

16 June 2021

## June policy minutes – RBA mulls its QE options

- **AUD: RBA June board meeting Minutes - On the yield curve control target (YCC),** the Bank notes that consideration to roll forward onto the November 24 bond **would imply that the cash rate will not increase until late 2024.** Citi analysts base case is for a roll-forward to purchasing the Nov-24 bond (thereby extending YCC), but the team will reassess this view after the May jobs report this week. A strong reading could see RBA decide not to roll forward to purchasing the Nov-24 bond.
- **AUD: RBA will also consider its options for LSAP (bond purchases) that include – (a) ending LSAP** when it expires in September, or **(b) repeating another \$AU100bn over six-months,** or **(c) tapering the amount or extending purchases over a longer horizon,** and a flexible approach where the pace of the bond purchases is reviewed more frequently. **Citi analysts expect the RBA could announce a flexible LSAP through an envelope of where it agrees to purchase “up to” \$AU100bn.** This would give RBA the flexibility to slow its asset purchases if the economy continues to outperform.

## Data releases overnight – more evidence of price pressures in US

- **USD: PPI Final Demand rises 0.8%MoM in May,** with the Y/Y measure rising to 6.6%. **PPI ex food and energy as well as core PPI excluding trade services prices, both rise 0.7%MoM for the 2nd month in a row.** **Core goods prices in PPI are up a very strong 1%MoM in May,** continuing a persistent upward trend over the last ~6 months. **Continued increases in goods prices in PPI suggest further upside to goods prices in CPI over coming months.** Citi analysts also expect a firming in the underlying pace of inflation will likely keep core PCE above 2%YoY even after base effects fade into H2'2022.
- **USD: US retail sales decline 1.3%MoM similar to expectations** after accounting for the upward revision to the prior month. **Excluding autos and gas, sales fall 0.8%MoM.** Citi analysts though point to the drop as confirming a rotation out of spending on goods to consumers spending a large share of income on services. **Overall, the report points to sustained consumer demand, which should drive both strong real growth, but also sustained goods-price inflation.**
- **USD: US industrial production advances 0.8%MoM in May,** close to expectations. **Manufacturing is up 0.9%MoM due to a recovery in auto production,** held down last month by a lack of semiconductors. **But while manufacturing output returns to pre-pandemic levels, demand for manufactured goods (durable goods orders for example) notably exceeds pre-pandemic demand.**

## Data releases overnight (continued) - French growth likely to accelerate in H2; UK labor market starting to face supply constraints

- **EUR: Bank of France (BdF) survey sees 0.5% QQ gain in 2Q GDP, June projections raise GDP forecasts** – BdF estimates that in May, the gradual re-opening of some sectors of the economy lifts activity to 4% below its pre-pandemic levels from 6% below in April. Looking ahead to June, further progress is expected to around -3%, resulting in a likely 0.5% QQ uptick in 2Q-21 after a drop of 0.1% QQ in 1Q-21. **Citi analysts expect a gradual lifting of restrictions should see much faster growth in 2H-21, with French GDP likely to return to pre-pandemic level in 1Q-22 (instead of 2Q-22 in March).**
- **GBP: UK employment rebounds, but where is supply? Total LFS employment rises 113k on a 3M average in April (consensus 135k) – 2nd gain in 12 months.** LFS data now suggests a fall in total jobs of around 518k since the start of the pandemic. **Unemployment also falls for the 4th successive month, while labor demand accelerates.** Extension of furlough is likely to underpin a period of labor market tightness and strong wage growth. **But, Citi analysts expect challenges to emerge in 2H-21.**

## Week Ahead: FOMC meeting – no taper talk but median ‘dot’ may rise

- **USD: FOMC meeting – Citi analysts expect 3 items to likely to dominate – (1) 2023 median “dot” will likely be revised up to imply one hike by the end of 2023.** It takes only 2 dots moving higher for dots to imply ½ a 25bp hike and 3 dots to imply a full hike; **(2) Inflation expectations moving higher – Citi analysts forecast Q4/Q4 core PCE at 3% by year-end against consensus for 2.5%.** While most Fed officials will still pencil in a significant step-down in inflation next year, the median will likely move higher; **(3) Some talk on tapering** - it may be too early for a clear signal the US economy is headed toward “substantial further progress” and Fed tapering. But Fed officials may be ready to admit the economy is making “good progress” and time may be approaching to more fully discuss how a taper should play out..
- **CHF: SNB Policy Rate Forecast: -0.75% Prior: -0.75%** - Franc remains “highly valued”, negative interest rates and FX interventions remain necessary and inflation and growth forecasts will probably remain largely unchanged at cautious levels.
- **GBP: UK CPI Inflation, May Forecast: 1.8% YY Prior: 0.7% YY; CPI Core, May Forecast: 1.4% YY Prior: 1.1% YY** - Citi analysts expect a smaller increase in core inflation in May as a result of increases in both consumer goods and domestic services prices.
- **GBP: UK Retail Sales, May Forecast: 1.3% MM 28.5% YY Prior: 9.2% MM, 42.4% YY; Ex Auto Fuels, May Forecast: 0.9% MM, 25.9% YY Prior: 9.0% MM, 37.7% YY** – Citi analysts expect these data to moderate over the coming months as the rotation towards consumer goods evident during the pandemic begins to unwind somewhat. However, the overall level is likely to remain relatively resilient.
- **AUD: Australia’s May Labor Force Survey: Citi employment forecast; +39.1k, Previous; -30.6k; Citi unemployment rate forecast; 5.5%, Previous; 5.5%; Citi participation rate forecast; 66.1%, Previous; 66.0%** - May LFS is important because it will be the crucial data-point ahead of the RBA’s decisions around its QE programs in July.

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