Week Ahead June 27th to July 1st: Highlights include US PCE, Manufacturing ISM, China PMIs, Flash EZ PMIs, OPEC+ Meeting

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- **MON:** US Durable Goods (May); BoJ SOO.
- **TUE:** NBH Announcement; German GfK Sentiment (Jul).
- **WED:** EZ Sentiment Survey (Jun); US GDP Final (Q1).
- **THU:** Chinese Official PMIs (Jun); US PCE (May); UK GDP (Q1); German/EZ Unemployment (Jun); German CPI Prelim (Jun); Riksbank Announcement; OPEC Meeting.
- **FRI:** Eurozone Flash CPI (Jun); US ISM Manufacturing (Jun).

NOTE: Previews are listed in day-order

CHINESE PMIs (THU): China will release its latest PMI figures next week in which officials will be hoping for a continued improvement in the data from the prior readings after Shanghai and Beijing eased many Covid restrictions earlier this month. As a reminder, headline official Manufacturing PMI topped forecasts in May at 49.6 vs. Exp. 48.6 (Prev. 47.4), but still remained in contraction territory, which was a similar story for the Non-Manufacturing PMI at 47.8 vs Exp. 45.0 (Prev. 41.9) and Composite PMI, albeit improving to show a narrower contraction of 48.4 (Prev. 42.7). Other key data releases have also surprised to the upside including the latest Industrial Production print which showed an unexpected expansion of 0.7% YY and trade data that beat estimates in which Exports grew at a much faster pace of 16.9% vs. Exp. 8.0% (Prev. 3.9%). These releases therefore provide encouragement that activity is picking up at the “world’s factory” and second-largest economy, although headwinds remain due to sporadic virus outbreaks and China’s strict zero-COVID policy, as well as global central bank tightening and higher commodity prices.

US PCE, PERSONAL INCOME, CONSUMPTION (THU): Within the report, traders’ focus will be on the measure of core Personal Consumption Expenditures. Core PCE prices have risen by 0.3% M/M for three consecutive months, while the annual measure has fallen from 5.3% Y/Y to 4.9% over the same window. The May Consumer Price Index saw both the headline and core measures of prices come in above analyst expectations, and was one of the influential factors in the Fed raising rates by a larger-than-guided 75bps increment at the June FOMC. There is, accordingly, some fears that the May PCE data, which the Fed pays more attention to, could also surprise to the upside. However, Credit Suisse’ analysts note that most of the upside surprise in the CPI data was concentrated in components that do not factor into the PCE report. The bank argues that core PCE has already peaked for this cycle, and it looks for continuing moderation in the second half of this year, though it warns that the near-term outlook for headline inflation faces uncertainty. “Consumer spending likely contracted in May, with a large decline in real retail sales only partly offset by ongoing recovery in discretionary services,” CS writes, “we expect goods spending to remain under pressure as tighter financial conditions and worsening sentiment cause households to reconsider large durable goods purchases.”

RIKSBANK (THU): Expected to continue the tightening cycle that unexpectedly commenced at the May gathering via a 25bp hike to 0.25% and was accompanied by guidance for a further two-to-three hikes this year, with three meetings (incl. June) ahead. For the June meeting, the likes of Nordea & SEB expect a 50bp hike to 0.75%. A 50bp rather than a more conventional 25bp move is justified given the strong CPIF prints since the May policy announcement, particularly the 7.2% YY print from the prior 6.4% and well above the Riksbank’s 5.5% average forecast for 2022 as a whole. After the rate decision, focus will turn to the policy path which currently looks for two-to-three hikes by end-2022 and implies a Q1-2023 rate of 1.01%; if the Riksbank hikes by 50bp, then evidently the path will be mechanically higher. However, participants will be attentive as to whether the repo path signals moves of 25bp or 50bp for the final two gatherings of the year. Finally, as the Riksbank has already given an update on its H2 purchases there is no pressing need for one at this stage.

OPEC (THU): OPEC+ is expected to stick to the output plan telegraphed at the prior meeting – a total production increase of 648k BPD – with recent Reuters sources also backing this view. To recap, at the start of June, OPEC+ delegates agreed to hike output by 648k BPD in July and in August – with the September additions split across the two months. The meeting also comes against the backdrop of US President Biden's visit to Saudi Arabia in July, which is unlikely to deliver on any material measures to stabilise oil prices, with more and more eyes falling on OPEC's spare capacity as the COVID-era Declaration of Cooperating (DoC) approaches its end. Some suggest the US-Saudi meeting will likely see a more geopolitically leaning agenda. Back to OPEC+, Russian Deputy PM Novak recently met with Saudi Arabia's energy minister, in which the de-facto OPEC+ heads discussed forecasts on oil prices and market balance, with Russia also updating Saudi Arabia on the state of Russia's oil output. As things stand, a smooth OPEC+ meeting is expected next week, although surprises cannot be discounted after the prior meeting saw last-minute sources shift expectations.

EUROZONE CPI (FRI): Expectations are for the Eurozone's headline Y/Y HICP for June to advance to 8.3% from 8.1% with the super-core metric (ex-food, energy, alcohol and tobacco) expected to hold steady at 3.8%. After printing a record high in May, much of the same is expected for the upcoming release with food and energy prices set to continue driving headline inflation higher despite some of the economic headwinds faced within the Eurozone. Looking further ahead, analysts over at Nordea expect that core inflation will begin to increase further as of July when judging PMI and European Commission survey data as well as "sluggish price increases last summer". From a policy perspective, in the immediacy, this will likely have little bearing on the ECB with the July meeting seemingly nailed on for a 25bps hike to the deposit rate and there being several more inflation reports ahead of the September meeting. Should the upcoming release print significantly above expectations, this could prompt some speculation over a larger than 25bps move by the ECB next month, however, given the Bank's rigidity when it came to standing pat on rates in June in order to preserve credibility via sequencing, it is unlikely that the GC would move with the flexibility that some would hope for, or in a similar vein to the Fed last week.

US ISM MANUFACTURING (FRI): The Street expects ISM's gauge of manufacturing activity to slip a little in June, with the consensus expecting a fall to 55.8 from 56.1. However, regional Fed manufacturing surveys declined in the month, and PMI data from S&P Global suggests that we should expect a greater decline than the consensus view. The Manufacturing PMI fell from 57.0 in May to 52.4 in June, and while it is still in expansionary territory (above 50.0), it was the weakest reading in around two years, while the sub-indices for output and the forward-looking new orders entered contractionary territory. Production and new sales sub-indices declined, which S&P attributed to weak client demand, as inflation, material shortages and delivery delays led some customers to pause or lower their purchases of goods. "The falls were the first since the depths of the pandemic in mid-2020, and were accompanied by a renewed decrease in foreign client demand," the report added. S&P said average cost burdens also continued to rise substantially, though the rise in input prices was the slowest since April 2021. "At the same time, efforts to entice customers to make purchases led to the softest rise in output charges since January," S&P said, "the rate of charge inflation was faster than in any period before May 2021, however." S&P also noted that goods producers registered the lowest degree of confidence in the outlook for output over the coming year for 20 months in June. "Despite hopes that demand will improve and investment increase, concerns regarding inflation, interest rates, supply chain disruption and the health of the wider economy weighed on expectations."