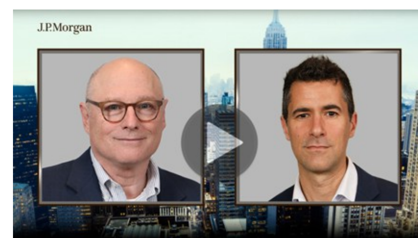
J.P.Morgan

Global Economic Research
05 May 2023



Global Data Watch

- **Data flow challenges notion that the global or US economy is fragile ...**
- **… or that core inflation is on track to move back to targets**
- **But financial stability concern and transmission bias CBs to pause**
- **Next week: Sober SLOOS; China export drop; BoE hikes 25bp**

Economic and Policy Research

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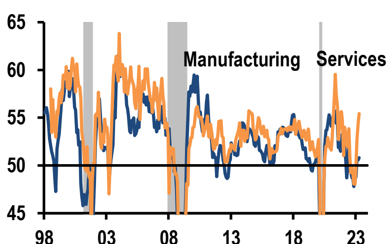
Death, taxes, and a US recession

To paraphrase Benjamin Franklin, the only certainties in our future are death, tax payments, and a US recession. This wisdom generates discomfort but not a forecast. Over the past year, we have agreed with forecasters that believe the US expansion will prove short-lived because of policy actions necessary to return inflation to an acceptable level. But we have resisted joining the ongoing chorus that the end is nigh. The private sector (both in the US and globally) has yet to display the vulnerabilities normally contributing to retrenchment. And monetary tightening is not the only game in town as there are significant 1H23 global tailwinds from the fading of last year's negative supply shocks. Finally, the Fed and other central banks are still forgiving of inflation sins: we have anticipated a pause in tightening by midyear even though the battle to lower inflation is far from over. To be sure, US banking sector stress and a looming debt ceiling deadline elevate near-term recession risk. But absent a disruptive event, we expect a US recession dynamic will take hold gradually and won't create space for pre-emptive Fed easing this year. This week's data generally support these views with three important messages worth noting:

• **Global momentum builds on back of service sector.** On the heels of a 1.3-pt jump in March, the J.P. Morgan all-industry global PMI output strengthened another 0.8-pt in April to 54.2. This level is consistent with 3.3%ar growth in global GDP, above our current-quarter forecast for a trend-like 2.6%ar gain. Both the manufacturing and service sector PMIs have recovered since the start of the year, but the survey points to concentrated service sector strength, a development we link to a fading of last year's shocks (Figure 1).

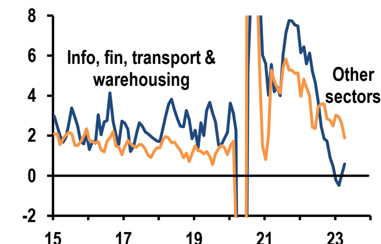
• **US slows, slowly.** The growth signal from the April US employment report is nuanced. Private sector employment gains are moderating, labor income is cooling, and the breadth of hiring is narrowing (Figure 2). However, the pace of job gains over the past three months remains close to the peak

Figure 1: Global output PMI
DI, sa; shading for US recessions



Source: S&P Global, J.P. Morgan

Figure 2: US employment growth by sector
%3m, saar



Source: BLS, J.P. Morgan

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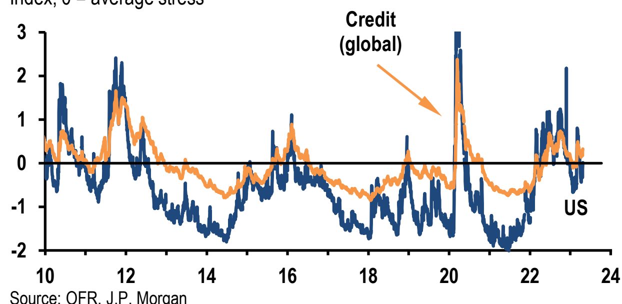
recorded in the last expansion. Moreover, strong support from private services and the government is not likely to fade quickly.

• **Big dogs want to rest.** There were hawkish surprises from smaller central banks this week, but the message from the Fed and ECB is that a pause is in sight. In delivering an expected 25bp hike, the FOMC shifted to an equivocal hawkish bias, with Chair Powell noting that "we're getting close [to the end] or maybe even there." The ECB downshifted to a 25bp pace despite strong inflation readings, emphasizing that its past hikes were being transmitted "forcefully." While the ECB is not done—we expect policy rates to rise a further 50bp—both central banks are signaling they are on track for a pause around midyear.

Economists are not good plumbers

Continued stress in the US banking system does, of course, increase concern that a disruptive financial market event is on the horizon. Our analysis suggests that the impact of a credit tightening against an otherwise healthy backdrop tends to be limited. We thus anticipate a credit drag that will be material but build gradually. Experience shows, however, that economists are not well positioned to assess whether financial sector stresses magnify onto the macroeconomic landscape. As a result, we do not hold these views strongly. We rely on our stress metrics to track global financial conditions and to date, they suggest that banking sector problems have not generated broad financial market stress (Figure 3). That said, the Fed's upcoming senior loan officer survey should point to further broad-based tightening in bank lending standards.

Figure 3: OFR Financial Stress Index
Index, 0 = average stress



Source: OFR, J.P. Morgan

Lest we forget inflation

Guidance from DM central banks signals that they plan a pause around midyear, as they are mindful of lags in the transmission mechanism to growth, reinforced by recent concerns related to tightening credit conditions. However, the battle to contain inflation is far from complete: DM core CPI posted a 5%ar gain last quarter. On the heels of this week's 0.6%m/m rise in the Euro area April core, we look for a 0.4% gain in the US next week. Policy tightening has also yet to deliver material easing in tight labor markets—a point reinforced by this week's US, Euro area, and Canada employment reports. Any desire by central banks to pause to limit financial stability and recession risks should also be seen as an embrace of disinflation gradualism.

The implicit judgment underlying this embrace is that a supply-demand imbalance is the primary source of persistent inflation. By maintaining a high-for-long stance central banks plan to reduce this imbalance and gradually alleviate price and wage pressures. They are also banking on improving supply as the pandemic shock fades. The evidence suggests that supply conditions are indeed improving as delivery times have normalized, cross-border labor mobility has increased, and labor market dislocations are abating.

However, a gradualist approach to disinflation is likely to enhance the nascent shift in inflation psychology now underway. The unusual coincidence taking place in wage and price increases across the DM is supporting a step-up in nominal growth. Viewed together with the persistence of elevated short-term inflation expectations (despite falling energy prices), higher inflation is starting to become embedded. In contrast to the gradualism warranted to promote supply-side healing, the battle against salience requires forceful central bank action that depresses pricing power and normalizes near-term inflation expectations.

Teflon EM?

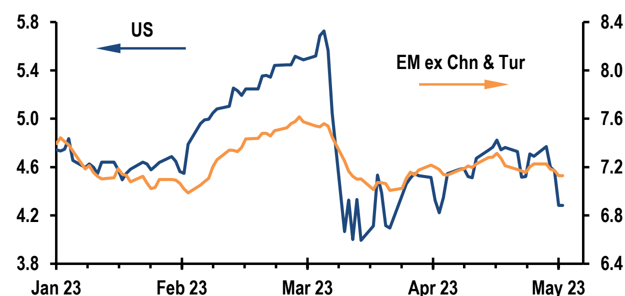
US and EM policy rates are correlated, but EM rate-pricing has largely ignored the volatile gyrations in the US this year (Figure 4). The limited sensitivity to wide swings in US rate pricing is explained by three factors. First, having raised rates more aggressively than their DM counterparts, EM central banks were not as sensitive to early-year growth and inflation surprises. Second, EM is not experiencing the financial stability concerns posed by US banking sector stress. Finally, the USD remained stable through this year's US rate volatility. With the Fed guiding towards a pause and the US expansion still on firm ground, domestic developments will likely drive EM policy in the coming months.

We believe these developments point to an end to the EM tightening cycle with a handful of economies now delivering their last hike in their most recent meetings. However, the start and scale of the easing cycle has been pushed back further because of resilient growth and sticky core inflation. This week's hawkish surprises included a 25bp rate hike in Malaysia and a near-hike in Czechia (the vote swung abruptly to 3-4 from 1-6 previously) after both central banks had been on a prolonged hold. In Malaysia's case, the hike was prompted by

growth resilience (6%ar in 1Q) as core inflation momentum remains contained near 3%. The timing of the CNB's hawkish turn is more puzzling given sub-par growth, a persistent contraction in consumer demand, and inflation that is still high but clearly slowing. As in several other EMs, it appears that concerns over fiscal risks are complicating the CNB's decision-making; we push back the timing of the first rate cut to 1Q24 from August but keep our terminal rate forecast at 4.25% (still 175bp of rate cuts). We continue to believe that the EM easing cycle will start in 2H23 (led by Hungary and Chile), but could be shallower compared to market pricing. A substantial drop in headline inflation in 2Q23, amplified by a soft dollar and lower-than-expected oil prices, reinforces our call for the start of the easing cycle.

Figure 4: Market pricing of end-2023 policy rate

%p.a.; both scales



Source: J.P. Morgan Global Economics

Divergences amid China's rebound

China's unexpectedly double-digit 1Q growth came from service sector and export strength. While the boost to services from re-opening was anticipated, last quarter's export surge was a surprise—especially considering the broader weakness in global goods demand and PMI readings. It is therefore not too surprising that April manufacturing PMI reports slipped below 50 with broad-based signs of deceleration, including weaker export orders. As partial payback for this 1Q outperformance, we look for a 6.5%m/m decline in April exports next week.

Despite this expected fading of external contributors to growth, China's rebound should persist into the current quarter as well—albeit at a less boomy pace. While the non-manufacturing PMIs also cooled modestly in April, they remain at their second-highest levels since 2021. Tourism-related industries have led the solid performance in services, and we expect the recovery in consumption to continue. Preliminary data from the Labor Day holiday show tourism revenues at 101% of their 2019 level, while tourist volumes reached 129%. In addition, policy tailwinds have led to outperformance in construction activity.

Reopening dynamics and front-loaded policy supports are bolstering 1H23 growth, but sustaining the recovery into the back half of this year will require a hand-off to other sources of growth. While public investment has been strong, private investment has lagged measurably. Similarly, new home sales have recovered but housing starts remain soft. Both could reflect weak confidence among entrepreneurs and private real estate developers, and lingering softness in these sectors could weigh on growth during 2H23.

EMAX: Sticky core service inflation

A strong recovery in services is being felt across Asia beyond China, and that is contributing to sticky core services prices in the region. Singapore aligns most directly with this view, as its 1Q23 flash GDP estimate shows a rotation from easing goods output to the travel-related services sector. That said, softening in wholesale/retail trade and financial services represents a headwind. Weakness in exports and fixed investment led to a 6.4%ar decline in Taiwan's 1Q23 real GDP, but domestic consumer expenditure firmed. Further normalization of cross-border travel alongside government cash transfers to households is expected to fuel a 7.2%ar surge in 2Q growth. Next week's April trade report will provide further color on external demand. Services GDP unexpectedly contracted in Korea in 1Q (with real GDP up a modest 1.1%ar), but we expect resilient employment growth and stabilization in consumer sentiment to lead to robust growth in services this quarter. We look for stronger 2Q growth of 3.5%ar in Korea, buoyed by domestic demand and net exports.

LatAm central banks on hold—for now

The combination of sticky inflation and resilient economic growth in Latin America should keep the region's central banks on the sidelines for the time being. In the face of political pressures for cutting rates, Brazil's BCB toned down its hawkish messaging but did not budge on policy this week. While the BCB has signaled a cautious policy stance, we see scope for frontloading the easing cycle from our baseline of 4Q if the government makes a credible and public commitment to the 3% inflation target. Even after Colombia's headline inflation eased in April, sticky core CPI and lingering economic and political uncertainty should keep BanRep on hold until 4Q23, following last week's 25bp hike. Next week we expect Chile and Peru to remain on hold. Both central banks will keep rates at their highest levels in more than 20 years (at 11.25% and 7.75%, respectively), but should ease by July. After nearly two years and 725bp of tightening, Banxico should maintain its current 11.25% policy rate for much longer: until early 2024.

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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar						Consumer prices % over a year ago			
	2022	**2023**	**2024**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**4Q22**	**2Q23**	**4Q23**	**2Q24**
United States	2.1	1.3	0.4	2.6	1.1	1.0	0.5	-0.5	-0.5	7.1	4.1	**2.9** ↓	**2.4** ↓
Canada	3.4	1.1	1.3	0.0	2.0	0.3	0.3	0.3	1.5	6.7	3.4	2.2	2.0
Latin America	3.5	0.9	1.0	0.0	2.4	-0.8	0.7	0.4	0.7	8.0	5.8	5.4	4.3
Argentina	5.2	-3.3	-1.7	-6.0	-2.0	-12.0	1.5	-2.0	-4.5	92.0	108.6	122.2	150.3
Brazil	2.9	0.9	0.8	-0.9	3.0	0.2	-0.5	0.3	1.2	6.0	3.7	5.5	4.2
Chile	2.4	-0.2	2.4	0.2	3.0	-1.4	0.8	1.0	3.0	13.0	8.4	5.1	4.1
Colombia	7.5	1.0	1.9	2.7	0.5	-2.0	2.0	1.5	2.0	12.6	12.6	**8.6** ↓	**5.7** ↑
Ecuador	2.9	2.5	2.5	9.7	2.5	1.5	3.0	2.5	2.0	3.8	2.2	2.4	2.6
Mexico	3.1	2.5	1.1	1.8	4.6	0.9	0.5	0.3	0.7	8.0	5.9	4.9	4.4
Peru	2.7	2.0	3.0	0.5	-3.5	7.3	4.0	3.2	1.0	8.4	6.5	4.2	3.4
Uruguay	4.9	0.4	2.5	-5.3	4.5	-2.0	4.9	2.0	2.0	8.6	7.3	6.8	6.2
Asia/Pacific	3.2	4.5	4.0	2.1	**8.0** ↑	**4.9** ↓	**3.6** ↓	**3.5** ↓	4.0	3.4	2.1	2.5	2.9
Japan	1.0	0.8	0.6	0.1	1.4	1.4	0.2	0.2	0.6	3.9	3.3	3.5	3.0
Australia	3.7	2.4	2.4	1.9	2.5	2.5	1.7	2.0	2.6	7.8	6.3	4.1	3.2
New Zealand	2.4	1.3	1.9	-2.5	0.8	0.2	1.7	2.0	2.1	7.2	5.6	3.4	2.4
EM Asia	3.6	**5.4** ↑	4.7	2.6	**9.6** ↑	**5.7** ↓	4.4	**4.2** ↓	4.7	3.0	1.6	2.2	2.9
China	3.0	6.4	5.3	3.1	11.9	6.3	4.9	4.9	5.5	1.8	0.5	1.8	3.1
India	**7.1** ↑	**5.1** ↑	5.0	4.7	**8.0** ↑	**4.3** ↓	**4.8** ↓	**4.6** ↓	4.0	6.1	4.9	5.7	5.4
Ex China/India	3.5	**2.5** ↑	**2.6** ↓	-0.1	**3.2** ↑	4.5	**2.5** ↓	**2.0** ↓	2.5	5.1	3.5	2.6	2.1
Hong Kong	-3.5	**5.4** ↑	**1.4** ↓	0.0	**22.9** ↑	**6.1** ↓	**2.0** ↓	**0.0** ↓	3.0	1.8	2.6	2.6	2.3
Indonesia	5.3	**4.2** ↑	4.1	5.2	**4.6** ↑	3.8	3.8	3.5	3.5	5.5	3.6	2.6	2.4
Korea	2.6	1.1	1.8	-1.6	1.1	3.5	1.0	1.0	1.8	5.2	3.5	2.7	1.9
Malaysia	8.7	3.4	3.0	-10.0	**8.0** ↑	6.0	3.0	2.5	3.0	3.9	3.0	2.2	1.9
Philippines	7.6	5.5	3.6	10.1	4.0	3.8	2.5	2.5	4.5	7.9	6.7	3.7	2.7
Singapore	3.6	1.3	0.6	0.3	1.3	1.0	0.5	0.3	0.2	6.6	4.7	2.8	1.3
Taiwan	2.5	0.1	2.8	-1.5	-6.4	7.2	3.1	2.4	2.3	2.6	**2.1** ↑	2.0	**1.5** ↓
Thailand	2.6	2.7	2.9	-5.9	4.6	6.1	5.4	3.2	3.0	5.8	2.7	2.2	1.8
Western Europe	3.6	0.9	0.8	-0.1	0.4	1.7	1.4	0.5	0.3	10.1	6.9	**3.4** ↑	**2.3** ↑
Euro area	3.5	1.1	0.9	-0.2	0.3	2.0	1.5	0.5	0.3	10.0	**6.5** ↓	**3.0** ↑	**2.1** ↑
Germany	1.9	0.4	0.9	-2.1	0.2	2.0	1.5	0.5	0.3	10.8	7.7	3.1	2.0
France	2.6	1.0	0.9	0.1	0.7	2.0	1.5	0.5	0.3	7.0	6.1	4.1	2.2
Italy	3.8	1.5	1.0	-0.5	2.0	2.0	1.8	0.8	0.3	12.5	6.2	-0.7	1.4
Spain	5.5	2.2	1.3	1.6	1.9	2.0	1.5	1.3	0.8	6.5	3.6	3.5	2.5
Norway	3.8	1.5	0.8	3.4	0.5	0.3	0.5	0.5	0.8	6.6	5.9	4.0	3.2
Sweden	2.7	-0.6	0.2	-2.0	0.3	-2.0	-1.0	0.3	0.3	11.6	10.0	5.4	3.5
United Kingdom	4.1	0.7	0.7	0.5	0.6	1.3	1.5	0.8	0.4	10.8	7.9	4.4	2.6
EMEA EM	2.2	1.4	2.4	1.8	**3.2** ↓	**1.3** ↓	1.2	1.2	2.9	23.4	13.1	12.4	10.3
Czech Republic	2.4	**0.5** ↓	2.2	-1.4	**0.4** ↓	**1.8** ↓	2.3	2.3	2.0	15.7	11.7	9.0	2.6
Hungary	4.6	0.0	2.6	-1.7	-1.5	2.3	3.0	2.5	2.8	22.7	23.8	11.4	6.4
Israel	6.4	3.0	2.9	5.3	2.3	2.3	1.5	1.5	2.5	5.2	4.6	3.3	2.2
Poland	4.9	-0.3	2.9	-9.3	1.5	4.0	2.5	2.8	2.8	17.3	13.6	8.4	5.6
Romania	4.8	3.7	4.5	4.2	3.2	3.6	2.8	2.8	4.5	16.2	10.4	7.4	7.2
Russia	-2.1	1.2	1.8	6.1	5.0	-2.0	1.5	2.3	2.3	12.2	3.0	5.0	4.4
South Africa	2.0	0.3	1.0	-4.9	1.1	0.5	1.0	1.5	0.5	7.4	6.3	5.4	5.0
Turkey	5.6	2.5	2.7	3.8	4.5	5.0	-2.0	-4.0	5.7	77.4	42.0	44.0	39.0
Global	**3.0** ↑	**2.5** ↑	2.0	1.6	**3.8** ↑	2.6	**1.9** ↓	**1.4** ↓	1.7	7.3	4.5	3.5	3.1
Developed markets	2.6	1.2	0.7	1.2	0.9	1.3	0.8	0.1	0.1	7.9	5.1	3.2	**2.4** ↓
Emerging markets	3.4	**4.3** ↑	3.9	**2.2** ↑	**7.8** ↑	**4.3** ↓	3.5	**3.3** ↓	3.9	6.4	3.6	4.0	4.1
Emerging ex China	**3.8** ↑	**2.2** ↑	**2.5** ↓	1.2	**3.8** ↑	**2.3** ↓	**2.1** ↓	**1.8** ↓	2.4	10.9	6.8	6.2	5.1
Global — PPP weighted	3.4	**2.9** ↑	2.5	1.7	**4.4** ↑	**2.7** ↓	**2.3** ↓	**1.9** ↓	2.1	8.1	5.0	4.3	3.9

Source: Government agencies and J.P. Morgan Global Economics. Details on request. Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

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G-3 economic outlook detail

				2022		2023			2024
	2022	2023	2024	4Q	1Q	2Q	3Q	4Q	1Q
United States									
Real GDP	2.1	1.3	0.4	2.6	1.1	1.0	0.5	-0.5	-0.5
Private consumption	2.7	1.9	0.9	1.0	3.7	1.2	1.1	0.4	0.1
Equipment investment	4.3	-1.6	-0.7	-3.5	-7.3	0.0	1.0	-4.0	-4.0
Non-residential construction	-6.6	3.4	-5.0	15.8	11.2	1.0	-2.0	-10.0	-10.0
Intellectual property products	8.8	4.5	3.6	6.2	3.8	3.0	3.0	2.0	2.0
Residential construction	-10.6	-13.3	-2.8	-25.1	-4.2	-5.0	-8.0	-5.0	-4.0
Inventory change ($ bn saar)	125.0	14.7	-18.3	136.5	-1.6	40.0	40.6	-20.0	-72.9
Government spending	-0.6	3.2	1.7	3.8	4.7	3.0	2.0	2.0	2.0
Exports of goods and services	7.1	1.7	-3.1	-3.7	4.8	-3.5	-3.3	-3.3	-3.0
Imports of goods and services	8.1	-0.6	-0.2	-5.5	2.9	4.3	1.0	-5.0	-5.0
Domestic final sales contribution	1.7	1.5	0.9	0.7	3.2	1.4	1.1	0.1	0.0
Inventories contribution	0.7	-0.5	-0.2	1.5	-2.3	0.8	0.0	-1.2	-1.0
Net trade contribution	-0.3	0.3	-0.3	0.4	0.1	-1.2	-0.6	0.6	0.6
Consumer prices (%oya)	8.0	4.0	2.5	7.1	5.8	4.1	3.3	2.9	2.6
Excluding food and energy (%oya)	6.1	4.7	2.7	6.0	5.6	5.2	4.5	3.8	3.2
Core PCE deflator (%oya)	5.0	4.1	2.3	4.8	4.7	4.5	4.0	3.4	2.7
Federal budget balance (% of GDP, FY)	-5.4	-5.5	-5.7						
Personal saving rate (%)	3.7	4.6	4.3	4.0	4.8	4.8	4.5	4.4	4.3
Unemployment rate (%)	3.6	3.8	4.9	3.6	3.5	3.6	3.8	4.2	4.5
Industrial production, manufacturing	2.7	-0.4	-0.6	-3.1	0.3	0.5	0.2	-3.0	-3.0
Euro area									
Real GDP	3.5	1.1	0.9	-0.2	0.3	2.0	1.5	0.5	0.3
Private consumption	4.3	1.1	0.9	-3.4	2.0	2.0	1.3	0.8	0.3
Capital investment	3.8	0.3	1.0	-13.5	1.0	2.0	1.5	1.0	0.0
Government consumption	1.4	1.4	0.7	3.3	1.5	1.5	1.0	1.0	0.5
Exports of goods and services	7.1	3.5	3.8	-0.1	3.0	4.0	4.0	4.0	3.5
Imports of goods and services	8.0	3.4	4.0	-7.4	3.0	4.0	4.3	4.3	3.8
Domestic final sales contribution	3.3	1.0	0.8	-4.3	1.6	1.8	1.2	0.8	0.2
Inventories contribution	0.3	-0.1	0.0	0.4	-1.3	0.0	0.3	-0.4	0.0
Net trade contribution	-0.1	0.2	0.1	3.8	0.1	0.2	0.0	0.0	0.0
Consumer prices (HICP, %oya)	8.4	5.6	2.1	10.0	8.1	6.5	5.0	3.0	2.6
ex food, alcohol and energy	3.9	5.2	2.5	5.1	5.5	5.7	5.5	4.2	3.4
General govt. budget balance (% of GDP, FY)	-3.7	-3.0	-2.9						
Unemployment rate (%)	6.7	6.6	6.8	6.7	6.6	6.6	6.6	6.7	6.8
Industrial production	0.7	1.1	1.7	-0.9	1.0	2.0	3.0	2.0	1.0
Japan									
Real GDP	1.0	0.8	0.6	0.1	1.4	1.4	0.2	0.2	0.6
Private consumption	2.0	1.9	0.9	1.3	2.4	2.7	1.0	0.8	0.8
Business investment	1.9	1.4	0.5	-2.0	3.0	1.0	-3.0	-1.0	1.0
Residential construction	-4.7	-1.0	0.1	0.0	0.5	-1.0	-1.5	-1.5	1.0
Public investment	-7.0	-0.1	-0.5	-1.2	-0.5	-0.5	-0.5	-0.5	-0.5
Government consumption	1.5	0.1	-0.6	1.0	0.0	-2.0	0.0	1.0	-1.0
Exports of goods and services	4.9	2.1	0.2	6.0	-2.0	0.5	-1.0	-1.0	0.5
Imports of goods and services	7.9	2.1	0.3	-1.6	-1.0	-0.5	-1.0	-1.0	1.0
Domestic final sales contribution	1.2	1.3	0.4	0.5	1.8	1.1	0.0	0.4	0.4
Inventories contribution	0.4	-0.4	0.1	-1.9	-0.2	0.1	0.2	-0.2	0.3
Net trade contribution	-0.6	0.0	0.0	1.5	-0.2	0.2	0.0	0.0	-0.1
Consumer prices (%oya)	2.5	3.4	2.9	3.9	3.5	3.3	3.4	3.5	3.2
ex food and energy	-0.1	2.6	2.0	1.4	2.1	2.6	2.7	2.8	2.3
General govt. net lending (% of GDP, CY)	-6.9	-7.1	..						
Unemployment rate (%)	2.6	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.4
Industrial production	0.1	1.1	1.0	-11.6	1.0	4.0	3.0	-2.0	1.5
Memo: Global industrial production	1.3	1.3	1.3	-3.6	2.2	3.8	2.6	0.9	0.9
%oya				0.8	0.2	1.7	1.1	2.3	2.0

Source: Government agencies and J.P. Morgan Global Economics. Details on request.

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Global Central Bank Watch

	Official rate	Current rate (%pa)	4-qrtr change (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
			Last	Next				Jun 23	Sep 23	Dec 23	Mar 24	Jun 24
Global		4.37	223	-8				4.44	4.68	4.64	4.55	4.29
excluding US		4.05	160	8				4.14	4.47	4.41	4.29	4.13
Developed		3.98	339	-19				4.08	4.16	4.16	4.12	3.78
Emerging		4.95	54	9				4.96	5.44	5.34	5.18	5.03
Latin America		12.28	313	-254				12.28	12.08	11.34	10.44	9.73
EMEA EM		7.44	-176	296				7.46	11.03	11.03	10.73	10.39
EM Asia		3.43	60	-7				3.44	3.44	3.41	3.38	3.35
The Americas		6.12	405	-78				6.12	6.09	5.99	5.84	5.33
United States	Fed funds	**5.25**	425	-50	3 May 23 (+25bp)	14 Jun 23	**2Q 24 (-50bp)**	5.25	5.25	5.25	5.25	4.75
Canada	O/N rate	4.50	350	-75	25 Jan 23 (+25bp)	7 Jun 23	1Q 24 (-50bp)	4.50	4.50	4.50	4.00	3.75
Brazil	SELIC O/N	13.75	100	-275	3 Aug 22 (+50bp)	21 Jun 23	Nov 23 (-50bp)	13.75	13.75	12.75	11.75	11.00
Mexico	Repo rate	11.25	480	-100	30 Mar 23 (+25bp)	18 May 23	Feb 24 (-25bp)	11.25	11.25	11.25	10.75	10.25
Chile	Disc rate	11.25	300	-500	13 Oct 22 (+50bp)	12 May 23	28 Jul 23 (-50bp)	11.25	10.00	8.25	7.25	6.25
Colombia	Repo rate	13.25	725	-450	28 Apr 23 (+25bp)	30 Jun 23	3 Oct 23 (-75bp)	13.25	13.25	11.75	9.75	8.75
Peru	Reference	7.75	325	-375	12 Jan 23 (+25bp)	11 May 23	6 Jul 23 (-50bp)	7.75	6.25	5.50	4.75	4.00
Europe/Africa		4.26	250	75				4.49	5.39	5.39	5.29	5.01
Euro area	Depo rate	**3.25**	375	25	4 May 23 (+25bp)	15 Jun 23	**Jun 23 (+25bp)**	**3.50**	3.75	3.75	3.75	3.50
United Kingdom	Bank rate	4.25	325	0	23 Mar 23 (+25bp)	11 May 23	May 23 (+25bp)	4.75	4.75	4.75	4.50	4.25
Norway	Dep rate	**3.25**	250	-25	4 May (+25bp)	22 Jun 23	**22 Jun 23 (+25bp)**	3.50	3.50	3.50	3.25	3.00
Sweden	Repo rate	3.50	325	-25	26 Apr 23 (+50bp)	28 Jun 23	29 Jun 23 (+25bp)	3.75	3.75	3.75	3.75	3.25
Czech Republic	2-wk repo	7.00	125	-175	22 Jun 22 (+125bp)	21 Jun 23	**Feb 24 (-50bp)**	7.00	**7.00**	**7.00**	**6.00**	**5.25**
Hungary	Base rate	13.00	760	-400	27 Sep 22 (+125bp)	23 May 23	Feb 24 (-100bp)	13.00	13.00	13.00	11.00	9.00
Israel	Base rate	4.50	415	-50	3 Apr 23 (+25bp)	22 May 23	1Q 24 (-25bp)	4.50	4.50	4.50	4.25	4.00
Poland	7-day interv	6.75	150	-100	7 Sep 22 (+25bp)	10 May 23	Mar 24 (-25bp)	6.75	6.75	6.75	6.50	5.75
Romania	Base rate	7.00	400	0	10 Jan 23 (+25bp)	10 May 23	On hold	7.00	7.00	7.00	7.00	7.00
Russia	Key pol rate	7.50	-650	-50	16 Sep 22 (-50bp)	9 Jun 23	1Q 24 (-25bp)	7.50	7.50	7.50	7.25	7.00
South Africa	Repo rate	7.75	350	0	30 Mar 23 (+50bp)	23 May 23	May 23 (+25bp)	8.00	8.00	8.00	7.75	7.75
Turkey	1-wk repo	8.50	-550	2150	23 Feb 23 (-50bp)	25 May 23	3Q 23 (+2150bp)	8.50	30.00	30.00	30.00	30.00
Asia/Pacific		2.94	67	-6				2.94	2.94	2.92	2.89	2.87
Australia	Cash rate	**3.85**	350	0	3 May 23 (+25bp)	6 Jun 23	**On hold**	**3.85**	3.85	3.85	3.85	3.85
New Zealand	Cash rate	5.25	375	-50	5 Apr 23 (+50bp)	24 May 23	Nov 23 (-25bp)	5.25	5.25	5.00	4.75	4.75
Japan	Pol rate IOER[1]	-0.10	-8	0	28 Jan 16 (-20bp)	16 Jun 23	On hold	-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw	**5.50**	-125	-50	3 May 23 (+25bp)	-	**2Q 24 (-50bp)**	5.50	5.50	5.50	5.50	5.00
China	1-yr MLF	2.75	-10	0	15 Aug 22 (-10bp)	-	On hold	2.75	2.75	2.75	2.75	2.75
Korea	Base rate	3.50	200	-25	13 Jan 23 (+25bp)	25 May 23	2Q 24 (-25bp)	3.50	3.50	3.50	3.50	3.25
Indonesia	BI RRR	5.75	225	0	19 Jan 23 (+25bp)	25 May 23	On hold	5.75	5.75	5.75	5.75	5.75
India	Repo rate[2]	6.50	210	-50	8 Feb 23 (+25bp)	8 Jun 23	Dec 23 (-25bp)	6.50	6.50	6.25	6.00	6.00
Malaysia	O/N rate	**3.00**	-175	0	**3 May 23 (+25bp)**	6 Jul 23	On hold	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
Philippines	Rev repo	6.25	425	25	23 Mar 23 (+25bp)	18 May 23	May 18 (+25bp)	6.50	6.50	6.50	6.50	6.50
Thailand	1-day repo	1.75	125	25	29 Mar 23 (+25bp)	31 May 23	May 23 (+25bp)	2.00	2.00	2.00	2.00	2.00
Taiwan	Official disc.	1.88	50	0	23 Mar 23 (+12.5bp)	15 Jun 23	On hold	1.88	1.88	1.88	1.88	1.88

Source: J.P. Morgan. [1] BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages.

Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China;

Hong Kong SAR (China) and Taiwan (China).

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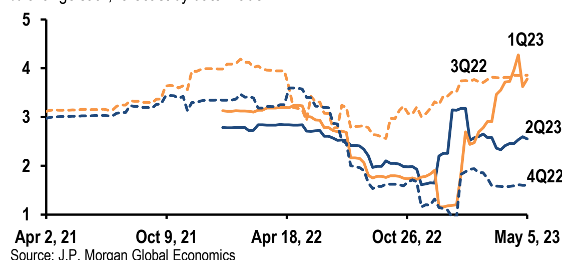
Nowcast of global growth: Momentum holding up in 2Q

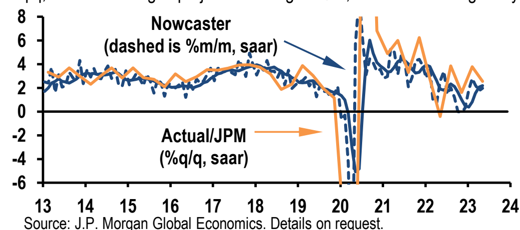
The J.P. Morgan forecast for 2Q23 global real GDP growth was unchanged this week at a trend-like 2.6%ar. The April PMI report showed continued positive momentum at the beginning of 2Q. At 54.2, the global all-industry output PMI is consistent 3.3%ar global GDP growth. At the same time, the manufacturing PMI continues to point to sluggish growth. While this week's PMI data signaled a further widening in the gap between manufacturing and service output—the output PMIs currently stand at 50.8 and 55.4, respectively—we expect this gap to close into midyear as global industry rebounds. Looking back to last quarter, our tracking estimate for global 1Q GDP growth ticked up 0.2%-pt this week to 3.8%ar, as an upward surprise in Hong Kong's 1Q GDP offset a downward surprise in Czechia's 1Q GDP.

Figure 1: J.P. Morgan global GDP
% change saar; forecast by date made



Source: J.P. Morgan Global Economics

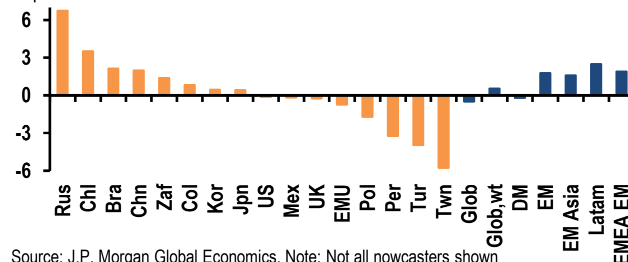
Figure 2: Global real GDP
%q/q, saar. J.P. Morgan projection through 2Q23; Nowcaster through May



Source: J.P. Morgan Global Economics. Details on request.

The top-down global nowcaster for 2Q23 GDP fell 0.2%-pt this week to 2.1%ar, 0.5%-pts below our official forecast (Figure 2). The bottom-up nowcaster also ticked down 0.1%-pt, leaving it 0.6%-pt above our forecast for the same country set. The nowcaster continues to suggest downside risk in the Euro area (-0.7%-pt) and upside risk in China (+2.0%-pts), but now only suggests slight downside risk in the US (-0.1%-pt) (Figure 3, Table 1). It is important to note that the nowcasters are less accurate early in the quarter, using model estimates to fill out much of the quarter's missing data. For 1Q, the top-down nowcaster also fell 0.1%-pt this week.

Figure 3: Risk bias, 2Q23
%-pts. Nowcast minus forecast



Source: J.P. Morgan Global Economics. Note: Not all nowcasters shown

Table 1: Real GDP
%q/q, saar. Underline indicates J.P. Morgan forecast.

	1Q23		2Q23	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	**3.8**	**1.5**	**2.6**	**2.1**
Weighted Avg*	**3.6**	**3.1**	**2.5**	**3.0**
Developed*	**0.9**	**1.0**	**1.3**	**1.1**
US	1.1	2.0	1.0	0.9
EMU	0.3	0.3	2.0	1.3
UK	0.6	-0.4	1.3	1.1
Canada	2.0	2.3	0.3	1.5
Japan	1.4	-1.4	1.4	1.8
Emerging*	**8.0**	**6.4**	**4.3**	**6.1**
EM Asia*	**10.1**	**7.8**	**6.0**	**7.6**
China	11.9	9.0	6.3	8.3
Korea	1.1	1.9	3.5	4.0
Taiwan	-6.4	-2.3	7.2	1.4
Singapore	1.3	0.6	1.0	5.0
Latam*	**2.4**	**3.0**	**-0.9**	**1.6**
Brazil	3.0	4.1	0.2	2.3
Mexico	4.6	3.4	0.9	0.7
Argentina	-2.0	0.5	-12.0	1.8
Chile	3.0	1.8	-1.4	2.1
Colombia	0.5	3.5	-2.0	-1.2
Peru	-3.5	-0.5	7.3	4.1
EMEA EM*	**3.3**	**3.5**	**1.2**	**3.1**
Poland	1.5	2.0	4.0	2.3
Hungary	-1.5	-2.9	2.2	4.1
Czech Rep.	0.4	-0.8	1.7	0.5
Romania	3.2	4.8	3.6	4.7
Russia	5.0	3.6	-2.0	4.7
Turkey	4.5	7.4	5.0	1.0
South Africa	1.1	2.4	0.5	1.9

Source: J.P. Morgan Global Economics. * Aggregates are GDP weighted averages of constituents.The long-form nomenclature for references to China and Taiwan is Mainland China and Taiwan (China).

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This week's data releases were headlined by the April global PMIs. The global all-industry output PMI continued to rise in April to a level of 54.2. This gain was primarily driven by the service sector index, which jumped 1.8-pts, with strength across DM but mixed results in EM. Meanwhile, a 0.2-pt tick up in the manufacturing output PMI leaves it consistent with a modest 1.0%ar gain in global factory output. Regionally, a sizable gain in the US manufacturing PMI drove a 0.4-pt increase in DM, while EM moved sideways. We updated our global (ex China) aggregate for consumer confidence, which picked up in April but remains depressed below its 2010-2019 average. We look for continued improvement in consumer sentiment as headline inflation recedes.

Table 2: J.P. Morgan global aggregates

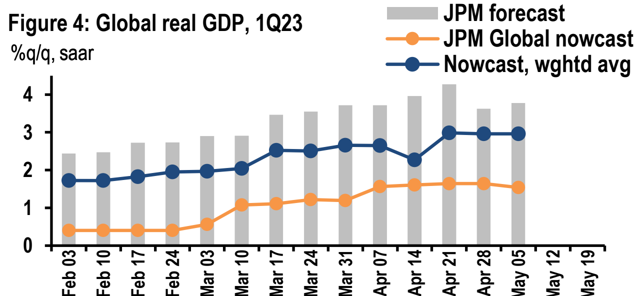
%ch, sa (ar for qrt). PMIs are levels. Confidence is std.dev from 2010-19 avg

	1Q23	2Q23	Mar 23	Apr 23	May 23	Jun 23
PMI, mfg	50.1	51.1	50.6	50.8	51.1	51.4
PMI, serv	52.4	54.5	54.4	55.4	54.3	53.8
IP	2.2	0.5	0.4	-0.3	-0.2	0.0
Retail sales	5.0	2.0	0.1	0.2	0.2	0.2
Auto sales	18.9	-1.6	-7.7	-0.8	-1.2	0.6
G-3 cap. ship.	-2.1	-2.0	-0.1	-0.4	-0.1	0.0
G-3 cap. orders	0.3	-1.0	-0.1	-0.4	0.1	0.0
Cap. exports	4.0	4.8	1.8	-0.6	0.3	0.6
Bus conf	-0.4	-0.5	-0.4	-0.5	-0.5	-0.4
Cons conf	-0.8	-0.7	-0.8	-0.7	-0.7	-0.7
Nowcast (ar)	1.5	2.1	2.2	1.7	2.0	2.2

Source: J.P. Morgan Global Economics, S&P Global, and national statistical agencies. Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment.

Figure 4: Global real GDP, 1Q23

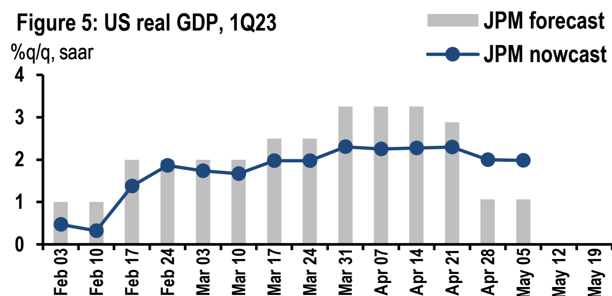
%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

Figure 5: US real GDP, 1Q23

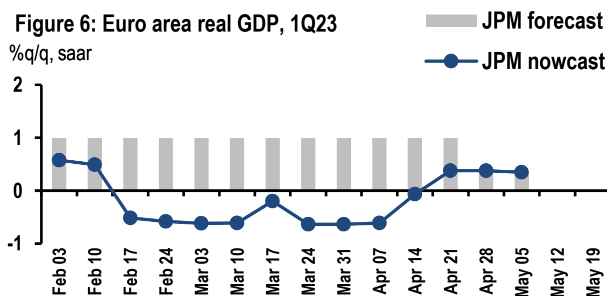
%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

Figure 6: Euro area real GDP, 1Q23

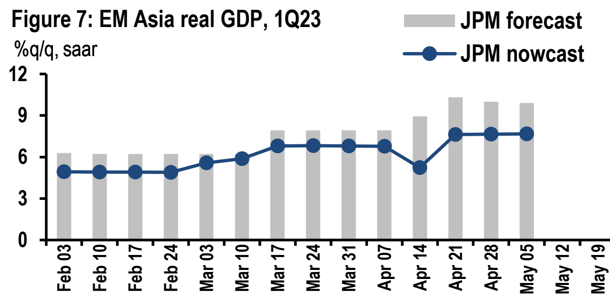
%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

Figure 7: EM Asia real GDP, 1Q23

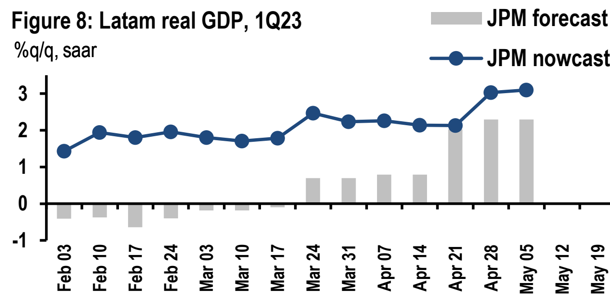
%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

Figure 8: Latam real GDP, 1Q23

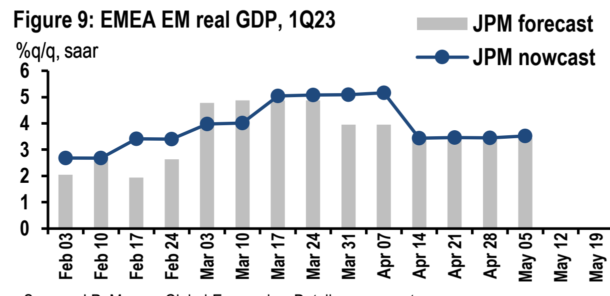
%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

Figure 9: EMEA EM real GDP, 1Q23

%q/q, saar



Source: J.P. Morgan Global Economics. Details on request.

For a primer on our nowcaster suite, see methodology report and podcast.

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J.P. Morgan Market Watch

Bonds

Bonds have rallied over the past two weeks amid renewed US regional bank concerns and a growing sense we are approaching an end to rate hikes. In the **US**, markets price in a more dovish Fed path than we expect and yields trade rich, but given ongoing regional bank and debt ceiling concerns, which are likely to intensify as weak tax receipts mean the x-date now looks likely in early June, we stay neutral. We keep 10s/30s steepeners as a medium-term bullish proxy.

In the **Euro area**, we have a medium-term bullish bias on duration, though stay tactically neutral given markets price a lower terminal rate and uncertainty around banking sector stress. We favor intra-EMU tighteners via long 10Y France vs. Germany, but retain risk off hedges via short 10Y Italy vs. France. In the UK, we expect a 25bp hike at the May meeting, but think the message is unlikely to be hawkish. We keep Jun23/Dec23 MPC OIS flatteners and are long 1Yx1Y SONIA.

In **EM**, fixed income assets remain caught between better growth data and episodic financial stresses. We stay neutral duration overall, with OWs in Brazil, Mexico and Czech offset by UWs in Romania and Chile (*EM Fixed Income Focus*, Apr 27th), though cut previous UWs in Hungary given an imminent NBH cutting cycle (*Hungary strategy*, May 4th).

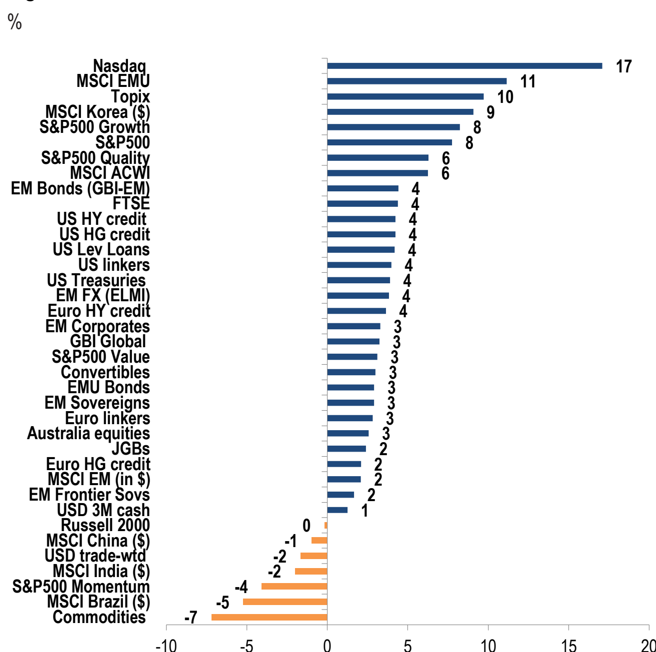
Credit

Buy iTraxx Main protection. We continue to think that the risks to buying credit are asymmetric at present, with: i) the US economy likely approaching recession; ii) monetary and fiscal policy makers' hands largely tied by significantly above mandate core inflation and excessive public deficits; iii) spreads barely above the historical median; and iv) the potential for a systemic tail risk event next month if the debt ceiling is not raised. Our favorite tactical short risk trade is to buy iTraxx Main protection, with investors more likely to set hedges than sell bonds heading into the debt ceiling tail risk event. We take profit on our sterling overweight, with the currency now trading inside of the euro benchmark for the first time since March (*European Credit Weekly*, May 5th).

The Euro HY default rate has finally broken out, jumping from 0.4% in March to 1.2% in April. Base effects mean that it is certain to continue rising over the coming months. The annualized YTD default rate is running at 3.5%. That said, we think the increase in the default rate will be limited over FY23 due to supportive micro and macro factors. Most economic indicators point to a c.2% 12m forward default rate with the exception of the ECB bank lending survey. The amount of distressed debt was stable in April, but the price differential between distressed and performing bonds continues to grow (*High Yield Talking Points*, May 4th). **US HY & leveraged loan default activity rose in April to a 33-month high**. Including distressed exchanges, the par-weighted US HY bond and loan default rates increased to 2.2% and 2.7%, respectively, and recoveries over the last 12M are below long-term averages (*Default Monitor*, May 1st).

Figure 1: Year-to-date returns

%



Source: J.P. Morgan

Currencies

Pockets of risk markets have begun to display pronounced late-cycle stress. Macro dataflow in contrast remains somewhat more sanguine. History has no priors for the confluence of an ageing business cycle, a Fed handcuffed by above-target inflation, and abnormally low volatility risk premium. Debt-ceiling developments this week add to short-term risks and uncertainty.

On trade recommendations, market focus is increasingly on risks, rather than narrow central scenarios. We recommend long-CHF vol to hedge debt-ceiling risks. Short-USD directional trades vs reserves have more viability with closer x-date, as do short high-beta; we remain long EUR/high-beta crosses and UW EM FX (*FXMW*, May 5th).

Commodities

Despite significant pessimism on growth, oil demand indicators continue to show resiliency as fuels grew 2.1 mbd y/y

for the week ending April 29. Diesel demand remains strong across the globe. US gasoline demand increased to 9.1 mbd last week, up 160 kbd y/y. Globally, gasoline demand is tracking 300 kbd above year ago levels. Jet fuel demand continues to improve with Asia accounting for 80% of the growth. Chinese international flights reached 48% of 2019 levels, while domestic flights were tracking 107%. Global flight activity stands at 96%, up 9%-pts since the start of the year (*Oil Demand Tracker*, May 3rd).

Weak aluminum demand keeps focus on cost support in the near term, but supply risks remain immense. Weak demand and resilient Chinese production resulted in a large global primary aluminum surplus in 1Q23, knocking aluminum prices lower. While this surplus will likely draw down in the coming quarters as Chinese demand steadily strengthens and supply growth in China remains constrained, without a strong demand impulse, fundamentals are taking a back seat for now. This leaves aluminum prices exposed to broader macro risk-off, recessionary-driven downside in the coming quarters. We retain our average price target of $2,250/mt this quarter, which embeds aluminum prices likely once again probing cost support , but expect prices to push higher over 2024 (*Aluminum*, May 5th).

The outlook for agri commodity prices through 2023 is one of fundamental resilience in a tepid economic environment, subject to immense geopolitical risks. For now, risk premiums have eroded across grain markets at a vulnerable juncture, with uncertainty surrounding the future of the Black Sea Grain Initiative post May 18. The collapse of global gas prices has reduced input costs across the sector, while China's reopening remains a bullish demand side catalyst for several ags markets. Our medium-term projections through 2024/25 continue to forecast a sustained deterioration in inventory availability despite historically high production and tempered demand. The evolution of El Nino adds additional supply side complexity. We maintain a bullish risk bias across the complex (*Agricultural Commodities*, May 1st).

JPM Forecast

Rates	Current	Jun-23	Sep-23	Dec-23	Mar-24
US (SOFR)	5.06	5.05	5.05	5.05	5.05
10-year yields	3.46	3.70	3.55	3.40	3.40
Euro area (depo)	3.25	3.75	3.75	3.75	3.75
10-year yields	2.29	2.40	2.25	2.00	1.65
Italy-Germany 10Y (bp)	191	200	190	180	170
Spain-Germany 10Y (bp)	109	100	90	95	85
United Kingdom (repo)	4.25	4.75	4.75	4.75	4.50
10-year yields	3.78	3.50	3.30	3.05	2.80
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.42	0.65	0.55	0.55	0.75
EM Local (GBI-EM yield)	6.48	6.59		6.56	
Currencies	**Current**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
JPM USD Index	128	129	129	129	130
EUR/USD	1.10	1.10	1.08	1.08	1.08
USD/JPY	135	140	135	134	133
GBP/USD	1.27	1.20	1.18	1.17	1.16
AUD/USD	0.67	0.68	0.68	0.70	0.70
USD/CNY	6.91	6.95	6.90	6.85	6.85
USD/KRW	1323	1330	1350	1340	1330
USD/MXN	17.75	18.30	18.35	18.40	18.75
USD/BRL	4.96	5.15	5.20	5.30	5.30
USD/TRY	19.50	23.00	24.00	25.00	25.00
USD/ZAR	18.41	18.50	19.00	19.50	20.50
Commodities	**Current**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**
Brent ($/bbl, qtr end)	75	86	94	96	91
WTI ($/bbl, qtr end)	71	80	88	90	85
Gold ($/oz, qtr avg)	2,021	1,930	1,980	2,045	2,080
Copper ($/ton, qtr avg)	8,481	8,200	8,500	9,100	9,400
Aluminum ($/ton, qtr avg)	2,283	2,225	2,300	2,600	2,750
Iron ore (US$/dt, qtr avg)	103	100	95	90	90
Wheat ($/bu, qtr avg)	6.3	8.0	8.0	7.8	8.0
Soybeans ($/bu, qtr avg)	14.6	15.5	14.5	14.8	14.8

Credit		Current	Dec-23
US High Grade (bp over UST)	JPM JULI	164	150
Euro High Grade (bp over Bunds)	iBoxx HG	182	200
US High Yield (bp vs. UST)	JPM HY	532	575
Euro High Yield (bp over Bunds)	iBoxx HY	517	550
EM Sovereigns (bp vs. UST)	JPM EMBIGD	492	575
EM Corporates (bp vs. UST)	JPM CEMBI	343	350

Source: J.P. Morgan

Gradualism and its discontents

- **By pausing to preserve financial stability and their expansions, DM CBs accept gradualism in lowering inflation**
- **Gradualism should promote supply side healing ...**
- **… but will also enhance the nascent shift in inflation psychology**
- **Evidence suggests both healing and inflation salience are taking hold**

As DM central banks move towards a pause, perceptions about the lags in monetary transmission mechanisms loom large. Economic literature suggests that a monetary tightening takes one-to-two-years to fully impact growth. The recent tightening in G4 banking lending standard surveys and the emergence of US banking sector stress reinforce the notion that the drag from the past year's actions is still building. While inflation remains elevated, the literature suggests that the disinflationary impulse from tightening evolves even more slowly, partly as inflation responds with a lag to lower growth.

Transmission lags are long, but they are also notoriously variable and the reverberations from an unprecedented pandemic shock greatly increase this uncertainty. On inflation, we have highlighted two material reverberations promoting inflation persistence – pandemic dislocations that damaged supply and a shift in inflation psychology related to the large and persistent price shocks. Starting from highly accommodative stances, last year's response to inflation persistence was straightforward: central bankers moved quickly once they recognized a need for restrictive stances to restrain demand.

The latest guidance from DM central banks signals that they intend to pause this tightening around midyear. Perceived lags in the transmission mechanism underlie this shift, particularly as growth concerns related to tightening credit conditions have increased. However, inflation remains elevated with DM core CPI posting a 5.0%ar gain last quarter. What's more, policy tightening has yet to deliver any material easing in tight labor markets. The move to a pause thus represents more than a desire by central banks to limit financial stability and recession risks. Central banks are generally embracing disinflation gradualism, whereby inflation returns to target over a two-to-three year horizon.

A key judgment underlying this approach is that supply disruptions are the primary source of elevated inflation. By reducing a perceived supply-demand imbalance central banks expect inflation to move gradually lower. Central banks are also banking on a sustained expansion to promote improved supply as the pandemic shock fades. There is evidence suggesting that supply conditions are indeed improving as delivery times have normalized, cross-border labor mobility has increased and labor market dislocations are abating.

However, this gradualist approach to disinflation is likely to enhance the nascent shift in inflation psychology. The latest evidence points to an unusual coincidence in wage and prices increases that support a step-up in nominal growth alongside balanced income generation. Viewed together with the persistence of elevated short-term inflation expectations (despite falling energy prices), embedded inflation pressures appear to be building. In contrast to the gradualism warranted to promote supply-side healing, the battle against salience requires forceful central bank action that depresses pricing power and normalizes near-term inflation expectations.

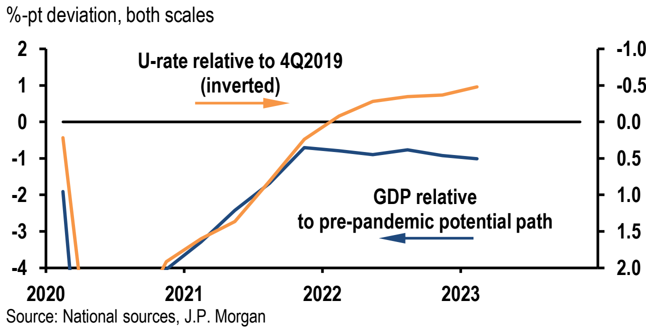
Near-term recession risk is elevated and if the US and other economies contract in the coming months, pricing power will likely be contained without generating a dilemma for central banks. However, if central banks are successful in navigating the expansion through this turbulence, they are likely to reinforce the underlying shift in the inflation process now underway and will be under pressure to restart the tightening process.

The inflation process is changing

Early last year we argued that the pandemic looked to be altering key elements of the DM price and wage setting process that anchored inflation close to 2% for more than two decades. Two developments formed this judgement. The first was that damage to supply following the pandemic reflected in both labor markets and global supply chains would likely linger. Absent a significant downshift in demand, this supply shock was likely to limit disinflation associated with fading commodity price shocks and other pandemic related dislocations. The second was the salience of inflation. As 2021-22 delivered the largest and longest lasting inflation shock of the past three decades, this persistent shock threatened to become embedded in price and wage setting psychology.

Developments over the past year provide evidence that both channels are contributing to persistence of core inflation. A telling supply indicator is the continued tightness of labor markets despite the fading of pandemic dislocations. Although global GDP (ex. China) rose at a sub-potential 1.6% over the course of last year, global unemployment rates (ex. China) fell 0.6%-pt (Figure 1). Both DM and EM unemployment rates currently stand below their pre-pandemic readings despite GDP levels remaining 1.0%-pt below their pre-pandemic potential path.

Figure 1: Global GDP and unemployment rate (ex. China)
%-pt deviation, both scales

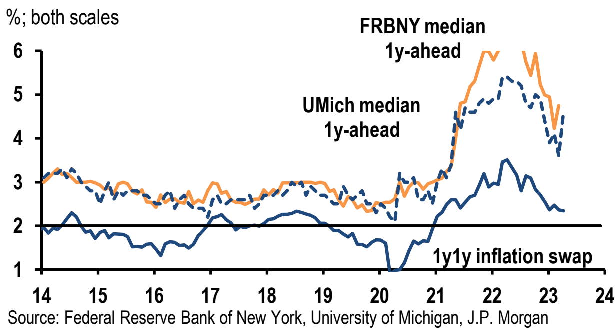


Source: National sources, J.P. Morgan

The evidence on salience is less direct but is no less compelling. In this regard, three points stand out:

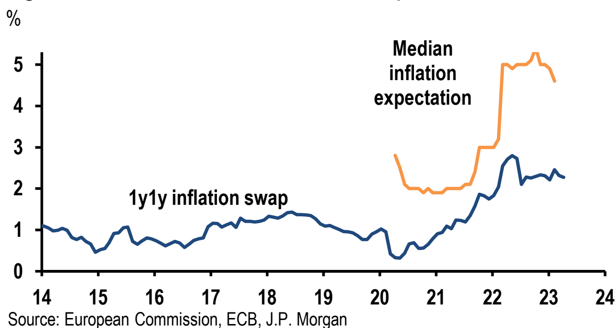
- **Short-term inflation expectations remain stubbornly high**. Medium-term market expectations of inflation have remained relatively well anchored, but a wide range of inflation expectations for the year ahead have remained elevated despite the sharp fall in commodity prices over the past six months (Figures 2 and 3).

Figure 2: US short-term inflation expectations
%; both scales



Source: Federal Reserve Bank of New York, University of Michigan, J.P. Morgan

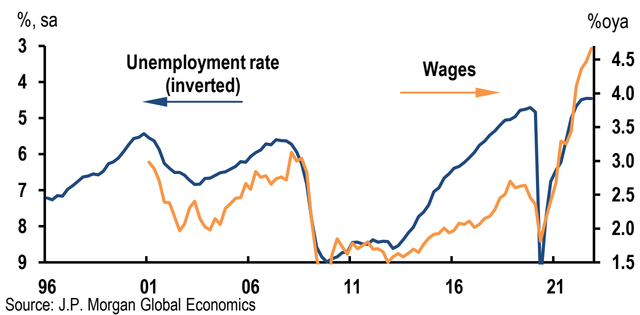
Figure 3: Euro area short-term inflation expectations
%



Source: European Commission, ECB, J.P. Morgan

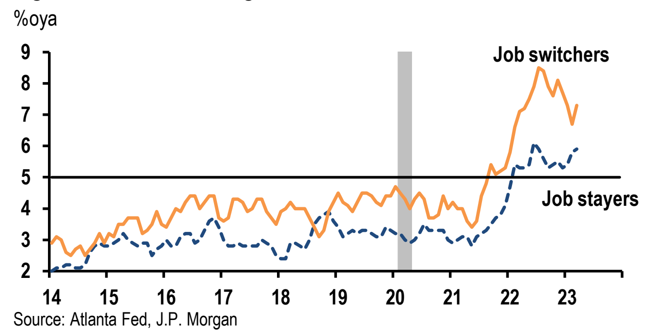
- **Wage settlements move higher**. It is hard to distinguish the forces pushing wage inflation sharply higher over the past two years (Figure 4). Part of the rise over 2021 was likely related to dislocations associated with the early stages of the pandemic recovery. In the US, average hours earnings in leisure and hospitality surged as available workers were in scarce supply. More broadly, the Atlanta Fed wage tracker showed a sharp acceleration in wages for those workers shifting jobs over this period (Figure 5). In both cases, this surge is now fading as supply side disruptions abate. However, broader measures of wage inflation have continued to move higher. While tight labor markets help explain some of this acceleration, the move up is not easily explained by tight labor markets alone. In fact, the more recent pressure on DM wages appears to be coming from centralized wage settlements seen in Western Europe and Japan where the role of adjusting to the 2021-22 inflation spike is a key factor in the wage bargaining process (Figure 6).

Figure 4: DM unemployment rate and wages



Source: J.P. Morgan Global Economics

Figure 5: Atlanta Fed Wage Tracker
%oya



Source: Atlanta Fed, J.P. Morgan

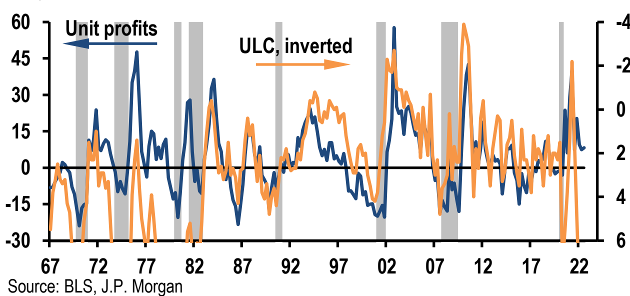
Figure 6: Euro area and Japan wage indexes
%oya

Source: ECB, MHLW, J.P. Morgan

- **Pricing power remains firm.** Over the last three decades accelerating labor costs have generally weighed on corporate profits as firms have had limited pricing power. However, this dynamic appears to have shifted in recent quarters as the pricing for finished goods and services has moved up sympathetically with costs, allowing corporate profits to sustain growth at a solid pace. This point comes across clearly in the US productivity and cost report where unit profits have continued to expand in the face of surging labor costs (Figure 7). A similar dynamic is evident in the latest Euro area data (Figure 8). With the services sector still recovering from its pandemic lows, the strength in service-sector price inflation in recent months has not been a significant surprise. However, the 2.5%ar increase in global (ex Turkey) core goods prices over the past six months has been a significant surprise, against the backdrop of declining global manufacturing output outside of China.

Figure 7: US unit profits and labor costs

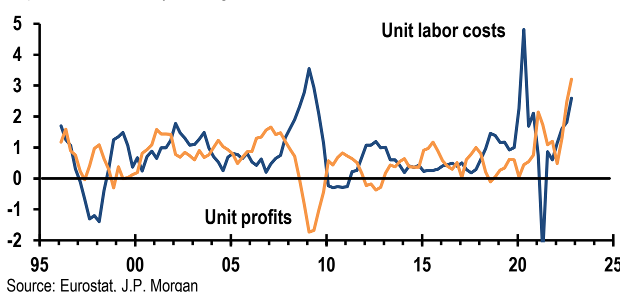
% oya, both scales, non-financial corporates



Source: BLS, J.P. Morgan

Figure 8: Contribution to Euro area GDP deflator

%-pt contribution to oya change



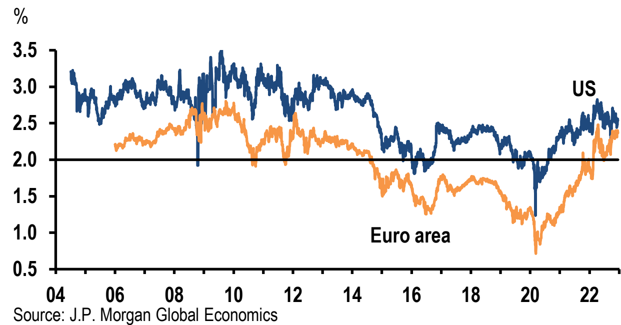
Source: Eurostat, J.P. Morgan

The central bank dilemma

Although policy rates have risen rapidly over the past year, central bankers' recent actions and guidance confirm that inflation control is not their sole objective. While delivering a sufficiently restrictive stance to restrain demand, and to maintain the credibility of their medium-term objectives, central banks are also trying to preserve financial stability and the life of the expansion. These efforts have borne fruit: interest sensitive spending has weakened materially but DM expansions are still standing. At the same time, medium-term inflation expectations have remained within a range deemed as broadly consistent with inflation objectives (Figure 9).

Figure 9: 5y5y inflation swaps

%



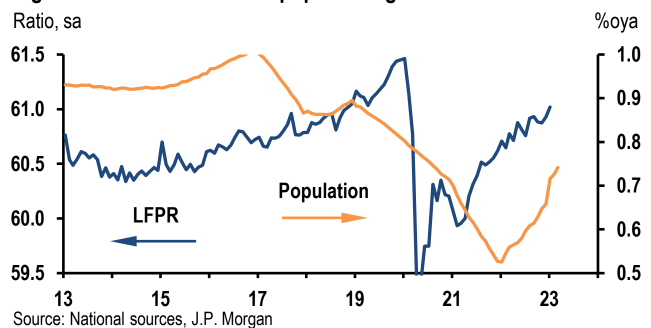
Source: J.P. Morgan Global Economics

Fading pandemic disruptions and a continued expansion are also delivering a desired supply side dividend. The past year has seen DM labor force growth pick up as participation is close to returning to pre-pandemic norms (Figure 10). In addition, the normalization in cross-border labor mobility has led to a recovery in immigration flows, which lies behind the rebound in US population growth. However, these developments have yet to contain inflation pressure . DM labor markets have tightened further over the past six months and wage inflation has accelerated, with a notable pickup in wage settlements outside the US.

Meanwhile, core consumer price inflation remained at an elevated pace. If we are right, an important element of inflation persistence reflects the shift in the inflation process attributable to salience. The potential for this shift in inflation psychology to build places central banks in a difficult position. Successful near-term efforts might navigate expansions away from a recession or financial sector crisis, but would then raise the medium term risk that inflation persistence requires greater demand restraint to compress pricing power.

Figure 10: G-4 LFPR and US population growth

Ratio, sa %oya



Source: National sources, J.P. Morgan

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US: Tighter policy and softer labor markets

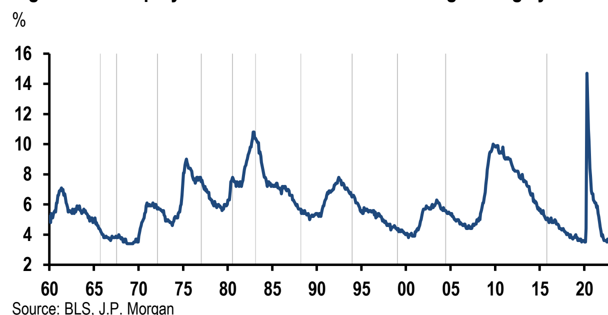
- **Tighter policy affects labor markets with long and variable lags**
- **The effect varies across different cycles**
- **Current cycle started with historically low u-rate**
- **Inflation measures are tracing the best historical range so far**

During the press conference after the FOMC meeting in March 2022, Chair Powell reiterated that tighter policy to reduce inflation would likely lead to a period of below-trend growth and some softening in the labor market. In fact, as the moderation in consumer price inflation slowed over the past few months, analysts and policymakers started to look for signs of softening in the labor market to gauge the prospects for further softening in the underlying inflation. After this week's FOMC meeting, Chair Powell remarked that output growth has been slowing lately despite very strong labor market conditions. In this research note, we provide a historical context for this relationship between monetary policy tightening and labor market performance. We show that there is not a very tight relationship between tighter policy and softer labor markets in the US. If anything, labor markets respond to policy tightening with a considerable lag. The current episode has some hopeful signs so far, but we are still not far into the tightening cycle when it historically starts to impact the labor market aggregates.

Not all cycles are created equal

We begin by looking at policy-tightening episodes in the modern central banking era in the US. Economist Alan Blinder identifies 11 tightening cycles since the 1960s through 2020 (Blinder, 2022); based on this set we analyze the evolution of the labor market and inflation during the current cycle that started in March 2022 relative to the historical norms. The historical tightening episodes on the list vary in length (eight to 40 months) and the degree of tightening (175bp-1,300bp). The policy timing also varies a lot in terms of the business cycle; some tightening episodes accompanied recessions, some are followed by a recession, etc. At least one of them is commonly referred to as a soft-landing (December 1993-April 1995). All 11 plus the current episode are highlighted with vertical lines in Figure 1.

Figure 1: Unemployment rate and the start of the tightening cycles

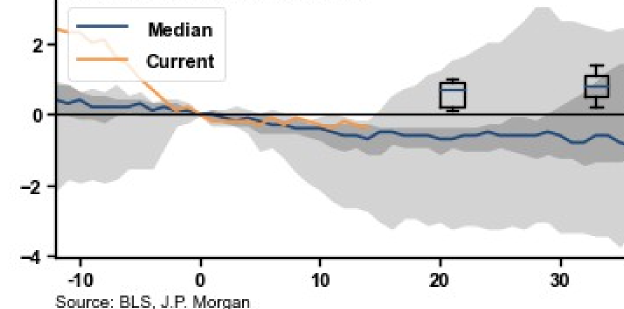


Source: BLS, J.P. Morgan

These policy tightening cycles also differ in terms of the state of the labor market at the outset. For instance, when the Fed started tightening in February 1983, the unemployment rate was already above 10%, higher than the estimates of the natural rate for that time. On the other hand, when the current cycle started the unemployment rate was at its historical lows. At least since the early 1980s, economic expansions have generally been relatively long, with policy normalization occurring over the course of the expansion, often gradually and over a long period of time. Admittedly, the current episode can be seen as somewhat different, in that the surprising persistence of a large rise in inflation put policy behind the curve and led to a relatively rapid rise in the federal funds rate in less than 12 months.

Figure 2: Unemployment rate

% pt deviation from the first rate hike



Source: BLS, J.P. Morgan

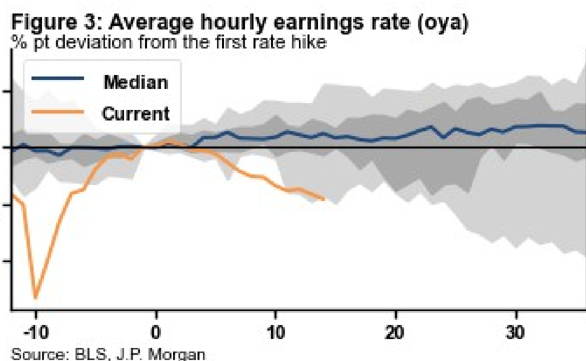
Figure 2 presents the evolution of the unemployment rate around these tightening cycles in the past, along with the current path. We start 12 months prior to the beginning of the cycle (t=0 is the first rate hike) and follow the unemployment rate (relative to its value at the beginning of the tightening cycle) over the next 36 months. The light gray area includes the whole range of outcomes, and the dark gray area drops the top and bottom two observations. For comparison, we also have the (March 2023) SEP range and the median on the chart. First, note that this figure highlights the fact that the current cycle is the first one in which we have entered a tightening cycle after a significant drop in the unemployment rate over the prior year. Second, for almost 15 months, the unem-

ployment rate does not move up at all on average, even during the worst-performing cycle. Third, except for the "outliers," most of the previous episodes did not have any significant increase in the unemployment rate even after 25 months into the tightening cycle. Interestingly, SEP data indicate that the median projection for the end of 2023 is about a full percentage point above the pre-tightening unemployment rate. This outcome will be within the historical range but somewhat unusual.

Is this time different?

Tighter monetary policy aims to constrain aggregate demand by increasing the opportunity cost of consumption, among other channels. Higher rates, though, as the FOMC members like to remind us, work with long and variable lags. It will take time for firms to see a fall in demand for their goods and services. Hence, it is not surprising that labor demand responds with a lag in general. There are reasons to think that it might be faster than the historical norm this time. The pace of the tightening has been rapid, the fastest pace since the 1980s, and as such might induce firms to react sooner. Moreover, the labor market was already very tight at the beginning of the cycle. Thus, in some sense, an upward move in the unemployment rate has always been more likely. On the other hand, there are reasons to think that firms might not respond with widespread layoffs outside the tech sector we have seen so far. Many firms had a hard time filling positions during the pandemic recovery and struggled with retention. Having experienced that, they might be more averse to adjusting headcounts immediately, unless they perceive the shock to be large and/or very persistent.

Figure 3: Average hourly earnings rate (oya)
% pt deviation from the first rate hike



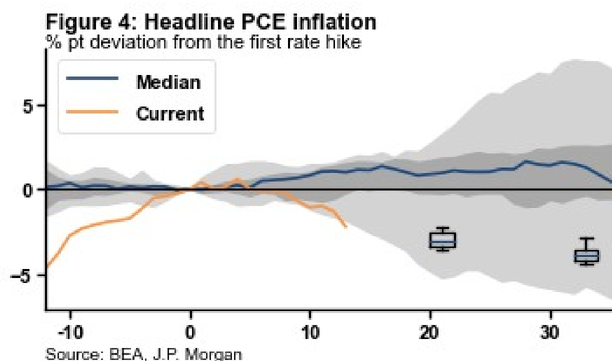
Source: BLS, J.P. Morgan

Even though we have not seen significant signs of softening in the labor market as measured by the unemployment rate, the adjustment might already be happening on the margins. Take, for instance, the underlying wage pressures in the labor market. If we normalize the average hourly earnings growth over a year ago by its level at the beginning of each tightening cycle in our sample and analyze the evolution over time, we obtain Figure 3. We see from the figure that wage inflation as measured by AHE does not always come down over the tightening cycle. The current cycle happens to be an interesting outlier. Similar to the unemployment picture, the beginning of the tightening cycle marks an inflection point for wage inflation. Wages were rising rapidly over the prior 12 months and came down as much as 1.7%-pts since March 2022. This picture is consistent with the scenario in which firms are facing less wage pressure but holding on to their workforce for the most part. How sustainable is this rather benign gradual adjustment? As we suggested above, it will depend on how large or persistent the effect of policy tightening is on the real economy.

Rocking the boat?

If we see early signs of success in the inflation fight, and get on a sustainable path to the inflation target in a reasonable time period, maybe we will get another soft landing. When we look at the previous tightening cycles in terms of progress on inflation, we see an interesting picture as well. The current episode is one in which we had the fastest rise in PCE headline inflation 12 months prior to the tightening cycle (Figure 4). The 12-month change in PCE inflation was at 6.7% in March 2022 and came down to 4.16%. It is a solid performance by historical standards as the current path continues to trace the lower end of the historical range. SEP forecasts from the March meeting show that the FOMC members think we will stay close to that path. The Fed has a delicate balancing act to achieve price stability without major disruptions in the labor market. Rocking the boat is still possible, albeit with some lag.

Figure 4: Headline PCE inflation
% pt deviation from the first rate hike



Source: BEA, J.P. Morgan

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Brazil: The measurement problem of equilibrium FX

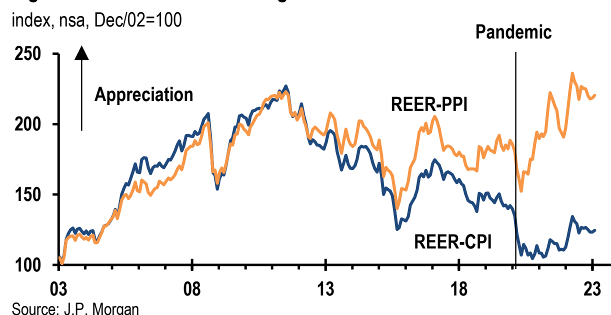
- **A widely held view is that the BRL has been at depreciated levels for a while**
- **But we think the evidence is at best unclear as measures of the real exchange rate deviated recently**
- **The measure that best tracks external variables suggests an appreciated exchange rate**
- **This is consistent with CAD accelerating to 3% from 2020 to 2022 and our call that it will remain wide for a while still**

Brazilian economist Edmar Bacha, a member of the team that created the Real Plan, famously said that "*God created the exchange rate to humiliate economists*," illustrating how difficult it is to anticipate FX moves. Since mid-2019, there has been a widely held view in Brazil that the exchange rate is undervalued relative to the medium-term economic fundamentals. In fact, while some estimates show that the fair value of the BRL has been significantly below 5.00, the BRL has only fluctuated below 5.00 in six months of the last two years ("Dólar alto? O que esperar do real em 2023 após desvalorização recente," *UOL*, November 11, 2022, and "Dólar vai continuar caindo e ficar abaixo de R$ 5? Analistas acham difícil," *UOL*, November 11, 2022).

Bacha's dictum reinforces how difficult it was even before the COVID-19 pandemic to estimate the equilibrium exchange rate—a calculation used to anticipate how some economic variables, such as external assets and liabilities, will evolve. In this note, we argue that determining the medium-term equilibrium exchange rate is even harder now, making it more difficult to predict Brazil's external variables. Real effective exchange rate (REER) measures, which are often used as the dependent variable in modeling the fair value of the exchange rate, began to diverge mostly in 2016-17; since the COVID shock, the divergence has become even more extreme (Figure 1). Thus different real exchange rate metrics will give markedly different answers of where the BRL should be over time.

However, we find the REER that is deflated by PPI seems to be the best predictor of the Brazil's current account deficit right now, as it preserved the correlation with Brazil's terms of trade even after the shocks of the pandemic. This is probably because the dislocations of relative prices during and after COVID-19 were so extreme that, while both metrics fluctuated in a similar fashion for the best part of the last 20 years, the CPI-deflated metric lost its significance to track external variables that consist largely of tradable goods.

Figure 1: Real effective exchange rate measures
index, nsa, Dec/02=100



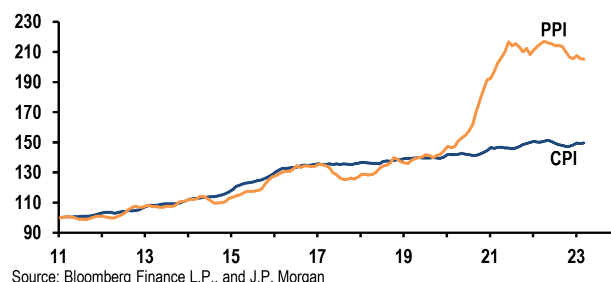
Source: J.P. Morgan

The real REER

J.P. Morgan was a [pioneer in creating a database of effective exchange rate measures for several countries](), currently with daily and monthly series of nominal and real exchange rate metrics, with the latter generated in two versions: CPI- and PPI-deflated. The REER-PPI is more stable for the majority of countries in the J.P. Morgan universe because cross-border competition more closely aligns the prices of internationally traded goods.

Post the COVID-19 shock the real effective exchange rate (REER) deflated by the CPI depreciated to levels well below the historical average even when Brazil's terms of trade improved. However, looking at the REER deflated by PPI measures, the exchange rate actually appreciated well beyond the historical norm. This is a result of the deviation between the relative CPI and PPI of Brazil and other trade partners. Brazil's PPI relies more heavily on commodities, prices of which have jumped since the pandemic, whereas the CPI performance in Brazil and its main trade partners was not that different (Figure 2). For instance, unprocessed agricultural, metals, and energy have a weight about 10% in US PPI and almost 45% in Brazil's PPI.

Figure 2: Relative CPI and PPI performance - Brazil vs. US
Index, Jan/11=100. Brazil CPI (or PPI) divided by US CPI (or PPI)



Source: Bloomberg Finance L.P., and J.P. Morgan

This large deviation between these variables has important repercussions for the assessment of FX fair value. To stress this point, we build two simple Behavioral Equilibrium Exchange Rate (BEER) models using variables such as rela-

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tive GDP growth (as a proxy of relative productivity growth), Brazil's net foreign assets (a measure of structural interest income flows), terms of trade, debt-to-GDP, and forward interest rate differentials. Most of this is based on Rubaszek *et al* but adding Brazil's debt-to-GDP and interest rate differentials to account for fiscal risk. We use a simple ordinary least squares (OLS) estimation and an alternative modeling approach of vector autocorrection (VEC).

The OLS models for PPI- and CPI-based REER show that net foreign assets and terms of trade are relevant for estimating the behavior of REER. The difference is that the coefficient for terms of trade is larger for REER-PPI, as this measure hasn't lost correlation with terms of trade as REER-CPI did. In fact, the VEC model does not select terms of trade at all for REER-CPI model. Another difference is that debt-to-GDP is statistically significant for REER-CPI, probably because the rise of public debt during COVID-19 helps to fill the hole left by the lower correlation between REER-CPI and terms of trade during that period. Interest rate differentials and growth differentials are not significant in OLS models but are in the VEC (see summary in Table 1).

Table 1: Equilibrium models for REER

Independent variable: REER. All data are quarterly. Coefficients below. Newey--West standard errors (HAC). Sum of coefficients for VEC.

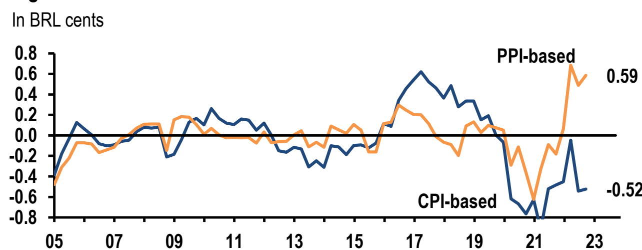
	OLS		VEC	
Variables	**Model CPI**	**Model PPI**	**Model CPI**	**Model PPI**
Constant	125.7*	-23.2	-	-
Relative GDP growth (Brazil-World)	0.7	0.4	0.8*	1.2*
Net-foreign assets	-0.3*	-0.3*	-1.0*	-0.8*
Terms of Trade	0.3*	0.9*	-	0.4*
Debt-to-GDP	-1.1*	0.1	-	-
2Y rate differentials (Brazil-US)	-0.8	0.6	0.3*	0.4*
Cointegration factor	-	-	-0.1*	-0.3*
Observations	**72**	**72**	**72**	**72**
Adj. R^2	**0.77**	**0.74**	**0.61**	**0.68**

Source: J.P. Morgan
*Significant at 10%

Overall, both modeling approaches render similar results: a divergence between models that use REER-CPI and REER-PPI, though with small different magnitudes for the FX deviations. The OLS behavioral equilibrium exchange rate model applied to a REER-CPI suggests that the BRL was 50 cents too depreciated by the end of last year—with fair value close to BRL 4.70. But, when using the REER-PPI for the same method, the model suggests that the BRL was in fact almost 60 cents too appreciated, showing a fair value around 5.80 (Figure 3).

Figure 3: Deviation of BRL from fair-value*

In BRL cents



Source: J.P. Morgan
*Based on an OLS regression of REER on relative GDP growth, net foreign assets, terms of trade, debt-to-GDP and 2-year rate differentials

Alphabet soup: CPI, PPI, CAD, and ToT

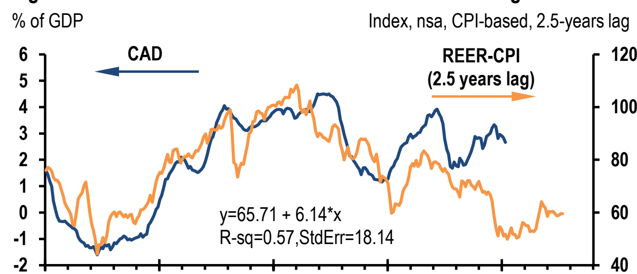
For our economic analysis, these models are important particularly to predict Brazil's external variables. But these models suggest, as we argue, that the uncertainty post-COVID-19 around equilibrium exchange rate models has increased markedly in Brazil. In this sense, it is unclear where the economic fundamentals would put Brazil's equilibrium exchange rate.

But it is important to note that the PPI metric seems to have aligned better with economic performance in recent years. While the REER-PPI measure's correlation with terms of trade from 2003-2019 was 0.88 and from 2003-2022 it decreased slightly to 0.86, the REER-CPI showed a major loss of correlation with terms of trade, dropping from 0.75 to 0.38 in the same intervals.

The correlation of the current account deficit and the lags of both measures of real exchange rate displays a similar dynamic. The predictive power of REER-CPI started to decrease in 2018—when the deviation between the two measures became more pronounced—but the predictive power of REER-PPI remains quite elevated (Figures 4 and 5). Of course, other factors must be considered when modeling Brazil's external accounts, but this loss of correlation, at best, raises questions about using only the REER-CPI for inferences. We thus see the REER-PPI as a more accurate measure to adjust our models of the current account deficit at this moment.

Figure 4: Current account deficit and real effective exchange rate

% of GDP — Index, nsa, CPI-based, 2.5-years lag



Source: BCB and J.P. Morgan

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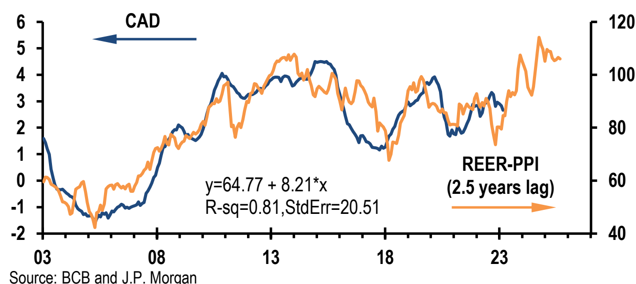
Figure 5: Current account deficit and real effective exchange rate



Source: BCB and J.P. Morgan

Embrace uncertainty

It is difficult to predict exchange rate fluctuations and perhaps even more so to estimate a specific equilibrium exchange rate, given the variety of methodologies available, the statistical margin of error, and the changes in fundamentals over time. The shocks to relative productivity and to relative prices across sectors and economies post-pandemic made such inferences from economic data even harder, particularly for FX where—as we showed—different data (or methodologies) lead to markedly different conclusions.

While we recognize this uncertainty, the macroeconomic evidence does not support the hypothesis of an overly depreciated exchange rate. The external fundamentals are not indicative of a depreciated currency as, even with record crop production in the last few years, the CAD has accelerated toward close to 3% from 2020 to 2022. In fact, a simple correlation between the REER-CPI metric and CAD suggests the deficit would be close to 0% at this point of the cycle instead of 2.7% registered. On the other hand, the REER-PPI seems more aligned with our view, based on savings-investment gap and bottom-up approaches, that the current account deficit will only trend significantly lower next year given the expected period of underperformance of economic growth in the country.

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Egypt: The hard way, the only way

- **Delays in Egypt's reform execution amid high gross financing needs continue to unnerve markets**
- **Debt sustainability questions remain, but markets aren't pricing the risk of a near- term default**
- **IMF programme first review is imminent: indicative targets likely met...**
- **..but lack of progress on the forward-looking commitments will concern the IMF**
- **Efforts needed to catalyze privatization flows, whose absence worsens the country's external picture**

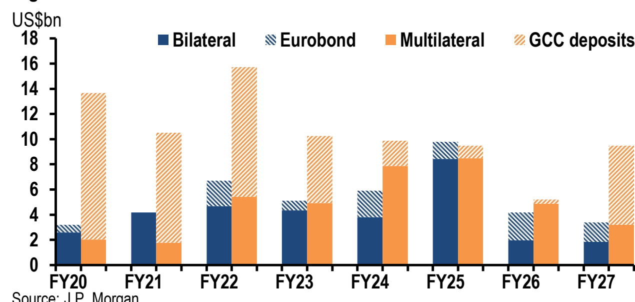
Egypt's US$3bn IMF programme is targeted at preserving macroeconomic stability, restore buffers and pave way for inclusive, private sector led growth. To achieve this and fix the lingering macroeconomic imbalances, Egyptian authorities needed to embark on critical currency and structural reforms. These are also supposed to help catalyse FX flows particularly from the Gulf region (GCC). However, despite three rounds of FX depreciation along with significant monetary tightening, some of these imbalances still persist as FX flexibility and convertibility remain a concern.

Progress on catalytic flows initially expected after the IMF program begun, has been slow, not only from the GCC but also from other multilateral agencies. This continues to cast doubt on authorities' commitment to key structural reforms, while aggravating liquidity pressures amid high external financing needs and an onerous debt service schedule over the next couple of years. These factors have forced a negative outlook review from rating agency, S&P, and Egypt's sovereign bond spreads have widened, further rasing concerns about debt sustainability. While we think the likelihood of a near-term default is low, we believe it is imperative to assess Egypt's debt sustainability picture over the coming years.

Concern is warranted, but default unlikely

We believe Egypt still has adequate FX reserve buffers (US$34.5bn gross reserves, US$4.8m import cover), to cover its short-term external obligations adequately. Indeed, Egypt hits a wall of external amortizations over the next three years (Figure 1) but our base case expects a significant portion of bilateral and all of the ST GCC deposits will be rolled over. That said, the delay in the structural reforms and hence the catalytic FDI flows could create near-term liquidity pressures. As the IMF programme is partly anchored on rebuilding FX buffers, authorities will be keen to step up the pace of the reforms (currency and structural) to ensure the IMF programme remains on track. Continued delay or a derailment of the IMF programme could exacerbate the liquidity pressures as the programme dependent official funding does not materialize.

Figure 1: Amortization of MLT debt



Source: J.P. Morgan

Our base case sees IMF programme approval of the first review by June, partly easing the liquidity pressures and rebuilding buffers. We think there is still some willingness to embark on the needed reforms to ensure the IMF programme and its associated financing stays on track. We assign a 55% probability to this scenario and under this scenario (although we moderated our FDI expectation), we still see FX reserve accretion of US$3.2bn each in FY23 and FY24. This is as we expect the IMF review approval will also catalyse at least another US$3.1bn in multilateral financing that have hitherto stalled. Despite official gross FX reserves only showing a US$1bn accretion this fiscal year, "tier 2" CBE FX deposits at local banks have risen by US$3.1bn. In this scenario, we believe bond prices could start to correct (move towards 12% yields) barring any other global shock that could worsen global sentiments amid the current tight financing conditions.

We assign a 30% probability to a different scenario, the one in which the IMF agrees an SLA with authorities in June but makes board approval contingent on some forward-looking reforms perhaps as it relates to the privatization drive. Bond prices could decline initially in this scenario given added uncertainties but don't expect a major change overall.

The last scenario (15%) is one where the IMF programme does not progress as at all into 3Q. In the more dire scenario where the IMF programme doesn't progress and on an assumption that the program completely derails, we see FX reserves declining by nearly US$10bn over FY24 and FY25 (Figure 2). In that scenario, bond prices are likely to remain depressed and could move towards the default territory. While buffers could still prove adequate to keep servicing debt and willingness to pay remaining intact, bond prices at very distressed levels could question the justification to remain current amid pressured FX buffers.

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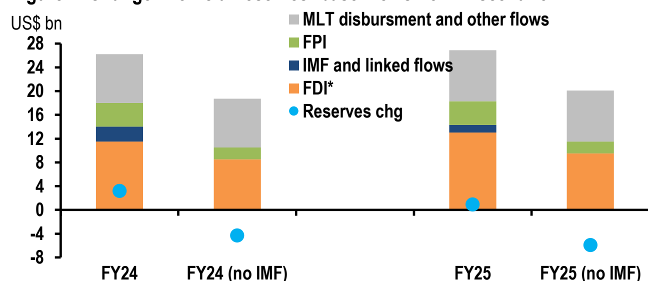
Figure 2: Change in official reserves: baseline vs no IMF scenario



Source: IMF, J.P. Morgan *incl SOE sales - Financing needs unchanged in the two scenarios

Assessing debt sustainability

We think an assessment of Egypt's debt sustainability has become important particularly to understand the evolution of debt over the past years and the key drivers of debt trajectory going forward. We conclude that the concerns on Egypt's debt sustainability stems more from a liquidity problem than a solvency issue. That said, about two-thirds of Egypt's total government debt is domestic. External interest payments are non-negligible but small when compared with domestic. These accounts for about 90% of total interest expenditure and they are largely owed to the mostly state-owned banking sector.

For now, we view the risks of a broad domestic debt restructuring as low, particularly if authorities maintain the intended fiscal prudence path. To further improve fiscal and debt dynamics, other (softer) options could be on the table: higher taxation on interests from securities, agreement with public local investors to swap ST debt for LT debt with lower interest costs which would improve headline fiscal balances.

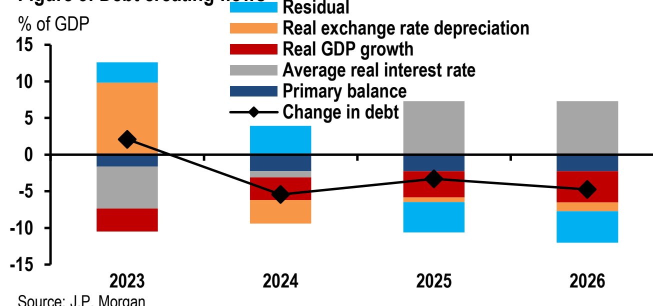
We analyze Egypt's debt metrics based on our macroeconomic and financing assumptions over the next few years expecting authorities to continue with the reform push under the IMF program. We see real GDP growth averaging between 3%-5% over the next three years as the current account narrows and FDI improves. On the external financing side, we expect FDI inflows to remain healthy around 3% of GDP on the privatization push although we have moderated our expectations given the slow progress. Multilateral and bilateral support will continue at the same rate, in our view, but commercial financing could remain challenging.

We do not expect direct Eurobond market access over the next few years but expect authorities to look for bond financing via Samurai, Panda and other similar alternative issuance. Overall, we expect reserve accretion under the program but not as high as IMF's current assumptions. Given limited exposure to external commercial financing, domestic financing will continue to bear the brunt of elevated fiscal needs with interest rates driven by the policy rates.

For our DSA analysis, we take government external debt (including CBE deposits) and public debt for domestic debt. Egypt's overall debt to GDP will increase this year driven by rise in external debt but will start declining from 2024 onwards. The decline will be due to higher nominal inflation although consolidation efforts will also play a role.

On the external side, higher net financing driven by official sector and decline in nominal $ GDP on the back FX depreciation/ devaluation will lead to debt increasing this fiscal year. As inflation subsides and exchange rate stabilizes, subsequent years could see FDI inflows and real GDP growth more than offsetting the negatives from high current account and nominal interest rate. While a sharp exchange rate depreciation/ devaluation will have an offsetting effect on negative real rates (i.e. high inflation), the following years could see positive GDP, primary balance and some real exchange rate appreciation reduce the overall debt to GDP.

Figure 3: Debt creating flows



Source: J.P. Morgan

Egypt's materially high debt stock will remain a cause of concern although continued primary surplus, use of concessional financing and expected FDI inflows going forward provide some respite. Egypt's gross financing needs to GDP will continue to screen well above the IMF threshold of 15% for emerging markets from now until 2026. Higher interest costs and a sticky inflation on the domestic side could be detrimental and fiscal issues could morph into a BOP crisis, which itself is in a fragile condition given elevated needs.

While the debt stock and interest to revenues are relatively lower on the external side, external amortizations are still high with external debt service to revenue near 30%. Higher current account needs coupled with higher amortization needs indicate potential for liquidity problems in a time where external market access is difficult. That said, external debt servicing is mostly to official sector over the next few years which one can expect to be mostly rolled over with eurobond debt servicing being relatively lower in comparison. Nonetheless, Egypt's elevated financing needs and higher level of debt will still remain a concern over the medium term.

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United States

- **Fed hiked 25bp and signaled a pause**
- **Risks from renewed banking sector stress and debt ceiling**
- **April payrolls surprised (again)**
- **But the overall trend is softening in the labor market**

This week had it all: nonfarm payrolls, a Fed meeting, a banking crisis, and a heating up of the debt ceiling debate. Starting with the economic data, job growth beat expectations (again), increasing 253,000 last month, as the unemployment rate slipped a tick to revisit the cycle low of 3.4%. There were sizable downward revisions to the February and March job growth numbers, which cast a shadow on the April figure. With the revised data in hand, the trend in labor market activity looks to be cooling, albeit punctuated by a month of strength to start 2Q. The March Job Openings and Labor Turnover Survey (JOLTS), released this week, also suggests labor demand is gradually cooling, as job vacancies declined each month in in 1Q. Away from the labor market, the data had some ups and downs. Most of the business surveys sent a cautious signal, though April vehicle sales beat expectations, setting up for a strong month for consumer spending. All told, we continue to project 2Q GDP growth of 1.0%, similar to the 1Q outturn.

Two days before the April jobs report, the FOMC acted as expected, hiking the funds rate by 25bp to 5.0%-5.25%, and signaling a pause may be coming, albeit with an option to hike at the next meeting. The revised post-meeting statement struck the prior message about wanting to get to a policy stance that is "sufficiently restrictive," suggesting the Committee believes policy may already be tight enough to get inflation down over time. In the press conference Chair Powell remarked that real interest rates are meaningfully above neutral, and then "you put the credit tightening on top of that" and the Fed may have exerted enough restraint on the economy.

The credit tightening to which Powell referred was front and center again this week, which started off with the FDIC arranging for the resolution of another challenged bank. On Monday, the FDIC issued a report on options for deposit insurance reform, favoring raising the insurance cap for business banking accounts. Changing this cap would require congressional action, and in the near term Congress will likely be more preoccupied with averting a default of the US Treasury. Given disappointing April tax data, both Treasury Secretary Yellen and CBO Director Swagel warned this week that the debt ceiling X-date could come as soon as early June.

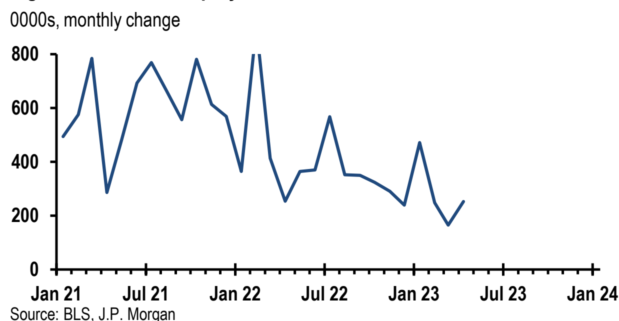
Next week should be less eventful, hopefully. On Tuesday, President Biden will meet with congressional leaders for the first of what is likely a series of meetings on the debt ceiling. The April CPI report will be released on Wednesday, and we expect inflation trends will be sticky, with the headline up 0.5% and core up 0.4% (both a tenth above consensus expectations).

April payrolls surprised to the upside

The employment report for April showed a larger-than-expected increase in nonfarm payrolls, up 253,000 (Figure 1). Revisions for the previous two months, however, reduced overall gains by 149,000. With the exception of the large upside surprise in January, monthly gains stayed below 300,000 over the past six months. The three-month-moving average of the monthly payroll gains has been broadly trending down over the past year, reaching 222,000 in April, the lowest level since early 2021.

Figure 1: Nonfarm employment

0000s, monthly change

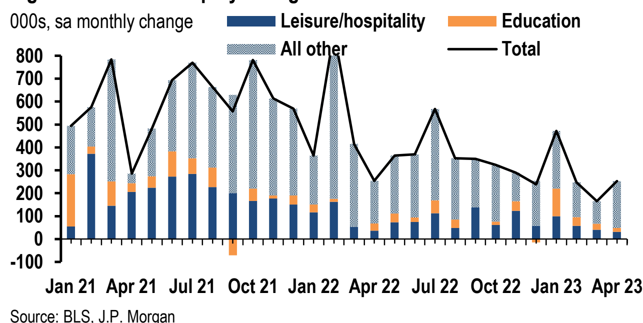


Source: BLS, J.P. Morgan

When we look at the industry-level detail in the establishment survey, we see payrolls in the goods-producing sector increased 33,000, with solid gains in both construction and manufacturing. Within services there were strong gains in the usual pandemic-recovery sectors: health and education up 77,000, leisure and hospitality up 31,000 (Figure 2).

Figure 2: Nonfarm employment growth for select sectors

000s, sa monthly change



Source: BLS, J.P. Morgan

Turning to wages, the pickup in average hourly earnings growth last month was broadly experienced across industries,

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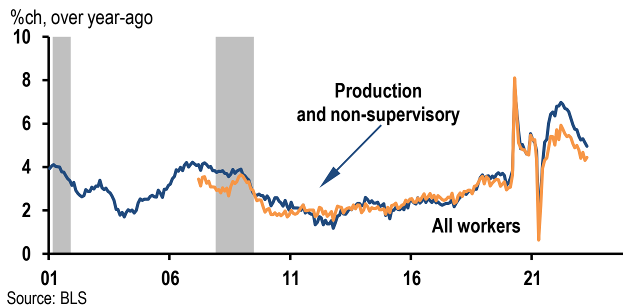
and the year-ago increase ticked up to 4.4%. Average hourly earnings for production and non-supervisory workers increased 0.4% last month (Figure 3). The average workweek data for production and nonsupervisory workers were also somewhat softer than the headline number, slipping a tick to 33.8 hours.

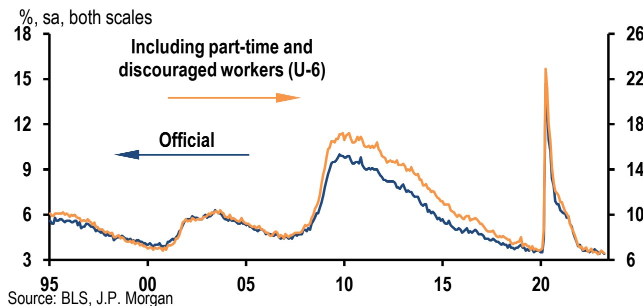
Figure 3: Average hourly earnings



Source: BLS

On the household side, the unemployment rate ticked down to 3.4%, largely due to rounding. After jumping in March, the number of job losers declined 307,000 last month to 2.642 million. There was an increase in the number of discouraged and other marginally attached workers last month, but a decline in the number of people working part time but who want full-time jobs. These two groups offset in the calculation of the U-6 broad measure of underemployment, which ticked down to 6.6% (Figure 4).

Figure 4: Unemployment rates



Source: BLS, J.P. Morgan

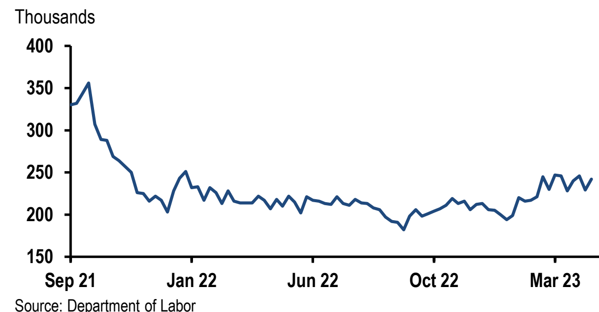
… but the trend is softening

Additional labor market data reported this week were not as upbeat. We learned from the JOLTS report that aggregate job openings fell 384,000 to 9.59mn, the third straight large decline, bringing the number of openings to the lowest level since April 2021. The March ratio of job openings-to-unemployed persons, one of Powell's favorite gauges of labor market tightness, moved down to 1.6, off the peak of 2.0 the same month last year, but still well above the level (1.0-1.2) consistent with a less inflationary job market.

Another welcome development was the decline in the number of quits to 3.851mn in March, the lowest since May 2021. Quits are highly pro-cyclical, implying that workers are increasingly less optimistic about the prospects in the labor market. Finally, layoffs jumped to 1.805mn in March, the highest since December 2020. The job openings and quits rates remain historically high, and the layoff rate remains historically low, but all three are moving in the direction of a cooler labor market.

Finally, initial jobless claims for the week ending April 29 increased 13,000 to 242,000, leaving the figure at the upper end of the range it has been bouncing around in since early March (Figure 5). Continuing claims for the week ending April 22 moved down 38,000 to 1.805 million. After moving higher in January and February claims have been somewhat stable. Larger layoff numbers from the JOLTS survey seem a bit in contradiction with this relative stability. However, we need to be cautious in interpreting this difference as seasonal adjustment and variation in the unemployment insurance take-up rates over the business cycle can account for some of this. More specifically, when the labor market is otherwise tight, recently separated workers tend to make faster transitions back to employment without much need to file for claims.

Figure 5: Initial jobless claims



Source: Department of Labor

Finally, surveys of business activity and data on business spending we received this week point to a cautious business environment. The ISM manufacturing survey increased a little from 46.3 in March to 47.1 last month, though remains below the 50 threshold for expansion for the sixth straight month. Also this week, March factory orders declined 0.7%, a little more than expected, on weaker nominal orders and shipments of nondurable goods. The details relating to capital spending were revised down modestly. This has only a negligible effect on our tracking of 1Q GDP, though points to ongoing weakness in equipment investment in 2Q.

Data releases and forecasts

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

Wed May 10 8:30am

CPI

%m/m, sa, unless noted

	Jan	Feb	Mar	Apr
Total	0.5	0.4	0.1	0.5
%oya (nsa)	6.4	6.0	5.0	5.1
Core	0.41	0.45	0.38	0.43
%oya (nsa)	5.6	5.5	5.6	5.6
Core services	0.5	0.6	0.4	
Core goods	0.1	0.0	0.2	
Food	0.5	0.4	0.0	0.1
Energy	2.0	-0.6	-3.5	1.6
Housing	0.8	0.5	0.3	
Owners' eq.rent	0.67	0.70	0.48	0.57
Rent	0.74	0.76	0.49	0.60
Lodging away from home	1.2	2.3	2.7	0.2
Apparel	0.8	0.8	0.3	-0.1
New vehicles	0.2	0.2	0.4	0.0
Used vehicles	-1.9	-2.8	-0.9	1.6
Public transportation	-1.8	3.2	3.2	-0.7
Communication	0.4	0.0	0.0	-0.1
Medical care	-0.4	-0.5	-0.3	-0.4

We forecast the consumer price index (CPI) rose 0.5% in April, with the year-ago pace inching back up to 5.1% from 5.0% in March—which would represent the first increase in the all items year-ago pace since June of last year. Energy prices picked up in April after a sizable decline in March, and we look for the energy index to have risen 1.6% last month. Food prices likely advanced a modest 0.1%.

Away from food and energy, we estimate that core CPI rose 0.4% in April (0.43 to two decimals). If realized, this would be the fifth straight month with a 0.4% or larger increase in core prices, and would keep the year-ago pace for core CPI at 5.6%. While we continue to look for some easing in core inflation as the year progresses, progress is unlikely to be linear. After some surprise cooling in March, we look for rental components to have firmed in April: we forecast owners' equivalent rent rose 0.57% while tenants' rent jumped 0.6%. After four months of strong outturns, we look for lodging prices to cool to 0.2%.

Related industry data suggest the downward trend in used vehicle prices will be interrupted by a 1.6% rise in April, although a similar signal in March was not realized. Conversely, we expect the upward trend in new vehicle prices slowed to unchanged last month as inventory dynamics improved. A decline in jet fuel prices should contribute toward a 0.7% fall in CPI public transportation prices last month.

In other CPI components, we look for lower health insurance costs to continue to pull down the broader medical care price index by 0.4% in April. We expect an additional small drag again in communication (-0.1%) while apparel prices are also expected to fall 0.1% in April after slowing in March from strong gains to start the year.

Thu May 11 8:30am

Jobless claims

Thousands, sa

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless,%
Feb 25	221	219	1781	1734	1.2
Mar 4	245	225	1772	1746	1.2
Mar 11	230	228	1804	1769	1.2
Mar 18[1]	247	236	1817	1794	1.3
Mar 25	246	242	1823	1804	1.3
Apr 1	228	238	1804	1812	1.2
Apr 8	240	240	1861	1826	1.3
Apr 15[1]	246	240	1843	1833	1.3
Apr 22	229	236	1805	1828	1.2
Apr 29	242	239			
May 6	245	241			

1. Payroll survey week

We expected initial jobless claims to move up 3,000 to 245,000 for the week ending May 6. This move would keep claims within the range it has been averaging over the past two months. While we continue to expect the level of claims to trend higher as the labor market cools, the recent plateauing of initial claims around its current level after a step up in February suggests the labor market remains resilient.

Thu May 11 8:30am

Producer price index

%m/m, sa, unless noted

	Jan	Feb	Mar	Apr
Final demand	0.4	0.0	-0.5	0.4
%oya (nsa)	5.9	4.9	2.7	2.6
Core	0.2	0.2	-0.1	0.2
%oya (nsa)	5.2	4.8	3.4	3.2
Energy	5.5	-0.3	-6.4	3.2
Core goods	0.6	0.3	0.3	0.2
Services	0.0	0.1	-0.3	0.2
Construction	1.8	0.0	0.2	1.3
Intermed. processed gds	1.1	-0.4	-1.0	
Core intermed. processed	0.1	0.1	0.1	

We expect headline PPI to rise 0.4% in the month of April, following a 0.5% decline for March. The year-ago pace of producer price inflation should tick down to 2.6%, following a more rapid disinflation over the past several months. While energy prices have been a potent disinflationary force recently, we look for them to rise 3.2% on the month due to higher gasoline and petroleum product prices. Producer prices for food should rise 0.6% in April, matching March's gain. We expect core producer prices to rise a modest 0.2%, with similar monthly gains across both goods and services. That should

put core PPI inflation at 3.2%oya, its slowest pace since February 2021.

Fri
May 12
8:30am

Import prices
%m/m, nsa, unless noted

	Jan	Feb	Mar	Apr
Import prices	-0.4	-0.2	-0.6	0.1
%oya	0.9	-1.1	-4.6	-4.9
Ex-fuel import prices	0.2	0.4	-0.5	-0.1
%oya	0.6	0.2	-1.5	-1.9

We expect that import prices rose 0.1% in April—interrupting three straight months of declines in the headline index—while the nonfuel price aggregate fell 0.1% on the month. We expect fuel prices to add modestly to the headline measure in April—the first monthly increase since last June—as increases in crude oil and other petroleum product prices more than offset declines in other energy prices. We expect mixed price dynamics for other categories of imported goods, with little change on the month for autos or consumer goods excluding autos. A recent weakening of the trade-weighted US dollar may also be putting some modest upward pressure on import prices.

Fri
May 12
10:00am

Consumer sentiment
Michigan preliminary

	Feb	Mar	Apr	May
Univ. of Mich. Index (nsa)	67.0	62.0	63.5	62.6
Current conditions	70.7	66.3	68.2	
Expectations	64.7	59.2	60.5	
Inflation expectations				
Short-term	4.1	3.6	4.6	
Long term	2.9	2.9	3.0	

We look for the University of Michigan consumer sentiment index to ease 0.9pt to 62.6 in the preliminary May report. The index has been improving in a choppy manner since mid-2022, but recent concerns about the banking sector have been a drag on equity returns and likely imparted some caution into consumer surveys. Lagged effects of higher gasoline prices and a rise in jobless claims may also weigh modestly on sentiment this month. Recent rises in inflation expectations will also be in focus.

Review of past week's data

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

S&P Global manufacturing PMI (US) (May 1)
Index, sa

	Mar	Flash Apr	Final Apr	
Composite[1]	49.2	50.4	*50.2*	
New orders (30%)	48.6	50.2		*50.2*
Output (25%)	50.2	52.8		*52.4*
Employment (20%)	51.9	53.5		*53.4*
Sup. del. (15%, inv.)	55.1	56.6		*56.6*
Stks of purch (10%)	49.1	49.1		*48.7*
New export orders	46.6	47.0		*47.0*
Backlogs of work	46.1	48.0		*47.4*
Output prices	54.0	58.0		*57.4*
Input prices	55.1	59.4		*58.6*
Stocks of fin. goods	50.1	49.8		*49.2*
Quantity of purchases	48.1	50.4		*49.2*
ISM-weighted comp.[2]	48.9	49.8		*49.6*

1. Weights in parentheses
2. Attributes ISM-comp. weights (equal weights) to corresponding PMI series

ISM manufacturing survey (May 1)
Sa

	Feb	Mar	Apr	
Overall index	47.7	46.3	~~48.0~~	*47.1*
Production	47.3	47.8		*48.9*
New orders	47.0	44.3		*45.7*
Inventories	50.1	47.5		*46.3*
Employment	49.1	46.9		*50.2*
Supplier deliveries	45.2	44.8		*44.6*
Export orders	49.9	47.6		*49.8*
Imports	49.9	47.9		*49.9*
Prices	51.3	49.2		*53.2*

The ISM manufacturing survey increased a little from 46.3 in March to 47.1 last month, though remains below the 50 threshold for expansion for the sixth straight month. Most of the other main activity subcomponents such as new orders and production have also remained below 50 over that same period, though last month the employment index rose from 46.9 to 50.2. The inflation news was mixed: prices paid increased from 49.2 to 53.2, while the supplier delivery index moved down to a new cycle low of 44.6, indicating easing supply chain pressures. Like the other manufacturing indices, the ISM has sent a gloomier message about factory activity relative to, say, the IP report, but nonetheless it continues to point to slower times ahead for manufacturing.

Construction spending (May 1)
%m/m, sa

	Jan		Feb		Mar	
Nominal	~~0.4~~	*-0.2*	~~0.1~~	*-0.3*	~~0.5~~	*0.3*
Private	~~0.2~~	*-0.6*	~~0.0~~	*-0.7*	~~0.4~~	*0.3*
Residential	~~0.2~~	*-2.0*	~~0.6~~	*-1.5*	~~0.3~~	*-0.2*
Nonresidential	~~0.9~~	*1.4*	~~0.7~~	*0.4*	~~0.5~~	*1.0*
Public	~~0.9~~	*1.5*	~~0.2~~	*1.1*	~~0.7~~	*0.2*

Nominal construction spending increased 0.3% in March and the February change was revised from -0.1% to -0.3%. Residential spending continued to decline, though by only 0.2% in March. Meanwhile, private nonresidential investment increased 1.0% in March, the third consecutive gain. All the

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gain there was due to an increase in spending on manufacturing structures. Spending in that segment is up 62.5% over the past year, which suggests the deglobalization/friend-shoring story has some numbers behind it. The construction figures were a little stronger than the monthly numbers assumed by BEA, though the net upward revision to their first estimate of 1Q real annualized GDP growth is probably only about 2 basis points.

Motor vehicle sales (May 2)
Millions, saar

	Feb		Mar	Apr	
Light trucks and autos	~~15.0~~	*14.9*	14.8	~~15.3~~	*15.9*
Imports	3.1		3.0		*3.2*
Domestics	~~11.9~~	*11.8*	11.8		*12.7*
Autos	~~2.2~~	*2.1*	2.2		*2.5*
Light trucks	9.8		9.6		*10.3*

S&P Global services PMI (US) (May 3)
Index, sa

	Mar	Flash Apr	Final Apr	
Business activity	52.6	53.7	~~53.5~~	*53.6*
Incoming new business	51.2	53.8		*52.3*
Employment	52.0	53.5		*52.7*
Business expectations	65.7	74.2		*67.2*
Input prices	60.7	61.5		*61.7*
Prices charged	57.1	58.8		*58.5*
Backlogs of work	52.1	51.6		*51.3*

The final S&P services PMI for April came in at 53.6, little changed from the preliminary estimate. Like the ISM services index, the S&P services measure is below the average seen over the past decade but is a little less downbeat than the ISM gauge.

ISM services survey (May 3)
Sa

	Feb	Mar	Apr	
Headline composite	55.1	51.2	~~50.5~~	*51.9*
Business activity	56.3	55.4		*52.0*
New orders	62.6	52.2		*56.1*
Employment	54.0	51.3		*50.8*
Prices	65.6	59.5		*59.6*

The April ISM services index increased to 51.9 from 51.2 in March. This was a little better than expected but still near the low end of the range seen over the past decade. The new orders index bounced almost four points to 56.1, while the business activity component slumped to a new cycle-low of 52.0. The employment gauge slipped a half point to 50.8.

International trade (May 4)
$billion, samr

	Jan	Feb		Mar	
Balance(BOP basis)	-68.7	~~-70.5~~	*-70.6*	~~-62.9~~	*-64.2*
Services	21.6	22.4		~~23.0~~	*22.4*
Merchandise	-90.3	-93.0		~~-85.9~~	*-86.6*
Exports (%m/m)	3.6	~~-2.7~~	*-2.8*	~~2.2~~	*2.1*
Imports (%m/m)	3.3	~~-1.5~~	*-1.6*	~~-0.7~~	*-0.3*

The trade deficit narrowed from $70.6 billion in February to $64.2 billion in March, which was a little less of a narrowing than expected. Exports increased 2.1% in March while imports edged down 0.3%. BEA had the advance report on March trade in goods when it published its first estimate of 1Q GDP last week. The news in the report should shave an additional one to two tenths off their estimate of annualized real GDP growth last quarter.

Productivity and costs (May 4)
Nonfarm business sector, %q/q, saar, unless noted

	3Q22		4Q22		Prel 1Q23	
Productivity	1.2		~~-1.7~~	*1.6*	~~-2.6~~	*-2.7*
%oya	-1.5		-1.8		*-0.9*	
Output	3.6		~~3.1~~	*2.9*	*0.2*	
%oya	2.2		0.7		~~1.4~~	*1.3*
Hourly compensation	8.2		4.9		~~3.6~~	*3.4*
%oya	~~4.8~~	*4.9*	4.4		*4.8*	
Unit labor costs	6.9		~~3.2~~	*3.3*	~~6.2~~	*6.3*
%oya	6.4		6.3		~~5.7~~	*5.8*
Hours	2.4		~~1.4~~	*1.3*	~~2.8~~	*3.0*
%oya	3.7		~~2.6~~	*2.5*	*2.3*	

1Q nonfarm business productivity growth contracted at a 2.7% annualized rate last quarter, very close to our estimate but worse than consensus expectations. On a year-ago basis productivity declined 0.9%. Unit labor costs increased at a 6.3% annual rate last quarter, again close to our expectation but above consensus. Over a year-ago unit labor costs are up 5.8%, which is off the 7.0% peak from 2Q22, but still almost 4%-pts above what would be consistent with 2% inflation in a stable profit margin environment.

Labor-market report (May 5)
Sa

	Feb		Mar		Apr	
Payroll employment (ch, m/m, 000s)	~~326~~	*248*	~~236~~	*165*	~~185~~	*253*
Private payrolls	~~266~~	*193*	~~189~~	*123*	~~160~~	*230*
Goods-producing	~~11~~	*18*	~~7~~	*-17*	~~15~~	*33*
Construction	~~12~~	*14*	~~9~~	*-11*	~~10~~	*15*
Manufacturing	~~1~~	*3*	~~1~~	*-8*	~~5~~	*11*
Service-providing	~~315~~	*230*	~~243~~	*182*	~~200~~	*220*
Private service-providing	~~255~~	*175*	~~196~~	*140*	~~175~~	*197*
Wholesale trade	~~11~~	*7*	~~7~~	*1*		*-2*
Retail trade	~~41~~	*48*	~~15~~	*-20*		*8*
Professional services	~~55~~	*21*	~~39~~	*23*		*43*
Temporary help	~~3~~	*-10*	~~11~~	*-19*		*-23*
Education/health	~~85~~	*64*	~~65~~	*60*		*77*
Leisure and hospitality	~~90~~	*57*	~~72~~	*40*		*31*
Government	~~60~~	*55*	~~47~~	*42*	~~25~~	*23*
Average weekly hours	34.5		34.4		*34.4*	
Index, hrs worked (%m/m)	-0.1		~~-0.1~~	*-0.3*	~~0.1~~	*0.2*
Hourly earnings (%m/m)	~~0.2~~	*0.3*	0.3		~~0.4~~	*0.5*
(%oya)	~~4.6~~	*4.7*	~~4.2~~	*4.3*	~~4.3~~	*4.4*
Unemployment rate (%)	3.6		3.5		~~3.5~~	*3.4*
Participation rate (%)	62.5		62.6			*62.6*

Nonfarm employers added a larger-than-expected 253,000 jobs in April, and most of the other details of the report were favorable. The unemployment rate ticked down to revisit the

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cycle low of 3.4%. Average hourly earnings increased 0.5% last month, the firmest monthly gain in just over a year. The average workweek was unchanged at 34.4 hours. One less favorable development was in the revisions, which subtracted 149,000 from the prior two months' job growth estimate. Before the pandemic, one must go back to 2008 to see larger downward revisions. And before '08 you'd have to go back to the recession of '81-'82. Nonetheless, with the revised data in hand the trend in labor market activity looks to be gradually cooling, albeit punctuated by a month of strength in April. We still think this Wednesday's hike was the last of the cycle, though we wouldn't rule out one final hike at the June meeting. For that to occur we'd need to see (i) continued strength in activity data (ii) a cooling off of banking concerns and (iii) favorable developments regarding the debt ceiling.

In the establishment survey, government employment increased 23,000 last month; private jobs were up 230,000. Goods-producing jobs increased 33,000, with solid gains in both construction and manufacturing. Within services you saw strong gains in the usual pandemic-recovery sectors: health and education up 77,000, leisure and hospitality up 31,000. One cautionary signal for future job reports was temp help, which has declined for three straight months and was down 23,000 last month. Last month 57.4% of industries increased employment, which is toward the lower end of the range. Turning to wages, the pick-up in average hourly earnings growth last month was broadly experienced across industries, and the year-ago increase ticked up to 4.4%. Average hourly earnings for production and non-supervisory workers increased 0.4% last month. The average workweek data for production and nonsupervisory workers was also less boomy than the headline number, slipping a tick to 33.8 hours.

Turning to the household survey, the labor force edged lower last month, though after rounding the participation rate was unchanged at 62.6%. Employment as measured in the household survey increased 139,00 last month, though was stronger than the establishment survey, on net, over the prior two months. Unemployment declined 182,000 and to higher precision the unemployment rate slipped to 3.394%. After jumping in March, the number of job losers declined 307,000 last month to 2.642 million. There was an increase in the number of discouraged and other marginally attached workers last month, but a decline in the number of people working part time but who want full-time jobs. These two groups offset in the calculation of the U-6 broad measure of underemployment which ticked down to 6.6%.

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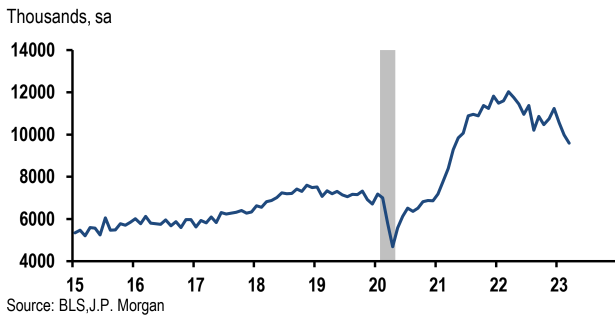
Focus: Signs of a softening labor market in the JOLTS

Job openings in the US declined by 384,000 in March, bringing the decline over the past year to 2.4 million (Figure 1). This implies a 20% reduction in job openings since the beginning of the Fed's current tightening cycle began in early 2022, a significant decline. Private sector job openings declined by 418,000 in March, partially offset by a small, 34,000 uptick in government. Looking at the industry level data, we see that trade, transportation, and utilities (-229,000) and professional and business services (-135,000) led the decline in March, followed by construction (-63,000) and education and health (-44,000). Declining overall demand in those sectors was partially offset by higher job openings in leisure and hospitality (79,000), information (15,000), and finance (25,000). Notably over the past year, job openings declined by almost 50% in retail trade.

Figure 1: Job openings

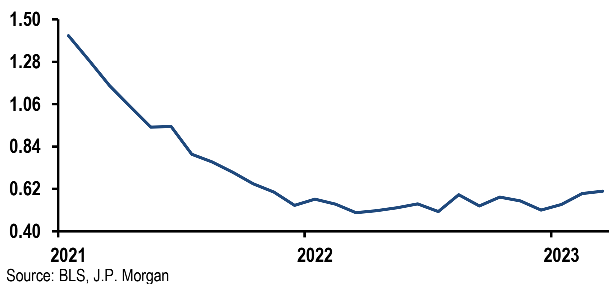
Thousands, sa



Source: BLS,J.P. Morgan

However as Chair Powell reiterated this week, the labor market is still tight. The number of job openings has been hovering above the number of unemployed workers for about two years now. One way to express the tightness of the labor market is this relative ratio: number of unemployed workers per opening (Figure 2). By this metric, the labor market tightness has not moved much since the beginning of 2022. On average, this number has been 0.55 over that period; the most recent reading, in March, was 0.61.

Figure 2: Number of unemployed per vacancy

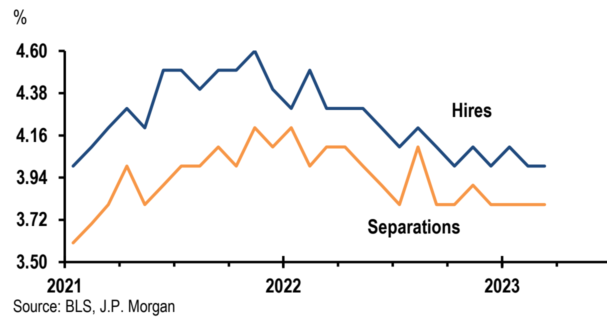


Source: BLS, J.P. Morgan

While the labor market remains tight, turnover has been trending down since the end of 2021. The hires rate in the nonfarm business sector declined from its recent peak of 4.6% in November 2021 to 4% in the last print (Figure 3). Separations also came down a notch over the same period: from 4.2% to 3.8%, where they have been over the past four months. Even though total separations have been stable, layoffs and discharges have been trending up lately. In the last report, layoffs increased by 248,000 to 1.8mn, their highest level since December 2020.

Figure 3: Hires and separations rate

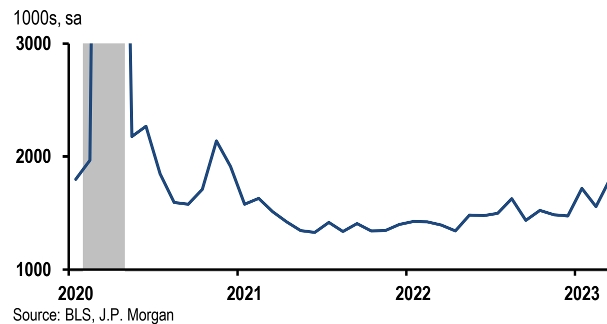
%



Source: BLS, J.P. Morgan

Figure 4: Layoffs and discharges

1000s, sa



Source: BLS, J.P. Morgan

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Euro Area

- **ECB delivered a 25bp hike, showing high sensitivity to the credit channel of monetary policy transmission**
- **We still project the terminal rate at 3.75%, but with some downside risk**
- **The bank lending survey for 1Q23 continued to show tighter standards and lower demand**
- **Core inflation pressures still strong in April**

The main event this week was the ECB monetary policy decision. In the event, the ECB raised the deposit rate by 25bp to 3.25%, in line with consensus and against our call for 50bp. Despite this, we maintain our terminal rate expectation at 3.75%, even though we recognise that hurdles to reaching that level have increased.

ECB: slow down and keep going

The policy statement continued to describe underlying inflation as "strong" and the inflation outlook as "too high for too long." The counterbalance came from the sense that past rate hikes were being transmitted "forcefully" to financing and monetary conditions. The ECB said explicitly that "future decisions" will ensure that policy rates will be brought to "levels sufficiently restrictive to achieve a timely return of inflation to the 2% target". Hence, the step down to 25bp is not a signal of a pause. In fact, Lagarde emphasized the plural in "decisions", suggesting that two more hikes may be in the pipeline.

The only other decision taken today was to discontinue the APP reinvestments in July. We had expected this to be announced only at the next meeting in June. The question was asked during the press conference whether this announcement was designed to appease the hawks. Lagarde pushed back against this and we also don't look at it that way. In our view, a discontinuation was unlikely to be controversial as APP reinvestments had already been slowed significantly and PEPP reinvestments will continue in full.

At one level, it is easy to rationalize today's decision: further hikes are needed, but news on credit/transmission warranted a slower pace. This would suggest that today's 25bp was a hawkish one with little implication for the terminal rate. We have some questions about this, however.

First, little attempt was made to quantify the recent upside news on inflation and whether that is fully offset by the news on credit/transmission. Clearly, the Bank Lending Survey and the M3 data are showing that transmission is working, but news on inflation has gone in the other direction.

Second, the push for 50bp seems to have been weaker than we expected, with only "some" policymakers seeing it as "appropriate".

Third, the statement that "incoming information broadly supports the assessments of the medium-term inflation outlook" from the March meeting seems curious to us given the pickup in services inflation, the admission that "recent wage agreements have added to the upside risks to inflation" and our view that core inflation is likely running 5-6 tenths above the ECB staff's forecast for 2023. Also, the March minutes suggested that there was significant scepticism about the speed of disinflation in the March projections.

Overall, this week decision reveals a higher degree of sensitivity to credit/transmission than we had expected. This is unlikely to go away. Lagarde suggested that the ECB remains "determined" to bring inflation back to target, but in our view today's delivery and statement introduces some downside risk to the terminal rate. Hence, we do still expect a 3.75% terminal rate but that may require a clearer push from the inflation data than we thought before today's meeting.

Credit data remained weak

M3 and Bank Lending Survey (BLS) reports remained weak albeit with some mixed details. The M3 report showed some further stabilisation in lending flows, which, however, consolidates the earlier slide. The BLS showed a further tightening in lending standards and weakness in demand.

The M3 report showed a modest improvement in bank lending flows to the real economy. Net loans increased €11bn in March, up from an average of €2bn in the prior three months. Lending is up only 0.5%3m/3m saar, having still increased at a 6% pace at this time last year, but it is not sliding further at this stage. Lending is weaker to nonfinancial corporates than to households, but the former has ticked higher again (see second and third charts below).

Separately, M1 growth slipped further and is now down 4.2%oya. While real M1 growth tends to correlate closely with the business cycle, its weakness is currently disconnected from the PMI and seems to mainly reflect portfolio shifts into longer-term deposits due to the increase in interest rates.

The BLS, conducted 22 March to 6 April, showed a net tightening of 27% for corporate loans, 19% for mortgages and 10% for consumer credit (Figure 1). The demand side weakened further with banks reporting a net decrease of demand from corporates and households of -50%, versus -39% in January. In the detail, the tightening was almost entirely driven

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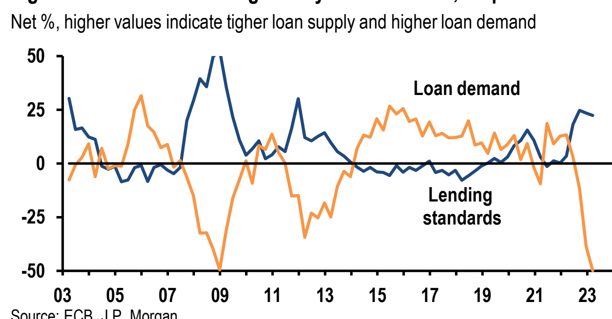
by banks' risk perception (i.e. concerns about the economy and housing markets), with no big change in pressure coming from capital, funding and liquidity issues.

The tightening is also mainly via interest margins, rather than non-interest terms/conditions. In fact, the tightening across the various categories looks quite modest relative to the headline figure. This may suggest that some tightening is widespread but not very intense. On the demand side, the weakness from nonfinancial corporates was partly about weak demand for capex but also due to the increase in interest rates, which seems to be pushing firms to use internal sources of financing. Loan demand weakness from households is more pronounced. Finally, banks expect somewhat less net tightening in the next three months.

Figure 1: ECB Bank Lending Survey for household, corporates

Net %, higher values indicate tigher loan supply and higher loan demand



Source: ECB, J.P. Morgan

We had expected the BLS to show a decline in the net tightening and some stabilisation in actual bank lending flows in the M3 report. The latter played out, but the BLS disappointed. Our expectation for the BLS assumed that the PMI and the fading of energy-related growth concerns may reassure banks about credit quality. At least, the direct impact of the recent banking turmoil is not that obvious in the BLS, unless this is working entirely through macroeconomic concerns. Hence, it looks as if the abrupt change in the interest rate outlook is the main driver of changes in lending standards and demand.

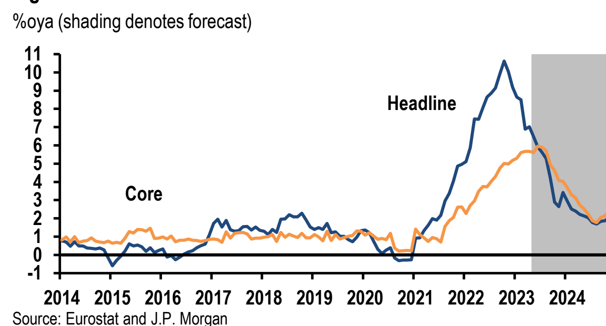
Core inflation strong in April

Headline inflation in April rose 0.1%-pt to 7.0%oya (Figure 2), largely due to a pickup in energy inflation (+3.4%oya to +2.5%oya) that offset a smaller fall in food inflation (-1.9%-pt to 13.6%oya). Within food, the decline is still mainly due to unprocessed food, while processed food inflation remains stronger.

There was a lot of focus in the flash inflation print for April on the annual rate of core inflation. This came down 0.1%-pt to 5.6%oya. However, measures of shorter-run momentum were stronger. Based on the ECB's calculation, core prices were up 0.6%m/m in seasonally adjusted terms, which is 1-2 tenths stronger than the recent average. This increase was also more heavily skewed towards services (0.8%m/m, sa) than core goods (0.2%m/m, sa). There are good reasons for expecting core goods inflation to moderate (e.g. fading energy effects), but the strength in services inflation is more problematic. In annual terms, services inflation rose 0.1%-pt to 5.2%oya and core goods inflation declined 0.4%-pt to 6.2%oya.

Figure 2: Euro area HICP inflation

%oya (shading denotes forecast)



Source: Eurostat and J.P. Morgan

There are two caveats to the strength of services inflation in April. First, April can be affected by the timing of Easter, but it is not clear, for example, from the German CPI that package holiday prices were much affected. Second, the change in HICP weights likely created an upward distortion in April at the Euro area level of 0.1%-pt on core and perhaps 0.2%-pt on services. But, even that would leave services inflation running very strong in April. Overall, these two caveats do not change the picture too much.

The ECB March projections had headline inflation of 7.8%oya in 1Q23 and 6.0%oya in 2Q23, whereas the data are running 2-4 tenths firmer so far this year. The gap is more striking on core, where the staff's March projection of 4.6%oya for 2023 may already be 5-6 tenths too low. This is mainly due to surprises in February and March, which came after its forecasts were finalised.

Looking ahead, we do not expect the annual rate of core inflation to ease before September. In fact, the weights distortion is still likely to push the annual rate a bit higher over the summer, with core inflation possibly touching 6.0%oya in June/July. Headline inflation should moderate more continuously due to fading energy/food effects.

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Data releases and forecasts

Week of May 8 - 12

Output and surveys

	Industrial production	Dec	Jan	Feb	Mar
Mon	**Germany**				
May 8	Industry incl constr (%m/m, sa)	-2.4	3.7	2.0	-2.5
8:00am	%oya, sa	-3.6	-1.0	0.7	
	Industry ex constr (%m/m, sa)	-1.5	1.9	2.1	
	Manufacturing (%m/m, sa)	-1.4	1.9	2.4	
	Construction (%m/m, sa)	-7.5	13.6	1.5	
	Energy (%m/m, sa)	-0.5	1.0	-1.2	

The German IP report is hard to gauge. Industry orders fell around 2.5%m/m in March and tend to correlate closely with IP. But, that correlation has been much weaker recently. We therefore acknowledge the fall in sales but with question marks. The decline we have pencilled in feels large but would still leave IP with a decent gain in 1Q23 and would contrast with the weak GDP report. Looking ahead, the manufacturing surveys have lagged the pickup in the services surveys, which is surprising as both sectors should benefit from the fading energy drag. This will be important to watch.

		Dec	Jan	Feb	Mar
Wed	**Italy**				
May 10	Ind production (%m/m, sa)	1.2	-0.5	-0.2	0.8
10:00am	%oya, sa	-0.9	1.9	-2.3	
	Manufacturing (%m/m, sa)	1.2	-0.5	-0.7	

In line with the signal from the manufacturing PMI and a sharp fall in energy prices, we expect italian IP to rise 0.8%m/m sa in March, broadly offsetting declines in the previous two months. This should leave IP about 1.5% ar higher in 1Q23, on a sequential basis.

Inflation

	Consumer prices	Jan	Feb	Mar	Apr
Wed	**Germany (final)**				
May 10	%m/m, nsa	1.0	0.8	0.8	0.4
8:00am	%oya, nsa	8.7	8.7	7.4	7.2
	HICP (%oya)	9.2	9.3	7.8	7.6

		Jan	Feb	Mar	Apr
Fri	**France (final)**				
May 12	%m/m, nsa	0.4	1.0	0.9	0.6
8:45am	Index ex tobacco, nsa	113.86	115.06	115.92	
	%oya, nsa	6.0	6.3	5.7	5.9
	HICP (%oya)	7.0	7.3	6.7	6.9

		Jan	Feb	Mar	Apr
Fri	**Spain (final)**				
May 12	%m/m, nsa	-0.2	0.9	0.4	0.6
9:00am	%oya, nsa	5.9	6.0	3.3	4.1
	HICP (%oya, nsa)	5.9	6.0	3.1	3.8

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Review of past week's data

Output and surveys

Purchasing managers index final (manufacturing)	Feb	Mar	Apr	
Euro area				
Overall	48.5	47.3	~~45.5~~	*45.8*
Output	50.1	50.4	*48.5*	
Germany				
Overall	46.3	44.7	~~44.0~~	*44.5*
Output	50.2	50.5	~~50.3~~	*50.7*
France				
Overall	47.4	47.3	~~45.5~~	*45.6*
Output	45.0	46.8	~~41.9~~	*42.2*
Italy				
Overall	52.0	51.1		*46.8*
Output	54.0	53.9		*48.7*
Spain				
Overall	50.7	51.3		*49.0*
Output	52.1	53.5		*50.3*

Purchasing managers index final (services)	Feb	Mar	Apr	
Euro area	52.7	55.0	~~56.6~~	*56.2*
Germany	50.9	53.7	~~55.7~~	*56.0*
France	53.1	53.9	~~56.3~~	*54.6*
Italy	51.6	55.7		*57.6*
Spain	56.7	59.4		*57.9*

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Purchasing managers index final (composite)

	Feb	Mar	Apr
Euro area	52.0	53.7	~~54.4~~ *54.1*
Germany	50.7	52.6	~~53.9~~ *54.2*
France	51.7	52.7	~~53.8~~ *52.4*
Italy	52.2	55.2	*55.3*
Spain	55.7	58.2	*56.3*

Manufacturing orders

	Jan	Feb	Mar
Germany			
Volumes, sa			
Total (%m/m)	0.5	~~4.8~~ *4.5*	~~-2.0~~ *-10.7*
%oya	-12.3	~~-5.9~~ *-6.1*	*-11.0*
Total ex. bulk orders (%m/m)	~~1.9~~ *2.0*	~~1.2~~ *1.0*	~~0.0~~ *-7.7*
%oya	-9.8	-6.0	*-11.9*
Domestic (%m/m)	-5.4	~~5.6~~ *4.7*	*-6.8*
%oya	-10.5	~~-4.1~~ *-5.0*	*-10.5*
Foreign (%m/m)	4.9	~~4.2~~ *4.3*	*-13.3*
%oya	-13.3	~~-7.1~~ *-6.9*	*-11.4*

Order volumes slumped 10.7%m/m and factory sales volumes fell 2.9%m/m. The statistics office is not aware of any special effects, but also seems surprised by the weakness. German industry data can be very volatile and prone to revision, especially when declines are large and broad-based. As a result, we would caution against putting too much weight on the monthly changes currently reported for March.

In a broader sense, some weakness in the industry data is however consistent with the surveys, even if this is surprising in itself, given the sharp falls in energy prices and the pickup in the services surveys. The German manufacturing PMI has improved from the lows in October last year, when the output index was at 42.3 and the new orders index had slumped to 34.5. But, the latest levels for April of 50.7 on output and 44.5 on new orders are still not strong, especially on orders. On a smoother %3m/3m saar basis, today's orders report is broadly consistent with the PMI new orders index.

In terms of other data, the daily lorry toll data did decline in March, but not dramatically, and they have recovered in April (see chart). The German VDA car production data have softened in March and April, but an upward trend is likely still in place. Finally, the backlog of industrial orders remains huge and ticked a bit higher again in February. As a result, the decline in factory sales looks odd in March. In terms of Monday's IP report, the decline in sales is a weak signal, but there has also been significant divergence in recent months.

Industrial production

	Jan	Feb	Mar
France			
Ind prod (%m/m, sa)	~~-1.4~~ *-2.0*	~~1.2~~ *1.4*	~~-1.0~~ *-1.1*
%oya, sa	~~-1.6~~ *-2.3*	~~1.3~~ *0.9*	*-0.1*
Manuf prod (%m/m, sa)	~~-1.5~~ *-1.8*	1.3	*-1.1*

Demand and labor markets

Retail sales

	Jan	Feb	Mar
Euro area			
Total sales, volumes			
%m/m, sa	~~0.8~~ *1.0*	~~-0.8~~ *-0.2*	~~0.0~~ *-1.2*
%oya, working-day adj.	-1.8	~~-3.0~~ *-2.4*	*-3.8*

Euro area retail sales fell 1.2%m/m in March and were down 1.6%q/q saar in 1Q23. The latter was helped by a significant upward revision to February. Rotation toward services may still be a drag and declines in energy prices are unlikely to have fed through yet (e.g. Germany's price brakes). Supports from the labour market are also still strong. But, for now, the downtrend remains in place, even though this has not prevented the PMI from signaling a solid pickup in overall economic activity in the region.

	Jan	Feb	Mar
Germany			
Sales ex. autos and petroleum, volumes, sa			
%m/m	~~0.2~~ *0.5*	~~-0.4~~ *-0.3*	~~1.0~~ *-2.4*
%oya	~~-6.1~~ *-6.0*	~~-6.0~~ *-5.8*	*-8.6*

The German industry data for March were weak, but also odd in the abruptness of the declines. Order volumes slumped 10.7%m/m and factory sales volumes fell 2.9%m/m. The statistics office wa not aware of any special effects, and was surprised by the weakness. German industry data can be very volatile and prone to revision. In a broader sense, some weakness in the industry data is however consistent with the surveys, even if this is surprising in itself given the sharp falls in energy prices and the pickup in the services surveys.

Unemployment

	Jan	Feb	Mar
Euro area			
Harmonized measure, sa (Eurostat)			
Unemployment rate (%)	6.6	6.6	~~6.6~~ 6.5
Unemployment (ch m/m, 000s)	~~-54.0~~ *-70.0*	~~-59.0~~ *-45.0*	*-121.0*

In March, the Euro area unemployment rate fell 0.1%-pt to 6.5%, in a broad based move across countries. This level is a new historical low for the region. The number of unemployed has fallen for the 4th consecutive time, and signal an acceleration in the pace of job creation, after stagnation in 4Q22.

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The strength of the labor market in 1Q23 contrasts with modest GDP growth (0.3%q/q ar, or 0.7% ex. volatile Ireland) but is fairly consistent with the signal sent by the PMI employment index. Despite increasing signs of credit tightening, the Euro area labor market is likely to continue to remain solid through 2Q23, in line with the PMI signal and our own forecast of a pick-up in output growth to a 2% ar pace. Survey-based indicators of labor shortage have fallen slightly from their recent highs, but they also continue to point to a firm labor market.

External trade and payments

Foreign trade

	Jan		Feb		Mar
Germany					
€ bn, values, sa					
Trade balance	16.0		16.1		*16.7*
year earlier	12.1		10.7		*4.0*
Exports	~~131.4~~	*131.6*	136.8		*129.7*
%m/m	~~2.5~~	*2.7*	~~4.2~~	*4.0*	*-5.2*
Imports	~~115.4~~	*115.7*	120.8		*113.0*
%m/m	~~-1.4~~	*-1.2*	~~4.6~~	*4.4*	*-6.4*

Inflation

Consumer prices

	Feb	Mar	Apr	
Euro area (flash)				
HICP (%oya, nsa)	8.5	6.9	~~6.9~~	*7.0*
HICP (%m/m, sa ECB)	0.6	0.3	~~0.2~~	*0.3*
HICP core (%oya, nsa)	5.6	5.7	~~5.8~~	*5.6*
HICP core (%m/m, sa ECB)	0.6	0.4	*0.6*	
	Feb	**Mar**	**Apr**	
Italy (prelim)				
%m/m, nsa	0.2	-0.4	~~-0.2~~	*0.5*
%oya, nsa	9.1	7.6	~~7.5~~	*8.3*
HICP (%oya, nsa)	9.8	8.1	~~7.6~~	*8.8*

Producer prices

	Jan	Feb	Mar
Italy			
%m/m, nsa	-7.5	-1.0	*-1.5*
%oya, nsa	11.1	9.6	*3.8*

Financial activity and public finance

Money and credit data

	Jan		Feb		Mar
Euro area					
M3 (%m/m sa)	-0.1		~~-0.2~~	*-0.1*	*-0.1*
M3 (%oya)	~~3.5~~	*3.4*	2.9		*2.5*
Loans (%oya)[1.]	4.9		4.3		*3.8*
Loans (m/m, €bn)[1.]	7.5		~~-8.7~~	*-8.4*	*3.8*
Of which					
To households	~~10.2~~	*10.3*	~~6.6~~	*6.3*	*5.3*
To nonfinancial corporates	~~-0.7~~	*-0.8*	~~-1.9~~	*-2.5*	*5.9*

[1.] Loans to nonbank private sector, adjusted for securitization

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

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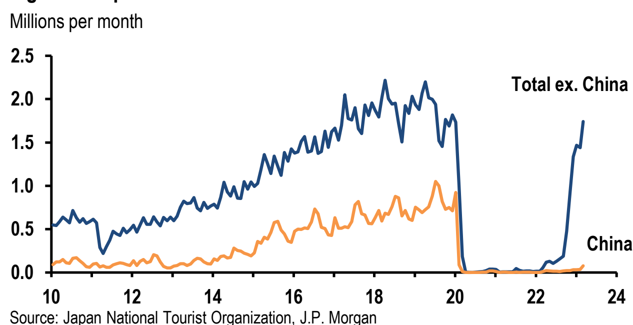
Japan

- **Visitor arrivals likely to increase further into 2Q...**
- **...exacerbating already-tight labor market conditions in services sector**
- **Another consumer confidence rise points to firm spending trend**
- **Next week: employer surveys and *Shunto* to confirm sustained economy-wide wage upturn**

We look for the Japan economy to have picked up pace materially through early 2023, with GDP growth momentum forecast to hold at a an above-potential 1.4%q/q saar pace through 2Q. A holiday-shortened week in Japan offered little in the way of high-frequency data tracking, but a sustained rise in consumer sentiment indicators suggests that household expenditure remained firm into April.

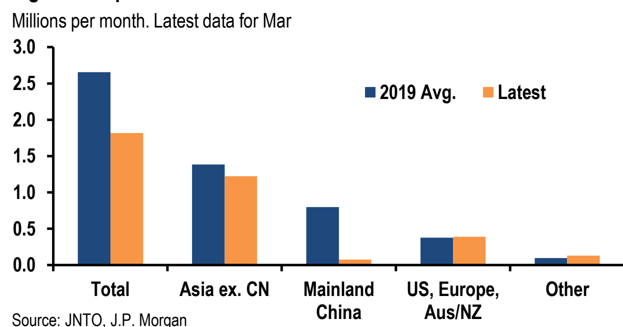
In this context, Japan's Golden Week holiday this week coincides with an extended national holiday period in China. Alongside the removal of all major Japan border restrictions on April 29, another leg up in tourist arrivals from Mainland China over the holiday period looks set to have added fuel to what is an already boomy trend in private spending.

Figure 1: Japan visitor arrivals
Millions per month



Source: Japan National Tourist Organization, J.P. Morgan

Figure 2: Japan visitor arrivals
Millions per month. Latest data for Mar

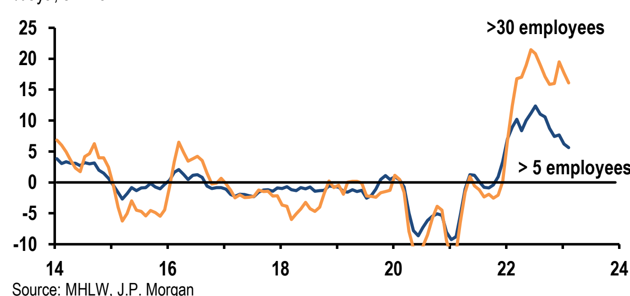


Source: JNTO, J.P. Morgan

Visitor arrivals through March were tracking at around 70% of their 2019 average monthly pace, reflecting a rapid normalization in inbound arrivals from the Asia region, as well as from the US and Europe, where visitor numbers have already largely recovered to pre-pandemic levels. But arrivals from Mainland China were barely 10% of their 2019 averages through March; an acceleration into 2Q looks set to further support consumption (Figures 1 and 2).

While tourism-related inflows on the balance of payments accounted for only around 1% of Japan's GDP at their pre-pandemic peak, spillovers from a further rise non-resident demand have potential to exacerbate pockets of tightness in Japan's labor market. Wages at Japan's larger hotels and restaurants were averaging close to 20% higher in early 2023 than their levels at this point last year; a rise in China-related tourist demand looks set to keep momentum strong (Figure 3).

Figure 3: Accomm., eating, drinking svcs - avg. monthly cash wages
%oya, 3mma



Source: MHLW, J.P. Morgan

Next week's economy-wide employer survey data for March should provide further confirmation that wage growth is both accelerating and broadening. And we look to the results of the fifth round of the *Shunto* wage negotiations, expected to be announced May 10, to confirm base wage rises in excess of 2%, well above the long-term average.

Consumer sentiment rises further

The consumer sentiment index rose 1.5pts to 35.4 in April, beating our above-consensus forecast of a 1.1pt rise. Consumer sentiment has trended up since December last year, and the pace of recovery has accelerated lately. Although the index still remains low, the recent sharp recovery appears to reflect consumers gaining confidence in rising wages, as well as the recent subsidy-induced decline in headline inflation. All subindices rose in April, but the larger gains came from increased willingness to buy durable goods and rises in the standard of living DI, both of which had fallen close to decade-low levels in late 2022 (Figures 4 and 5).

We think the recent data offer some signals that consumers are becoming more accepting of higher prices, albeit reluctantly. Also, the recent rise in wage momentum backed by

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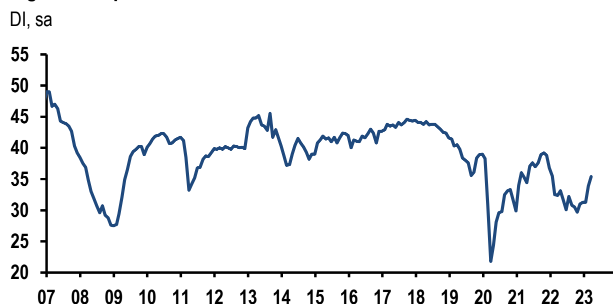
tight labor market conditions also appears to support a change in consumers' perception of higher prices. With the recent rising momentum in economic activity and wage growth, we expect consumer sentiment to continue to rise in coming months.

Figure 4: Japan Consumer sentiment

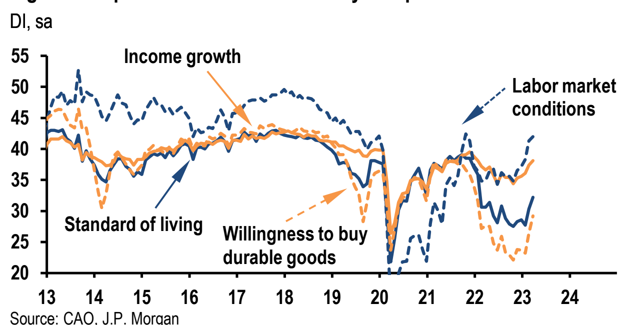
DI, sa



Source: CAO, J.P. Morgan

Figure 5: Japan Consumer sentiment by component

DI, sa

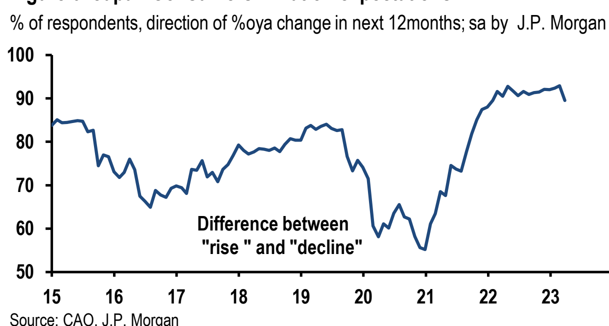


Source: CAO, J.P. Morgan

Consumer inflation expectations fell in April, but the index remained high compared to long-run averages (Figure 6). The April drop in consumers' inflation expectations appears to reflect the recent decline in headline inflation that had been dragged by the government's electricity subsidy starting from February. However, we expect consumer inflation expectations to remain elevated throughout the year, particularly with the planned rise in electricity prices starting from June.

Figure 6: Japan Consumers' inflation expectations

% of respondents, direction of %oya change in next 12months; sa by J.P. Morgan



Source: CAO, J.P. Morgan

Data releases and forecasts

Week of May 8 - 12

Tue
May 9
8:30am

Employers' survey – preliminary
%oya

	Dec	Jan	Feb	Mar
Official base				
Monthly wages per employee	4.1	0.8	1.1	1.5
Scheduled payments	1.4	0.8	1.1	
Full-timers monthly	1.7	1.3	1.4	
Part-timers hourly	3.3	3.1	1.1	
Overtime payments	2.9	1.1	1.7	
Special payments	6.5	-1.7	-1.7	
Real wages (total)	-0.6	-4.1	-2.6	

We project total wage growth to have recovered further in March, reflecting sustained tightness in the labor market. The trend in scheduled payments is likely to remain firm, with wage growth settling above its historical average.

Thu
May 11
8:50am

Balance of payments

	Dec	Jan	Feb	Mar
Current account (JPY bn, sa)	1250	204	1089	1322
Trade balance	-1565	-1696	-1098	
Exports	8115	7835	7986	
Imports	9680	9531	9084	
Services	-274	-556	-489	
Primary income	3362	2859	3114	
Secondary income	-273	-404	-437	
Current account (JPY bn, nsa)	107	-1989	2197	2319

We look for the current account surplus to widen further in March. The customs trade data for March imply a sustained narrowing in the trade deficit, which alongside continued tourism-related services inflows should have supported the overall current account surplus.

Thu
May 11
2:00pm

Economy Watchers survey
DI, sa

	Jan	Feb	Mar	Apr
Current conditions	48.5	52.0	53.3	54.0
Households	48.6	52.9	53.7	
Business	46.8	48.7	51.1	
Employment	51.0	52.6	55.6	

We expect small firms' business sentiment to rise again into early 2Q, in line with upbeat outlooks reported in the previous month. In particular, strong domestic activity should have supported services sector sentiment amid sustained gains in

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wage growth and continued recovery in visitor arrivals.

Review of past week's data

Consumer sentiment (May 1)

DI, sa

	Feb	Mar	Apr	
Consumer sentiment	31.3	33.9	~~35.0~~	*35.4*
Standard of living	27.7	30.3	___	*32.2*
Income growth	36.1	37.4	___	*38.1*
Labor market conditions	38.3	41.3	___	*42.0*
Durables purchases	23.2	26.4	___	*29.2*
% of respondents, "Rise" minus "fall"				
Inflation expectations in next 12 months				
Nsa	91.9	91.8	___	*90.8*
Sa	92.3	92.9	___	*89.5*

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT,MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

Canada

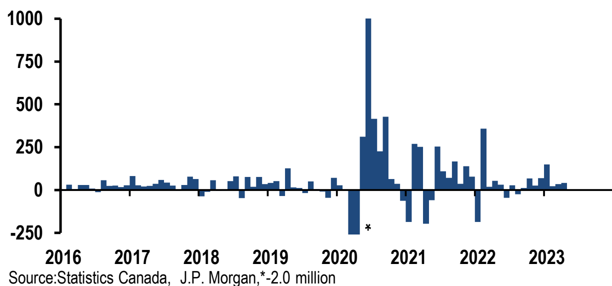
- **April's LFS employment beat our expectations with a gain of 41,400**
- **Unemployment rate stable at 5.0% for a fifth month**
- **The upside surprise and still hot wages present a challenge for the Bank of Canada; the Bank will hold in June and maintain its hawkish bias**

Despite some headline strength in April, the trend in labor market activity looks to be cooling. April LFS employment beat our expectations with a gain of 41,400 following the 34,700 increase in March (also an upside surprise) (Figure 1). The unemployment rate was stable for a fifth month at 5.0% and the participation rate held steady at 65.6%. The underlying details were more mixed, however. The increase in jobs in April was all in part-time work so the decelerating trend in full-time gains that began in February continued into April. The three-month trend in most underlying categories decelerated notably in April as the tremendous surge in January (150,000) dropped out of the equation.

This will be the last labor market report before the Bank of Canada's next monetary policy decision on June 7 (May LFS report on June 9). While recent labor market dynamics including stronger-than-expected monthly gains and still hot wage growth present a challenge for the Bank, we maintain that it will not raise the policy rate in June. We believe that the Bank will judge that broader labor market data like climbing weekly claims, declining vacancies, and indicators of shadow slack are pointing to a softer labor market going forward. While we still think the Bank will remain on the sidelines on June 7, all the lingering uncertainly around inflation, the labor market, and real growth argues strongly for preserving a hawkish bias. The risk of another hike in the policy rate remains. Indeed, the latest Bank of Canada minutes noted a discussion around a potential hike at the last meeting in April.

Figure 1: Labor Force Survey employment

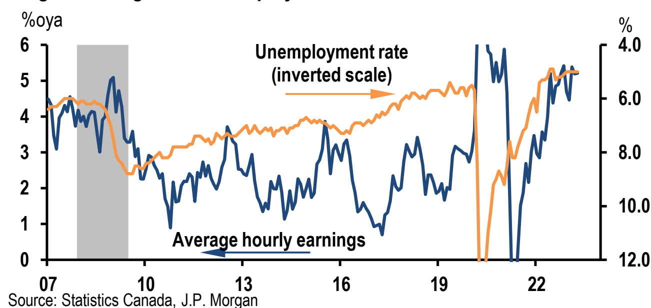
change in thousands



Source:Statistics Canada, J.P. Morgan,*-2.0 million

The employment gain in April was largely in just four service sectors led by wholesale and retail trade. The 3 month trend in the cyclical goods sectors like manufacturing and construction has cooled with goods-producing employment overall down 5.7k on average in the three months through April. Short-term service sector gains are still solid on the whole at about 40,000 on average in the last three months. Average hourly earnings for permanent workers were up 5.2%oya, matching the March gain; the 3-month run rate at 2.7%, saar also matched March (Figure 2). That is something that the Bank of Canada is watching closely. Governor Macklem noted this week that "unless productivity growth surprises us with a strong increase, persistent wage growth in that range will make it difficult to achieve the 2% inflation target." Hours worked increased 0.2% sa in April, a fourth consecutive deceleration in monthly growth, with hours worked in the goods sector down 0.5% following a 0.1% decline in March.

Figure 2: Wages and unemployment rate



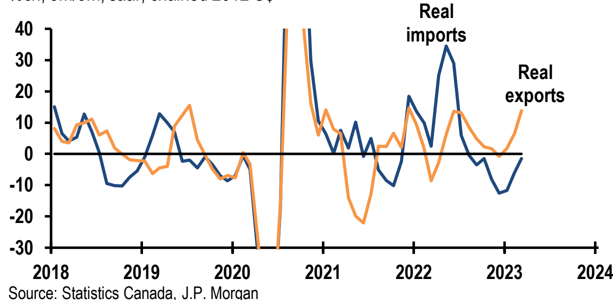
Source: Statistics Canada, J.P. Morgan

Trade contributed to growth again in 1Q

Imports in volume (real chained) terms plunged 4.3% in March while exports grew 0.7%. In the first quarter total real exports increased 10.5%ar while real imports increased 2.5%ar, suggesting a contribution of ~2.5%-pts to real growth in 1Q, stronger than what we were estimating before the March report. We estimate the boost will be largely offset by a deeper decline in real inventories judging by the continued weakness real goods imports. Real merchandise imports declined 1.5%ar in 1Q23, the third consecutive quarterly decline (Figure 3).

Figure 3: Volume merchandise trade flows

%ch, 3m/3m, saar, chained 2012 C$



Source: Statistics Canada, J.P. Morgan

Data releases and forecasts

Week of May 8 - 12

Wed
May 10
8:30am

Building permits
%m/m, sa, unless as noted

	Dec	Jan	Feb	Mar
Total	-7.0	-3.7	8.6	-5.4
%oya	-13.2	-6.2	-16.8	-14.8

Review of past week's data

International trade (May 4)
Sa

	Jan		Feb		Mar	
Balance (C$ bn)	~~-1.20~~	*1.23*	~~-0.42~~	*-0.49*	~~-0.74~~	*0.97*
Exports (%m/m)	~~-3.5~~	*3.6*	~~-2.4~~	*-3.8*	~~-0.2~~	*-0.7*
Imports (%m/m)	~~-3.6~~	*3.5*	~~-1.3~~	*-1.2*	~~-1.6~~	*-2.9*
Real balance	~~-2.13~~	*-2.35*	~~-1.89~~	*-2.45*		*-0.06*

Ivey PMI (May 4)

	Feb	Mar	Apr	
Composite index[1] (sa)	52.2	54.7	~~55.6~~	*52.5*
Purchasing index (sa)	51.6	58.2	~~63.0~~	*56.8*

1. Calculated and seasonally adjusted by J.P. Morgan

Labor force survey (May 5)
Sa

	Feb	Mar	Apr	
Employment (mn)	20.05	20.09	~~20.11~~	*20.13*
(ch, m/m, 000s)	21.8	34.7	~~17.0~~	*41.4*
(%m/m)	0.1	0.2	~~0.1~~	*0.2*
(%oya)	2.1	2.2	~~2.0~~	*2.1*
Labor force (mn)	21.12	21.14	~~21.18~~	*21.19*
(%m/m)	0.2	0.1	*0.2*	
(%oya)	1.7	1.8	*1.8*	
Unemployment rate (%)	5.0	5.0	~~5.1~~	*5.0*
Avg hrly earnings (%oya)	5.4	5.2	~~4.6~~	*5.2*
Hours worked (%m/m)	0.6	0.4	~~0.0~~	*0.2*

Source: Statistics Canada, Ivey Business School, CMHC, S&P Global, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

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Mexico

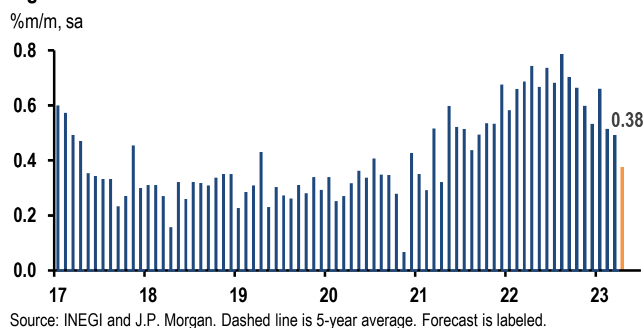
- **Core CPI is moderating, but remains above trend**
- **External demand sputtering; domestic demand holding strong**
- **Still, investment could slow on fast-track law approvals**
- **Now government aims to fully focus on state elections**

Next week's April CPI should reinforce the message out of the 1H CPI published last week: Headline inflation is slowing rapidly but core is proving stickier. We expect headline inflation at 6.25%oya (-0.02%m/m) from 6.80% in March, and about 250bp below the peak seen in 3Q22; core should also shift lower (7.7%oya from 8.1%), but continue to show signs of stickiness, particularly services. Consistent with these trends, this week's Banxico's expectations survey showed headline inflation expectations easing over different horizons, but core proving much more resilient.

To be sure, core inflation momentum is ebbing, with monthly inflation likely dipping almost back to its historical norm (0.37%m/m, sa vs. 0.35%) after drifting as high as 0.8% near the middle of last year (Figure 1). However, we think that the latest leg down in momentum at least partly reflects seasonal distortions related to Easter, a force we expect to be mainly visible in services ex. housing and education (services ex.).

Figure 1: Core CPI

%m/m, sa



Source: INEGI and J.P. Morgan. Dashed line is 5-year average. Forecast is labeled.

We expect services ex. to have risen 0.36%m/m, sa, the least since August 2021. There are reasons for this slowdown to be sustained in the next few months, as lower food and energy prices ripple through services such as restaurants. But from a more cyclical, and even structural, perspective we remain biased toward persistently above-norm services inflation, as wage-driven consumption generates both cost-push inflation and demand-driven pressures. Furthermore, we think that it's best to look at the average Mar/Apr services ex. price gain as a better gauge of underlying momentum (due to seasonal distortions)—this metric stands at about 0.5%m/m, almost twice the average in the five years prior to the pandemic.

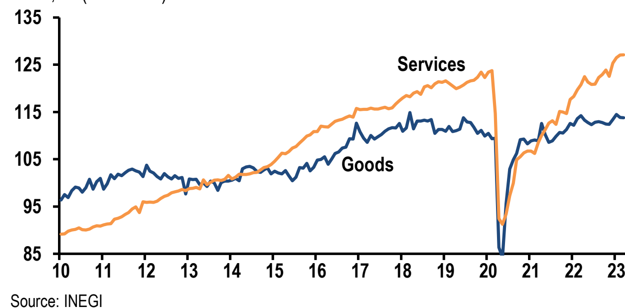
External demand sputtering; domestic demand holding strong

We expect next week's March IP report to show a 0.4%m/m drop in output, led by payback in mining (-2.0%m/m) after February's surge, particularly in mining services. This would leave IP at a 3.4% annualized gain in 1Q over 4Q22, more than what was assumed in the flash GDP print (2.8%), though deviations between monthly and quarterly data are not uncommon. That said, the main focus remains on manufacturing, where we expect a small 0.3%m/m gain after a 0.5% drop. Manufacturing has lost momentum since the latter half of 2022, and we expect this trend to hold, even though timelier data (PMIs for April) show some signs of modest acceleration—we think that these might be driven by the auto sector, which has still to recover from supply constraints. Our view remains that external demand will prove a headwind in 2H.

By contrast, news on domestic demand has been more upbeat, suggesting not only that the economy was on a strong footing in the first quarter, but also that, judging by a handful of other indicators, it is likely that momentum extended into 2Q. Still, net exports are expected to remain a drag this year. Growth has not only shifted its sources clearly from external to domestic, and from goods to services demand (Figure 2), but there is also the appearance that growth is becoming organic (i.e., there are signs of positive feedback loops across the economy's different sectors). We have steadily revised up our growth outlook this year, and now forecast a well-above consensus growth rate of 2.5%y/y in 2023 (consensus: 1.6%y/y, as per Banxico's survey). We think there is modest upside to this outlook, but global risks as we move into 2H keep us from acting further on this bias for now.

Figure 2: Private national goods and services consumption

Index, sa (2013=100)



Source: INEGI

Congress and state elections in focus

Last week, at the end of the ordinary session of Congress, governing party Morena moved forward with more than 20 reform initiatives that were approved with opposition lawmakers absent. Morena has been able to move an ambitious (albeit contradictory on some grounds) agenda forward given

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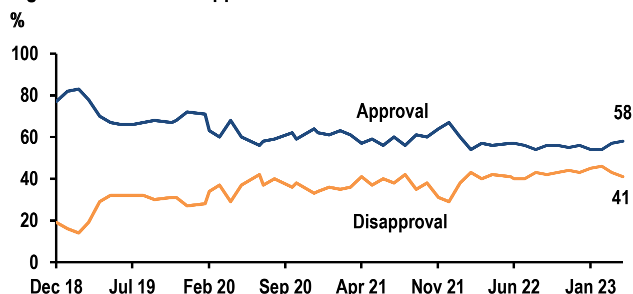
the strong presidential approval (Figure 3).

Figure 3: Presidential approval

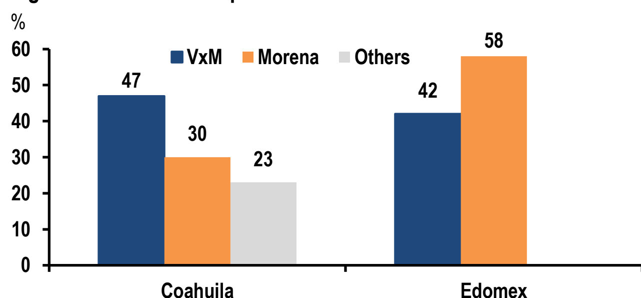


Source: *El Financiero*. Poll conducted in April

While some bylaw changes are relatively minor from a market perspective there were a number of changes that could reverberate in key economic sectors, from mining and pharmaceutical industries, to investment in general. On the former, we think some changes are welcome in terms of shorter concession spans; however they are adding significant uncertainty given last-minute changes and the fact that the major Administrative Law that contemplates potential unilateral termination of contracts (the so-called Exorbitant clause) is expected to be discussed in the next Fall Session. Worth noting are changes to government procurement that could exert too much pressure on Social Security and public finances, and a tighter grip on independent institutions and accountability (particularly to the Access to Public Information Institute, or INAI) are worth noting.

All eyes are now on two state elections scheduled for June 4 (Figure 4), when Morena could strengthen its grip by winning at least Estado de Mexico (Edomex), the most populous state. Of note, if Morena wins in both, opposition party PRI would lose its two remaining gubernatorial seats, a major blow to the opposition Va por México (VxM) bloc in which PRI actively participates. Still, it seems likely VxM will win in Coahuila, a northern state that is expected to largely benefit from the manufacturing revival on the border.

Figure 4: State election polls



Source: *El Financiero* and *De Las Heras*. Polls conducted in April. Effective preferences for both; elections will take place on June 4, 2023

Data releases and forecasts

Week of May 8- 12

Tue	Consumer prices				
May 9		**Mar 1H**	**Mar 2H**	**Apr 1H**	**Apr 2H**
8:00am	%2w/2w	0.15	0.07	-0.16	0.21
	Core	0.30	0.29	0.18	0.13
	%oya	7.12	6.58	6.24	6.27
	Core	8.15	8.03	7.75	7.60
		Jan	**Feb**	**Mar**	**Apr**
	All items (%m/m)	0.68	0.56	0.27	-0.02
	%oya	7.91	7.62	6.85	6.25
	Core (%m/m)	0.71	0.61	0.5	0.39
	%oya	8.51	8.29	8.09	7.67
Fri	Industrial production				
May 12	%oya, unless noted				
8:00am		**Dec**	**Jan**	**Feb**	**Mar**
	%oya nsa	3.0	2.7	3.5	1.4
	Manufacturing	2.7	4.7	2.4	2.0
	%m/m sa	0.7	-0.1	0.7	-0.4
	Manufacturing	1.2	1.2	1.2	0.3

Review of past week's data

IMEF PMI survey				
Index, sa				
	Feb	**Mar**	**Apr**	
Manufacturing	51.9	49.2	~~48.9~~	*50.6*
Non-manufacturing	52.9	54	~~52.6~~	*52.2*
Remittances				
	Jan	**Feb**	**Mar**	
Total (US$ bn)	3.9	4.3	~~5.04~~	*5.2*
%oya	12.5	11.2	~~7.3~~	*10.7*
Consumer confidence				
Index, sa				
	Feb	**Mar**	**Apr**	
Composite, sa	44.6	44.5	~~43.8~~	*44.6*
Gross fixed investment				
%oya				
	Dec	**Jan**	**Feb**	
Total	9.4	7.9	~~7.6~~	*12.7*
M&Eq	13.5	20.1	~~10.0~~	*17.5*
Construction	5.8	-0.1	~~5.7~~	*8.9*

Source: INEGI, Banxico and J.P. Morgan forecasts

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Brazil

- **COPOM kept rates unchanged at 13.75% as expected**
- **But toned down the hawkish message of late**
- **Decision on the inflation target, to be made by June, is key for the next steps of monetary policy**
- **A commitment to 3% target may lead BCB to ease rates earlier than we expect**

The most important event this week was the COPOM meeting, at which BCB kept the policy rate unchanged at 13.75%, as broadly expected, with some less hawkish tweaks. BCB toned down the message of a potential hike, saying again that it would not hesitate to hike rates again if needed, but now highlighting that this outcome has a low probability. In addition, even though the baseline forecasts for inflation were unchanged as we expected (despite using a lower BRL at 5.05), the alternative inflation projection with rates stable until the end of next year was revised down a tenth to 2.9% in 2024, now slightly below the target (Table 1).

Table 1: COPOM inflation scenario
%oya

Meeting	Baseline 2023	Baseline 2024	Alternative 2023	Alternative 2024
August	4.6	2.7	-	-
September	4.6	2.8	-	-
October	4.8	2.9	-	-
December	5.0	3.0	-	-
February	5.6	3.4	5.5	2.8
March	5.8	3.6	5.7	3.0
May	5.8	3.6	5.7	2.9
May (JPM estimate)	*5.7-5.9*	*3.5-3.7*	-	-

Source: BCB and J.P. Morgan

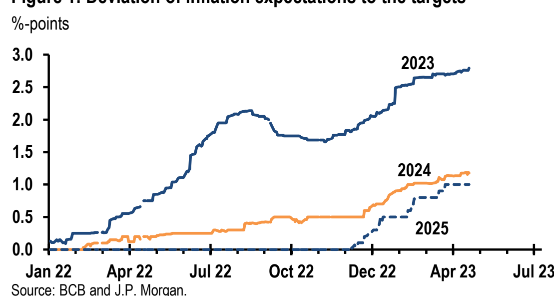
However, BCB stated again that a stable SELIC rate for now is the best strategy until the disinflation process consolidates and inflation expectations anchor around the targets. These two objectives then require "serenity and patience" at a moment in which the disinflationary process tends to be slower and inflation expectations are de-anchored. On fiscal, the central bank kept seeing it as a potential source of upside risk for inflation, but noted that presentation of the fiscal framework partially reduced the uncertainty.

Inflation target: an important decision

BCB's recent communication seems to imply that cuts can happen this year, as we predict (November-December), but for now BCB will continue with its cautious monetary policy strategy, particularly as inflation expectations are de-anchored (Figure 1). In our view, this issue with inflation expectations is to a great extent a result of the open political criticism of the current inflation target. In our view, raising the midpoint of the target risks reducing the authorities' credibility with bringing inflation to lower levels and keeping it there. If the inflation target is perceived as a political tool to reduce rates, the push for further de-anchoring of inflation expectations is large, making BCB's situation even more uncomfortable.

Conversely, a well-communicated government decision to maintain—rather than raise—the inflation target at 3% for coming years could help bring medium-term expectations closer to the target. If the government made a credible and public commitment to the 3% target, we believe BCB could bring forward the initial easing to 3Q from the 4Q we expect.

Figure 1: Deviation of inflation expectations to the targets
%-points



Source: BCB and J.P. Morgan.

Data releases and forecasts

Week of March 8 - 12

		Jan	Feb	Mar	Apr
Mon May 8 7:00am	**Wholesale prices (IGP-DI)**				
	%m/m	0.06	0.04	-0.34	-0.96
	%oya	3.01	1.53	-1.16	-2.52

		Dec	Jan	Feb	Mar
Wed May 10 8:00am	**Industrial production**				
	%m/m, sa	-0.1	-0.3	-0.2	0.8
	%oya	-0.4	0.3	-2.4	0.4

		Jan	Feb	Mar	Apr
Fri May 12 8:00am	**Consumer prices (IPCA)**				
	%m/m	0.53	0.84	0.71	0.54
	%oya	5.77	5.60	4.65	4.11

Review of past week's data

COPOM meeting

	Mar	Apr	May
Selic rate	13.75	13.75	*13.75*

Source: IBGE, FGV, and J.P. Morgan forecasts

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Argentina

- **April CPI is marked at 7.5%m/m, nsa, or 107.1%oya**
- **The recent financial stress sets a high floor for May CPI**
- **YTD the peso debt rollover rate reached 127%, but the Treasury had to resort to public sector agencies**
- **The maturities wall moves but at a higher cost, and risks pile up for the next administration**

CPI Preview: April inflation to print again above 7%m/m

We expect inflation to decelerate mildly in April, printing at 7.5%m/m, from the 7.7%m/m print reported the prior month and 6.8%3ma through March. Our headline inflation forecast (INDEC's National CPI) is marked just a tad above the 7.3%m/m print suggested by the high-frequency data set tracked by EcoGo through April-end. Our monthly forecast is consistent with annual inflation printing at 107.1%oya.

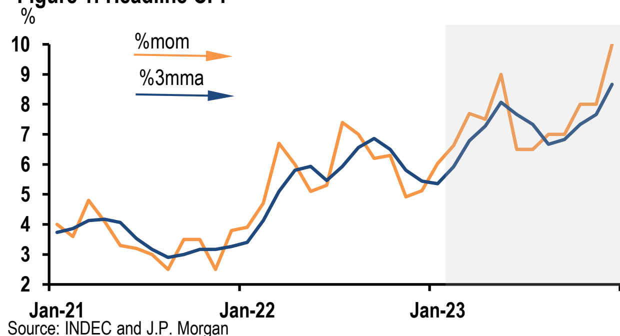
Food prices are expected to print at a still very high 8.2%m/m, though decelerating from the 9.6% monthly average reported in between February and March (INDEC). This is despite the new round of the "Fair Prices" control program with an average monthly increase of 3.2% in place from February 1 to June 30.

Regarding underlying inflation, core CPI is forecasted to print at 7.0%m/m, with core-ex food CPI accelerating to 7.1%m/m. According to EcoGo high-frequency data, core inflation would print at a high 7.0%m/m in April, a tad below the 7.2% reported in March (INDEC). However, our preferred metric of underlying inflation (adjusting core inflation by excluding food prices) is expected to accelerate to 7.1%m/m, the highest level since July 22 following former minister Guzman's resignation.

Seasonal prices are expected to skyrocket to+10.8%m/m, driven by ongoing hikes in prices of vegetables (17.7%) and fruits (6.9%), still impacted by adverse weather conditions, and tourism (+6.6%m/m). Meanwhile, regulated prices should contain the increase in headline prices. Unlike last month, when regulated prices played a large role in headline inflation, in April they should increase by 5.1%m/m, contributing to headline inflation's mild deceleration.

The recent financial stress sets a high floor for May CPI (Figure 1). By April-end, the government faced a new period of financial and macroeconomic instability that has led to a sharp upward move of the parallel exchange rate, with the gap between the official and the parallel FX reaching 120%. The weaker peso, which compounds the tighter import controls, has driven strong inflation acceleration during the last week of April, mainly in durable and consumption goods, leaving a high statistical carry-over for May CPI of around 3%-pts in our estimates.

Figure 1: Headline CPI



Source: INDEC and J.P. Morgan

On top of this, the regulated price increases already announced for May will add other 2%-pts to inflation (prepaid medical services, education, electricity, gas and transport tariffs, domestic services, and fuel). Thus, the risk is for further inflation acceleration in May.

Private sector rollover converged below 100%

Following the debt swap carried out in March (see note), the Treasury faced maturities of almost ARS$1.2tn in April, and managed to place ARS$1.4tn. That implies an aggregate rollover rate of 118% on the month, driving the YTD aggregate rollover rate to 127%.

Of the total debt issued in April, 6% was with fixed-rate instruments, and the remaining 94% indexed instruments. As in prior months, the Treasury validated higher rates to secure rollover, to around 135% annualized, from 125% in March.

The Treasury had to resort to public sector agencies to secure net financing. We have been flagging that the private sector has been proving more reluctant not only to extend local currency net financing to the Treasury, but also to roll over its outstanding debt. As reported by the authorities, 49.8% of the financing received in April came from public agencies. Thus, with private sector maturities on the month of ARS$1.0tr according to our estimates, the private sector only rolled over 69% of its debt, below our base case scenario for 85% of private rollover through year-end (see note).

The Treasury has about ARS$14.6 trillion (8.4% of GDP) in local currency debt maturing through the remainder of 2023. Yet, only 3.1%-pts of GDP is in the hands of the private sector, while the remainder is held by public sector entities (including the Banco Nacion). Of note, in 2023 indexed debt

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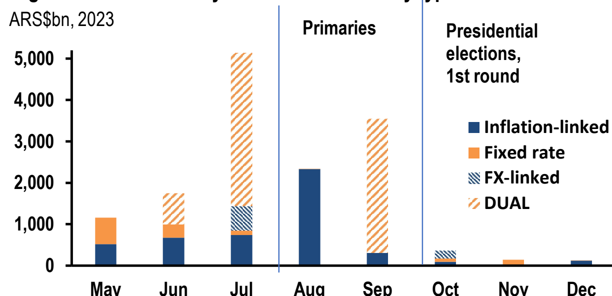
(either to inflation or FX) now stands at 91% of the total local currency bonds stock (Figure 2).

Figure 2: Local currency debt amortizations by type



Source: Ministry of Treasury and J.P. Morgan

Worth noting, the Treasury was again able to extend more maturities beyond the October elections, placing 56% of the debt instruments with maturities beyond 2023. But on the other side, as the Treasury pushes maturities ahead, the wall moves but at a higher cost, and risks pile up for the next administration. Indeed, there is already ARS$13.2 trillion (3.5% of our estimated 2024 GDP) expected to mature in the first four months of the next administration, with total maturities for next year amounting to ARS$25.3 trillion (6.6% of 2024 GDP), of which 98% is already indexed to either inflation or FX.

The authors wish to thank Juan Goldin, of the Latin America Economics Research team, J.P.Morgan Chase Bank Sucursal Buenos Aires, for his contribution to this report.

Data releases and forecasts

Week of May 8 - 12

Fri May 12	**CPI**				
		Jan	**Feb**	**Mar**	**Apr**
	%m/m	6.0	6.6	7.7	7.5

Review of past week's data

Tax revenues

	Feb	**Mar**	**Apr**
%oya, real	-10.0	-7.8	-8.2

Source: INDEC, BCRA, and J.P. Morgan

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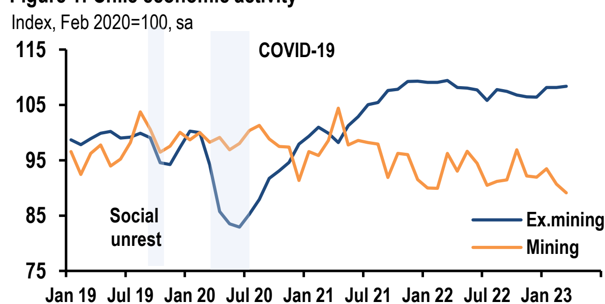
Andeans

- **Chile: March headline activity indicator slipped by 0.1%m/m, sa**
- **We expect sequential growth to print back in the red in 2Q23; we keep 2023 annual GDP at -0.2%y/y**
- **Colombia: The main revisions were clearly associated with higher inflation for Dec-2023**
- **In our revised central scenario we pencil in the policy rate stable ahead at 13.25% through 3Q23**

Chile: Overall weak growth in March, despite services performance

The March headline activity indicator slipped by 0.1%m/m, sa, coming on the heels of -0.4%m/m, sa in February. That said, ex.-mining activity did gain on the month, up by 0.2%m/m, sa, helped by the noteworthy 0.9%m/m, sa gain in services. Beyond services, the supply-side breakdown shows that commerce, industry, and mining contracted in March, by 1.8%m/m, sa, 0.7%, and 1.8%, respectively. On an over-year-ago basis, headline and ex.-mining activity dropped by 2.1%oya and 1.0%oya, respectively (Figure 1).

Figure 1: Chile economic activity



Source CBC and J.P. Morgan

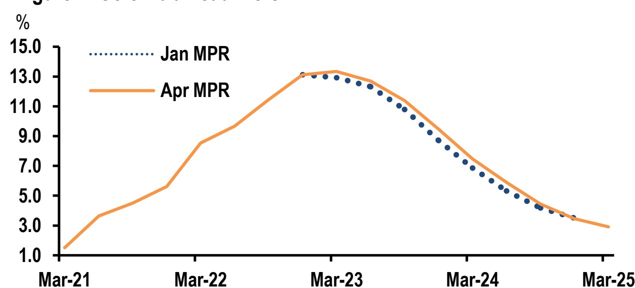
Activity in 1Q23 confirmed its pickup, gaining 3.9%q/q, saar (ex. mining +6.4%q/q, saar), ending a sequence of four consecutive quarters of negative or null sequential growth. We expect negative sequential growth for 2Q23. The main risk to the call (other than choppy performance of mining activity) is associated with fiscal policy, which has been expansive since 4Q22 (see note), employment creation (see note), and, to a degree, the persistence of core inflation. But we expect tight monetary and credit conditions will prove more of a drag on domestic demand and GDP ahead, partially offset by the positive net exports contribution.

In terms of forecasts, following the March activity report, we revise our 1Q23 GDP growth forecast higher to +3.9%q/q, saar while adjusting 2Q23 a bit lower to -1.7%. We expect 2H23 sequential growth to average 0.6% (annualized), consistent with +0.7%oya. We maintain 2023 annual GDP at -0.2%y/y.

Colombia: BanRep's Monetary Policy Report and minutes

Regarding the Monetary Policy report, the main revisions to the central scenario were clearly associated with higher inflation for December 2023. Particularly, regulated CPI was revised substantially higher when compared to the projections presented back in January, up by 301bp, to 14.5%oya. That said, core (ex. food and regulated) was slightly fine-tuned to the upside, by 18bp, to 8.87%oya. Thus, headline CPI was revised by 'only' 75bp higher, to 9.46% (Figure 2). On 2023 GDP growth, it was revised higher to 1.0%y/y, and thus so was the output gap, which is now expected to close by year-end. In any case, the staff continues to estimate a negative output gap for next year, with headline inflation converging to 3.5% by December 2024.

Figure 2: Colombia headline CPI



Source: BanRep and J.P. Morgan

Regarding the minutes of the latest monetary policy meeting, the majority voted for a 25bp hike, stressing that while tight monetary policy is already impacting domestic demand, inflation levels remain very high, with inflation ex. food and regulated still trending higher. On inflation expectations, it was noted that while 12-month ahead expectations have trended lower, the Dec-23 moved higher, with the latter exacerbating prevailing indexation mechanisms. Of note, one director stressed the "notable fiscal pressure" still present, which restricts the ability to offer a less-tight monetary stance.

On their side, the two directors that voted for holding the policy rate stable believed there was already enough of monetary restriction while flagging lags in terms of its impact on domestic demand. They noted that the food CPI and producer price index were already trending lower, and both the fiscal and current account imbalances narrowing. Finally, the director that voted for 50bp put focus on the prevailing indexation mechanisms making prices less sensitive to monetary policy.

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In our revised central scenario we pencil in the policy rate stable at 13.25% through 3Q23. Assuming no regime change in terms of fiscal policy ahead, we now see space for nominal easing in the last quarter of the year, starting with a 75bp cut in October. Our baseline assumes the policy rate converging to 11.75% by December 2023, and 7.25% by December 2024.

We now wait for the April CPI report, expecting +0.9%m/m (nsa), consistent with 12.9%oya.

The authors wish to thank Juan Goldin, of the Latin America Economics Research team, J.P.Morgan Chase Bank Sucursal Buenos Aires, for his contribution to this report.

Colombia

Data releases and forecasts

Week of May 8 - 12

Fri May 12 **Retail sales**

	Dec	Jan	Feb	Mar
%oya	-2.3	0.8	1.4	-1.0

Fri May 12 **Manufacturing**

	Dec	Jan	Feb	Mar
%oya	0.6	0.4	0.4	-3.3

Review of past week's data

Exports

	Jan	Feb	Mar	
US$bn	3.7	4.2	~~4.7~~	4.5

CPI

	Feb	Mar	Apr	
%oya	13.3	13.3	~~12.9~~	12.8
%m/m	1.7	1.1	~~0.9~~	0.8

Source: DANE and J.P. Morgan estimates

Chile

Data releases and forecasts

Week of May 8 - 12

Mon May 8 **CPI**

	Jan	Feb	Mar	Apr
%oya	12.3	11.9	11.1	9.9
%m/m	0.8	-0.1	1.1	0.3

Mon May 8 **Trade balance**

	Jan	Feb	Mar	Apr
US$bn	2.6	2.0	2.9	2.0

Fri May 12 **Policy rate**

	Feb	Mar	Apr	May
%	11.25	11.25	11.25	11.25

Review of past week's data

Economic activity

	Jan	Feb	Mar	
%oya	0.1	-0.5	~~-1.8~~	-2.1
%m/m, sa	1.6	-0.3		-0.1

Source: INE, BCCh, and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of May 8 - 12

Thu May 11 **Policy rate**

	Feb	Mar	Apr	May
%	7.75	7.75	7.75	7.75

Review of past week's data

CPI

	Feb	Mar	Apr	
%oya	8.6	8.4	~~7.7~~	8.0
%m/m	0.3	1.3	~~0.4~~	0.6

Source: INEI, BCRP, and J.P. Morgan estimates

United Kingdom

- **We expect the BoE to hike 25bps next week in a 7-2 vote split**
- **Mortgage approvals beat expectations rising to 52k, the mini-Budget induced drop is now being retraced**
- **Final composite PMI revised up a full point to 54.9**

Evidence of a firming in economic activity continues to build. The April PMI - which had already made a notable step up in the flash print - was revised higher by a full percentage point in the final release. Taken at face value this signals near 2% growth, and hence suggests upside risk around our forecast. The caveat is that the survey does not include the weaker retail sector. Mortgage approvals continued to recover from their lows as the mini-Budget shock to credit conditions fades. Household bank deposits revealed a rare drop in March. But suggestions of a post-SVB bank run are overdone; these deposits fell by just 0.3%m/m. Deposit rates continue to move up slowly, and bank NIMs remain high compared to before the BoE started raising rates. This, together with stronger growth momentum and rising mortgage approvals, argues against the idea that banks are about to turn a lot more cautious. We expect the BoE to hike 25bps next week, maintaining a clear tightening bias and citing upside risks. We expect positive momentum in the data to produce a further tightening in June.

BoE preview: 25bp hike

We look for a 25bp hike from the BoE next week to 4.5%, in a 7-2 vote with Tenreyro and Dhingra dissenting for no change. There is a chance of hawkish dissent for 50bps from Mann or Haskel, although we note that Mann has indicated more sensitivity than any other member to the Fed's actions. Assuming our vote expectation is correct, it's worth asking if there is anything the data could have produced in recent weeks to persuade the doves to change their mind. More specifically, as the MPC updates its forecasts next week it will be incorporating upside surprises across the board.

On growth, we expect the BoE's -0.5% forecast for 2023 to be revised to a small positive of around 0.3% (Table 1). This would completely remove a recession that has been in the Bank's forecast for six months now, but would still look conservative. On wage growth, the data continue to come in strong, at close to 7% excluding bonuses. We expect a gradual slowing this year that leaves average earnings growth at 5% or higher by year end. But this would still be a full percentage point above the MPC's current forecast. The BoE has singled out wage growth as one of the main measures of inflation persistence that it is focussed on. The BoE's DMP survey indicates that businesses expect to raise prices by almost 6% over the coming year, suggesting they are having no problem protecting their margins by passing these higher costs on. This sentiment was also clearly echoed in the April PMI survey, where the press release noted, "*Anecdotal evidence suggested that wage pressures remained the main factor leading to higher prices charged*".

On inflation, the CPI is running almost a full percentage point above the BoE's near term forecast, reflecting surprising strength in food prices and stickiness across the core basket. Bailey's suggestion that the February CPI surprise was a one off sends an important signal about how significantly the inflation process may be deviating from the Bank's understanding. We estimate that only around half of the cumulative 1.2%, sa rise in core CPI prices in Feb/Mar related to clothing and catering (which in any case don't appear to be one-offs). Although inflation is still set to fall sharply this year due to energy, the BoE will nevertheless likely raise the near term part of its forecast.

The absence of a recession will also mean a smaller rise in unemployment, which would point to ongoing wage pressures and more elevated medium term inflation than the BoE had previously expected. The BoE in February had argued that a labor market weakening would show up disproportionately in reduced vacancies rather than higher unemployment. But neither are currently happening, with vacancies having recently stabilized and hiring intentions starting to accelerate again (e.g. as evidenced in the PMI, REC and DMP surveys). This should lift projected inflation throughout the forecast horizon.

Table 1: BoE forecasts
%, based on market rates assumption unless stated, modal forecasts

	Feb				May (expected)			
	2022	2023	2024	2025	2022	2023	2024	2025
GDP (FY)	4.1	-0.5	-0.3	-	4.1	0.3	0.3	0.5
CPI (Avg.)								
Mkt rates	9.0	7.1	1.8	0.7	9.0	7.4	2.5	1.5
Constant rates	9.0	7.0	1.7	0.5	9.0	7.5	2.4	1.1
CPI (EOP)								
Mkt rates	10.8	3.9	1.4	0.5	10.8	4.5	1.8	1.2
Constant rates	10.8	3.8	1.3	0.3	10.8	4.6	1.6	0.8
U-rate (EOP)	3.7	4.4	5.1	5.5	3.8	4.0	4.3	4.6

Source: BoE, J.P. Morgan

Mindful of lags from past tightening, the BoE has been a reluctant hiker and may again try to signal that the end of the tightening cycle is near. Even though a pause is likely while inflation is still high, it is hard for the BoE to stop when the data are still surprising clearly to the upside. These surprises create the impression the BoE's plan for delivering inflation back at the target is not tracking as expected, hence requiring additional tightening. Those surprises are still coming. And as such, we expect the Bank will have no choice not just to hike next week but also to leave in place a tightening bias which is then acted upon should upside risks in the forecast again crys-

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tallize. This would be a repeat of its February communications, and how subsequent events then evolved. It would create a clear risk of another tightening in June, and potentially in August. Hiking in 2H23 starts to look less likely, however, if other central banks have stopped tightening and developed market GDP growth is slowing materially, as we expect. This is why we have stuck with 4.75% as the terminal rate for June, even though we see risks of 5% by August.

More specifically, we expect two signalling elements from the BoE next week that would leave the door open to further tightening beyond May, without making a firm commitment to doing so. First, the BoE has been forecasting inflation well below target in the third year of its forecast. Many observers have found this hard to understand. But it is partly a by-product of an anticipated recession that involves the unemployment rate rising significantly. If the BoE projects a smaller rise in the unemployment rate, this part of the inflation forecast should be taken up materially. At the two year horizon the BoE tends to focus on, we expect the modal CPI projection to be shown below 2%, but with upside risks leaving the mean at close close to or slightly above 2% (based on market rates that have a 4.75-5.0% peak). This would be similar to the February report, and would be a clear indication that some further tightening is likely if those risks come to pass.

We also expect the BoE to retain the same forward guidance as before, namely with a pledge to hike further if there is evidence of more persist pressures. This tends to refer to labor market tightness, wage growth and services inflation. We can imagine growth continuing to come in higher than the BoE's forecast forecast. This would further lower the odds of a significant further loosening in the labour market, which is what the BoE requires to bring inflation lower and avoid having to hike rates further. Alongside elevated measures of corporate pricing intentions, and a slow decline in both pay growth and core inflation, this would create pressure for a further tightening. While several measures of momentum in the labor market have indeed cooled, levels (e.g. of vacancies, employment) remain high with the market still tight. This is leaving measures of underlying inflation, near term expectations and wage growth running very hot.

Data releases and forecasts

Week of May 8 - 12

Tue May 9 12:01am — **BRC retail sales monitor**

%oya	Jan	Feb	Mar	Apr
Like for like sales	3.9	4.9	4.9	
Total	4.2	5.2	5.1	

Tue May 9 12:01am — **S&P report on jobs**

% balance, sa	Jan	Feb	Mar	Apr
Permanent placements	46.8	46.3	49.3	
Permanent salaries	60.8	61.3	61.1	
Availability of permanent staff	46.2	47.5	51.4	

Tue May 9 7:00am — **Halifax house price index**

sa	Jan	Feb	Mar	Apr
%m/m	0.2	1.2	0.8	0.1
%oya	2.1	2.1	1.6	
%3m/3m saar	-13.2	-9.6	-1.7	

Thu May 11 12:01am — **RICS housing market survey**

% balance, sa	Jan	Feb	Mar	Apr
Prices in last 3 months	-45.1	-47.0	-42.7	
Stocks of homes on books	34.1	35.0	35.2	
Sales in last 3 months	13.1	12.9	12.4	
Sales to stocks ratio (%)	38.5	36.8	35.2	
New buyer inquiries	-43.4	-29.7	-29.0	

Thu May 11 12:00pm — **BoE policy decision, minutes and monetary policy report**

Bank rate 425bp, forecast to hike 25bp to 450bp.

Fri May 12 7:00am — **GDP**

%m/m, sa (unless stated otherwise)

	Dec	Jan	Feb	Mar
Monthly GDP				
%m/m, sa	-0.5	0.4	0.0	0.1
%3m/3m, sa	0.1	0.2	0.1	0.1
%3m/3m, saar	0.4	0.8	0.4	0.6
Breakdown (%m/m, sa):				
Industrial production	0.2	-0.5	-0.2	
Manufacturing	0.1	-0.1	0.0	
Construction	0.8	-1.7	2.4	
Services	-0.8	0.7	-0.1	

	2Q22	3Q22	4Q22	1Q23
Quarterly GDP (1st estimate):				
%q/q, sa	0.1	-0.1	0.1	0.1
%oya, sa	3.8	2.0	0.6	0.6
%q/q, saar	0.2	-0.4	0.5	
Breakdown (%q/q, sa):				
Private consumption	0.2	-0.3	0.2	
Public consumption	-1.7	0.8	0.5	
Fixed investment	-2.3	1.1	0.3	
Business investment	2.5	0.1	-0.2	
Exports	5.1	10.5	-1.4	
Imports	0.5	-3.1	-0.2	

Fri	**Trade balance**				
May 12	£bn, sa				
7:00am		**Dec**	**Jan**	**Feb**	**Mar**
	Total	-7.0	-3.5	-4.8	
	Goods	-19.5	-16.1	-17.5	
	Services	12.5	12.6	12.7	

Review of past week's data

Nationwide house price index
Sa

	Feb		Mar		Apr	
%m/m	-0.5		~~-0.8~~	*-0.7*	-0.3	*0.5*
%oya	-1.1		-3.0			*-2.7*
%3m/3m saar	~~-8.3~~	*-8.1*	~~-7.5~~	*-7.2*		*-5.3*

Nationwide house prices posted a 0.5%m/m surprise gain for April this week after seven consecutive declines, March was also revised up. This reading is more consistent with its Halifax counterpart which been increasing since January. The recent divergence in the annual rate may be due to the different types of properties mortgaged and the adjustment process from the lender's mortgage data to a measure for average house prices. We expect the two indices to converge and the %3m/3m annualized rates (which smooth through monthly noise) to remain weak.

PMI survey final, manufacturing
% balance, sa

	Feb	Mar	Apr	
Overall index	49.3	47.9	~~46.6~~	*47.8*
Output	50.9	49.0	~~48.5~~	*49.3*

New car registrations
%3m/12m, nsa

	Feb	Mar	Apr
Total	18.5	18.4	*17.5*
Private (ex. bus. & fleet)	-3.6	0.4	*0.0*

Net lending to individuals (BoE release)
£ bn, average

	Jan		Feb		Mar
Consumer credit (ch, m/m)	1.7		~~1.4~~	*1.5*	*1.6*
Mortgage approvals (000s, sa)	~~39.6~~	*39.9*	~~43.5~~	*44.1*	*52.0*
Secured lending (ch, m/m)	2.0		0.7		*0.0*

New mortgage approvals exceeded expectations, rising 7.9k to 52.0k in March. This signals that the drop through the end of last year was likely induced by the mini-Budget shock, as the cost of borrowing surged temporarily and credit availability tightened. Mortgage approvals have partially retraced from the January low, but remain nearly 30% below the pre-mini-Budget level. Some of this reflects the higher level of rates.

Money supply
Sa

	Jan		Feb		Mar
M4 ex IOFCs (%m/m)	1.4		-0.2		*-0.6*
M4 ex IOFCs (%3m/3m, ar)	~~-3.3~~	*-3.4*	~~-0.8~~	*-0.5*	*2.3*
M4 (%m/m)	1.2		~~-0.4~~	*-0.3*	*-0.6*
M4 (%oya)	~~2.6~~	*2.7*	~~1.0~~	*1.1*	*0.4*
M4 lending (%m/m)1	-0.2		~~-1.1~~	*-0.9*	*-0.2*
M4 lending (%oya)1	~~1.6~~	*1.5*	-0.4		*-1.1*

1. Excludes the effect of securitization.

PMI survey final, services & composite
% balance, sa

	Feb	Mar	Apr	
Services business activity	53.5	52.9	~~54.9~~	*55.9*
Composite				
Output	53.1	52.2	~~53.9~~	*54.9*
New orders	53.2	54.4		*54.9*
Employment	51.3	50.0		*52.8*

The final composite PMI was revised up a full point from the flash estimate, the revisions were broad-based across output, new orders and employment. This means the services PMI jumped 3pts from March, whilst manufacturing was roughly flat. Although this revision was unexpectedly large, it is not uncommon, since the beginning of last year the average revision between the flash and final composite PMI was +0.36pts. The April reading is consistent with 2% annualized growth. However, the PMI excludes the retail sector which is likely a drag at present. Nevertheless, this signals that the BoE will make upward revisions to its growth projection next week.

PMI survey final, construction
% balance, sa

	Feb	Mar	Apr
Overall index	54.6	50.7	*#N/A*

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

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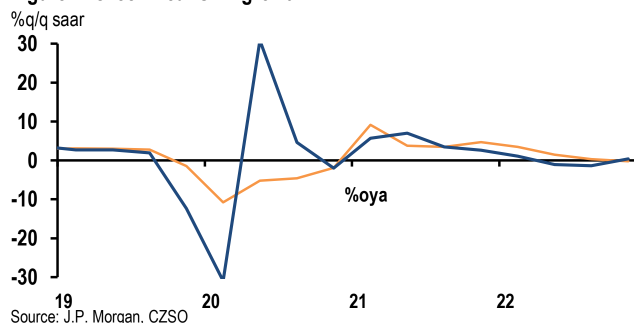
Emerging Europe

- **Czech Republic: Consumer drags 1Q GDP lower**
- **Big surprise with hawkish twist at this week's CNB meeting**
- **Turkey: Softer CPI, strong activity in April**

Czech GDP growth turned mildly positive in 1Q23. After two quarters of negative growth (-0.3%q/q and -0.4%q/q), Czech GDP growth turned back to positive in 1Q23 (as we had expected), albeit in underwhelming fashion. Activity expanded by a modest 0.1%q/q, which is a bit lower than our expectation (0.3%q/q), but a bit higher than market consensus (-0.1%). In year-over-year terms, growth is slightly negative at -0.2%oya. This means, Czech GDP is still nearly 1%-pt below its pre-pandemic level, nearly four years of zero growth and the worst performance in the EU.

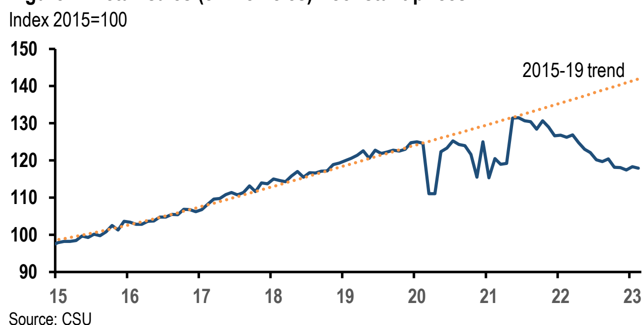
Figure 1: Czech Real GDP growth



Source: J.P. Morgan, CZSO

The consumer likely remains the biggest drag on growth. The flash release does not disclose yet the breakdown of GDP, but the press release of the statistical office revealed that external demand added a positive contribution to growth (in both %q/q and %oya), whereas household consumption contributed negatively, in line with our expectation. This implies a sixth consecutive quarter of sequentially contracting real household spending.

Figure 2: Retail sales (ex. vehicles) - constant prices

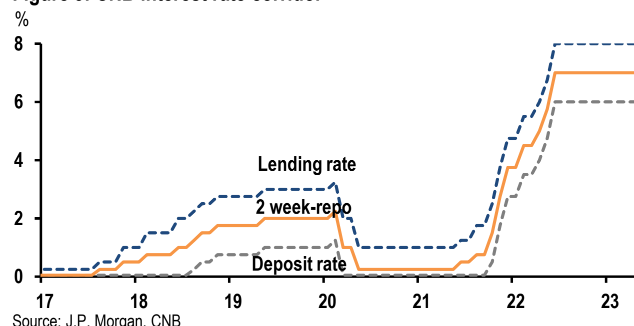


Source: CSU

CNB narrowly avoids surprise hike

This week the CNB board decided to keep the key policy rate unchanged at 7%, as universally expected, but beneath the predictable decision was a divided session which nearly resulted in a hike. The vote split showed that unchanged rates passed with a narrow majority of 4-3, with the three dissenters arguing for a 25bp hike, quite a hawkish shift from the usual 6-1 vote split.

Figure 3: CNB interest rate corridor



Source: J.P. Morgan, CNB

The statement and press conference managed to exceed market expectations for a hawkish delivery. The messaging suggests board decisions will remain stuck between "on hold" and a hike, that rates will stay at current or higher levels for long, and therefore, market pricing for cuts is premature. In the press conference, Governor Michl said the board discussed even larger rate hikes in the meeting.

The timing of new votes for hikes is puzzling. The last few months of Czech macro data can be summarized as bad growth, miserable consumption, currency strength, and gradual core CPI disinflation. Most of the macro data is hence pointing towards a more dovish narrative. Even the CNB's own model, which for many months pointed to the need for more hikes (a prescription the board disagreed with), is now pointing to rates on hold, while inflation is seen at the target within the policy horizon, and even below target in late 2024.

We shift our rate cut expectations to 2024. We have so far been arguing that even a hawkish CNB would shift narrative in the face of falling core CPI, weak demand and strong FX, and we forecasted rate cuts from August. We still believe the macro logic, and over a longer time horizon it will still hold, but in the short tem we cannot ignore the preferences of the decision maker. Given the rhetoric and votes, its hard for us to imagine that the central bank can turn so quickly as to start cutting in August, even if the data play along. Whoever voted for hikes today will probably still be voting similarly next month, and possibly for longer. We still believe the Czech Republic is a clear candidate for disinflation and one of the clearest cases for rates cuts over the next year. Over the next

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quarters, we expect the dynamics of core disinflation and poor economic growth will push a majority of the board to support rate cuts, which we now expect from February 2024. We expect 175bps of cuts in 2024, leading still to 4.25% at the end of 2024 (same as before).

Turkey: Softer CPI, strong activity in April

Headline CPI inflation rose 2.4% m/m in April, below our expectation and market consensus of 2.7%. CPI inflation decelerated to 43.7% oya in April from 50.5% oya in March thanks to favorable base effects in food and energy in addition to the 15% price cut in electricity tariffs. Core inflation (C index; CPI excluding energy, food, beverages, tobacco and gold) rose 3.2% m/m, the annual core inflation fell to 45.5% in April from 47.4% in March. Services prices rose 3.9% m/m in April, and maintained their strong momentum despite a decline in annual services inflation to 58.6%, from 59.9% in March. Domestic PPI decelerated to 52.1% oya in April from 62.5% oya in March thanks to electricity and gas price cuts for the industry, a relatively stable course of the lira, and favorable base effects. We expect annual headline inflation to bottom out at 41% in June thanks to favorable base effects. Base effects will come to an end as of June, and annual inflation is expected to end the year at 45.5%, due to the expected lira depreciation and tax hikes in 2H23.

The April PMI signals strong domestic demand similar to the economic confidence indices. Turkey's manufacturing PMI rose by 0.6 to 51.5 in April, and remained above the 50 threshold for the fourth month in a row. The April PMI survey showed increases in new orders, new export orders and output. Leading indicators signalled that the impact of the February 6 earthquakes on economic activity was short-lived thanks to fiscal and credit stimulus in line with our expectation.

Preliminary data from the Trade Ministry suggests the trade deficit widened by 43.9% oya to $8.85bn, and the annualized foreign trade deficit reached $120.4bn in April. Exports fell by 17.2% oya in April due to an export contraction driven by calendar effects of the Ramadan Holiday. Imports decreased by 4.5% oya in April due to the calendar effects similar to the case with exports. Cumulative declines in energy prices pushed mineral fuels and oils imports down by 35.8% oya. Imports of consumption goods jumped by 67.1% oya, indicating solid domestic demand conditions. Capital goods imports also increased by 21.8% oya. The data showed steep increases in imports of motor vehicles and durable consumer goods. Last, but not least, the gold import pace eased to $1.3bn in April versus $1.6bn in March and $4bn in February.

Data releases and forecasts

Week of May 8 - 12

Czech Republic:

Thu May 11 9:00am	**Consumer prices** %oya	Jan	Feb	Mar	Apr
	%oya	17.5	16.7	15.0	13.4
	%m/m nsa	6.0	0.6	0.1	__
	Food	24.8	23.9	23.5	__
	Housing	24.3	22.2	20.1	__
	Transport	7.6	6.9	-0.6	__

Mon May 12 10:00am	**Balance of payments** CZK bn	Dec	Jan	Feb	Mar
	Current account	-4.3	12.7	13.3	__
	YTD	0.0	0.0	0.0	__
	YTD-a year ago	0.0	0.0	0.0	0.0
	Trade balance	13.2	19.8	23.1	__
	Service balance	4.8	3.2	5.0	__
	Primary income	-24.9	-6.1	-10.3	__
	Secondary income	2.5	-4.1	-4.5	__
	Financial account	-38.4	8.3	-5.8	__
	FDI, net	-59.3	-37.4	-17.9	__
	Portfolio investments	-58.8	28.1	-27.6	__
	Other investments	25.9	53.8	133.8	__

Source: CNB, CZSO, Eurostat, J.P. Morgan forecasts

Hungary:

Wed May 10 9:00am	**Consumer prices** %oya	Jan	Feb	Mar	Apr
	All items (KSH)	25.7	25.4	25.2	24.1
	%m/m nsa	2.3	0.8	0.8	__
	Food	44.0	43.3	42.6	__
	Consumer durables	13.5	12.6	11.2	__
	Fuel	35.9	30.3	26.9	__
	Services	11.3	11.6	13.0	__
	Core inflation	25.2	25.2	25.7	__
	%m/m, sa	1.7	1.3	1.6	__
	Regulated g&s (NBH)	22.6	22.0	20.6	__
	Market g&s (NBH)	26.2	25.9	25.9	__

Source: NBH, KSH, Eurostat, J.P. Morgan forecasts

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Poland:

Wed	**NBP rate decision**
May 10	%

On hold. Although the NBP has been sending a more dovish message in public appearances of MPC members, even they are mentioning only a possibility of a cut late in the year, so this week we should have a rather uneventful decision, without change in rates or rhetoric.

Source: NBP, GUS, Eurostat, J.P. Morgan forecasts

Romania:

Wed	**NBR rate decision**
May 10	%

On hold

Fri	**Consumer prices**				
May 12	%oya				
9:00am		**Jan**	**Feb**	**Mar**	**Apr**
	%oya	15.1	15.5	14.5	11.4
	%m/m nsa	0.3	1.0	1.0	__

Source: NBR, National statistics, Eurostat, J.P. Morgan forecasts

Russia:

Fri	**Consumer prices**				
May 12	%oya, unless otherwise stated				
4:00pm		**Jan**	**Feb**	**Mar**	**Apr**
	%oya	11.8	11.0	3.5	2.5
	%m/m, nsa	0.8	0.5	0.4	__

Source: CBR, Rosstat, J.P. Morgan forecast

Turkey:

Wed	**Industrial production**				
May 10	%oya				
10:00am		**Dec**	**Jan**	**Feb**	**Mar**
	Total	-0.3	4.6	-8.2	__
	Manufacturing	0.4	6.0	-8.2	__
	Mining	-3.2	-8.3	-18.2	__
	Energy and utilities	-8.5	-5.8	-4.5	__

Thu	**Balance of payments**				
Mary11	US$ bn				
10:00am		**Dec**	**Jan**	**Feb**	**Mar**
	Current account	-5.9	-10.0	-8.8	__
	Trade balance	-8.1	-12.5	-10.4	__
	Exports	22.9	19.4	18.6	__
	Imports	31.0	31.8	29.0	__
	Net invisibles/transfers	1.0	0.0	1.0	__
	Capital account	-7.4	-0.7	-3.1	__
	Overall balance	-2.4	9.3	4.7	__

Source: CBRT, TUIK, J.P. Morgan forecasts

Review of past weeks data

Czech Republic:

Real GDP
%oya, unless otherwise stated

	3Q22	**4Q22**	**1Q23**	
Real GDP, nsa	1.5	0.3	~~-0.2~~	*-0.3*
%q/q saar	-1.1	-1.4	~~1.0~~	*0.4*

PMI
Index

	Feb	**Mar**	**Apr**	
PMI, Manufacturing	44.3	44.3	__	*42.8*

Source: CNB, CZSO, Eurostat, J.P. Morgan forecasts

Hungary:

Producer prices
%oya

	Jan	**Feb**	**Mar**	
Producer prices	33.5	29.0	___	*21.7*
Domestic	60.8	56.4	__	*48.2*
Export	20.2	15.8	__	*8.8*

Industrial output
%oya

	Jan	**Feb**	**Mar**	
Production, wda	-3.3	-4.6	__	*-3.8*
Production, nsa	-0.2	-4.6	__	*-4.1*
%m/m swda	-5.1	0.3	__	*0.2*

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Retail trade
% change

	Jan	Feb	Mar	
%oya wda	-4.5	-10.1	__	*13.1*
%m/m swda	-0.8	-1.9	__	*0.9*

Source: NBH, KSH, Eurostat, J.P. Morgan forecasts

Poland:

PMI
Index

	Feb	Mar	Apr	
PMI, Manufacturing	48.5	48.3	__	*46.6*

Source: NBP, GUS, J.P. Morgan forecasts

Romania:

Retail sales
%oya

	Jan	Feb	Mar	
Retail sales, sa	4.4	4.2	__	*6.8*
%m/m, sa	-0.1	0.4	__	*2.9*

Source: NBR, National statistics, Eurostat, J.P. Morgan forecasts

Russia:

PMI
Index

	Feb	Mar	Apr	
PMI, Manufacturing	53.6	53.2	~~52.5~~	*52.6*
PMI, Services	53.1	58.1	~~54.0~~	*55.9*

Real economy indicators
Real terms, %oya

	Jan	Feb	Mar	
Construction	9.9	11.9	~~9.0~~	*6.0*
Agriculture	2.7	2.6	~~-2.5~~	*3.3*
Transportation	-2.1	-0.4	~~-3.5~~	*-3.6*
Retail sales	-7.9	-9.0	~~-5.0~~	*-5.1*
Unemployment, %nsa	3.6	3.5	~~3.6~~	*3.5*
Industrial output	-2.4	-1.7	*1.2*	

Source: CBR, Rosstat, J.P. Morgan forecasts

Turkey:

Consumer prices
% change

	Feb	Mar	Apr	
Consumer prices				
%oya	55.2	50.5	~~44.1~~	*43.7*
%m/m	3.1	2.3	__	*2.4*
Producer prices				
%oya	76.6	62.5	__	*52.1*
%m/m	1.6	0.4	__	*0.8*
Core CPI (I)				
%oya	50.6	47.4	~~44.7~~	*45.5*
%m/m	2.1	2.2	__	*3.2*

Source: CBRT, TUIK, J.P. Morgan forecasts

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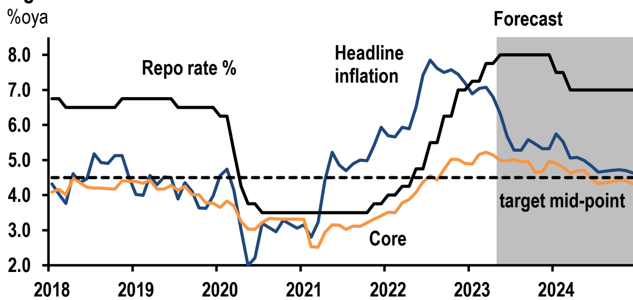
South Africa

- **Early data paint a bleak picture for 2Q growth**
- **Trade balance swung into deficit in 1Q**
- **We now forecast a 3% of GDP CA deficit in 2023**

In recent weeks we have highlighted how the weaker IP data and weakening real disposable income prompted us to revise down GDP growth expectations for 1Q, with risks to 2Q22 and full year growth projections skewed to the downside. The economy faces multiple headwinds amid unrelenting price inflation and supply side challenges.

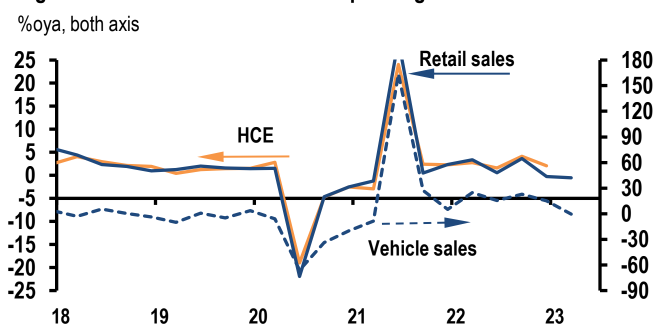
Purchasing power appears under pressure with elevated inflation prompting us to anticipate a further 25bp rate hike this month to 8% (Figure 1). Foreign trade has also weakened, with the trade balance tracking a deficit in 1Q. Yet, this week's soft patch of local sentiments and hard data—combined with a modest improvement in the inflation outlook—strengthen the possibility of a tight vote split, with the MPC likely likely to consider a hold.

Figure 1: South Africa inflation outlook



Source: StatsSA, J.P. Morgan forecast

Figure 2: South Africa - Consumer spending indicators



Source: StatsSA, J.P. Morgan

The drag from the purchasing power squeeze and the bouts of power cuts kept sentiment subdued in April. The composite purchasing price index PMI edged lower for the second month in a row with a drop to 46 in April as supply challenges weighing down on as output. The survey's underlying findings also suggest the industry had a difficult month at the beginning of the second quarter as severe load shedding reduced output and pressured demand persisted.

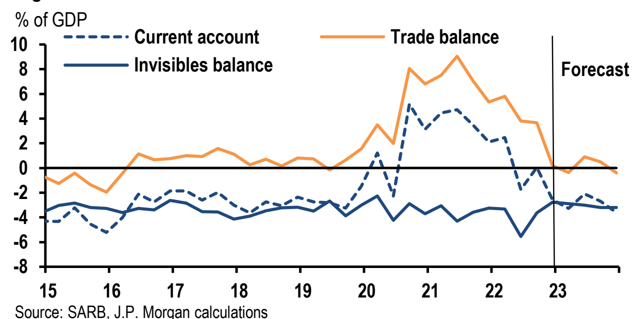
True, the recovery in domestic demand looks to have hit a soft-patch with indicators generally on the soft side (Figure 2). For example, vehicle sales nose-diving by 25%m/m in April, from a 10% rise in March. Vehicle sales declined 0.2%oya, despite benefitting from base effects after the domestic automobile industry was hit by floods in April 2022. Overall, the early data signal downside risk to our already subdued 0.1%q/q (0.5% ar) GDP growth forecast this quarter.

CA gap likely wider on trade deficit

We now forecast a wider current account at 3% of GDP this year (from 2.7%) as trade balance data faltered in 1Q23. Contrary to our expectation, the trade balance tripped into a 0.4% of GDP deficit. We had predicted that the trade surplus would improve marginally in 1H23 after a sudden narrowing to 0.2% of GDP in 4Q22, as we judged one off factors drove the narrowing. Yet, the March foreign trade account reported a small surplus of R6.9bn as exports failed to recover.

Following the seasonal slowdown in January and February exports, March usually sees a strong export performance. But this time exports rose by relatively weak (2.4%y/y) mostly on a drop in precious metal exports, while imports surged (32%) on higher mineral and mechanical shipments. All told, we estimate the CAD to have widened to 3.3% of GDP in 1Q and remain around 3% throughout as the trade balance probably tread weaker underpinned by capex on alternative energy equipment.

Figure 3: South Africa current account balance



Source: SARB, J.P. Morgan calculations

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Data releases and forecasts

Week of May 8 - 12

	SARB official reserves				
Mon					
May 8	US$ bn, except noted				
8:00am		**Jan**	**Feb**	**Mar**	**Apr**
	Gross reserves	61.9	61.0	61.9	__
	International liquidity	54.8	54.1	55.2	__

	Mining production				
Thu					
May 11	Volume output				
11:30pm		**Dec**	**Jan**	**Feb**	**Mar**
	Mining (%oya)	-3.4	-2.3	-4.1	__
	%m/m, sa	0.6	3.3	-4.9	__

	Manufacturing production				
Thu					
May 11	Volume output				
1:00pm		**Dec**	**Jan**	**Feb**	**Mar**
	Manufacturing (%oya)	-4.6	-4.1	-5.2	__
	%m/m, sa	0.2	0.5	-1.3	__

Review of past weeks' data

Barclays BER PMI
Index

	Feb	**Mar**	**Apr**
PMI (% weights)	48.8	48.1	*49.8*
Business activity (25)	45.5	48.1	*47.6*
New sales orders (30)	49.4	48.5	*44.3*

New vehicle sales
%oya, except as noted

	Feb	**Mar**	**Apr**
Total vehicle sales	2.4	-0.7	*-0.2*
%m/m nsa	2.5	10.9	*-26.0*

Standard Bank PMI
Index

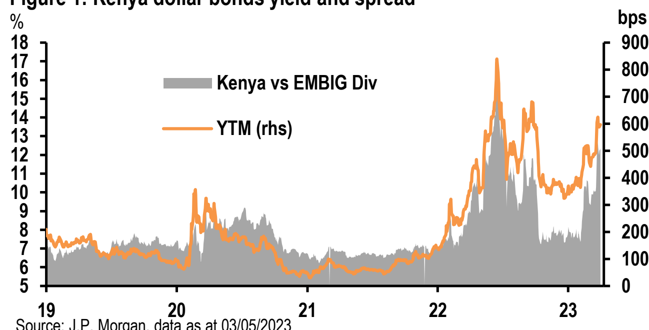
	Feb	**Mar**	**Apr**
PMI	50.5	49.7	*49.6*
Business activity	50.0	46.7	*47.5*
New sales orders	49.1	49.2	*50.2*

Source: Haver Analytics, StatsSA, J.P. Morgan

EMEA EM focus: Kenya - Mind the gap

Falling FX reserves amid tight global financial conditions and large twin imbalances amp market concerns given Kenya's large heavy hard currency redemption profile next year. FX reserves dropped nearly US$1bn to US$6.5bn YTD, with eurobond yields trending above 10% for sometime now (Figure 1). At these levels, international market access has been effectively shut, straining dollar supply amid elevated external debt obligation and large imports needs. Kenya relies on external borrowing to fund its large twin imbalances amid a weak exports base and muted FDI inflows. Our analysis suggests the authorities will be able to meet their external debt obligations this year, but the 2024 external funding gap is likely to be sizeable in the continued absence of market access.

Figure 1: Kenya dollar bonds yield and spread



Source: J.P. Morgan, data as at 03/05/2023

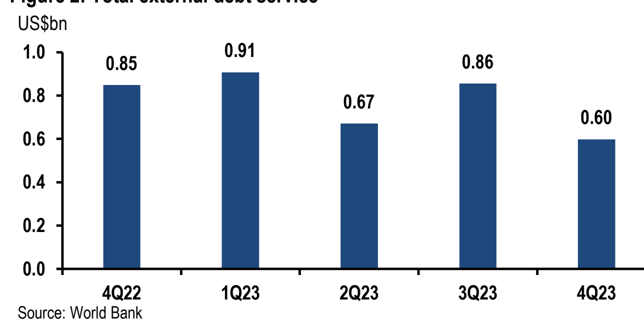
Table 1: External financing requirements and sources, 2021–2024

US$bn	2021	2022	2023	2024
Financing requirements	**7.4**	**7.4**	**7.3**	**9.1**
Current account deficit excl. grants	5.8	5.5	5.2	5.2
Debt amortization	1.6	1.9	2.1	3.9
Financing sources	**7.9**	**6.0**	**6.4**	**7.3**
FDI	0.1	0.7	1.0	1.0
Portfolio investment (sovereign bond)	1.0	0.0	0.0	0.0
Public sector loans*	2.0	1.7	2.3	2.6
o/w syndicated loans	0.0	0.3	0.6	0.3
Public grants	0.1	0.1	0.1	0.2
Private capital flows, net	2.5	2.2	1.0	1.5
Errors and omissions	0.6	0.0	0.0	0.0
Multilateral	1.7	1.3	2.1	2.0
IMF	0.7	0.5	1.1	1.3
Disbursements (ECF/EFF Program)	1.0	0.7	0.8	0.6
World Bank	0.9	0.8	1.0	0.8
Exceptional financing	0.5	0.0	0.0	0.0
Financing gap (- = excess of financing)	**-0.5**	**1.4**	**0.9**	**1.8**
FX reserves, eop	8.8	7.4	6.5	4.7

Source: IMF, J.P. Morgan, *includes $740mn SDR allocation in 2021

Our view is that multi-lateral support will continue providing a much needed lifeline this year (Table 1). The World Bank is expected to provide a bullet US$1bn in June. Authorities also anticipate an additional US$0.4bn syndicated loan (after the US$0.2bn secured last month) by June. Meanwhile, our bias for the IMF disbursement is on the upside as we expect a cumulative US$0.8bn, inclusive of a c.US$0.2bn augmentation (likely in December). The IMF is set to consider funding under the Resilience and Sustainability Trust (RST) probably amounting to US$1bn, and requires an extension (our base case) or a successor programme to the current ECF/EFF. Yet, these disbursements should offer temporary relief as external debt obligations remain elevated at US$2.1bn between 2Q23 and 4Q23 (Figure 2). We foresee a reversal in FX reserves to current levels by year end (implying a US$0.9bn drawdown), from US$7.4bn in December 2022.

Figure 2: Total external debt service



Source: World Bank

The likely weaker FX reserves starting point raises concerns on Kenya's ability to roll over the US$2bn 2024 Eurobond. Our base case sees a near US$2bn external financing gap next year, even with further multi-lateral support and a stable current account deficit. Crucially, we believe that weak dollar liquidity and significant currency convertibility challenges will persist in the period through 2024. Our assumption embeds tighter global financial conditions into 4Q23, while a US GDP growth downturn (house view: 4Q23-1Q24) could further dampen risk appetite. If correct, FX reserves should drop to US$4.7bn (about 2.7 months of imports cover) by end-24.

The upside to our baseline is improved market conditions in 4Q23-1Q24, as well as the 'mysterious' net capital private flow the IMF projects at US$4.8bn next year (from US$2.6bn). Yet, if Kenya fails to attract the necessary external debt inflows, we think that authorities will first explore other options (e.g. more bilateral loans) before considering an external public debt revamp. The other alternative would be a set of hard policy choices, one of which would entail targeted policy actions to force BoP adjustments. This would require steep import compression to narrow CA gap to around 3.2% of GDP, by our estimate, which seems unlikely given the structural nature of Kenya's CAD. All told, we believe changing Kenya's increasingly uncomfortable narrative will need concerted policy efforts over the next 2-3 quarters.

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Australia and New Zealand

- **The RBA hiked the cash rate 25bp this week, despite both consensus and market pricing in favour of a hold**
- **We expect this to be the final hike of the cycle, although the bias is for more**
- **We forecast a deficit of A$5bn for FY23 in next week's Commonwealth Government Budget**
- **New Zealand's unemployment rate remained at 3.4% in 1Q23**

The RBA delivered a surprise 25bp hike this week to 3.85% (interest on excess ES balances to 3.75%), following through on the hiking bias which had been maintained even in April's pause. After CPI both we and the consensus had expected the board to remain on hold, but we had looked for the bank to maintain the hiking bias and move again after the next CPI result (August). Markets had priced essentially no chance of a hike and little chance thereafter, which was clearly at odds with the prevailing guidance.

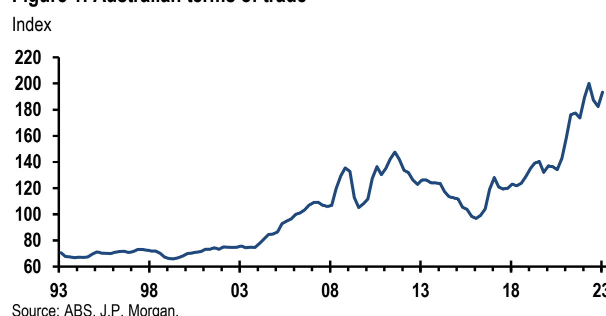
Managing household behaviour and inflation expectations has been an unusually prominent feature of policy tactics lately, for example in driving the RBA to move in smaller increments than other central banks, and spreading out its actions with a pause last month. From that perspective, a move this week also had some tactical merit in demonstrating that a pause doesn't mean the end, and tempering the 'no more hikes = cuts' assumption which the market seems conditioned to.

The new outlook is therefore less definitive, and so in our view sees the RBA slipping into a gear similar to the BoC of conditional hold, compared to the previous 'pause that refreshes'. While market participants will likely profess more trust issues after this week's decision, ultimately the guidance has been quite explicit and reliable in recent months. And from the alternative perspective of managing household behaviour and expectations, inscrutability of RBA actions from here may be a feature, not a bug. Though we think the RBA has reached our terminal rate forecast and we expect policy to remain on hold from here, we think the asymmetry is clearly to hikes in the near-term, and we have no cuts in our forecasts at this point.

Budget tracking better

We expect next Tuesday's Australian Commonwealth Budget to reveal an improved fiscal trajectory, with the deficit for the upcoming financial year to be revised lower from A$44billion to A$20 billion. Over the last two years there have been consistent upside risks to the Treasury's forecasts and so we have expected both upgrades to the budget trajectory over time, and and eventually, some redeployment into fiscal easing. The monthly tracking data for this year bear this out, having consistently run ahead of forecast since the previous Budget was delivered last October. October's profile had projected a year-to-date underlying deficit of A$34 billion as at March 2023, while the most recent reporting data show a deficit tracking closer to A$11 billion. With inflation still high and, more significantly, commodity prices continuing to outperform the Treasury's forecasts, we think it is likely the underlying balance continues to improve through the June quarter and for the FY2023 deficit to narrow toward A$5 billion.

Figure 1: Australian terms of trade



Source: ABS, J.P. Morgan.

The upside relative to forecast is a mixture of higher revenues and lower expenditures, albeit with the former doing most of the heavy lifting. The initial rebound in 2021 followed the economy's sharp GDP recovery. Growth has moderated since then, but a resilient terms of trade (Figure 1), and larger than anticipated inflation impulse have overtaken as drivers of nominal receipts. In the nine months to March, revenues exceeded expectations by ~A$15 billion, primarily driven by stronger corporate tax receipts. Individual payroll taxation has also been strong, but given the labor and wage data have printed in line with the Budget forecasts of late, we think payroll tax receipts are close to forecast.

NZ labor market remains tight

New Zealand's labor market indicators for 1Q were mixed, with unemployment steady at 3.4% (Figure 2) against expectations for an increase, while wage growth underwhelmed vs both expectations and the recent run rate, decelerating to 0.9%q/q.

This mix is consistent with a couple of previously discussed themes. First, population growth is back and is also boosting participation via the usual correlation. This lifts the hurdle rate required of the (already soft) activity data to maintain prior tightness, implying the return of capacity to the labor market. Though steady in 1Q, unemployment has been grinding up slowly from the lows and it seems safe to say the inflexion point has come. Second, survey sample collection issues in 1Q (flagged by Stats NZ), owing to somewhat localized natu-

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ral disasters, lent a selection bias toward lower unemployment, higher participation, and inflation of the always messy average earnings figure. Still, with the exception of average hourly earnings, those dynamics (particularly the selection effect, which could have been very dramatic) have not ended up in a sharp change in the headline aggregates, so probably won't lead the RBNZ to dismiss the stable unemployment rate.

Figure 2 New Zealand unemployment rate

Source: Stats NZ, J.P. Morgan

Annual wage growth in the labor cost index still moved up to 4.3%oya including overtime, a record for the series, though no more extreme than suggested by the record low level of unemployment sustained over the last couple of years. Sequentials have been topping out lately and the challenge to the RBNZ's narrative has been the lack of evidence of the price-wage spiral in the LCI; wages are following the cyclical relationship to unemployment, and its own lags. This is not what should be happening if the Phillips Curve had shifted, or expectations were unravelling as historically anchored models fail to adequately extrapolate outside the prior range of unemployment and inflation outcomes.

Ongoing non-realization of the spiral should be important for a central bank which has already moved into deeply restrictive policy, with mortgage rates to crystallize much higher still over the next 3-6 months. However, the RBNZ has been more inclined to overshoot in order to signal inflation vigilance, arguing it can rein this in when needed later, than attempting to 'stick' with a sustainable policy rate destination and play out the policy lags. Atmospherics around inflation expectations then remain important to the committee's preferences, with the RBNZ's inflation expectation survey due out next week.

Australia
Data releases and forecasts
Week of May 8 - 12

Mon	**Building approvals**				
May 8		**Dec**	**Jan**	**Feb**	**Mar**
11:30am	%m/m	14.0	-27.0	4.0	<u>15</u>
Mon	**Retail volumes**				
May 9		**22Q2**	**22Q3**	**22Q4**	**23Q1**
11:30am	%q/q	0.9	0.3	-0.2	<u>-0.1</u>

Review of prior week's data

RBA cash rate announcement			
	Mar	**Apr**	**May**
%	3.6	3.6	3.85
Retail sales			
	Jan	**Feb**	**Mar**
%m/m	1.8	0.2	0.4
Trade balance			
	Jan	**Feb**	**Mar**
A$bn	11.3	13.9	15. 3
Housing finance			
	Jan	**Feb**	**Mar**
%m/m	-2.4	-0.9	4.9

New Zealand
Data releases and forecasts
Week of May 8 - 12

No data releases of note.

Review of prior week's data

Labor force survey			
	22Q3	**22Q4**	**23Q1**
Unemployment rate (%)	3.3	3.4	3.4
Employment (%q/q)	1.3	0.1	0.8
Participation rate (%)	71.7	71.7	72.0
Private wages exc overtime			
	22Q3	**22Q4**	**23Q1**
%q/q	1.1	1.1	0.9

Source: ABS, Stats NZ, J.P. Morgan forecast

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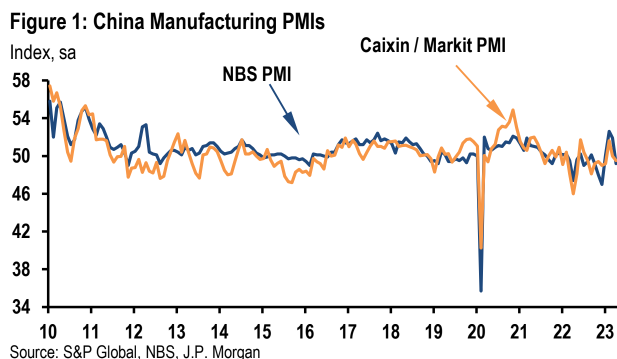
Greater China

- **China: April PMIs suggests easing manufacturing activity**
- **Hong Kong: 1Q23 GDP beat expectation on 2.7%oya growth, revising up full-year GDP to 5.4%y/y**
- **Taiwan: Manufacturing PMI fell to 47.1 in April; industry activity yet to bottom out**
- **CPI inflation remained steady at 2.4%oya**
- **Next week: China trade, inflation and FX reserves, Taiwan trade**

Activity momentum in the manufacturing sector appears to have eased going into 2Q, with a consistent decline across both the April Caixin and NBS manufacturing PMIs, down 0.5-pt and 2.7-pt respectively (Figure 1). Other than the easing in production, the new orders component fell below the 50-expansion threshold for both the Caixin manufacturing PMI (down 1.3-pt to 49.3) and the NBS manufacturing PMI (down 4.8-pt to 48.8), suggesting softening of industrial demand conditions going into early 2Q. It is interesting to note an uptick in the export orders component of the Caixin manufacturing PMI by 1.1-pt to 50.1 in April (the highest reading in nine months), probably a hint that the notable rebound in export activity during 1Q23 might have carried on into early 2Q amid further supply chain activity recovery.

Figure 1: China Manufacturing PMIs



Source: S&P Global, NBS, J.P. Morgan

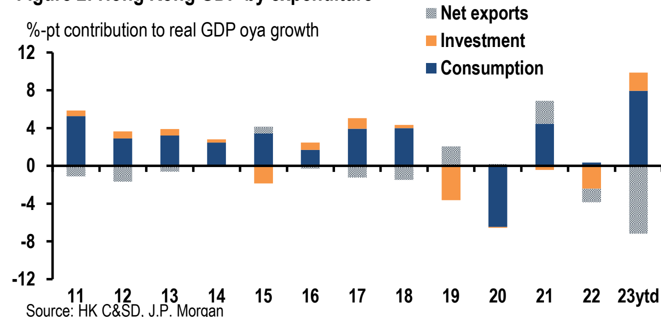
Labor demand conditions remain on the soft side, as employers seem to be cautious on hiring amid an uncertain demand outlook and on cost control considerations: the employment component in the Caixin manufacturing PMI fell further by 0.7-pt to 48.6, while the NBS manufacturing PMI employment component fell 0.9-pt to 48.8, and the NBS non-manufacturing PMI employment component fell 0.9-pt to 48.3.

Consumption spending, service sector and construction activities appear to have continued to recover solidly, amid an ongoing post-COVID demand bounce and front-loading of policy support. The non-manufacturing PMI fell 1.8-pt to a still elevated level of 56.4 in April (the second-highest reading since December 2020). Its breakdown shows service activity index fell 1.8-pt to a still strong level of 55.1 in April (led by travel-related sectors, along with solid readings in a range of other business service sectors). Besides, the construction activity index eased 1.7-pt to a still elevated level of 63.9 (the second-highest reading since October 2018) amid front-loading of policy support.

Hong Kong: GDP beat on 2.7%oya growth

Hong Kong's 1Q23 GDP beat market expectations, rising 2.7%oya on a 22.9%q/q saar surge. The year-over-year quarterly GDP growth finally turned positive after four consecutive quarters of contraction, attributable mainly to the visible increase in domestic demand. Real private consumption expenditure increased by 12.5%oya or 8.6%q/q saar, contributing 7.9%pt to 1Q23 GDP %oya growth (Figure 2). Net exports in total dragged on 1Q23 GDP by 7.2%pt. Investment surprised on the upside, with gross domestic fixed capital formation increasing by 5.8%oya compared to the 8.9%oya decline in 4Q22.

Figure 2: Hong Kong GDP by expenditure



Source: HK C&SD, J.P. Morgan

Goods exports contracted 18.7%oya in 1Q, while service exports expanded by 16.9%oya. As HK reopened not only to the Mainland, but also to the rest of the world, service trade accelerated, with service exports growing 16.9%oya in 1Q23 and service imports rising 20.6%oya. Service exports contributed 3.5%pt to first quarter GDP growth. We expect the recovery in service trade to continue in the coming quarters.

Revising up full-year GDP to 5.4%y/y

With the better-than-expected 1Q23 GDP print, we revise up our 2023 full-year GDP forecast to 5.4%y/y from 3.5%. We revise down the quarterly sequential growth in the coming quarters to 6.1%q/q saar, 2.0% and 0.0%, respectively. The recovery path may be similar to that of the Mainland, with front-loaded recovery momentum in the first half of the year. Meanwhile, uncertainties on the external front may bring some downside risk later in the year.

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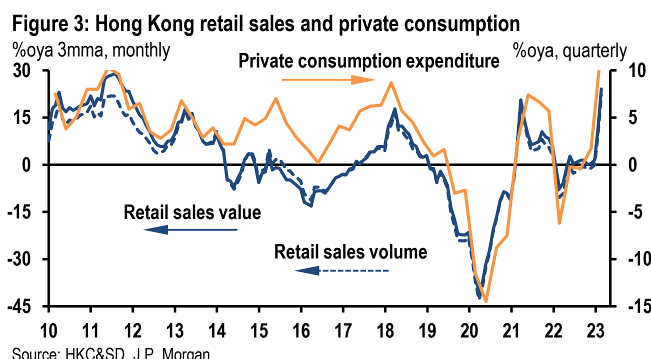
Retail sales grew 39.4%oya in March

Hong Kong's retail sales volume beat expectations again in March, rising 39.4%oya (Figure 3). Seasonally adjusted, retail sales volume increased by 6.0%m/m sa, following the 3.6% gain in February. This is the first time since the pandemic that seasonally adjusted retail sales volume recovered to the December 2019 level. Department stores, jewelry and watches, and clothing led the strong retail sales growth.

Figure 3: Hong Kong retail sales and private consumption



Source: HKC&SD, J.P. Morgan

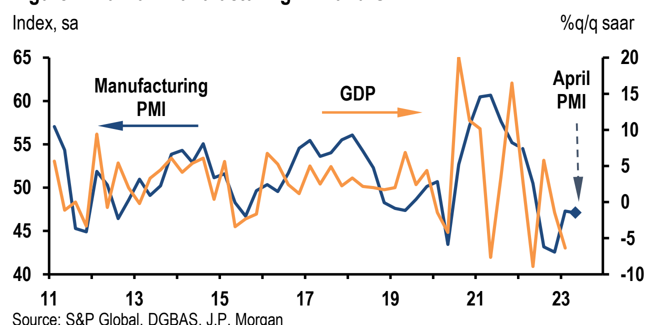
The number of inbound tourism visitors from the Mainland continues to recover. The average daily figure for April increased by another 21% compared with March. Domestic consumption by local residents should recover as well. The first installment of the consumption voucher (HK$3,000 for permanent residents and new arrivals, or HK$1,500 for other eligible persons) was handed out in April, while the second installment will be provided later in the year. Overall, we expect Hong Kong's total consumption to grow by 5.5%yoy in 2023, contributing 4.5%pt to our GDP forecast of 5.4%y/y.

Taiwan: Manufacturing PMI fell to 47.1

Taiwan's Manufacturing PMI fell 1.5-pt to 47.1 in April (Figure 4), following the decline of 0.4-pt in March and the notable rebound of 4.7-pt in February. It suggests that industrial activity has yet to show clear signs of bottoming out. As for key components, the output component fell 2.4-pt to 47.3, while the export orders component fell 3.9-pt to 44.4, adding to the decline of 1.2-pt in March.

Going forward, from an industry perspective, the tech sector outlook seemingly remains cloudy in the near term. Mainland China's reopening seems to have provided limited support to Taiwan's export activity. Taiwan's March export orders report hinted at tentative signs of softening in demand in DM markets (US and Europe), pointing to the risk that the resilience in DM goods demand in recent months may lose some momentum going ahead. On the domestic front, the government has started to disburse cash handouts amounting to NT$140 billion (0.6% of 2022 nominal GDP) to households in early 2Q (reflecting stronger-than-expected tax revenue in 2022), which should provide a solid lift to consumer spending in 2Q. In addition, steady re-opening and normalization of cross-border travel will likely support a resumption of tourist inflows and inbound tourism spending.

Figure 4: Taiwan manufacturing PMI and GDP

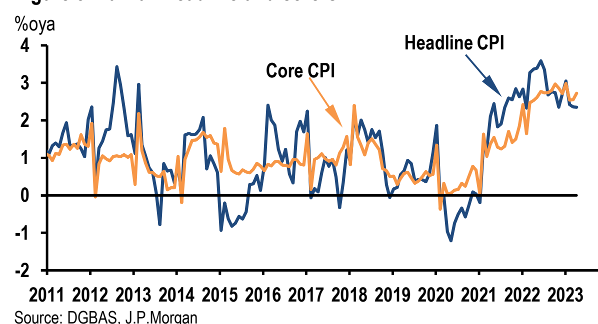


Source: S&P Global, DGBAS, J.P. Morgan

CPI inflation remained steady at 2.4%oya

Taiwan's April CPI inflation came in above expectations, registering at 2.35%oya, on a 0.3% m/m sa gain (Figure 5). The aggregate energy-related CPI component rose 1.2% m/m sa, while food prices rose moderately by 0.3%. Core CPI (overall CPI excluding fruits, vegetables and energy) rose 2.74%oya or 0.4%m/m sa.

Figure 5: Taiwan headline and core CPI



Source: DGBAS, J.P.Morgan

Looking forward, we think favorable base effect and easing import price inflation will likely help bring headline CPI inflation to around the 2%-handle in the coming months. Core CPI inflation may stay somewhat sticky amid further domestic demand recovery going ahead. For full-year 2023, we expect CPI inflation to average 2.3%y/y. Meanwhile, core CPI inflation will likely stay above the 2%-handle through 4Q, averaging 2.5% for full-year 2023. While we look for further post-Covid domestic demand recovery going ahead, uncertainty on external demand lingers on, and we have revised down full-year 2023 GDP growth to 0.1%y/y. We think the growth-inflation dynamics going forward should lead the central bank to keep policy rates on hold.

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China:

Data releases and forecasts

Week of May 8 - 12

		Jan	Feb	Mar	Apr
Sun	**FX reserves**				
May 7	US $bn				
	FX reserves	3184	3133	3184	3189
Tue	**Merchandise trade**				
May 9	US$ bn				
	Balance	100.1	16.8	88.2	68.8
	Exports	292.3	214.0	315.6	292.6
	%oya	-10.5	-1.3	14.8	7.4
	Imports	192.2	197.2	227.4	223.8
	%oya	-21.4	4.2	-1.4	0.4
Tue	**Monetary aggregates**				
May 9	%oya, bn yuan				
	M2	12.6	12.9	12.7	12.3
	TSF flow	5987	3156	5387	2024
	New loan creation	4900	1810	3890	1532
Thu	**Consumer prices**				
May 11	% change				
9:30am					
	%oya	2.1	1.0	0.7	0.2
	%m/m sa	-0.1	-0.6	0.2	0.0
Thu	**Producer prices (NBS)**				
May 11	% change				
9:30am					
	%oya	-0.8	-1.4	-2.5	-3.8
	%m/m sa	-0.2	0.2	-0.5	-0.4

Review of past week's data

Purchasing managers index (30 Apr)
Index

	Feb	Mar	Apr	
Overall (Markit)	51.6	50.0	~~50.2~~	*49.5*
Output	53.3	50.6	___	*50.2*
Overall (NBS)	52.6	51.9	~~51.4~~	*49.2*
Output	56.7	54.6	___	*50.2*

Hong Kong:

Data releases and forecasts

Week of May 8 - 12

		22Q2	22Q3	22Q4	23Q1
Fri	**Real GDP**				
May 12	% change				
4:30pm					
	%oya	-1.2	-4.6	-4.1	2.7
	%q/q saar	1.0	-10.2	0.0	22.9

Review of past week's data

Real GDP (2 May)
% change

	22Q3	22Q4	23Q1	
%oya	-4.6	-4.1	~~0.0~~	2.7
%q/q saar	-10.2	0.0	~~10.2~~	*22.9*

Retail sales volume (4 May)
% change

	Jan	Feb	Mar	
%oya	5.1	29.7	~~29.1~~	*39.4*
%m/m sa	4.0	3.6	~~1.5~~	*6.0*

Taiwan:

Data releases and forecasts

Week of May 8 - 12

		Jan	Feb	Mar	Apr
Mon	**Merchandise trade**				
May 8	US$bn				
4:00pm					
	Balance	2.3	2.3	4.2	5.1
	Exports	31.5	31.0	35.2	33.5
	%oya	-21.2	-17.1	-19.1	-19.2
	Imports	29.2	28.7	31.0	28.4
	%oya	-16.8	-9.4	-20.1	-22.6

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Review of past week's data

Markit manufacturing PMI (2 May)

Index, sa

	Feb	Mar	Apr	
Overall	49.0	48.6	~~48.9~~	*47.1*
Output	48.1	49.7	___	*47.3*

Consumer prices (5 May)

% change

	Feb	Mar	Apr	
%oya	2.4	2.4	~~2.2~~	2.3
%m/m sa	-0.5	0.5	0.3	

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

The long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

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Korea

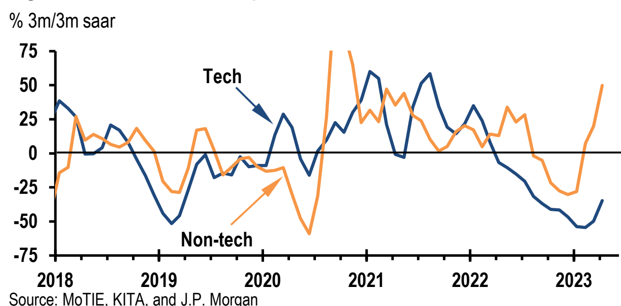
- **Customs exports stabilized in April, led by non-tech products**
- **Core price pressure remained elevated in April**
- **Manufacturing PMI recovered modestly**

The latest data confirmed that an early pivot of monetary policy stance (i.e., by mid-year) is a remote possibility as of now, amid resilient economic activity data and elevated inflation pressure in private services prices. Customs exports were flat after February-March's monthly volatility, yet the trend is recovering led by non-tech products. Manufacturing PMI remained at a sub-par level yet modestly recovered in April, and private service inflation continued strong prints. The MPC minutes echoed that the members are not actively considering a shift of policy direction, as concerns over sticky inflation pressure outweigh concerns over downside risk to GDP growth.

Customs exports stabilized in April

Seasonally adjusted, Korea's customs exports were flat in April after falling 5.6%m/m, sa in March, yet after a 13.9% gain in February. Thus, the three-month trend growth turned up strongly to 22.9%3m/3m, saar after bottoming out at -36.1% in January, and the seasonally adjusted exports level stabilized at around US$51bn after a sharp fall in 2H22 since peaking at US$63.5bn in May 2022.

Figure 1: Korea customs exports - tech vs. nontech



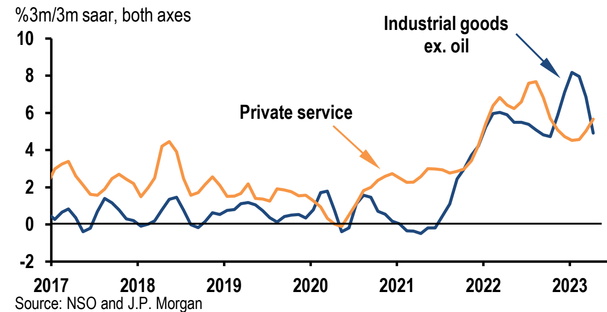
Source: MoTIE, KITA, and J.P. Morgan

By product, trend growth was more resilient in non-tech exports than tech exports (Figure 1). Non-tech exports rose in April with gains in machinery, automobile, and steel products, while tech exports fell after a gain in March mainly as semiconductor exports fell back after rising for two months. The level of (seasonally adjusted) semiconductor exports value has stabilized since February; yet the fall in semiconductor exports in April is consistent with our earlier cautious outlook for the near term (interpretation of March IP's strong monthly gains in semiconductor shipments and production) for the semiconductor cycle. The destination details are consistent with the product details. Trend growth in US-bound exports should be led by automobile and non-tech exports, while China-bound exports remained weaker likely due to trend growth weakness in semiconductor exports.

Core service price rose strongly in April

Korea's headline consumer inflation stabilized further in April to 3.7%oya after the 4.2% print in March, broadly in line with market expectations and what the Bank of Korea had signalled in the last MPC meeting communication. Seasonally adjusted by J.P. Morgan, overall consumer prices rose 0.2%m/m, sa in April and core prices (ex. oil and agriculture products) rose 0.3%, as strong pressure on core service prices was offset by an easing goods price trend.

Figure 2: Consumer prices



Source: NSO and J.P. Morgan

In detail, core goods price pressure is likely easing while core service price pressure persists. Non-oil industrial goods prices stood flat in April to show a gradual stabilization in trend after peaking in January. This is in line with our earlier expectation of a gradual phase-out of a spillover impact of a delayed pass-through from imported raw material prices. That said, core service prices continued to rise strongly in April notably with a strong monthly gain in dining-out service prices (Figure 2). The robust early 1H demand conditions for domestic services likely have bolstered price pressure on private services; yet we continue to expect service GDP growth to ease in 2H23 and induce gradual disinflation in core service prices.

Our medium-term consumer inflation forecast of gradual stabilization is broadly unchanged with the April CPI data. While there is near-term uncertainty from electricity and city gas tariff hike decisions, we assume tariff hikes in May, a decision delayed by a month. We expect the over-year-ago inflation to fall further (from a high-base in 2022 due to the oil price spikes last year) to below a 3% pace around June-July.

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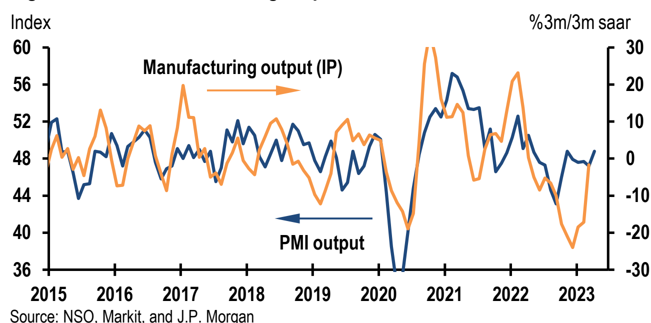
Manufacturing PMI modestly recovered

Korea's manufacturing PMI inched up 0.5pt to 48.1 in April. The index has stabilized since last October after falling during March-September 2022. In detail, the output index rose 1.6pt to a five-month high of 48.8, and IP trend growth is likely to rise in the coming months (Figure 3). However, the forward-looking new orders index stood materially weaker at 45.9 possibly reflecting a cloudy medium-term outlook. Mounting risk of global recession towards late-2023, and restrictive impact on domestic demand from monetary policy tightening should be in the pipeline to drag down the 2H23 growth outlook.

Figure 3: Korea manufacturing output - PMI vs. IP



Source: NSO, Markit, and J.P. Morgan

Review of past week's data

Customs trade

US$ bn, nsa

	Feb	Mar	Apr
Trade balance	-5.3	-4.6	~~-1.6~~ -2.6
Exports	50.1	55.1	~~49.3~~ 49.6
Imports	55.3	59.7	~~50.9~~ 52.2

Consumer prices

% change

	Feb	Mar	Apr
%oya	4.8	4.2	~~3.8~~ 3.7
%m/m, nsa	0.3	0.2	~~0.3~~ 0.2

Purchasing Managers Index

Index, sa

	Feb	Mar	Apr
PMI - Manufacturing	48.5	47.6	~~48.5~~ 48.1

Source: BoK, NSO, Customs office, Markit, and J.P.Morgan forecasts

Data releases and forecasts

Week of May 8 - 12

Wed May 10 8am — **Current account**

US$ bn, nsa

	Dec	Jan	Feb	Mar
Balance	2.7	-4.2	-0.5	1.0

Wed May 10 8am — **Unemployment rate**

% of labor force

	Jan	Feb	Mar	Apr
Seasonally adjusted	2.9	2.6	2.7	2.9
Not seasonally adjusted	3.6	3.1	2.9	2.8

Fri May 12 12pm — **Monetary aggregates**

%oya, monthly average

	Dec	Jan	Feb	Mar
M2	5.0	4.4	4.1	4.3
Lf	4.8	3.7	3.2	3.2

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ASEAN

- **Vietnam's GDP weakened sharply in 1Q23, ...**
- **… followed by April's partial recovery**
- **SBV's all-around easing continues**
- **Core inflation eased further**

Vietnam's real GDP contracted by 2.2%q/q, saar, in 1Q23; the weakness mainly came from the domestic sectors, as a reopening boost has faded and domestic liquidity conditions have tightened. In the near term, IP may benefit from a technical rebound of regional manufacturing production through the exports channel. That said, the recovery ahead could be partial and short-lived, as the region's heavy-weight tech sector has given no clear indication of an upturn yet, and we see mounting risks of a global recession towards late-2023.

In all, the April data is in line with our annual GDP forecast of modest 5.0%y/y growth for 2023. After confirming 1Q23 disappointments, the State Bank of Vietnam (SBV) cut the refinancing rate from 6.0% to 5.5% in early April, followed by other non-rate easing measures including OMO liquidity injections. Monetary easing should remain as a shock absorber, and we maintain our call for further easing to come (another cut of 50bps in 2Q23).

GDP weakened sharply in 1Q23, …

Vietnam's real GDP grew 3.3%oya in 1Q23, decelerating sharply from 13.7% in 3Q22 and 5.9% in 4Q22. While broad-based, the weakness mainly came from the domestic sectors.

Investment remained unchanged in 1Q23 from a year ago, weaker than its 8-9%y/y growth before the pandemic, while it had risen by 4-6% even in the past three years. Tightened domestic liquidity conditions have weighed on investment particularly in the real estate sector, so construction GDP contracted for two straight quarters, by 4.3%q/q, saar, in 4Q22 and 1.3% in 1Q23 (Figure 1). Consumption rose 3.0%oya in 1Q23, also slower than its normal 6-7%y/y growth, amid waning tailwinds from local reopening. In the same vein, services GDP contracted 1.9%q/q, saar, in 1Q23, after strong growth of 11.3% in 3Q22 and 6.9% in 4Q22. Net exports contributed 1.8%-pt to the overall 3.3%oya growth in 1Q23 though with both imports (-10.5%oya) and exports (-8.3%oya) sharply decreasing.

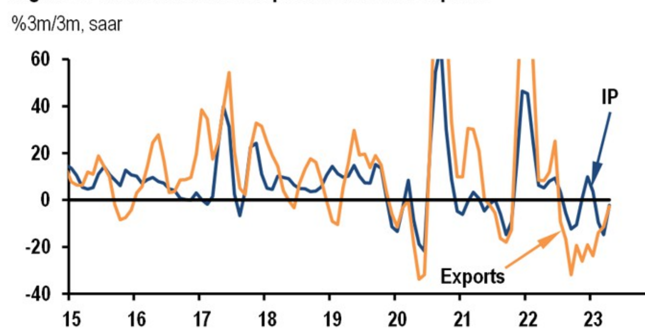
Figure 1: Vietnam real GDP growth

Source: GSO and J.P. Morgan

… followed by April's partial recovery

More recently in April, IP rose 4.6%m/m, sa, on top of a 1.4% gain in March (based on our adjustment of seasonality and LNY holiday effects). But it was a partial recovery, so IP's sequential growth remained in negative territory at -2.2%3m/3m, saar, although narrower than the trough of -14.9% in March. Exports have returned as a main driver of IP with a diminishing domestic buffer (Figure 2): Exports rose by 2.6%m/m, sa, in April after sliding through 2H22 and stabilizing until March.

Figure 2: Vietnam industrial production and exports



Source: GSO and J.P. Morgan

In the details, exports of industrial materials (metals, chemicals, and plastics) rose by a strong 6.6% in April for the third monthly gain, after falling sharply in 3Q22 on normalization of commodity prices. With the prices remaining broadly stable, recent gains in materials exports may imply a recovery in supply chain activity. Other exports rose more modestly, likely capped by weakening global demand: Textile exports rose 2.5% in April, yet their sequential growth remained negative. Tech exports have moved sideways since December, as the boost from a new handset launch was offset by broader weakness of the sector (Figure 3).

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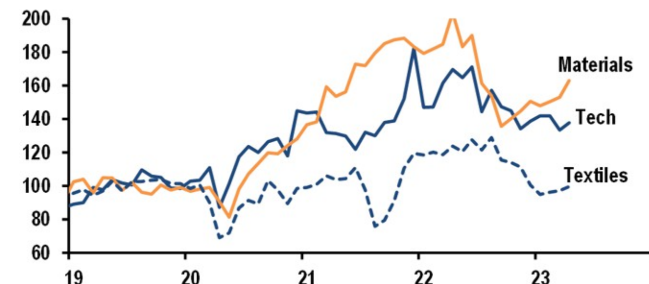
Figure 3: Vietnam exports by main product



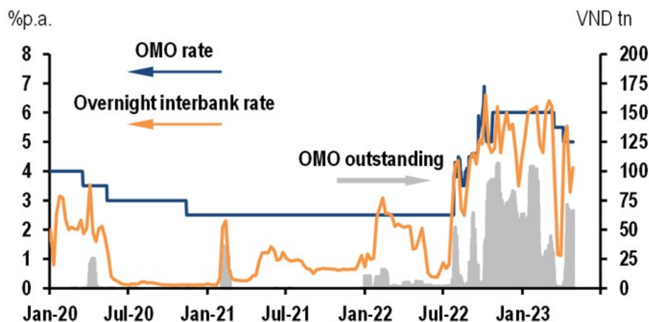
Source: GSO and J.P. Morgan

In the near term (2Q23), IP and exports may benefit from a technical rebound of regional manufacturing production, as hinted by the gain in materials exports, and the spillover of China's reopening is also a wildcard. That said, the recovery ahead could be partial and short-lived, as the region's heavyweight tech sector has given no clear indication of an upturn yet, and we see mounting risks of a global recession towards late-2023. In all, the April results were on track to achieve our annual GDP forecast of modest 5.0%y/y growth for 2023.

SBV's all-around easing continues

After the 1Q23 GDP disappointment, the State Bank of Vietnam (SBV) cut the refinancing rate from 6.0% to 5.5% and lowered short-term deposit rate caps by 50bps, effective on April 3. The cut may imply that the scope of monetary easing has expanded from alleviating liquidity stress in the short-term funding market to promoting economic growth, as the refinancing rate (adjusted this time) serves as SBV's guidance for longer-term rates (up to 12 months) rather than the discount rate (lowered previously, 3 months or less). SBV also lowered the deposit rate caps, stepping up from nudging banks to reduce rates, likely to hasten the transmission of monetary easing.

Figure 4: SBV open market operation



Source: GSO and J.P. Morgan

SBV resumed liquidity provisions through open market operations in April, in response to the surge of the overnight interbank interest rates (from 1.12% on March 31 to 5.06% on April 7, Figure 4). It injected net VND 65.0bn during the past one month, so the overnight market rates fell back partially to 4.12% at the end of the month.

Aside from the adequacy of liquidity in the banking system, an SBV official has stressed the need to facilitate businesses' access to credit for the effectiveness of monetary easing. He cited the following as a drag on credit growth (Figure 5): challenges in the credit market, prudent lending practices of banks, and legal bottlenecks in the real estate market. In this context, the central bank has announced new administrative measures (Circulars 02-03/2023) allowing banks to reschedule debt payment terms without reclassification to NPL, and to buy back unlisted corporate bonds within 12 months from selling. The series of non-rate actions taken in April is consistent with our long-standing view that monetary easing should remain as a shock absorber, and we maintain our call for further easing to come (another cut of 50bps in 2Q23).

Figure 5: Vietnam liquidity and credit growth

Source: GSO and J.P. Morgan

Inflation eased further in core

On the inflation side, headline CPI decelerated rapidly further to 2.8%oya in April. Food and energy led in disinflation, while core also eased steadily to 4.6%oya in April from January's peak of 5.2%. Core's monthly pace has slowed from 0.5%m/m, sa, in 3Q22 to 0.2% this April (Figure 6), and we expect it to stabilize along with softening domestic growth.

Interestingly, core inflation appears to adjust more quickly in Vietnam compared with sticky global core, presumably because expectations were largely under control in the country as its actual inflation did not reach a very high peak (4.9%oya this January) and exceeded the target (4.0%y/y last year) only for a short period of time (five months). We expect annual average inflation to be comfortably below this year's 4.5%y/y target in both headline and core, with which the current monetary easing aligns well.

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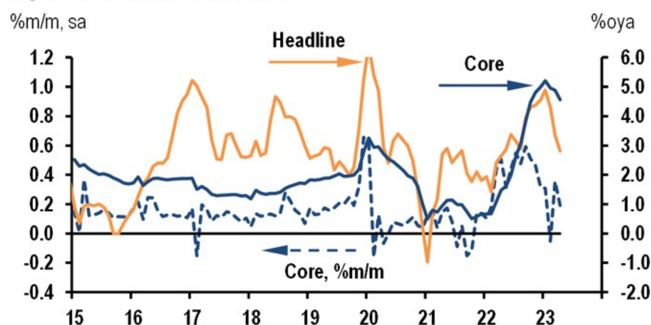
Figure 6: Vietnam CPI inflation



Source: GSO and J.P. Morgan

ASEAN

Indonesia

Data releases and forecasts

Week of May 8 - 12

No data releases.

Review of past week's data

Consumer prices (May 2)

% change

	Feb	Mar	Apr	
All items, %oya	5.5	5.0	~~4.2~~	*4.3*
%m/m, sa	0.1	0.2	~~0.3~~	*0.2*

Indonesia's April headline CPI came in a touch below expectations, up 4.3%oya and up 0.2%m/m, sa. Core inflation also came in a touch lower than expected at 2.8%oya and up 0.3%m/m, sa. Both core and headline inflation have been slowing in sequential terms as broadly expected. This in part owes to supply-side reforms undertaken in recent years, which have had a notable impact on food prices.

Real GDP (May 5)

% change

	3Q22	4Q22	1Q23	
%oya	5.7	5	~~4.5~~	*5.0*
%q/q, saar	0.2	5.3	~~4.0~~	*4.6*

Indonesia's 1Q23 real GDP rose 5.0%oya as broadly expected by consensus but firmer than our expectations and up 4.6%q/q, saar. Given the 1Q23 outturn, we have subsequently revised up full year growth to 4.2%oya from 4.0%oya, keeping the sequential growth path unchanged from the prior.

Malaysia

Data releases and forecasts

Week of May 8 - 12

Fri	**Balance of payments**				
12-May	US$ bn				
12:00 PM		**2Q22**	**3Q22**	**4Q22**	**1Q23**
	Current account	1.0	3.2	5.6	2.9
	Capital account	0.1	-3.2	0.2	0.1
	Overall balance	1.2	3.1	5.3	3.5

Fri	**Real GDP**				
12-May	% change				
12:00 PM		**2Q22**	**3Q22**	**4Q22**	**1Q23**
	%oya	8.9	14.2	7.0	4.7
	%q/q, saar	14.7	7.7	-10.0	8.0

Review of past week's data

BNM monetary policy meeting (May 3)

% pa

	Jan	Mar	May	
O/N policy rate	2.75	2.75	~~2.75~~	*3.0*

Bank Negara unexpectedly raised the Overnight Policy Rate (OPR) to 3.0% following a pause since January. The central bank pointed to the further expansion in economic momentum last quarter following the strong outturn in 2022. While the bank expects exports to slow, with which we concur, domestic demand is projected to remain the key driver of overall growth expansion this year premised on solid labor market conditions.

Philippines

Data releases and forecasts

Week of May 8 - 12

Tue	**Merchandise trade**				
9-May	US$ bn, nsa				
9:00am		**Dec**	**Jan**	**Feb**	**Mar**
	Trade balance	-4.5	-5.7	-3.9	-4.2
	Exports, %oya	-7.7	-13.1	-18.1	-15.9
	Imports, %oya	-9.4	4.1	-12.1	-15.5

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Tue	**Real GDP**				
11-May	% change				
10:00 AM		**2Q22**	**3Q22**	**4Q22**	**1Q23**
	%oya	7.5	7.6	7.2	6.5
	%q/q, saar	-1.4	13.9	10.1	4.0

Review of past week's data

Consumer prices (May 5)
% change

	Feb	**Mar**	**Apr**	
All items, %oya	8.6	7.6	~~6.7~~	*6.6*
%m/m, sa	0.3	0	~~0~~	*0.0*

The Philippines's headline CPI was flat last month, bringing overall inflation to 6.6%oya in April, a touch softer than our expectations. This is the lowest headline CPI print since August 2022. Underlying price gain momentum for headline CPI inflation eased further in April to 4.5%3m/3m, saar. However, core CPI inflation continued to expand in sequential terms last month, up 0.8%m/m, sa and 9.6%3m/3m, saar.

Singapore

Data releases and forecasts

Week of May 8 - 12

No data released.

Review of past week's data

Purchasing managers index (May 3)
Index

	Feb	**Mar**	**Apr**	
PMI	50	49.9	~~49.8~~	*49.7*
PMI—electronics	49.3	49.4	~~49.3~~	*49.2*

Thailand

Data releases and forecasts

Week of May 8 - 12

No data released.

Review of past week's data

Consumer prices (May 3)
% change

	Feb	**Mar**	**Apr**	
All items, %oya	3.8	2.8	~~3~~	*2.7*
%m/m, sa	-0.1	-0.3	~~0.2~~	*0.0*

Headline inflation decelerated from 2.8%oya in March to 2.7%oya in April, slightly below JPM estimate but in line with consensus expectations. Core inflation stayed unchanged at 1.7%oya. On a sequential basis, headline and core CPI was flat and gained 0.1%m/m, sa, while the underlying trend continues to downshift to -0.2% 3m/3m, saar and 1.1%3m/3m, saar respectively.

Vietnam

Data releases and forecasts

Week of May 8 - 12

No data releases.

Review of past week's data

No data released.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts.

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India

- **Marking up our 1Q GDP forecast to 5.5% oya**
- **Increase due to buoyant global growth boosting exports...**
- **...and lower commodity prices providing positive growth impulse**
- **Next week: April CPI at 4.8% oya**

This week we mark up our 1Q23 GDP forecast to 5.5% oya and our FY23 forecast to 7.1% oya. The stronger GDP growth forecast is underpinned by global growth being much better than expected and positive terms-of-trade benefits flowing from lower commodity prices. Next week we expect March IP to rise sequentially by a strong 1.7% m/m, sa, which would translate into 5.0% oya. April CPI inflation is expected to gap down to 4.8% oya from 5.7% on favorable base effects. Core price momentum will be keenly awaited.

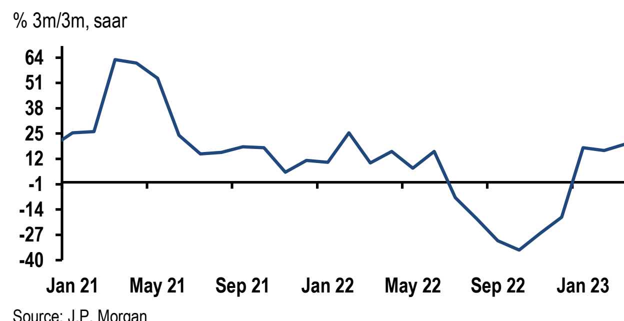
Marking up 1Q23 GDP growth

With global growth surprising to the upside, India's boat is being lifted by a rising tide. The National Statistics Office (NSO) – in projecting full-year 2022-23 growth at 7% – has implicitly projected 1Q23 GDP at 5.1% oya, an acceleration from the 4.3% print last quarter. In our view, however, 1Q23 is tracking higher, close to 5.5% oya. There are two reasons underpinning this.

First, stronger global growth in 1Q23 – with global growth forecasted at 3.7% q/q, saar, bucking expectations of a sharp slowing – has meant that both goods and service exports have been more buoyant than expected. For instance, non-oil, exports – albeit in nominal dollar terms – grew 20% 3m/3m, saar sequentially, though on the back of a March surge. To be sure, booming service export growth in 4Q22 slowed in 1Q23, but less than we had been worried about.

Second, the gradual, but progressive, fall in commodity prices in recent months has meant that the negative terms-of-trade shock from higher oil and commodity prices that impinged on growth in previous quarters is reversing and will provide a positive growth impulse, visible in earnings reports, for example.

Figure 1: Exports ex. oil



Source: J.P. Morgan

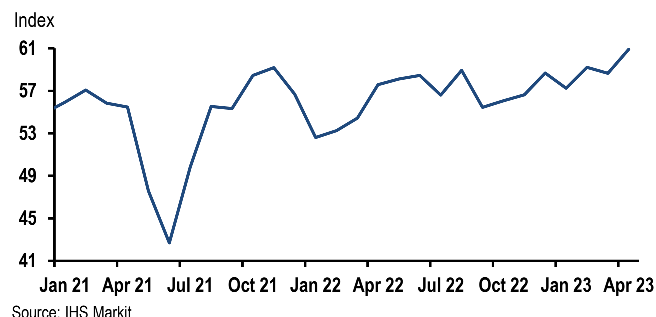
We mark up 1Q23 growth to 5.5% oya, which would push up full-year growth to 7.1% oya. This would represent a deeper and broader recovery as COVID-19 has receded, though it would still keep the level of GDP discernibly below the pre-pandemic path.

Next week we expect March IP to increase by 1.7% m/m, sa, which would translate into a print of 5.0% oya. Industrial activity was strong in January and February, as well. Part of the strength in IP is on the back of strong exports. Apart from the headline print, how consumer sector growth is shaping up will be of interest. In particular, focus will be on non-durables, which are considered a proxy for the rural economy.

PMIs off to a very strong start in 2Q

Consistent with stronger growth momentum in 1Q, surveys in 2Q got off to a very strong start, with the April composite PMI surging from 58.4 in March to 61.4 in April. The surge was underpinned by services activity jumping to 62 in April from 57.8. New orders – both domestic and exports – reflected similar buoyancy, with the latter likely capturing the surge in service exports that India has witnessed over the last year and that we have discussed (see here and here).

Figure 3: Composite new export orders



Source: IHS Markit

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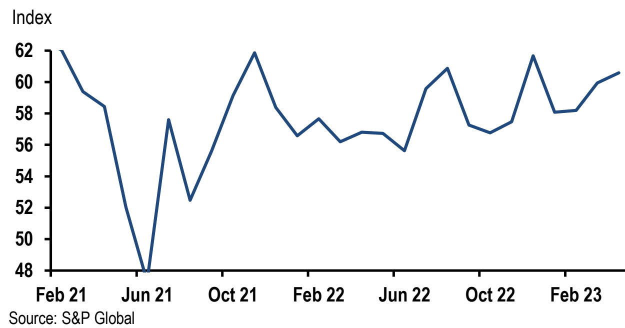
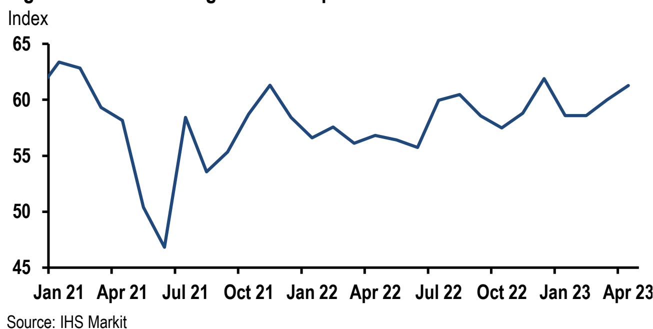
The manufacturing PMI also firmed, albeit to a much lesser extent, with the April PMI increasing to 57.2 from 56.4 the previous month. Both output and new orders remained solid. Interestingly, new export orders in April jumped to 53.1, the highest in three months, from 51.2 in March, suggesting that global demand is still holding up well.

Figure 4: Manufacturing output



Source: S&P Global

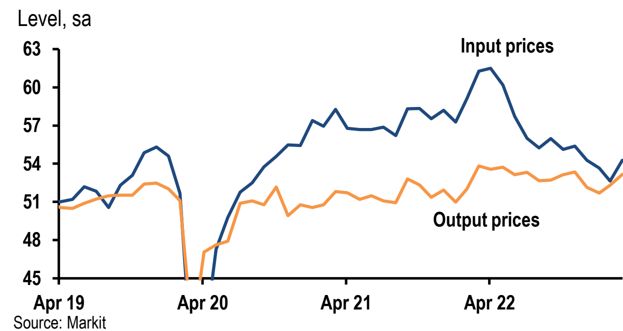
Figure 5: Manufacturing PMI new export orders



Source: IHS Markit

The one blemish to the PMI report was prices. Both input and output prices rose across manufacturing and services, with the increase more pronounced in services. For example, service input prices jumped from 53 to 54.8, inducing output prices to firm from 52.4 to 53.5. Composite output prices therefore firmed to their highest level in four months, which will be a concern, given the stickiness of core inflation over the last year. That said, at the margin, the momentum of core has been softening marginally over the last few months.

Figure 6: Composite PMI prices



Source: Markit

April CPI to gap down on base effects

Next week we expect April CPI inflation to come in at 4.8% oya, easing sharply from 5.7% in March on the back of base effects. This would be soft 0.2% m/m, sa sequential growth, helped by low food prices. Food prices were soft in April, as wheat prices have continued to ease and the typical seasonal pickup in vegetable prices has not transpired. Headline CPI momentum was also soft in March, at 0.3% m/m, sa, led by food prices. Of particular interest is core inflation, whose momentum eased to 0.4% in February and March from 0.5% earlier. In % oya terms, core-core inflation has remained close to 6%.

Data releases and forecasts

Week of May 8-12

Fri	CPI				
12-May	% oya				
		Jan	Feb	Mar	Apr
	CPI	6.5	6.4	5.7	4.8
	Core-Core	6.5	6.4	6.0	

Fri	IP				
12-May	% oya				
		Dec	Jan	Feb	March
	% oya	4.7	5.5	5.6	5.0
	% m/m, sa	-0.7	2.6	1.4	

Review of past week's data

Composite PMI (May 3)

Index

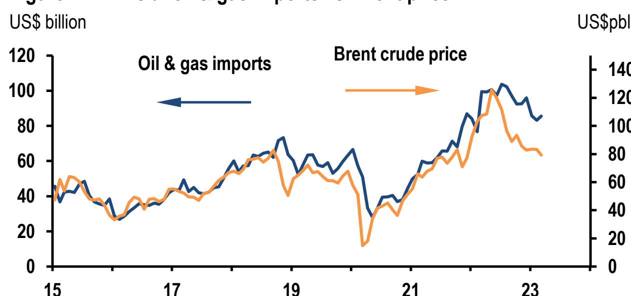
	Jan	Feb	March	April
Index	57.5	59.0	58.4	61.6

Asia Focus

Beyond price effects in oil and gas imports

The energy price shock emanating from the Ukraine crisis last year has posed a significant drag on trade balances via higher energy imports in EM Asia (Figure 1). This dynamic has partially reversed course since mid-2022, and notwithstanding geopolitical tensions and supply-side factors (e.g., OPEC output decision), we expect energy prices to continue to stabilize and provide relief to the region's external balances.

Figure 1: EM Asia[1] oil & gas imports vs. Brent price



Source: CEIC, J.P. Morgan 1. EM Asia includes CN, IN, KR, TW, ID, TH, MY and PH

Table 1: Oil & gas import in EM Asia

Market	Correlation with Brent[1]	Implied[2], 6-mo avg, US$bn	Actual, 6-mo avg, US$bn	Actual minus implied (%)
MY	0.74	2.7	3.8	42.8
PH	0.77	1.4	1.8	36.1
KR	0.80	11.8	15.5	31.3
CN	0.77	31.0	39.5	27.7
EM Asia	0.83	71.1	89.2	25.4
TH	0.77	3.7	4.5	21.6
TW	0.76	4.7	5.6	19.8
IN	0.83	13.4	15.8	18.5
ID	0.64	2.6	2.9	13.1

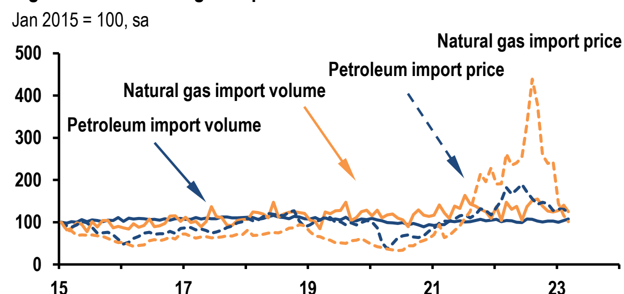
Source: CEIC, JPM estimates 1 & 2. Correlation and regression estimate based on 2015-19 period.

However, our econometric analysis reveals that oil and gas imports in the region have overshot model-implied estimates (Table 1) in the last six months even when oil prices declined, suggesting that there are other factors (e.g., volumes) in play.

For Korea, resilient energy import demand, especially in the natural gas segment, which has seen an increase in import volumes, has provided a strong offset to falling oil and gas prices (Figure 2). Possible reasons behind the demand surge since 3Q22 include reopening-related cyclical recovery, stockpiling for winter, and general energy security.

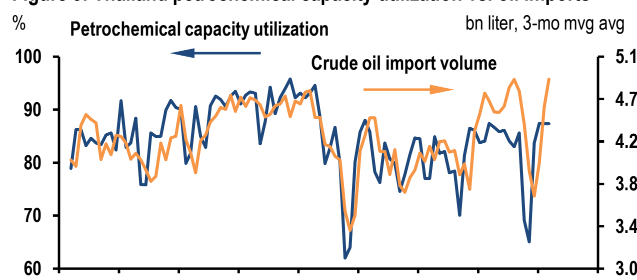
In the case of Thailand, the higher-than-estimated oil and gas deficit has been driven by the resumption of petrochemical refinery operations following a temporary shutdown in 4Q22. However, the recovery in oil import volumes has run ahead of refinery capacity (Figure 3) and is expected to normalize (moving lower) going forward, barring other reasons such as stockpiling.

Figure 2: Korea oil & gas imports



Source: CEIC, J.P. Morgan estimates

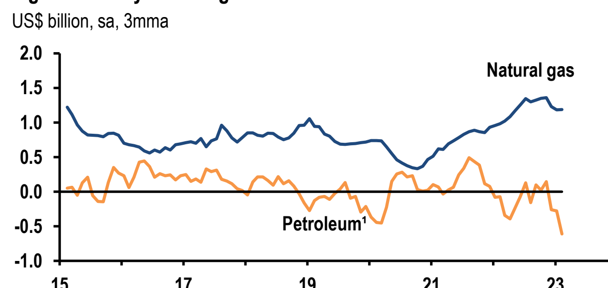
Figure 3: Thailand petrochemical capacity utilization vs. oil imports



Source: CEIC, J.P. Morgan

Higher-than-expected imports in Malaysia are tempered by its status as a net oil and gas exporter. Nonetheless, the terms-of-trade boost from higher Brent prices is also limited due to compositional effects – Malaysia is an exporter of natural gas but an importer of petroleum (especially refined products), with the bifurcation getting starker in recent months (Figure 4).

Figure 4: Malaysia oil & gas trade balance



Source: DOS, J.P. Morgan 1. Includes crude and refined

While prices will continue to be the dominant driver in oil and gas trade balances in EM Asia, non-economic factors such as energy security and transition policies could also contribute meaningfully going forward.

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US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **Wholesale trade final** (10:00am) Mar	**9 May** **NFIB survey** (6:00am) Apr Auction 3-year note $40bn Fed Governor Jefferson speaks (8:30am) New York Fed President Williams speaks (12:05pm)	**10 May** **CPI** (8:30am) Apr 0.5% Core 0.43% **Federal budget** (2:00pm) Apr Auction 10-year note $35bn	**11 May** **PPI** (8:30am) Apr 0.4% Core 0.2% **Initial claims** (8:30am) w/e May 6 245,000 Announce 20-year bond $15bn Announce 10-year TIPS (r) $15bn Auction 30-year bond $21bn Fed Governor Waller speaks (10:15am)	**12 May** **Import prices** (8:30am) Apr 0.1% **Consumer sentiment** (10:00am) May prelim 62.6 St. Louis Fed President Bullard and Fed Governor Jefferson speak (7:45pm)
15 May **Empire State survey** (8:30am) May **TIC data** (4:00pm) Mar	**16 May** **Retail sales** (8:30am) Apr **Business leaders survey** (8:30am) May **Industrial production** (9:15am) Apr **Business inventories** (10:00am) Mar **NAHB survey** (10:00am) May	**17 May** **Housing starts** (8:30am) Apr Auction 20-year bond $15bn	**18 May** **Initial claims** (8:30am) w/e May 13 **Philadelphia Fed manufacturing** (8:30am) May **Existing home sales** (10:00am) Apr **Leading indicators** (10:00am) Apr Announce 5-year note $43bn Announce 2-year note $42bn Announce 7-year note $35bn Announce 2-year FRN (r) $22bn Auction 10-year TIPS (r) $15bn	**19 May** **QSS** (8:30am) 1Q adv
22 May	**23 May** **Philadelphia Fed nonmanufacturing** (8:30am) May **Manufacturing PMI** (9:45am) May flash **Services PMI** (9:45am) May flash **New home sales** (10:00am) Apr **Richmond Fed survey** (10:00am) May Auction 2-year note $42bn	**24 May** Auction 5-year note $43bn Auction 2-year FRN $22bn **FOMC minutes**	**25 May** **Real GDP** (8:30am) 1Q second **Initial claims** (8:30am) w/e May 20 **Pending home sales** (10:00am) Apr **KC Fed survey** (11:00am) May Auction 7-year note $35bn	**26 May** **Personal income** (8:30am) Apr **Durable goods prelim** (8:30am) Apr **Wholesale trade** (8:30am) Mar **Consumer sentiment** (10:00am) May final
29 May **Memorial Day, markets closed**	**30 May** **FHFA HPI** (9:00am) Mar, 1Q **S&P/Case-Shiller HPI** (9:00am) Mar **Consumer confidence** (10:00am) May **Dallas Fed manufacturing** (10:30am) May	**31 May** **Chicago PMI** (9:45am) May **JOLTS** (10:00am) Mar **Dallas Fed services** (10:30am) May **Beige book** (2:00pm)	**1 Jun** **ADP employment** (8:15am) May **Productivity and costs** (8:30am) 1Q rev **Initial claims** (8:30am) w/e May 27 **Manufacturing PMI** (9:45am) May final **Construction spending** (10:00am) Apr **ISM manufacturing** (10:00am) May **Light vehicle sales** May Announce 10-year note (r) $32bn Announce 3-year note $40bn Announce 30-year bond (r) $18bn	**2 Jun** **Employment** (8:30am) May

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **Germany** Industrial production (8:00am) Mar -2.5%m/m, sa ECB Lane Speech (4:00pm)	**9 May** **France** Foreign trade (8:45am) Mar ECB Schnabel Speech (7:00pm)	**10 May** **Germany** HICP & CPI final (8:00am) Apr 0.4%m/m, nsa HICP: 7.6%oya **Italy** Industrial production (10:00am) Mar 0.8%m/m, sa	**11 May** **Netherlands** CPI (6:30am) Apr ECB Schnabel Speech (2:00pm)	**12 May** **France** HICP & CPI final (8:45am) Apr 0.6%m/m, nsa HICP: 6.9%oya **Spain** HICP & CPI final (9:00am) Apr 0.6%m/m, nsa HICP: 3.8%oya ECB Guindos Speech (10:00am)
15 May **Euro area** Industrial production (11:00am) Mar	**16 May** **Euro area** GDP 2nd estimate (11:00am) 1Q Employment prelim (11:00am) 1Q Foreign trade (11:00am) Mar **Germany** ZEW bus. survey (11:00am) May **Italy** HICP & CPI final (11:00am) Apr	**17 May** **Euro area** HICP final (11:00am) Apr New car regs (8:00am) Apr **France** Unemployment (7:30am) 1Q ILO unemployment (7:30am) 1Q **Italy** Foreign trade (10:00am) Mar	**18 May**	**19 May** **Germany** PPI (8:00am) Apr
22 May **Euro area** Construction output (11:00am) Mar EC cons. conf. prelim (4:00pm) May **Belgium** BNB cons. conf. (11:00am) May	**23 May** **Euro area** PMI Mfg prelim (10:00am) May PMI Serv. & comp prelim (10:00am) May Balance of payments (10:00am) Mar **Germany** PMI Mfg (9:30am) May PMI Serv. & comp (9:30am) May **France** PMI Mfg (9:15am) May PMI Serv. & comp (9:15am) May	**24 May** **Germany** IFO bus. survey (10:00am) May **Belgium** BNB bus. conf. (3:00pm) May	**25 May** **Germany** GDP final (8:00am) 1Q GfK cons. conf. (8:00am) Jun **France** INSEE bus. conf. (8:45am) May	**26 May** **France** INSEE cons. conf. (8:45am) May **Italy** ISAE bus. conf. (10:00am) May ISAE cons. conf. (10:00am) May
29 May	**30 May** **Euro area** EC survey (11:00am) May M3 money supply (10:00am) Apr **Italy** PPI (10:00am) Apr **Spain** HICP & CPI flash (9:00am) May **Netherlands** CBS bus. conf. (6:30am) May **Belgium** CPI (7:00am) May	**31 May** **Germany** Import price index (8:00am) Apr Employment (9:55am) Apr Unemployment (9:55am) May HICP & CPI flash (2:00pm) May **France** PPI (8:45am) Apr Cons. of mfg goods (8:45am) Apr GDP final (8:45am) 1Q HICP & CPI flash (8:45am) May **Italy** GDP final (10:00am) 1Q HICP & CPI flash (11:00am) May **Belgium** GDP final (11:00am) 1Q	**1 Jun** **Euro area** PMI Mfg final (10:00am) May HICP flash (11:00am) May Unemployment rate (11:00am) Apr **Germany** PMI Mfg (9:55am) May **France** Monthly budget situation (8:45am) Apr PMI Mfg (9:50am) May **Italy** PMI Mfg (9:45am) May **Spain** PMI Mfg (9:15am) May **Netherlands** CPI (6:30am) May	**2 Jun** **France** Industrial production (8:45am) Apr

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **PMI services final** (9:30am) Apr Minutes of Mar 9-10 BoJ Monetary Policy Meeting (8:50am)	**9 May** **Employers' survey** (8:30am) Mar **All household spending** (8:30am) Mar	**10 May** **Coincident CI prelim** (2:00pm) Mar **Consumption activity index** (2:00pm) Mar	**11 May** **Bank lending** (8:50am) Apr **Current account** (8:50am) Mar 1,322 billion yen **Economy watchers survey** (2:00pm) Apr 54.0 Summary of Opinions of Apr 27-28 BoJ Monetary Policy Meeting (8:50am) Auction 30-year note	**12 May** **M2** (8:50am) Apr Auction 3-month bill
15 May **Corporate goods prices** (8:50am) Apr Auction 5-year note	**16 May**	**17 May** **GDP prelim** (8:50am) 1Q **IP final** (1:30pm) Mar Auction 20-year note	**18 May** **Trade balance** (8:50am) Apr Auction 1-year note	**19 May** **Nationwide core CPI** (8:30am) **Tertiary sector activity index** (1:30pm) Mar Auction 3-month bill
During the week: Nationwide department store sales (16-22 May)				
22 May **Private machinery orders** (8:50am) Mar	**23 May** **PMI manufacturing prelim** (9:30am) May **PMI services prelim** (9:30am) May Auction 10-year note	**24 May**	**25 May** Auction 40-year note	**26 May** **Tokyo core CPI** (8:30am) May **Corporate service prices** (8:50am) Apr Auction 3-month bill
29 May **Coincident CI final** (2:00pm) Mar	**30 May** **Job offers to applicants ratio** (8:30am) Apr **Unemployment rate** (8:30am) Apr Auction 2-year note	**31 May** **IP prelim** (8:50am) Apr **Total retail sales** (8:50am) Apr **Consumer sentiment** (2:00pm) May **Housing starts** (2:00pm) Apr	**1 Jun** **MoF corporate survey** (5:50am) 1Q **PMI manufacturing final** (9:30am) May **Auto registrations** (2:00pm) May Auction 10-year note	**2 Jun**

Note: Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May	**9 May**	**10 May** **Building permits** (8:30am) Mar -5.4%	**11 May**	**12 May** **BoC Senior Loan Officer Survey** (10:30am) 1Q
15 May **Housing starts** (8:15am) Apr **Wholesale sales** (8:30am) Mar **Existing home sales** (9:00am) Apr	**16 May** **CPI** (8:30am) Apr **Manufacturing sales** (8:30am) Mar	**17 May** **International transactions in securities** (8:30am) Mar **New vehicle sales** (8:30am) Mar **Teranet/National Bank HP Index** (8:30am) Apr	**18 May** **New housing price index** (8:30am) Apr BoC Financial System Review (11:00am)	**19 May** **Retail sales** (8:30am) Mar
22 May **Victoria Day** **Markets closed**	**23 May** **IPPI** (8:30am) Apr	**24 May**	**25 May** **CFIB Business Barometer Index** (6:00am) May **Payroll employment** (8:30am) Mar	**26 May**
29 May	**30 May** **Current account** (8:30am) 1Q	**31 May** **Quarterly GDP** (8:30am) 1Q **Monthly GDP** (8:30am) Mar **Food services and drinking places** (8:30am) Mar	**1 Jun** **S&P Global manufacturing PMI** (9:30am) May	**2 Jun**

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **Brazil** IGP-DI Apr -2.52%oya; -0.96%m/m **Chile** Trade balance Apr USD$2.0bn CPI Apr 9.9%oya; 0.3% m/m	**9 May** **Mexico** Biweekly core CPI Apr 0.13%2w/2w Biweekly CPI Apr 0.21%2w/2w Core CPI Apr 7.60%m/m CPI Apr 6.27%m/m Auto report Apr **Argentina** Industrial production Mar -2.1%oya Construction activity Mar -5.6%oya	**10 May** **Mexico** ANTAD same-store sales Apr **Brazil** IP Mar 0.4%oya;0.8%m/m,sa	**11 May** **Peru** Reference rate May 7.75%	**12 May** **Brazil** IPCA Apr 4.11%oya;0.54%m/m **Mexico** IP Mar 1.4%oya; -0.4%m/m, sa **Colombia** Manufacturing Mar -3.3%oya Retail sales Mar -1.0%oya **Uruguay** Industrial production Mar **Argentina** CPI Apr 7.5%m/m **Chile** Overnight Rate target May 11.25%
15 May **Peru** Economic Activity Mar National Unemployment rate Apr **Colombia** Economic Activity Mar GDP 1Q	**16 May** **Uruguay** BCU rate decision May **Colombia** Trade balance Mar	**17 May** **Brazil** Retail sales Mar	**18 May** **Chile** Current Account Balance 1Q GDP 1Q **Argentina** Trade balance Apr **Mexico** Banxico meeting May	**19 May** **Mexico** Retail sales Mar
22 May **Argentina** Budget balance Apr	**23 May** **Paraguay** BCP rate decision May **Peru** GDP 1Q **Argentina** Economic activity Mar	**24 May** **Mexico** Biweekly core CPI Biweekly CPI	**25 May** **Brazil** FGV: consumer confidence May IPCA-15 May **Mexico** Trade balance Apr	**26 May** **Mexico** GDP monthly proxy Mar
During the week: Brazil Tax collections Apr (22-25 May)				
29 May **Brazil** Current Account Apr FDI Apr	**30 May** **Brazil** IGP-M May Central government budget Apr **Chile** Unemployment Mar **Uruguay** National Unemployment rate Mar	**31 May** **Brazil** Primary budget balance Apr **Chile** Industrial production Mar Retail sales Mar **Colombia** Unemployment Apr	**1 Jun** **Brazil** PMI Manufacturing May Trade balance May **Mexico** Remittances Apr IMEF manufacturing index May IMEF nonmanufacturing index May **Peru** CPI May	**2 Jun** **Paraguay** CPI May **Brazil** FIPE CPI IP **Mexico** Unemployment
During the week: Argentina Tax Collections May (1-6 Jun)				

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UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **Sweden** Budget Balance (8:00am) Apr Riksbank Flodén Speech (10:30am)	**9 May** **United Kingdom** BRC retail sales monitor (12:01am) Apr REC jobs report (12:01am) Apr Halifax HPI (7:00am) Apr 0.1%m/m, sa **Sweden** Riksbank MPM minutes (7:30am) Apr Riksbank Flodén Speech (12:00pm) Norges Bank Bache Speech	**10 May** **Sweden** Industrial production (8:00am) Mar Household consumption (9:30am) Mar Production value index (9:30am) Mar **Norway** CPI (8:00am) Apr 6.0%oya (core 6.2%oya) PPI (8:00am) Apr Riksbank Bunge Speech (5:00pm)	**11 May** **United Kingdom** RICS HPI (12:01am) Apr BoE rate announcement, minutes and MPR (12:00pm) May 25bp hike to 4.5% **Sweden** PES unemployment (6:00am) Apr Riksbank Flodén Speech (1:10pm)	**12 May** **United Kingdom** Real GDP prelim (7:00am) 1Q 0.1%q/q, sa Business investment prelim (7:00am) 1Q Monthly GDP (7:00am) Mar 0.1%m/m, sa Industrial production (7:00am) Mar Index of services (7:00am) Mar Trade balance (7:00am) Mar **Norway** GDP (8:00am) 1Q 0.5%q/q, saar Monthly GDP indicator (8:00am) Mar 0.1%m/m, sa Riksbank Jansson Speech (12:00pm)
15 May **Sweden** CPI (8:00am) Apr **Norway** Trade balance (8:00am) Apr	**16 May** **United Kingdom** Labor market report (7:00am) Apr **Sweden** Prospera inflation expectations (8:00am) May	**17 May**	**18 May**	**19 May** **United Kingdom** Gfk cons. conf. (12:01am) May
During the week: CBI industrial trends May (18-24 May) CBI distributive trades May (21-27 May)				
22 May **United Kingdom** Rightmove HPI (12:01am) May **Norway** Building statistics (9:30am) Apr	**23 May** **United Kingdom** Public sector finances (7:00am) Apr PMI Mfg prelim (9:30am) May PMI Serv and comp. prelim (9:30am) May **Norway** Consumer confidence (6:30am) 2Q	**24 May** **United Kingdom** CPI (7:00am) Apr ONS HPI (9:30am) Mar	**25 May** **United Kingdom** Car manufacturing (12:01am) Apr **Sweden** LFS unemployment rate (9:30am) Apr **Norway** Credit indicator growth (8:00am) Apr Investments in oil and gas (8:00am) 2Q	**26 May** **United Kingdom** Retail sales (7:00am) Apr **Sweden** PPI (8:00am) Apr Retail sales (8:00am) Apr **Norway** Retail sales (8:00am) Apr
During the week: Nationwide HPI May (28-3 Jun)				
29 May **Sweden** Household lending (8:00am) Apr Financial markets statistics (9:00am) Apr	**30 May** **Sweden** GDP final (8:00am) 1Q Trade balance (8:00am) Apr Wage stats (8:00am) Mar Consumer confidence (9:00am) May Economic Tendency survey (9:00am) May	**31 May** **United Kingdom** IDR inflation forecast (7:00am) May Lloyds business barometer (7:01am) May M4 & M4 lending final (9:30am) Apr Net lending to individuals (9:30am) Apr	**1 Jun** **United Kingdom** PMI Mfg final (9:30am) May Decision Maker Panel Survey (9:30am) May **Sweden** PMI Mfg (8:30am) May **Norway** PMI Mfg (10:00am) May	**2 Jun** **Norway** Labor directorate unemployment (10:00am) May

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Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **South Africa** Gross reserves (8:00am) Apr	**9 May** **Czech Republic** Industrial output (9:00am) Mar Trade balance (9:00am) Mar **Hungary** Trade balance prelim (9:00am) Mar	**10 May** **Romania** Trade balance (9:00am) Mar NBR rate decision May On hold at 7.00% **Hungary** CPI (9:00am) Apr 24.1%oya **Turkey** Industrial output (10:00am) Mar **Ukraine** CPI (3:30pm) Apr 18.5%oya **Poland** NBP rate decision May On hold at 6.75% **Ghana** CPI Apr 39.5%oya	**11 May** **Czech Republic** CPI (9:00am) Apr 13.4%oya **Turkey** Current account (10:00am) Mar **Serbia** NBS rate decision (12:00pm) May 25bp hike to 6.25% **South Africa** Manufacturing output (1:00pm) Mar **Egypt** CPI Apr 30.5%oya	**12 May** **Romania** CPI (9:00am) Apr 11.4%oya Industrial output (9:00am) Mar **Czech Republic** Current account (10:00am) Mar **Serbia** CPI (12:00pm) Apr 15.4%oya **Belarus** CPI (4:00pm) Apr **Russia** CPI (7:00pm) Apr 2.5%oya **Kazakhstan** Retail sales Apr
During the week: Saudi Arabia GDP prelim 1Q (7 May) Kazakhstan FX reserves Apr (8-12 May) Ghana FX reserves Apr (8-22 May) Angola CPI Apr (12-26 May)				
15 May **Saudi Arabia** CPI (9:00am) Apr **Poland** CPI final (10:00am) Apr Current account (2:00pm) Mar **Israel** Trade balance (1:00pm) Apr CPI (6:30pm) Apr **Romania** Current Account Mar **Nigeria** CPI Apr	**16 May** **Romania** GDP flash (9:00am) 1Q **Hungary** GDP prelim (9:00am) 1Q **Poland** GDP prelim (10:00am) 1Q Core inflation (2:00pm) Apr **South Africa** Quarterly Labour Force Survey (11:30am) 1Q **Israel** GDP flash (1:00pm) 1Q	**17 May** **South Africa** Retail sales (1:00pm) Mar **Russia** GDP flash (7:00pm) 1Q **Kazakhstan** Industrial output Apr **Serbia** Current account Apr **Zambia** BOZ rate decision May	**18 May** **Czech Republic** PPI (9:00am) Apr **Egypt** CBE rate decision May	**19 May**
During the week: Oman CPI Apr (15-22 May) Qatar CPI Apr (15-25 May) Poland Budget balance Apr (15-31 May) Kuwait CPI Apr (20-28 May)				
22 May **Poland** PPI (10:00am) Apr Industrial output (10:00am) Apr Average gross wages and Employment (10:00am) Apr **Israel** BoI rate decision (4:00pm) May **Ghana** BOG rate decision May	**23 May** **Poland** Retail sales (10:00am) Apr **Israel** Unemployment rate (1:00pm) Apr **Hungary** NBH rate decision (2:00pm) May **Nigeria** CBN rate decision May	**24 May** **Hungary** Average gross wages (9:00am) Mar **Turkey** Capacity utilization (10:00am) May **South Africa** CPI (10:00am) Apr **Russia** PPI (7:00pm) Apr **Kenya** GDP 1Q **Israel** State of the economy index Apr	**25 May** **Poland** Unemployment (10:00am) Apr **Turkey** CBRT rate decision (2:00pm) May **Zambia** CPI Apr **South Africa** SARB rate decision May	**26 May** **Kazakhstan** NBK rate decision (12:00pm) May **Hungary** Unemployment (9:00am) Mar
During the week: Bahrain CPI Apr (26-30 May) Saudi Arabia SAMA net foreign assets Apr (28 May)				

29 May	30 May	31 May	1 Jun	2 Jun
Kenya CBK rate decision May	**South Africa** Private sector credit (8:00am) Apr Budget (2:00pm) Apr **Czech Republic** GDP prelim (9:00am) 1Q **Turkey** Foreign trade (10:00am) Apr **Qatar** International reserves Apr	**Hungary** PPI (9:00am) Mar **Turkey** GDP (10:00am) 1Q **Poland** CPI (10:00am) Apr GDP (10:00am) 1Q **Serbia** GDP (12:00pm) 1Q **South Africa** Trade balance (2:00pm) Apr **Russia** Industrial output (7:00pm) Apr Retail sales, Unemployment & Investment (7:00pm) Apr **Kenya** CPI Apr **Ukraine** Current account Apr	**Russia** Manufacturing PMI (9:00am) May **Hungary** PMI (9:00am) May GDP (9:00am) 1Q Trade balance (9:00am) Apr **Turkey** PMI (10:00am) May **Poland** PMI (9:00am) May **Czech Republic** PMI (9:30am) May **Nigeria** PMI (9:45am) Apr **South Africa** Barclays PMI (11:00am) May Vehicle sales May	**Kazakhstan** CPI May
During the week: Israel Current account 1Q (1-16 Jun)				

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Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 May **Australia** NAB business confidence (11:30am) Apr Building approvals (11:30am) Mar 15%m/m **Taiwan** Trade balance (4:00pm) Apr US$5.1bn	**9 May** **Philippines** Trade balance (9:00am) Mar US$-4.2bn **China** Trade balance Apr US$68.8bn	**10 May** **South Korea** Current account balance (8:00am) Mar US$1.0bn Unemployment rate (8:00am) Apr 2.9% SA	**11 May** **China** CPI (9:30am) Apr 0.2%oya PPI (9:30am) Apr -3.8%oya **Philippines** GDP (10:00am) 1Q 6.5%oya	**12 May** **New Zealand** Business NZ PMI (10:30am) Apr **South Korea** Money supply (12:00pm) Mar M2 4.3%oya **Malaysia** Current acct. Balance (12:00pm) 1Q US$2.9bn GDP (12:00pm) 1Q 4.7%oya **Hong Kong** GDP final (4:30pm) 1Q 2.7%oya **India** CPI (5:30pm) Apr 4.8%oya IP (5:30pm) Mar 5.0%oya
During the week: China Money supply/TSF Apr (9-15 May) TSF flow 2024bn yuan M2 12.3%oya				
15 May **Thailand** GDP (9:30am) 1Q **India** WPI (12:00pm) Apr Trade balance (5:00pm) Apr **Indonesia** Trade balance Apr	**16 May** **South Korea** Export price index (6:00am) Apr Import price index (6:00am) Apr **China** IP (10:00am) Apr FAI (10:00am) Apr Retail sales (10:00am) Apr	**17 May** **Singapore** NODX (8:30am) Apr	**18 May** **Australia** Unemployment rate (11:30am) Apr **Philippines** BSP monetary policy meeting **Hong Kong** Unemployment rate (4:30pm) Apr *Holiday: Indonesia*	**19 May** **New Zealand** Trade balance (10:45am) Apr **Malaysia** Trade balance (12:00pm) Mar
22 May **Taiwan** Export orders (4:00pm) Apr Unemployment rate (4:00pm) Apr **Hong Kong** CPI (4:30pm) Apr	**23 May** **South Korea** Consumer survey (6:00am) May **Indonesia** Current acct. Balance (10:00am) 1Q **Singapore** CPI (1:00pm) Apr **Taiwan** IP (4:00pm) Apr	**24 May** **South Korea** FKI Business Survey (6:00am) Apr **New Zealand** Retail sales (10:45am) 1Q RBNZ official rate announcement	**25 May** **South Korea** PPI (6:00am) Apr BOK monetary policy meeting **Indonesia** BI monetary policy meeting	**26 May** **Australia** Retail sales (11:30am) Mar **Malaysia** CPI (12:00pm) Apr **Singapore** IP (1:00pm) Apr *Holiday: Hong Kong*
During the week: Vietnam Exports May (25-31 May) Vietnam Industrial output May (25-31 May) Vietnam CPI May (25-31 May) Thailand Mfg. Production Apr (26-30 May)				
29 May **Hong Kong** Trade balance (4:30pm) Apr	**30 May** **New Zealand** Building permits (10:45am) Apr **Australia** Building approvals (11:30am) Mar	**31 May** **South Korea** IP (8:00am) Apr **New Zealand** NBNZ business confidence (1:00pm) May **China** PMI mfg. (NBS) (9:00am) Apr **Australia** Pvt. sector credit (11:30am) Apr **Thailand** BOT monetary policy meeting Trade balance (2:30pm) Apr PCI (2:30pm) Apr PII (2:30pm) Apr **Taiwan** GDP final (4:00pm) 1Q	**1 Jun** **South Korea** Trade balance (9:00am) May PMI mfg. (9:30am) May **Taiwan** PMI mfg. (8:30am) May **China** PMI Mfg. (9:45am) Jun **India** PMI mfg. (10:30am) Jun **Hong Kong** Retail sales (4:30pm) Apr *Holiday: Indonesia*	**2 Jun** **New Zealand** Terms of trade (10:45am) 1Q **South Korea** GDP (8:00am) 1Q CPI (8:00am) May *Holiday: Indonesia, Singapore*

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
06 - 12 May	**08 May**	**09 May**	**10 May**	**11 May**	**12 May**
China ●Money supply/TSF (Apr)	Chile ●CPI (Apr) Germany ●IP (Mar) United States ●SLOOS (1Q) ●Wholesale trade (Mar, fnl)	China ●Trade balance (Apr) Mexico ●CPI (Apr) United States ●NFIB svy (Apr)	Brazil ●IP (Mar) Hungary ●CPI (Apr) Japan ●CAI (Mar) Norway ●CPI (Apr) Poland ●**NBP mtg: no chg** Romania ●**NBR mtg: no chg** United States ●CPI (Apr)	China ●CPI (Apr) Czechia ●CPI (Apr) Peru ●**BCRP mtg: no chg** Philippines ●GDP (1Q) United Kingdom ●**BoE mtg: +25bp** ●GDP (1Q, prl) ●IP (Mar) ●Trade balance (Mar) United States ●PPI (Apr)	Argentina ●CPI (Apr) Brazil ●IPCA (Apr) Chile ●**CBC mtg: no chg** Hong Kong ●GDP (1Q) India ●CPI (Apr) Malaysia ●GDP (1Q) Norway ●GDP (1Q) Romania ●CPI (Apr) Russia ●CPI (Apr) United Kingdom ●GDP (1Q, prl) ●IP (Mar) ●Trade balance (Mar) United States ●Import prices (Apr) ●UMich cons sent (May, prl)
13 - 19 May	**15 May**	**16 May**	**17 May**	**18 May**	**19 May**
	Colombia ●GDP (1Q) Euro area ●IP (Mar) India ●Trade balance (Apr) Israel ●CPI (Apr) Sweden ●CPI (Apr) Thailand ●GDP (1Q) United States ●Empire State survey (May) ●TIC data (Mar)	Canada ●CPI (Apr) China ●FAI (Apr) ●IP (Apr) ●Retail sales (Apr) Euro area ●Employment (1Q, prl) ●GDP (1Q, 2nd est) ●Trade balance (Mar) Hungary ●GDP (1Q) Israel ●GDP (1Q) Poland ●GDP (1Q) Romania ●GDP (1Q) United Kingdom ●Labor market report (Apr) United States ●Bus. inventories (Mar) ●IP (Apr) ●NAHB survey (May) ●Retail sales (Apr)	Euro area ●HICP (Apr, fnl) ●New car regs (Apr) Japan ●GDP (1Q, prl) Russia ●GDP (1Q) Singapore ●NODX (Apr) United States ●Housing starts (Apr)	Chile ●GDP (1Q) Japan ●Trade balance (Apr) Mexico ●**Banxico mtg: no chg** Philippines ●**BSP mtg: +25bp** United States ●Existing home sales (Apr) ●Leading indicators (Apr) ●Philly Fed mfg (May)	Japan ●Nationwide core CPI (Apr) United States ●QSS (1Q, adv)

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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