Week Ahead July 31st - August 4th: Highlights include US jobs report, BoE, RBA and PMI data

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- **MON:** Japanese Retail Sales (Jun), Chinese Official PMI (Jul), German Flash GDP (Q2), New Zealand Labour Cost Index (Q2)
- **TUE:** RBA Announcement, Chinese Caixin Manufacturing Final PMI (Jul), German/EZ Unemployment Rates (Jul), EZ/UK/US Final Manufacturing PMIs (Jul), US ISM Manufacturing PMI (Jul), New Zealand Jobs Report (Q2)
- **WED:** BCB Announcement, US ADP Employment (Jul)
- **THU:** BoE Announcement and MPR, CNB Announcement, Chinese Caixin Final PMI (Jul), Swiss CPI (Jul), EZ/UK /US Services and Composite Final PMI (Jul), US Durable Goods R (Jun), US ISM Services PMI (Jul)
- **FRI:** RBA SoMP, EZ Retail Sales (Jun), US Jobs Report (Jul), Canadian Jobs Report (Jul)

NOTE: Previews are listed in day order

JAPANESE ACTIVITY DATA (MON): Japanese activity data for June will come in the form of Industrial Production (no expectations, prev. -2.2%), Retail Sales (no expectations , prev. 5.8%), Construction Orders (exp. 7.6%, prev. 4.2%), Housing Starts (exp. -0.2%, prev. +3.5%), whilst Household Confidence is forecast to dip slightly to 36.0 from 36.2. Desks suggest the monthly activity data should be eyed to gauge how sustainable Japan's economic recovery is. Analysts at ING highlight that "Surveys and other forward-looking data suggest that both industrial production and retail sales will gain in June, supported by solid catch-up demand and improvement in the global supply chain."

EZ CPI (MON): Expectations are for Y/Y HICP to fall to 5.2% from 5.5% and with the super-core metric seen easing to 5.4% from 5.5%. The prior report saw headline inflation decline to 5.5% from 6.1%, however, attention primarily fell on the unexpected uptick in super-core inflation to 5.5% from 5.3%, with the move attributed to "transitory base effects" related to temporarily subsidised public transport prices in Germany last year, according to Oxford Economics. This time around, analysts at Moody's anticipate a reversal in such effects acting as a drag on the super-core reading, whilst the headline will be weighed on by softer energy prices. In terms of the regional CPIs ahead of Monday's release, Y/Y CPI in France cooled to 4.3%, as expected, whilst Spain presented an upside surprise, printing at 2.3% Y/Y vs. Exp. 1.6% (prev. 1.9%) and Germany saw a pullback in the YY rate to 6.2% from 6.4%. From a policy perspective, it is worth noting that there is another inflation report to follow ahead of the September meeting, however, market participants will likely use the upcoming release as a chance to adjust expectations which currently assign a 70% chance to no move and 30% probability of a 25bps hike.

RBA ANNOUNCEMENT (TUE): There are mixed views regarding next week's RBA meeting as a recent Reuters poll showed that 20 out of 36 economists surveyed expect a 25 bp rise in the Cash Rate to 4.35% and the remaining 16 calling for no change, while money markets are pricing in a 79% probability for the central bank to continue its pause and just a 21% chance for a 1/4 point hike. As a reminder, the RBA kept rates unchanged at the previous meeting vs near-evenly split analyst expectations between a 25bps hike or hold, while the language remained hawkish as it noted that the Board is still resolute in its determination to return inflation to target and further tightening of monetary policy may be required to ensure that it does within a reasonable timeframe, but added that it will depend upon how the economy and inflation evolve. Furthermore, the minutes from that meeting revealed that the Board considered holding rates steady or hiking by 25bps and there was a strong case for both, but it ultimately judged that arguments for holding steady were stronger, while it agreed some further tightening may be required and would reconsider the case at the August meeting. As such, money markets had been pricing a near coin-flip between a 25bps hike and a pause, although this has since shifted to lean heavily towards a pause following the release of softer-than-expected CPI data for Q2 which printed at the slowest quarterly pace of increase since September 2021, at 0.8% vs. Exp. 1.0% (Prev. 1.4%) QQ and 6.0% vs. Exp. 6.2% (Prev. 7.0%) YY, and weaker than forecast final June retail sales. However, a resumption of the hiking cycle cannot be ruled out given that inflation remains well above the central bank's 2%-3% target range and Governor Lowe has stressed a seriousness about getting inflation back to target. Another key development that needs to be considered is the government's recent decision to appoint Deputy Governor Bullock as the next Chief to replace Lowe when the latter's term ends around mid-September, which leaves just two meetings under his stewardship and could compel the central bank to wait for the incoming Governor to take charge before resuming its heavy lifting especially given that Lowe had faced fury over the RBA's past decisions to repeatedly hike interest rates.

CHINESE OFFICIAL AND CAIXIN PMIS (MON/TUE/THU): There are currently no expectations for next week's PMI releases, although the data follows the Politburo meeting which hinted at more support for the second-largest economy in the world. However, desks believe the Manufacturing metrics in both the NBS and the Caixin releases will dip further as the proposed stimulus measures by the government are yet to be unveiled. ING suggests a weak Yuan could help support the export sector, but "it also reflects the general pessimism that has taken hold in the economy. This has led to many consumers delaying spending; thus, we should see the services PMI also drop for a second month as the effect of "revenge spending" fizzles out."

US ISM MANUFACTURING/SERVICES PMI (TUE/THU): The ISM manufacturing headline is expected to improve slightly, but remain sub-50.0, with the consensus forecasting 46.5 from 46.0. S&P Global's PMI data alluded to an improvement in manufacturing conditions in July, with operating conditions deteriorating at a slower pace, owing mainly to steady production and fewer declines in new orders. However, manufacturers reduced input purchases and inventories as demand remained weak, leading to improved supplier delivery times. Cost-cutting efforts were also evident amid muted domestic and international demand.

NEW ZEALAND JOBS REPORT (TUE): The NZ employment change is expected to rise 0.6% Q/Q in Q2 (prev. +0.8%), with the labour cost index forecast to rise 1.2% Q/Q (prev. 0.9%); the jobless rate is seen ticking up 0.1ppts to 3.5%. Westpac is ahead of consensus and looks for a 0.8% rise in employment, noting surging migrant arrivals which allowed employers to fill long-standing vacancies. And that dynamic should boost the labour force, but result in a slightly higher jobless rate. On wages, Westpac says these typically lag the broader economic cycle, and along with the 7% rise of the minimum wage in April, sees labour costs rising 1.3%, which would lift the annual growth rate to a new high of 4.5%, which the bank thinks will represent the cycle peak. "Our forecasts are not materially different to the RBNZ's," Westpac writes, "so if the data meet our expectations, they are unlikely to have much impact on the Bank's outlook for the economy and monetary policy."

BCB ANNOUNCEMENT (WED): The most recent economist polls have seen lower inflation projections for both 2023 and 2024, and now see IPCA inflation falling to 4.90% by the end of this year, and easing further to 3.9% by the end of 2024. "Inflation in Brazil continues to surprise to the downside, and overall conditions for H2 remain benign," Pantheon Macroeconomics said, "the COPOM will welcome the inflation slowdown and likely will cut rates by 50bps next week to 13.25%." And analysts believe that slowing inflation will allow the BCB to again lower rates at the remaining three meetings this year, and predict the Selic will end this year at 12.00%, and at 9.50% next year. Pantheon says, however, that bigger rate cuts are needed: "100bps is preferable, but the COPOM signalled a 'parsimonious' start to the easing cycle, so we can't rule out a modest 25bps, aiming to test the waters, particularly the BRL's performance after the initial cut." Ahead, Pantheon sees inflation staying low due to a slower economy and higher borrowing costs, and to provide the economy with support, it thinks rates may be lowered to 8% by mid-2024.

BOE ANNOUNCEMENT (THU): After stepping back up to a 50bps increment of rate hikes at the June meeting, the MPC is expected to return to a smaller 25bps cadence, taking the Base Rate to 5.25%. Such a move is expected by 42 /62 economists surveyed by Reuters, whilst markets assign a circa 75% chance to such an outcome. Expectations for the BoE to step down to a 25bps increment stemmed from the June CPI report which saw Y/Y CPI pullback to 7.9% from 8.7%; matching the forecast of the Bank's May MPR. Note, there have been some encouraging signs for core inflation too with the Y/Y rate pulling back to 6.9% from 7.1%, whilst the widely-watched services metric fell to 7.2% from 7.4%. Elsewhere on the data front, wage metrics ticked higher in the 3M/YY period to May, however, this was accompanied by an increase in the unemployment rate to 4% from 3.8%. From a growth perspective, May's M/M GDP release revealed a 0.1% contraction, whilst more timely survey data saw the UK's composite PMI slip to 50.7 from 52.8 amid a softening in both the manufacturing and services prints. As such, there are reasons for caution on the MPC, but likely not enough to deter policymakers from pulling the trigger on another hike. Of great interest to the market will be how the Bank chooses to guide expectations beyond the August meeting. From a quantitative perspective, Pantheon Macroeconomics suggests that the forecasts from the MPR will "cast doubt on whether interest rates need to rise further at all". The consultancy notes that, the May MPR stated that based on a Bank rate of 4.5% CPI was expected to decline to 0.7% in two years' time and therefore with a rate assumption that will be 75bps higher, inflation will likely still be well below target over the medium-term. That said, it is worth noting that the MPC is currently placing less weight on its forecasting given recent upside surprises in inflation data. In terms of the breakdown of views on the MPC, with Tenreyro having left the Committee and new member Greene unlikely to rock the boat, an 8-1 vote is expected with Dhingra the sole dissenter; ING flags the risk of a 3-way split with the possibility of some members preferring to stick to a 50bps cadence. In terms of pricing beyond August, the terminal rate is seen at just above 5.75%, which would imply 50bps of additional tightening post-next week's meeting.

US JOBS REPORT (FRI): The consensus is looking for 184k nonfarm payrolls to be added to the US economy in July, with the rate of average hourly earnings growth seen cooling to +0.3% M/M from June's +0.4%. The unemployment rate is expected to remain unchanged at 3.6%. Gauges of labour market strength have been mixed heading into the July data: the NFIB's survey saw hiring intentions at the weakest since early 2020, Indeed's job postings are trending lower, the S&P Global PMI data saw Services sector Employment slide in the month, and analysts also note that warm weather conditions in the month may have weighed on hiring in some sectors. That said, regional Fed surveys have been more constructive, and initial jobless claims have been moving back lower after spiking a few weeks ago. Moody's Analytics says it expects June's slowdown in job creation will be followed with another signal that the extraordinarily tight US labour market is finally beginning to loosen, adding that the JOLTs data for June, which will be released earlier in the week, will show a similar loosening with job openings declining from May's 9.8mln.