Week Ahead 29th August to 2nd September: Highlights include: US jobs report, ISM; China PMIs; EZ inflation

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- **MON:** EU Defence Ministers Meeting (1/2), UK Summer Bank Holiday; Australian Retail Sales (Jul), Swedish Trade Balance (Jul).
- **TUE:** EU Defence Ministers Meeting (1/2), NBH Policy Announcement; Japanese Unemployment (Jul), German CPI Prelim. (Aug), UK BoE Consumer Credit (Jul), EZ Consumer Confidence Final (Aug), US Consumer Confidence (Aug), JOLTS (Jul).
- **WED:** Japanese Retail Sales (Jul), Japanese Consumer Confidence (Aug), Chinese NBS PMIs (Aug), German Unemployment (Aug), EZ HICP Flash (Aug), Canadian GDP (Q2), US Chicago PMI (Aug).
- **THU:** Australian, Japanese, EZ, UK, Canadian & US Final Manufacturing PMI (Aug), Swiss CPI (Aug), German Retail Sales (Jul), US Challenger Layoffs (Aug), IJC (w/e 22nd Aug), ISM Manufacturing PMI (Aug), Construction Spending (Jul), EZ Unemployment (Jul).
- **FRI** German Trade Balance (Jul), EZ Producer Prices (Jul), US NFP (Aug), US Factory Orders (Jul) & Durable Goods Revisions (Jul).

NOTE: Previews are listed in day-order

Chinese NBS PMIs (WED): The latest Chinese PMI data is due next week in which participants will be eyeing if there is a further slowdown in Chinese factory activity after the official headline Manufacturing PMI in July unexpectedly contracted to 49.0 vs. Exp. 50.4, while both Non-Manufacturing PMI and Composite PMI slowed from the prior month but remained in expansion territory at 53.8 and 52.5, respectively. The slowdown in manufacturing coincided with a fall in new orders and new export orders to suggest weaker demand at home and abroad, with activity also impacted by China’s strict zero-COVID policy which has resulted in lockdowns across several areas to contain the sporadic flare-ups of infections. Furthermore, ING suggested that some industries which contracted were associated with building construction and that the recent issue of uncompleted real estate projects may have contributed to the slowdown in manufacturing but believes domestic demand can recover in September if the situation regarding uncompleted residential projects is resolved. Conversely, this month’s release may not provide much optimism due to COVID measures and disruptions to industry from a power crunch as a record heatwave and drought in China has resulted to power shortages which prompted China’s Sichuan to cut power supply to factories in the province which is a key manufacturing hub for electronic vehicle cells and solar panels.

EZ HICP (WED): Expectations are for August’s HICP reading to rise to 9.0% Y/Y from 8.9% with the “super-core” metric seen ticking higher to 4.1% from 4.0%. The July report was characterised by further upward pressure from food prices, while energy inflation remained elevated and translated into additional second-round effects, therefore driving core inflation higher. More of the same is expected in August; Credit Agricole notes that an above forecast reading will likely heighten calls for a 50bps rate hike by the ECB, albeit the bank cautions that “there is only so much that a more aggressive ECB rate hike could accomplish.” Further ahead, SocGen notes that inflation is expected to peak between 9.8-10% in Q4, and notes that “the recent repricing of 2023 fixings is consistent with stickier inflation than previously thought (with inflation priced for 7.75% for June 2023).” Thereafter, the bank says that “markets are currently consistent with inflation returning back to the 2-2.5% range by late 2024, and then seen staying around those levels for the following five years.” As it stands, markets fully price in 50bps rate moves from the ECB for both the September and October meetings, with a further 25bps hike expected in December.

US ISM MANUFACTURING PMI (THU): The consensus expects the ISM manufacturing report to ease slightly in August to 52.6 from 52.8 in July. As a point of comparison, the S&P Global’s US manufacturing PMI was also expected to be little changed in August, but fell by almost one point to 51.3, its lowest level in just over two years, and continued to signal subdued operating conditions across the manufacturing sector amid muted demand conditions and production cutbacks. Within the S&P report, the manufacturing output index slipped to a 26-month low at 49.3 (vs 49.5 in July), in contraction for the second straight month. "Ongoing supply chain issues, paired with weak client demand, led to the drop in output," S&P said, "higher input prices also served to dampen customer demand, as some firms stated that clients were monitoring inventories and essential spending more closely." The report noted that new export orders fell solidly as inflationary pressures in key export markets weighed on demand, but that said, manufacturers registered the slowest rise in cost burdens since January 2021, and the pace of inflation reportedly softened following lower prices for some key inputs, while goods producers raised their selling prices at the slowest pace for a year-and-a-half in an effort to drive sales. S&P said there were signs of improvements in supply chain disruptions, and delivery times lengthened to the least marked extent since October 2020.

SWISS CPI (THU): The July reading printed at 3.4% YY, in-line with the prior and slightly below the expected 3.5%, though still (un)comfortably above the SNB's Q3-2022 peak forecast of 3.2%. The FSO said this stability was due to opposing trends counterbalancing each other overall, with heating oil prices decreasing alongside clothing amid seasonality drivers while gas prices lifted. In the wake of the below-expected metric, pressure was seen in the Franc on a lessening of the likelihood of intra-meeting action to combat inflation; a narrative that was in particular focus following the release of a "National Bank in Brief" document, which said policy measures can be taken at any time. For August, the YY print is once again expected to rise to 3.5% from 3.4%, with a forecast range of 3.3-3.6%; as such, the arguments going into the last report and in particular the focus around potential intra-meeting action remain much the same. Further out, the next SNB announcement is September 22nd and, barring a significant upward surprise to the inflation narrative, the Bank is likely to wait until this gathering before potentially delivering another 50bp hike from their current -0.25% level. For reference, SNB's Jordan is due to speak on August 27th at Jackson Hole, which could provide some fresh clues before the data is released.

US NFP (FRI): Traders will be fixed on the headline (which gives us a gauge of economic growth conditions) as well as the wages data (which gives us a gauge of inflation trends); the data will be used to inform the debate on whether the Fed will raise rates by 50bps or 75bps at the September 21st FOMC. After the surprise blowout July jobs report, the headline is expected to resume the moderation in the rate of payrolls growth, with the consensus view looking for 290k to be added to the economy in August (prior 528k, 3-month average 437k, 6-month average 465k, 12-month average 512k). After slipping by one-tenth of a percentage point in July – likely as the rate of participation slipped – the unemployment rate is seen holding steady at 3.5% in August. The wages metrics will be looked at by traders to gauge how surging (and broadening) consumer prices are translating into second-round effects; the consensus looks for average hourly earnings of 0.3% M/M in August, easing from the 0.5% pace in July; average workweek hours are seen unchanged at 34.6hrs. The overarching macro theme is how tighter monetary policy (which is a response to higher inflation) will drag on growth in the quarters ahead, and the August jobs data is the last official release before the Fed's September confab. Money markets are currently split between whether the Fed will lift rates by 50bps or 75bps. For what it's worth, Fed officials have suggested that in the months ahead, the labour market could cool from the very hot and tight conditions, and the Fed's recent meeting minutes noted that the labour market implied that the economy was in better shape than the Q1 and Q2 growth data suggested. (The Fed's June forecasts, which will be updated in September, projected that jobless rate will tick up to 3.7% by the end of this year, rising to 3.9% in 2023, before ticking up to 4.1% in 2024, above the Fed's longer-run estimate of 4.0%). Since the release of those minutes, Fed officials have said that some cooling of the labour market would be welcomed, and the labour market data certainly does not suggest the US economy is in recession (Daly); on concerns surrounding labour market supply, the dovish 2023 voter Kashkari believes that labour supply potential is more or less fixed now, while the Fed's 2022 voting hawk Bullard thinks there is even some scope the unemployment rate could edge lower.