Week Ahead 17-21st June: Highlights include PBoC MLF/LPR, Chinese Activity Data, RBA, US Retail Sales, UK Inflation, BoE, SNB, Norges, Japanese CPI, Flash PMIs

Week Ahead 17-21st June:

- **MON:** PBoC MLF, Chinese Activity Data (May), EZ Wages and Labour Costs (Q1)
- **TUE:** RBA Announcement, NBH Announcement, EZ Final CPI (May), German ZEW Survey (Jun), US Retail Sales (May), Japanese Trade Balance (May)
- **WED:** BoC Minutes, BCB Announcement, UK Inflation (May), New Zealand GDP (Q1)
- **THU:** BoE Announcement, PBoC LPR Announcement, SNB Announcement & Press Conference, Norges Bank Announcement & Press Conference, German Producer Prices (May), US Philly Fed Survey (Jun)
- **FRI:** Australian PMIs (Jun), Japanese CPI (May), UK Retail Sales (May), EZ/UK/US Flash PMIs (Jun), Canadian PPI (May)

NOTE: Previews are listed in day order

PBOC MLF/LPR (MON/THU): The PBoC will conduct its Medium-term Lending Facility operation early next week where the central bank is likely to keep the 1-year MLF rate unchanged at 2.50%, while it is also anticipated to maintain the benchmark 1-year and 5-year Loan Prime Rates several days later at their current levels of 3.45% and 3.95%, respectively. As a reminder, the central bank maintained its 1-year MLF rate during last month's operation where it opted to fully rollover the CNY 125bln of funds maturing and it also refrained from any adjustments to the benchmark Loan Prime Rates with the 1-year and 5-year LPRs unsurprisingly kept at 3.45% and 3.95%, respectively. The central bank's actions since then have continued to point to a lack of urgency for adjustments in short-term funding rates as it has mostly kept its daily open market operations to modest amounts of CNY 2bln aside from the increased liquidity injections a few days heading into month-end, while the recent slew of mixed data releases also supports the case for no adjustments including trade figures as exports in May topped forecasts with growth of 7.6% vs. Exp. 6.0% (Prev. 1.5%) and imports disappointed at 1.8% vs. Exp. 4.2% (Prev. 8.4%). Chinese Official Manufacturing PMI missed estimates and unexpectedly slipped into contraction territory at 49.5 vs. Exp. 50.4 (Prev. 50.4) but Caixin Manufacturing PMI surpassed forecasts and improved to 51.7 vs. Exp. 51.5 (Prev. 51.4). Furthermore, recent inflation data was also varied as after it showed softer-than-expected consumer price growth and a narrower-than-anticipated deflation in factory gate prices. Nonetheless, future policy action cannot be ruled out given the economic concerns in China amid trade-related frictions, as well as the ongoing deterioration in the property sector and developer debt crisis that has resulted in defaults for some of the largest developers including Evergrande which was ordered to liquidate earlier this year and with several others facing winding up petitions. However, an immediate reduction in rates seems unlikely given the efforts by Chinese authorities to support the property sector including the easing of restrictions by several major cities in China, while the central bank had pledged to improve the macro-prudential management of real estate finance, as well as held a meeting on pushing re-lending work for affordable housing and will support state firms to buy existing homes.

CHINESE ACTIVITY DATA (MON): Retail Sales are expected to be 3.0% (prev. 2.3%), Industrial Output at 6.4% (prev. 6.7%), and Urban Investments at 4.2% (prev. 4.2%). In April, Industrial production was a bright spot, with value-added industrial activity rising to 6.7% Y/Y in April, driven by high-tech manufacturing and auto production. Using the Chinese manufacturing PMI data as a proxy for industrial output, manufacturing activity unexpectedly fell in May, with the official PMI dropping to 49.5 from 50.4 in April, below the 50-mark that separates growth from contraction. Desks have suggested the May data may be a temporary blip, with a potential improvement expected in June as new government policies, including a property rescue plan and issuance of special sovereign bonds, start to take effect. The IMF revised up its China growth forecast to 5% for 2024 and 4.5% for 2025 but warned that the property sector remains a significant risk. The IMF suggested that a more comprehensive policy package is necessary to address property sector issues effectively. In terms of Retail Sales, the prior release showed that retail sales growth was the slowest since December 2022, and new home prices fell at their fastest rate in nine years. Significant declines were seen in auto sales (-5.6% Y/Y) and household appliances (4.5% Y/Y), while other discretionary categories like clothing (-2.0%), cosmetics (-2.7%), and gold & jewellery (-0.1%) also weakened. The April data reflected ongoing caution among households and the private sector, with weaker-than-expected retail sales and fixed asset investment. Fixed asset investment growth moderated to 4.2% Y/Y, with public sector investment rising by 7.4% Y/Y, while private sector investment slowed to 0.3% Y/Y.

RBA ANNOUNCEMENT (TUE): The RBA is expected to keep the Cash Rate unchanged at its meeting next week with money markets pricing around a 97% chance for rates to be kept at the current level and just a 3% probability of a 25bps cut. As a reminder, the RBA unsurprisingly kept rates unchanged at 4.35% at the May meeting and reiterated that the Board remains resolute in its determination to return inflation to the target and is not ruling anything in or out, while it stated that returning inflation to the target within a reasonable timeframe remains the board’s highest priority, as well as acknowledged that inflation remains high and is falling more gradually than expected. In terms of the central bank's projections, it raised its inflation forecasts for 2024 but trimmed its expectations for GDP and unemployment, while the RBA's forecasts assumed that rates will stay at 4.35% until mid-2025 which is nine months longer than previously assumed, although RBA Governor Bullock noted at the post-meeting press conference to not read too much into the technical assumptions regarding rate forecasts. The minutes from that meeting revealed the board considered whether to raise rates but judged the case for steady policy was the stronger one and agreed it was difficult to either rule in or rule out future changes in the Cash Rate. Furthermore, the board expressed limited tolerance for inflation returning to the target later than 2026 and it acknowledged that a rate rise could be appropriate if forecasts proved overly optimistic but noted that risks around the forecasts were judged to be balanced. The rhetoric since that meeting doesn’t suggest much has changed as RBA Governor Bullock has noted the economy is weak which is showing up in consumption and reiterated they are not ruling anything in or out on policy. She also commented that inflation is coming down but only slowly and the board won't hesitate to act on rates if inflation does not come down as expected although she still judges inflation risks as balanced and stated that Q2 inflation data will be important for monetary policy but not the single most important thing. Recent mixed data releases also support the case to remain on hold as GDP for Q1 disappointed with Q/Q expansion at 0.1% vs. Exp. 0.2% (Prev. 0.2%, Rev. 0.3%) and Y/Y growth at 1.1% vs. Exp. 1.2% (Prev. 1.5%, Rev. 1.6%), while Private Capital Expenditure for Q1 topped forecasts at 1.0% vs. Exp. 0.5% (Prev. 0.8%). Furthermore, monthly Weighted CPI for April was firmer-than-expected at 3.60% vs. Exp. 3.40% (Prev. 3.50%) and suggested less scope to loosen policy, while the latest jobs data showed an improvement as Employment Change in May beat estimates with an increase of 39.7k vs. Exp. 30.0k (Prev. 38.5k) which was entirely due to Full-Time jobs and the Unemployment Rate declined to 4.0% from 4.1% despite a slight increase in the participation rate.

US RETAIL SALES (TUE): Headline retail sales are expected to rise +0.3% M/M in May (prev. +0.0%); the ex-autos measure is seen rising 0.2% M/M (prev. 0.2%). Bank of America’s monthly consumer checkpoint data for the month noted that consumer spending momentum continues to appear soft but stable; according to its internal data, total card spending per household was up 0.7% Y/Y in May following the 1.0% Y/Y increase in April. The report adds the gap between older and younger generations' spending growth has narrowed which could reflect the fading impact of the 2023 cost-of-living adjustment (COLA) on social security benefits, alongside strong after-tax wage growth for younger cohorts. Further still, BofA adds “Gen Z and younger Millennials' share of spending on discretionary items is declining potentially due to increasing spending commitments as they get older. However, higher costs in non-discretionary services is also a headwind”. On the flipside, to counter these pressures BofA finds some evidence that the younger generations are 'trading down' in grocery shopping and restaurant decisions. Nonetheless, while the strength in the younger generations' labour market, such as wages and salary growth, has allowed a majority to navigate these challenges, there are signs of increased financial pressures for some.

UK INFLATION (WED): Expectations are for CPI Y/Y to print at 2.0% (prev. 2.3%) for May, which if correct would be just above the MPC’s forecast of 1.9%. As a reminder, the prior release saw headline inflation slip to 2.3% from 3.2% (driven lower by declining gas and electricity prices), core decline to 3.9% from 4.2% and services tick lower to 5.9% from 6.0% with the latter being a disappointment relative to the MPC’s forecast of 5.5%. For the upcoming release, economists at Pantheon Macroeconomics expect headline inflation to hit the BoE’s 2% mandate with most of the decline attributable to “core goods and services, as large base effects reduce annual inflation”. For services inflation specifically, the consultancy estimates that “half of the April services inflation surprise was a one-off” that will drop out in May and lead to a decline to 5.5% from 5.9%. PM adds that “inflation is proving persistent, but it isn’t as strong as the April figures in isolation suggest”. That being said, services inflation will likely remain sticky in the coming months. From a policy perspective, a June rate cut is priced at just 10% with the first rate reduction not fully priced until November (Sep at -22 bp) and a total of 41bps of easing seen by year-end. Given the sheer volume of data due between now and September, the upcoming release may have little sway on market pricing, particularly with the BoE (see below for a preview of the event) set to come to market the following day with its latest policy statement and minutes which will offer clues over the future policy path.

NEW ZEALAND GDP (WED): There are no expectations currently for the GDP. Westpac forecasts a 0.2% Q/Q decline in New Zealand's GDP for Q1 2024, marking the fifth decline in the last six quarters, contrary to the RBNZ's expectation of a 0.2% rise. “Considering how overheated the economy had become in previous years, it’s likely that we’re only just moving into ‘cool’ territory”, the analysts said. The desk highlights that key sectors show mixed performance: manufacturing (excluding food) has declined for two years, with significant drops in chemicals and machinery, while construction activity also fell as previous project pipelines dwindled. Conversely, agriculture and food manufacturing improved due to increased milk production and recovery from Cyclone Gabrielle, and tourism-related sectors like transport and hospitality benefited from higher overseas visitor numbers. GDP per person has decreased by 4% from its 2022 peak, with the unemployment rate rising to 4.3%, indicating a cooling labour market. Indicators such as the PMI and PSI surveys show a slight uptick in early 2024, but sustained sub-par activity is needed for confidence in inflation control. “A weaker result would support an earlier start date for OCR cuts, though it may be tempered by uncertainty around the economy’s growth potential”, Westpac says.

BOE ANNOUNCEMENT (THU): Expectations are for the BoE to hold the Base Rate at its current level of 5.25%, according to all 65 analysts surveyed by Reuters with markets assigning a circa. 10% chance of such an outcome. As a reminder, the prior meeting saw Ramsden join Dhingra in calling for a 25bps cut, whilst the accompanying policy statement reiterated guidance that monetary policy needs to remain restrictive for sufficiently long. Since the prior meeting, headline inflation in April slipped to 2.3% from 3.2% (driven lower by declining gas and electricity prices), core declined to 3.9% from 4.2% and services ticked lower to 5.9% from 6.0% with the latter being a disappointment relative to the MPC’s forecast of 5.5%. In the labour market, the unemployment rate nudged higher to 4.4% in the 3M period to April, whilst headline earnings growth remained sticky at 5.9% in the 3M/YY period to April. PMI metrics for May saw the services print slip to 52.9 from 55.0, and manufacturing rise to 51.2 from 49.1, leaving the composite at 53.0 vs. prev. 54. Rhetoric since the prior meeting has been lacking due to the purdah (pre-election) period inflicted by the UK general election. However, in the aftermath of last month’s decision, Chief Economist Pill remarked that it is not unreasonable to believe that over the summer, the BoE will see enough confidence to consider rate cuts, adding that they could cut and keep the stance restrictive. Overall, given the worse-than-expected outturn for services inflation in April, the MPC is expected to hold fire on policy. As such, the focus will be on any tweaks to existing guidance on rates, however, at the time of writing there is not much to signal that the MPC will have enough confidence to do so – this could change however following the May CPI data due the day before the release. In terms of market pricing beyond next week, a September reduction is priced at around 85% with the first cut not fully priced until November and a total of 41bps of easing seen by year-end.

SNB ANNOUNCEMENT (THU): In short, the main point of focus will be on whether they cut further from the current 1.50% rate or elect to wait to see how inflation develops into Q3 where it is expected to tick up slightly; elsewhere, any fresh language around the CHF will be keenly sought. Pricing is just in favour of the SNB cutting at the June meeting, with around a 60% chance of this implied. The odds of a cut increased slightly following the in-line May CPI Y/Y print of 1.4%, a metric which matched market expectations for the month and the SNB’s Q2 view of 1.4%. Continuing with inflation, the focus on FX intervention and CHF language has been heightened by recent remarks from Chairman Jordan where he said that if any upward inflation risk materialised then “this would be most likely associated with a weaker Swiss franc, which we could counteract by selling foreign exchange"; while CPI was in-line, we remain alive to the possibility of any fresh currency nuance from the statement/Chairman. Elsewhere, on the hawkish side, Q1 labour compensation hit 1.9% and as such places an upward skew on inflation outturns ahead. On the Franc, despite having gone as high as 0.9930 in recent weeks, EUR/CHF is in proximity to the levels around March’s meeting with the CHF perhaps slightly stronger as EUR/CHF has been down to a 0.9577 recent low in the last few sessions. Levels which would chime with the March meeting’s language that they are ready to intervene in FX but do not, at face value, necessarily require any further explanation/fresh evaluation by the SNB.

NORGES ANNOUNCEMENT (THU): Norges Bank is likely to keep rates unchanged and point to the first cut occurring at the end of 2024. In May the Norges Bank kept its Key Policy Rate at 4.50% as expected, noting that data up to that point could suggest a tight monetary stance may be needed for somewhat longer than previously envisaged. At the time, Governor Bache said they had not decided when to cut, which came in slight contrast to prior guidance for a cut to most likely occur in September. May’s CPI-ATE printed at 4.1%, slightly hotter than markets expected but cooler than the Norges Bank’s view of 4.2% Y/Y, while the headline Y/Y came in at 3.0% markedly cooler than market/Norges Bank’s view of 3.3%. Since, the Regional Network for Q2 noted of an improved outlook and featured upward revisions to the 2024 and 2025 wage estimates, factors which err on the hawkish side and mean the Bank is likely to keep rates unchanged and point to the first cut occurring at the end of 2024. As a reminder, the last formal rate path unveiled in March ascribed around an 85% chance of a cut occurring by end-2024, a magnitude the likes of SEB believe will be trimmed to around 70%.

JAPANESE CPI (FRI): There are currently no expectations. Ahead of the release, the Tokyo CPI metric is typically used as a precursor. Tokyo CPI rose to 2.2% Y/Y in May (prev. 1.8% in April), aligning with the market consensus of 2.2%. Core inflation, excluding fresh food, increased to 1.9% Y/Y (prev. 1.6%), also met the market expectation. Utility prices were a significant factor in the increase in higher utility fees, which rose 4.7% in May compared to a decrease of 3.0% in April. Goods prices saw a moderate rise in the prices of various goods. Conversely, prices in the services sector, including transportation, education, and entertainment, saw moderated growth. Given that Tokyo inflation trends often precede national CPI results, consumer prices are expected to increase to nearly 3% Y/Y in the coming months from the 2.5% Y/Y rise in April, according to the desk at ING, who added that the weak JPY and anticipated large wage increases are expected to further intensify inflationary pressures.

UK RETAIL SALES (FRI): Expectations are for a M/M rebound to 0.7% (prev. -2.3%) as the prior period was hit by poor weather. However, the BRC report showed only a modest rebound in May’s retail sales, though KPMG says the influence of a falling CPI rate “which means volumes are not declining as quickly, may help to soften the blow for hard-working retailers.”. Ahead, BRC wrote that retailers “remain optimistic that major events such as the Euros and the Olympics will bolster consumer confidence this summer.”. Barclaycard’s spending monitor has similar points, highlighting that falling inflation and energy bills (after the Ofgem cap reduction) have eased pressure on households, however, this comes against increasing rental & mortgage expenditures; overall, writing that signs of optimism are emerging. Note, the release is likely to have little sway on market pricing surrounding the BoE given that we will hear from the bank during the prior session and with the MPC focused primarily on services inflation and real wage growth.

UK FLASH PMI (FRI): UK PMIs will be released the day after the BoE and thus will not have a bearing on next week’s confab, but nonetheless will be eyed for anecdotal commentary on the economy. UK Services PMI is seen ticking slightly higher to 53.0 from 52.9, while the Manufacturing and Composite have no expectations at the time of writing. In terms of the prior release, S&P Global in the Final May release suggested “It is worth noting however that the PMI's gauge of UK services inflation is still sitting well above its pre-pandemic trend, which may give more weight to those suggesting the Bank of England hold out until August to loosen policy”.

EZ FLASH PMI (FRI): EZ Flash Manufacturing PMI is forecast to rise to 48.0 from 47.3, and Services is expected at 53.6 (prev. 53.2), bringing the Composite to 52.5 (prev. 52.2). As usual, desks will also dig into the release for anecdotal commentary on sentiment, growth, inflation and wages. Analysts at Oxford Economics suggest the June flash PMI for the EZ is “expected to show improvement in growth momentum as the services sector is likely to maintain healthy activity rises while manufacturing bottoms out. Beyond the headline and sector-level performance, we will scrutinise the figures for Germany and France following opposite signals in May. The German composite PMI rose to a one-year high in May, while the French index fell back into contraction.”

US FLASH PMIS (FRI): There are no expectations for the US Flash PMIs, but the metrics have a tendency to move broader markets – particularly in the absence of the US ISM PMIs straight after. In terms of the priors, Manufacturing was at 51.3, Services at 54.8 and Composite at 54.5. Traders will be dissecting the release for anecdotal commentary on growth, inflation, wages and overall sentiment among respondents, particularly after the soft price-related outturns in the sessions around the FOMC.

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