newsquawk

Week Ahead 5th-9th August: Highlights include ISM Services PMI, RBA, BoJ SoO, BoC Minutes, and Chinese inflation

5th-9th August 2024

MON: Canadian Market Holiday (Civic Day), Chinese Caixin Services PMI Final (Jul), UK/EZ/US Services & Composite PMI Final (Jul), US ISM Services PMI (Jul), EZ Producer Prices (Jun)

TUE: RBA Announcement and SOMP, EIA Short-term Energy Outlook, EZ Retail Sales (Jun), Canadian Trade Balance (Jun), New Zealand Jobs (Q2)

WED: BoC Minutes, German Trade Balance (Jun) and Industrial Output (Jun), Chinese Trade Balance (Jul)

THU: BoJ Summary of Opinions, RBI Announcement, New Zealand Inflation Forecasts (Q3)

FRI: Chinese Inflation (Jul), German Final CPI (Jul), Norwegian CPI (Jul), Canadian Jobs Report (Jul)

US ISM SERVICES PMI (MON): The ISM services PMI is expected to rise back into expansionary territory, with the consensus looking for 51.0 in July vs 48.8 in June. As a proxy, the S&P Global flash US services PMI for the month rose to a 28-month high of 56.0 from 55.3. However, the S&P Global composite PMI data for July noted that optimism about output in the year ahead slipped to a three-month low in July. S&P Global said that "sentiment was adversely affected by uncertainty regarding the Presidential Election and resulting policies, though companies also cited concerns over the persistent high cost of living in relation to both inflation and interest rates," adding that these concerns were more evident in the service sector than in manufacturing. On inflation, the report said "while some stubbornness of inflation was still evident in the service sector, prices charged for services rose on average at the slowest rate for almost four years barring only January's brief dip in the rate of inflation," and "higher wage pressures also remained a dominant factor behind price hikes, especially in the service sector."

RBA ANNOUNCEMENT (TUE) The RBA is likely to keep the Cash Rate at the current level of 4.35% during next week's meeting with money markets pricing around a 96% chance for rates to be kept unchanged and just a 4% likelihood of a 25bps cut. The RBA has refrained from any rate adjustments since its last increase in November and it stuck to a hawkish tone at the prior meeting in June where it reiterated that the Board remains resolute in its determination to return inflation to the target and that inflation is proving persistent. It also noted that inflation has been declining more slowly than previously expected and remains high, as well as 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. Furthermore, the minutes from the meeting stated the Board judged the case for holding rates steady was stronger than for hiking and that they needed to be vigilant to upside risks in inflation with data suggesting upside risk for the May CPI reading. This was eventually realised as the monthly inflation for May accelerated with Weighted CPI YY firmer-than-expected at 4.00% vs. Exp. 3.80% (Prev. 3.60%) which spurred the likes of Deutsche Bank and Morgan Stanley to call for a 25bps hike at the upcoming RBA meeting. However, the more recent monthly CPI data for June has since softened to 3.8% and the quarterly CPI for June was also mostly lower-than-expected including the RBA's preferred Trimmed Mean measure of inflation which spurred some banks to drop their calls for a hike and saw money markets switch from pricing outside chances of a hike to a very small chance of a cut. Furthermore, the latest jobs data was mixed and supports the case for a continued pause as headline Employment Change for June topped forecasts with an increase of 50.2k vs. Exp. 20.0k (Prev. 39.7k) which was mostly due to Full-Time jobs although the Unemployment Rate unexpectedly rose to 4.1% vs. Exp. 4.0% (Prev. 4.0%) but coincided with a similar magnitude increase in the Participation Rate.

NEW ZEALAND JOB (TUE): Q2 Employment Rate is seen ticking to 4.7% (prev. 4.3%) with Q/Q jobs growth seen at -0.3% (prev. -0.2%). Participation Rate is seen at 71.3% (prev. 71.5%). Labour Cost Index Q/Q is expected to remain steady at 0.8% whilst the Labour Cost Index Y/Y is seen ticking lower to 3.5% from 3.8%. Analysts at Westpac suggest "The New Zealand labour market is clearly softening, with higher-frequency indicators pointing to outright job losses in recent months. We estimate that the unemployment rate rose from 4.3% to 4.7% in the June quarter." The desk also flags that wage growth is slowing from highs, although the public sector pay agreement may distort the metric for the June quarter.

BOC MINUTES (WED): At its late July policy meeting, the BoC cut rates by 25bps to 4.50%, as was expected by the majority of analysts. Within the statement, it noted that risks to the inflation outlook were balanced, and it removed language that referred to the central bank being more concerned about upside inflation risks. However, it noted that it was assessing opposing forces on inflation, with ongoing excess supply lowering inflationary pressures, although shelter and some other services inflation is holding inflation up. Ahead, the BoC said decisions will be guided by incoming data and their potential impact on the inflation outlook. In its updated economic projections, it revised down its Q2 2024 CPI forecast to 2.7% (from 2.9%), with Q3 CPI seen at 2.3%. The BoC does not see CPI returning to the midpoint of its target range until 2026 however, and it also nudged up its 2025 CPI projections to 2.4% from 2.2% in April. It left its estimate of the nominal natural rate unchanged at between 2.25-3.25%, while it now sees the output gap between -0.75% and -1.75% (in April, it was estimating between -0.5% and -1.5%). In his post meeting press conference, Governor Macklem said there was a clear consensus to cut rates, and if inflation continued to ease broadly in line with their forecasts, it would be reasonable to expect further rate cuts, though the timing will depend on how the BoC see these "opposing forces" playing out. Writing after the announcement, RBC said it was looking for an additional two rate cuts this year, leaving the overnight rate at a "still restrictive" 4% by the end of 2024.

CHINESE TRADE BALANCE (WED): Trade Balance in USD terms for Jul is expected to show a narrower surplus of USD 98bln (prev. USD 99.05bln), with exports growth seen at +10.4% (prev. +8.6%) and Imports at +3.3% (prev. -2.3%). The metrics will be closely watched as a demand gauge at a time of sluggish Chinese domestic demand. Using the Chinese Caixin PMIs as a proxy, the release suggested "Export orders meanwhile continued to rise, but the rate of growth slowed from June to a modest pace", as the release also called for "intensifying policy stimulus, ensuring effective implementation of previous policies, and unleashing market vitality". The Trade Balance data also comes after the CCP's Third Plenum in which it outlined "a strategic roadmap to further deepen reform comprehensively and advance Chinese modernization, providing direction for high-quality development of the economy in the future.

BOJ SUMMARY OF OPINIONS (THU): BoJ hiked rates by 15bps to 0.25% which money markets were pricing the likelihood of heading into the announcement, while it announced to conduct a slow taper with monthly bond purchases to be reduced by JPY 400bln per quarter and also announced it will provide a specific value for monthly purchases instead of a range. The decision spurred a volatile reaction in the Yen and was viewed as a dovish hike given its slow taper plans. At the post-meeting presser, the most notable line was Ueda commenting that a 0.5% policy rate is not a ceiling, whilst the Governor said the decision to hike this time was made considering the upward risks to prices as being considerably large. Going forward, the Governor said they will continue to lift rates and adjust the degree of easing if the current economic/price outlook is realised, with the main issue on where to stop raising rates, when approaching the neutral rate. “This surprise hike does fall into a generalised (perhaps coordinated) effort to stabilise the Yen, in our view”, said ING, adding that “we cannot deny this is a major development for the Yen and one that can structurally change the picture of carry-trade positioning, especially if the BoJ remains hawkish and hikes by another 25bp by the end of the year.” The Summary of Opinions released on Thursday will be eyed for more insight regarding the likelihood of another hike this year.

RBI ANNOUNCEMENT (THU) The RBI is expected to keep rates unchanged when it concludes its 3-day policy meeting next week as a recent Reuters poll continued to show consensus for the central bank to maintain the Repo Rate at the current level of 6.5% until end-Q3 and then cut by 25bps in Q4 this year, which was in line with the previous survey, while market pricing is for no hikes through to April next year. As a reminder, the MPC unsurprisingly kept rates unchanged at the last meeting in June and maintained its stance of remaining focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target, although there was a change in the vote split as Goyal joined fellow external MPC member and regular dissenter Varma in voting for a 25bps cut to the Repo Rate and for a change in the stance to neutral. RBI Governor Das noted during the policy announcement that inflation growth dynamics are moving favourably and deflation in fuel prices is ongoing but acknowledged that food inflation remains elevated, while he added that monetary policy must remain disinflationary and they will remain resolute in the commitment to aligning inflation to the target. In terms of the recent data releases, CPI in June was firmer than expected at 5.08% vs. Exp. 4.80% (Prev. 4.75%) but remained within the tolerance band and Industrial Output topped forecast for May at 5.9% vs. Exp. 4.9% (Prev. 5.0%) which suggests a lack of urgency to cut rates, although it is worth noting that it would only take one more shift in the voting for a cut to occur as long as it was Governor Das who has the deciding vote in the event of an even split.

NEW ZEALAND INFLATION FORECASTS (THU): There are no expectations for the Kiwi inflation forecasts, with the 1-year ahead previously at 2.7% and the 2-year ahead at 2.3%. Analysts highlight that the importance of this particular survey for the RBNZ has waned over time, albeit it could still provide some useful insight into economic conditions. The desk at Westpac suggests “With inflation falling faster than expected and signs that activity is cooling, expectations are set to take another step down this quarter. However, we expect that they will linger above the 2% midpoint of the RBNZ’s target, with domestic inflation pressures remaining sticky. A lower reading would strengthen the case for earlier rate cuts.”

CHINESE INFLATION (FRI): CPI Y/Y is seen ticking higher to 0.4% in July (prev. 0.2%) whilst PPI is expected to remain in deflation at -0.9% (prev. -0.8%). The release will be watched as a gauge of demand in the Chinese economy. Using the Chinese Caixin PMIs as a proxy, the release suggested “Average selling prices declined for the first time since May. Chinese manufacturers indicated reducing selling prices to support sales amid increased competition. This was partially supported by input cost inflation easing to the lowest in the current four-month sequence.” Senior Analyst at Caixin flagged that “Price levels were under pressure. An increase in prices for raw materials pushed up input costs moderately, keeping the gauge in expansionary territory for the fourth consecutive month. Output prices, however, decreased amid intensified market competition and sales pressure, with the corresponding gauge in contractionary territory for the sixth time in the past seven months.”

NORWEGIAN CPI (FRI): Core Y/Y is expected to continue to moderate to 3.3% after coming in markedly cooler than expected in June at 3.4% vs exp. 3.6% & prev. 4.1%. A 3.3% core print would pull the rate further below the Norges Bank’s 3.7% view and could potentially spark some discussion around a 2024 cut being brought back onto the table; reminder, the Norges Bank maintained its policy settings in June but lifted their repo forecasts to remove any chance of a cut. While a discussion around 2024 easing could return, it is possibly still somewhat premature as the Bank will be waiting for the Q3 Regional Network report (the Q2 release seemingly cemented the hawkish June decision) before determining if there will be any tweak to the path at its next update in September. Elsewhere, while the headline and core inflation measures are expected to continue to moderate SEB highlights that wage inflation is expected to remain sticky ahead and remain well above the pre-COVID trend, a dynamic that has/will weigh heavily on the hawkish side for the Norges Bank.