Week Ahead 1st-5th July: Highlights include French & UK elections, US ISM & NFP, EZ CPI, Minutes from RBA and FOMC

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- **SUN:** French Parliamentary Election
- **MON:** Canada Day; Japanese Tankan (Q2), Japanese, Chinese Caixin, EZ, UK & US Manufacturing Final PMI (June), German Prelim. CPI (June), US ISM Manufacturing PMI (June)
- **TUE:** RBA Minutes (June), Australian & Canadian Manufacturing PMI Final (June), EZ Flash CPI (June), Unemployment Rate (May), US JOLTS Job Openings (May)
- **WED:** Riksbank Minutes (July), CBRT Minutes (June), Australian, Japanese, EZ, UK & US Composite/Services Final PMIs (June), Australian Retail Sales Final (May), Turkish CPI (June), EZ Producer Prices (May), US Challenger Layoffs (June), NBP Policy Announcement, US ADP National Employment (June), US Initial Jobless Claims (29 June), Durable Goods, Factory Orders Revised (May), ISM Services PMI (June)
- **THU:** UK Election, Holiday: US Independence Day, Australian Trade (May), Swiss CPI (June), Unemployment (June), German Industrial Orders (May), EZ & UK Construction PMI (June)
- **FRI:** Japanese All Household Spending (May), German Industrial Output (May), French Trade (May), EZ Retail Sales (May), US Jobs Report (June), Canadian Jobs Report (June), Canadian Ivey PMI.

NOTE: Previews are listed in day order

FRENCH ELECTION (SUN): Sunday will see round one of the French Legislative Election occur, exit polls will be released from 20:00BST/15:00ET with some constituencies also reporting at this time; full results out early Monday. Polls have been moving away from Macron's ENS centre coalition in favour of left-wing alternative NUPES but more so towards right-wing RN, the latter is leading and polling around 35% into round one. As it stands, it looks like the outcome will be another hung parliament, which may see a slight narrowing of the OAT-Bund yield spread (circa. 84bps at the time of writing) if that is the final result after both rounds. The most recent Elabe poll/projections have, for the first time, pointed to the possibility of an RN majority. Elabe calculates that they could end up with 260-295 seats, potentially inching above the 289 majority mark; such an outcome would lead to 'cohabitation' with RN's Bardella as PM under a Macron Presidency and would likely spark a deterioration in French assets and further widening of spreads. In between the rounds, the focus will be on three key points: the performance of the LR contingent which is not currently aligned with RN, which is currently polling at around 7%, for insight into whether they will shift from their stance and become the 'kingmakers' behind an RN-led lower house (dependent on RN's performance, of course), a scenario that could see a significant widening of spreads; performance of NUPES on the left-wing and whether a technocratic government of some description could be formed as an even broader left-wing opposition to the RN-threat, however, this would be very unstable and potentially not well received by markets either; finally, in the scenario of particularly poor performance for the current Ensemble coalition, whether Macron shows any sign of reneging from his pledge to serve the entirety of his Presidential term irrespective of the legislative outcome.

JAPANESE TANKAN SURVEY (MON): The BoJ quarterly Tankan survey for Q2 is scheduled for release next week which participants will be eyeing to see whether sentiment among Japan's large manufacturers has improved or deteriorated following the mixed readings during Q1 and after the BoJ exited its QQE with yield curve control and negative rates. As a reminder, the prior survey showed a mixed picture as sentiment among large manufacturers worsened for the first time in four quarters to its lowest since Q3 but was better than feared at 11 vs. Exp. 10 (Prev. 12) and the outlook among large manufacturers improved to 10 vs. Exp. 11 (Prev. 8) despite falling short of estimates. Conversely, sentiment amongst large non-manufacturers topped forecasts to print its highest since August 1991 of 34 vs. Exp. 33 (Prev. 30) and the outlook for large non-manufacturers was also improved although missed expectations at 27 vs. Exp. 30 (Prev. 24), while large all-industry capex estimates were a disappointment at 4.0% vs. Exp. 9.2% (Prev. 13.5%). Nonetheless, a recent Reuters poll showed economists are expecting an improvement in the headline large manufacturing index in Q2 to 12 from 11 and large all-industry capex to 13.9% from 4%, although sentiment in the large non-manufacturers is expected to slightly ease to 33 from 34 in the prior quarter. It is also worth noting that the monthly Reuters Tankan survey, which is seen as a signal for the BoJ's quarterly release, showed sentiment among manufacturers softened during Q2 to 6 in June from a reading of 10 in March with Japanese manufacturers citing higher material costs for the weaker confidence, while this could suggest the potential for an upset in the upcoming headline release.

US ISM MANUFACTURING (MON), US ISM SERVICES (WED): The early consensus view expects the June ISM manufacturing PMI to rise a touch to 49.0 from the 48.7 in May, but still remain sub-50. The services measure is expected to fall to 52.0 from 53.8. S&P Global's PMI data showed the US economy gaining further growth momentum in June. "Manufacturing output expanded, and has fared better in the S&P Global surveys than recent data from other surveys have signalled, albeit losing a little pace in June to underscore how the sector continues to struggle amid weak demand," the report noted. But it said there was better news from the service sector, where growth was the fastest for over two years. "Markets will be interested to see the ISM survey data... though this ISM survey has been volatile in recent months, urging caution in interpreting any signals," it added.

RBA MINUTES (TUE) The RBA will release the minutes from the June 17th-18th meeting where the central bank unsurprisingly kept the Cash Rate unchanged at 4.35% as unanimously forecast by a recent Reuters poll and it also refrained from any major surprises in its statement whereby it reiterated that the Board remains resolute in its determination to return inflation to the target. The RBA kept to a hawkish tone on inflation as it reiterated that inflation remains above target and is proving persistent, as well as noted that inflation is easing but has been doing so more slowly than previously expected and remains high. Furthermore, it stated that the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out. The announcement and statement were uneventful and had little market impact on markets, while comments from RBA Governor Bullock at the press conference were somewhat balanced as she stated they need a lot to go their way to bring inflation back to its range and the board discussed whether to hike rates at the meeting although Bullock added that she would not say the case for a rate hike is increasing and suggested the board's reinforcement of the need to remain vigilant to upside risks to inflation does not mean a rate rise is coming. As such, the minutes could be seen as outdated given the more recent firmer-than-expected monthly Australian CPI data which spurred rate hike bets with money markets currently pricing a 34% probability for a 25bps hike at the next meeting in August.

EZ FLASH CPI (TUE): Expectations are for June's headline Y/Y inflation to tick lower to 2.5% from 2.6% with core and super core both set to fall to 2.8% from 2.9%. As a reminder, the prior release saw an uptick in headline inflation amid a combination of base effects and notable increases in services inflation for some of the larger nations. This time around, Oxford Economics notes that it expects a "very small decline" for both headline and core inflation. Adding that, "although encouraging, we don't think this will be enough for the ECB to consider cutting rates again at their July policy meeting given the lack of progress in other indicators such as services inflation or wage growth". Note, ahead of the Eurozone-wide metrics on Tuesday, regional releases from France, Italy and Spain suggest "that euro-zone headline inflation edged down in June, while core and services inflation held broadly steady", according to Capital Economics. As a reminder, pricing for the ECB assigns a 40% chance of a cut next month, 84% chance of a reduction in September with a 25bps cut fully priced in November and a total of 46bps of easing seen by year-end.

FOMC MINUTES (WED): The Fed left rates on hold, as was widely expected, but the updated dot plots now signal only one rate cut in 2024 vs. three in the March projections, while money markets and analysts were looking for two rate cuts in 2024. Four policymakers even see no rate cuts this year, seven pencil in just one reduction, while eight expect there to be two rate cuts this year. Looking ahead, the 2025 median dot plot is at 4.1%, (prev. 3.9% in March), while the 2026 dot was unchanged at 3.1%, but the longer run rate ticked up again to 2.8% (prev. 2.6%). Elsewhere, headline and Core PCE projections were raised for 2024 and 2025, with 2026 unchanged. Unemployment was left unchanged at 4.0% for 2024 but was raised by 0.1% in both 2025 and 2026, to 4.2% and 4.1%, respectively. Real GDP growth forecasts were left unchanged throughout the horizon. The statement also saw very few changes, the only alteration was that it acknowledged "modest further progress" towards the 2% inflation objective has been seen, vs. the May statement noting a "lack of progress". Recent Fed commentary has stressed a data dependent approach with the Fed wanting to see more definite progress on inflation before they can be convinced inflation is returning to target in a sustainable way. Once they see this, they will be comfortable with endorsing rate cuts. Fed's Bostic had suggested that once the Fed is confident inflation will return to target, there will be a string of rate cuts and, in line with the median view, sees one rate cut in 2024 and four in 2025. The Minutes will be viewed to see the thoughts around the rate cut process among members, as well as their views on the recent inflation progress. The Fed in May also announced a tapering of its balance sheet reduction to USD 25bln/mth from USD 60bln/mth. There was no adjustment to this in June, but since then, Fed's Mester (retiring) has said that she would be open at some point to active sales of MBS, therefore any discussion around the Fed's balance sheet will also be of note.

SWISS CPI (THU): A print that comes after the SNB cut rates in June, a move that was justified by another Q/Q decrease in underlying inflation data. In June the SNB kept its Q2-2024 CPI Y/Y forecast at 1.4%; given the April and May prints both came in at 1.4% another reading of the same magnitude is the base case. In May, the main inflationary factor was rising prices for housing rentals (a quarterly update which will next be provided in August's release) and petrol prices. While on the flip side, additional accommodation and heating prices moderated. June's release alone, if in-line, will not have much bearing on the next SNB move as we will get the first two Q3 readings before this point which are keenly anticipated due to the SNB continuing to forecast a slight uptick in the Q3 average to 1.5%. The magnitude of this uptick will likely determine if the SNB cuts for the third meeting in a row in September, a gathering which will be Chairman Jordan’s last.

UK ELECTION (THU): On Thursday 4th July, UK voters will head to the polls to elect their next government. The exit poll is to be released at 22:00BST across major UK news outlets. Expectations are for a strong Labour majority with the party currently polled at around 42% of the vote share. Given that polling is so in favour of a Labour victory, such an outcome is largely already priced in. If the exit poll appears to be conclusive at 22:00BST, any move in the GBP may be short-lived (note, Gilts and the UK equity market will be closed at the time). Focus in the aftermath of the election will turn towards what budgetary measures a Labour government could enact. Key economic policies within Labour’s manifesto note that the party is aiming to keep taxes low and introduce no new tax rises beyond those already announced (energy company profits, private school fees, private equity bonuses). Furthermore, the macro focus is on “securonomics"; delivering economic stability with tough spending rules. Additionally, the party would look to create the Office for Value for Money and provide a new enhanced role for the OBR. However, markets are of the view that costings under its existing spending plans are not sufficient and as such, questions remain over whether additional tax rises would be required as part of an Autumn budget. From a monetary policy perspective, the election is not expected to have an impact on the BoE's rate easing plans given the limited room for fiscal manoeuvre. Other alternative outcomes for the election include a small Labour majority, a hung parliament or an unlikely Conservative victory. These are all discussed in our preview of the event, available in the research suite of the website.

US JOBS REPORT (FRI) The rate of headline payrolls growth is expected to cool to +180k in June (vs +272k in May; and vs a 3mth average 249k, 6mth average 255k, 12mth average 230k). The unemployment rate is expected to be unchanged at 4.0% (NOTE: the Fed's June SEP has pencilled in a rate of 4.0% for this year, rising to 4.2% next year). The rate of average hourly earnings growth is seen paring to +0.3% M/M (vs +0.4% in May). Analysts have noted weakening gauges of consumer health recently, with an uptick in unemployment claims, soft retail sales data, and cautious consumer sentiment data. Oxford Economics said that "initial claims suggest that the gain in nonfarm employment in May won’t be duplicated in June, and the risks to the labour market should be garnering attention by the Fed." It points out that the softening in the job growth has been primarily driven by a deceleration in hiring via reduced labour demand, with the job openings rate having declined noticeably, but that still has not translated into a significant rise in the unemployment rate. On continuing claims, it notes that in the week that coincides with the BLS jobs report survey window, it rose to the highest since late 2021; "the rise in continued claims on the surface points to a moderation in job growth," but adds that "increases in claims in California and Minnesota – which accounted for more than half the total rise in continued claims – are likely due more to noise than any underlying softening in the labour market.