

3 July 2020: Highlights include: US ISM Non-Manufacturing PMI, EU/UK Brexit Meeting, RBA Monetary Policy Decision, Eurogroup meeting, Chinese CPI/PPI, Canadian Jobs Report, Riksbank Minutes

MON: BoC Business Outlook Survey, Bank of Israel Monetary Policy Decision, Brexit Negotiations; EZ Sentix Index (Jul) and Retail Sales (May); US Markit Services and Composite PMIs (F/Jun); ISM Non-Manufacturing PMI (Jun)

TUE: RBA Monetary Policy Decision; US JOLTS Job Openings (May); EIA STEO

WED: Norwegian GDP (May)

THU: Eurogroup Meeting; UK Chancellor Sunak Fiscal Statement (TBC); Chinese CPI/PPI (Jun); German Trade Balance (May); US Initial Jobless Claims (29 Jun)

FRI: Riksbank Minutes (June/July); Norwegian CPI (Jun); Canadian Labour Market Report (Jun); IEA Monthly Oil Market Report

ISM NON-MANUFACTURING PMI (MON): US ISM Non-Manufacturing is to be released on Monday, with consensus estimate at 50.0, up from the prior 45.4, coming after this week's Manufacturing component that crossed above 50 for the first time since COVID (52.6 from 49.5), led by the forward-looking New Orders component rising to 56.4. Attention for Monday now falls on the services side of the economy, which represents a larger share of US output, although Services ISM data tends to be more messy (subject to larger revisions), and has less signalling power, historically, on S&P 500 earnings than the Manufacturing component. Nonetheless, participants will be looking to see if sentiment can break back into the expansionary territory too. It is also worth remembering PMIs are diffusion indices, thus while they are useful in noting changes in activity, they fail to portray the absolute level of output, which is still significantly down on a Y/Y basis; the latest Atlanta Fed GDPnow tracker for Q2 printed -35.2%. Downside risks to sentiment remain, however, particularly amid the resurgence of COVID-19 cases across a growing number of states, which could potentially weigh on the index as corporates begin to hesitate to reopen. Therefore, the market may discount any strong prints on Monday if participants feel the survey is yet to be impacted by the virus' resurgence.

RBA MONETARY POLICY DECISION (TUE): The RBA is unanimously expected to stand pat on the Cash Rate at 0.25%, according to all ten economists polled by Reuters. Policy settings are also expected to be maintained with the 3yr bond yield target at 0.25% alongside a reaffirmation of its forward guidance for the Cash Rate Target to remain in place "until progress is being made towards the goals for full employment and inflation." Thus, focus turns to any economic forecast tweaks heading into the August SOMP, although some caution that forecasts may prove to be stale given the resurgence in COVID-19 cases in Victoria State – which reimposed stay-at-home orders late-June. Earlier in the week, Deputy Governor Debelle reaffirmed that the Bank will likely keep rates at present levels for the foreseeable future. Debelle stated that substantial policy support will be

required for some time and the RBA stands prepared to do more as circumstances warrant. Furthermore, he stated that the RBA is ready to boost bond purchases if required to reach targets and that any rate increase is likely to be years away but also noted that there is no need for negative rates now. All in-all, the speech provided nothing new on monetary policy, but noted the economy performed somewhat better than anticipated during the June quarter. Looking ahead, analysts at Westpac also share the view of rates remaining at current levels for a long time - "we assess until at least the end of 2023 although the 3yr bond target rate will likely be lifted during 2022."

EUROGROUP MEETING (THU): This month's meeting will have less of a bearing on the EU Recovery Fund (slated for discussion among leaders July 17/18), but will be more-so concentrated on the appointment of the next Eurogroup head following Centeno's resignation announcement earlier in the year, with his mandate set to end on July 13th 2020. It is worth keeping in mind that the Eurogroup head works more as a figurehead and mediator during negotiations. Three ministers have put forward their candidacy for the position: Spain's Economy Minister Calviño ([Bio](#)), Ireland's Finance Minister Donohoe ([Bio](#)) and Luxembourg's Finance Minister Gramegna ([Bio](#)). All three candidates unsurprisingly share the view for the need of a sharp recovery across the continent. In terms of the election protocol, a simple majority of at least 10 votes with the winner announced at the end of the meeting. "If none of the candidates receives at least 10 of the 19 votes by the Eurogroup ministers at the end of the first voting round, each candidate will be informed individually of the number of votes that he/she has received.", according to the European Council. Candidates then have the choice to withdraw and voting will take place until a simple majority is reached. In terms of the Recovery Fund, European Council President Michel stated that a compromise proposal will be unveiled in the coming week, with negotiations to continue until the EU leaders' summit.

UK CHANCELLOR SUNAK FISCAL STATEMENT (WED): Next week will see UK Chancellor Sunak

deliver his latest economic update after opting to delay his more comprehensive budget announcement until the autumn, at which point he hopes to have greater clarity on the outlook for the UK economy. As such, expectations for the upcoming release have been tempered, particularly so by the Treasury itself. That said, in the wake of PM Johnson's recent speech in which he set out his "post-coronavirus recovery plan", it is clear that the government will be taking an interventionist approach towards kickstarting the UK economy throughout the year. With the upcoming announcement expected to dovetail with Johnson's pledge to set "out the next stage in our plan to secure the recovery", the appearance by Sunak in the HoC will likely centre upon a roadmap for what lies ahead, however, recent press reports have speculated that a reduction in VAT could be on the cards. Any cut to VAT would likely be from the current 20% to potentially as low as 15% (some calls have been for 17%), a move which would cost around GBP 35bln. However, analysts at ING note "the jury is still out on whether such demand-stimulating measures would be that effective in the current environment, where consumers remain wary about the health risks of going out and spending". Elsewhere, with the government set to curtail its current furlough scheme in October, some in the business community have urged the Chancellor to lower employer national insurance contributions to help reduce the severity of job losses throughout the economy. Furthermore, Sunak could also look to assist the business community by providing holidays on business rates. In terms of spending measures, communication from the government suggest that capital will likely be injected into "shovel ready" projects as part of the government's "levelling up" agenda, however some critics have noted that if money is rushed into projects that offer little in the way of sustainable benefits, they could divert funds away from more essential long-term infrastructure plans that the UK economy is in need of (note, a more comprehensive update on the UK's infrastructure strategy is expected late in the year).

CHINESE CPI/PPI (THU): Thursday will see the release of the Chinese inflation metrics for June, with the YY and MM CPI figure expected to tick higher to

2.7% from 2.4% and -0.5% from -0.8% respectively, while the PPI metric is forecast at -3.3% from -3.7% in May. The May report marked the fourth consecutive decline in consumer prices, as moderate gains in pork and food were offset by lower oil prices. This effect is expected to be somewhat unwound in the June report as energy prices were underpinned by economies reopening alongside the additional measures taken by OPEC member. The PPI metric is also expected to incorporate the rise in oil coupled with the steady increase in copper prices.

CANADIAN LABOUR MARKET REPORT (FRI):

Currently there is no consensus view for the June report, although in May, jobs rose by 290k, topping estimates of a 500k decline, primarily driven by a 219k rise in full time jobs. The unemployment rate rose to 13.7% but fared better than the 15% expected. For the June report, RBC expects to see an addition of 650k job for the headline, and for unemployment to fall to 13.2%. The desk believes that the services sector should drive the majority of the June gains, after the jobs in goods saw the bulk in May. "Our estimated June gain would still leave the level of employment 2mn below the February reading", showing Canadian jobs still have far to go to return to pre-crisis levels. Given the hours worked in March and April **tumbled** before a 6.8% rise in May, a similar rise in June makes sense, the analysts note.

RIKS BANK MINUTES PREVIEW (FRI): The July meeting saw rates left unchanged, an increase in the APP remit and extension of its duration alongside the release of full forecasts. The meeting's account will be in focus particularly for individual views on the domestic outlook ahead, which was somewhat downbeat as the forecasts for both CPIF and GDP were weaker than the more optimistic scenario 'A' from the April gathering. As the repo path was maintained at 0.0% for the entirety of the period, in defiance of some desk calls for either a near-term cut or longer-term hike to be displayed, it will be interesting to attain more information from board members on their views on rates ahead – and particularly if there was any discussion around the repo path incorporating a rate change at any point.