Week Ahead 27-31st May: Inflation data from the US, Eurozone, Australia and Tokyo are the highlights

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- **MON:** Bank of Israel Announcement , UK Bank Holiday, Chinese Industrial Profits (Apr), German Ifo Survey (May).
- **TUE:** Canadian PPI (Apr), US Monthly Home Prices (Mar).
- **WED:** Riksbank Financial Stability Report, Australian CPI (Apr), German Flash CPI (May), US Richmond Fed (May), South African Election.
- **THU:** Spanish Flash CPI (May), Swiss GDP (Q1), EZ Sentiment Survey (May), US GDP 2nd Estimate (Q1).
- **FRI:** S&P on France, Japanese Tokyo CPI (May), Chinese PMIs (May), EZ Flash CPI (May), US PCE (Apr), Canadian GDP (Q1), US Dallas Fed (Apr).

NOTE: Previews are listed in day order

CHINA INDUSTRIAL PROFITS (MON): There are currently no expectations for the data. China's industrial profits fell in March, casting doubts on the strength of the economic recovery in the world's second-largest economy. Cumulative profits of industrial firms rose by 4.3% to CNY 1.5tln in Q1 Y/Y vs 10.2% seen in the first two months. March profits slipped 3.5% Y/Y. This deceleration coincides with other economic indicators for March, such as retail sales and industrial output, which indicated weak domestic demand despite a strong Q1 GDP metric. High-tech manufacturing saw a 29.1% rise in profits, leading the growth, while automobile manufacturing reported a 32.0% increase in January-March profits. NBS at the time noted that the recovery of firms' profits was uneven. Analysts at ING posit that "after several consecutive months of stronger-than-expected industrial production, a further decline in profits could be a sign of price competition – though markets will be hoping to see a rebound in profits to indicate that the year-on-year contraction in March's numbers was a blip."

AUSTRALIA CPI (WED): Weighted CPI for April is seen ticking lower to 3.4% Y/Y from 3.5%, with the forecast range between 3.2-3.5%. Last month's release topped forecasts at 3.5% Y/Y (exp. was 3.2%). The strength was attributed to a significant rebound in electricity prices following the expiration of various government power rebates. For April, analysts at Westpac expect the pace of CPI to match the prior month's. "If there are any risks to this forecast we suspect they are to the upside," Westpac says, noting that "there is uncertainty around how much electricity prices can jump in any one month as the rebates roll off… In addition, ABS seasonal factors suggest the seasonal increase in April is around 0.6% meaning our forecast would close to a flat print in seasonally adjusted terms." As a reminder, the RBA Minutes from the May 6-7th meeting stated that it considered whether to raise rates, but judged the case for steady policy was the stronger one and the Board agreed it was difficult to either rule in or rule out future changes in the Cash Rate, and added that the flow of data had increased risks of inflation staying above target for longer and the Board expressed limited tolerance for inflation returning to target later than 2026.

SOUTH AFRICA ELECTIONS (WED): Expectations are for a coalition to form, with the current President Ramaphosa's African National Congress (ANC) party to retain his governance with endorsement from smaller parties – Democratic Alliance (DA) and Inkatah Freedom Party (IFP) - which will avoid having to enlist less market-friendly rivals as coalition partners. Concerns are over the lack of jobs (unemployment rate at 32.9% in Q1 2024) and the ANC's failure to effectively resolve South Africa's low economic growth over the past decade, driven by a prolonged power crisis due to mismanagement of state-owned Eskom. Should the coalition form, Eskom would likely be separated into three separate units handling distribution, electricity generation, and transmission; the new government would likely maintain Ramaphosa's February 2025 fiscal consolidation targets. Goldman states the Rand has been one of the best-performing EM currencies over the last few weeks leading up to the election on Wednesday. GS also notes "South Africa's risk premium has been declining, especially after the latest polls pointed to a higher probability that the ANC will secure enough votes to enter a coalition with smaller opposition parties, implying policy continuity". Bloomberg polls reveal circa two-thirds of respondents would most likely increase exposure to South Africa if the election resulted in a coalition between the ANC and Democratic Alliance (DA). Capital Economics says that "whichever parties govern, a more fragmented parliament is likely to make the jobs of stabilising the public finances and tackling structural economic problems even more difficult." CapEco thinks that during the next parliamentary term, South Africa's public debt ratio will continue to rise, while GDP growth will stay weak at around 1.0-1.5% a year.

JAPAN TOKYO CPI (FRI): There are currently no forecasts for the Tokyo CPI metrics, although the release serves as a precursor to the nationwide Japanese CPI data, which are due in a few weeks. In terms of the priors, Tokyo headline CPI printed at 1.8% Y/Y last month, with the Core at 1.6%. Analysts at ING expect a Y/Y uptick to 2.2% Y/Y from 1.8% "after a sudden drop led by the expansion of the free education programme in April." From a BoJ perspective, the central bank is eyeing the underlying trend of inflation, whilst Governor Ueda recently noted he expects auto output to recover in Q2 onwards, cost-push inflation to keep easing and underpin consumption. A Reuters poll released on May 24th shows 63% of economists expect the BoJ will start reducing the size of bond buying by the end of July, while the BoJ is seen to hike interest rates to at least 0.2% by year-end as forecast by 88% of economists (prev. 65% in April poll). 73% of economists think Japan will intervene to stop the yen from weakening further at 160 per dollar.

CHINA PMIs (FRI): There are currently no expectations for the Official Chinese PMI data, although the release will, as usual, be used to gauge the health of the Chinese economy, In April, growth in China's manufacturing and services sectors slowed, with Manufacturing PMI printing at 50.4 (exp. 50.3, prev. 50.8), and Services PMI at 51.2 (exp. 52.3, prev. 53.0). The April data suggested a weakening momentum for the world's second-largest economy at the beginning of the second quarter. The data signalled a decline in overall economic activity following substantial gains in March. Despite robust Q1 GDP data alleviating some pressure to intensify stimulus measures at the time, the slowdown in PMIs underscores the fragility of the Chinese economic momentum. A downturn in the property market and weak domestic demand continue to pose significant drags on growth, which prompted analysts to call for additional policy support to sustain the recovery. Since then, the PBoC lowered interest rates on provident housing fund loans by 25bps and China will abolish the lower limit of interest rates for housing provident funds for first and second homes at the national level in a bid to prop up the ailing sector. Another weaker set of PMIs may renew calls for more stimulus.

EUROZONE FLASH CPI (FRI): Expectations are for headline CPI to have risen to 2.5% Y/Y from 2.4%, with the super-core metric set to hold steady at 2.7% Y/Y. As a reminder, the prior release saw the headline unable to make much progress, remaining at 2.4% amid an increase in food inflation and only a modest decline in energy inflation, whilst the super-core metric pulling back to 2.7% Y/Y from 2.9% on account of moderating services inflation. For the upcoming release, ING notes that "headline inflation may tick up on the back of higher energy prices, but core inflation developments look relatively stable at the moment". However, it is worth noting that a hot release would come in the context of the firmer-than-expected EZ wage metrics and a decent set of PMI figures. For the ECB, with a June cut so widely baked in the price, this would have little follow-through to the upcoming meeting given how vocal policymakers have been about lowering rates. However, traders may opt to continue scaling back expectations of what happens thereafter with just 55bps of loosening seen by year-end vs. around 70bps at the time of the prior meeting.

US PCE (FRI): Headline PCE prices are seen rising +0.3% M/M in April (prev. +0.3%), with the annual rate expected to be unchanged at 2.7%. The core measure is seen rising +0.3% M/M (prev. +0.3%), while the core rate of annual PCE is seen unchanged at 2.8% Y/Y. The headline CPI data were cooler than expected in April, while the core CPI metric saw the smallest increase since December; and while the PPI data for the month surprised to the upside in the month, analysts noted that the internals -- components that feed into the PCE data -- were more constructive (insurance sectors, health and medical components, air transportation). In wake of the data, Goldman Sachs said "using CPI, PPI, and import prices, we estimate that core PCE increased 0.26% M/M, a pace well below the 0.36% average of the prior three months, but probably not sufficient for a July cut if maintained in May and June." That said, Goldman estimates that the market-based core PCE index—which has been referred to by Fed Chair Powell in recent remarks—rose just 0.18%, a pace GS says would be quite consistent with a July cut if maintained. After a hawkish set of FOMC meeting minutes, and some cautious chatter from Fed officials, as well as constructive incoming data (decent PMI data for the month saw Fed cut pricing diminish sharply), money markets are pricing no easing at the Fed's June 12th meeting, and only a 10% chance of a cut in July. The first fully discounted rate cut is seen in December, although markets are assigning a c. 80% probability of a cut in November.

S&P ON FRANCE (FRI): In April, Moody's and Fitch refrained from making changes to their ratings for France despite speculation that they could take action. S&P's current rating on France sits at AA; outlook negative. However, there is a risk of an alteration on account of France's fiscal situation which saw "last year's deficit came in much wider than initially planned amid weak growth and tax receipts", as reported by Bloomberg. Macron's administration has taken measures to try and arrest the situation including lower spending plans. However, internal opinion within France has been critical of Macron's plans; Bloomberg highlights comments by France's High Council of Public Finance that the country lack credibility and coherency, as it requires unprecedented cuts that would hurt economic growth. Further, the IMF in May forecast the 2024 budget deficit at 5.3% of GDP, declining to 4.5% by 2027 but would still fall short of government targets. Should France be subjected to a downgrade, this could place pressure on OATs and raise French borrowing costs, further narrowing the spread between France and peripheral nations such as Spain.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com