

WEEK 26/2023 IN REVIEW

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Central Banks

BOJ Summary of Opinions (26.06.23)²

There were **two key paragraphs in the SOP:**

- One that says **core CPI probably won't fall below 2%**, and
 - One that says **a revision to YCC should be discussed "at an early stage"**.
- Corporate behavior has seen clear changes, and price and wage hikes have been incorporated into corporate strategy. In addition, various measures of underlying inflation have mostly shown a rate exceeding 2 percent. It is highly likely that the year-on-year rate of increase in the CPI (all items less fresh food) will decelerate toward the middle of fiscal 2023 but will not fall below 2 percent.
 - Although there is a growing possibility of achieving 2 percent inflation in a sustainable and stable manner, the Bank should maintain the overall framework of monetary easing for the time being, since the cost of waiting for such achievement is not high. That said, as for yield curve control -- a policy tool for monetary easing -- the cost is high, taking into account such factors as (1) preventing sharp fluctuations in interest rates in the future phase of an exit from the current monetary policy, (2) improvement in market functioning, and (3) enabling smoother dialogue with market participants. Given all of this, a revision to the treatment of yield curve control should be discussed at an early stage.

Here are **several more relevant bullet points:**

- Factors behind significant improvement since April in households' sentiment indicators include the achievement of wage increases at high levels.
- It is necessary to assess whether there is a higher possibility of achieving wage increases that can keep up with inflation.
- The y/y increase in CPI is likely to decelerate toward the middle of fiscal 2023. Meanwhile, there are still high uncertainties over whether it will accelerate again thereafter.
- While price rises in Japan are still largely attributable to overseas factors, the contribution of domestic factors has increased.
- Inflationary pressure is likely to remain strong for the time being.
- The y/y increase in CPI is expected to fall below 2% in the second half of fiscal 2023.
- Corporate behavior has seen clear changes, and price and wage hikes have been incorporated into corporate strategy. In addition, various measures of underlying inflation have mostly shown a rate exceeding 2%. It is highly likely that the y/y increase in the CPI (all items less fresh food) will decelerate toward the middle of fiscal 2023 but will not fall below 2 percent.

¹ Clickable to navigate within the document

² https://www.boj.or.jp/en/mopo/mpmsche_minu/opinion_2023/opi230616.pdf

- Given the outlook for prices and other factors, it is appropriate that the Bank continue with the current monetary easing.
- The wage growth rate agreed in this year's annual spring labor-management wage negotiations thus far has been the highest in around 30 years. It would be premature to revise monetary policy if it would hinder such developments.
- There is no need to revise the conduct of yield curve control.
- The functioning of the bond market has improved compared with a while ago, but its level has remained low.
- A revision to the treatment of yield curve control should be discussed at an early stage.

BOC Business Outlook Survey (30.06.23)³

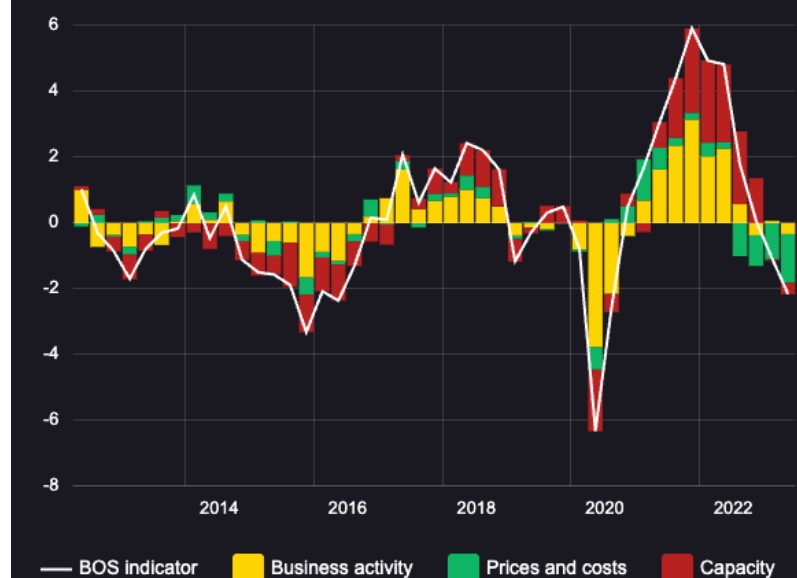
"The decrease in the BOS indicator mainly reflects:

- more businesses expecting **slower price growth**
- **weaker hiring** and investment intentions
- broader tightening in credit conditions
- **eased capacity pressures**, particularly related to supply chain bottlenecks

The continued fall in the BOS indicator signals **less inflationary pressure than in recent quarters.**"

Chart 1: The BOS indicator is negative again

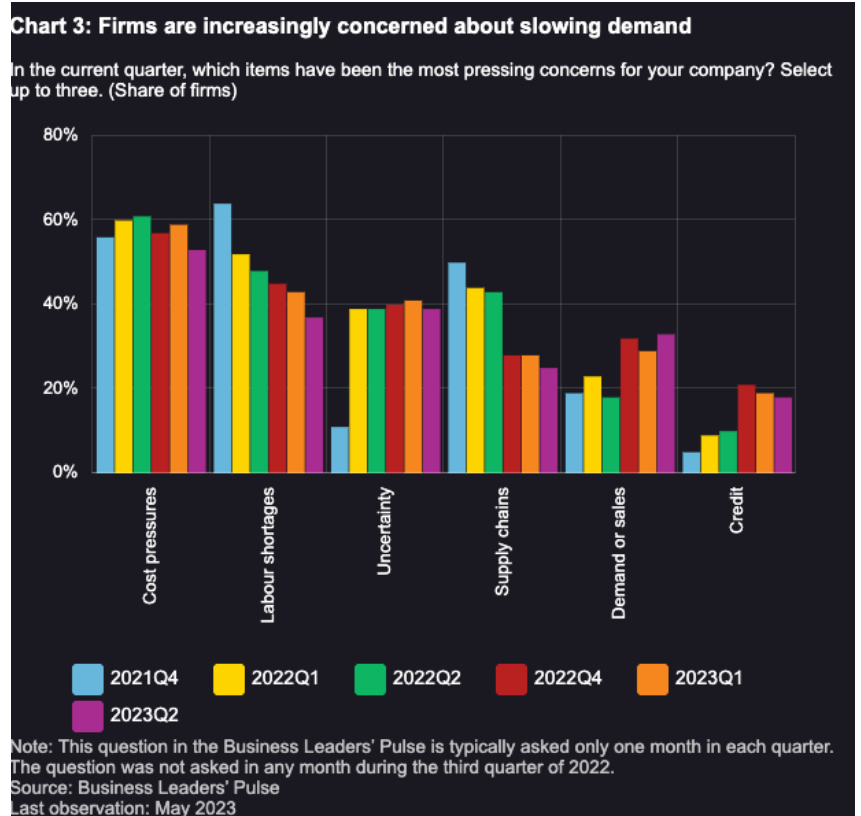
Contributions to BOS indicator (standardized units)



Note: The BOS indicator is a summary measure of the main Business Outlook Survey (BOS) questions. Business activity indicators are those related to past sales declines, future sales growth, indicators of future sales, employment and investment. Price and cost indicators are those related to input and output price growth as well as credit conditions. Capacity indicators are those related to labour shortages, labour shortage intensity and the ability to meet demand. The calculation of the BOS indicator has changed, effective in the first quarter of 2023. A backgrounder outlining the motivation for and implications of the change was published on the Bank's website on May 8, 2023.

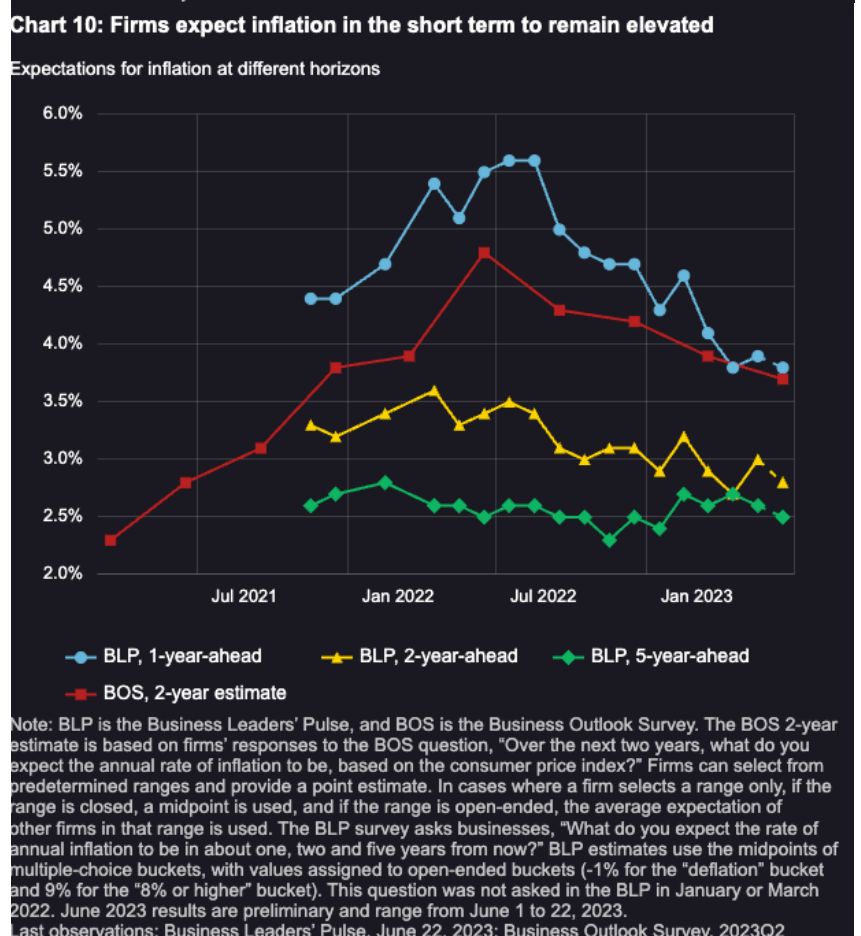
³ <https://www.bankofcanada.ca/2023/06/business-outlook-survey-second-quarter-of-2023/>

„**Slowing demand** has become a more important and widespread concern in recent quarters. Despite this, fewer firms expect an outright recession: one-third of firms participating in this quarter’s BOS are planning for a recession, compared with one-half in the first quarter.”



"Firms' **expectations for inflation in the short term have edged down** again but continue to be elevated. Businesses most commonly attribute short-term inflationary pressures to **high labour costs, robust government spending and a strong domestic economy**. In contrast, 3 in 10 firms anticipate that inflation will soften to between 2% and 3% on average over the next two years. These businesses attributed their **expectations of weaker inflation to monetary policy actions that the Bank has taken** throughout the past 15 months.

Overall, **firms still expect inflation in the long term to be within the Bank's inflation-control target range**. However, several businesses—more than in recent surveys—think it will take five years or longer for inflation to return to the Bank's 2% target."



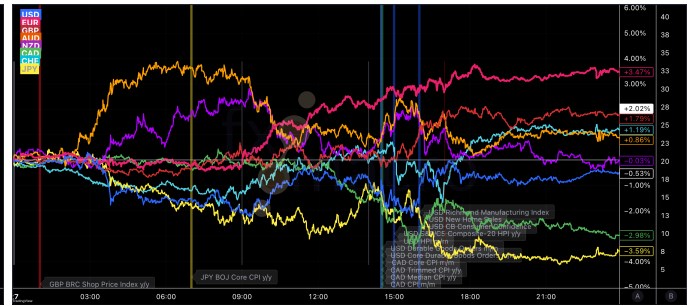
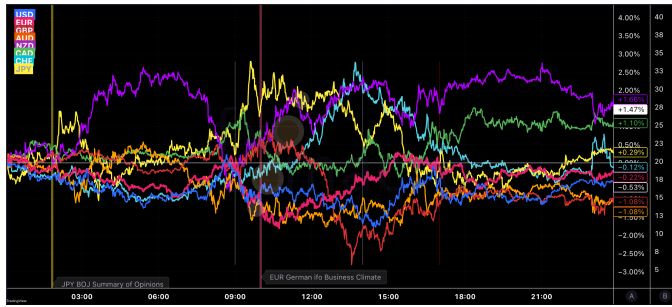
Economic Data

Monday, 26.06.23

Date FRA		LO	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range	Reaction	
									Low	High	
Mon 26.06.23	01:50	00:50	19:50	JPY	BOJ Summary of Opinions						JPY briefly higher
Mon 26.06.23	10:00	09:00	04:00	EUR	German Ifo Business Climate	88.5	91.2	91.7			EUR lower

Tuesday, 27.06.23

Date FRA		LO	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range	Reaction	
									Low	High	
Tue 27.06.23	01:01	00:01	19:01	GBP	BRC Shop Price Index y/y	8.4		9.0			GBP sideways
Tue 27.06.23	07:00	06:00	01:00	JPY	BOJ Core CPI y/y	3.1	3.1	3.0			JPY unchanged
Tue 27.06.23	14:30	13:30	08:30	CAD	CPI m/m	0.4	0.4	0.7			CAD weaker
Tue 27.06.23	14:30	13:30	08:30	CAD	Median CPI y/y	3.9	4.0	4.2			
Tue 27.06.23	14:30	13:30	08:30	CAD	Trimmed CPI y/y	3.8	3.9	4.2			CAD weaker
Tue 27.06.23	14:32	13:32	08:32	CAD	Core CPI m/m	0.4		0.5			
Tue 27.06.23	14:30	13:30	08:30	USD	Core Durable Goods Orders m/m	0.6	0.0	-0.3			USD lower
Tue 27.06.23	14:30	13:30	08:30	USD	Durable Goods Orders m/m	1.7	-0.8	1.1			USD lower
Tue 27.06.23	15:00	14:00	09:00	USD	HPI m/m	0.7	0.5	0.6			
Tue 27.06.23	15:00	14:00	09:00	USD	S&P/CS Composite-20 HPI y/y	-1.7	-2.5	-1.1			USD sideways
Tue 27.06.23	16:00	15:00	10:00	USD	CB Consumer Confidence	109.7	103.9	102.3			USD higher
Tue 27.06.23	16:00	15:00	10:00	USD	New Home Sales	763	677	683			
Tue 27.06.23	16:00	15:00	10:00	USD	Richmond Manufacturing Index	-7	-12	-15			USD higher

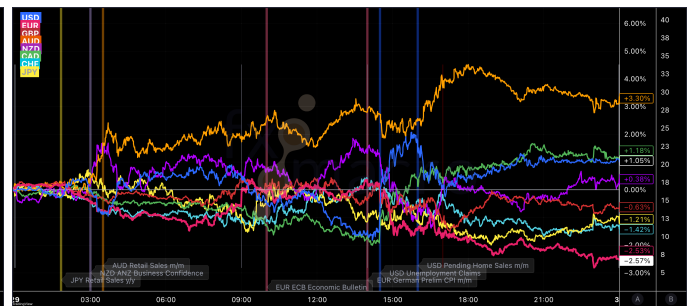
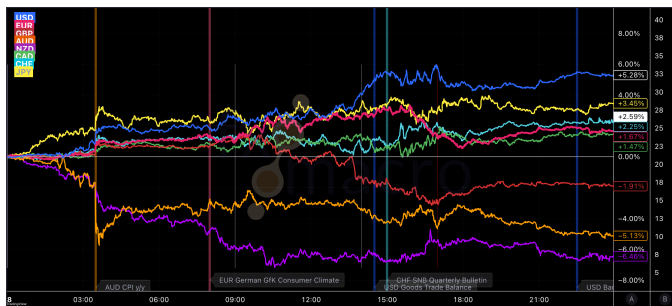


Wednesday, 28.06.23

Date FRA		LO	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range	Reaction	
									Low	High	
Wed 28.06.23	03:30	02:30	21:30	AUD	CPI y/y	5.6	6.1	6.8			AUD weaker
Wed 28.06.23	08:00	07:00	02:00	EUR	German GfK Consumer Climate	-25.4	-22.9	-24.2			EUR unchanged
Wed 28.06.23	14:30	13:30	08:30	USD	Goods Trade Balance	-91.1	-93.3	-96.8			USD stronger
Wed 28.06.23	15:00	14:00	09:00	CHF	SMB Quarterly Bulletin						CHF stronger
Wed 28.06.23	22:30	21:30	16:30	USD	Bank Stress Test Results						USD unchanged

Thursday, 29.06.23

Date FRA		LO	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range	Reaction	
									Low	High	
Thu 29.06.23	01:50	00:50	19:50	JPY	Retail Sales y/y	5.7	5.2	5.1			JPY unchanged
Thu 29.06.23	03:00	02:00	21:00	NZD	ANZ Business Confidence	-18.0		-31.1			NZD stronger
Thu 29.06.23	03:30	02:30	21:30	AUD	Retail Sales m/m	0.7	0.1	0.0			AUD stronger
Thu 29.06.23	14:00	13:00	08:00	EUR	German Prelim CPI m/m	0.3	0.2	-0.1			EUR weaker
Thu 29.06.23	10:00	09:00	04:00	EUR	ECB Economic Bulletin						EUR unchanged
Thu 29.06.23	14:30	13:30	08:30	USD	Unemployment Claims	239	265	264			USD stronger
Thu 29.06.23	16:00	15:00	10:00	USD	Pending Home Sales m/m	-2.7	-0.5	0.0			USD weaker



Friday, 30.06.23

Date FRA		LO	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range	Reaction	
									Low	High	
Fri 30.06.23	01:30	00:30	19:30	JPY	Tokyo Core CPI y/y	3.2	3.4	3.2			JPY weaker
Fri 30.06.23	01:50	00:50	19:50	JPY	Prelim Industrial Production m/m	-1.6	-0.9	0.7			JPY sideways
Fri 30.06.23	03:30	02:30	21:30	CNY	Manufacturing PMI	49.0	49.0	48.8			AUD briefly lower
Fri 30.06.23	03:30	02:30	21:30	CNY	Non-Manufacturing PMI	53.2	53.7	54.5			AUD briefly lower
Fri 30.06.23	08:00	07:00	02:00	EUR	German Retail Sales m/m	0.4	0.2	0.8			EUR unchanged
Fri 30.06.23	08:30	07:30	02:30	CHF	Retail Sales y/y	-1.1	-2.5	-3.7			CHF unchanged
Fri 30.06.23	09:00	08:00	03:00	CHF	KOF Economic Barometer	90.8	89.1	90.2			CHF unchanged
Fri 30.06.23	11:00	10:00	05:00	EUR	CPI Flash Estimate y/y	5.5	5.6	6.1			EUR unchanged
Fri 30.06.23	14:30	13:30	08:30	CAD	GDP m/m	0.0	0.2	0.0			CAD weaker
Fri 30.06.23	14:30	13:30	08:30	USD	Core PCE Price Index m/m	0.3	0.4	0.4			USD weaker
Fri 30.06.23	14:30	13:30	08:30	USD	Personal Income m/m	0.4	0.3	0.4			USD weaker
Fri 30.06.23	14:30	13:30	08:30	USD	Personal Spending m/m	0.1	0.2	0.8			USD weaker
Fri 30.06.23	15:45	14:45	09:45	USD	Chicago PMI	41.5	43.6	40.4			USD weaker
Fri 30.06.23	16:30	15:30	10:30	CAD	BOC Business Outlook Survey						CAD sideways

