Week Ahead 10-14th June: Highlights include US CPI, FOMC, BoJ and China inflation

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- **MON:** Japanese GDP Revised (Q1), Norwegian CPI (May), EZ Sentix Index (Jun), US Employment Trends (May)
- **TUE:** EIA STEO, OPEC MOMR, UK Jobs Report (Apr)
- **WED:** FOMC Announcement & Press Conference, IEA OMR, Chinese Inflation (May), German Final CPI (May), UK GDP (Apr), US CPI (May)
- **THU:** BoJ Announcement, G7 summit, Australian Jobs Report (May), EZ Industrial Production (Apr), US PPI (May)
- **FRI:** G7 summit, Swedish CPI (May), EZ Trade Balance (Apr), US University of Michigan Prelim (Jun), Publication of ECB TLTRO III.5-10 Repayment Amount, Quad Witching

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NOTE: Previews are listed in day order

EU ELECTIONS (6th-9th): Across the four days EU citizens will vote for their Members of European Parliament (MEPs), the election will see 720 MEPs elected, increasing from the current 705 MEPs. Following the election, MEPs will then elect a European Parliament President (currently Metsola) and a European Commission President (currently von der Leyen). Polls point to the existing centrist coalition formed of EPP, Renew and S&D retaining a majority, though the magnitude of this is expected to slip from the current ~59% of seats due to expected gains for parties on the right of the political spectrum and as such an additional coalition partner may be required. If so, Greens and/or ECR are a possibility. Additional member(s) joining the coalition could present some political uncertainty and further complicate the already extensive and volatile process of choosing the next Commission and Parliament Presidents. Overall, if the polls prove true and there is a shift to the right in terms of the overall Parliamentary backdrop and the eventual coalition then policies could be skewed accordingly, however, member nations' heads of state are the ultimate decision-makers in Europe and as such any shift may well only have marginal implications.

NORWEGIAN CPI-ATE (MON): April's print was slightly hotter than the market expected but once again markedly cooler than the Norges Bank's forecast for the CPI-ATE Y/Y; printed at 4.4% (exp. 4.3%) vs Norges Bank's 4.6% view. For May, the Norges Bank has forecast the CPI-ATE measure moderating to 4.2% with CPI Y/Y seen at 3.3% by the Central Bank; for reference, SEB looks for 4.1% and 3.2% respectively. Data which, if as expected, chimes with market pricing for the first cut to occur towards the end of 2024. As a reminder, at the May meeting the Norges Bank maintained the key policy rate and said that data thus far could "suggest that a tight monetary policy stance may be needed for somewhat longer than previously envisaged", Governor Bache had previously intimated September for the first cut but in May walked back on that saying the timing has not been decided.

UK JOBS (TUE): Expectations are for the unemployment rate in the 3M period to April to hold steady at 4.3%, whilst headline earnings growth on a 3M/YY basis is expected to cool to 5.6% from 5.7% with the ex-bonus metric seen holding steady at 6.0%. As a reminder, the prior release saw a marginal uptick in the unemployment rate (albeit questions around the validity of this data remain), vacancies declined and wages remained at elevated levels with the 3M /YY ex-bonus metric holding steady at 6.0%. For the upcoming report, analysts at Pantheon Macroeconomics note that "employment should fall again, but the job figures are so ropey they are no longer the focus for the MPC", adding that the "LFS unemployment rate will likely remain at 4.3% but could round up to 4.4%". In terms of earnings, the consultancy notes that "April should be another strong month for pay, as the 9.8% National Living Wage rise feeds through". Accordingly, PM is of the view that "whole-economy AWE excluding bonuses growth should rise to 6.1% three-months year-over-year, and including bonuses should hold at 5.7%". From a policy perspective, a cut this month is priced at just 9% with the first reduction not fully priced until December (30bps of easing seen by year-end).

CHINESE INFLATION (WED): CPI Y/Y in May is expected to have matched April's pace of 0.3%, whilst PPI Y/Y is seen ticking higher to -1.8% from -2.5%. The April release saw CPI top forecasts at 0.3% (vs exp. 0.2%, prev. 0.1%), whilst core CPI (ex-food and fuel) rose 0.7% in April from 0.6% in March – signalling a recovery in demand according to some desks, albeit others have warned this may fade – thus the upcoming release will be used as a point of confirmation. Using the Caixin PMI as a proxy, the anecdotal commentary suggested "Prices rose modestly. Both input costs and prices charged by service providers increased, although the increases were limited. Due to previously persistent weak price levels, their gauges reached the highest levels since last June and January 2022, respectively. The increases in input costs were due to a rise in prices for raw materials, salaries, and transportation fees." Analysts at ING are "expecting headline CPI inflation to remain broadly stable around 0.3% year-on-year. An uptick in the purchasing price subindex of the PMI data indicates that the PPI will move a bit higher but will likely remain in deflation. While inflation is likely to remain low in the second quarter, it should begin to pick up in the second half of the year."

UK GDP (WED): Expectations are for M/M GDP in April to pull back to 0.1% from the 0.4% seen in the prior month. As a reminder, the prior release saw a strong outturn for growth with the M/M print for March picking up to 0.4% from 0.1%, leaving the Q1 Q/Q rate at 0.6% vs. the 0.3% contraction endured in Q4 2024 as 10/14 subsectors printed growth. For the upcoming report, analysts at Investec note that momentum from rising real incomes and a pick-up in the manufacturing sector still has some way to run. Furthermore, a large rise in the national living wage and sizable increases in pension benefits should prove supportive for growth in Q2. That being said, the desk has some doubts over whether April actually saw positive M/M growth in GDP on account of potential payback from "the very strong gains in retail sales and hospitality in March" which may have been distorted by the timing of Easter. Analysts at Investec note that this "was the case in retail sales, where the very wet weather dampened demand, not just spirits. Moreover, rail strikes were more common in April than in March". From a policy perspective, the release will likely prove to be non-incremental with the MPC laser-focused on services inflation and to a marginally lesser extent, developments in the labour market (on which, we will receive an update on Tuesday).

US CPI (WED): Headline CPI is expected to rise by 0.2% M/M in May (prev. 0.3%), while the core rate of CPI is again expected to rise by +0.3% M/M (prev. 0.3%). The May CPI data will be released hours before the Fed's June policy announcement (FOMC is expected to stand pat on rates, see below). Speaking in mid-May, Fed Chair Powell said that although Q1 was notable for the lack of further progress made on bringing inflation down, the Fed has made real progress on the prices front. He urged patience, and allowing time for policy to do its work, although restrictive policy may take longer than expected to do its work. Powell argued that inflation will move down to levels more like last year. Wells Fargo says "April marked a step forward in getting inflation back on a downward path after price growth picked up in Q1, yet the FOMC will need to see inflation downshift further in order to gain the 'greater confidence' needed to eventually reduce the fed funds rate." Wells argues that May's data is unlikely to suggest inflation is rapidly approaching the Fed's target, but it should at least offer more evidence that the first quarter's flare-up has subsided (Wells Fargo expects headline CPI to rise +0.1% M/M, and expects the core rate to rise +0.3% M/M). Wells says the headline will likely ease due to an unusual fall in gasoline prices for this time of year; it sees the drivers for core inflation little changed vs April, but says that core goods prices likely fell again amid the ongoing slide in vehicle prices, and more modest declines in other core goods, while prices for core services are likely to increase by +0.4% M/M for a second straight month amid a more slow moderation in housing and other services inflation.

FOMC POLICY ANNOUNCEMENT (WED): Analysts are generally unanimous in expecting that the FOMC will leave rates unchanged at between 5.25-5.50% in June. Instead, the focus will be on its updated economic projections, and specifically, how many rate cuts the Fed is pencilling in this year. The March forecasts narrowly projected three rate cuts this year, but analysts say that there are risks the updated projections could reduce that view to just two reductions or even fewer. Analysts will then look to the inflation forecasts; in the March SEP, the Fed projected that headline PCE inflation will fall to 2.4% Y/Y this year, while the core rate of PCE was seen falling to 2.6% Y/Y this year (for reference, the April data printed 2.7% and 2.8% respectively), and the SEP did not see inflation returning to the Fed's 2% target until 2026. Bank of America's economists said "the Fed will be raising its inflation forecast at the June meeting and it would look odd to raise your inflation forecast and then cut rates quickly after that." BofA expects only one Fed rate reduction this year, in December. The bank said its baseline is for the economy to remain resilient, but noted that growth is softening. "The labour market is cooling on the margin, so the next move is a cut, but the primary risk to our baseline is the Fed just doesn't cut." A Reuters poll of economists revealed that nearly two-thirds of those surveyed (74 of 116) see the first rate cut in September; five expect a July cut. In terms of the volume of cuts, around 60% (68 of 116) see two 25bps reductions this year, while 33 see only one or zero cuts; 15 expect more than two. The Reuters poll added that among 21 Primary Dealers polled, 10 see the Fed cutting rates once or none this year.

BOJ POLICY ANNOUNCEMENT (THU): The BoJ is expected to maintain policy settings, with markets only assigning a 17% chance of a 10bps hike, with the first full hike of such magnitude priced in for the 20th September meeting. The JGB purchase programme is expected to remain flexible. Data-wise, last month's national core CPI Y/Y (for April) printed in line with expectations at 2.2%, cooling from 2.6%. GDP has been a cause for concern with a Q1 contraction which economists have argued presents a challenge for the BoJ who has been carefully paving the way for future rate hikes. Household spending, which makes up over half of Japan's GDP, was the dragging factor. More recent housing spending data (release June 7th) continue to show a fragile picture [All Household Spending YY (Apr) 0.5% vs. Exp. 0.6% (Prev. -1.2%); MM -1.2% vs. Exp. 0.2% (Prev. 1.2%)]. In terms of recent commentary, BoJ's Board Member Nakamura said that based on current data, it is appropriate to keep policy intact for the time being, and increasing interest rates at this stage would be "premature". Governor Ueda meanwhile said the BoJ is proceeding cautiously on interest rates.

AUSTRALIAN JOBS (THU): There are currently no expectations for the Aussie jobs figures, although this will be the main event in Australia next week. Last month's release was mixed and saw Employment change topping forecasts (38.5 k vs exp. 22.4k) while participation rose (66.7% vs exp. 66.6%) but the unemployment rate unexpectedly rose (4.1% vs exp. 3.9%). At the time, analysts at ABS said "A 30,000 people increase in unemployment reflected more people without jobs available and looking for work, and also more people than usual indicating that they had a job that they were waiting to start in", suggesting employment could rise again in May as those workers started, perhaps pulling unemployment back down. Analysts at ING suggest ". Some of April's part-time employment strength will likely convert to full-time jobs in May, though not on a one-for-one basis, and we may also see part-time job growth mean revert to a lower level. That could result in a lower increase of only 20,000 new jobs in May. We think that an increase in unemployment of around 25,000 in May, coupled with about the same increase in the labour force, will result in a slight uptick in the unemployment rate from 4.1% to 4.2%."

SWEDISH CPIF (FRI): A somewhat less pertinent than usual print as the Riksbank has already made very clear that following the cut in May they will not be easing rates again until H2 i.e. skipping the June meeting. Nonetheless, the April reading saw the Y/Y rate come in slightly above the prior but cooler than markets had forecast, while the key core (ex-energy) figure remained steady at 2.9%, defying market forecasts for a tick up to 3.0%. Following the April release, Governor Thedeen remarked that the metrics do not change the rate cut plan. For the May reading, SEB looks for CPIF Y/Y to print at 2.0% (prev. 2.3%) and the ex-energy figure at 2.6% (prev. 2.9%) Y/Y.