Week Ahead June 5-9th: Services ISM; China CPI and trade data; BoC, RBA, RBI Policy Announcements

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- **SUN:** OPEC+ Meeting.
- **MON:** Chinese Caixin Services PMI (May), German Trade Balance (Apr), Swiss CPI (May), Turkish Inflation (May), EZ/UK/US Final Services and Composite PMIs (May), EZ Sentix Index (May), US Durable Goods (R), ISM Services PMI (May).
- **TUE:** RBA Announcement, NBP Announcement, EIA STEO, EZ/UK Construction PMI (May), EZ Retail Sales (Apr).
- **WED:** BoC Announcement, Australian Real GDP (Q1), Chinese Trade Balance (May), German Industrial Production/Output (Apr), US Goods Trade Balance (R) (Apr), Canadian Trade Balance (Apr), US-UK Meeting in Washington.
- **THU:** RBI Announcement, Japanese GDP (Q1), EZ GDP (R) and Employment Final (Q1), US-UK Meeting in Washington.
- **FRI:** CBR Announcement, Chinese Inflation (May), Norwegian Inflation (May), Canadian Jobs Report (May).

NOTE: Previews are listed in day-order

OPEC+ MEETING (SUN): It is currently unclear which path the alliance of oil producers will opt for at the upcoming weekend meeting, although desks are seemingly in consensus that the group will keep production steady, but will stress flexibility. Analysts are also in unison in assigning non-zero chances of further production cuts, mainly given the Saudi Energy Minister's recent warning to speculators, and the fall in prices since the group's surprise, coordinated, voluntary curb announcement in April. Sources also suggested OPEC+ is unlikely to deepen output cuts at the June 4th meeting, according to Reuters. Reuters OPEC+ sources added that ministers to meet at 10:00BST on Saturday and 13:00BST on Sunday, but said it is too soon to be sure of the outcome on Sunday; another source said the idea of formalising the voluntary cuts as an OPEC+ decision was being looked at. In terms of factors that support further production cuts - oil prices have declined some 8% since the eve of the additional, coordinated, and voluntary cuts announced between the nine major members. Prices are now under the USD 80-85/bbl range - which activated the OPEC put in April 2023 and October 2022, according to Goldman Sachs. Furthermore, analysts have been citing the recent rout in oil prices to extreme bearish positioning alongside expectations of a deeper global growth slowdown - not helped by sentiment from the mini-banking crisis alongside the US debt ceiling debacle. Chinese data has mostly been disappointing of late, with the most recent Retail Sales, Industrial Output, and NBS Official PMIs all pointing to slower economic activity, although the Caixin Manufacturing PMI offered some relief as it was unexpectedly revised higher. On the flip side, notions backing a hold include an expected tightening in the oil market on the back of Chinese demand continuing to come back online. Several prominent desks see the market in deficit in H2 2023. Analysts at ING believe the market to be in a deficit of some 2mln BPD over the latter part of 2023, while Goldman Sachs sees "signs that the market remains on track for H2 deficits." Add to that, the US Energy Secretary announced mid-May that the DOE is looking to purchase up to 3mln barrels of sour crude for the SPR. Despite the volumes being somewhat small (vs the 220mln barrel release), ING at the time suggested "the move does show that the US administration is serious about refilling the SPR, something that the market started doubting in recent months". Furthermore, on April 2nd, OPEC countries in a surprise move over the weekend, announced coordinated voluntary production cuts. The de-facto head of Saudi Arabia suggested the move was "a precautionary measure aimed at supporting the stability of the oil market," according to Energy Intelligence. The total cuts announced by OPEC amount to 1.157mln BPD (from May through to the end of 2023), and with Russia's previously announced 500k BPD, this equates to an OPEC+ tally total of 1.657mln BPD. Desks suggest the group may want to, for this month at least, take a wait-and-see approach to observe the effects of these cuts. It's also worth noting that FT reported recently that a slew of media groups have been barred from attending the OPEC+ meeting this weekend, but given the meeting will be happening over the weekend and during market closures, all information should be known by the time oil futures come back online.

SWISS CPI (MON): Expectations are for Y/Y CPI to decline to 2.2% from 2.6%. Inflation in Switzerland experienced an uptick toward the start of the year, but has since been gradually easing from the 3.0% mark and approaching the 0-2% target band. In March, the SNB forecast Q2 inflation at 2.7% and the April figure was incrementally below at 2.6%; at the March gathering, the SNB announced a hawkish-hike as their inflation forecasts were lifted alongside 50bp tightening

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and the expected return to target pushed out by two quarters. Commentary since, and after the April release, has made clear that further tightening is to be expected and the SNB believes underlying inflation remains strong. As such, the May print is unlikely to change the skew for further tightening in June, but could if it continues to ease and spark a dovish-alteration to the Bank's inflation forecasts; a view supported by the findings in the month's PMI that "the pricing situation continues to ease". Albeit, and pertinent for the longer-term trajectory, the Swiss Federal Office of Housing has approved the first ever increase in the rental reference rate to 1.50% (prev. 1.25%), effective June 2nd. The 25bp increase allows landlords to hike rental prices by up to 3.0% and as such will fan the associated inflation component and potentially weigh on broader economic activity; desks expect further upside to the rental rate later in the year.

ISM SERVICES (MON): The headline is expected to rise to 52.1 in May from 51.9 in April. As a proxy, the S&P Global flash PMI data showed the US services sector saw a strong performance in May, seeing the fastest growth in activity in over a year, with service providers stating that demand was being driven by both new and existing clients. New business and export orders also rose at a solid clip. That said, inflationary pressures remained high, with input prices and output charges increasing faster than average, S&P said. But service providers were able to bring in new staff at a quicker pace, and job creation reached a 10-month high. Overall, service firms are optimistic about future business activity, with the highest level of confidence in a year. Analysts have also been noting the divergence in manufacturing and services conditions. Goldman Sachs notes that despite robust growth in services, manufacturing has contracted since October, with country-level indices reflecting underperformance. GS says there are three drivers explaining these trends: the cyclical nature of goods demand, normalisation after the pandemic, and reduced import demand. GS says these factors account for about 75% of the gap between manufacturing and services PMIs. And going forward, the bank thinks manufacturing will likely continue to lag behind services.

RBA POLICY ANNOUNCEMENT (TUE): The RBA is expected to keep rates unchanged at its meeting next week according to 22 out of 30 economists surveyed by Reuters and with money markets pricing in a 67% probability for the Cash Rate Target to be maintained at the current level of 3.85%, and a 33% chance of a 25bps hike. The RBA surprised markets at last month's meeting when it delivered an unexpected rate increase to resume the policy tightening cycle with an 11th hike in 12 meetings, while its language remained hawkish as the Board expects that some further tightening of monetary policy will be needed and remains resolute in its determination to return inflation to target with the central bank to do what is necessary to achieve that. Furthermore, its central forecast is that it will take a couple of years before inflation returns to the top of the target range and noted that although inflation has passed its peak, it is still too high at 7%. Furthermore, Governor Lowe commented shortly after the meeting that the Board had a strong consensus to raise rates and is deadly serious about bringing inflation back down, while the RBA's quarterly Statement on Monetary Policy stuck with the hawkish tone in which it reiterated that it will do what is necessary to return inflation to target and some further tightening may be required to do that over a reasonable timeframe. The language from the central bank clearly points to further rate increases, although some recent data releases have disappointed and support the case to keep rates on hold after the Manufacturing PMI returned to contraction territory last month and with Retail Sales sluggish, while jobs data showed a surprise contraction in the Employment Change and increase in the Unemployment Rate to 3.7% from 3.5%. Nonetheless, another surprise rate increase cannot be ruled out given that inflation remains far from the central bank's 2%-3% target range as the latest monthly CPI rose to 6.8% vs. Exp. 6.4% (Prev. 6.3%) and boosted some rate hike bets, while Goldman Sachs raised its terminal rate forecast to 4.35% from 4.10% and now expects the RBA to hike by 25bps in both June and July.

BOC PREVIEW (WED): In recent months there has been an expectation that the BoC would keep its policy rate unchanged through the rest of this year, but analysts note that stronger-than-expected GDP and CPI metrics, as well as a buoyant housing market present officials with the case to lift rates by 25bps in June. Minutes from its last meeting revealed that officials had discussed raising interest rates due to concerns about persistent inflation. Resilient economic growth, challenges in lowering inflation, and the risk of delaying action were the main arguments in supporting the case for a rate rise. While the BoC expects inflation to ease, it is cognizant that reaching its 2% target may take longer due to high services costs. Money markets are currently assigning a probability of around 35% that rates will be lifted by 25bps to 4.75% in June, though are fully pricing in a hike by the September meeting.

AUSTRALIA GDP (WED): Real Q1 GDP Q/Q is expected to show growth of 0.3% (prev. 0.5%) with the Y/Y seen at 2.4% (prev 2.7%). Analysts at Westpac expect Q/Q growth of 0.2%, slightly below market forecasts. The desk suggests that " Domestically, the detail is expected to show consumer spending stalled flat with the only growth coming from a lift in new business investment and public demand." It's worth noting the GDP metric will be released after the RBA policy announcement, whereby the central bank is expected to keep rates unchanged at its meeting next week according to 22 out of 30 economists surveyed by Reuters and with money markets pricing in a 67% probability for the Cash Rate to be maintained at the current level of 3.85%, and a 33% chance of a 25bps hike.

CHINA TRADE BALANCE (WED): Chinese Trade Data for May is scheduled next week and market participants will be eyeing the release as a gauge for the health of the world's second-largest economy after the recent bout of mostly weaker-than-expected indicators, and following the softer trade figures in the prior month. China's dollar-denominated

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exports rose by 8.5% in April which topped forecasts for 8.0% growth, but slowed from the 14.8% pace in March, while imports unexpectedly contracted by 7.9% Y/Y which analysts had forecast to print flat. This suggests an uneven economic recovery and weak domestic demand which was also evident in China’s inflation data for that month in which CPI printed at the slowest pace of increase since February 2021 and factory gate prices showed deeper deflation. Furthermore, Goldman Sachs noted the softer trade data in April likely reflected post-Lunar New Year residual seasonality, while Capital Economics expects the continued weakening of exports to persist amid the gloomy outlook for external demand before bottoming out later in the year.

US-UK MEETING (WED/THU): UK PM Sunak is set to visit Washington DC on June 7 and 8 for meetings with US President Biden, Congress members, and US business leaders. The visit seeks to bolster discussions on strengthening cooperation and coordination between the UK and US, particularly on economic challenges defining the future, including supply chain security and transition to zero carbon economies. Sunak’s visit will also offer an opportunity to discuss issues such as support for Ukraine, following the G7 summit. Prior to this, Sunak met with CEOs of OpenAI, Google DeepMind, and Anthropic, discussing ‘international collaboration’ on AI.

RBI POLICY ANNOUNCEMENT (THU): The RBI will conduct its 3-day policy meeting next week with the central bank expected to maintain the Repurchase Rate at the current level of 6.50%, according to all 64 economists surveyed in a Reuters poll. As a reminder, the RBI defied market expectations for a 25bps hike at the last meeting in April and instead opted to keep rates unchanged via a unanimous decision, while the MPC maintained its policy stance of remaining focused on the withdrawal of accommodation through a 5-1 vote to ensure that inflation progressively aligns with the target whilst supporting growth in which external MPC member Varma expressed reservations over this part of the resolution. Despite the surprise decision to keep rates unchanged, the rhetoric from Governor Das remained hawkish as he noted that the decision to pause was for that meeting only and the MPC stands ready to act if warranted, as well as adding that they will not hesitate to take actions if needed at future policy meetings and the policy stance can still be regarded as accommodative. This clearly suggests there is scope for further tightening, while the minutes from the meeting also stated that inflation remains elevated and generalised which is still the biggest risk to the Indian economy and the MPC must remain on high alert and ready to act pre-emptively if risks intensify to both growth and inflation. Nonetheless, the further softening of inflation to within the 2%-6% target range reduces the urgency for the central bank to act as CPI Y/Y slowed in April to 4.7% vs. Exp. 4.8% (Prev. 5.66%), while weaker-than-expected Industrial Production which printed at 1.1% vs. Exp. 3.3% (Prev. 5.6%) also supports the case for the central bank to continue refraining from further tightening, although GDP data recently provided some encouragement and printed firmer-than-expected at 6.1% vs. Exp. 5.0% (Prev. 4.4%) for the January-March quarter.

CHINA INFLATION (FRI): Headline CPI Y/Y for May is expected have ticked up to 0.4% (prev. 0.1%), while the PPI Y/Y metric is seen at -3.2% (prev. -3.6%). Typically, the anecdotal commentary within the monthly PMIs are taken as a proxy for the inflation figures released later. However, the PMIs from NBS and Caixin saw a divergence this month, with the former seeing its Manufacturing reading slipping further into contraction, while the latter saw its respective reading unexpectedly revised into growth. Nonethless, the commentary from the Caixin release suggested “Prices continued to plunge. As deflationary pressure has grown, the gauges for input and output prices remained well below 50.0 for the second straight month, logging their second-lowest readings since early 2016. Input prices were dragged down by falling food, fuel and industrial metals costs, while prices charged to customers were constrained by heated market competition.” Meanwhile, on the more-disappointing NBS data, analysts at Nomura suggested “The sharper contraction in the manufacturing PMI suggests that the risk of a downward spiral, especially in the manufacturing sector, is becoming more real”, and added that the weakness in demand is the main culprit for the manufacturing sector. Overall, recent data out of China has largely surprised the downside and raised concerns about the economic activity in the world’ s second-largest economy. Chinese Global Times recently said “Experts expect full-year GDP growth to exceed 6%”, and added the PBoC may cut the RRR by 0.25ppts “if the Chinese economy maintains a stable recovery in the second half of 2023 and requires more liquidity”, citing experts.

NORWAY INFLATION (FRI): May’s print follows on from a hotter-than-expected April release which prompted the likes of SEB to upgrade their CPI-ATE (core) trajectory given price pressures and ongoing NOK pressure. Throughout May, the NOK has continued to depreciate with EUR/NOK surpassing the 12.00 handle at one stage. Additionally, the latest Norges Bank expectations survey showed increases in 12-month inflation, 2023 real wages and annual wage growth vs the last release. Factors which add further credence to those calling for Norwegian inflation to be stickier and perhaps higher than the Norges Bank has forecast. At the March MPR, the Norges Bank forecast June (the nearest reference) headline CPI at 5.14% and CPI-ATE at 6.01%; if surpassed again, then the release will likely cement an upward-revision to the Policy Path in June to show a terminal rate at or possibly even above 3.75% vs the current 3.60% projection.

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