Week Ahead 7th-12th July: Highlights include US CPI, Powell testimony, BoJ bond meeting, RBNZ and US earnings

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- **SUN:** French Election (second round)
- **MON:** CNB Minutes (June), Eurogroup Informal meeting of Competitiveness Ministers; Japanese Overtime Pay (May), German Trade Data (May), EZ Sentix Index (July), BoI Announcement, US Employment Trends
- **TUE:** BoJ Bond Meeting 9-10, EIA STEO; Australian Consumer Sentiment, Hungarian CPI (June), Mexican 12-month Inflation (June), Powell Testimony (Senate)
- **WED:** RBNZ Announcement, OPEC MOMR; Chinese CPI & PPI (June), Norwegian CPI (June), Turkish Unemployment (May), Czech Republic CPI (June), Italian Industrial Output (May), US Wholesale Inventory Revisions (May), Chinese M2 Money Supply (June), Russian CPI (June), Powell Testimony (House)
- **THU:** IEA OMR; German Final CPI (June), UK GDP Estimate, Services, Industrial Output (May), Swedish Money Market Inflation (July), Brazilian Retail Sales (May), US CPI (June), US Initial Jobless Claims (6 July), New Zealand Manufacturing PMI (June), US Cleveland Fed CPI (June)
- **FRI:** Fitch EFSF, ESM Review; Swedish CPIF (Jun), French & Spanish Final CPI (Jun), US PPI (Jun), Uni. of Michigan Prelim. (Jul), Chinese Trade Balance (Jun), US Corporate Earnings

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NOTE: Previews are listed in day order

FRENCH LEGISLATIVE ELECTION, ROUND 2 (SUN): Exit polls and some constituency results will be available when polls close at 19:00BST/14:00ET. After the first round, the results pointed to National Rally (RN) becoming the biggest party with left-wing NFP in second place and incumbent ENS relegated to a distant third. In response to this, Macron's ENS and NFP came to an agreement to stand down candidates in three/four-way runoffs in order to avoid a vote split and ensure that RN cannot attain a majority. By the Tuesday evening deadline, 216 candidates from those groups had stood down. A development which, according to a Harris Poll, has trimmed the RN seat projection to 190-220 (vs. 230-310 after 1st round) significantly shy of the 289 majority threshold. As such, even with the theoretical but in practice unlikely support of all RN-opposing LR candidates (polling at 41-61 seats) an RN-led majority is no longer within the forecast range of polls. As such, the outcome points to another hung parliament. While this was regarded as the most market-friendly scenario ahead of the election, there are a few points of consideration, the main one being the strength of NFP (polling at 159-183 seats) and the influence they would have over Macron's ENS (110-135 seats) as it attempts to push forward required fiscal reform. As a reminder, scenario analysis pre-election had the risk to OAT-Bund 10yr yield spread as roughly equivalent under an NFP or RN absolute majority. While an absolute majority for any party is no longer within the range of projections and a hung parliament is the market-friendly scenario, the influence of NFP on ENS could present upward bias to the spread given the left's desire for more spending (i.e. elevated min. wage) and the significant influence they would have in a theoretical Macron/ENS-led coalition. Overall, the ENS-NFP agreement has removed the main market risk of an RN majority but the underlying challenging fiscal backdrop will remain and, over the long-term, the bias for spreads is likely to the upside; in summary, CapEco wrote that under a rejigged hung parliament which will face greater difficulty in passing budget cuts the debt/GDP ratio will likely increase further and as such their central scenario is for the OAT-Bund spread to settle around 100bp. Finally, in terms of the strength of RN, the participation rate will serve as a good guide with higher participation likely less favourable for the far right.

BOJ BOND MEETING (TUE): At the last BoJ meeting, Governor Ueda said they had decided to put off a detailed plan of JGB tapering until the July 30th - 31st meeting to have a considered discussion with markets. The BoJ will hold its bond meeting between July 9th and 10th - a confab that will be significant as the central bank begins discussions on its bond-tapering plans. This meeting follows a survey conducted by the BoJ among Japanese government bond market participants, including banks, brokerage houses, and life insurers, to gather insights on expectations regarding the range and pace of tapering. The BoJ, when contacted by Reuters, "confirmed it is contacting all the participants of the upcoming meetings to collect their views on the amount, pace and framework for the planned reductions". Note, Reuters earlier reported that some bond market participants who met with the BoJ in June called on the bank to trim bond purchases in several stages to enhance market liquidity, according to minutes of the meeting cited by Reuters. The meeting was reportedly held between June 4-5th, before the June policy announcement.

POWELL TESTIMONY (TUE, WED): Fed Chair Powell will give testimony to the Senate Banking Committee on Tuesday, and the House Financial Services Committee on Wednesday. He is expected to reiterate his recent remarks that where he said that the disinflation trend is showing signs of resuming, and that they are getting back on the disinflationary path. Powell noted the progress on inflation. Still, Powell reiterated that officials want more confidence before being comfortable with reducing policy rates. Powell also repeated that if the labour market unexpectedly weakens, the Fed would react. He acknowledged the Fed has the ability to take their time and get it right. Minutes to the FOMC June meeting, which Powell is likely to underscore in his testimonies, noted that most policymakers saw the current stance as restrictive; several said if inflation were to persist at elevated levels or rise further, the Fed funds rate might need to be raised. Participants saw 'modest further progress' toward the committee's 2% inflation objective in recent months, with May's CPI data seen by participants as providing additional evidence of progress toward the inflation goal (NOTE: the meeting came before the May PCE data, but after May CPI). Participants affirmed that additional favourable data were required to give them greater confidence that inflation was moving sustainably towards target. Participants highlighted a variety of factors that were likely to help contribute to continued disinflation in the period ahead, including the continued easing of demand–supply pressures in product and labour markets, lagged effects on wages and prices of past monetary policy tightening, the delayed response of measured shelter prices to rental market developments, and the prospect of additional supply-side improvements. Participants suggested a number of developments in product and labour markets had supported their judgment that price pressures were diminishing. On the labour market specifically, a number of participants said policy should stand ready to respond to unexpected economic weakness, with the vast majority seeing US economic growth as having cooled gradually. Several specifically emphasised further demand weakening could generate a larger unemployment response than in recent past, and observed that many labour market indicators pointed to a reduced degree of tightness in labour market conditions. Some analysts said that the minutes felt somewhat dated, given that when the Fed met in June, the Atlanta Fed's GDPnow model for Q2 was tracking growth at over 3%, but that has since been revised down to 1.5% after recent data releases, while we have had further inflation data that has shown the disinflation process has resumed - something that was alluded to by Fed Chair Powell in remarks at the ECB's Sintra conference this week. Oxford Economics said "the communication is evolving in a manner consistent with our assumption for the central bank to eventually tee up a rate cut in September, assuming the economic data generally follows our script," and adds that "the Fed also needs to plan for the unexpected as the transition of the economy toward a slower, but sustainable, pace of growth can feel uncomfortable." OxEco also highlighted that while the minutes suggest the Fed is a little more confident that inflation has resumed moderating, it has acknowledged risks to its dual mandate has come into better balance, "a hat tip that they're no longer laser focused on inflation, and the Fed is growing more attentive to the downside risks to the labour market" - that has strengthened OxEco's confidence that the central bank will cut rates in September. "The minutes reiterated the Fed needed more data before cutting interest rates, which rules out July but keeps September on the table, and overall, we're maintaining our forecast for a rate cut in September and December."

NATO SUMMIT (TUE-THU): The 2024 NATO Summit between 9th and 11th July will mark 75 years of the alliance. The summit will also be NATO Secretary General Stoltenberg's last as he hands over the position to outgoing Dutch PM Rutte. 32 NATO Allies will meet in Washington, D.C. to make key decisions "as the world faces the most dangerous security environment since the Cold War.", according to the media release. Key topics on the agenda include 1) Deterrence and defence, 2) Assistance to Ukraine, and 3) Partnerships "especially in the Indo-Pacific" region. The topic of Ukraine will likely grab the headlines while NATO allies agreed to fund Ukrainian military aid with EUR 40bln in 2025. All in all, the summit itself is not likely to offer much by way of market action, although will likely fan the flames of geopolitics with rivals.

RBNZ ANNOUNCEMENT (WED): The RBNZ will conduct its latest Monetary Policy Review next week where the central bank is likely to maintain the Official Cash Rate at the current level with money markets pricing around a 95% chance for the OCR to be kept at 5.50% and just a 5% probability for a 25bps cut. As a reminder, the RBNZ unsurprisingly kept its OCR unchanged at the last meeting in May in what was seen as a hawkish hold as the central bank raised its OCR forecasts across the projection horizon with the rate track suggesting a push-back in the timing of the first cut to late 2025. The central bank also maintained its hawkish language that monetary policy needs to be restricted and reiterated the view that annual consumer price inflation is expected to return to within the committee's 1%-3% target range by the end of 2024. Furthermore, the minutes revealed that members agreed they remained confident that monetary policy is restricting demand and a further decline in capacity pressure is expected, while the committee agreed that interest rates may have to remain at a restrictive level for longer than anticipated in the February Monetary Policy Statement to ensure the inflation target is met and they had discussed the possibility of increasing the OCR at this meeting. The language from RBNZ Governor Orr during the press conference was also hawkish as he stated that it will take time for domestic inflation to decline and they have limited upside room for inflation surprises, as well as noted that they had a real consideration on raising rates at the meeting. However, his comments the following day were more dovish-leaning as he noted that another rate hike would only be meaningful if they believed inflation was getting away from them and that patience on inflation is not exhausted, while he also stated that they can start to ease before inflation hits 2%. The rhetoric from other officials suggests a lack of urgency to tweak policy as Deputy Governor Hawkesby stated that while near-term inflation risks are to the upside, he is confident medium-term inflation is returning to the target, as well as noted that no single data point will cause a rate hike and cutting interest rates is not part of the near-term discussion. Furthermore, RBNZ Chief Economist Conway said inflation may be more sticky near-term but could fall more quickly medium-term and that there is no predetermined timeline for an OCR decrease. Key data since the last policy meeting has been sparse with New Zealand GDP for Q1 the only notable economic release in which both the QQ (0.2% vs. Exp. 0.1%, Prev. -0.1%) and YY (0.3% vs. Exp. 0.2%, Prev. -0.3%, Rev. -0.2%) figures topped estimates and returned to expansion which provides increased scope for the RBNZ to remain patient.

CHINESE INFLATION (WED): CPI Y/Y is expected to accelerate to 0.4% from 0.3%, and M/M is seen at 0% (prev. -0.1%). PPI Y/Y is seen at a shallower deceleration at -0.8% (prev. -1.4%). Despite these anticipated improvements, weak domestic demand continues to necessitate more robust stimulus measures from Beijing, according to some desks. Using the Chinese Caixin PMI as a proxy, the release suggested "an easing of output price inflation was observed, attributed mainly to slower increases in service sector output charges as manufacturing selling prices rose for the first time in the year-to-date. The rate of overall input cost inflation was unchanged from May." In May, the CPI rose 0.3% Y/Y, below the 0.4% forecast. Producer prices fell at a slower pace of 1.4% vs -2.5% in April, indicating easing deflationary pressures driven by commodity prices rather than domestic demand. Core inflation, excluding food and energy prices, was 0.6% in May vs 0.7% in April, highlighting the difficulty in boosting domestic demand. Capital Economics predicts modest consumer inflation, averaging 0.5% for the year. To meet its GDP growth target of "around" 5% this year, Beijing is expected to introduce more support measures. Many economists call for a comprehensive fiscal and monetary policy package to restore confidence and stimulate spending effectively.

NORWEGIAN CPI (WED): May's print came in markedly below market expectations on a headline basis at 3.0% Y/Y (exp. 3.3%, prev. 3.6%). However, on a core basis (ATE) the moderation was not quite as much as markets expected, easing to 4.1% Y/Y (exp. 4.0%, prev. 4.4%). Following this print, the Norges Bank maintained policy settings in June but lifted their repo forecasts to remove any chance of a 2024 cut though they did acknowledge that headline inflation had been a little lower than projected. June's CPI-ATE needs to come in comfortably below the 4.1% prior and towards 3.5% for the Norges Bank's 3.99% Q2 forecast to hold. Given their willingness to adjust forward guidance, another hawkish print at the core level could, depending on the evolution of July's data & other points such as the Regional Network, spark further guidance rate path revisions at the September MPR.

UK GDP ESTIMATE (THU): Expectations are for the M/M to lift to 0.2% from 0.0% with the 3M rate by extension increasing to 0.8% from 0.7%. As a reminder, the prior release saw a flat reading for the month of April as a particularly soft outrun for the production and construction sectors was offset by a solid performance by the service industry. For the upcoming release, Pantheon Macroeconomics, who look for a 0.2% M/M increase, expects growth to be underpinned by a rebound in manufacturing and retail sales with the latter to add 0.15pp to growth. If Pantheon's 0.2% M/M forecast is realised, they note that it would match the trend gain in GDP since last year's "minor recession", adding that "GDP would grow 0.5% quarter-to-quarter in Q2 even if it falls 0.1% month-to-month in June". Note, a 0.5% Q/Q outturn for Q2 would match the MPC's forecast. With regards to the BoE, the MPC very much remains fixated on stubborn services inflation and as such the release will likely have little sustained sway on market pricing which is currently a near coin-flip between an August cut or hold.

US CPI (THU): The consensus looks for US CPI to rise 0.1% M/M in June (range of forecasts 0.0-0.1%; prev. 0.0%), while the core rate of CPI is seen rising +0.2% M/M (range: 0.2-0.3%), matching the May reading. In remarks at the ECB's Sintra monpol conference, Fed Chair Powell said that the disinflation trends are showing signs of resuming, noting that the Fed has made quite a bit of progress on inflation, and it is getting back on the disinflationary path. Still Powell reiterated that the Fed needs to be more confident in the sustainability of easing price pressures before it reduces interest rates, and officials wanted to see more data like that which has been seen recently, arguing that the Fed has the ability to take its time. Still, Powell said services inflation was stickier, and while wage increases are moving back down towards more sustainable levels, they are still above where they will wind up in equilibrium. Powell sees inflation getting back to 2% in late 2025 or in 2026 (note: the Fed's median projections see both headline and Core PCE inflation back at the 2% target in 2026). Meanwhile, the FOMC's June meeting minutes noted that several participants said that if inflation were to persist at elevated levels or rise further, rates may need to be raised (though many analysts said this view was outdated given the recent developments in price pressures). Participants saw 'modest further progress' toward the committee's 2% inflation objective in recent months, with May's CPI data seen by participants as providing additional evidence of progress toward the inflation goal. Participants affirmed that additional favourable data were required to give them greater confidence that inflation was moving sustainably towards target, and highlighted a variety of factors that were likely to help contribute to continued disinflation in the period ahead, including: a continued easing of demand–supply pressures in product and labour markets, lagged effects on wages and prices of past monetary policy tightening, the delayed response of measured shelter prices to rental market developments, and the prospect of additional supply-side improvements. Participants also suggested a number of developments in product and labour markets had supported their judgment that price pressures were diminishing. Participants also observed that longer-term inflation expectations had remained well anchored and viewed this anchoring as underpinning the disinflation process.

US CORPORATE EARNINGS (FRI): Q2 bank earnings will begin on Friday, with the likes of JPM, WFC, and C reporting. AI-darling Nvidia will report earnings on August 21st, and is arguably the most eagerly awaited report later in the season. On the upcoming earnings, Goldman Sachs highlights the current consensus is for +9% Y/Y EPS growth in Q2, although GS expects the magnitude of EPS beats are likely to diminish. On AI specifically, GS forecasts the mega-cap AI firms will post sales growth of 17% Y/Y. Barclays analysts note that for the large financials, attention will be on net interest income (NII) and net interest margin (NIM); for JPMorgan (JPM) specifically, Barclays writes "Q/Q, results should reflect slightly lower NII, seasonally lower trading revs but stable IB fees, modestly higher expenses. Still, the focus will be on its 2024 outlook, where NII has outperformed". In addition, FactSet highlights that analysts made smaller cuts than average to EPS estimates for S&P 500 companies in Q2, pushing back on the argument that they lowered estimates by more than normal given concerns in the market about a possible economic downturn. FactSet concludes, however, it is important to note that while analysts decreased EPS estimates in aggregate for Q2 2024 during the quarter, they increased EPS estimates for CY 2025 by 1.0% over this period.