fx:macro

Issue #66 / 2023-W31, 29 July 2023
Review of Week 31/2023

Week in Review

Contents[1]

Central Banks

FOMC Statement (26.07.23)[2]

The Fed hiked rates by 25 bps as expected to 5.25-5.50%. There were hardly any changes to the statement:

- **The economy** has continued to expand at a moderate pace (previously "modest pace")
- **Inflation** remains elevated
- The Committee will **continue to assess additional information** and its implications for monetary policy

June 14, 2023

Federal Reserve issues FOMC statement

Recent indicators suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 5 to 5-1/4 percent. Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; Lisa D. Cook; Austan D. Goolsbee; Patrick Harker; Philip N. Jefferson; Neel Kashkari; Lorie K. Logan; and Christopher J. Waller.

July 26, 2023

Federal Reserve issues FOMC statement

Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5-1/4 to 5-1/2 percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

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1 Clickable to navigate within the document

2 https://www.federalreserve.gov/newsevents/pressreleases/monetary20230726a.htm

BOC Summary of Deliberations (26.07.23)[3]

The **BOC Minutes** didn't provide a lot of new information. You can see my **highlights** on the right hand side.

Here are some of the **key points:**

- Despite the **drop in headline inflation,** price growth in many goods and services across the CPI basket pointed to **persistent underlying price pressures.**
- **Core measures of inflation had not slowed in recent months.** As a result, little near-term downward momentum in CPI inflation remains.
- There was a **discussion about whether it was appropriate to raise the rate** in July or wait for more evidence.
- **Future decisions** will be data-dependent, Council is **prepared to raise rates further** if inflation does not ease as projected and progress towards the 2% goal stalls.

Members revisited their assessment of the surprisingly strong growth in consumer spending in the first quarter of 2023. They agreed that while many factors could have contributed to this strength, the following were likely to be most important:

- Tight labour markets and solid income growth were supporting spending.
- Additional savings accumulated by Canadians through the pandemic were providing a buffer for higher prices and interest rates.
- Strong population growth surged in the first quarter, adding to consumption.
- Pent-up demand, especially for services, continued to boost consumption as more Canadians caught up on activities they could not participate in during the pandemic.

Governing Council turned to the dynamics of inflation and discussed recent trends in the data. Headline consumer price index (CPI) inflation eased to 3.4% in May, largely in line with the Bank's projections. The substantial decline from the high of 8.1% last summer mainly reflected lower energy prices, base-year effects and lower inflation in durable goods prices. Despite the drop in headline inflation, price growth in many goods and services across the CPI basket pointed to persistent underlying price pressures. More than 50% of the components of the CPI basket were still showing price increases above 5%. Firms also indicated that they expected to continue increasing their prices more frequently than normal.

Core measures of inflation had not slowed in recent months, with three-month rates persistently coming in around 3½% to 4% since last September. Also, base-year effects are largely out of year-over-year CPI inflation. As a result, little near-term downward momentum in CPI inflation remains.

While Governing Council members were encouraged by the drop in CPI inflation, the persistence of measures of core inflation suggested the return to the 2% target would take longer than previously forecast. Members agreed that there was considerable uncertainty around the outlook for inflation given the persistence of core inflation and countervailing forces supporting demand.
In assessing the risks, Governing Council members took on board some elements of both scenarios. In particular, they agreed that past increases in interest rates would continue to feed through the economy, slowing demand. At the same time, they agreed that both excess demand and underlying inflation were looking more persistent. They also agreed that while long-run inflation expectations still looked reasonably anchored, with inflation projected to be above target for another year, they needed to be alive to the risk that near-term inflation expectations could remain high, making it harder to restore price stability.

The policy decision

The discussion turned to whether it was appropriate to raise the rate in July or wait for more evidence to solidify the case for further tightening. The consensus among members was that the cost of delaying action was larger than the benefit of waiting. With inflation projected to be around 3% for the next year and with the upside risks to inflation expectations and household spending, Governing Council members were concerned that the progress toward price stability could stall, and inflation could even rise again if upside surprises materialize.

Governing Council therefore agreed to increase the target for the overnight rate by 25 basis points to 5%.

Members discussed how to characterize the likely future path for interest rates in their communications. They agreed that, given the uncertainties around the forecast and the size and timing of the impact of higher interest rates on demand, they would approach future decisions one at a time based on the available evidence. They agreed they were prepared to raise the policy rate further if inflationary pressures did not ease as projected and progress toward the 2% target stalled. But they did not want to do more than they had to.

[3] https://www.bankofcanada.ca/2023/07/summary-governing-council-deliberations-fixed-announcement-date-july-12-2023/

ECB Rate Decision (27.07.23)[4]

The **ECB raised rates by 25 bps to 4.25%** as expected:

- **Inflation** continues to decline but is still expected to remain too high for too long; recent data support the expectation that it will continue to fall for the rest of the year
- **Past rate increases** continue to be transmitted forcefully, tighter financing conditions are increasingly dampening demand
- The ECB's **rates will be "set at sufficiently restrictive levels for as long as necessary"** vs. previously "will be brought to…"
- **Future decisions** will continue to be data-dependent
- **APP reinvestments** have been discontinued as planned

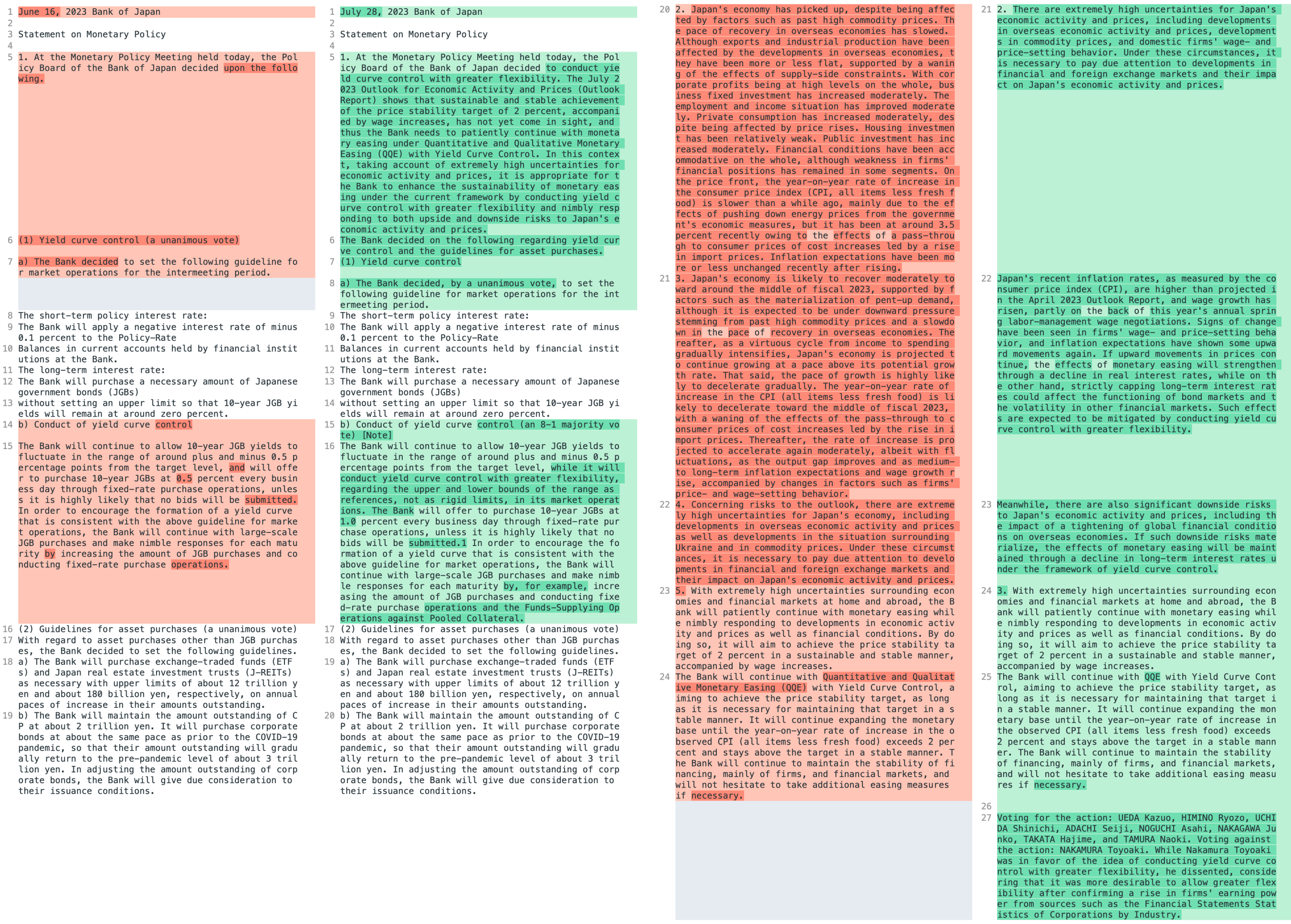
Monetary policy decisions	Monetary policy decisions
15 June 2023	27 July 2023
Inflation has been coming down but is projected to remain too high for too long. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It therefore today decided to raise the three key ECB interest rates by 25 basis points.	Inflation continues to decline but is still expected to remain too high for too long. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It therefore today decided to raise the three key ECB interest rates by 25 basis points.
The rate increase today reflects the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission. According to the June macroeconomic projections, Eurosystem staff expect headline inflation to average 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025. Indicators of underlying price pressures remain strong, although some show tentative signs of softening. Staff have revised up their projections for inflation excluding energy and food, especially for this year and next year, owing to past upward surprises and the implications of the robust labour market for the speed of disinflation. They now see it reaching 5.1% in 2023, before it declines to 3.0% in 2024 and 2.3% in 2025. Staff have slightly lowered their economic growth projections for this year and next year. They now expect the economy to grow by 0.9% in 2023, 1.5% in 2024 and 1.6% in 2025.	The rate increase today reflects the Governing Council's assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission. The developments since the last meeting support the expectation that inflation will drop further over the remainder of the year but will stay above target for an extended period. While some measures show signs of easing, underlying inflation remains high overall. The past rate increases continue to be transmitted forcefully: financing conditions have tightened again and are increasingly dampening demand, which is an important factor in bringing inflation back to target.
At the same time, the Governing Council's past rate increases are being transmitted forcefully to financing conditions and are gradually having an impact across the economy. Borrowing costs have increased steeply and growth in loans is slowing. Tighter financing conditions are a key reason why inflation is projected to decline further towards target, as they are expected to increasingly dampen demand.	The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary to achieve a timely return of inflation to the 2% medium-term target. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.
The Governing Council's future decisions will ensure that the key ECB interest rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target and will be kept at those levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.	The Governing Council also decided to set the remuneration of minimum reserves at 0%. This decision will preserve the effectiveness of monetary policy by maintaining the current degree of control over the monetary policy stance and ensuring the full pass-through of the interest rate decisions to money markets. At the same time, it will improve the efficiency of monetary policy by reducing the overall amount of interest that needs to be paid on reserves in order to implement the appropriate stance.
The Governing Council confirms that it will discontinue the reinvestments under the asset purchase programme as of July 2023.	The details of the change to the remuneration of minimum reserves are provided in a separate press release to be published at 15:45 CET.
Key ECB interest rates	Key ECB interest rates
The Governing Council decided to raise the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.00%, 4.25% and 3.50% respectively, with effect from 21 June 2023.	The Governing Council decided to raise the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.25%, 4.50% and 3.75% respectively, with effect from 2 August 2023.
Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)	Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)
The APP portfolio is declining at a measured and predictable pace, as the Eurosystem does not reinvest all of the principal payments from maturing securities. The decline will amount to €15 billion per month on average until the end of June 2023. The Governing Council will discontinue the reinvestments under the APP as of July 2023.	The APP portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.
As concerns the PEPP, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.	As concerns the PEPP, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.
The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.	The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.
Refinancing operations	Refinancing operations
As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance.	As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance.
***	***
The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.	The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

[4] https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230727~da80cfcf24.en.html

BOJ Rate Decision (28.07.23)[5]

The BOJ left things **mostly unchanged** - except for **introducing greater flexibility around yield curve control:**

- The **±0.50% band around the 0% target** for the 10y yield remains intact but the **upper and lower bounds will no longer be treated as rigid limits**
- Nakamura was the one dissenter on that point, arguing for greater flexibility
- **Sustainable price increases** have not yet come in sight, the Bank needs to continue with monetary easing
- **CPI has been higher than projected,** wage growth has risen, signs of change have been seen in firms' wage-setting behaviour
- There are **significant downside risks to the economy and prices**


June 16, 2023 Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

(1) Yield curve control (a unanimous vote)

a) The Bank decided to set the following guideline for market operations for the intermeeting period.

The short-term policy interest rate:
The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate
Balances in current accounts held by financial institutions at the Bank.
The long-term interest rate:
The Bank will purchase a necessary amount of Japanese government bonds (JGBs)
without setting an upper limit so that 10-year JGB yields will remain at around zero percent.
b) Conduct of yield curve control

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

(2) Guidelines for asset purchases (a unanimous vote)
With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.
a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.
b) The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. Japan's economy has picked up, despite being affected by factors such as past high commodity prices. The pace of recovery in overseas economies has slowed. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints. With corporate profits being at high levels on the whole, business fixed investment has increased moderately. The employment and income situation has improved moderately. Private consumption has increased moderately, despite being affected by price rises. Housing investment has been relatively weak. Public investment has increased moderately. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it has been at around 3.5 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. Inflation expectations have been more or less unchanged recently after rising.
3. Japan's economy is likely to recover moderately toward around the middle of fiscal 2023, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from past high commodity prices and a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate. That said, the pace of growth is highly likely to decelerate gradually. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to decelerate toward the middle of fiscal 2023, with a waning of the effects of the pass-through to consumer prices of cost increases led by the rise in import prices. Thereafter, the rate of increase is projected to accelerate again moderately, albeit with fluctuations, as the output gap improves and as medium- to long-term inflation expectations and wage growth rise, accompanied by changes in factors such as firms' price- and wage-setting behavior.
4. Concerning risks to the outlook, there are extremely high uncertainties for Japan's economy, including developments in overseas economic activity and prices as well as developments in the situation surrounding Ukraine and in commodity prices. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.
5. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.
The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

July 28, 2023 Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to conduct yield curve control with greater flexibility. The July 2023 Outlook for Economic Activity and Prices (Outlook Report) shows that sustainable and stable achievement of the price stability target of 2 percent, accompanied by wage increases, has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control. In this context, taking account of extremely high uncertainties for economic activity and prices, it is appropriate for the Bank to enhance the sustainability of monetary easing under the current framework by conducting yield curve control with greater flexibility and nimbly responding to both upside and downside risks to Japan's economic activity and prices.
The Bank decided on the following regarding yield curve control and the guidelines for asset purchases.
(1) Yield curve control

a) The Bank decided, by a unanimous vote, to set the following guideline for market operations for the intermeeting period.
The short-term policy interest rate:
The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate
Balances in current accounts held by financial institutions at the Bank.
The long-term interest rate:
The Bank will purchase a necessary amount of Japanese government bonds (JGBs)
without setting an upper limit so that 10-year JGB yields will remain at around zero percent.
b) Conduct of yield curve control (an 8-1 majority vote) [Note]
The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.1 In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.
(2) Guidelines for asset purchases (a unanimous vote)
With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.
a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.
b) The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. There are extremely high uncertainties for Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

Japan's recent inflation rates, as measured by the consumer price index (CPI), are higher than projected in the April 2023 Outlook Report, and wage growth has risen, partly on the back of this year's annual spring labor-management wage negotiations. Signs of change have been seen in firms' wage- and price-setting behavior, and inflation expectations have shown some upward movements again. If upward movements in prices continue, the effects of monetary easing will strengthen through a decline in real interest rates, while on the other hand, strictly capping long-term interest rates could affect the functioning of bond markets and the volatility in other financial markets. Such effects are expected to be mitigated by conducting yield curve control with greater flexibility.

Meanwhile, there are also significant downside risks to Japan's economic activity and prices, including the impact of a tightening of global financial conditions on overseas economies. If such downside risks materialize, the effects of monetary easing will be maintained through a decline in long-term interest rates under the framework of yield curve control.

3. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.
The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. While Nakamura Toyoaki was in favor of the idea of conducting yield curve control with greater flexibility, he dissented, considering that it was more desirable to allow greater flexibility after confirming a rise in firms' earning power from sources such as the Financial Statements Statistics of Corporations by Industry.

From the BOJ Outlook Report:

- The projection for **CPI ex fresh food** has been upgraded from April to 2.5% this year (prev. 1.8) but lowered to 1.9% for 2024 (prev. 2.0)
- The projection for **CPI ex fresh food and energy** has been upped from 2.5% to 3.2% this year but remains unchanged at 1.7% next year

Forecasts of the Majority of the Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+1.2 to +1.5 [+1.3]	+2.4 to +2.7 [+2.5]	+3.1 to +3.3 [+3.2]
Forecasts made in April 2023	+1.1 to +1.5 [+1.4]	+1.7 to +2.0 [+1.8]	+2.5 to +2.7 [+2.5]
Fiscal 2024	+1.0 to +1.3 [+1.2]	+1.8 to +2.2 [+1.9]	+1.5 to +2.0 [+1.7]
Forecasts made in April 2023	+1.0 to +1.3 [+1.2]	+1.8 to +2.1 [+2.0]	+1.5 to +1.8 [+1.7]
Fiscal 2025	+1.0 to +1.2 [+1.0]	+1.6 to +2.0 [+1.6]	+1.8 to +2.2 [+1.8]
Forecasts made in April 2023	+1.0 to +1.1 [+1.0]	+1.6 to +1.9 [+1.6]	+1.8 to +2.0 [+1.8]

5 https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2023/k230728a.pdf

PMIs

Australia (24.07.23)[6]

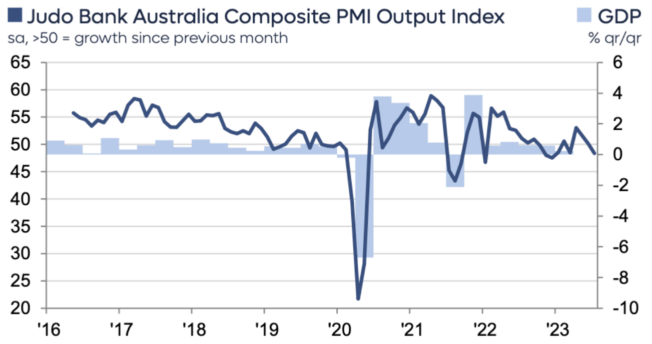
Key findings

Flash Australia Composite PMI Output Index: 48.3 (Jun: 50.1), 7-month low

Flash Australia Services PMI Business Activity Index: 48.0 (Jun: 50.3), 7-month low

Flash Australia Manufacturing PMI Output Index: 50.4 (Jun: 48.6), 8-month high

Flash Australia Manufacturing PMI: 49.6 (Jun: 48.2), 5-month high



Sources: Judo Bank, S&P Global PMI, Australian Bureau of Statistics via S&P Global Market Intelligence.
Data were collected 11-19 July 2023.

Here is the summary from the report with my highlights:

> Economic **activity eased in July** with the composite Flash PMI output index falling below 50.0 for the first time in six months. The main contributor to the soft reading for July was a **dip in business activity for the services sector, which had previously been staging a recovery in 2023.**

> The good news is that **this gradual easing in activity will help take pressure off inflation** and interest rates, but it will need to be sustained for the rest of 2023 and into 2024. The results also suggest that **the Australian economy remains on the 'narrow path' for a soft landing.**

> **The economy is still growing with no signs of impending recession.** Activity levels are easing only gradually. Indeed, **manufacturing activity picked up** a little in July.

> **The employment index fell again in July but remains in expansion above 50.** Labour demand across the economy remains solid and above a level that we would typically see when output and new orders were as soft as they have been recently. This suggests that **labour hoarding continues** as activity slows.

> **The concerning feature of the July Flash report is the price indicators which ticked higher** in the month. The service sector inflation indicators remain elevated, **consistent with inflation of around 4-5%,** well above the RBA target of 2% to 3%.

> **The disinflationary trend evident in the PMI price indicators over the course of 2022 appears to have ceased.** With the exception of manufactured good final prices, the inflation measures are at a level in July broadly similar to what we had at the start of 2023.

> Both manufacturing and service sector input prices rose in July suggesting the new financial year has potentially brought with it an increase in business costs. While the next major inflation number is the official Q2 results from the ABS, it is the July data that will be of most interest. The July numbers will give us a good idea of whether inflation is falling in line with what we are seeing in other countries in recent weeks, or if Australia is set to experience a more sticky inflation trend in 2023/24.

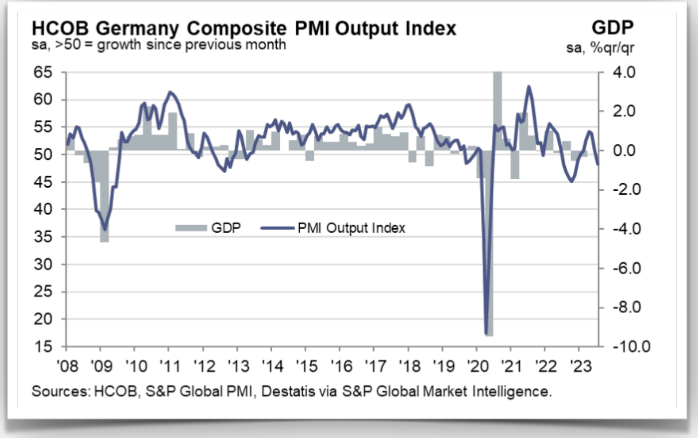
Germany (24.07.23)[7]

Here's the summary from the report with my highlights:

> This is **a bad start to the third quarter** for Germany's economy, with the **flash PMI dropping into contraction territory.** The downturn continues to be led by the manufacturing sector, while the **slowdown in services sector growth that started last month has extended** into July.

[6] https://www.pmi.spglobal.com/Public/Home/PressRelease/29aa152f49344a9286ea6e5d531dcefe

[7] https://www.pmi.spglobal.com/Public/Home/PressRelease/c23ef113fdfb4d149593c3b3d2840fe9



❝ There is **an increased probability that the economy will be in recession in the second half of the year.** This is because our GDP nowcast for the third quarter, which considers these latest HCOB PMI figures, points to negative growth.

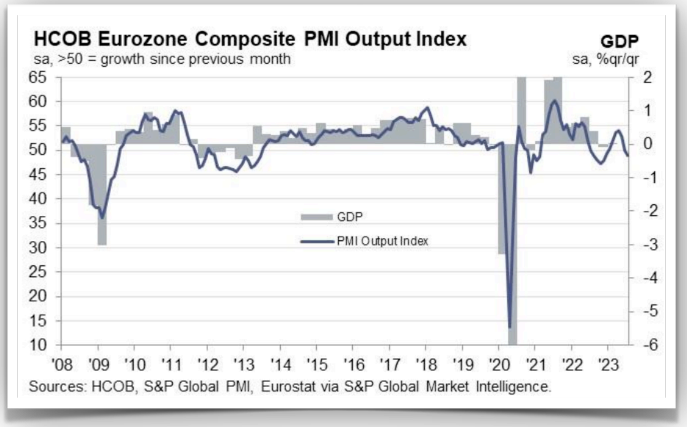
❝ Over the last few months, we have seen **a jaw dropping fall in both new orders and backlogs of work,** which are now declining at their fastest rates since the initial covid wave at the start of 2020. This doesn't bode well for the rest of the year.

❝ **Manufacturers** are reacting to the drop in activity and new orders by **starting to trim their workforces for the first time since January 2021.** Meanwhile, **in the services sector hiring has eased up significantly.** The uptick in the unemployment rate, which we have seen over the last few months, is therefore likely to continue.

❝ **Hopes for a rapid slowdown in inflation have taken a hit with these latest findings, given that the surge of input and output prices in the vast services sector has even gathered some pace in July.**

Eurozone (24.07.23)[8]

Here is the summary with my highlights:

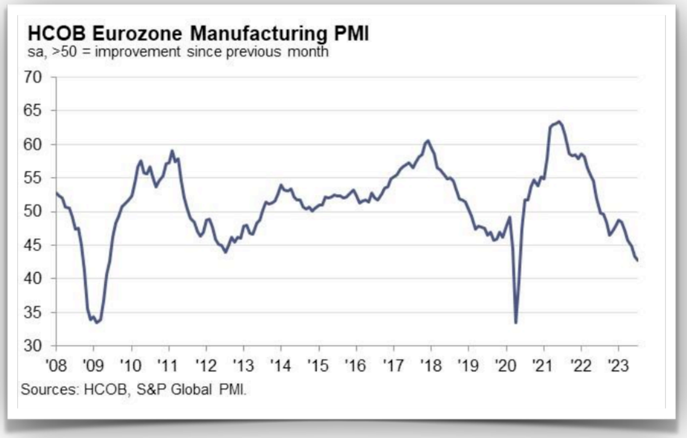


❝ **Manufacturing continues to be the Achilles heel of the eurozone.** Producers have cut their output again at an accelerated pace in July, while the **services sector's activity is still expanding, though at a much slower rate** than earlier in the year."

❝ **The eurozone economy will likely move further into contraction territory** in the months ahead, as the services sector keeps losing steam. Further adding to the gloomy outlook is the fact that **both the new business and outstanding business PMI indices for services have fallen into shrinking territory** for the first time since the turn of the year."

❝ **These trends are particularly pronounced in the manufacturing sector,** suggesting that the slump here is likely to continue as the second half of 2023 progresses."

❝ The HCOB PMI fell short of the Bloomberg consensus whose analysts were forecasting a slight slowdown in the decline for manufacturing and a more resilient picture for services."



❝ The latest PMI reading is not going to please ECB officials as **prices in the private sector are still creeping up, led solely by the substantial services sector.** Thus, ECB president Christine Lagarde will certainly stick to her guns and hike interest rates by 25 bp at the next monetary meeting at the end of July.

8 https://www.pmi.spglobal.com/Public/Home/PressRelease/3b7cae66963d47798b88889727023fd3

United Kingdom (24.07.23)[9]

Summary from the report with my highlights:

“ **The UK economy has come close to stalling** in July which, combined with **gloomy forward-looking indicators,** reignites **recession worries.**

“ July's flash PMI survey data revealed a **deepening manufacturing downturn** accompanied by a **further cooling of the recent resurgence of growth in the service sector.**

“ **Rising interest rates and the higher cost of living** appear to be taking an increased toll on households, dampening a post-pandemic rebound in spending on leisure activities. Meanwhile, **manufacturers are cutting production in response to a worryingly severe downturn in orders,** both from domestic and export markets.

“ Forward-looking indicators, such as **order book inflows, levels of work-in-hand and future business expectations, all point to growth weakening further** in the months ahead, adding to a **risk of GDP falling in the third quarter.**

“ An upside to the deteriorating growth and demand picture is a **further cooling of inflationary pressures. Manufacturing prices are falling at an increased rate** and **service sector inflation is continuing to moderate.** Although **ongoing upward wage pressures** mean service sector price growth remains elevated, the survey data signal further, potentially marked, falls in consumer price inflation in the months ahead.

Key findings:

Flash UK PMI Composite Output Index(1) at 50.7 (Jun: 52.8). 6-month low.

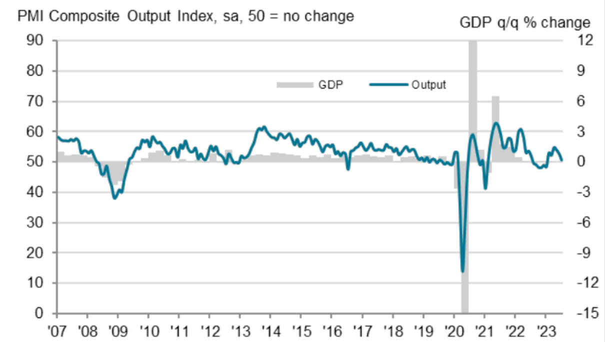
Flash UK Services PMI Business Activity Index(2) at 51.5 (Jun: 53.7). 6-month low.

Flash UK Manufacturing Output Index(3) at 46.5 (Jun: 48.1). 7-month low.

Flash UK Manufacturing PMI(4) at 45.0 (Jun: 46.5). 38-month low.

Data were collected 12-20 July

S&P Global / CIPS Flash UK PMI Composite Output Index



Sources: S&P Global PMI, CIPS, ONS via S&P Global Market Intelligence.

United States (24.07.23)[10]

Summary from the report with my highlights:

“ July is seeing an **unwelcome combination of slower economic growth, weaker job creation, gloomier business confidence and sticky inflation.**

“ The overall rate of output growth, measured across manufacturing and services, is **consistent with GDP expanding at an annualized quarterly rate of approximately 1.5%** at the start of the third quarter. That's down from a 2% pace signalled by the survey in the second quarter.

“ However, **growth is being entirely driven by the service sector,** and in particular **rising spend from international clients,** which is helping offset a becalmed manufacturing sector and **increasingly subdued demand from US households and businesses.**

“ Furthermore, **business optimism about the year-ahead outlook has deteriorated sharply** to the lowest seen so far this year. The darkening picture adds **downside risks to output growth in the coming months** which, alongside the slowing in the pace of expansion in July, will keep alive **fear that the US economy may yet succumb to another downturn before the year is out.**

Key findings:

Flash US PMI Composite Output Index(1) at 52.0 (June: 53.2). 5-month low.

Flash US Services Business Activity Index(2) at 52.4 (June: 54.4). 5-month low.

Flash US Manufacturing Output Index(4) at 50.2 (June: 46.9). 2-month high.

Flash US Manufacturing PMI(3) at 49.0 (June: 46.3). 3-month high.

Data were collected 12-21 July 2023.

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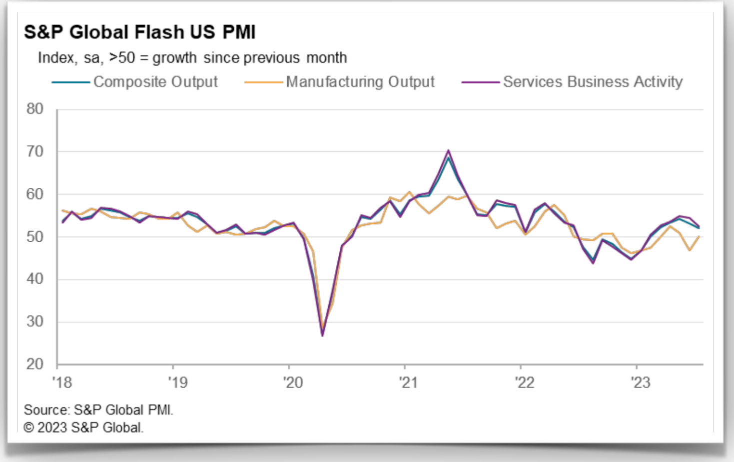
[9] https://www.pmi.spglobal.com/Public/Home/PressRelease/f9e645838d8641c3ac6501070f2dec98

[10] https://www.pmi.spglobal.com/Public/Home/PressRelease/bbdd92c5f4a34bb5975b23263409ad3d

❝The **stickiness of price pressures** meanwhile remains a major concern. As the survey index of selling prices has acted as a reliable leading indicator of consumer price inflation, anticipating the easing to 3% in June, it sends a worrying signal that **further falls in the rate of inflation below 3% may prove elusive in the near term.**

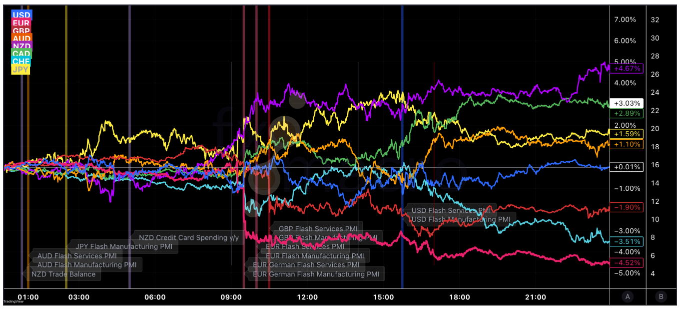


Economic Data

Monday, 24.07.2023

data via forexfactory.com

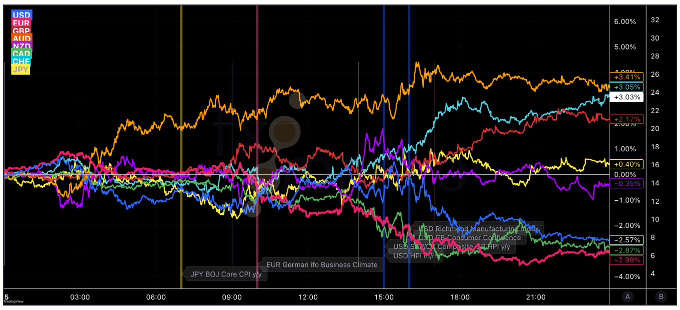
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Mon 24.07.23	**00:45**	23:45	18:45	NZD	Trade Balance	9		46			NZD lower
Mon 24.07.23	**01:00**	00:00	19:00	AUD	Flash Manufacturing PMI	49.6		48.2			AUD lower
Mon 24.07.23	**01:00**	00:00	19:00	AUD	Flash Services PMI	48.0		50.3			
Mon 24.07.23	**02:30**	01:30	20:30	JPY	Flash Manufacturing PMI	49.4	50.1	49.8			JPY sideways
Mon 24.07.23	**05:00**	04:00	23:00	NZD	Credit Card Spending y/y	5.0		3.3			JPY initially lower
Mon 24.07.23	**09:30**	08:30	03:30	EUR	German Flash Manufacturing PM	38.8	41.2	40.6			EUR weaker
Mon 24.07.23	**09:30**	08:30	03:30	EUR	German Flash Services PMI	52.0	53.2	54.1			
Mon 24.07.23	**10:00**	09:00	04:00	EUR	Flash Manufacturing PMI	42.7	43.5	43.4			
Mon 24.07.23	**10:00**	09:00	04:00	EUR	Flash Services PMI	51.1	51.7	52.0			
Mon 24.07.23	**10:30**	09:30	04:30	GBP	Flash Manufacturing PMI	42.7	46.1	46.5			GBP weaker
Mon 24.07.23	**10:30**	09:30	04:30	GBP	Flash Services PMI	51.5	53.1	53.7			
Mon 24.07.23	**15:45**	14:45	09:45	USD	Flash Manufacturing PMI	49.0	46.1	46.3			USD sideways
Mon 24.07.23	**15:45**	14:45	09:45	USD	Flash Services PMI	52.4	54.0	54.4			



Tuesday, 25.07.2023

data via forexfactory.com

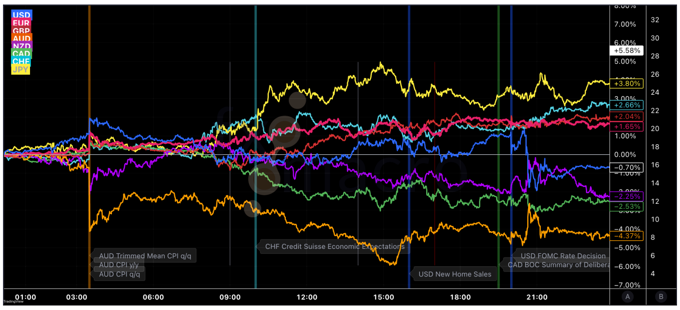
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Tue 25.07.23	**07:00**	06:00	01:00	JPY	BOJ Core CPI y/y	3.0	3.0	3.1			JPY weaker
Tue 25.07.23	**10:00**	09:00	04:00	EUR	German ifo Business Climate	87.3	88.0	88.5			EUR weaker
Tue 25.07.23	**15:00**	14:00	09:00	USD	HPI m/m	0.7	0.6	0.7			USD briefly higher
Tue 25.07.23	**15:00**	14:00	09:00	USD	S&P/CS Composite-20 HPI y/y	-1.7	-2.3	-1.7			
Tue 25.07.23	**16:00**	15:00	10:00	USD	CB Consumer Confidence	117.0	112.1	109.7			USD weaker
Tue 25.07.23	**16:00**	15:00	10:00	USD	Richmond Manufacturing Index	-9	-9	-7			



Wednesday, 26.07.2023

data via forexfactory.com

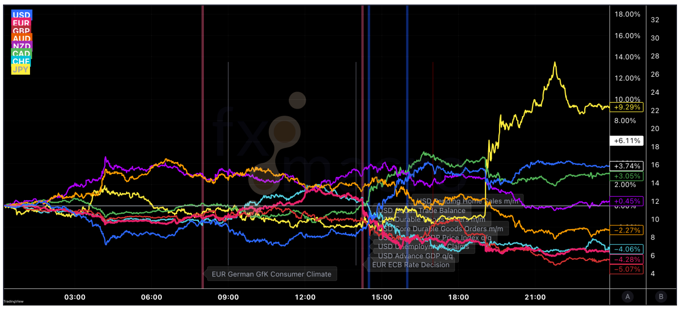
Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Wed 26.07.23	**03:30**	02:30	21:30	AUD	CPI q/q	0.8	1.0	1.4			AUD sharply lower
Wed 26.07.23	**03:30**	02:30	21:30	AUD	CPI y/y	5.4	5.4	5.6			
Wed 26.07.23	**03:30**	02:30	21:30	AUD	Trimmed Mean CPI q/q	0.9	1.1	1.2			
Wed 26.07.23	**10:00**	09:00	04:00	CHF	Credit Suisse Economic Expecta	-32.6		-30.8			CHF briefly lower
Wed 26.07.23	**16:00**	15:00	10:00	USD	New Home Sales	697	726	763			USD sideways
Wed 26.07.23	**19:30**	18:30	13:30	CAD	BOC Summary of Deliberations						CAD unchanged
Wed 26.07.23	**20:00**	19:00	14:00	USD	FOMC Statement						USD weaker



Thursday, 27.07.2023

data via forexfactory.com

Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Thu 27.07.23	**08:00**	07:00	02:00	EUR	German GfK Consumer Climate	-24.4	-24.8	-25.4			EUR unchanged
Thu 27.07.23	**14:15**	13:15	08:15	EUR	ECB Rate Statement						EUR sharply lower
Thu 27.07.23	**14:30**	13:30	08:30	USD	Advance GDP q/q	2.4	1.8	2.0			USD stronger
Thu 27.07.23	**14:30**	13:30	08:30	USD	Unemployment Claims	211	234	228			
Thu 27.07.23	**14:30**	13:30	08:30	USD	Advance GDP Price Index q/q	2.2	3.0	4.1			
Thu 27.07.23	**14:30**	13:30	08:30	USD	Core Durable Goods Orders m/r	0.6	0.1	0.7			
Thu 27.07.23	**14:30**	13:30	08:30	USD	Durable Goods Orders m/m	4.7	1.3	1.8			
Thu 27.07.23	**14:30**	13:30	08:30	USD	Goods Trade Balance	-87.8	-91.8	-91.1			
Thu 27.07.23	**16:00**	15:00	10:00	USD	Pending Home Sales m/m	0.3	-0.5	-2.7			USD stronger



Friday, 28.07.2023

data via forexfactory.com

Date	FRA	LON	NYC	Cncy	Data	Act.	Exp.	Prev.	Forecast Range Low	Forecast Range High	Reaction
Fri 28.07.23	**01:30**	00:30	19:30	JPY	Tokyo Core CPI y/y	3.0	2.9	3.2			JPY higher
Fri 28.07.23	**03:30**	02:30	21:30	AUD	PPI q/q	0.5	0.9	1.0			AUD weaker
Fri 28.07.23	**03:30**	02:30	21:30	AUD	Retail Sales m/m	-0.8	0.0	0.7			
Fri 28.07.23	**05:28**	04:28	23:28	JPY	BOJ Rate Statement						JPY spiking higher
Fri 28.07.23	**09:00**	08:00	03:00	CHF	KOF Economic Barometer	92.2	90.0	90.8			CHF sideways
Fri 28.07.23	**14:30**	13:30	08:30	CAD	GDP m/m	0.3	0.3	0.0			CAD a bit stronger
Fri 28.07.23	**14:30**	13:30	08:30	USD	Core PCE Price Index m/m	0.2	0.2	0.3			USD stronger
Fri 28.07.23	**14:30**	13:30	08:30	USD	Employment Cost Index q/q	1.0	1.1	1.2			
Fri 28.07.23	**14:30**	13:30	08:30	USD	Personal Income m/m	0.3	0.5	0.4			
Fri 28.07.23	**14:30**	13:30	08:30	USD	Personal Spending m/m	0.5	0.4	0.1