newsquawk

Week Ahead 11-15 July: Highlights include US CPI, retail sales; China CPI/GDP; US-Saudi meeting, BoC, RBNZ

Week Ahead July 11th to 15th:

- **SAT**: Chinese Inflation (Jun).
- **MON:** US Employment Trends (Jun), Eurogroup Meeting.
- **TUE:** German ZEW Economic Sentiment (Jul), OPEC MOMR.
- **WED:** RBNZ Announcement, BoC Announcement, Chinese Trade Balance (Jun), UK GDP (May), EZ Industrial Production (May), US CPI (Jun), US Cleveland Fed CPI (Jun), IEA OMR.
- **THU:** BoK Announcement, Australian Labor Market Report, US PPI (Jun).
- **FRI:** US President Biden travels to Saudi Arabia, Chinese GDP (Q2), US Retail Sales (Jun), US University of Michigan Prelim (Jul).

NOTE: Previews are listed in day-order

CHINESE INFLATION (SAT): Chinese CPI Y/Y is expected to have picked up to 2.4% from 2.1% in June, whilst PPI is seen cooling to 6.0% from 6.4%. CPI M/M is expected to contract 0.1% vs a contraction of 0.2% in May. Taking the Caixin PMIs as a proxy, the releases highlight that “Price gauges remained stable. High raw material and freight prices accounted for the major cost pressures on companies, some of which cut staff in response. The gauge for input costs fell to the lowest since June 2020, yet stayed in expansionary territory for the 24th straight month. The measure for prices charged was slightly above 50 due to limited bargaining power of service companies.” The PMIs added “Prices data showed a further easing in the rate of input price inflation, which hit the weakest since September 2020, while prices charged were unchanged.”

CORPORATE EARNINGS SEASON: The consensus expects earnings growth to rise 5.6% in Q2, according to Refinitiv, and revenues are seen rising 10.4%. Taking the energy sector out of the equation, earnings growth is seen -2.4% in Q2, while revenue growth is estimated to rise 6.7%. Heading into Q2 reporting, Refinitiv notes that there have been 77 negative preannouncements by S&P 500 companies, and 45 positive preannouncements. Major banks will begin publishing their latest earnings reports next week. Many analysts have suggested that earnings will take over from valuations as the key driver for equities given that rates and equity risk premiums are now discounting a slowdown in growth. Morgan Stanley notes that S&P equity risk premium has been rising recently, and currently sits at around 340bps, close to its fair value level of 370bps. “This is a necessary condition for a more durable low in equity prices, but until earnings estimates are cut to more reasonable levels or valuations reflect that risk, the bear market is not complete,” the bank writes, and expects Q2 earnings to be a “good start in that regard.” MS says S&P 500 and Nasdaq 100 forward earnings estimates are both over 20% above the post-GFC trend, while it cites several leading signals pointing to forward earnings expectations decelerating in the coming months from these elevated levels, and “importantly, earnings revisions breadth, which often leads forward dollar EPS, is in negative territory and has decelerated further in the last few days/weeks.” MS’ analysis finds that defensive industries – like Telecoms, Utilities, Insurance, Real Estate, some Staples, Healthcare – screen relatively well when assessed on that basis, while cyclical tech groups – like Tech Hardware, Semis – have a higher risk on that basis. The bank adds that several consumer-oriented groups – like Food & Staples Retailing, Consumer Services, Consumer Durables and Apparel, Transports – screen as being more at risk. “Given the increasing risk to growth, the market is rewarding earnings stability,” MS writes, “we measure earnings stability by looking at companies’ earnings estimate dispersion, ROE volatility, and sales growth volatility, and companies with stable earnings tend to have lower estimate dispersion, lower ROE volatility, and lower sales growth volatility.” MS continues to think this factor can outperform in an uncertain macro environment.

RBNZ ANNOUNCEMENT (WED): The RBNZ is forecast to increase rates for a 6th consecutive occasion at its meeting on Wednesday with the central bank likely to hike the Official Cash Rate by another 50bps to 2.50%. As a reminder, the central bank has conducted back-to-back 50bps increases in the past 2 meetings and was even more hawkish during the last one as it lifted its OCR forecasts which it sees peaking at nearly 4% in Q2 next year and increased its view on CPI, while the RBNZ suggested that rates are to surpass neutral as monetary conditions will need to act as a constraint on demand and that the risk of doing too little too late is worse than too much too soon. Governor Orr also noted the

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

RBNZ is resolute in its commitment to price stability and very focused on restraining aggregate demand, while he stated the range of estimates for the neutral rate is around 2%-3% and that they need rates above 3%. This hawkish rhetoric from the central bank has reinforced the view that it is to maintain the current tightening path with ASB Bank and Bank of New Zealand both expecting the RBNZ to raise the OCR by 50bps in both July and August, while the NZIER shadow board also predicts a 50bps move at the upcoming meeting.

US CPI (WED): The Fed's preferred gauge of inflation is said to be the Personal Consumption Expenditures series; that said, after a hot May CPI report, the central bank opted to raise rates by 75bps, more than 50bps hike that it guided before it went into its pre-meeting blackout window (the May PCE data was not out, at that point). Accordingly, there will be a great deal of attention on the CPI data ahead of the Fed's July 27th meeting. The Fed is expected to lift rates by 75bps at that meeting. Headline consumer prices are forecast to rise by a hefty 1.0% M/M, matching the sharp rise in May, while the annual measure is seen picking up by one-tenth of a percentage point to 8.7%. The core measure of inflation is seen rising 0.5% M/M in June, which would be a little cooler than the 0.6% in May. Credit Agricole, who are ranked in second place by Bloomberg for accuracy of short-term CPI forecasts, expects the rate of annual core consumer price growth to moderate to 5.7% Y/Y from 6.0% in May, but say that this will mostly be a result of favourable base effects vs June 2021. "Simply put, our impression is that core CPI peaked in March, while the peak in headline inflation could be now (June) or a bit later this year, depending on the volatile energy prices," the bank writes, "we still expect a broad-based acceleration in US inflation in June – food, energy, core goods, services – with the exception of a few subcategories in core goods," adding "that would mean the Fed has little reason to ease its fight against inflation at the current stage."

BOC ANNOUNCEMENT (WED): After firing two consecutive 50bps rate rises, analysts expect the Bank of Canada will ramp up the pace of tightening, and raise rates by 75bps to 2.25%, following the central bank's recent business outlook survey, which revealed that inflation expectations are expected to continue rising amid a moderating sales outlook; Canadian bank TD Securities said that surveys help explain the BoC's hawkish shift at its June meeting, and cements the case for a 75bps rate hike next week. After July, the central bank is then expected to lift rates again at its September meeting, but at the smaller 50bps increment, as it front loads rate hikes in its tightening cycle. The expectation is that the Bank will have lifted rates to 3.25% by the end of this year. The meeting will also feature updated economic projections. The Bank of Canada in April suggested that it sees nominal neutral rates between 2-3%; according to a poll by Refinitiv, analysts see a median 35% probability that the Canadian economy will enter recession within one year, and a 40% chance over the next two years. ING's analysts note that the Canadian economy is growing strongly, employment is at record levels, and inflation is running at the fastest rate since 1983. The bank also notes that "the housing market is also red hot while Canada's strong commodity-producing sectors mean it is far more resilient than most major economies to the spike in prices."

CHINESE TRADE BALANCE (WED): The Trade Balance in June is expected to have narrowed to a Dollar-surplus of 58bln vs the Usd 78.76bln surplus in May. In terms of the breakdown, Exports are forecast at 8.0% (prev. 16.9%), whilst imports are expected at 2.0% (prev. 4.1%). The data will likely incorporate some of the tightening measures seen in China during June and may not provide a clean gauge for those looking for signs of a global slowdown, but perhaps more importantly, traders will be keeping an eye on US-Sino trade relations, with President Biden set to unveil the White House's China policy. To recap, the FT reported over the weekend that the Biden Admin is split on whether to remove trade tariffs on China. The WSJ suggested that the US may include a pause on tariffs of some consumer goods, whilst the FT flagged a proposal that would cut/lower tariffs on some consumer goods, but add/raise tariffs on other products. Politico noted that US President Biden could lift tariffs on just USD 10bln worth of Chinese goods under a plan being discussed within the admin. This space will gain much focus as it will influence trade between the world's two largest economies.

BOK ANNOUNCEMENT (THU): The Bank of Korea is expected to continue its hiking cycle with the central bank likely to increase the 7-Day Repo Rate from the current 1.75% level. As a reminder, the BoK conducted a 25bps increase at the prior meeting via a unanimous decision and it also raised its 2022 inflation forecast to 4.5% from 3.1%, while Governor Rhee noted that the policy focus will remain on stabilising prices for a few months and that the damage to the economy would be greater if the BoK missed out on rate hikes. Furthermore, Deputy Governor Lee said they need to tame inflation via pre-emptive policy and suggested rate hikes of 25bps are appropriate for now, but added that the door remains open for a big step and the need is growing for a policy response to stabilise inflation expectations. These hawkish comments by the central bank therefore support the view for the BoK to maintain its hiking pace, although firmer than expected CPI data for June, which rose by 6.0% vs. Exp. 5.9% and was the fastest pace of increase since November 1998, has spurred calls for a more aggressive move as a high ranking official at the central bank previously suggested the BoK is likely to weigh more on a 'big-step' rate increase if inflation in June reached 6% and Governor Rhee had also stated that all options, including a 50bps hike are on the table should high inflation persist. As such, analysts at SocGen are anticipating a 50bps hike to 2.25% and raised its terminal rate view to 3.00% from 2.50% whereby it expects next week's meeting to be followed by 25bps increases in August, October and November, with the hiking cycle to end thereafter as it believes inflation will peak in Q4 and concerns over the growth outlook to increase.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

newsquawk

AUSTRALIAN JOBS (THU): The market looks for 30k jobs will be added to the economy in June, after the 61k added in May. “Vacancies and business surveys suggest that labour demand remains very robust,” Aussie bank Westpac says, adding that June tends to be a seasonally soft month, “so if we are still on a positive growth trend then that would suggest upside risks.” The unemployment rate is expected to rise to 3.9% from 3.8%. Westpac says the last time the unemployment rate was lower was in 1974, when the survey was quarterly. The bank points out that the strong gain in male employment in May was underpinned by a solid rise in the participation rate. The bank argues that “a long run trend decline in male participation, associated with an aging population, has been arrested for now, but a lot still depends on if female participation can rise to supply the needed labour due to limited immigration.” Westpac itself looks for participation to be flat in June, and the jobless rate easing to 3.8%.

US-SAUDI MEETING (FRI-SAT): US President Biden is poised to be in Saudi Arabia between July 15-16th where he will be meeting the de facto leader Mohammed bin Salman (MBS). From a market perspective, traders will likely focus on energy policy. The meeting is unlikely to deliver on any material measures to stabilise oil prices, with more eyes falling on OPEC’s spare capacity as the OPEC+ COVID-era Declaration of Cooperation (DoC) approaches its end. According to IEA estimates, Saudi Arabia has a short-order capacity (able to add in less than 90 days) of around 1.2mln BPD, with the longer-term capacity predicted to be near 2.1mln BPD. Many participants warn that Saudi is unlikely to have the resources needed to meaningfully bolster production, whilst others also suggest little incentive for the Kingdom. Interestingly, ahead of the meeting, Saudi Aramco, in its latest Official Selling Prices (OSPs) refrained from raising M/M prices for the US, whilst prices were upped for Northwest Europe, the Far East, and the Mediterranean. Desks have suggested that the US-Saudi meeting will likely see a more geopolitically leaning agenda against the backdrop of the ongoing war and the US’ concerns about human rights in the region. All-in-all, it is difficult to envisage anything meaningful for markets immediately emerging from this confab.

CHINESE GDP (FRI): Chinese GDP data for Q2 is set for release next week and expected to show a slow own from the prior reading of 4.8% with some analysts expecting Y/Y growth of 1.4% which would be the slowest pace of expansion since Q1 2020. The expectations for softer growth in China’s economy follows the lockdowns during the quarter affecting the two most populous cities of Shanghai and Beijing as China enforced a strict zero-Covid policy and with supply chain disruptions impacting the manufacturing hub in the Yangtze River Delta region. The effects of the COVID restrictions were evident in previous activity data as the Manufacturing PMI in April and May printed in contraction territory before recovering in June, and Industrial Production shrank during April, but surprisingly returned to growth in May, while Retail Sales have been negative including a double-digit percentage drop at the start of the quarter. The impact of China’s COVID restrictions alongside central banks tightening policy globally and higher commodity prices from the fall out of the Ukraine war, has made analysts skeptical on whether China can achieve its official growth target of around 5.5% this year and Premier Li has admitted that China could miss it which puts him at odds with President Xi who recently affirmed the country's economic goal.

US RETAIL SALES (FRI): Retail sales are seen rising by 0.8% M/M in June, more than offsetting the 0.3% decline printed in May. Credit Suisse is below consensus, and looks for retail sales to rise by 0.3% again; it argues that unit auto sales and changes in energy prices suggest autos and gas spending will keep nominal headline retail sales positive in June. The ex-autos measure is seen rising by 0.6% M/M (vs 0.5% in May). There are no forecasts for the ex-autos/gas measure yet, but CS expects a decline of 0.5% M/M after the +0.1% in May. The bank says that high-frequency card tracking data showed weakening goods spending in June, with greater services spending acting as a headwind to goods spending; it adds that sustained high inflation continues to erode consumer purchasing power. “Nominal retail sales have been relatively strong this year, but real goods spending has weakened and we continue to expect real goods spending keeps falling through the year.” The bank says that since January, real retail sales have already fallen by about 2.3% (including its forecast for June); “the US is on the edge of recession, and cyclical components of output – real goods spending included – are likely to contract on par with a moderate recession,” and “incremental shocks to financial conditions from here may put the US into a broader slowdown that includes labour market weakness, raising the risk that goods spending falls even further.”

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("**Newsquawk**") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

newsquawk

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com