newsquawk

Week Ahead 29th April to 3rd May: Highlights include FOMC, NFP, ISM, and PMI data

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- **MON:** Spanish Flash CPI (Apr), German Prelim CPI (Apr), EZ Sentiment Survey (Apr); Japan Market Holiday (Showa Day).
- **TUE:** FOMC Meeting Commences (Announcement on 1st May), Japanese Retail Sales/Industrial Output (Mar), Chinese NBS PMIs (Apr), Chinese Caixin Manufacturing Final PMI (Apr), French Flash CPI (Apr), German Flash GDP (Q1), EZ Flash CPI (Apr)/Flash GDP (Q1), US Employment Wages (Q1)/CaseShiller (Feb), US Chicago PMI (Apr), New Zealand Jobs (Q1).
- **WED:** FOMC Announcement, Eurozone, Chinese Market Holiday (Labor Day), South Korean Exports (Apr), UK /US Manufacturing Final PMI (Apr), US ADP National Employment (Apr), US ISM Manufacturing PMI (Apr), US JOLTS Job Openings (Mar).
- **THU:** Chinese Market Holiday (Labor Day), South Korean CPI (Apr), Swiss CPI (Apr), EZ Manufacturing Final PMI (Apr), Hong Kong GDP (Q1), US Durable Goods (Apr).
- **FRI:** Chinese Market Holiday (Labor Day), Japan Market Holiday (Constitution Memorial Day), EZ/UK/US Services and Composite Final PMIs (Apr), US Jobs Report (Apr), US ISM Services PMI (Apr).

NOTE: Previews are listed in day order

JAPANESE RETAIL SALES/INDUSTRIAL OUTPUT (TUE): Retail Sales are expected to have ticked lower to 2.2% in March (vs 4.6% in February). Industrial Output is expected at +3.5% (prev. -0.6%), Unemployment Rate is seen ticking lower to 2.5% from 2.6%. Industrial output is anticipated to have experienced a robust recovery, with the rebound attributed mainly to a resurgence in manufacturing, particularly within the automotive sector. “Going forward, downward pressure may persist due to slumping exports for Europe and China, but the trend of pick-up would continue as car output capacity normalises towards May”, according to Dai-ichi Life Research Institute. The release is unlikely to influence the BoJ given the central bank’s focus on underlying inflation trends.

CHINESE PMI DATA (TUE): NBS Manufacturing PMI is expected to tick lower to 50.4 from 50.8, with no expectations for the NBS non-manufacturing whilst the Caixin Final Manufacturing PMI is seen being revised lower to 51.0 from 51.1. The data will be used to gauge the health of the Chinese economy. Last month, the non-manufacturing PMI surprisingly improved (53.0 vs exp. 51.3; prev. 51.4), whilst the Manufacturing PMI remained sluggish (50.8 vs exp. 50.1; prev. 49.1). The NBS earlier this year warned that policies to boost domestic consumption through large-scale equipment upgrades and consumer goods trade “need to be further detailed and implemented” to provide strong support for manufacturers, whilst companies are suffering from “insufficient market demand”. This was confirmed in the activity data released on April 16th. Since then, there haven’t been major updates on Chinese support for the sector. A return to contraction territory in the PMI data will resurface fears of a slowdown in the Chinese economy.

EZ FLASH CPI & GDP (TUE): Expectations are for headline HICP to hold steady at 2.4% Y/Y in April, with the super-core metric seen declining to 2.8% Y/Y from 2.9%. The March data saw a pullback in both headline and core inflation with the former dragged lower by food and energy prices, while the latter did declined but remained at elevated levels, given sticky services inflation at 4% Y/Y. For the upcoming release, analysts at Moody’s actually look for an increase in the headline print to 2.5%, noting “that the story will revolve around the energy component this time due to monthly dynamics given the strong upward pressure on oil and gas prices.” From the core perspective, Moody’s looks for a pullback due to non-energy goods and services. For the Q1 GDP report, expectations are for a print of 0.2% Q/Q (vs. the 0.0% in Q4), with the annual measure seen at 0.2% Y/Y (prev. 0.1%). Moody’s looks for a 0.2% Q/Q growth rate with “some modest support from consumers but for the main impulse to come from net trade, with weaker imports and a rebound in exports driving the gains.” From a policy perspective, focus will likely mainly fall on the inflation data given that more timely PMI metrics (which indicate a bottoming out in the Eurozone’s growth prospects) will likely overshadow the GDP data. As it stands, ECB policymakers are unanimous in conveying a June rate reduction. However, commentary from hawks on the Governing Council are attempting to guide markets towards not expecting back-to-back rate cuts. This would suggest a potential path of reductions at the June, September and December meetings (all of which have accompanying macro projections), totalling 75bps of cuts, which is broadly in-fitting with market pricing.

NEW ZEALAND JOBS (TUE): Q1 Unemployment Rate is seen ticking higher to 4.2% (prev. 4.0%), with the Jobs Growth also seen cooling to 0.3% Q/Q (prev. 0.4%), and the Participation Rate is seen ticking lower to 71.8% (prev. 71.9%). Labour Cost Index Q/Q is expected to dip to 0.8% (prev. 1.0%) and the Y/Y is also seen cooling a touch to 3.8% (prev. 3.9%). The expected rise in unemployment would still leave it at historically low levels, but much higher than the 3.2% record low set in 2022. Analysts at Westpac suggest “Labour shortages have become far less prevalent over the last year, due to both the increased availability of migrant workers and the softening in the economy. We expect the pace of wage growth to have slowed in the March quarter, though remaining above what would be consistent with the RBNZ’s 2% inflation target”.

US QUARTERLY TREASURY REFUNDING ANNOUNCEMENT (WED): The Treasury is expected to announce at 13:30BST/08:30EDT on Wednesday its nominal coupon auction sizes will remain unchanged for the quarter ahead, with USD 54bln of 3yr notes to be sold on May 7th, USD 42bln of 10yr notes on May 8th, and USD 25bln of 30yr bonds on May 9th. Last quarter's announcement said, "Based on current projected borrowing needs, Treasury does not anticipate needing to make any further increases in nominal coupon or FRN auction sizes, beyond those being announced today, for at least the next several quarters." Analysts are in agreement that the current sizes of coupon auctions are adequate to meet the Treasury's financing needs in the near term. However, while most likely not an issue for this QRA, there are some expectations that the Treasury may need to lift its coupon auction sizes again at some point in the future, especially given the outlook for fiscal spending shows no sign of slowing regardless of who wins the election, with CBO budget deficit forecasts for next year currently at levels above what current issuance plans would fund. The Q1 meeting minutes even said, "[the Treasury] may consider recommending additional increases to coupon auction sizes over time based on changes in borrowing needs". The wildcard is the Treasury's assumptions on the Fed's balance sheet runoff, where if it assumes a tapering as the Fed has been guiding towards (and is expected to announce later on Wednesday), that may cap the Treasury's borrowing needs/forecasts, albeit the Treasury has been aware of the impeding QT taper for a while so some suggest it's unlikely to lead to material changes in the its plans. We get the quarterly financing estimates first on Monday at 20:00BST/15:00EDT, that follows the Treasury's forecast in January that for the April-June quarter it expects to borrow USD 202bln in net marketable debt, assuming an end-of-June cash balance of USD 750bln; analysts don't expect large changes to that forecast, but are expecting a strong rise for the Q3 forecast. Finally, as previously guided towards, the Treasury is expected to launch its buyback programme with expectations for a schedule of purchase operations.

FOMC ANNOUNCEMENT (WED): The FOMC is expected to hold rates at 5.25-5.50% at its May meeting. Strong incoming data, which alludes to sticky inflation and a slowing GDP growth narrative, are likely to keep the central bank cautious. That said, the recent meeting minutes stated that almost all participants judged it would be appropriate to pivot to a less restrictive policy stance at some point this year. Accordingly, traders will be attentive to the degree to which Chair Powell looks through recent upside in inflation data. In wake of the March PCE report, traders were pricing around 36bps of rate cuts through the end of this year. Note: the FOMC's March economic projections continued to pencil in three rate reductions this year, taking the FFR target to between 4.50-4.75%, but many officials have been talking a hawkish game ahead of the pre-meeting blackout, and money markets are now only fully pricing in just one rate cut. With rates likely to be on hold, and Chair Powell likely to continue warning that the path to returning inflation to target will be bumpy, keeping the Fed cautious, traders will be attentive to any updates on the central bank's plan to taper the pace of its balance sheet runoff. The recent meeting minutes stated that the vast majority of participants judged that it would be prudent to begin slowing the pace of the runoff "fairly soon", with a few participants preferring to continue the current pace of runoff until indicators showed reserves were nearing "ample level". Participants generally favoured reducing monthly runoff pace by roughly half from recent overall pace, implying that the Treasury runoff cap could be lowered to USD 30bln/month vs the current USD 60bln. On MBS, participants saw little need to slow the runoff, preferring to adjust cap on Treasuries redemptions.

US ISM MANUFACTURING PMI (WED): The consensus expects the headline to pare to 50.0 (prev. 50.3), indicating manufacturing conditions neither expanded nor contracted in the month. As a proxy, S&P Global's flash US Manufacturing output index fell to a three month low of 51.1 in March (from 54.0), with the flash Manufacturing headline slumping to a four month low, and in contraction (49.9 vs February's 51.9). In terms of prices, the manufacturing sector has now seen a steeper rate of price increases in three of the past four months, with factory cost pressures intensifying in April amid higher raw material and fuel prices, S&P noted, and manufacturing input cost inflation hit a one-year high. Manufacturing business sentiment dipped, but composite sentiment remains in positive territory amid hopes that market conditions will pick up.

US ISM SERVICES PMI (FRI): The Services ISM is expected to rise to 52.3 in March from 51.4 in February. As a proxy, the S&P Global flash US Services business activity index fell to a five-month low of 50.9 (from 51.7). S&P Global said "the deterioration of demand and cooling of the labour market fed through to lower price pressures, as April saw a welcome easing in rates of increase for selling prices for both goods and services." It added that the drivers of inflation have also changed: "Manufacturing has now registered the steeper rate of price increases in three of the past four months... contrasting with the wage-related services-led price pressures seen throughout much of 2023." On the labour market, the S&P PMI saw a decline in services staffing levels at the most pronounced rate since the end of 2009; "the drop in staffing levels partly reflected signs that current capacity was sufficient to handle workloads, with backlogs of work decreasing for the third month running and to a larger degree than in March," the report said.

NORGES BANK ANNOUNCEMENT (FRI): Norges Bank is expected to maintain its Key Policy Rate at 4.50%, with markets also assigning a 96.7% chance of such an outcome alongside a 3.3% chance of a 25bps reduction. Communication from the last meeting saw Governor Bache, in her press conference, stating that the rate path indicates a cut is most likely in September and then a second by the end of Q1 2025. The rate path implies a policy rate being maintained in the first half of 2024, and further out, the rate path implies rate cuts of in total 20bps by September and another 5bps in December. The most recent CPI data saw core inflation cool more than expected (4.5% vs exp. 4.7%; prev. 4.9%). Meanwhile, wages look set to trend higher than previously forecast given wage negotiations between the leading private sector labour union Fellesforbundet and the Norwegian Industrial Confederation, which reached a wage agreement at 5.2% vs the 4.1% forecast by the Norwegian Technical Calculation Committee for Wage Settlements (TBU) – “this will yield positive real wage growth of 1.1ppt, lending a clear upside risk to Norges Bank’s 4.9% estimate for annual wages this year”, SEB highlights. Desks suggest that Norges Bank will likely stay cautious despite this slowing in inflation amid a weak NOK and wages follow-through. Analysts at SEB “expect very little market reactions from the immediate rate decision. However, signalling of whether a September cut still remains the main scenario could push rates lower.”

US JOBS REPORT (FRI): The US is expected to have added 210k nonfarm payrolls to the economy in April (prev. 303k; 3-month average 276k), with the unemployment rate seen unchanged at 3.8%. Average hourly earnings are expected to rise +0.3% M/M, matching the pace seen in March. Capital Economics says the fading of weather-related support and broader evidence of easing labour demand is driving expectations of the slowdown in headline payrolls growth. "No single survey indicator is a great guide to labour market conditions, but they are currently all sending the same message," CapEco said, "in March, the NFIB’s hiring intentions indicator fell to its lowest since the pandemic; the employment indices of the flash April S&P Global manufacturing and services PMIs also weakened, with the latter in contractionary territory for the first time since 2020." This weakness is also seen in Indeed's job listings data, which have continued to trend down. On wages, CapEco says that "the recent puzzle is that the apparent weather-related strength in payrolls has not been accompanied by softer gains in average hourly earnings, as is normally the case because the weather-sensitive sectors tend to pay below-average wages." That said, the consultancy said that even if earnings rise by 0.3% M/M again, it assumes that the annual rate will still edge down to 4.0% Y/Y (prev. 4.1%), owing to strong productivity growth. That 4.0% Y/Y would be consistent with the 2% price inflation target, and it adds that the private job quits rate continues to suggest that wage growth will ease to nearer 3.5% soon.