

## Highlights include ECB, PBoC LPR, Global PMIs and the Japanese Upper House Election

- **SUN:** Japanese Upper House Election
- **MON:** PBoC LPR; Canadian PPI (Jun), US Leading Index (Jun), New Zealand Trade (Jun), UK CBI (Jul)
- **TUE:** UK PSNB (Jun), US Richmond Fed (Jul)
- **WED:** EZ Consumer Confidence Flash (Jul)
- **THU:** ECB & CBRT Policy Announcements; EZ, UK & US Flash PMIs (Jul), US Weekly Claims, National Activity Index (Jun), Canadian Retail Sales (May)
- **FRI:** UK Retail Sales (Jun), GfK (Jul), Japanese CPI (Jul), EZ M3 (Jun), German Ifo (Jul), US Durable Goods (Jun)

**JAPANESE UPPER HOUSE ELECTION (SUN):** In short, the LDP-led coalition runs the risk of losing its majority in the Upper House and leading a minority government in both houses. The prospect of this has lifted domestic yields in recent sessions, 10yr at a post-2008 peak, as PM Ishiba may be forced to agree to fiscally expansionary measures in order to court the support of opposition parties. As a reminder, the Upper House contains 248 seats, of which 124 are up for re-election. From the coalition's (LDP + Komeito) 140 seats, 65 are involved, with 125/248 needed for a majority. The election consists of parallel voting, where 74/124 are elected by a FPTP-style vote in single-member districts and the remainder via PR in multi-member districts. Surveys cited by domestic press in the run-up to the election suggest the government might fall short of the 50 seats required to retain a majority; 75 coalition seats are not involved so 50/65 available coalition seats are needed to get to 125 in the house. Seat projections from the multiple types of voting suggest that while the LDP will be the largest single party, with around 32-46 seats, according to Asahi. There is a possibility that the coalition will fall short of the 50 seats required for a majority, with a range of 36-56 projected. A win for the coalition would strengthen the position of PM Ishiba after the 2024 election and would allow him to press forward with their domestic agenda. However, if the coalition falls shy of 50, the fate of Ishiba is more uncertain. There is no formal procedure/requirement for him to step down, but a poor performance could trigger an internal power struggle. More pertinently, the loss of majority in the Upper House would mean the coalition controls neither chamber and makes the passage of legislation impossible without support from part(s) of the fractured opposition. In the week leading up to the election, pressure has been seen in JGBs with the 10-year yield at its highest since 2008. Upside which appears to have been driven by the expectation that the ruling coalition will lose the Upper House majority, potentially leading to increased spending, cash handouts, tax cuts and measures to limit household energy bills. Measures LDP might have to agree to in order to gain support from opposition parties to pass legislation and broader funding plans. For the BoJ, the election increases policy uncertainty and could prevent them from continuing to tighten; particularly if Ishiba's government falters significantly. However, if fiscal stimulus occurs and inflation continues to pick up, then the BoJ may find itself revising such forecasts higher and tightening sooner than would otherwise be the case.

**PBOC LPR (MON):** The PBoC is likely to keep rates at their current levels, with the 1-year LPR at 3.00% (the rate most new loans are based on) and with the 5-year LPR at 3.50% which is the reference for mortgages. As a reminder, Chinese banks refrained from any adjustments to the LPRs last month, which was as expected and followed the sweeping cuts across rates in May, including reductions to the PBoC funding rates, the LPRs and deposit rates by banks. The easing of trade tensions between the US and China in early June, following talks in London, also suggested there was less urgency for immediate policy support. This remains the case for this month, given the recent key data releases for China, including stronger-than-expected GDP data for Q2 and as Industrial Production also topped estimates for June, although Retail Sales disappointed.

**ECB POLICY ANNOUNCEMENT (THU):** Expectations are for the ECB to stand pat on policy with markets assigning a 94% chance of such an outcome. The likely decision to not adjust policy settings follows on from the June meeting, whereby the GC delivered another 25bps reduction in the Deposit Rate and Lagarde subsequently noted that policy was "well-positioned" to navigate the current uncertainties, suggesting that ECB could be at or near the end of its cutting cycle. The current greatest source of uncertainty stems from the ongoing trade frictions between the EU and US. At the time of writing, both sides are attempting to broker a deal ahead of the August 1st deadline, which would see the US impose a 30% tariff on EU goods and the EU likely respond with its own countermeasures. Such fears are weighing on the growth outlook and, allied with the appreciation in the EUR this year, have stoked concerns that the ECB could undershoot its 2% inflation target. As a reminder, the ECB currently forecasts 2026 inflation at 1.6%. On the EUR, policymakers are unlikely to explicitly talk down the currency. Reporting ahead of the meeting has suggested that the GC is to discuss a more negative scenario next week than previously envisaged in June after Trump's latest tariff threat. However, this remains highly contingent on the actual outcome of the trade war. As it stands, markets are not rushing to adjust their expectations of ECB easing this year with just 24bps of loosening seen by year-end. Accordingly, the upcoming meeting will be seen as a placeholder event.

**FLASH EZ PMIS (THU):** Expectations are for the EZ July manufacturing PMI to rise to 49.7 from 49.5, services to nudge higher to 50.8 from 50.5 and the composite to rise to 50.9 vs. the previous 50.6. As a reminder, the prior release saw the manufacturing print tick higher to 49.5 from 49.4, services rose to 50.5 from 49.7, and the composite rose to 50.6 from 50.2. The accompanying report noted, "The eurozone private sector registered higher output for the sixth month running in June, and a fourth successive monthly increase in employment. Rates of growth remained weak in both cases, but the ongoing downturn in new orders showed signs of

ending and the 12-month outlook was the strongest for nearly a year". Ahead of the release, Oxford Economics notes that "July readings from the slightly timelier Sentix and ZEW surveys of financial market participants suggest the PMIs are likely to keep a relatively encouraging tone in July, in terms of showing continued activity growth, albeit modest". The consultancy adds that the "expectations component will provide a glimpse of any hit to sentiment from the latest tariff threat from US President Donald Trump, and the data on employment and inflation deserve close attention given the downside risks to both from US tariffs". Note, the release is unlikely to have any impact on the ECB policy announcement due out a few hours later, with analysts unanimous in expecting an unchanged rate.

**FLASH UK PMIS (THU):** Expectations are for the July services PMI metric to tick higher to 52.9 from 52.8, manufacturing to rise to 48.0 from 47.7 and the composite to come in at 51.8 vs. the previous 52.0. As a reminder, the prior release saw an increase in the services metric to 52.8 from 50.9, manufacturing nudged higher to 47.7 from 46.4, and the composite rose to 52.0 from 50.3. The accompanying report noted "new business intakes increased for the first time in seven months, despite a sustained reduction in export sales. However, business optimism regarding the year ahead outlook for activity volumes moderated since May". This time around, Investec expects to see "more of the same". More specifically, the desk notes that "while some uncertainty might have been removed with the signing of the UK-US trade deal, there is likely to be more uncertainty over purely domestic matters, with the growing speculation of tax rises come the Autumn Budget". From a policy perspective, absent a material pullback in inflation or rapid deterioration in the labour market, the release is unlikely to reshape BoE easing expectations for the remainder of the year with circa 50bps of rate cuts seen by year end.

**CBRT POLICY ANNOUNCEMENT (THU):** The CBRT is expected to cut the policy rate, following a hold in the June meeting after an unexpected hike to 46% in April. A move that occurred after a surprise hike to the overnight lending rate in March, in order to counter the pronounced TRY volatility that was being seen at the time amid significant political instability spurred by the arrest of Istanbul's Mayor. All 17 economists in Reuters' July CBRT poll expect the bank to cut its one-week Repo Rate, with the median forecast for a 250bps cut to 43.50%, predictions ranging from 42.50% to 44.50%. 13/17 economists expect 250 bps. Justification for this move comes after June inflation metrics printed cooler than expected, with the Y/Y print at 35.05%. M/M inflation was 1.37%, the composition displaying food and beverage costs slowing, reinforcing the bank's view that the disinflation process continues. In the prior meeting, the bank noted it was monitoring trade and geopolitical events, the latter has dissipated a little now. However, worries have not disappeared. Last week, TRY and domestic Bonds sold off after the detention of a number of opposition mayors. Prosecutors claim the arrests come amid anti-corruption measures, but many see this action as politically motivated moves against President Erdogan's opposition, CHP. Looking ahead, Morgan Stanley expects three additional 250bp cuts following this meeting, to bring the policy rate to 36% by end-2025, reinforcing the median call in the Reuters poll.

**UK RETAIL SALES (FRI):** Expectations are for M/M retail sales in June to rise 1.1% (prev. -2.7%) with the core M/M rate forecast at 1.0% (prev. -2.8%). The prior release was notably weak, however, Investec noted that "the 2.7% fall in sales volumes in May likely exaggerated the degree of weakness in the retail sector; part of this fall was due to payback from previous months when sales volumes were elevated by temporary factors". In terms of recent retail indicators, BRC Retail Sales for June came in at 2.7% Y/Y (prev. 0.6%) with the accompanying report noting "Retail sales heated up in June, with both food and non-food performing well... Food sales remained strong, though this was in-part driven by food inflation, which has risen steadily over the course of the year". Elsewhere, the Barclaycard Consumer Spending report noted "despite the warm weather, which usually boosts non-essential sectors such as retail and hospitality, consumers spent cautiously in June, prioritising value as they navigate economic uncertainty".

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