Mar 30, 2023

Citi analysts change of view - no April rate hike from the RBA after weaker YoY CPI

- **AUD: Australia's CPI monthly indicator eases** from 7.4% in January to 6.8% in February, weaker than consensus estimate for 7.2%. The moderation supports the nascent view that **YoY CPI has likely peaked in Q4 at 8.4%. However, core inflation remains somewhat sticky** with the majority of the CPI basket items still rising especially in services inflation and this is expected to accelerate over the coming year. **Going the other way however, durable goods inflation could come down more rapidly and overall, Citi analysts see material downside risk to their Q1 inflation forecast of 1.7% that is due for release in April.** At 6.8% YoY, inflation is now close to the RBA's forecast of 6.7% for June 2023, ie, headline inflation is moderating ahead of schedule. Even though there may be reservations about the ability to map the monthly CPI indicator to the quarterly official CPI data, **Citi analysts now see downside risks to their forecast of 1.7% for Q1 CPI to be released in April.**

- **AUD: Implications for monetary policy – Citi analysts** think the CPI Indicator yesterday would have needed to print at 7.0% or higher to keep alive the view of a +25bp April RBA rate increase. **With this criterion not being met, Citi analysts now expect the RBA to pause in April, keeping the cash rate target at 3.60%.** That said, **the decision is finely balanced as wages growth is likely to accelerate further, the Australian labor market is operating above full-employment and households could prove to be more resilient** from the circa $AU300bn in excess savings hoarded since the pandemic. Should the RBA indeed hold the cash rate steady at 3.60%, **Citi analysts expect the policy statement to keep optionality around possible further increases**, at least until the details of the CPI show moderation in items where prices are a function of domestic demand. **This means that in the near term, the RBA is likely to continue jawboning that further tightening is likely needed. But whether the terminal cash rate target is 3.60% or 3.85%, market pricing for rate cuts this year looks premature.** It is highly unlikely the RBA would loosen financial conditions with the labor market operating ahead of full employment and with households sitting on substantial savings buffers. Regardless of the terminal rate, **Citi analysts expect the RBA to maintain its peak terminal rate over the course of this year and not to move until inflation is much closer to the top of target band.**

Germany – consumer confidence recovery continues

- **EUR:** The **German GfK Consumption Climate indicator for March comes in stronger than consensus** at -29.5 (Consensus -30.0, Citi -31.0, Prior -30.6). Despite a fall in economic expectations – potentially reflecting the financial turmoil – and against the euro area March trend, **Germany's GfK consumption climate is up significantly in March.** Improving income expectations are the main (and only) positive development, potentially reflecting strong wage deals and minimum wage increases. Meanwhile, purchasing intentions are virtually unchanged at low levels while savings intentions jump and price expectations rebound.

UK - signs of stabilization in mortgage market, but housing market set to fall amid tighter lending standards

- **GBP: UK mortgage approvals rise** from 39.6k in January to 43.5k in February, beating the 41.3k consensus estimate. T**his is the first increase since August 2022, showing signs of a potential stabilization in the UK housing market in coming months/quarters.** After the **Bank of England (BoE)** increased Bank Rate on 11 occasions (from 0.1% in Dec-21 to 4.25% in Mar-23), the UK housing and mortgage markets have been hit hard. But improving macro data such as rising consumer confidence and a still strong labor market are providing some support to the UK housing market. That said, **lending conditions are tightening in the UK**, even if the net consumer credit data shows an above-consensus gain of £1.4bn in February after a £1.6bn in January, which does not yet reflect these meaningful changes. After the upside surprise in headline inflation in March, and growing signs that a recession could be avoided, the **BoE's Monetary Policy Committee (MPC) might be considering some further tightening in the monetary policy stance.** If UK headline and core inflation remain elevated in April and May, **Citi analysts expect the MPC to raise rates for the last time in this cycle resulting in a terminal Bank Rate of 4.5%.**

Data/ events for the remainder of this week

- **USD: US February PCE Deflator MoM – Citi: 0.3%, median: 0.3%, prior: 0.6%; PCE Deflator YoY – Citi: 5.0%, median: 5.1%, prior: 5.4%; Core PCE MoM – Citi: 0.3%, median: 0.4%, prior: 0.6%; Core PCE YoY – Citi: 4.6%, median: 4.7%, prior: 4.7% - core PCE inflation should rise** 0.31%MoM in February based on details of CPI and PPI, a softer increase than in January but with core PCE Y/Y moderating only slightly to 4.6% and with risks of a print that remains at 4.7%. **Citi analysts continue to pencil in modestly stronger core PCE prints than CPI for much of this year due to the strength in key non-shelter services prices.**

- **EUR: Eurozone CPI for March - Citi analysts** see headline HICP falling to 6.8% on energy base effects but core CPI still accelerating to 5.7%.

- **GBP: BoE Governor Bailey speaks -** after last week's overshoot in UK CPI, **Governor Bailey** may remind markets of the importance of incoming data. **The trick will be to balance it with broader financial and bank sector concerns. Governor Bailey** will also testify on global banking developments this week.

- **GBP: UK Quarterly GDP, Q4 - Citi analysts see material risk that the ONS revises down the data for Q4, suggesting the UK was in recession in H2 2022.** A mild winter recession may have happened as a result of a deceleration in Q4 public consumption. The consequence of it implies a -0.1%QoQ GDP contraction in Q4.

- **CNY: China Manufacturing PMI March: Citi Forecast 51.0, Prior 52.6 - Citi analysts expect the manufacturing PMI to stay in the expansionary territory in March.** With the NPC now behind and the new government working towards a strong start, the policy push to stabilize the economy could be coming through steadily. For high frequency data, heavy sectors could be resilient in March - indicative of continuous policy support from infrastructure and capex.

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