

## Weekly Highlights

- **Elevated political uncertainty elsewhere lifts USD**
- **Benign core PCE to keep potential Fed cuts in focus**
- **JPY weakening back towards intervention levels**
- **Underlying Tokyo CPI to ease even as headline edges higher**
- **French politics weighs on EUR**
- **BoE signals possible August cut weighing on GBP**
- **RMB depreciation pressure intensifies**
- **PBoC previews new policy framework**
- **BSP to stands pat amid still-elevated inflation**
- **Weak VND and above-target inflation keep SBV hike alive**
- **Czech CB decision to be tighter than previous meeting**
- **Turkiye to keep policy rate at 50.00%**

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## US – Core PCE to rise modestly. Inflation risks still elevated

### Major Events and Data Releases

Date	Event	Survey	Prior
25-Jun	House prices (%YoY, Apr)	--	6.5
	Consumer confidence (DI, Jun)	100.0	102.0
26-Jun	New home sales (%MoM, May)	2.5	-4.7
27-Jun	Weekly jobless claims (k)		238
	Durable goods orders (%MoM, May)	0.0	0.6
	Core capital goods shipments (%MoM, May)	--	0.4
28-Jun	Personal income (%MoM, May)	0.4	0.3
	Personal spending (%MoM, May)	0.3	0.2
	Core PCE deflator (%MoM, May)	0.1	0.2

Source: Bloomberg

Recent US data have been on the soft side of expectations and this week's retail sales data were no exception, with sales only growing fractionally in May and revised into contraction territory for April. Consumption is off to a rocky start in Q2. The NAHB index and NY Fed/Philly Fed manufacturing indices were all on the soft side too. Only jobless claims improved and here the improvement was marginal leaving question marks about labour market softness, albeit from very solid levels. The weak data have been no problem for US equity markets which have continued to print new highs. Benign risk appetite may have been behind the weak US dollar early in the week but the soft eurozone data on Friday finally saw the DXY index turn positive on the week, while UST yields were little changed on the week. Oil prices moved higher on the week as did political uncertainty, mainly in Europe. NOK, AUD and CAD outperformed the greenback, while the rest of the G10 complex lagged, especially JPY.

### Outlook

The main focus of the week will be the PCE inflation data. With the CPI and PPI data already out, the new information in the PCE report is limited. Nonetheless, the PCE is the Fed's official inflation target and as such the release garners significant interest. At 0.0%MoM and 0.1%MoM, headline and core are seen dragging YoY rates down to 2.6%, keeping the disinflation narrative front and centre. Other data in the coming week include durable goods orders, house prices, consumer confidence and new home sales. In the wake of recent weak activity data we will be watching for signs of softness. Next week also sees the first presidential election debate with Biden and Trump facing off against each other.

Fed speakers during the week include Daly (Monday), Cook and Bowman (Tuesday) and Barkin (Friday)

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## Japan – JPY drifting back towards the danger zone

### Major Events and Data releases

Date	Event	Survey	Prior
25-Jun	PPI Services (%YoY, May)	3.0	2.8
27-Jun	Retail sales (%MoM, May)	0.8	0.8
28-Jun	Industrial production (%MoM, May)	2.0	-0.9
	Housing starts (%YoY, May)	-6.2	13.9
	Unemployment (% , May)	2.6	2.6
	Job offers/applicants (May)	1.26	1.26
	Tokyo CPI (%YoY, Jun)	2.3	2.2
	Tokyo Ex ff&e CPI (%YoY, Jun)	1.6	1.7

Source: Bloomberg

USD/JPY has drifted higher through the week, moving above the 159.0 level early on Friday. Higher oil prices haven't helped, as they add to Japan's import bill. Brent sits around a 7-week high around \$85.70. Japan's CPI was a touch softer than forecast. Headline CPI, which pushed higher in May, remains distorted by energy costs – in this case a renewable energy surcharge. Utility fees added ~0.5pp to headline CPI. Ex fresh food and energy CPI dropped from 2.4%YoY to 2.1%YoY. The flash PMI for June was also on the weak side, dropping from 52.6 to 50.0, as services dipped sharply. Both these reports will add to BoJ caution on tightening policy. At the same time with USD/JPY back up above the 159.0 level, its highest since intervention, the weak yen is also a problem for the BoJ. The government will hold talks on raising the minimum wage next week. Note that the US released its semi-annual currency report and that Japan was added to the monitoring list, although the report noted that currency manipulation has not played a role in the large deficits that the US ran with a number of trading partners over the last 12 months, including Japan. Indeed, if anything Japan is keen for a firmer currency and has intervened to support the yen. The report reiterated that intervention should be a rare occurrence.

### Outlook

The yen will remain a focus in a data-heavy week with most releases on the Thursday and Friday, with the Tankan the following Monday. The increase in utility bills will likely keep headline Tokyo CPI nudging higher, although ex fresh food and energy CPI will rise less and possibly decline. Services PPI is likely to remain elevated, which implies some prices pressure coming down the pipe. Activity data in the form of retail sales and industrial production will be in focus after sluggish PMI data. Production is seen rebounding further after auto production problems in Q1. On Monday the BoJ will release its Summary of Opinions from the 14 June policy meeting. They may contain more detail on why the BoJ didn't start reducing Rinban purchases immediately but decided to consult further.

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## Europe – Politics the focus

### Major Events and Data Releases

Date	Event	Survey	Prior
24-Jun	UK – CBI Industrial trends, orders (DI, Jun)	-25	-33
	GE – IFO business climate (DI, Jun)	89.4	89.0
26-Jun	UK – CBI Distributive trades, sales (DI, Jun)	--	7
27-Jun	EZ – Commission Econ confidence (DI, Jun)	96.4	96.0
	EZ – M3 (%YoY, May)	1.6	1.3
28-Jun	EZ – ECB inflation expectations (1yr, May)	--	2.9

Source: Bloomberg

The polls continue to look bad for the current centrist French government with both left and right ahead of it in the latest surveys. That said in the short run, perhaps pressure on French bonds is not likely to get much worse. They already trade close to Spanish bonds, which likely limits the downside in the near term. The fact that the first French auction since the snap election was called saw decent demand, also suggests selling pressure is limited until the election results are known. French bonds have been quite stable vs other EGBs this week in sharp contrast to last week. As such it is no surprise that EUR has been more stable too. It was under a little pressure late in the week as the PMI data came in soft, especially in France, where many survey respondents noted elevated political uncertainty as a factor behind reduced activity. The eurozone flash PMI dropped from 52.2 to 50.8. EUR/USD was down only marginally on the week.

In the UK the BoE left policy in hold as expected. The accompanying statement hinted at a rate cut in August. It noted that there remained a range of views on how much evidence was needed to warrant a change in rates, with some seeing the time as almost here and others seeing more signs of inflation persistence. Of the 7 members voting to hold rates, we see the external members Mann, Greene and Haskel as among those seeing signs of inflation persistence and thus unlikely to vote for a rate cut in August. We see the Governor and Deputy Governor Breeden as on the cusp of voting for easier policy. That leaves Broadbent and Chief Economist Pill. Broadbent will be replaced by Clare Lombardelli at the next meeting. We assume she will vote with the Governor in her first meeting and that the vote for a cut in August will be 6-3 or 5-4. UK front end pricing moved from a ~35% chance of a cut in August to ~65%, which weighed on GBP. A rock solid retail sales report late in the week did little for GBP. GBP/USD was down a little on the week. The SNB cut rates 25bp this week, while Norges Bank left rates on hold.

### Outlook

It seems likely to be a relatively quiet week on the data front. Politics will likely take centre stage culminating in the first round of the French elections on Sunday 30 June. The UK election campaign is rumbling on but the only question is how big a majority the Labour Party will have. There will be no post MPC commentary as the BoE will stay out of the public eye until after the election. For the ECB, Schnabel, Nagel and Lane will be the highlights. The ECB also releases its CPI expectations data. Spanish and French CPI data are due late in the week. The Riksbank meets and will likely keep rates unchanged.

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## China – RMB depreciation pressure intensified

### Major Events and Data Releases

Date	Event	Survey	Prior
27-Jun	Industrial Profits (%YoY, May)	--	4.0
28-Jun	BoP C/A Bal. (USD bn, Q1)	--	39.2

Source: Bloomberg

Spot CNH extended its depreciation to a 7-month low around the 7.2925 level as the PBoC set the CNY fixing significantly weaker around the 7.1196 level. Spot CNY dropped but subsequently found its footing near the 7.26 level. In response to mounting RMB depreciation pressure, the PBoC ramped up its efforts to defend the currency, resulting in the CNY fixing vs estimate gap widening to -1487 pips. The CNH-CNY spread widened to above +200 pips. The mixed China data for May provided little support for RMB. Briefly speaking, the data indicated that China consumption rebounded on holiday spending and subsidies, while production growth slowed. Despite the property stimulus package, the house price decline deepened, flagging that it may take some time for the measures to materialize. In any case, the property downturn continues to drag on fixed asset investment and jeopardise local government budget conditions. On the FX side, the narrowing net FX settlement deficit on behalf of clients to CNY -101.8bn from prior -CNY 260.3bn indicated improved demand and supply dynamics as well as reduced strong RMB depreciation pressure in the onshore market.

With the status quo of 1Y Medium Lending Facility (MLF) rate at 2.5%, Chinese banks left the 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95%, respectively. PBoC governor Pan Gongseng presented a blueprint for a new interest rate policy framework. First, the PBoC is expected to shift away from setting a specific quantitative target for credit expansion and instead allow market demand to have a major influence. Second, the PBoC may shift its policy target rate to a short-term rate (potentially the 7-day reverse repo yield) to anchor expectations for PBoC's monetary policy and enhance the policy transmission, while downplaying the significance of longer-term rates. Third, the PBoC will probably introduce secondary China Government Bond (CGB) trading as a policy tool to manage liquidity conditions and smooth out the CGB yield curve, considering limited room for further Required Reserves Ratio (RRR) cuts

### Outlook

Despite the mounting RMB depreciation pressure, we do not anticipate sharp RMB depreciation due to Chinese President Xi's guidance on FX stability. Although a weaker yuan could provide support to China's export sector, it would undermine market confidence in China's economy and amplify capital outflow pressures. Therefore, a sharp RMB depreciation would be counterproductive in rebuilding overall market confidence in the China economy. In addition, such sharp RMB depreciation does not align with Chinese President Xi's guidance toward building a strong currency with stability. Allowing a sharp RMB depreciation would hinder RMB internationalization by discouraging the use of RMB across countries.

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## EM Asia – Differentiated calculus

### Major Events and Data Releases

Date	Event	Survey	Prior
24~28-Jun	South Korea Retail Sales (%YoY, May)	--	10.8
24-Jun	Singapore CPI (%YoY, May)	3.1	2.7
	Taiwan Industrial Production (%YoY, May)	7.8	14.6
	Taiwan Unemployment Rate (% , May)	3.4	3.4
25-Jun	Malaysia CPI (%YoY, May)	1.9	1.8
26-Jun	Singapore Ind' Production (%YoY, May)	2.0	-1.8
	Australia CPI (%YoY, May)	3.8	3.6
27-Jun	BSP Overnight Borrowing Rate (%)	6.50	6.50
	Philippines Budget Balance (PHP bn, May)	--	42.7
	Korea Industrial Production (%YoY, Jun)	3.9	6.1
	Thailand Exports (%YoY, May)	--	5.8
29-Jun	Vietnam Trade Balance (\$mn, Jun)	--	-1000
	Vietnam Retail Sales (%YoY, Jun)	--	9.5
	Vietnam GDP (%YoY, Q2)	6.0	5.7

Source: Bloomberg

The RBA left the cash rate target at 4.35%, as expected. The statement noted that above-target inflation is proving to be persistent amid continued excess demand. Against this assessment, the board discussed the case for a hike (but not a cut). Nonetheless, Bullock pushed back against hawkish interpretations of the statement, noting that being “vigilant” to upside risks to inflation was not a signal for a rate hike. Notwithstanding this, AUD outperformed other Asian currencies. Meanwhile, BI stood pat despite the recent sell-off in IDR sparked by concerns over fiscal prudence. While acknowledging pressure on the currency, BI remarked that recent IDR moves were more influenced by sentiment and perception and reiterated that they will intervene in markets as necessary. IDR weakened following allusions that there was room for rate cuts should fiscal concerns fade.

### Outlook

Next week, BSP is expected to stand pat amid still-elevated inflation. However, BSP could tone down on its easing plans to provide some support for PHP on fears of cost- push inflation via the import channel. Allusions to a cut as early as August at the May meeting had seen a sell-off in PHP.

Elsewhere, Vietnam’s Q2 GDP is expected to improve to around 5.9% on resilient industrial production and as domestic demand holds up. However, the moderate nature of growth is unlikely to restore economy-wide confidence amid the banking/real estate developer scandals. Notably, escalating gold prices suggests that investors may be fleeing for safety. Meanwhile, inflation is expected to cross the SBV’s upper limit of 4.5% for June 2024, alongside a weak VND, keeping the possibility of a SBV hike alive.

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**EMEA – ZAR still enjoying post-election boost****Major Events and Data Releases**

Date	Event	Survey	Prior
24-Jun	Poland Retail Sales (%YoY, May)	5.8	4.3
27-Jun	Turkiye Policy Rate (%)	50.00	50.00
	Czech Policy Rate (%)	5.00	5.25
28-Jun	Czech GDP (%YoY, Q1)	0.2	0.2
	Poland Preliminary CPI (%YoY, May)	2.7	2.5

Source: Bloomberg

Last week in EMEA, ZAR kept outperforming, appreciating more than 2% against USD. President Ramaphosa was re-elected as leader of Government of National Unity on 17 June and is likely to announce his new cabinet in coming days.

On 19 June, the European Commission launched an Excessive Deficit Procedure against Poland and Hungary, and was taking the same against action 5 EU member states including France and Italy. The short term implication to their fiscal policy and economic growth will be limited, but in 2025 and 2026, the countries may be forced to cut some of their spending to avoid fines. It will raise the risk of further escalation for conflict with the EU, especially for Anti-EU governments like the one in Hungary.

**Outlook**

Next week, the Central bank of Turkiye (CBRT) and the Czech National bank (CNB) will announce their monetary policy decisions on 27 June. We believe the CBRT will keep its policy rate unchanged and the CNB will cut another 25bp. But given the recent fluctuation of CZK and the sharp acceleration of inflation, from 2.0%YoY in March to 2.9%YoY in April, the decision of the CNB may be tighter than the previous meeting.

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