MONEX

Week Ahead

8th - 12th April 2024

Moving in opposite directions

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INTRODUCTION

A relatively light calendar this week saw inflation dynamics in focus across G10 FX, with the most notable releases coming in Europe and in North America. For the former, inflation prints in both the Eurozone and Switzerland showed price growth slowing faster than expected. While the softening in eurozone inflation had already been inferred from national readings, the drop in Switzerland caught markets off guard, leading EURCHF to stage a notable rally as a consequence. In fact, the only G10 currency that underperformed the franc this week was the Canadian dollar, which dropped 0.6% against the greenback this week, driven by Friday's jobs data. Whilst the US economy added 303k jobs in March to add credence to the Fed's call for caution, Canada actually shed -2.2k jobs. The latter is particularly troubling when accounting for population growth, which is roughly 3% per year. This adds further weight to our longstanding thesis that a divergence in economic conditions is set to play out between Canada and the US, with this in turn likely to see the Bank of Canada easing policy much faster than the Fed.

Next week, we will get to see if the BoC's Governing Council now agrees with our view, having flip-flopped repeatedly regarding their view on inflation this year, despite clear signs that the economy has slowed. We think they will tilt dovish and steer towards commencing rate cuts in June, an outcome that should see USDCAD taking another leg higher next week. Similarly, the ECB should also discuss easing in June. But with this having already been widely communicated to markets, attention will rest on the pace of subsequent easing. Current pricing suggests the balance of risks is tilted towards EURUSD downside if policymakers meet our expectations for five rate cuts this year. However, we doubt President Lagarde will shift this aggressively next week, although risks are definitely tilted towards a more dovish tone than markets are currently factoring. With US CPI set to land just before both ECB and BoC meetings, rate divergence should once again take centre stage for markets, unlocking another leg higher in the dollar. This will be the case if market expectations for US inflation to climb to 3.5% are met. Rounding off the week is the Monetary Authority of Singapore, who we suspect will keep their policy setting untouched, favouring gradual appreciation of the trade-weighted Singapore dollar.

CONTENTS

02 INTRODUCTION

03 ECONOMIC CALENDAR

05 DATA PREVIEWS

05 *BoC preview: nudging markets back to reality*

06 *ECB preview: presenting a downside risk to EURUSD*

07 *MAS preview: Maintaining the status quo*

08 *CPI data could further erode the possibility that the Fed cuts come June*

ECONOMIC CALENDAR

All times in BST

Monday 08/04

Time	Country	Event	Period	Estimate	Prior
00:01	UK	REC report on jobs			
00:30	Japan	Labour cash earnings YoY	Feb	1.8%	2.0%
06:45	Switzerland	Unemployment rate SA	Mar	2.2%	2.2%
07:00	Germany	Industrial production MoM (YoY)	Feb	0.5% (-7.1%)	1.0% (-5.5%)
08:00	Sweden	Riksbank's Thedeen speaks in Copenhagen			
09:00	Switzerland	Total sight deposits CHF	Apr 5		456.8b
13:00	Poland	NBP publishes minutes of rate meeting			
16:00	US	NY Fed 1-year inflation expectations	Mar		3.04%
16:15	Switzerland	SNB's Jordan, BIS's Carstens speak in Zurich			
16:30	UK	BOE's Breeden speaks			
18:00	Sweden	Riksbank's Thedeen speaks in Malmo			

Tuesday 09/04

Time	Country	Event	Period	Estimate	Prior
00:01	UK	BRC like-for like sales YoY	Mar		1.0%
01:30	Australia	Westpac consumer confidence index	Apr		84.4
02:30	Australia	NAB business confidence	Mar		0
		NAB business conditions	Mar		10
05:00	Sweden	Maklarstatistik house price data			
06:00	Japan	Consumer confidence index	Mar	39.6	19.1
09:00	Eurozone	ECB bank lending survey			
11:00	US	NFIB small business optimism	Mar	90.0	89.4
	Sweden	Riksbank's Floden speech on the economy and monetary policy			
12:00	South Africa	Manufacturing production MoM (YoY)	Feb		0.8% (2.6%)
13:00	Mexico	CPI MoM (YoY)	Mar	0.39% (4.52%)	0.09% (4.40%)
		Core CPI MoM (YoY)	Mar	0.51% (4.63%)	0.49% (4.64%)
17:30	Switzerland	SNB's Schlegel speaks in Geneva			

Wednesday 10/04

Time	Country	Event	Period	Estimate	Prior
00:30	New Zealand	RBNZ official cash rate	Apr 10	5.50%	5.50%
07:00	Norway	CPI MoM (YoY)	Mar	(4.1%)	0.2% (4.5%)
		Underlying CPI MoM (YoY)	Mar	(4.7%)	0.4% (4.9%)
09:00	Norway	Norges Bank Deputy Governor Longva speaks			
		Norges Bank Governor Wolden Bache speaks			

Time	Country	Event	Period	Estimate	Prior
13:00	Hungary	NBH meeting minutes			
	Brazil	IBGE inflation IPCA MoM (YoY)	Mar	0.27% (4.00%)	0.83% 4.50%
13:30	US	CPI MoM (YoY)	Mar	0.3% (3.5%)	0.4% (3.2%)
		CPI ex food and energy MoM (YoY)	Mar	0.3% (3.7%)	0.4% (3.8%)
13:45	US	Fed's Bowman discusses Basel capital requirements			
14:45	Canada	BoC rate decision		5.00%	5.00%
17:45	US	Fed's Goolsbee participates in panel discussion			
19:00	US	FOMC meeting minutes			

Thursday 11/04

Time	Country	Event	Period	Estimate	Prior
00:01	UK	RICS house price balance	Mar	-5%	-10%
02:00	Australia	Consumer inflation expectations	Apr		4.3%
02:30	China	CPI YoY	Mar	0.4%	0.7%
		PPI YoY	Mar	-2.8%	-2.7%
05:00	Sweden	PES unemployment rate	Mar		3.5%
07:00	Norway	Mainland GDP MoM	Feb	0.2%	0.4%
07:30	Hungary	CPI MoM (YoY)	Mar	0.7% (3.6%)	0.7% (3.7%)
09:30	UK	BoE credit conditions survey			
12:15	Sweden	Riksbank's Jansson speech on the economy and monetary policy			
13:00	Brazil	Retail sales MoM (YoY)	Feb		2.5% (4.1%)
	Mexico	Industrial production MoM (YoY)	Feb		0.4% (2.9%)
13:15	Eurozone	ECB deposit facility rate	Apr 11	4.00%	4.00%
13:30	US	PPI final demand MoM	Mar	0.3%	0.6%
		PPI final demand ex food and energy MoM	Mar	0.2%	0.3%
		Initial jobless claims	Apr 6		221k
		Continuing claims	Mar 30		1791k
	New Zealand	BusinessNZ manufacturing PMI	Mar		49.3
		Food prices MoM	Mar		-0.6%
13:45	Eurozone	ECB President Lagarde holds press conference			
17:00	US	Fed's Collins speaks at Economic Club of New York			
18:30	US	Fed's Bostic participates in moderated conversation			
19:00	UK	BOE's Megan Greene speaks			

Friday 29/03

Time	Country	Event	Period	Estimate	Prior
07:00	Sweden	CPI MoM (YoY)	Mar	0.5% (4.4%)	0.2% (4.5%)
		CPIF MoM (YoY)	Mar	0.4% (2.5%)	0.2% (2.5%)
		CPIF ex energy MoM (YoY)	Mar	0.3% (3.2%)	0.6% (3.5%)
	UK	GDP MoM	Feb	0.1%	0.2%
		Industrial production MoM (YoY)	Feb	0.0% (0.6%)	-0.2% (0.5%)
		Index of services MoM	Feb	0.1%	0.2%
07:30	Sweden	Riksbank's Breman speaks on inflation			
09:00	Eurozone	ECB summary of professional forecasters			
12:00	UK	Bank of England releases Bernanke report on forecasting			
13:00	India	Industrial production YoY	Feb	6.1%	3.8%
		CPI YoY	Mar	4.85%	5.09%
15:00	US	University of Michigan sentiment	Apr P	78.7	79.4
19:30	US	Fed's Bostic gives speech on housing			

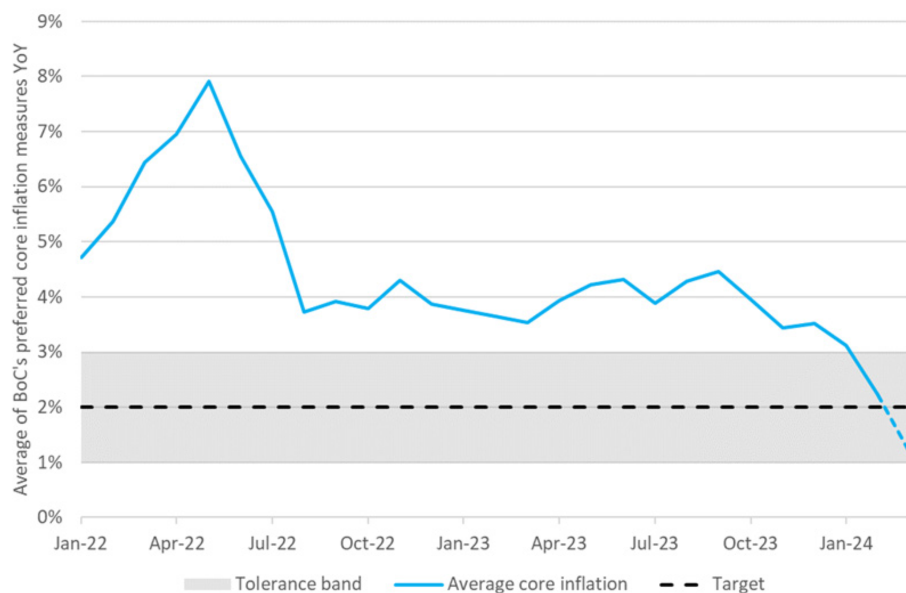
DATA PREVIEWS

BoC preview: Nudging markets back to reality

The Bank of Canada should keep rates on hold next week, despite inflation conditions cooling considerably since the turn of the year. This view is shared by both markets and economists after the Governing Council shifted the goal posts back in March from improvements in core inflation developments to the overall level of inflation. Even so, next week's meeting is worth keeping a close eye on as the Bank will need to adjust its guidance once again to prepare for a June rate cut, while updated economic projections should provide an indication on the pace of the upcoming easing cycle. In our view, the tone from the Bank should tilt more dovish than currently implied by markets, reflecting the increased level of slack within the economy that should be evidenced by an upgrade to its estimate of the output gap. If this is the case, the stronger-than-expected growth in recent months should read less concerning in context and lead markets to increase rate cut bets from 73bps currently. Under our base case. The BoC should use next week's meeting to set up for a June cut, while their projections should tilt in a more dovish direction for rates relative to market pricing. If realised, this should result in USDCAD rising above 1.36, a level that has proven to be a ceiling on the pair since late-November.

Our read on the Canadian data year-to-date suggests the BoC will need to cut five times this year, a path that would see them cut at every meeting from June. Given this, it is surprising to us that traders are yet to be convinced that the first cut will ultimately come in June, especially as inflation measures have notably slowed. Headline inflation dropped to 2.8% YoY in the most recent February data, undershooting expectations, and now lies below the 3% upper end of the BoC's tolerance band. While the same can't be said for the BoC's preferred core median and core time measure of underlying inflation just yet, both of which sit just north of 3% on a year-on-year basis, the weak underlying pace of core inflation suggests these metrics should be back within range shortly. For reference, should the monthly pace of core inflation match its Q1 average in March, the 3-month annualised pace of core inflation closely monitored by the BoC will fall from 2.23% to 1.16%. Not only that, but such an outturn will also naturally pull the year-on-year figures back towards the 2% target. Acknowledgement of this slower path of inflation will be hard for the BoC to avoid next week, especially with the January MPR predicting that inflation would be running at 3.2% YoY in Q1. Simply updating these projections to reflect inflation developments should see a notable downgrade to the BoC's price growth forecasts.

The mean of 3mma annualised core-median and core-trim inflation, the BoC's preferred measures of underlying inflation, should fall well below the Bank's target if last months increase in prices is repeated (dotted line)



"Moreover, the BoC's characterisation of growth should also support a further downgrade to the Bank's inflation projections and a faster pace of easing."

While the economy has outperformed expectations since Q4, it continues to contract on a per capita basis. Moreover, consumption on a per capita basis is also in recession, and the BoC's Q1 surveys are consistent with stagnant growth, if not a modest recession. Given the Bank already downplayed the stronger Q4 growth data, we suspect they will also look through January's stronger expansion due to the commencement of public sector strikes. This should see them maintain their growth projections considerably below their estimate of potential output, which itself could also be revised higher given stronger immigration flows in 2023 and building economic slack. This alone should read dovish to markets, given stronger growth outturns have supported the view that the BoC has the luxury to hold rates for longer like the Fed.

Admittedly, the one major factor weighing against a rate cut at present is policymakers' unwillingness to do just this. As we wrote following the March meeting, the data suggests the BoC should begin easing in April, but we moved our forecast back to June based not on what the Bank should do, but what policymakers' guidance suggest it would do. The other result of this guidance has been that BoC pricing has moved in lockstep with that for the Fed, despite the growing signs for economic divergence between the US and Canada. This has created a perverse situation, where implied BoC expectations have been more sensitive to US data in recent months than they have to domestic developments. But with Canadian inflation now under control and growth looking weak, Canadian policymakers will need to begin correcting markets on this point, likely starting at next week's meeting. A failure to do so would risk an almighty shock later in the year if the data ultimately forces the kind of easing that we expect, hurting the economy unnecessarily and elevating financial stability risks. Even so, a gentle nudge towards the idea of earlier faster rate cuts should well weigh notably on the loonie next week, especially with plenty of scope for markets to price in extra rate cuts for this year, given the low starting base.

ECB preview: Presenting a downside risk to EURUSD

In term of meaningful policy action, next week's ECB meeting is almost certainly a foregone conclusion. We expect the Governing Council to maintain rates at current levels, as does almost every other sell-side analyst. What little uncertainty does remain comes from two sources and leaves a slight tail risk of a cut. First, inflation fell faster than expected in March, despite speculation that an early Easter holiday could see a pickup in price pressures. Second, several key pieces of data informing next week's meeting are only available internally. The most important are the ECB's proprietary wage measures, which Chief Economist Philip Lane suggested in late March were converging back to normal levels, stating they're "confident that it's on track". Additionally, the Governing Council will also have early access to the results of its survey of professional forecasters. In mid-2022, this metric led the ECB to shock markets by hiking rates 50bps as the data showed a growing right-hand tail to inflation forecasts, suggesting risks of de-anchoring expectations. If the Governing Council were to see a similar surprise, but this time in the opposite direction, it could tip the balance towards a cut. Finally, policymakers will have access to the March inflation breakdown, which should see services inflation stabilising. All told, this means the residual risk of a rate cut remains on the table for next week, an eventuality that if realised would see a sharp euro selloff. This risk remains limited, however, as policymakers would likely require significant evidence to renege on their forward guidance, having spent much of the past month stressing the importance of official wage data in May before starting to ease.

Where we do expect all this data to make a difference is on the prospects for H2. With most Governing Council members conceding that rates won't be cut until June, the debate has now shifted from the timing of the first cut to the pace of future easing. ECB doves such as Banque de France Governor Villeroy have publicly favoured a cut at every meeting, although he stressed this is an option not an obligation. On the other end of the spectrum, Dutch National Bank President Knot has favoured cutting at a quarterly pace, synchronised with the publication of its staff forecasts. Currently, the core messaging from the ECB sits somewhere in the middle, with President Lagarde taking a non-committal "data-dependent" stance, which we don't expect to change next week as the ECB seeks to retain full optionality. However, the data is arguably supporting the dove's case and we could see President Lagarde concede this in the press conference.

"Significantly, market expectations are projecting just 90bps of easing for this year, implying exactly 2.5 cuts in H2, which would lie towards the more hawkish end of the likely range of outcomes."

We think the ECB should cut faster and expect four rate cuts in the second half in the year. Growth has flatlined, inflation is almost back to target, and wage growth is set to normalise in short order too. This supports a rapid adjustment in rates back towards more neutral levels. An indication that this view is shared by the ECB remains the main event risk for euro traders. Whilst there is little room to price out further rate cuts, we think there is plenty of room to see more priced in, leaving risks for the euro skewed asymmetrically to the downside next week on the possibility of such a development.

MAS preview: Maintaining the status quo

The Monetary Authority of Singapore's Q2 meeting is scheduled for Friday, April 12th, where we expect the central bank to maintain its gradual tightening stance by keeping its S$NEER parameters unchanged. This would suggest a gradual appreciation bias of around 2% per annum. Our view is in line with consensus expectations, which as per MAS's March survey, doesn't expect policy to be altered this year.

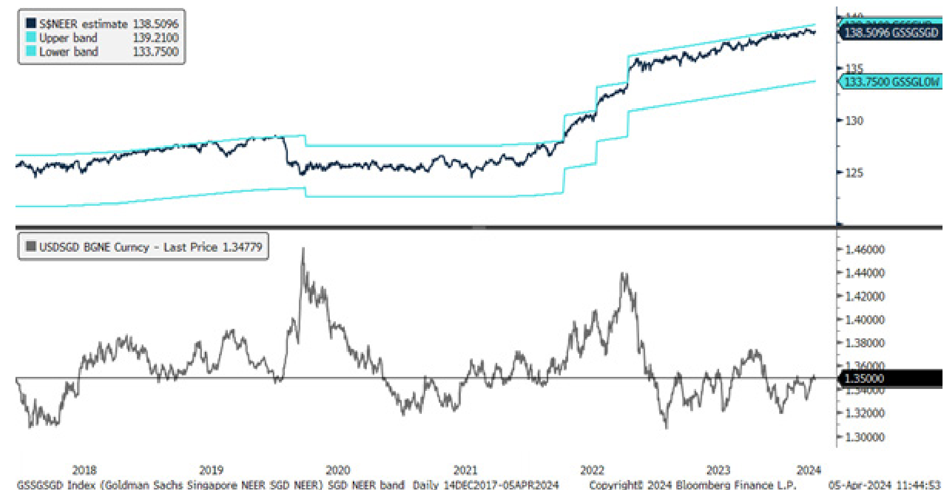
Data since January's meeting generally supports an unchanged stance from MAS. The economy continues to eke out growth despite the restrictive monetary stance, with Q1 GDP expected to print at 0.6% QoQ. While non-oil domestic exports have contracted in Q1 after a strong rebound in the previous quarter, activity in domestic-oriented services likely remained robust, supported by tourism-related activity and Lunar New Year spending. While there is a risk that the economy partially contracted in the first quarter, there is little risk that the growth rate undershot MAS's forecasts on an annual basis (1-3% in 2024).

Moreover, inflation developments since January's meeting have been more supportive of MAS maintaining its gradual tightening stance. While the positive surprise in February's CPI data was partly a result of the earlier timing of Lunar New Year celebrations, it also reflected adjustments to administered prices and travel-related items, the latter we suspect will persist through March. With both headline and core inflation likely to remain at the upper end of MAS's forecast range (2.5-3.5% for both) in H1, and expectations of Fed easing now delayed further since the turn of the year, there is little reason for policymakers to begin thinking about easing. This is reflected in the hawkish shift in MAS forecasts; the number of forecasters predicting MAS to lower the slope of their policy band in July fell from 21.7% in December to just 14.3% in March.

"Despite inflation tracking at the upper end of MAS's forecast range and the upside risk presented by the recent rally in global commodity prices, we doubt MAS will tighten its policy stance further."

This is partly due to the weak performance of non-oil exports, but mainly due to developments in the labour market, where wage growth has fallen significantly from its post-pandemic average of 6.6% to 2.6% in Q4. With the unemployment rate holding steady at around 2% since mid-2022 and the ratio in job vacancies-to-job seekers ticking up slightly, there is a risk that the wage measure is a false positive for the central bank. Nevertheless, with inflation still in-and-around target and growth likely at the lower end of the central bank's forecast range in Q1, the totality of evidence doesn't suggest more needs to be done.

We expect MAS to keep its gradual tightening stance in Q2. This should keep USDSGD capped at 1.35 barring any significant sell-off in the euro, yen or yuan



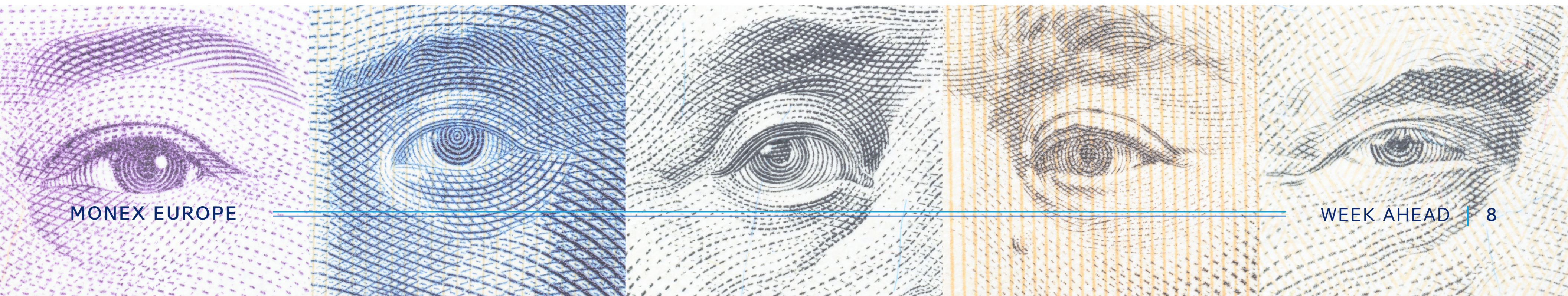
CPI data could further erode the possibility that the Fed cuts come June

With Fed policymakers broadly singing off the same hymn sheet in recent weeks, suggesting that greater confidence is needed to begin cutting rates, all eyes will be on next weeks CPI print to see if the rebound in price growth since the start of the year is a blip, or the beginnings of a more sinister trend. This uncertainty was summed up by Chair Powell just this week when he suggested that “On inflation, it is too soon to say whether the recent readings represent more than just a bump”. Certainly following March’s payrolls data, risks are tilted towards the latter, threatening no cuts from the Fed this year. That said, forward looking indicators are now pointing towards a slowdown in economic activity and a loosening in the labour market over coming months, suggesting that price growth should follow suit. The big question is whether this shows up in the data quickly enough for Fed members to begin easing policy in June, or if continued resilience in the data sees the Fed delaying their first cut until the second half of the year.

> “Taking our lead from Fed Governor Waller, arguably the best leading indicator of the consensus view within the FOMC this cycle, we think that policymakers will likely need to see renewed progress on disinflation before starting to cut rates.”

Specifically, Waller has argued that “shorter-term inflation measures are now telling me that progress has slowed and may have stalled”, indicating that the next few rounds of data will need to see the sequential pace of inflation cool for the Fed to cut rates in June. We think this broadly equates to headline inflation falling below 3% on a 3-month annualised basis, meaning an average reading of 0.25% MoM or less is needed over the next three rounds of data. Moreover, we also suspect that all three reports will need to see some signs that progress on underlying inflation is being made, meaning the “supercore” measure of inflation is also of increased focus once again. On face value then, next week’s data will likely prove challenging to the idea that the Fed can cut before the second half of the year. While both headline and core price growth are expected to drop to 0.3% MoM, down from 0.4% MoM in February, this is still above the rate which we see as opening the door to cut rates in June. The impact of base effects also means this will see YoY inflation rise 0.3pp to 3.5% YoY, complicating the optics for the Fed.

Despite this, we would caution against completely abandoning the idea of June yet cut just yet. Specifically, we think the March CPI data will see further progress on housing inflation, which has proven notably sticky this cycle. We expect to see rent of primary residence slow again in March, with the reading having jumped in February. Similarly, we do not expect a repeat of January’s upside surprise of 0.6% MoM for owner’s equivalent of rent. Given the lags with which disinflation is expected to play out across housing components, and the size of shelter’s contribution to overall inflation, such a slowdown is a necessary condition for inflation to cool back to target, absent a recession. Significantly then, evidence that this has finally turned the corner would go a long way to building confidence amongst Fed voters that further sustained disinflation can be pencilled into their forecasts. Coupled to the fact that base effects should see a notable slowdown in YoY inflation next month, we think the details of next weeks inflation report should argue in favour of a June rate cut at the margin, even if this is not obvious from the headline print.



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