Week Ahead 20-24th May: Highlights include FOMC minutes; ECB retreat; PBoC, RBNZ, CBRT rate decisions; UK, NZ CPI

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- **MON:** PBoC LPR, German PPI (Apr)
- **TUE:** ECB Governing Council retreat, RBA Minutes (May), NBH Announcement, RBI Announcement, Canadian CPI (Apr)
- **WED:** ECB Governing Council retreat, FOMC Minutes, RBNZ Announcement, Bank of Indonesia Announcement, Japanese Trade Balance (Apr), UK CPI (Apr)
- **THU:** CBRT Announcement, EZ Q1 Negotiated Wages (TBC), EZ/UK/US Flash PMIs (May), EZ Flash Consumer Confidence (May), New Zealand Trade Balance (Apr)
- **FRI:** Japanese CPI (Apr), German GDP Detailed (Q1), US Durable Goods (Apr), Canadian Retail Sales (Mar), US Uni. of Michigan Final (May)

NOTE: Previews are listed in day order

PBOC LPR (MON): At its last meeting, the PBoC unsurprisingly maintained its 1-year Medium-term Lending Facility rate at 2.50% and opted to roll over the full amount whereby it matched the CNY 125bln of loans maturing in its 1-year MLF operation. The decision to refrain from any tweaks in the short-term funding rate was widely anticipated as the central bank's actions have continued to point to a lack of urgency for adjustments, with daily open market operations mostly kept to modest amounts of CNY 2bln, while the move also serves as a fairly reliable indicator for the central bank's intentions regarding its benchmark Loan Prime Rates, with the 1-year and 5-year LPRs likely to be maintained at 3.45% and 3.95%, respectively. Recent data releases also suggest there is less urgency to adjust policy, as trade data showed improvements across the board and the latest Chinese PMI data was mixed, while the official NBS Manufacturing and Caixin Manufacturing PMIs topped forecasts, but Non-Manufacturing PMI disappointed although remained in expansion territory. Nonetheless, future policy loosening cannot be ruled out; Deputy Governor Zhu Hexin previously noted there is still room for monetary policy going forward and that they will closely watch the policy effectiveness, economic recovery, and achievement of goals, as well as make good use of reserve tools at the appropriate time.

ECB GOVERNING COUNCIL RETREAT (TUE-WED): Next week could see a flurry of headlines around the ECB as policymakers embark on a two-day strategy review in Ireland. Reuters has reported that one of the main areas of discussion will be "green monetary policy". However, few announcements are expected, with the gathering seen more as a "brainstorming exercise". While it has previously been suggested that climate developments could prove to be inflationary (Germany's Schnabel previously invoked the term "climateflation") there are no suggestions at this stage that the ECB is considering adjusting its inflation mandate to accommodate for them. With the meeting taking place two weeks before the June policy decision (markets assign around 85% probability of a 25bps rate reduction), speculation will mount over whether policy options will be discussed. Sourced reporting by Reuters notes that "governors will likely lay some of the groundwork for their June move" next week. However, given market pricing, this isn't particularly surprising. Of greater interest to the market will be any potential indications over what may come thereafter. That said, there have been no suggestions thus far whether this will be discussed next week given that policymakers will see the meeting in Frankfurt as a more appropriate forum for such talks.

RBA MINUTES (TUE): The upcoming RBA minutes will be eyed for more colour on the balance of risks around the central bank's outlook, according to analysts at Westpac. To recap, the confab on May 7th saw the RBA maintain its Cash Rate at 4.35%, as expected, while the statement reiterated that the Board remains resolute in its determination to return inflation to target, and is not ruling anything in or out, adding that returning inflation to the target within a reasonable timeframe remains its highest priority. The statement also acknowledged that inflation remains high and is falling more gradually than expected. In terms of the central bank's forecasts, it raised its inflation forecasts for 2024 but trimmed forecasts for GDP and unemployment; its forecasts assumed that rates would stay at 4.35% until mid-2025, which is nine months longer than previously assumed. At the post-meeting press conference, Governor Bullock said it must be vigilant on inflation risks, though believes that rates are at the correct level to get inflation back to target. Bullock said the Board discussed the option of hiking, and will tighten if required, but does not think they necessarily will have to do so. She also caveated that markets should not read too much into the technical assumptions regarding rate forecasts.

CANADA CPI (TUE): The April CPI report will be a key input into the BoC's June 5th policy meeting, where expectations have been building that the central bank may begin cutting rates. Currently, money markets are pricing a June cut with around a 45% probability and are fully discounting a cut by July. An average of the three BoC core inflation measures fell to below 3% in March, back within the BoC's 1-3% tolerance band. Within the April data, traders will be looking to see if that progress has continued as the BoC wants reassurance that the fall in underlying inflation can be sustained. BoC Governor Macklem in May said that inflation will probably stay close to 2.9% Y/Y in the coming months due to rising gasoline prices, but reiterated that the central bank could start cutting rates before the rate of inflation falls back to the 2% level, arguing that the sustainability of the decline was most important. Looking beyond the June and July confabs, money markets see 56bps of rate reductions through this year, implying two 25bps cuts, with a 24% chance that we could see a third.

FOMC MINUTES (WED): At its May meeting, the FOMC left rates unchanged at 5.25-5.50%, as expected, and announced a higher-than-expected tapering of its QT programme, where the monthly cap on Treasury runoffs will be reduced from USD 60bln to USD 25bln (exp. 30bln), while the monthly redemption cap on agency debt and agency MBS was maintained at USD 35bln. While it continues to note that inflation has eased over the past year, it now acknowledges that in recent months, "there has been a lack of further progress" towards its inflation objective. Still, Chair Powell ruled out the prospect of near term rate hikes, instead suggesting that the Committee could keep rates at current levels for as long as needed to bring inflation back down. Elsewhere, the statement said that "risks to achieving its employment and inflation goals have moved toward better balance," a slight tweak from the previous "moving into better balance," which analysts said could reflect some growing concerns of an employment downturn. The statement also kept its guidance that the Fed does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. Powell suggested that Fed remains satisfied with its current policy rate, and future rate moves remained skewed towards rate cuts, even though cuts have been delayed and the bar has been raised. Powell said when the Fed gets confidence on inflation, rate cuts will be in its scope, but he does not have great confidence either way on whether there will be rate cuts this year. The Fed Chair reiterated that a rate hike was unlikely, alleviating some hawkish risks that traders harboured heading into the meeting. Powell did not put too much weight on the hot Employment Cost Index data in Q1, and even drew attention to some dovish data points, like the soft JOLTS job openings figures, which he said showed that policy was restrictive. Since the meeting, PPI and CPI data have signalled that core PCE, the Fed's preferred gauge of inflation, will ease in April. That said, officials still want to see several months of constructive inflation readings before any change in policy stance can be endorsed.

RBNZ ANNOUNCEMENT (WED): The RBNZ is likely to keep the OCR unchanged at 5.50%, with money markets pricing a 97% chance for no change and a 3% probability for a 25bps rate cut. At its last meeting, the central bank stuck to a hawkish tone, stating that a restrictive monetary policy stance remains necessary to further reduce capacity pressures and inflation, while the committee is confident that maintaining the OCR at a restrictive level for a sustained period will return CPI to the 1-3% target range this calendar year. The minutes from the meeting noted that restrictive monetary policy is contributing to an easing in capacity pressures, to ensure inflation returns to the target and a further decline in capacity pressure is expected. Members further agreed that there remains limited tolerance to an increase in the time to achieve the inflation target. The language from the central bank suggests a lack of urgency to adjust the current level of restrictive policy, although it could be compelled to act in the future if progress towards the inflation target stalls. Data releases support the case for no policy changes: Q1 inflation slowed Q/Q and matched estimates, while its Sectoral Factor Model Inflation Index softened to 4.3% (Prev. 4.5%), and 2yr Inflation Expectations declined. Employment data also showed that the economy is cooling, and there was a surprise 0.2% Q/Q contraction of jobs during, Q1 alongside a higher than expected Unemployment Rate.

UK CPI (WED): Expectations are for the headline rate of inflation to cool considerably to 2.1% Y/Y (prev. 3.2%), though this is subject to quite a wide range of expectations between 2.0-3.2%. As a reminder, the prior release saw, headline slip to 3.2% Y/Y from 3.4%, core fall to 4.2% Y/Y from 4.5%, while the all-important all services print came in at 6.0% Y/Y, down from a prior of 6.1%, though above the MPC's projection of 5.8%. The ONS noted that the largest downward contribution to the monthly change in both CPIH and CPI annual rates came from food. This time around, Pantheon Macroeconomics (which forecasts a headline print of 3.2% vs. MPC forecast of 3.3%) suggests that disinflationary pressure will come via four components 1) OFGEM price cap, 2) food inflation, 3) goods inflation, 4) services inflation. On the latter, Pantheon expects that services inflation will decline to 5.4% Y/Y from 6.0% and take 23bps form the headline rate amid favourable base effects for items such as mobile-phone bills and rents. In terms of an outlook for inflation, the consultancy expects that the services print will "continue easing throughout 2024 as wage growth gradually slows". From a policy perspective, expectations for a BoE June rate cut remain a near-enough coin flip. Given the constant focus on services inflation by the MPC, the upcoming report could have some sway on market pricing. However, it is worth noting that there will be one more release ahead of next month's announcement.

CBRT ANNOUNCEMENT (THU): Turkey's central bank is expected to once again keep its Weekly Repo Rate at 50.00%. Data-wise, inflation for April printed sub-forecast, but ticked up from the prior to 69.80% Y/Y (vs exp. 70.33%; prev. 68.50%). In mid-May, the Governor warned that inflation is to jump back up to 75% that month (vs 69.80% in April), but sees H2 to be supportive for disinflation. The Governor also believes the CBRT will reach the inflation target. To recap the April meeting, the CBRT opted to hold its Weekly Repo Rate at 50%, in-fitting with the majority of analysts' expectations. The bank's statement emphasised its vigilance towards inflation risks and reiterated its commitment to uphold a tight monetary stance until a tangible decline in inflation is observed. Shortly after the decision, the central bank announced changes to the Lira-required reserves interest rate; it set the max rate to required reserves for FX-protected Lira deposits at 60% of the policy rate and non-FX-protected deposits at 80%. Desks at the time suggested the CBRT's consistent communication and actions post-May elections show a pivotal policy realignment, essential for restoring investor confidence after President Erdogan's earlier unorthodox approach of maintaining low interest rates amidst surging inflation.

EZ Q1 NEGOTIATED WAGES (THU-TBC): The long-awaited wage figure from the ECB is perhaps less important for expectations regarding its the next meeting, with a June cut very heavily touted, but may well help to inform the debate around the pace and timing of cuts thereafter. The Q4'23 figure came in at 4.49% Q/Q, down from Q3's series peak of 4.71%, a development that ECB President Lagarde described as encouraging, but not sufficient to give confidence in the fight against inflation. For Q1, the consensus is for a modest cooling to 4.3%, a forecast which comes largely on the back of a sizeable 4.8% German print despite more muted outturns in numerous EZ countries. The pertinence of the release has been tempered somewhat by the account of the latest ECB meeting which stated that "if anything, wage pressures had even diminished somewhat compared with earlier expectations. It was suggested that, with wage growth having begun to moderate as expected, the focus should shift to productivity developments". As above, the figure will likely be more pertinent for July's meeting; pricing for this, assuming a 25bp cut is delivered in June, currently implies around a 20% chance of a back-to-back move. Note, the Eurostat equivalent figure will be released on June 7th, after the June ECB.

EZ FLASH PMIS (THU): Expectations are for, a modest uptick across the board to 46.6 for manufacturing, 53.5 for services and then 52.0 for the composite measure. As a reminder, the prior release saw, the manufacturing print in April decline to 45.7 from 46.1, services rise to 53.3 from 51.5 with the composite subsequently advancing to 51.7 from 50.3. The accompanying release noted "the Euro area's economic recovery progressed further at the start of the second quarter… as overall business activity growth accelerated to an 11-month high". This time around, Investec looks for a services-driven improvement in the composite number, buoyed by strengthening in new business activity and ECB communication around a move in June. From a policy perspective, with a June rate cut by the ECB near-enough a done deal, the release will have little sway on immediate pricing. However, it could shape market expectations beyond next month, whereby markets currently assign only a 20% chance of a cut (assuming the ECB eases in June).

UK FLASH PMIS (THU): Expectations are mixed: the manufacturing PMI is seen rising to 49.3, but services gauge is seen slipping to 54.8, still comfortably in expansionary territory. As a reminder, the prior release saw, the services metric rise to 55.0 from 53.1, manufacturing slip to 49.1 from 50.3, leaving the composite at 54.1 vs the previous 52.8. The accompanying release noted "stronger output growth was driven by a robust and accelerated upturn in the service economy. Manufacturing production meanwhile returned to contraction, although the decline was only marginal". This time around, the focus will be on indications around cost pass-through from firms in the survey given recent commentary from BoE's Mann (historically a hawkish dissenter) that PMI outturns and Agents' intelligence are areas she will be looking at in addition to wages, services CPI etc. From the PMIs in particular, it will be interesting to see just how much of the higher wage environment in April was passed on to consumers. Note, CPI will have been released on the prior day, and therefore the release may be somewhat overshadowed, but at the margin could provide some traction in the market if inflation metrics prove inconclusive.

JAPANESE CPI (FRI): There are currently no median expectations for the nationwide Japanese CPI metrics for April. Using the Tokyo CPI as a proxy (seen as a precursor to the nationwide release), metrics printed cooler than expected across the board; headline CPI printed 1.8% Y/Y (exp. 2.6%; prev. 2.6%), core at 1.6% Y/Y (exp. 2.2%; prev. 2.4%), and super-core (ex-food & energy) at 1.4% Y/Y (exp. 2.7%; prev. 2.9%). The inflation metrics will be of the utmost importance for the BoJ, which is keeping an eye on the underlying trend of prices to calibrate monetary policy following its exit from NIRP earlier this year. The latest BoJ Summary of Opinions from the April meeting featured a member stating that if trend inflation accelerates, the BoJ will adjust the degree of monetary easing but the accommodative financial environment is likely to continue for the time being. The April meeting also saw the Outlook Report upgrade its FY24 median inflation forecast to 2.8% from 2.4%, FY25 to 1.9% from 1.8%, while FY26 was set at 1.9%. In terms of recent commentary, a former BoJ executive in mid-May said they may decide to reduce the size of scheduled bond purchases next month amid a largely dysfunctional bond market, adding that the BoJ is likely to hold off on raising rates until September, according to Reuters; as a reminder, a recent Rinban operation saw the purchase amount cut. Most recently, the BoJ's chief economist Sekine said it could raise rates as many as three more times this year, with the next move potentially coming as early as June given how much room there is to adjust its "excessively" easy settings.

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