5.3% (exp. 4.6%) but activity data disappointed with Industrial Production in March YY at 4.5% (exp. 6.0%) and Retail Sales YY at 3.1% (exp. 4.6%). Furthermore, recent CPI data was softer-than-expected and PPI remained in deflation, while China continues to struggle with the ongoing property sector woes and house prices continued to decline. This suggests future support measures cannot be ruled out and the PBoC had previously vowed to help consolidate and strengthen the economic recovery, as well as noted there is still room for cutting RRR and that they have sufficient room for monetary policy.

EZ FLASH PMI (TUE): Expectations are for the manufacturing PMI to nudge higher to 46.5 from 46.1, and services to rise to 51.9 from 51.5, leaving the composite at 50.7 vs. prev. 50.3. The prior release emphasised the diverging fortunes of the services and manufacturing sectors with the latter delving deeper into contractionary territory. The accompanying report noted, “the euro area economy moved back into expansion territory at the end of the first quarter, halting a sequence of contraction stretching back to June last year”. This time around, analysts at Investec highlight a potential uptick in the manufacturing sector given that the previous release revealed the smallest decline in output since April 2023, whilst the desk expects the service sector to be aided by an easing in cost-of-living pressures. From a policy

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perspective, the release will likely not have too much sway on ECB pricing given how firmly expectations are anchored for a June cut. If a reduction in June was to be re-priced it would likely be more a result of a spike in energy prices which threatens the Eurozone inflation outlook, as opposed to anything contained within the PMI series.

UK FLASH PMI (TUE): Expectations are for the services PMI to tick lower to 53.0 from 53.1 with the manufacturing print forecast at 50.2 vs. prev. 50.3. The prior release saw the services print pullback but remain in expansionary territory whilst the manufacturing metric moved back into positive territory for the first time since July 2022. The accompanying release noted, “the solid growth rate achieved in March reinforces the view that a rebound in service sector performance is helping the UK economy to pull out of last year's shallow recession”. This time around, analysts at Investec think that the prior release overstated the strength in the manufacturing sector and subsequently look for a move back into contractionary territory at 49.5. In the services sector, the desk sees “little reason to expect a material move from” the level printed in March. More broadly on the UK economy, analysts note “our expectation is for a modest rather than a robust recovery in the economy”, adding that the impact of the NIC reduction is unlikely to show up in the PMI series given that it does not cover the retail sector. From a policy perspective, the release will likely not have too much sway on pricing at the BoE as MPC officials remain primarily focused on services inflation and earnings growth.

AUSTRALIAN CPI (WED): Monthly Weighted CPI for March is seen matching the February figure of 3.4%. The desk at Westpac expects the monthly figure to print at 3.2% as they “expect to see prices rise in the month for food, alcohol & tobacco, housing (mostly due to rents and dwellings), auto fuel, health, auto fuel, and finance & insurance. Prices are expected to fall in the month for garments and holiday travel”, whilst also keeping an eye on the momentum in the core metrics which exclude volatile items and holiday travel. Q/Q CPI for Q1 is seen ticking higher to 0.8% (vs 0.6% in Q4’23) while the Y/Y is seen cooling to 3.4% (prev. 4.1%) – with base effects cited for the latter’s steep fall. Analysts at Westpac suggest that food prices remain inflationary, while the main disinflationary pressures emanate from falling household contents and falling clothing and footwear prices, but the desks also highlight that “Services remain the key inflationary risk, with market services excluding volatile items forecast to lift 1.1%/4.7%”

CBRT ANNOUNCEMENT (THU): There are currently no expectations for what the CBRT may opt to do at next week’s meeting. This comes after the central bank hiked rates last month by 500bps – surpassing the top-end of analyst expectations, with the statement citing a deteriorating outlook and pledging to tighten even further if it expects the price situation to worsen significantly. Since then, the latest Turkish CPI metrics have been softer than expected, with the Y/Y for March printing at 68.50% (prev. 69.10%), while M/M printed at 3.16% (prev. 3.50%). Turkish Governor spoke at the IMF this week and suggested the central bank has shown how serious it is about ensuring disinflation, which remains its main priority, whilst adding that the country is on track to reach its year-end inflation target. “Our strategy going forward is that our utmost priority is disinflation and we will accumulate reserves as much as we can depending on market conditions,” the central bank head said, “We have done a lot and are ready to do more to regain credibility and re-establish the policy rate as the primary tool”.

US Q1 GDP (THU): The first estimate of Q1 2024 GDP is expected to show growth cooling to 2.1% from 3.4% in Q4, although analyst forecasts currently range between 1.9% and 2.4%. Meanwhile, the latest Atlanta Fed GDPNow estimate for Q1 growth is at 2.9%. The US ISM data has seen the services sector remain in expansionary territory throughout Q1 but it eased from 53.4 in January, to 52.6 in February and 51.4 in March. The manufacturing side has been mixed; the ISM manufacturing headline in January was 49.1 but eased to 47.8 in February, before accelerating back into expansionary territory of 50.3 in March. Consumer spending proxies have been mixed, January retail sales disappointed but saw an improvement in February although the Retail Control component was flat. Meanwhile, the March report however was strong across the board. There will also be attention on the Q1 PCE data but the inflation data so far in Q1 has been on the hot side of expectations and has led to a shift in Fed expectations. Analysts at Moody's look for GDP to come in beneath 2% but note this should not be a concern given that recent growth was clearly unsustainable. Note, in regards to prices, the March PCE data released on Friday will provide a more timely update on inflation.

BOJ ANNOUNCEMENT AND OUTLOOK REPORT (FRI): The central bank is likely to maintain its policy settings after its monumental policy shift at the last meeting in March. As such, the focus at the upcoming meeting will likely be on the central bank’s statement for clues on future policy and its tolerance regarding the recent JPY weakness, while the central bank will also release its Outlook Report containing Board Members’ latest median estimates for Real GDP and Core CPI. As a reminder, the BoJ exited its negative interest policy and YCC at the last meeting in which it switched to guiding the overnight call rate in the range of 0%-0.1% and will apply a 0.1% interest to all excess reserves parked at the BoJ, while it also announced to end ETF and J-REIT buying and will gradually reduce the amount of purchases of commercial paper and corporate bonds. However, it said it would continue its JGB purchases at broadly the same amount as before and in the event of a rapid rise in long-term rates, it would make nimble responses with JGB purchases and could increase the amount of JGB purchases or conduct fixed-rate purchase operations of JGBs. It also announced it is to provide loans under the Fund Provisioning Measure to stimulate bank lending with such funds to be provided with an interest rate of 0.1% and have a 1-year duration. Despite the exit from the ultra-loose policy framework,

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the central bank noted that it expects to maintain an accommodative monetary environment for the time being and Governor Ueda also said during the post-meeting press conference that they will consider options for easing broadly including ones used in the past if needed but kept future hikes on the table with the pace of further hikes to depend on the economy and price outlooks. The rhetoric from the central bank since then suggests a lack of urgency for any immediate adjustment as Governor Ueda stated it is important to maintain accommodative monetary conditions with trend inflation yet to hit 2% and that even after the March policy shift, interest rates are expected to stay low with real interest rates to remain in deeply negative territory, while he noted they will likely gradually shrink the balance sheet as they end their massive stimulus and at some point reduce JGB purchases but had no clear idea on the timing of reducing JGB buying and scaling back the size of the balance sheet. Furthermore, he said they are not immediately thinking of selling the BoJ's ETF holdings and will take plenty of time to examine how to reduce BoJ's ETF holdings, while there is also no plan to sell their JREIT holdings anytime soon. This suggests the central bank will likely remain patient and refrain from any further adjustments in the near term, although participants will be looking out for any clues of the central bank’s future policy intentions and its tolerance regarding the recent currency depreciation after the yen slid to its weakest level in 34 years against the dollar. As such, Governor Ueda previously stated that they won't change monetary policy just to deal directly with FX moves but suggested they may need to respond with monetary policy if FX moves have an impact on the economy and prices in a way that is hard to ignore and if FX moves lead not just to rising import prices, but risk pushing up trend inflation more than expected. In terms of the Outlook Report, a recent source report stated the BoJ will discuss raising the forecast for fiscal 2024 on the back of a rise in crude prices and higher costs of imported materials due to a weaker yen, while the central bank is said to forecast an increase of about 2% in Core CPI for fiscal 2026 with projections to reflect changes in behaviour over businesses’ wage hikes and price setting, although sources also noted that while the central bank is expected to project inflation to stay around its 2% target through early 2027, such forecasts alone won't serve as strong hints of a near-term rate hike.

JAPANESE TOKYO CPI (FRI): Tokyo’s Core CPI for April is seen cooling to 2.2% from 2.4% in March. The data serves as a precursor to the National figures released a couple of weeks later. This particular release will likely be overlooked and overshadowed as it falls on the same day as the BoJ policy announcement, outlook report, and press conference. Analysts at ING say “Tokyo CPI should remain choppy. Headline inflation is likely to cool quite sharply to below 2.0% year-over-year mainly due to last year’s high base though we expect it to rebound again in May. Slower CPI inflation could give the Bank room to pause on its decision to raise rates for a few more months.”

US PCE (FRI): The consensus looks for US headline PCE to rise +0.3% M/M in March, in line with the prior months' reading. The core rate of PCE is also seen rising by +0.3% M/M, matching the prior rise too. Writing after the March CPI And PPI, WSJ's Fedwatcher Nick Timiraos said the March core PCE index probably rose +0.27% M/M, according to the forecasters who infer what the PCE data may look like based on the monthly CPI and PPI data; he added that the annual rate would ease to 2.7% Y/Y from 2.8% in February, and that would see the six-month annualised rate, a key gauge watched by the Fed, fall to 2.8% from 2.9% in February. Traders will be attentive to any upside in the readings after Fed officials recently reminded us that they still have the capacity to lift rates if inflation progress reverses. Fed's Williams (voter) said that rate hikes were not within his baseline forecast, but if data called for higher rates, then the Fed would hike. Fed's Bowman (voter) noted that inflation progress has stalled, and while it was unlikely, it is still possible that the Fed may have to hike rates again to cool inflation. Other officials have been reiterating that rate cuts would hinge on incoming data, where inflation readings have been surprising to the upside in the first quarter of this year; money markets are now pricing in around 40bps of rate cuts this year as progress towards bringing inflation towards target experiences some bumps, and as Fed officials talk a hawkish game; markets were pricing in around 80bps of rate cuts around a month ago. Conversely, any downside in the March PCE data may help to price in more rate cuts.

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