

## Highlights include US PCE, Australian CPI, Tokyo CPI, ECB Minutes and rate decisions from RBNZ, SARB, BoK

- **MON:** Holiday: US Memorial Day, Holiday: UK Spring Bank Holiday, Holiday: Europe's Whit Monday, US Chicago Fed National Activity Index (Apr)
- **TUE:** UK BRC Shop Price Inflation (May), Swedish PPI (Apr), US House Price Index (Mar), US S&P/Case-Shiller Home Price (Mar), US CB Consumer Confidence (May)
- **WED:** RBNZ Policy Announcement (May), Australian CPI (Apr), French Consumer Confidence (May), Italian Industrial Sales (Mar), US ADP Employment Change Weekly, Canadian Wholesale Sales (Apr), US Richmond Fed Index (May), US Dallas Fed Index (May)
- **THU:** ECB Minutes, BoK Policy Announcement (May), SARB Policy Announcement (May), Norwegian GDP (Q1), French PPI (Apr), Spanish Retail Sales (Apr), EZ Consumer Confidence Final (May), US GDP (Q1), US PCE (Apr), Jobless Claims (May 16), US New Home Sales (Apr)
- **FRI:** Japanese Unemployment Rate (Apr), Japanese Tokyo CPI (May), German Import Prices (Apr), Swedish GDP Final (Q1), French GDP (Q1), French HICP (May), Spanish HICP (May), German Unemployment Rate (May), German State/Nationwide HICP (May), Italian HICP (May), Canadian GDP (Q1), US Wholesale Inventories (Apr)

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## WEEK AHEAD

**RBNZ POLICY ANNOUNCEMENT (WED):** The RBNZ is expected to keep its Official Cash Rate unchanged at 2.25% for a third consecutive meeting. A recent Reuters poll showed 28 of 29 economists surveyed called for a continued pause, while money markets priced in about a 69% chance of a hold and around a 31% likelihood of a 25bps hike. As a reminder, the RBNZ unsurprisingly maintained rates at its last meeting in April, although the language was hawkish, as it noted that inflation was expected to increase, and the economic recovery was set to weaken in the near term; the Committee was focused on ensuring inflation returns to the 2% target midpoint over the medium term. The central bank noted this required core inflation and wage growth to remain contained, and medium- and long-term inflation expectations to remain around 2%. It also said that if these conditions were not met, decisive and timely increases in the OCR would be required. The minutes from the meeting showed the committee was vigilant to any generalised inflationary pressure, and stood ready to act to return inflation to target, while it said any signs of significant second-round inflationary effects or increases in medium-term inflation expectations would require decisive and timely increases in the OCR to re-anchor inflation expectations. Further, Governor Breman said during the online post-meeting press conference that the decision to hold rates was a consensus, though officials discussed raising rates at the meeting, but were not close to hiking and there were no strong advocates for a hike. She added that the frequency of rate hikes could be every meeting or every second meeting. Despite the central bank's hawkish rhetoric, an immediate rate hike is seen as unlikely, especially given global economic uncertainty from the Iran conflict. ASB Bank now sees the RBNZ raising rates in September and December this year (compared with a previous forecast of a December hike). The latest key economic releases from New Zealand have been mixed, with jobs data supporting the case for a wait-and-see approach, but the Unemployment Rate unexpectedly fell to 5.3% (from 5.4%); annual inflation in Q1 topped the central bank's 1-3% medium-term target range, at 3.1%, strengthening the case for a hike, but the RBNZ's Sectoral Factor Model Inflation Index softened to 2.7% (from 2.8%).

**AUSTRALIAN CPI (WED):** Australia's April monthly CPI is expected to remain elevated, with inflation holding near recent highs after March's 4.6% Y/Y reading. Focus is on persistence rather than direction, with energy and second-round effects from the Middle East shock still driving upside risk. The RBA has highlighted risks of de-anchored inflation expectations and signalled that policy remains restrictive. For markets, a hot print, holding near or above about 4.5%, would reinforce the risk of further tightening. Markets previously priced an August hike at about 75%, although a pause is now the base case following the soft Australian jobs data.

**BOK POLICY ANNOUNCEMENT (THU):** The BoK is expected to keep its Base Rate at 2.50%, while participants will look for policy clues from newly appointed Governor Shin's inaugural meeting. The central bank has kept rates on hold for the past seven meetings, and said at its last meeting in April that the Middle East conflict posed risks to growth. It also said it would thoroughly assess external and internal conditions, including the Middle East situation, and closely monitor the impact on inflation, growth and financial stability. BoK also said it needed to remain cautious about FX volatility and noted that trade uncertainties, the Middle East conflict and momentum in the chips sector would affect growth ahead. The previous governor said board members were in wait-and-see mode as the Middle East conflict was too volatile, and it was too early to judge the shock. He added that a temporary shock did not warrant a rate response, but a more prolonged shock could require a policymaker response. Analyst views are slightly mixed on the potential policy stance of the new Governor, with ING noting that he could deliver rate hikes sooner than anticipated, citing previous comments where he stressed the need for pre-emptive and firm action to prevent inflation, excessive lending and financial imbalances. Conversely, Korea Times noted that Shin's remarks imply the BoK is likely to continue pausing rates for the time being after he suggested Korea's benchmark interest rate is currently around the midpoint of the neutral range, while he also pledged a prudent but flexible approach.

**ECB MINUTES (THU):** In April, the ECB maintained its policy settings. The statement itself largely stuck to the script, including the inclusion of data-dependent and meeting-by-meeting, points that drove the dovish reaction at the time as participants unwound more hawkish calls. Thereafter, a hawkish reaction was seen on President Lagarde saying a hike was debated. Overall, the tone from Lagarde was paving the way for tighter monetary conditions without pre-committing to anything. The minutes will be scoured to see the level of detail around the hike debate, and the number of members who were erring in favour of such a move in the discussion at least; as a reminder, Lagarde said the decision was unanimous. Following the meeting, sources and commentary point to a June hike as being likely, with the scope of any potential further tightening and by extension guidance, to come from the June macroeconomic projections.

**SARB POLICY ANNOUNCEMENT (THU):** Set to meet on Thursday, 28th May in their latest confab, in which expectations is for a 25bps hike to 7% from 6.75%. Recent inflation data highlight the effect of higher energy prices, with headline inflation surging to 4% from 3.1%, the biggest jump since June 2022 and now right at the top end of the Bank's tolerance band. Before the war, inflation was at its 3% target and the Bank sounded upbeat about its growth projections, keeping its projections largely unchanged at its March confab and sees green shoots as rising confidence and stronger investment. Recent comments by the Bank's Chief Kganyago stated that policymakers will very carefully monitor incoming data to guide future decisions. To sum up, expectations is for a 25bps hike with the recent headline inflation backing the move.

**US PCE (THU):** Following hotter than expected CPI and PPI reports, analysts' updated econometric models point to April core PCE inflation of between +0.3-0.4% M/M (prev. +0.3%). Oxford Economics' PCE nowcast looks for the hottest readings since 2022, with headline PCE seen rising to 3.8% Y/Y (prev. 3.5%) and core to 3.3% (rev. 3.2%). It notes CPI and PPI inputs imply firmer core goods, notably software prices linked to AI infrastructure demand, though the monthly PCE print should be softer than CPI and PPI given energy's lower weighting. On policy, a firmer PCE print would likely reinforce the higher for longer narrative, and could strengthen arguments for renewed rate hikes. While no FOMC official has yet explicitly called for rates to rise, the April meeting minutes showed a majority would support hikes if inflation remains above target, with Middle East tensions, higher energy prices, AI-driven demand and resilient labour markets cited. The April meeting also showed concern among some policymakers about maintaining an easing bias in this environment. At the time of writing, markets price close to a 60% chance of a hike from the current 3.50-3.75% range by year-end, despite March projections pencilling in a single 2026 cut. Traders will also watch incoming Fed Chair Warsh, who has previously backed lower rates and tighter balance-sheet policy, potentially setting up friction with the current FOMC cohort.

**JAPANESE UNEMPLOYMENT RATE (FRI):** Japan's April unemployment rate is expected to hold at 2.7%, after a slight rise in March from 2.6%. Despite the increase, labour market conditions remain tight, with the jobs-to-applicants ratio around 1.18, indicating ongoing demand for labour. For the BoJ, a still-tight labour market supports the case for further tightening alongside inflation, while any upside surprise in unemployment would challenge that path.

**JAPANESE TOKYO CPI (FRI):** Tokyo CPI is expected to remain soft, with core seen around 1.5-1.7% Y/Y and core-core near 1.9-2.0%, continuing the recent moderating trend. Focus is on whether services inflation stays sticky enough to signal underlying strength despite weak headline momentum. As the leading indicator for national CPI, an upside surprise would reinforce BoJ tightening expectations, while a softer print would support the cautious stance and likely weigh on JPY. Wage pass-through remains the key swing factor.

# WEEK IN REVIEW

**RBA MINUTES (TUE):** RBA Minutes from its May meeting suggested policymakers could be leaning towards a pause at the next gathering, following three consecutive rate hikes, as the board judged financial conditions would be somewhat restrictive after the May hike, which would provide scope to assess how the Gulf conflict develops, as well as the response of households and businesses. The Minutes showed the board considered whether to hike by 25bps or keep rates at 4.1% at the meeting. For future decisions, the board agreed monetary policy could not alter the near-term trajectory of inflation, and that Australian economic growth was likely to be below potential for some time. However, the tightening bias does not appear to be over, as the board said it would do what it considered necessary to meet its inflation and employment mandates, while the majority also emphasised that core inflation was projected to remain above target for an extended period. Analysts at Westpac said "this week's data will give the RBA cause to pause in June, but we continue to expect them to raise the cash rate in August and September, as energy costs are passed through, and given their desire to keep inflation expectations anchored.," adding that "the cash rate is then likely to remain on hold until 2028, when a return to near-target inflation will allow a reversal of this year's rate hikes."

**JAPANESE GDP (TUE):** Japan's Q1 GDP printed broadly in line with expectations, showing modest growth of 0.5% Q/Q, a slight acceleration from the previous quarter. The composition remained externally driven, with exports doing the heavy lifting, while domestic demand stayed soft, as consumption and capex were only modestly positive. The data reinforces the ongoing theme of weak underlying domestic momentum despite stable headline growth. Middle East energy effects were not fully reflected in the data, but remain a clear downside risk. For the BoJ, the print supports the tightening path but does not materially change the picture, with policy still dependent on inflation follow-through rather than growth strength.

**UK JOBS (TUE):** The unemployment rate for March ticked up slightly to 5% (prev. 4.9%), Payrolls Change for April came in at -100k vs exp. -26k and the vacancy figure dropped some 3.9% to its lowest in a five-year period. Overall, the series showed that the labour market remains soft, with early estimates "pointing to further weakness", according to the ONS. For the BoE, the data factors in favour of those who would rather wait and see how the economy develops and reacts to the Middle East energy shock.

**CANADIAN INFLATION (TUE):** Canadian Inflation was soft. The headline print rose 0.4%, below the 0.6% forecast and 0.9% prior, with the Y/Y at 2.8%, below the 3.1% forecast but up from the prior 2.4%. The core measure rose 0.2%, below the 0.3% forecast, matching the pace seen in March, with the Y/Y at 2.1%, down from the 2.5% previously and below the 2.6% forecast. The soft inflation prints, particularly core inflation, will be a welcome sign by the BoC, particularly as it faces risks to inflation from higher energy prices, and also risks to growth on potential further trade restrictions from the US with the USMCA review scheduled to begin on July 1st, 2026. A softer inflation print, if sustained, will reduce the likelihood for rate hikes from the BoC, or at least push rate hikes back further. Oxford Economics "continue to expect the Bank to hold rates steady at 2.25% for the rest of 2026 and leave the door open to rate hikes or cuts depending on how the conflict in the Middle East and the USMCA review evolve".

**CHINESE LPR (WED):** The PBoC kept benchmark lending rates unchanged for a 12th consecutive month, with the 1-year Loan Prime Rate at 3.00% and the 5-year Loan Prime Rate at 3.50%. The rates are the basis for most new loans and a reference for mortgages, respectively. The decision to maintain rates was not surprising given that the central bank had regularly kept its daily open market operations at very small amounts, although it has since increased liquidity efforts after the announcement. Data releases from China have been mixed, with PMI and trade figures mostly topping forecasts, while recent inflation numbers were firmer than expected, and both consumer inflation and factory gate prices accelerated in April. Loans, aggregate financing and recent activity data disappointed, and Industrial Production showed the softest expansion since July 2023, while Retail Sales growth was at its weakest in 40 months. Nonetheless, some near-term technical changes cannot be ruled out ahead, as the PBoC recently stated in its Q1 Monetary Policy Implementation Report that it would reform and improve the LPR mechanism, focusing on improving quote quality to better reflect actual lending rates. It also said it would strengthen the coordination of monetary and fiscal policies, continue to implement appropriately loose monetary policy and use a variety of monetary policy tools flexibly to maintain ample liquidity and relatively loose social financing conditions.

**UK INFLATION (WED):** The April data showed a moderation from the prior rate, and while the magnitude of this was greater than forecast, the direction was very much expected given the annual price changes implemented in April were on course to be lower Y/Y. However, any respite was, and still is, expected to be temporary amid the energy price shock. A point evidenced by the commentary from ONS that raw material and factory good prices continued to rise, driven by elevated energy prices. Modest pressure was seen in GBP, upside in Gilts on the open and a moderation of near-term pricing following the data. For the BoE, however, they await the May CPI series due the day before the June BoE announcement, which may now prove key in determining if the BoE tightens or not at that point.

**FOMC MINUTES (WED):** The April FOMC Minutes leaned notably hawkish, although much of the tone was already signalled by recent Fed commentary and Powell's latest press conference. The key takeaway was the growing support within the Committee for shifting away from an easing bias and the increasing willingness among officials to consider further tightening if inflation remains persistent. A majority of participants said additional policy firming would likely become appropriate should inflation continue to run above the Fed's 2% target, while many participants said they would have preferred removing the easing bias language from the statement altogether. Policymakers also noted that elevated inflation and uncertainty surrounding the Middle East conflict could require rates to remain restrictive for longer than previously anticipated. Only several suggested it would likely be appropriate to lower rates once there are clear indications that disinflation is firmly back on track or if solid signs emerge of greater labour market weakness. Regarding inflation, participants warned that sustained high energy prices combined with tariffs could risk broader inflation pressures becoming embedded, although most still viewed longer-term inflation expectations as stable. On the labour market, most officials viewed conditions as stabilising, citing unemployment, hiring and layoff data, although some noted signs of underlying softness. Overall, the Minutes reinforced the Fed's growing focus on upside inflation risks over downside labour market concerns.

**AUSTRALIAN JOBS (THU):** Australia's April labour report surprised to the downside, with employment falling 18.6k versus expectations for a 15k rise, unemployment rising to 4.5% from 4.3%, and participation edging lower to 66.7%. The weakness was broad-based, with both full-time and part-time jobs declining, marking a clear deterioration after previous resilience. The data signals that the labour market is starting to soften under restrictive policy and external pressures. For the RBA, this materially shifts

the near-term outlook, with June hike expectations effectively priced out, and a pause now the base case. Markets reacted accordingly, with AUD softer as tightening expectations were pared back.

**EZ FLASH PMI (THU):** May's Flash data was softer than expected across the board, with all metrics also falling from the prior level. However, the manufacturing figure remains in expansionary territory at 51.4 (prev. 52.2). Internal commentary points to a 0.2% EZ contraction in Q2, which alongside price gauges pointing to inflation at near 4% speaks of an inflationary environment, despite ECB President Lagarde's efforts to move us away from such language. Prior to the EZ figure, the German metrics were stronger than expected for composite and services while the manufacturing figure came in below consensus and fell into contractionary territory. France's figures were all much weaker than expected, a "plummet" in private sector new orders and a "materially" increase to recessionary risks for France. Overall, the data adds to the policy quandary facing the ECB, and may well see monetary officials call on their fiscal counterparts to provide support.

**UK FLASH PMI (THU):** May's Flash data was firmer for manufacturing, however the composite and services figures were both much weaker than expected with both falling into contractionary territory, and indeed the data is indicative of a 0.2% contraction for the quarter. Furthermore, S&P notes that "things could well get worse in the coming months". The data, alongside the hard data points earlier in the week, has seen a marked pullback in near-term hike bets by the BoE. However, the "spiking price pressures" reported by S&P for May does not bode well for the next CPI print that comes just one day before the BoE's June meeting.

**JAPANESE INFLATION (FRI):** Japan's April CPI missed across the board, with headline at 1.4% Y/Y from 1.5%, core at 1.4% versus expectations for 1.8%, and core-core at 1.9% versus expectations of 2.2%, confirming a clear cooling trend. The downside was driven by government subsidies for fuel and education, which offset energy pressure, alongside softer food inflation and a sharp drop in education costs weighing on services. The print highlights how policy distortion is suppressing underlying price signals despite external cost pressures. For the BoJ, this complicates the tightening path, with core now below target for a third straight month, though energy-driven upside risks remain.

**UK RETAIL SALES (FRI):** A soft set of data for April, seemingly as the energy-related frontloading in March did not carry into the April period. Concerningly, the ex-energy figures also came in softer than consensus and moderated from the prior. Overall, it is too soon to know if the data is indicative of a significant consumer pullback, or continued cautiousness amid the ongoing uncertainty. The data adds to the less-hawkish skew of hard prints for the UK in the last week.

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