



# Week Ahead July 3-7th: Highlights include FOMC Minutes, US ISMs, RBA, BoJ Tankan, US & Canada jobs reports

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- **MON:** BoJ Tankan Survey (Q2), Chinese Caixin Manufacturing PMI Final (Jun), Swiss CPI (Jun), EZ/UK/US Manufacturing PMI Final (Jun), US ISM Manufacturing PMI (Jun)
- **TUE:** RBA Announcement, NBH Announcement, South Korean CPI (Jun), German Trade Balance (May),
- **WED:** FOMC Minutes, Chinese Caixin Services PMI Final (Jun), EZ/UK/US Services & Composite PMI Final (Jun), US Durable Goods R (May)
- **THU:** NBP Announcement, Australian Trade Balance (May), EZ Retail Sales (May), US ADP National Employment (Jun), US ISM Services PMI (Jun)
- **FRI:** German Industrial Output (May), US Jobs Report (Jun), Canadian Jobs Report (Jun)

*NOTE: Previews are listed in day-order*

**BOJ TANKAN SURVEY (MON):** According to a recent Reuters poll, Japan's factory sentiment is predicted to have improved in Q2 for the first time since mid-2021, largely due to a relaxation in the automotive chip supply crisis. Despite a global softening in demand affecting manufacturers, the services sector is anticipated to attain growth above pre-pandemic levels, driven by an increase in tourism. The confidence index of large manufacturers is seen increasing to 3 in June from 1 in March, according to the median estimate, and marking the first growth in seven quarters. Meanwhile, the mood among non-manufacturers boosted by robust inbound tourism and the reclassification of COVID-19 is expected to have risen for a fifth consecutive quarter. The manufacturers' sentiment is projected to further improve over the next quarter, while the services sector may experience a slight decrease due to high consumer inflation. The survey is also expected to show that large firms are planning to increase capital expenditure by 10.1% during this fiscal year, significantly above the 3.2% increase anticipated in the March survey.

**US ISM MANUFACTURING PMI (MON):** The manufacturing gauge is expected to rise to 47.2 in June from the 46.9 level in May. However, looking at the S&P Global PMI series for a comparison, manufacturing companies experienced a contraction in production in the month, with output declining at the steepest rate since January. New orders for manufacturers also saw a sharp drop, reflecting weak customer confidence and destocking by clients, S&P said. The outlook for manufacturers is clouded by concerns over inflation and lower sales, reflected in confidence falling to a six-month low within the S&P PMI data.

**RBA ANNOUNCEMENT (TUE):** The RBA will hold its policy meeting next week and analyst forecasts suggest a coin-flip as 16 out of 31 economists surveyed by Reuters expect another 25bps and 15 predict a pause at the current 4.10% level, while money markets are more decisive and are pricing in just a 37% probability for 25bps rate increase and a 63% chance for rates to be kept unchanged. As a reminder, the RBA defied the consensus for a pause in rates at the prior two consecutive meetings and instead opted to continue with its 25bps rate hike increments, while it noted at the June meeting that its actions were in response to the elevated inflationary environment and that data indicated that upside risks to the inflation outlook have increased. The statement remained hawkish and largely reiterated the prior month's rhetoric with the Board remaining resolute in its determination to return inflation to target and some further tightening of monetary policy may be required, while it also repeated that inflation in Australia has passed its peak, but is still too high at 7% and it will be some time yet before it is back within the target range. The meeting and subsequent comments by officials initially spurred some hawkish adjustments to rate forecasts, including Goldman Sachs which raised its view for rates to peak at 4.85% in September from a prior view of 4.35% in July, while NAB adjusted its call for rates to peak at 4.60% from 4.35% through back-to-back hikes in July and August. Nonetheless, this hawkish impetus eventually unwound a couple of weeks later after the Minutes from the meeting revealed that the Board considered a rate rise of 25bps or holding steady and that the arguments were finely balanced, while softer-than-expected monthly inflation data from Australia which slowed to 5.60% vs. Exp. 6.10% (Prev. 6.80%) adds to the case for the RBA to stand pat. However, another surprise hike cannot be ruled out as inflation remains a distance from the central bank's 2-3% target range and considering that the central bank has gone against the consensus for a pause at the last two meetings.



**FOMC MINUTES (WED):** The Federal Reserve held rates steady in June, as expected, but surprised markets by raising its rate projections for 2023 and beyond. The forecasted rates for 2023 were increased by 50bps, indicating two further 25bps rate rises ahead. The more hawkish forecasts were driven by an improved view of GDP growth, higher inflation expectations, and a lower projected unemployment rate. Despite the upward revisions, the long-term "neutral" rate remained unchanged. Fed Chair Powell acknowledged the progress made, but emphasised that the impact of tightening policy was yet to be fully realized. While most policymakers anticipate further rate hikes, they expect subdued growth to persist. Powell noted signs of improvement in the labour market's supply and demand balance, although demand still exceeded the available workforce. Inflation remains above the 2% target, but has moderated; Powell cautioned that reducing inflation may require below-trend growth and labour market adjustments. During his Q&A, he made a reference to the decision not to hike rates as a "skip," hinting at a possible rate increase in July. He emphasised the need for a more moderate pace of tightening. Powell said that a rate cut was unlikely and expressed limited concerns about the banking turmoil's impact. He discussed potential challenges in commercial real estate and projected a fall in the RRP and reserves during the TGA rebuild. Since the meeting, Chair Powell has reiterated that it would be appropriate to lift rates at least a couple of times (in keeping with the Fed's forecasts), stating that incoming data will be the influencing factor; he also has said that a majority of Fed officials support a couple of further rate hikes.

**US ISM SERVICES PMI (THU):** The services gauge is seen improving only slightly in June, with the consensus looking for a rise to 50.5 from 50.3 in May. The outlook for the services sector seems brighter than its manufacturing counterpart. S&P Global's PMI data said service sector firms continued to show robust growth, contributing to an overall expansion in the private sector. While the rate of expansion in the services sector cooled from the previous month's high, new business from abroad remained strong. "The question remains as to how resilient service sector growth can be in the face of the manufacturing decline and the lagged effect of prior rate hikes," S&P Global said, adding that "any further rate hikes will of course have a further dampening effect on this sector which is especially susceptible to changes in borrowing costs."

**US JOBS REPORT (FRI):** JOLTS data for May and the timelier weekly initial jobless claims series will help shape sentiment on the labour market going into the more definitive BLS employment situation report. For the JOLTS series, although it is a stale release (we will get June's NFP data, though the JOLTS data is for May), it can still be influential; last month's data for April, for instance, saw an upside surprise, generating a hawkish market reaction. Meanwhile, for the initial jobless claims data, Moody's notes that it receded in the latest week, although the four-week average remains close to the break-even level (Moody's estimates this to be around 265k), adding that it will be important to note any sustained increase in the level of claims as it would likely signal a deceleration in monthly job gains. In terms of the BLS employment situation report itself, the consensus currently looks for 200k payrolls to be added (vs 339k previously), with the unemployment rate seen unchanged at 3.7%. Average hourly earnings are seen rising 0.3% M/M, matching the rise seen in May. Moody's says that while it expects to see continued signs of labour market cooling from the data, it likely will not be enough to keep the FOMC from restarting rate hikes in July. The market currently expects the central bank to lift rates 25bps in July - Fed Chair Powell himself has alluded to at least a couple more rate hikes ahead, a view he says is shared by a strong majority on the Committee.

**CANADIAN JOBS REPORT (FRI):** Currently, there are no expectations for next week's jobs report but it will help dictate expectations for the July BoC meeting. The BoC resumed its hiking cycle in June after keeping rates on hold since January, as the board decided that policy was not sufficiently restrictive enough to bring supply and demand back into balance and return inflation to the 2% target. Since the June BoC meeting, the May Canadian jobs report heavily missed expectations with jobs declining by 17k, led by a 33k drop in full-time jobs. Meanwhile, inflation came in cooler than expected on the core metrics at 3.7% while the average of the three BoC core measures cooled to 4.3% from 4.7%, but still above the BoC's 2% target. Markets currently look for a 60% probability of another 25bp hike in July, and this report may help cement the expectations with market pricing easing somewhat after the cool inflation report. Nonetheless, analysts at ING note that decent growth, a tight jobs market, that is set to be confirmed by the upcoming jobs data, and sticky inflation mean they expect another BoC hike in July.

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