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Week Ahead 3rd-7th June: Highlights include OPEC+, ECB rate decision, and the US jobs report

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- **SUN:** JMMC and OPEC+ Meetings.
- **MON:** Chinese Final Caixin Manufacturing PMI (May), EZ/UK/US Final Manufacturing PMIs (May), US ISM Manufacturing PMI (May).
- **TUE:** South Korean CPI (May), Swiss CPI (May), German Unemployment (May), US Durable Goods R (Apr).
- **WED:** BoC Announcement, NBP Announcement, South Korean GDP (Q1), Australian Real GDP (Q1), Chinese Final Caixin Services & Composite PMI (May), EZ/UK/US Final Services & Composite PMIs (May), EZ Producer Prices (Apr), US ADP National Employment (May), ISM Services PMI (May).
- **THU:** ECB Announcement, Swiss Unemployment Rate (May), EZ Employment Final (Q1).
- **FRI:** CBR Announcement, RBI Announcement, German Industrial Production (Apr), EZ GDP Revised (Q1), US Jobs Report (May), Canadian Jobs Report (May), Chinese Trade Balance (May).

NOTE: Previews are listed in day order

JMMC/OPEC+ MEETING (SUN): OPEC+ members are gearing up to meet virtually on June 2nd to review the global oil market and discuss oil policy for the second half of the year. Markets are largely of the view that the group will extend its 2.2mln BPD voluntary production cuts (which expire at the end of June) to at least Q3, with expectations tilted towards a year-end extension. NOTE: Late on Friday, sourced reports suggested that the meeting may b an in-person affair. Some desks do not discount the chance of a "plot twist" in the form of deeper cuts but suggest these are more likely at in-person gatherings. In short, the main focus will be on cut extensions beyond 2024 alongside the non-zero chance of any deeper cuts. CNBC sources on Friday reported that the 2.2mln BPD supply reduction will likely be extended, which is regarded as anticipated by the market; one noted there will probably be market tightness in H2 but added that demand concerns persisted until only recently. Delegates also noted that the US SPR release is unlikely to have an impact beyond price relief during the summer period, and the Gaza Strip situation is adding a little pressure to prices, but the market has absorbed the majority of this. The loss of recovery momentum in the Chinese economy will likely be one of the main topics of discussion. It was recently reported that Chinese oil refiners are cutting processing rates amid a decline in demand for plastics and fuels used in construction. Further adding to the woes, the latest Official Chinese PMI data was disappointing as Manufacturing PMI unexpectedly slipped into contraction territory. Analysts at ING suggest "The market expects OPEC+ to fully roll over its additional voluntary supply cuts into the second half of the year. Anything less will put further pressure on prices in the short term. It would be more difficult for the group to surprise the upside. Agreeing on deeper cuts would be challenging, particularly when a handful of producers are already producing above their target levels. However, there are reports that members are considering extending cuts into 2025. A full rollover of cuts is important for sentiment, but fundamentally it is not needed as it will push the oil market into a deep deficit over the summer, a peak demand period."

US ISM MANUFACTURING PMI (MON), US ISM SERVICES PMI (WED): As a proxy, the S&P Global flash PMI data for May saw the headline manufacturing PMI inch up to a two-month high of 50.9 from 50.0 in April; the output index also rose to a two-month high at 52.4 (vs a prior 51.1). "Although below readings seen in February and March, the latest PMI is the third-highest recorded over the past 20 months," S&P said, "both output and employment made increasingly positive contributions to the PMI compared to April, while the drags from new orders and stocks of purchases components moderated." It also noted that manufacturer's supplier delivery times quickened marginally on average during the month, "indicating less busy suppliers and hence acting as a further minor drag on the PMI." Meanwhile, in the services sector, Flash US Services Business Activity Index rose to a 12-month high of 54.8 (from 51.3). "May's improved performance was led by the service sector, where business activity surged higher to register the fastest growth for a year, reversing the slowdown seen over the prior three months," S&P Global said, "Inflows of new work into the service sector also picked up, having slipped into decline in April, registering one of the strongest gains seen over the past year, though demand was again subdued by a further fall in services exports." On prices, S&P said that selling price inflation ticked higher and continues to signal modestly above-target inflation. "What's interesting is that the main inflationary impetus is now coming from manufacturing rather than services, meaning rates of inflation for costs and selling prices are now somewhat elevated by pre-pandemic standards in both sectors to suggest that the final mile down to the Fed's 2% target still seems elusive."

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SWISS CPI (TUE): The May CPI release will be the last one before the 20th June SNB policy announcement, for which markets currently price the odds of a cut at around 40%; as a reminder, the SNB cut by 25bp in March to 1.50%, at the time Jordan declined to provide any rate guidance for June or 2024 as a whole. In April, the headline Y/Y rate jumped up to 1.4% (prev. 1.0%) surpassing the market forecast of 1.1%. While the print was a larger-than-expected rate it comes after a much cooler-than-expected metric in March and chimes with the SNB's forecast from the March policy announcement that inflation will pick up incrementally across Q2 and Q3 to 1.4% and 1.5% respectively. May's data will draw greater than normal attention given a recent speech from SNB's Chairman Jordan who remarked that "there are currently reasons to believe that r* has increased somewhat, or might rise over the coming years" a development described as a "small upward risk to the inflation forecast". In terms of the response, Jordan makes clear that as inflation is allowed to fluctuate within the 0-2% price stability band current policy would likely remain compatible even if r* was a touch higher. On inflation specifically, the speech explained that if an upward inflation risk materialised "this would be most likely associated with a weaker Swiss franc, which we could counteract by selling foreign exchange". Remarks which sparked marked CHF strength, EUR/CHF sub-0.98 on 30th May, as it brings FX intervention more formally back into view and arguably reduces the odds of a June SNB cut, though we await the May inflation print for further insight.

BOC ANNOUNCEMENT (WED): Of the 29 analysts surveyed by Reuters, 22 expect the BoC to cut rates by 25bps to 4.75% at its June meeting; the remaining seven expect the central bank to keep rates unchanged. Meanwhile, money markets are currently assigning a probability around 80% of a rate reduction after weak GDP data. BMO Capital Markets said that the door is open to a cut, but it remains a close call, adding that when the BoC does begin cutting, the cycle is expected to be gradual, with the US Federal Reserve acting as a 'limiter' on how quickly Canadian rates can fall. Meanwhile, the other large Canadian banks - RBC, TD and Scotia, see the central bank beginning to lower rates from July onwards, given that is when the central bank will next update its economic projections. BoC Governor Macklem has suggested that the central bank wants to see the disinflation process continue for longer in order to be confident that progress is being made on bringing price pressures sustainably under control. Ahead, the Reuters poll finds that 14 of the 29 economists surveyed see rates ending this year at 4.00%, while 14 see rates at above 4.25% by the end of this year; only 1 sees cuts taking rates to 3.75%.

ECB POLICY ANNOUNCEMENT (THU): Expectations are for the ECB to lower the deposit rate for the first time since September 2019. Analysts are unanimous in their view that the deposit rate will be lowered from 4.0% to 3.75% with markets assigning a roughly 90% chance of such an outcome. In terms of developments since the prior meeting, inflation in May rose to 2.6% Y/Y from 2.4% with the super-core measure increasing to 2.9% Y/Y from 2.7%, with some of the increases related to base effects. Elsewhere, Q1 Eurozone wages rose to 4.69% Y/Y from 4.45% with the release followed up by an ECB blog stating that “wage growth reflects multi-year adjustment and wage pressures look set to decelerate in 2024”. From a growth perspective, Q1 GDP came in at 0.3% Q/Q vs the prior 0.0%, whilst more timely survey data showed the EZ-composite PMI move further into expansionary territory (52.3 vs prev. 51.7) thanks to a pick up in the manufacturing sector. Elsewhere, the EZ unemployment rate fell to a historic low of 6.4%. As a reminder, the April policy statement noted that if the Governing Council was to gain further confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. Rhetoric since the April meeting has seen President Lagarde remark that the ECB will cut rates soon, barring any major surprises, whilst she is “really confident” that they have inflation under control. Even the hawks on the GC are on board with a reduction in June, with Austria’s Holzmann favouring such a move. However, the clear fight on the GC between the hawks and doves will be what comes thereafter; Holzmann and others have been making the case for pausing on rates in July. Any tweaks to the policy statement, hinting at further action will be of note to the market. Accordingly, focus for the release will be on how pricing beyond June evolves with the next rate cut, which is not fully priced until December (total of 58bps of cuts seen by year-end). However, ING cautions that given the data dependency of the Bank, this debate is unlikely to be resolved next week. For the accompanying macro projections, ING remarks “we expect a slight upward revision of growth and inflation for this year but no changes to the profile and the timing of inflation dropping below 2%”.

CHINESE TRADE BALANCE (FRI): There are currently no expectations for the Chinese trade Balance but the data will be used to gauge domestic and international demand. April's trade balance showed a partial recovery from the sharp fall in March. The increase in exports (+1.5% vs exp. 1%), although modest, marked an improvement after a significant decline in March, although desks suggest weak overseas demand continues to challenge Chinese exports. The substantial rise in imports (+8.4% vs exp. 5.4%) suggested a recovery in domestic demand, driven by a lower base and improving economic conditions. Using the Caixin PMI as a proxy, the anecdotal commentary suggested “Improved market demand drove a continuous increase in supply. Business activity and total new orders both grew for the 16th straight month, with the latter increasing at the fastest pace since May last year, indicating a solid resurgence in demand. The recovery of the global economy has increased inbound tourist numbers. This has helped produce an upward trend in service exports, allowing the corresponding gauge to stay in positive territory for the eighth consecutive month and hit the highest level since last June.” Analysts at ING are “expecting the base effect to lead to a rebound of exports to 8.8% year-on-year and a slight moderation of imports to 5.5% YoY. The impact of new tariffs from the US will have no bearing on this release as they are not expected to take effect until August.”

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RBI ANNOUNCEMENT (FRI): The RBI is expected to keep the Repurchase Rate unchanged at 6.50% and maintain its stance of remaining focused on the withdrawal of accommodation when it concludes its 3-day policy meeting next week. The RBI has refrained from any adjustments to the Repo Rate since February 2023, while 5 out of the 6 MPC members voted to keep policy settings unchanged at the last meeting and to maintain the stance of remaining focused on the withdrawal of accommodation in which MPC external member Varma was the lone dissenter who voted for a 25bps cut and for a change in the stance to neutral citing a continued benign outlook for inflation and an unwarrantedly high real rate imposing significant costs on the economy. Nonetheless, the rest of the MPC members preferred to maintain the current policy settings and the central bank has stated that monetary policy must be actively disinflationary with the MPC to remain resolute in commitment to aligning inflation with the target. Furthermore, Governor Das believes that the monetary policy setting is well-positioned with monetary policy transmission continuing and inflation expectations of households are also getting further anchored, while he noted at this stage, they should stay the course and remain vigilant. The recent data releases also suggest a lack of urgency to tweak policy as CPI YY for April remained within the central bank's tolerance range and continued to edge closer to the 4% target despite printing slightly firmer than expected at 4.83% vs. Exp. 4.80% (Prev. 4.85%), while slowing Industrial Production for March at 4.9% vs. Exp. 5.1% (Prev. 5.7%) also limits the scope for the central bank to make adjustments.

US JOBS REPORT (FRI): Analysts expect the pace of monthly payrolls to pick up a touch in May; the consensus expects 180k, according to Bloomberg, vs the prior 175k (vs the three- and six-month average of 242k, 12-month average of 234k). Capital Economics notes that labour market proxies have been mixed in the month: "Initial jobless claims are edging higher [and] Challenger layoff announcements have rebounded in recent months", while on the hiring side, "both the S&P Global and ISM PMIs point to weak services sector employment growth, although the outlook for the smaller manufacturing sector is more positive." Meanwhile, the unemployment rate is expected to be unchanged at 3.9%; the Fed's March forecasts -- set to be updated at the June 12th confab -- have pencilled in the jobless rate rising to 4.0% this year. Capital Economics argues that the unemployment rate would need to rise to 4.1% before triggering the Sahm Rule (a recession indicator based on conditions of the labour market - where if the three-month average unemployment rate rises above its 12-month low by at least half a percentage point, it may indicate the economy is in the early stages of a recession). Fed Chair Powell has said previously that it would take a significant, and unforeseen deterioration in the labour market for the FOMC to cut rates in response to a weakening labour market - more than just a couple of tenths of a percentage point. On average hourly earnings, CapEco says that although Q1 ECI showed a slight reacceleration in wage growth, average hourly earnings data have been much more encouraging of late. "The annual growth rate for earnings slowed to 3.9% in April, with the three-month annualised rate down to only 2.8%," adding that it is forecasting a +0.25% M/M gain for May, which would leave the 12-month rate unchanged at 3.9% Y/Y.

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