newsquawk

Week In Focus: 6-10th April

Highlights include Trump's Iran deadline, US CPI, PCE, ISM Services PMI, FOMC Minutes, RBNZ and OPEC+

- **MON**: Holiday: Easter Monday, Canadian Services/Composite PMI (Mar), US ISM Services (Mar), Australian Services/Composite PMI Final (Mar), Japanese Household Spending (Feb)
- **TUE**: EIA STEO (Apr), EZ/UK Services/Composite PMI Final (Mar), US ADP Employment Change Weekly, US Durable Goods Orders (Feb), US RCM/TIPP Economic Optimism Index (Apr), US Consumer Inflation Expectations (Mar)
- **WED**: FOMC Minutes (Mar), RBNZ Policy Announcement (Apr), RBI Policy Announcement (Apr), Australian NAB Business Confidence (Mar), Japanese Economy Watchers Survey (Mar), German Factory Orders (Feb), UK Halifax House Price Index (Mar), French Balance of Trade (Feb), EZ/UK Construction PMI (Mar), EZ Retail Sales (Feb), EZ PPI (Feb)
- **THU**: Japanese Consumer Confidence (Mar), German Balance of Trade (Feb), Mexican Inflation (Mar), US PCE (Feb/Q4), US GDP (Q4), US Jobless Claims (Mar/28), US Wholesale Inventories (Feb), Japanese PPI (Mar)
- **FRI**: Australian Consumer Inflation Expectations (Apr), BoK Policy Announcement (Apr), Chinese Inflation (Mar), German HICP Final (Mar), Italian Industrial Production (Feb), Canadian Jobs Report (Mar), US Inflation (Mar), US Factory Orders (Feb), US UoM Prelim Survey (Apr)

WEEK AHEAD

OPEC+ (SUN): The OPEC+ JMMC and "Voluntary Eight" are due to meet on 5 April under severe conditions after the escalation of the Middle East conflict and the near-total closure of the Strait of Hormuz, which has sharply disrupted Gulf exports and forced output cuts as storage fills. Tanker traffic through Hormuz has collapsed, while infrastructure damage and logistical constraints continue to hamper flows, despite Saudi Arabia diverting exports via the East-West pipeline to Yanbu, although shipments through the Bab-el-Mandeb Strait remain exposed to Houthi attacks from Yemen. The OPEC+ "Voluntary Eight" must decide whether to proceed with a planned 206k BPD output increase or maintain or extend cuts to stabilise markets amid heightened volatility. Meanwhile, Reuters sources reported that OPEC+ is likely to consider a further oil output quota hike at its Sunday meeting to prepare for any easing of Hormuz export constraints. Brent has already surged about 60% in March, peaking near USD 120/bbl, while global supply losses are estimated at roughly 8mln BPD, and coordinated SPR releases, around 426mln barrels, are nearing exhaustion, expected by mid to late April. Focus will also be on any shift towards coordinated emergency measures or signalling on spare capacity use, while headline risk remains elevated ahead of the Iranian deadline on 6 April.

TRUMP'S IRAN DEADLINE (MON): US President Trump’s April 6 deadline at 20:00 EDT (01:00 BST on Tuesday, April 7) for Iran to fully reopen the Strait of Hormuz remains in force, with failure to comply risking US strikes on Iran’s power grid and energy infrastructure. The deadline has been extended several times, with an initial 48-hour ultimatum lengthened to a five-day delay on March 23 and a further 10-day extension on March 26. Trump has said “talks are going very well” while reiterating that military action remains the main leverage. Rhetoric has been mixed, with early optimism tempered by Trump’s April 1 televised address, in which he warned US forces would continue hitting Iran “extremely hard” in the coming weeks. He said a day earlier that the broader mission could conclude within 2-3 weeks. For markets, this creates a binary near-term catalyst: a resolution, ceasefire or reopening of Hormuz would likely trigger a sharp unwind in the geopolitical risk premium, particularly in crude, while failure to meet the deadline would materially raise the probability of escalation targeting energy infrastructure, worsening supply disruptions. Focus remains on any communication ahead of the deadline, with Trump able either to extend it again or proceed with escalation.

US ISM SERVICES PMI (MON): As a basis for comparison, S&P Global's flash US Services PMI Business Activity Index fell to 51.1 in March from 51.7 in February, an 11-month low. Services growth slowed for a second straight month as new business growth weakened and export sales fell more sharply. Firms cited softer consumer and business confidence, heightened geopolitical uncertainty, financial market volatility, higher interest rates and the cost-of-living impact of higher energy prices. Service providers also reported a weaker outlook for the year ahead, the softest since October, in contrast to improved sentiment in manufacturing. On prices, service sector cost pressures intensified and prices charged rose at the fastest pace since August 2022. Employment in services fell, contributing to the first overall decline in private sector employment in more than a year.

FOMC MINUTES (WED): The FOMC left rates unchanged at 3.50-3.75%, with no change to forward guidance, balance sheet plans or implementation guidance. Miran was the sole dissenter, favouring a 25bps rate cut. The statement was little changed, though it now says unemployment has been "little changed in recent months" and adds that developments in the Middle East pose uncertain implications for the US economy. The updated projections were modestly hawkish: growth forecasts were raised across 2026-2028, inflation projections were also revised higher, most notably for 2026, while the unemployment forecast for 2026 was unchanged at 4.4%, with only a slight upward revision for 2027. The median rates path was unchanged through 2028, though the longer-run fed funds estimate edged up to 3.1%. Powell's press conference came across as hawkish despite the unchanged median dots. He stressed that persistent inflation, not weak growth, remained the main concern, highlighting sticky non-housing services, the need for more goods disinflation and upside risks from tariffs, oil and the Middle East. He said rate cuts would require renewed progress on inflation, while also noting that a rate rise was discussed, although most officials did not see it as the base case. Since the meeting, policymakers have generally endorsed the hawkish hold, with most favouring keeping rates steady until inflation shows clearer progress. Cuts remain possible only if the labour market weakens, but the bar is higher after the oil and war shock. Hikes are not the base case, though several officials say they cannot be ruled out if inflation worsens. Policymakers generally see a baseline of resilient growth, moderating inflation and only gradual labour market softening, but uncertainty has risen sharply. Officials have repeatedly stressed the "fog" around the outlook and a more difficult growth-inflation trade-off, though they have said policy is well placed to wait for clearer evidence before moving. On the Middle East conflict, officials noted possible two-sided shocks: it can lift inflation through energy and supply chains while also weighing on growth, sentiment and jobs. Policymakers have said that any short-lived shock could be looked through, but a prolonged conflict would likely delay cuts and raise the risk of a more hawkish response. Meanwhile, inflation is still seen as too high and as the main policy risk. Most say there is no clear evidence yet of second-round effects or a wage-price spiral, and expectations remain broadly anchored, but many have warned that persistent oil or supply shocks could bleed into core inflation and expectations, complicating policy.

RBNZ POLICY ANNOUNCEMENT (WED): The Reserve Bank of New Zealand is expected to hold the Official Cash Rate at 2.25% on 8 April, with markets pricing around a 97% probability of no change and a 3% chance of a 25bps hike, but the narrative has shifted towards a "hawkish hold" amid rising energy prices linked to Middle East tensions. Capital Economics, which had previously leaned dovish, now also expects a hold, while warning that persistent oil-driven inflation could prompt rate hikes before end-2026, aligning more closely with ASB and Westpac, which also expect no change this week but anticipate tightening later in the year to around 2.50%-3.00%. Focus will be on any acknowledgement of second-round effects from higher fuel and freight costs, while forward guidance will be scrutinised for signals on the timing of the first hike, with market pricing now leaning towards tightening by September rather than further easing.

RBI POLICY ANNOUNCEMENT (WED): RBI will hold its latest three-day policy meeting next week, where it is expected to pause again and keep the repurchase rate at 5.25% amid a rebound in consumer inflation and the ongoing Middle East conflict. The RBI kept rates unchanged at its February meeting, as expected, with a unanimous decision, while maintaining a neutral policy stance, though external MPC member Singh dissented, advocating a shift to an accommodative stance. The RBI said the current policy rate is appropriate, underlying inflation remains low, and the Indian economy is on a steady and improving trajectory, while noting that external headwinds had intensified since the December meeting. Governor Malhotra said net external demand remains a drag, rural demand is steady, and urban consumption is expected to strengthen, while the central bank raised its FY26 CPI inflation forecast to 2.1% from 2.0%. Singh argued that retaining a neutral stance was not appropriate at a time requiring a proactive signal, suggesting an accommodative stance would support transmission of prior rate cuts by lowering market rates, sovereign and corporate bond yields, and the spread between them. Nonetheless, recent communication from the RBI does not point to any imminent policy shift, while data also suggest limited urgency to adjust policy, with Q4 GDP Y/Y at 7.8% versus expectations of 7.2% (prev. 8.2%), and CPI Y/Y rising to 3.21% in February versus expectations of 3.1% (prev. 2.74%), moving closer to the RBI's 4% target and marking the fastest pace in 11 months. Uncertainty from the Middle East conflict and shipping disruptions is another factor likely to keep the RBI cautious, particularly as India is less exposed to the energy shock than other Asian economies, with refiners shifting back towards Russian crude.

US PCE (FEB) (THU): The PCE data is for February, so it is overshadowed by events in the Middle East, which have stoked energy prices and raised the cost of key industrial metals and materials since then. Bloomberg's monthly economist survey raised year-end PCE estimates to 3.1% (from 2.6%), while lowering spending, growth and employment forecasts as the war in Iran lifts fuel costs. Analysts expect February PCE to print on the firm side and keep the Fed firmly in its 'higher for longer' stance, noting that the February CPI and PPI reports imply headline and core PCE rose +0.4% M/M in February, with the annual core reading easing only slightly to around 3.0% Y/Y (from 3.1%). The February CPI report looked relatively benign on the surface, but the underlying details point to hotter core PCE, while February PPI reinforced that message through stronger pass-through from hotel and motel rooms, transportation and warehousing, and some financial services. Accordingly, analysts have said inflation still looks sticky, particularly across services, and a third straight 0.4% M/M core reading would remain well above any pace consistent with a return to 2%. Such an outcome could validate traders' view that the Fed stays cautious for longer, while any upside surprise would push back rate cut expectations further. A reading below 0.4% M/M would offer some relief but could easily be dismissed as stale given events in the Middle East.

BOK POLICY ANNOUNCEMENT (FRI): Bank of Korea is expected to refrain from any rate changes at next week's policy meeting, with the base rate likely to be held at 2.50% for a seventh consecutive meeting. The BoK has kept rates unchanged since May last year and signalled little urgency to adjust policy at its February meeting, where it unanimously opted to pause and the median view was for the base rate to remain at 2.5% in six months. Projections showed that 16 of 21 board members expected the policy rate at 2.50% over the next six months, one saw it at 2.75%, and four projected 2.25% over that period. Governor Rhee said the conditional projection for a 25bps cut assumed the property market would stabilise within six months and that no board member expected rates to rise in the next three months. The BoK said it would set policy to support a recovery in growth and expects momentum to remain favourable, with strong chip exports underpinning activity. It also noted that housing price growth around Seoul has slowed and stressed the need for caution over risks tied to housing, household debt and FX volatility. The upcoming meeting will be the final rate decision under Governor Rhee, whose four-year term ends on April 20. Uncertainty linked to the Middle East conflict makes a final policy move unlikely, while recent data have been soft to mixed, with final Q4 GDP contracting -0.2% Q/Q versus expectations of -0.3% (prev. 1.3%) and growing 1.6% Y/Y versus expectations of 1.7% (prev. 1.8%). CPI rose to 2.2% in March versus expectations of 2.4% (prev. 2.0%), moving away from the central bank's medium-term target, although the increase was less pronounced than forecast and was partly contained by government measures such as fuel price caps.

CHINESE CPI (FRI): CPI Y/Y is expected to remain firm at around 1.2% Y/Y (prev. 1.3%), supported by higher energy prices amid the Iran conflict and improving domestic demand. ING expects positive price momentum to persist, noting PMI price sub-indices have reached their highest levels since 2022, while PPI is seen returning to positive territory at around 0.6% Y/Y for the first time since 2022. Focus will be on energy pass-through, particularly gasoline prices. For the PBoC, the data is key: a firmer inflation backdrop could reduce the urgency for near-term easing, although policymakers are still expected to weigh growth support later in Q2, leaving markets sensitive to any upside surprise that could challenge the current easing bias.

CANADIAN JOBS (FRI): The March jobs report will be viewed to see how the Canadian labour market is faring with elevated concerns amid trade disputes with the US. The Iran conflict also poses a risk, but it may be too soon to see a true impact on the labour market. The February report was dire, and participants will be looking to see if the weakness persists. February saw 108.4k full time jobs lost with 24.5k jobs added, leaving the overall employment change at -83.9k. The latest BoC Minutes noted that recent data pointed to continued weakness in industries most exposed to trade as well as in other sectors, such as wholesale and retail trade, while some indicators suggest there could be more slowing ahead.

US CPI (FRI): March CPI looks likely to show a reacceleration in headline inflation, driven mainly by the energy shock from the Middle East conflict and the associated rise in energy and commodity prices. The Cleveland Fed nowcast point to headline CPI of around 3.25% Y/Y in March (vs an actual 2.4% in February), though core inflation should be steadier at around 2.5% Y/Y, suggesting the March strength is likely to come from fuel and other energy-related components rather than a broad-based underlying inflation surge. Analysts have also noted that rising producer and factory input prices mean pipeline pressures may keep core inflation firm rather than soft. The data should keep the Fed cautious on further rate cuts. Recent commentary from Fed officials has broadly favoured keeping rates steady until inflation shows clearer progress while assessing the impact of the energy shock. Policymakers have said rate cuts would require labour market weakness, while hikes are not the base case but cannot be ruled out if inflation surges. Middle East events could raise inflation through energy and supply chains while hurting growth, so a brief shock may be looked through, but any prolonged shock would likely delay the timing of rate cuts. Officials have said inflation remains too high, with upside risks if oil shocks spill into core and expectations, though they have noted that inflation expectations remain well anchored.

WEEK IN REVIEW

RBA MINUTES (TUE): The RBA's March meeting minutes revealed a notably hawkish tone, highlighting a narrow 5-4 split in favour of the 25bps hike, the tightest margin since vote disclosures began, with the majority citing upside inflation risks from energy shocks linked to the Middle East conflict. Policymakers warned that sustained oil prices near USD 100/bbl could push headline CPI towards around 5% in Q2 and risk unanchoring inflation expectations, reinforcing the need to keep financial conditions restrictive, a view shared across the board. However, the minority preferred to delay further tightening until May to assess incoming data on growth, consumption and the labour market, while Governor Michele Bullock emphasised heightened uncertainty around the rate path given geopolitical volatility. For markets, the minutes strengthen the case for further tightening bias, with focus now on incoming data and energy price dynamics to determine the timing of the next move.

CHINESE NBS MANUFACTURING PMI (TUE): China's March NBS Manufacturing PMI rose to 50.4 (exp. 50.1, prev. 49.0), beating expectations and returning to expansion territory for the first time in several months, marking the strongest reading since March last year. The rebound was driven by post-Lunar New Year normalisation and increased government spending, while the Non-Manufacturing PMI also improved to 50.1, signalling a broader recovery across services and construction.

EZ CPI FLASH (TUE): A cooler-than-expected headline print, though it rose above the ECB's 2.0% target from 1.9% to 2.5% Y/Y in March. In short, the release showed that, for now, the energy surge has not filtered through to other components, with core inflation easing from the prior reading and the bulk of headline price pressure coming from energy, which printed at 4.9% (prev. -3.1%). For the ECB, the data reinforces a wait-and-see approach. However, the rise in the headline rate, lags in price pass-through and the ongoing conflict mean tightening remains the market's base case. Markets currently price just under 60bps of tightening by end-2026.

BOJ TANKAN SURVEY Q1 (TUE): The BoJ's March Tankan survey showed continued strength in business sentiment, with the large manufacturers' index rising to +17 (prev. +16, exp. +16), marking a fourth consecutive quarterly improvement and the highest level since late 2021, while large non-manufacturers held steady at +36, near multi-decade highs and above expectations. Inflation expectations rose to record levels at 2.6% for one year and 2.5% for three- and five-year horizons, while large firms plan to increase capex by 3.3% for FY2026, slightly above forecasts. For market participants, the focus is on whether this reinforces expectations for a potential rate hike as early as the late-April BoJ meeting.

BOC MINUTES (WED): Governing Council members at the March meeting agreed on the need to keep options open, noting the more benign inflation environment is likely to be short-lived as headline inflation is expected to rise in the coming months due to higher gasoline prices. They agreed on the need for a risk management approach to monetary policy and to remain ready to respond as the outlook evolves. Policymakers held rates at 2.25%, citing uncertainty from weaker growth and upside inflation risks linked to energy prices, and said it is too early to assess the outlook. Members acknowledged that public perceptions of inflation remain elevated following the 2022 spike, with gasoline prices having a significant impact on households' assessments. They also noted that most export weakness has been driven by temporary factors that should unwind in the coming months.

US ISM MANUFACTURING PMI (WED): ISM Manufacturing in March rose to 52.7 from 52.4, above expectations of 52.3. Prices jumped to 78.3 (exp. 72.5, prev. 70.5), potentially reflecting the Iran conflict, while new orders fell to 53.5 from 55.8. Employment was little changed at 48.7 from 48.8. Production and supplier deliveries increased to 55.1 (prev. 53.5) and 58.9 (prev. 55.1), respectively, while inventories declined to 47.1 from 48.8. The backlog of orders fell but remained above 50, while new export orders and imports declined, with the former dropping below 50. Survey respondents frequently cited Iran and the Middle East, marking the first report in which panellists referenced the Iran war as a factor affecting business. Comments included: 1) "The actions in Iran add a new wrinkle to energy costs throughout the world, and we continue to plan for the unpredictable and unexpected"; 2) "Current Middle East unrest is already starting to impact business operations by increasing lead times, costs, container delays and the like." 3) "Ongoing geopolitical instability has emerged as a persistent factor influencing global trade dynamics". 4) "The Middle East war has created domestic and global turmoil for the olefins and polyolefins business".

US RETAIL SALES (WED): Retail sales rose 0.6%, above expectations of 0.4%, marking a solid rebound and the strongest reading in seven months after a prior 0.2% decline. The increase was driven by higher sales at department stores (3%), health and personal care stores (2.3%), and clothing (2%). The core control group rose 0.5% (prev. and exp. 0.3%). Ex-autos rose 0.5% (exp. 0.3%, prev. 0.0%), while ex-gas/autos rose 0.4% (prev. 0.3%). Oxford Economics expects the war with Iran to begin weighing on retail sales in March, as higher spending on gasoline crowds out discretionary purchases. The firm cautions the impact may take longer to materialise than usual, as households are supported by a large increase in tax refunds.