Week Ahead 2-6th May:Highlights include FOMC, BoE, RBA, Norges, OPEC+; ISM, NFP, US Quarterly Refunding

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- **SUN:** Chinese Labour Day Holiday (May 1-4).
- **MON:** German Industrial Orders (Mar) and Retail Sales (Mar); EZ, and US Final Manufacturing PMIs (Apr); US ISM Manufacturing PMI (Apr); UK Bank Holiday; Japanese Holiday.
- **TUE:** RBA Announcement; South Korean CPI; German Unemployment (Apr); EZ Producer Prices (Mar); US Durable Goods (Mar); UK Final Manufacturing PMI (Apr); New Zealand Jobs Report; Eurogroup Meeting; Japanese Holiday.
- **WED:** FOMC Announcement; US Refunding; BCB Announcement; German Trade Balance (Mar); EZ, UK, and US Final Services and Composite PMIs (Apr); EZ Retail Sales (Mar), US ADP National Employment (Apr); Canadian Trade Balance (Mar); ISM Services PMI (Apr); OPEC JTC; Japanese Holiday.
- **THU:** BoE Announcement; Norges Bank Announcement; NPB Announcement; CNB Announcement; JMMC /OPEC+ Meeting; Australian Trade Balance (Mar); Chinese Caixin PMI Services PMI (Apr); Swiss CPI (Apr).
- **FRI:** German Industrial Orders (Mar) and Retail Sales (Mar); EZ, UK, and US Final Manufacturing PMIs (Apr); US Jobs Report; Canadian Jobs Report.

NOTE: Previews are listed in day-order

US ISM MANUFACTURING PMI (MON), ISM SERVICES PMI (WED): The Manufacturing ISM is expected to rise to 58.0 in April from 57.1 in March. Credit Suisse, which is against the consensus view, looks for a decline to 56.5. The bank writes that although the S&P Global PMIs have improved recently, many regional surveys within the US have been turning lower this year. Credit Suisse adds that the Production and New Orders sub-indices have been underperforming, while it argues that the headline itself has been supported by the ongoing supply chain disruptions, which has underpinned the Supplier Deliveries sub-index; "We expect this trend to continue as COVID shutdowns in China and Russia's invasion of Ukraine threaten new global supply disruptions," CS writes; it also expects to see ongoing weakness in manufacturing surveys in the months ahead. Meanwhile, the services gauge is likely to pick-up to 59.0 from 58.3, according to analyst forecasts.

RBA ANNOUNCEMENT (TUE): The RBA will decide on rates next week in what is widely viewed as a live meeting with swaps traders fully pricing in a 15bps increase for the Cash Rate Target to 0.25% from the current record low of 0.10%, while swap markets also suggested a 25% chance of a greater 40bps move. The expectation for a sooner lift-off was spurred after the mostly firmer than expected inflation data for Q1 which showed headline annual inflation at 5.1% vs. Exp. 4.6% (Prev. 3.5%) which is the fastest pace of increase in more than two decades and the RBA’s preferred trimmed mean inflation also surpassed the central bank’s 2-3% target at 3.7% vs. Exp. 3.4% (Prev. 2.6%). This prompted an adjustment of rate hike expectations with JPMorgan anticipating the RBA to hike by 15bps in May and Westpac also brought forward its rate hike call in which it now expects a 15bps increase at next week's meeting followed by a 25bps move in June from a previous forecast of a 40bps increase in June. The RBA have opened the door for a sooner hike after having dropped its reference to the Board being "patient" from the statement at the last meeting and noted that developments have brought forward the likely timing of first rate hike, while it also stated in the recent semi-annual Financial Stability Review that it is important borrowers are prepared for an increase to interest rates. Conversely, others are not convinced of a move at the upcoming meeting with Goldman Sachs and Capital Economics in the June lift-off camp, while arguments for a pause include the RBA’s previous desire to wait for data over the coming months and with Australians set to go to the polls for the election on May 21st.

NEW ZEALAND JOBS REPORT (TUE): There are currently no market expectations for the Kiwi Labour Force Report, but the release will not likely sway the course of RBNZ monetary policy, with a 100% chance of a 25bps priced in alongside an above-80% chance of a 50bps hike. Analysts at Westpac nonetheless expect the employment change of +0.2% and the unemployment rate to decline to 3.0% from 3.2%. “Labour market indicators point to a further tightening in the market in recent months, albeit with some disruptions from the Omicron wave. The bank acknowledges its forecast is a modest upside surprise to the RBNZ’s view.

FOMC ANNOUNCEMENT (WED): The FOMC is expected to lift rates by a 50bps increment, taking the Federal Funds Rate target to 0.75-1.00%. Its March statement laid the groundwork for such a move ("anticipates that ongoing increases in the target range will be appropriate" – a line which is expected to be stated again in May). Additionally, remarks from officials before they entered the pre-meeting quiet period framed the Fed's task as firmly in the inflation-fighting sphere, with Chair Powell stating that it was "absolutely essential" to restore price stability. Officials have also spoken about "expeditiously" getting rates back to neutral (judged to be around 2.4%, according to the Fed's recent forecasts), which has built expectations for a front-loaded rate cycle. Accordingly, money markets are now pricing 50bps rate hikes at the May, June and July FOMC meetings; markets have also priced in the Federal Funds Rate target rising to 2.50-2.75% by the end of this year (vs the Fed's March forecasts, which pencilled in rates rising to 1.75-2.00% by end-2022). Elsewhere, the central bank may also announce the beginning of its balance sheet runoff. The minutes from the March meeting flagged that the process of quantitative tightening will begin at an upcoming meeting, while there was also a discussion about the cap amounts that the Fed will allow to roll-off the balance sheet on a monthly basis – the minutes suggested USD 60bln for Treasuries and USD 35bln for MBS holdings. Some desks think that these caps will be hit early, but the rising rate environment and lower mortgages refinancing could mean that only around USD 20bln or so rolls off on an average month. And given that the Fed wants its balance sheet to eventually be comprised primarily of Treasuries, traders will be paying attention to see any timelines of when the Fed is prepared to begin outright selling of its mortgage holdings to lower the size of the overall balance sheet. Additionally, in light of advanced Q1 GDP data this week, which showed a contraction of 1.4%, the Chair will likely be asked the extent to which the Fed is comfortable tightening policy in the face of slowing growth, and if it would be prepared to engineer a recession to manage price pressures.

US QUARTERLY REFUNDING ACCOUNCEMENT (WED): The quarterly refunding announcement (08:30EDT/13:30BST) will be made hours before the FOMC rate decision (14:00EDT/19:00BST), where the central bank is expected to lift rates by 50bps, but crucially, many also expect it will announce the beginning of quantitative tightening. UBS argues that the Fed will signal QT, while the Treasury will outline how it will be financed. The key question for fixed income traders is whether the Treasury continues to cut coupon issuance in the face of the buying gap from the Fed. "Treasury's decision will only be on the level of coupon issuance for the next three months," UBS writes, "however, it will probably also signal how it plans to implement its financing over the coming quarters when QT will be in full swing." Since the February refunding announcement, where it cut auction sizes and signalled further cuts ahead, UBS notes that the fiscal outlook has improved after a strong tax season; "therefore, we think that Treasury will go ahead with cutting nominal auction sizes for the 7y, 10y, 20y, 30y, and FRN," adding that the cuts for the 7yr and 20yr sectors are likely to be more aggressive to address supply and demand imbalances. "We think that these additional cuts to nominals will lead to a continued decline in the amount of nominal duration that the private sector absorbs this year," the bank says, "we expect the supply of nominal duration to the private sector to drop by 29% in 2022 Y/Y, and another 14% in 2023 due to a decline in the total net issuance of fixed-coupon nominals to the private sector from USD 1.7trln in 2021 to USD 1.5trln in 2022, and cut further to USD 1.1trln in 2023." Meanwhile, UBS sees the net issuance of TIPS to the private sector increasing from USD -17bln in 2022 to USD +61bln in 2023, and USD +75bln in 2023.

BOE ANNOUNCEMENT (THU): The BoE is expected to continue its hiking cycle at the upcoming meeting by delivering another 25bps hike, taking the Base Rate to 1.0%. 33/44 surveyed analysts expect a 25bps hike, 1 expects a 50bps hike and 10 look for no change. In terms of market pricing, 27bps of tightening is priced in for the upcoming meeting with an additional five hikes priced in by the end of the year. The previous decision was subject to dovish dissent from Cunliffe who voted for a pause in the hiking cycle on account of concerns over the current squeeze on real household incomes. This time around, the vote split is expected to remain 8-1 with no other MPC members set to join Cunliffe in the pause camp given that the consensus amongst policymakers is set to prompt just a 25bps hike compared to the 50bps that the Fed is likely to proceed with next week. The meeting comes amidst the backdrop of rampant inflation in the UK with the Y/Y CPI metric rising to 7.0% in March from 6.2% ahead of the inclusion of the OFGEM price cap hike in April. Furthermore, the CBI reports that manufacturers are raising prices at the fastest rate in over 40 years to cover rising raw material and energy input costs. The labour market remains hot with the unemployment rate at multi-decade lows whilst wage growth remains elevated. Of concern, GDP metrics for Feb saw a cooling in the pace of Q/Q growth to 0.1% vs. the 0.8% observed in January whilst March's retail sales report was particularly soft with ING noting that "it's getting increasingly difficult to see how UK consumer spending avoids a downturn over coming months". With this in mind, Governor Bailey has cautioned that the BoE is walking a tightrope between tackling inflation and avoiding a recession. With a rate hike a near given for the Bank, focus will turn towards signalling for the coming months. In the previous statement, the Bank tweaked guidance so that it reads "modest tightening in monetary policy may be appropriate in the coming months" as opposed to the February statement which noted it is "likely to be". Any further softening of forward guidance on rates will be of note given how aggressive market pricing remains. SGH Macro suggests that the Bank is on the precipice of what it describes as "a 'second phase' of tightening, characterized by less frequent moves over a longer time horizon, with data dictating meeting-to-meeting outcomes". Elsewhere, current guidance from the BoE suggests that it will actively start selling Gilts when the Bank Rate hits 1%. However, policymakers have stated that selling Gilts when the Bank Rate hits 1% will not be an automatic process. ING thinks now is not the best time to sell bonds and therefore will hold off and instead opt to lay out details of how the policy could work when implemented. In the accompanying MPR, inflation and growth forecasts are set to be revised higher and lower respectively.

NORGES ANNOUNCEMENT (THU): While the consensus continues to expect the Norges Bank will leave rates unchanged at 0.75%, a surprising hawkish pivot by its local peer, the Riksbank, has resulted in some analysts revising their own expectations towards a more hawkish outturn. That said, the meeting is one of the so-called intermediate confabs, so we will not get any updated economic projections or rate path, and according to the Scandi bank SEB, we should still be expecting an unchanged rate decision. “While recent developments have been mixed, there are no substantial deviations from the Bank’s projections that would support a policy shift,” it writes, and SEB thinks the central bank will reiterate its guidance that “the policy rate will most likely be raised further in June”, and SEB doesn’t even expect any fresh policy signals. “The market’s hiking expectations are a tad more aggressive than implied by the rate path, but the upcoming rate announcement should not result in any large market moves,” it writes.

JMMC/OPEC+ (THU): OPEC+ producers next week are expected to stick to their output plans, which would see the June quota upped by 432k BPD under the agreement, also backed by recent sources. The meeting comes against the backdrop of the ongoing Russia-Ukraine war, with Western nations attempting to phase out their dependence on Russian energy. Meanwhile, China’s COVID situation remains a concern due to the government’s zero-COVID policy – which has dealt a blow to the demand side of the equation whenever a city sees a resurgence in cases – with Shanghai and Beijing currently on watch. China’s developments will likely be the reason for the producer to express caution with regard to Western desires for higher output quotas than planned. Further, ministers will likely have to address the group’s over-compliance at some point as it produced 1.45mln BPD below its March target (with data showing declines in Russian output), although there is nothing to suggest that this issue will be picked up at this meeting. All-in-all, everything currently points to another smooth set of meetings on May 5th.

AUSTRALIAN TRADE BALANCE (THU): Headline trade balance for March is expected to expand to a surplus of AUD 8.5bn from AUD 7.5bln the month before. The metric will not change the course of RBA monetary policy with the calls growing for the central bank to hike in May. Westpac expects imports to pull back following the surge in February, whilst exports are seen leading the exports.

US JOBS REPORT (FRI): The consensus currently expects 400k nonfarm payrolls will be added to the US economy in April (vs prior 431k; 3-month average 562k, 6-month average 600k, 12-month average 541k). The weekly data for the week that usually coincides with the reference period for the establishment survey showed initial jobless claims rising to 185k from 177k heading into the March jobs report, although the four-week average slipped to 177.5k from 188.75k; continuing claims eased to 1.408mln from 1.542mln, with the four-week average also falling. With the Fed more concerned about the inflation part of its mandate, rather than the employment side, there will be much attention on the average hourly earnings metrics, which are seen rising by 0.4% M/M (matching the March rate). That said, the Fed is likely to lift the Federal Funds Target rate by a 50bps increment at next week’s confab; in fact, money markets have priced 50bps in May, June and July.