Week Ahead: 19th-23rd May 2025

Highlights include UK-EU Summit, China Activity Data, PBoC LPR, RBA, Global PMI Data, Inflation from Japan, Canada and the UK

- **MON**: Canadian Holiday (Victoria Day), EU-UK Summit; Chinese Industrial Output (Apr), Retail Sales (Apr), House Prices (Apr), EZ HICP Final (Apr)
- **TUE**: PBoC LPR, RBA Policy Announcement, Norges Bank Financial Stability Report; EZ Current Account (Mar), Consumer Confidence Flash (May), Canadian CPI (Apr), German PPI (Apr), New Zealand Trade (Apr)
- **WED**: Japanese Trade Balance (Apr),UK CPI (Apr), US MBA (w/e 12th May)
- **THU**: ECB Minutes (Apr), CBRT Inflation Report; Australian Flash PMIs (May), Japanese Flash PMIs (May), UK PNSB (Apr), EZ, UK & US Flash PMIs (May), US Initial Jobless Claims (w/e 17th May), Canadian PPI (Apr)
- **FRI**: EZ Negotiated Wage Rates (Q1), Japanese CPI (Apr), German Detailed GDP (Q1), UK Retail Sales (Apr), US New Home Sales (Apr), Canadian Retail Sales (Mar)

EU-UK SUMMIT (MON): Representatives are meeting in London for a Brexit reset summit. Ahead of the gathering, the European Council has outlined the bloc's priorities as defence/security. As usual for such meetings, fishing and youth mobility will draw significant headline attention and often serve as a barometer for the tone of talks, as they are typically the issues with the greatest divergence of views. The EU is sending Commission President von der Leyen, Council President Costa and diplomat Kallas to the summit. From the UK, PM Starmer will be the main representative. Thus far, the main sticking points are reportedly on the mentioned points of fishing, according to Bloomberg. Overall, officials from both sides have been upbeat on signing a deal of some form to improve relations, but it remains to be seen how far this will go, what concession(s) either side may have to give and, perhaps most importantly, if it has any implications for UK-US and/or EU-US talks.

CHINESE ACTIVITY DATA (MON): China will release April activity data on Monday, including Industrial Production, Retail Sales, Fixed Asset Investment, and the national Unemployment Rate. The release will be the first full data set to capture the economic impact of April's tariff escalation, though sentiment has since improved following the temporary 90-day tariff truce announced last week, potentially tempering the importance of the series. In terms of prior readings, Industrial Production Y/Y printed at 7.7% in March, Industrial Production YTD at 6.5%, Retail Sales Y/Y at 5.9%, Retail Sales YTD at 3.61%, Fixed Asset Investment YTD at 4.2%, Unemployment Rate at 5.2%, and House Prices Y/Y at -4.5%. For April, both Industrial Output and Retail Sales are seen moderating to 5.5%. Desks expect the data to reflect tariff-related disruptions, particularly in export-linked manufacturing and private-sector investment. However, the recent easing in trade tensions may limit downside pressure in upcoming prints. While the rollback of US tariffs on China to 30% (from 145%) offers temporary relief, analysts suggest structural challenges in consumption and property remain unresolved. Any weakness in retail or employment figures may strengthen the case for further easing measures.

PBOC LPR (TUE): PBoC will announce China's Loan Prime Rates next week which are expected to be reduced by 10bps with the 1-year LPR (the rate most new loans are based on) currently at 3.10% and the 5-year LPR (reference for mortgages) currently at 3.60%. Expectations for reductions are not much of a surprise given that PBoC Governor Pan had announced sweeping measures to ease policy earlier this month including a 50bps RRR cut and 10bps cut to the policy interest rate with the 7-day Reverse Repo lowered by 10bps to 1.40% and the Standing Lending Facility reduced by 10bps for all tenors. Pan also announced they will lower re-lending rates, interest rates on structural policy tools, and the personal housing provision fund rate all by 25bps, as well as guide commercial banks to lower deposit rates. Pan also stated that China will use multiple policy tools to make dynamic adjustments and is to set up CNY 500bln in re-lending loans for elderly care and service consumption, while the total quota of two monetary policy tools to support capital markets was optimised to CNY 800bln and there were additional CNY 300bln of funds each for tech financing and Rural/SME lending. As such, the RRR cut was estimated to have released CNY 1tln in long-term liquidity, while Pan also stated that the 10bps cut in the policy interest rate is expected to drive down the Loan Prime Rates.

RBA ANNOUNCEMENT (TUE): The RBA is expected to cut rates at its policy meeting next week with money markets pricing in a 98% likelihood for the Cash Rate to be lowered by 25bps to 3.85% and just a 2% chance for rates to be maintained at the current level of 4.10%. As a reminder, the RBA decided to maintain the Cash Rate at the last meeting in April which was unanimously expected given that the central bank had just delivered a cut at the prior meeting in February and voiced cautiousness regarding future cuts. The language from the central bank provided very little clues regarding future policy adjustments as it noted that the outlook remains uncertain and underlying inflation is moderating, while sustainably returning inflation to target is the priority and the board's assessment is that monetary policy remains restrictive. RBA also said that monetary policy is well-placed to respond to international developments if they were to have material implications for Australian activity and inflation. It also noted the continued decline in underlying inflation is welcome but there are risks on both sides with the board cautious about the outlook and it acknowledged inflation could move in either direction. Furthermore, the minutes from that meeting revealed the RBA thought it was not yet possible to determine the timing of the next move in rates nor was it appropriate at that stage for policy to react to potential risks. However, it stated that the May meeting would be an opportune time to reconsider with the decision not predetermined. Governor Bullock commented during the post-meeting press conference that the Board had not made up its mind on a May move, was not endorsing the market path on future rate cuts and did not open the door to a May rate cut. Nonetheless, the market is heavily anticipating a cut next week to support the economy and ease the burden on borrowers, with big 4 bank NAB even calling for a jumbo 50bps move, while recent data releases including contractions in household spending and building approvals, as well as inflation residing in the RBA's 2-3% target, supports the case for the RBA to resume it rate reductions.

CANADA CPI (TUE): The April release will be published on Tuesday. The previous data for March showed the rate of headline CPI easing to 2.3% Y/Y (prev. 2.6%), driven by lower gasoline and travel prices; core CPI eased to 2.2% Y/Y (prev. 2.7%). The Bank of Canada's meeting minutes, released at the end of April, noted that the Governing Council agreed price pressures beyond April were hard to predict. Members favouring a rate cut highlighted the need for timely action, citing lags in policy transmission, anchored inflation expectations, muted near-term inflation risks, and economic weakness. Those favouring no change warned a further cut could be premature due to potential inflation pressure from tariffs. Money markets are currently pricing almost two 25bps rate reductions from the BoC by the end of the year, with the first fully discounted move seen by July.

UK CPI (WED): April's release is expected to see a marked jump. Upside is expected to be driven by price hikes at various utility providers, tax increases and then the usual setting of index prices in April; inflationary effects from the tariff situation are factoring into this. The BoE expects this dynamic to continue in the months ahead and inflation to hit 3.7% by September, partially driven by the aforementioned factors. Thereafter, the BoE looks for inflation to fall back to target; in the meantime, the May forecasts look for inflation to be at an average of 3.4% in Q2 and 3.5% in Q3. For April, Pantheon expects the headline figure to increase to 3.6% Y/Y (prev. 2.6%), surpassing the latest BoE forecast of 3.4%. On the BoE's peak forecast of 3.7% in September, Pantheon believes risks are skewed to the upside as upcoming cost pressures could spark follow-up price increases. Back to April, Pantheon expects Services to tick up to 5.1% Y/Y (prev. 4.7%). Metrics will be digested by an increasingly divergence MPC; however, we will receive both the May and June CPI series before the June 19th policy announcement, an announcement that is expected to see rates unchanged with the focus instead on August for the next potential cut, as it stands markets ascribe around a 55% chance of a 25bps cut.

ECB MINUTES (THU): April's meeting saw a 25bps cut as expected and the old language around restrictiveness was removed. This took the ECB to the top end of its 1.75-2.25% neutral rate estimate. Accompanying forward guidance was unsurprisingly non-committal, though the statement did highlight increased uncertainty and an associated confidence impact that is "likely to have a tightening impact on financing conditions"; on this, participants were attentive to any hints around an offsetting policy response (i.e. dovish action). Just after the meeting, sources reported the decision to cut was unanimous. Lagarde didn't add too much, aside from stressing no argument was made for 50bps or other stimulus, though she made the point that they are viewing tariffs as a demand shock. From the Minutes, we are attentive to whether 50bps was discussed at all (Lagarde said there was no argument for it), whether there were any relatively firm views on a June cut expressed as sources have suggested, and if any opposition to the decision to remove language around restrictive was expressed. As usual, the Minutes will be regarded as stale and likely even more so than normal given recent significant tariff developments.

EZ FLASH PMI (THU): The Eurozone releases its Flash PMIs for May on Thursday, Manufacturing expected at 49.5 (prev. 49.0), Services at 50.3 (prev. 50.1) and Composite at 50.8 (prev. 50.4). The prior readings saw Manufacturing at 49.0, Services at 50.1, and the Composite at 50.4. While April's data showed only mild improvement, recent survey indicators such as Sentix and ZEW have rebounded, suggesting the initial wave of pessimism following the US "Liberation Day" tariffs may have moderated. Oxford Economics notes the strong Q1 German industrial output was driven by front-loaded US demand in autos and pharma, raising the risk of a Q2 correction as that temporary boost unwinds. The temporary 90-day tariff truce between the US and China has also eased market anxiety around global trade spillovers, though uncertainty around US-EU trade relations remains elevated, with US Treasury Secretary Bessent recently suggesting progress was slow. From a policy perspective, the ECB is widely expected to cut rates in June, a weak PMI print would likely reinforce that view.

UK FLASH PMI (THU): The UK will release Flash PMIs for May on Thursday, Manufacturing is seen at 45.9 (prev. 45.4) and Services at 49.5 (prev. 49.0). UK PMIs saw a sharp deterioration in April, with the Composite PMI at 48.2 (exp. 50.4, prev. 51.5), marking the first contraction in private sector output since October 2023. The Services PMI came in at 48.9 (exp. 51.5, prev. 52.5), while Manufacturing dipped to 44.0 (exp. 44.0, prev. 44.9), its lowest level in nearly three years. S&P Global cited falling domestic and external demand, with new orders declining for a fifth consecutive month and export business contracting at the fastest rate since May 2020. With the US-China 90-day tariff truce now in place, desks expect some relief on trade sentiment, but domestic cost pressures and demand fragility persist. A sub-50 composite print in May would reinforce the narrative of a stalling UK recovery and potentially support some expectations for a summer/late-summer BoE rate cut.

JAPANESE CPI (FRI): Japan will release national CPI data for April on Friday, the core Y/Y is expected to tick up to 3.4% (prev. 3.2%). The prior national figures showed Core CPI Y/Y at 3.2%, headline CPI Y/Y at 3.6%, and M/M CPI at 0.3%. Desks expect the April data to reflect residual effects from the reduction in energy subsidies and fresh fiscal year price hikes, particularly in food and education. Tokyo CPI — considered a leading indicator — accelerated to 3.4% Y/Y (vs. exp. 3.2%, prev. 2.4%), while the "core-core" index (ex-fresh food and fuel) jumped to 3.1% (prev. 2.2%), raising pressure on the BoJ. While policymakers kept rates steady at the May 1st meeting, recent commentary suggests a readiness to hike further if inflation remains sticky. However, global risks, especially from US tariffs and softening external demand, may limit the BoJ's near-term scope. It was reported that Japan's top trade negotiator Akazawa could travel to Washington next week for a third round of trade talks, according to Reuters sources.

UK RETAIL SALES (FRI): The first hard data read on the sector under Trump's tariffs, an April series which follows a strong Q1. For April, Investec expects further growth in sales volumes but at a more moderate pace than seen last time, forecasting 0.3% (prev. 0.4%) M/M; attributing much of this expected upside to good weather and the increase in the National Living Wage. In terms of other leads, the Barclaycard consumer spending report for the period saw the largest uplift in card spending since June 2023, driver by favourable weather and the Easter period. Elsewhere, NIQ/GfK Consumer Confidence fell in the month amid an increase in multiple utilities and concerns around renewed high inflation. Overall, the Retail series is expected to remain robust but with a slightly slower pace of sales volume growth as the favourable influence of good weather is offset by utility increases and price concerns.

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