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Week Ahead 6th-10th May: Highlights include RBA, BoE, BoJ SOO, ECB Minutes, UK GDP and Canada jobs

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- **MON:** UK Bank Holiday; EZ Final Composite & Services PMIs (Apr), Sentix (May) Producer Prices (Mar).
- **TUE:** RBA Announcement, EIA STEO; Swiss Unemployment (Apr), German Trade Balance (Mar), EZ Construction PMI (Apr).
- **WED:** Norges Bank H1 Financial Stability Report, Riksbank Announcement, BCB Announcement; German Industrial Output (Mar), Italian Retail Sales (Mar).
- **THU:** BoE Announcement & May MPR, BoJ Summary of Opinions (Apr), NBP Policy Announcement, Banxico Policy Announcement; Chinese Trade Balance (Apr).
- **FRI:** ECB Minutes; Japanese Current Account (Mar), UK GDP Estimate (Mar), GDP Prelim. (Q1), Norwegian CPI (Apr), Canadian Employment (Apr), US Uni. of Michigan Prelim. (May), China M2 (Apr).

NOTE: Previews are listed in day order

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep rates unchanged, with 36 of 37 economists surveyed by Reuters calling for the Cash Rate to be kept at 4.35%, and only one calling for a 25bps hike; money markets are pricing in a 96% chance that rates will be maintained. As a reminder, the central bank provided no major surprises at its prior meeting, where it kept rates unchanged, and reiterated that the Board remains resolute in its determination to return inflation to the target and inflation continues to moderate but remains high. The RBA said that the "Board is not ruling anything in or out on interest rates," a slight adjustment to its previous view that "a further increase in interest rates cannot be ruled out," though this change in language was a reiteration of a previous comment that Governor Bullock had made. The central bank also noted that higher interest rates are working to establish a more sustainable balance between aggregate demand and supply, and that the Board expects it will be some time yet before inflation is sustainably in the target range. The RBA also commented there are encouraging signs that inflation is moderating, but acknowledged that the economic outlook remains uncertain, while the minutes from the meeting revealed that there was no mention regarding the Board' considering the option to raise rates, and that it agreed that it was difficult to either rule in or out future changes in the Cash Rate. Assistant Governor Kent also announced that the Board considered three options in March for the future system of monetary policy implementation, including maintaining the current 'floor' system of holding an excess of reserves that leads the Cash Rate to be close to a floor rate which is paid to banks on funds parked overnight; another option was returning to the pre-pandemic system of scarce reserves to guide the Cash Rate to the target, although the Board endorsed a third option of switching to an ample reserves system, where banks' demands for reserves are satisfied via open market repo operations at a price near the Cash Rate Target. Nonetheless, Kent noted that the plan to change the way the it provides liquidity to the banking system, by shifting from excess reserves to an approach that provides ample liquidity through regular money market operations, will not result in any immediate changes in operations from their counterparties' perspective, as the RBA has been running full allotment OMO repo auctions since shortly after the onset of the pandemic, as well as stressed the decision is about the plumbing underpinning the monetary system and has no implications for the current or future stance of monetary policy. The latest inflation data from Australia also suggests a policy tweak is unlikely at the upcoming meeting, with all figures printing firmer than expected; headline CPI eased to 3.6% Y/Y in Q1 (exp. 3.5%, prev. 4.1%), and the RBA's preferred Trimmed Mean gauge eased to 4.0% Y/Y (exp. 3.8%, prev. 4.2%), and remains above the central bank's 2-3% target. This spurred several banks to adjust their rate projections; both Westpac and CBA pushed back their RBA rate cut forecast to November from September, with CBA also arguing that the RBA may restore its hiking bias at the May meeting; Rabobank now sees the RBA hiking in August and November, and doesn't expect any cuts this year or next.

RIKSBANK ANNOUNCEMENT (WED): In March, the Riksbank guided that "it is likely that the policy rate can be cut in May or June if inflation prospects remain favourable" from the current 4.00% level. Since the March inflation numbers came in cooler than both markets and the Riksbank forecast, support has been given to those looking for a May move. However, this view has been muddied somewhat by recent broader hawkish market repricing, evidenced by Riksbank's Jansson stating that assuming inflation developments do not deteriorate, then the threat of a May cut will instead come "mainly from the postponement of the easing plans of other central banks." Additionally, the SEK has continued to depreciate, having lifted above the 11.75-mark vs the Euro in recent sessions (vs below 11.50 around the March meeting). Overall, expectations are skewed towards the central bank cutting in May given the development of inflation,

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and the ECB also heavily flagging that it will begin easing in June; though, the hawkish-tilt from the Norges Bank and general tentative stance on easing globally means a firm call cannot be made yet. Thereafter, guidance from the MPU on future meetings will likely point to a gradual easing cycle and one that is very data- and SEK-dependent.

BCB ANNOUNCEMENT (WED): The latest central bank poll revealed that analysts continue to see the Selic rate falling to 9.5% by the end of this year, and see further cuts to 9.00% by the end of 2025. The folks at JPMorgan, however, see the Selic at 10.00% by the end of this year, with three 25bps rate cuts. “We adjusted our policy rate path to account for the effects of the global financial tightening into the central bank’s reaction function,” JPM writes, adding that a new challenge emerged when the Government decided to reduce the 2025 primary target from +0.5% to 0% of GDP. “The combination of both factors probably changes the BCB’s assessment of the balance of risks and, in fact, many COPOM members seem to have acknowledged that possibility, opening the door for breaking last meeting’s forward guidance of a 50bps cut in the next meeting.” JPM looks for a 25bps cut in May; the bank says the extent and pace of the cutting cycle will still be heavily dependent on other variables (domestic inflation and GDP growth), but says fiscal and external dynamics will be important in determining the terminal policy rate.

BOE ANNOUNCEMENT (THU): Analysts are unanimous in their view that the MPC will keep the Bank Rate unchanged at 5.25%, with markets assigning a circa 93% chance of such an outcome. The prior meeting saw rates left unchanged in an 8-1 vote, with Haskel and Mann moving into the hold camp, and Dhingra the lone dovish dissenter. Since the prior meeting, headline CPI has pulled back to 3.2% Y/Y from 3.4%, and the core rate slipped to 4.2% Y/Y from 4.5%, whilst services remained sticky at 6.0% Y/Y. From a growth perspective, monthly GDP stats for February came in at 0.1% M/M (vs 0.3% in January), while more timely PMI data for April saw continued resilience in the services sector, with the composite index rising to 54.0 from 52.8. In the labour market, the unemployment rate has ticked up from 3.9% to 4.2% in the three-month period to February (albeit subject to data quality concerns), and headline wage growth held steady at 5.6% Y/Y. Since the March announcement, Governor Bailey noted that the UK is “on track” to quell inflation. However, divisions on the MPC were laid bare after comments by Deputy Governor Ramsden, who is increasingly confident that “persistence in domestic inflation pressures are receding,” were followed up by remarks by Chief Economist Pill, who said that in his baseline scenario, “the time for cutting Bank Rate remains some way off.” Elsewhere, the likes of Mann, Haskel and Greene have been cautious on the prospects for near-term policy easing. Given the split of views at the BoE, the vote split will likely take the immediate focus; at the time of writing there is currently no published consensus. Thereafter, attention will likely fall on the policy statement, and whether the MPC opts to provide a dovish tweak, or scraps, its existing guidance that “policy will need to remain restrictive for sufficiently long.” Beyond the upcoming meeting, market pricing for the rest of the year continues to move in a hawkish direction, with the first 25bps cut not fully priced until September’s meeting, and a total of 43bps of loosening is being priced by year-end ¬– a substantial repricing from the six cuts that were expected at the start of the year. For the accompanying MPR, focus will be on medium-term inflation expectations, which could be revised as low as 1.5%, according to NatWest Markets.

BOJ SOO (THU): Participants will digest the Summary of Opinions from the April meeting for clues on the central bank’s monetary policy trajectory. At that meeting, the BoJ maintained its policy settings, as widely expected, holding short-term interest rates at between 0.0-0.1%, and although it dropped its reference from the statement that it currently buys about JPY 6tln worth of JGBs per month, it said that it will conduct JGB, commercial paper and corporate bond buying in line with the decision in March (and later maintained sizes for May). The lack of surprises by the BoJ spurred a dovish reaction given that markets were bracing for a potential signal from the central bank on reducing JGB purchases, owing to recent suggestions in a report from the local press agency Jiji. Furthermore, the BoJ refrained from any major ramp-up in rhetoric regarding currency weakness as it stated that they must be vigilant to FX and market moves and their impact on the economy and prices but also commented that no excessive behaviour is seen in Japan's asset market and financial institutions' practices. At the post-meeting presser, Governor Ueda emphasised data dependency, and that easy financial conditions will be maintained for the time being, while a weak JPY was thus far not having a big impact on trend inflation. Elsewhere, Ueda made no comments on recent FX moves.

CHINESE TRADE BALANCE (THU): In March, the trade balance was in a surplus of CNY 415.86bln, with Exports -7.5% Y/Y and Imports -1.9% Y/Y. The decline in exports was primarily due to a high base effect. Capital Economics suggested at the time that, when accounting for export prices and seasonality, export volumes reached a new high. Desks noted that the fall in export prices, which have now stabilised, and the trade-weighted appreciation of the yuan are likely to be challenges for future export growth. Analysts also highlight that the timing of holidays for the March data, and the fact that 2024 is a leap year affected the export data, with March having two fewer working days compared to the previous year. Imports last month also declined amid a high base effect. Nonetheless, economists expect a rebound in imports in the coming months, supported by fiscal stimulus likely to enhance construction activity and demand for industrial commodities.

BANXICO ANNOUNCEMENT (THU): The central bank Deputy Governor Heath in April said rates would likely be on hold for longer than markets expect, as services inflation needs to still show a clear downward trend, something he sees as a possibility in H2 after the elections and rounds of government spending. That said, Heath sees 2-4 rate reductions

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in the six remaining confabs this year, with the number dependent on whether the year-end inflation target can be met. Heath does not think policymakers will discuss a rate cut at the May meeting, adding that in the near-term, decisions will be influenced by what the Fed does, but added that he was more concerned about domestic pressures on inflation than the Fed's signalling on rates.

ECB MINUTES (FRI): As expected, the ECB opted to stand pat on rates once again. The policy statement reaffirmed guidance that rates will be kept sufficiently restrictive for sufficiently long. Policymakers did not pre-commit to a particular rate path, but added to its statement a line that if the Governing Council was to gain further confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. The ECB stopped short of explicitly mentioning June, given its previous errors in pre-announcing policy, however, the updated guidance was perceived as a green light to expect a cut at the next meeting. In the follow-up press conference, when questioned about a potential rate cut in June, President Lagarde reiterated that the central bank will have a lot more data by the time of the June meeting. In terms of the unanimity of the announcement, Lagarde said that “a few” dissenters felt “sufficiently confident” about altering policy at the meeting, however, they ultimately rallied around the consensus. This could potentially be in-fitting with source reporting in the wake of that meeting, which suggested some policymakers floated the idea of a second cut in July to win over a small group still pushing for an April start – any further details here will be of interest. Elsewhere, when questioned on the hawkish Fed repricing, Lagarde stressed the ECB's independence on policymaking. Following the meeting, sources said policymakers still expected to cut rates in June, but some think the case for pausing at the following meeting was becoming stronger given a continued rebound in US inflation, energy and geopolitics. The sources added that doves are looking for cuts in June and July amid a benign labour market. Remarking that the July decision was not explicitly debated, however, some policymakers argued that a delayed start to the Fed's own cutting cycle warranted caution from the ECB. Any colour on this debate will be of use to the market, albeit, as is often the case, the account of the meeting will be deemed as stale in some quarters.

UK GDP (FRI): March’s data is expected to show another month of modest expansion from February’s 0.1% M/M print, a development which follows a relatively strong 0.3% reading in January, and means that the UK is likely to bounce out of the technical recession that it fell into at the end of 2023. Q1 growth is forecast at around 0.4% Q/Q (prev. -0.3%). The data will be welcomed politically, and provide some possibility of PM Sunak turning the media narrative away from the poor local election results and potential leadership challenges. For the BoE, the print provides scope to continue its “Table Mountain approach”, though its influence is limited as the Bank remains firmly focused on inflation and wages. As a reminder, the BoE’s May MPR will be published the day before the GDP numbers.

NORWEGIAN CPI (FRI): Last month inflation came in a touch lower than the Norges Bank forecast, a dynamic SEB believes will continue. As such even though the May MPU had a hawkish-twist the desk continues to look for two 25bps cuts in 2024. For April, CPI-ATE is expected to once again come in below the Norges Bank’s forecast (which is at 4.5% Y/Y); as a reminder, March’s print was 4.5% vs Norges Bank’s 4.7% expectation. Given that inflation has been surprising to the downside in recent months, the central bank will likely tweak its CPI-ATE views at its June MPR and, assuming this dynamic continues, focus will centre more around the growth/wage narrative, particularly given language from the May MPU.

CANADIAN EMPLOYMENT (FRI): BoC governor Macklem this week said that the Canadian labour market has come into better balance, and the adjustment to higher rates had been relatively smooth. He warned that the unemployment rate may tick up, but the BoC still does not see an economic recession. The BoC is focused on inflation, and wants to see that the recent decline in cost pressures is sustainable, though believes the annual rate of inflation will be close to 2.9% Y/Y for the next several months, in part, due to rising gasoline prices; and even when the BoC begins cutting rates reductions will be gradual.

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