Week Ahead 1-5th August: highlights include US jobs data, ISM; China Caixin PMIs; BoE, RBA, BCB, OPEC

Week Ahead 1-5th August

- **MON:** CBR Monetary Policy Report; Chinese Caixin Manufacturing PMI (Jul), Australian, EZ, UK & US Final Manufacturing PMI (Jul), German Retail Sales (Jun), US ISM Manufacturing PMI (Jul).
- **TUE:** RBA Policy Announcement, Canadian Civic Day; South Korean CPI (Jul), Canadian Manufacturing PMI (Jul), US JOLTS (Jun), New Zealand HLFS Unemployment (Q2).
- **WED:** BCB Policy Announcement; Australian, EZ, UK & US Final Composite/Services PMI (Jul), Swiss CPI (Jul), EZ Retail Sales (Jun), US ISM Services PMI (Jul), Factory Orders (Jun).
- **THU:** BoE & CNB Policy Announcements; Australian Trade Balance (Jun), German Industrial Orders (Jun), EZ & UK Construction PMI (Jul), US Challenger Layoffs (Jul), US International Trade (Jun), IJC (w/e 25th Jul), Canadian Trade Balance (Jun).
- **FRI:** RBA SOMP; Japan's Leading Indicator (Jun), German Industrial Output (Jun), UK Halifax (Jul), US & Canadian Labour Market Reports (Jul), Canadian Ivey PMI (Jul).
- **SUN**: Chinese Trade Balance (Jul).

NOTE: Previews are listed in day-order*

CHINESE CAIXIN MANUFACTURING PMI (MON): The July PMI is expected to remain in expansionary territory, but tick slightly lower to 51.5 from 51.7. To recap, the June PMI suggested “The reduction in COVID -19 case numbers and the subsequent easing of containment measures across China led to a renewed improvement in manufacturing business conditions in June”. Since then, COVID control has been more isolated, whilst Bloomberg recently reported that China is imposing COVID "closed loops" (where staff live and work on-site), on major Shenzhen companies, an evolution in policy from the prior blanket closures. However, the June PMI release warned that firms “remained relatively cautious in terms of staffing levels”, whilst “Higher costs for raw materials and transport drove a further sharp increase in input costs in June”, but “companies cut their selling prices for the second month in a row amid greater market competition and efforts to stimulate sales.” On that front, the July PMI will offer some further insight into developments on domestic inflation ahead of the official CPI and PPI releases in the second week of August.

US MANUFACTURING ISM (MON), SERVICES ISM (WED): The manufacturing ISM headline is seen little changed at 52.9 in July (prev. 53.0). “Regional manufacturing surveys have been mixed, but the broader trend has been lower, with a majority now in negative territory,” Credit Suisse observes, “new orders has already dropped below 50, and the production index is likely to follow lower soon,” it adds. One positive within the data could be the supplier delivery times continuing to pull-back from elevated levels. “The US manufacturing sector is likely to be in a prolonged slump at least through next year,” CS writes, “tighter financial conditions are leading to a decline in consumer goods demand and business investment.” That said, Credit Suisse thinks a US recession can still be avoided, but argues that risks are rising and cyclical sectors will continue to remain under pressure. Elsewhere, the services ISM, released on Wednesday, is seen easing to 54.0 from 55.3.

RBA POLICY ANNOUNCEMENT (TUE): The Q2 CPI release seen this week has somewhat tempered and unified expectations for the RBA to hike by 50bps at its upcoming meeting – with money markets pricing in a 95.3% chance of such a hike, and a 4.7% probability of a 25bps move. To recap, headline CPI Q/Q and Y/Y both missed forecasts by 0.1 ppts, whilst the Trimmed Y/Y printed 0.2ppts above expectations and the Weighted Mean 0.1ppts under forecasts - the rest of the data was in-line with expectations. “A further 50bp in September will take rates to a level close to, but still slightly lower than, neutral (2.35%), and thereafter the RBA might consider that further moves can be done at a more leisurely pace depending on the run of data”, say the analysts at ING. Desks also point out that since the RBA meets each month, they have greater flexibility to react to data. All-in-all, given the recent set of numbers and as things stand, there are no expectations for the RBA to surprise, with Deutsche Bank and Goldman Sachs also revising their outside bets to a 50bps hike in August from their prior views of 75bps.

JTC/JMMC/OPEC+ (TUE/WED): This meeting will be more convoluted than the July confab as the group is set to decide on policy for September. Thus far, sources have suggested that OPEC+ will likely discuss either maintaining current production or increasing output by a small increment, with most of the sources cited by Reuters (five out of eight)

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

implying that production will likely be held. Upping production will please Washington, with a Senior US official recently stating that the administration is optimistic that there could be some positive announcements coming out of OPEC. However, OPEC+ is burdened with limited spare capacity, with Saudi Arabia and the UAE likely to bear most of the output hikes on their shoulders. As a reminder, the IEA estimates Saudi has a short-order capacity (reachable in less than 90 days) of around 1.2mln BPD, with the longer-term capacity predicted to be nearer to 2.1mln BPD. The argument OPEC watchers have been flagging is the state of confidence in the group (to stabilize the oil market) if they have no spare capacity, with oil traders warning of a potential upward spiral in oil prices if this "worst case" scenario was to occur. Reuters sources added that given the easing of prices since March, there isn't a strong argument to further hike output at this meeting. Meanwhile, in the case of a hike, no increments have been flagged thus far and will likely be discussed at the meeting, with sources throughout the meeting days likely to test the waters. In terms of the schedule, the Joint Technical Committee (JTC) will meet on Tuesday at 12:00BST/07:00EDT – the group will review oil market developments. On Wednesday, the Joint Ministerial Monitoring Committee (JMMC) will review the findings of the JTC and make a recommendation to the decision-making OPEC+ group. The JMMC is set to meet at 12:00BST/07:00EDT, with the OPEC+ ministerial meeting to follow.

SWISS CPI (WED): The June metric came in at 3.4% YY vs exp. 3.2% and lifting from the prior 2.9%; unsurprisingly, given the energy situation, much of this was due to imported products. A release that surpassed the SNB's peak Q3-2022 inflation forecast of 3.2% from the June policy announcement; reminder, at this gathering the SNB delivered an unexpected 50bp hike (to -0.25%) and said further increases cannot be ruled out. Since then, as part of a "National Bank in Brief" release which, interestingly, is designed for "schools and the general public" and is not listed as an "economic publication" the SNB said it "may take monetary policy measures at any time between regular assessment dates if circumstances so require.". In wake of this noted CHF appreciation was seen. Commentary which has heightened the focus on Swiss inflation prints and the potential for intra-meeting action by the SNB, an approach they have ample precedent for. More broadly, it is worth recalling that multiple other central banks and particularly the ECB have undertaken above-exp. hikes since the SNB's move; which, at the current juncture, has put the SNB's Key Rate back below the ECB's Deposit Rate (-0.25% vs 0.00% respectively) and thus erodes the relative rate dynamics that were assisting the CHF. Recall, Chairman Jordan outlined that a weaker CHF was one of the drivers of inflation and they were prepared to sell foreign FX if the Franc weakened further.

BCB POLICY ANNOUNCEMENT (WED): In June, the COPOM lifted the Selic rate by 50bps, taking it to 13.25%. The statement was more hawkish than expected, with the central bank suggesting that it could raise rates further in the months ahead; there was a building expectation that the COPOM could have signalled the end of the hiking cycle at the June meeting. "The COPOM foresees a new hike of the same or lower magnitude, which then leaves little to no room for stopping the hiking cycle at 13.25%," Rabobank said, "this is the more hawkish aspect of this statement, raising the odds of driving inflation expectations closer to the target." But Rabo notes that the central bank now also says that its strategy is consistent with inflation convergence to 'a level around' its target, instead of its target midpoint, which is a sign that the current monetary policy cycle is at a very advanced stage. Rabo has argued that despite fears that the global economy is slowing, the it still sees the BCB hiking by 50bps in August, and then keeping rates at that level through the end of the year. "Even though we expect a longer Selic hiking cycle than at the beginning of 2022, we believe the Fed's recent display of hawkishness and the intensification of the traditional electoral cycle will end up weighing on the BRL and other local assets going forward."

BOE POLICY ANNOUNCEMENT (THU): The overall consensus looks for a 25bps hike to the Bank Rate to 1.5%, however, surveyed analysts are split in their views. 29/54 polled by Reuters expect a 25bps increase with the remaining 25 looking for a larger increment of 50bps. As such, there is a high level of uncertainty heading into the event and it remains unclear how many, if any, members will join Mann, Saunders and Haskell in voting for a 50bps hike. Market pricing has a higher level of conviction for the meeting with a 50bps increase priced in via a circa 90% probability; this is most likely a by-product of larger increases by other major global central banks such as the ECB and Fed. Looking further ahead, markets anticipate around 150bps of tightening by year-end. The ambiguity in the analyst community in part stems from the lack of clear guidance from MPC officials with Governor Bailey noting that a 50bps increase will be amongst the choices for the meeting (which is not a surprise given recent hawkish dissent), but cautioning against betting on such an outcome. Even hawkish dissenter Saunders refrained from suggesting how he would vote next week. From a data perspective, the June Y/Y CPI print rose to 9.4% from 9.1% and therefore exceeded the MPC's forecast of 9.1%. However, survey metrics in July declined from prior levels with S&P Global noting that "UK economic growth slowed to a crawl in July". Furthermore, the latest jobs data suggests that the labour market is no longer tightening. Of those looking for a 25bps increase, Oxford Economics suggests that although the outcome of the meeting is "finely balanced", the consultancy favours a 25bps move given that "the likely increase in the BoE's inflation forecast will be due to factors outside the MPC's control". Furthermore, Oxford Economics sees "scant evidence of second-round effects via higher wage growth, and surveys have shown a retreat in cost pressures". As well as the decision itself, markets will be looking for any adjustments to the Bank's current guidance that states "the Committee will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response". Elsewhere, traders will be eyeing any details around the Bank's plans for selling its Gilts held in the APF. In a recent speech, Bailey noted

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

that details of the MPC's plans will be published alongside the MPR with a potential confirmatory vote by the MPC to follow as early as September. In terms of a potential size, Bailey noted that "we are currently looking at a total reduction in the stock of gilts held by the APF, which covers both sales and gilt redemptions, of something in the region of £50# 100bn in the first year".

US LABOUR MARKET REPORT (FRI): The rate of US nonfarm payrolls is again expected to moderate, to 255k in July, the slowest rate of monthly payroll additions since December 2020. For reference: The 3-month moving average is 375k; the 6-month average is 457k, which is also the monthly average of 2022; and the 12-month average is 524k. The jobless rate is expected to remain unchanged at 3.6%. Average hourly earnings are expected to increase by 0.3% M/M, matching the rate seen in June. July's data will perhaps carry more weight than in recent months since it could be more influential in determining the outcome of the September FOMC meeting. Economists have been citing the still strong labour market as a key premise of why the US economy is not in recession, following data which this week confirmed that the economy contracted in both Q1 and Q2, which some define as a technical recession. The Fed has indicated that it is now setting policy on a meeting-by-meeting basis, where incoming data will be the basis of its policy decisions; that said, the central bank has also suggested that inflation remains its number one priority, and it is prepared to take monetary policy into restrictive territory to cap the inflation upside, and accordingly, the central bank is still expected to aggressively tighten rates even if there is evident weakness elsewhere – the question will be the magnitude.

CANADIAN LABOUR MARKET REPORT (FRI): The previous labour market report revealed that the Canadian economy lost 43k jobs in June. The BoC's MPR this month noted that the economy was operating beyond its productive capacity, and the labour market was "tight along all dimensions," with most indicators suggesting that it had surpassed its maximum sustainable employment levels. Businesses continue to report capacity constraints, including labour shortages and supply chain challenges, according to the BoC's recent Business Outlook Survey, and supply constraints are still weighing on production and sales. The result of the shortages in the labour market is wages are being pushed higher. "The Bank of Canada is very likely to ignore a surprise loss of 43k jobs in June," Scotiabank said, "its fixation is upon their inflation mandate with inflation running at about four times its 2% target." But Scotia argues that the underlying details of the June jobs data were more hawkish than the headline suggested; accordingly, Scotia has argued that the BoC realises that it will need to 'break a few tea cups' along the path toward engineering cooler inflation through a combination of monetary tightening with a possible eventual assist from supply chains.

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.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.