newsquawk
Week Ahead

12th-16th August 2024: Highlights include US CPI and Retail Sales; UK CPI, Jobs and Retail Sales; Aussie Jobs; RBNZ; China activity data and Japan GDP

MON: OPEC Monthly Oil Market Report; Japanese Market Holiday (Mountain Day), German Retail Sales (May), Indian Trade Balance (Jul)

TUE: IEA Oil Market Report, Australian Wage Price Index (Q2), UK Jobs (Jun/Jul), German ZEW Survey (Aug), US PPI (Jul)

WED: RBNZ Announcement and Quarterly MPS, Bank of Israel Announcement, UK Inflation (Jul), Swedish CPIF (Jul), Indian WPI (Jul), EZ GDP Flash (Q2), US CPI (Jul)

THU: PBoC MLF, Norges Announcement, Italy Market Holiday (Assumption Day), Japanese GDP (Q2), Australian Jobs (Jul), Chinese Activity Data (Jul), UK GDP (Jun), US Retail Sales (Jul), US Philly Fed (Aug)

FRI: UK Retail Sales (Jul), US University of Michigan Prelim (Aug)

Note, previews are listed in day order.

UK JOBS (TUE): As usual, wages will be the key point of focus for the BoE from this release. In May, the headline and ex-bonus metrics both moderated to 5.7% as expected, a release which was judged at the time to have not significantly changed the calculus into the BoE's August decision. Furthermore, almost all metrics for that month's release printed in-line with consensus. This time, Morgan Stanley looks for ex-bonus wages to print in-line with the BoE's view but with some risk of an upward revision to the May data. As always, the release will be key for BoE pricing and the calculus for September, however the wage metrics may well be superseded by the week's CPI print and the knowledge of a sizeable upcoming public sector increase via recent wage negotiations which average out at around 5.5%. Finally, it is worth caveating that the data continues to be subject to reliability issues.

RBNZ ANNOUNCEMENT (WED): The RBNZ is to hold a policy meeting next week where there are mixed views regarding the Official Cash Rate with 19 out of 31 economists surveyed by Reuters expecting rates to be kept unchanged at 5.50% and 12 are forecasting a 25bps cut, while money markets have recently shifted to pricing greater chances of a cut following softer inflation expectations with OIS pointing to an 84% probability for a reduction and just a 16% chance for rates to be maintained at the current level. As a reminder, the RBNZ kept the Official Cash Rate unchanged at the last meeting as unanimously expected, while it maintained its rhetoric that the Committee agreed the OCR will need to remain restrictive but provided a dovish tilt in which it stated that the extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures. The RBNZ also commented that some domestically generated price pressures remain strong although there are signs inflation persistence will ease in line with the fall in capacity pressures and business pricing intentions, while it also stated that current and expected government spending will restrain overall spending in the economy. Furthermore, the minutes from the meeting revealed that the Committee is confident inflation will return to within its 1%-3% target range over the second half of 2024 and that the appropriate stance of monetary policy was discussed at the meeting. There haven't been many updates from the RBNZ since the last meeting, while the recent data had mostly supported the case for a continued pause including New Zealand CPI Y/Y for Q2 which softened to 3.3% vs. Exp. 3.4% (Prev. 4.0%) but remained above the target range, while employment data in Q2 beat estimates with surprise jobs growth of 0.4% (Exp. -0.2%) and the Unemployment Rate was less than feared at 4.6% vs. Exp. 4.7% (Prev. 4.3%) despite an unexpected increase in the Participation Rate to 71.7% vs. Exp. 71.3% (Prev. 71.5%). Labour Cost Index was also firmer than expected during the previous quarter with QQ growth at 0.9% vs. Exp. 0.8% (Prev. 0.8%) and Y/Y growth at 3.6% vs. Exp. 3.5% (Prev. 3.8%) which could compel policymakers to remain patient to avoid stoking inflationary pressures. However, the recent release of softer inflation expectations resulted in a shift in market pricing which is now heavily leaning towards a cut.

US CPI (WED): After June's downside surprise, analysts expect US consumer prices will rise +0.2% M/M in July (prev. -0.1%), taking the annual rate to 2.9% Y/Y (prev. 3.0%). The core rate of CPI is seen rising +0.2% M/M (prev. +0.1%), and the annual rate of core consumer prices is seen easing to 3.2% Y/Y (prev. 3.3%). For reference, the Cleveland Fed's inflation nowcasting is tracking headline inflation rising +0.24% M/M in July and 3.01% Y/Y; the core rate is tracking 0.27% M/M, and is tracking 3.33% Y/Y, which would suggest some risks of upside for the latter relative to the consensus. Bank of America sees headline inflation rising 0.25% M/M unrounded due to the pickup in core services inflation and energy prices, and expects the annual rate will be unchanged at 3.0% Y/Y; it sees core CPI rising 0.22% M/M (unrounded), stating that "while this is not quite as low as June, it is in line with prior trend in deflation and should meet the Fed's benchmark for beginning rate cuts in September." On core services inflation, BofA notes that the core services ex-rent and owners equivalents rents (OER) edged down in June on a decline in airfares, but in July, it expects the decline in airfares to be much more moderate. It also notes that shelter prices should pick up, but expects the deceleration in rents and OER to hold. "Should the July CPI report print in line with our expectations, we would maintain our expectation for the Fed to start its cutting cycle in September and deliver 50bps in rate cuts this year." BofA acknowledges that financial markets are pricing in more than 100bps of rate reductions this year, and some debate over the likelihood of a larger up-front cut or an inter-meeting move, but it does not think that the current situation meets the bar for action.

UK INFLATION (WED): The June BoE MPR forecast for Q3 CPI stands at 2.3%, a figure which would be a modest tick up from the 2.0% rate that has been in place for the last two months and the 2.1% average across Q2. For July, Pantheon expects the rate to tick up to 2.2%, upside which is likely to be driven by base-effects from Ofgem utility price adjustments in 2023 which saw a much more sizeable reduction than the cut announced in July 2024. On a core basis, the Y/Y is seen averaging 3.4% across Q3 (vs 3.6% in Q2) while from a services perspective, Morgan Stanley expect the Y/Y rate to moderate to 5.4% vs BoE expectations of 5.56%. However, they caveat this welcome development for the BoE by noting services have the potential to lift back above forecast in August's print which will be released on the eve of September's announcement. For the BoE, the July release will add to the debate among the five who voted for a cut, and particularly for the 'some members' of that group for whom the decision to cut was a finely balanced one due to the assessment that "inflationary persistence had not yet conclusively dissipated, and there remained some upside risks to the outlook.". Currently, pricing implies the next cut in November (-31bps) with around a 30% chance of a move in September; CPI aside, the recent PMIs were upbeat on growth ahead which, with core inflation still set to be well above the 2.0% mark and CPI itself expected to rebound back above the official target, means that a back-to-back cut is perhaps unlikely to be the base case for September, but of course cannot be ruled out at this stage. (i.e. in-fitting with current pricing).

PBOC MLF (THU): The PBoC will conduct its Medium-term Lending Facility operation next week in which it is likely to maintain the 1-year MLF rate at the current level of 2.30% following last month's reductions in short-term funding rates. As a reminder, the central bank had initially opted to maintain the 1-year MLF rate at 2.50% during its regular mid-monthly operation on July 15th but then surprised markets with unexpected cuts to its short-term funding rates a week later including the 7-day reverse repo rate which was lowered by 10bps to 1.70% from 1.80%, while Chinese banks then followed through with similar magnitude cuts to the benchmark 1-year and 5-year Loan Prime Rates which were reduced to 3.35% and 3.85%, respectively. The PBoC also lowered its Standing Lending Facility rates by 10bps across all maturities and unexpectedly conducted a second MLF operation for the month on July 25th in which it cut the 1-year MLF rate by 20bps to 2.30%. Therefore, given the recent bout of cuts to funding rates, it is unlikely that the central will be in a rush to adjust rates so soon, while mixed data releases from China including the miss on exports, stronger-than-expected imports, and firmer inflation also support a patient approach.

NORGES BANK ANNOUNCEMENT (THU): Overall, the Norges Bank is not expected to make any adjustments to forward guidance or rates at the interim meeting as we await the Q3 Regional Network Report on 12th September before the 19th September policy announcement which includes an MPR. This meeting instead will be the opportunity for the bank to revise its path, if developments merit it by this point with the development of CPI-ATE being a dovish factor thus far. July's CPI printed at 3.3% for the CPI-ATE Y/Y measure, a print which was in line with market expectations and some 0.3pp below the Norges Bank's own view for the month, though the release spurred no real reaction and is unlikely to change expectations for the August meeting. Beforehand, June's CPI came in a touch softer than expected but also failed to spur any real reaction at the time. Last time, the Norges Bank kept its policy rate at 4.50% as expected but provided a particularly hawkish adjustment to forward guidance with all probability of a 2024 rate cut removed and a very slim technical skew towards tightening being more likely than cutting for the remainder of 2024.

JAPANESE GDP (THU): Japanese Q2 GDP is seeing rising 0.5%, from the prior decline of 0.7%. The forecast range sees a low of 0.6% and a high of 3.0%. Since the last Q1 GDP metrics, Japan made an unscheduled revision to GDP, revealing that the economy contracted more than initially reported in Q1 2024. The revised data shows an annualised decline of 2.9% compared to the previously estimated 1.8% contraction. This revision was primarily due to corrections in construction orders data, highlighting inaccuracies in the initial estimates. Analysts at Deloitte anticipate that "real GDP growth will begin to recover in the second half of 2024." Stronger wage growth and more moderate inflation are expected to boost consumer spending, while a weak currency is likely to drive export growth. Although these factors should collectively improve economic conditions, Deloitte expects growth to be "relatively modest."

AUSTRALIAN JOBS (THU): The Australian economy is forecasted to add 12.5k jobs in July, against June's 50.2k. Within the release, participation rate and unemployment rate are anticipated to remain at 66.9% and 4.1%, respectively. In June, Australian employment surged significantly, with net employment rising by 50,200, far surpassing the expected 20,000. Full-time employment contributed 43,300 to the increase, marking a second consecutive month of strong growth. Despite the job gains, the unemployment rate increased slightly to 4.1% from 4.0%, contrary to expectations of it remaining steady. This rise was due to an increase in the labour force participation rate, which climbed to near a record high of 66.9%. Desks suggested that despite the robust job growth, there are signs of slackening in the labour market, as indicated by the upward trend in the unemployment rate. However, the market remains tight overall. As a reminder, the most recent RBA meeting saw no major surprises as it kept the Cash Rate unchanged at 4.35% while it also stuck to its hawkish tone – although Governor Bullock at the presser clarified that a rate hike was discussed.

CHINESE ACTIVITY DATA (THU): Retail Sales are expected to come in at 2.0% (prev. 2.0%), Industrial Output is seen at 5.2% (prev. 5.3%), and Urban Investments are seen at 3.9% (prev. 3.9%), and as usual, it will be closely watched to gauge the health of the Chinese economy. Using PMI data and commentary as a proxy, the Caixin Manufacturing PMI for July fell to 49.8 from 51.8 in June, indicating a contraction in the manufacturing sector. This reading was below analysts' expectations of 51.5 and marked the lowest level since October last year. The official manufacturing PMI also showed a decline. The drop in PMI was largely attributed to the first fall in new orders in a year, driven by subdued demand and client budget cuts. The decline in new orders primarily affected investment and intermediate goods, while the consumer goods sector experienced slight expansion in July. Caixin's Chief Economist suggested the primary issues plaguing the manufacturing sector include "insufficient domestic demand and weak market optimism." In terms of the prior release, industrial output in China increased by 5.3% in June Y/Y (vs exp. 5.0%), a slight slowdown from the 5.6% growth observed in May. Retail sales rose by 2.0% in June (vs exp. 3.3%), a significant decline from the 3.7% growth recorded in May. Fixed asset investment grew by 3.9% in the first half of 2024, aligning with expectations.

US RETAIL SALES (THU): US retail sales are seen rising +0.3% M/M in July (prev. 0.0%), with the ex-autos measure seen rising +0.1 M/M (prev. +0.4%), while the Control Group is seen +0.1% M/M (prev. +0.9%). Bank of America's monthly consumer checkpoint data, which aggregates credit and debit card spending per household, declined -0.4% Y/Y in July (prev. -0.5% Y/Y in June). The report said that within the total, services spending was stronger than goods, but international travel was a highlight. BofA said that the labour market is showing more signs of cooling, but for now, its internal data on after-tax wages and salaries growth remains supportive of consumer spending. "We think households have managed to eke out some volume growth in their spending despite the weaker growth in nominal spending per household; to do this, consumers are becoming more price sensitive, and we see stronger spending in value groceries and clothing than in these categories overall," it wrote, adding that "one reason for increased price sensitivity may be the diminishing savings buffers consumers have, especially after allowing for inflation. But while deposits have fallen back, in our view, they remain modestly supportive of the consumer."

UK RETAIL SALES (FRI): Morgan Stanley sees UK retail sales ex-fuel falling 0.3% in July, noting that "maybe it's the rain, maybe it's the level of rates, maybe it's the level of prices of discretionary retail goods – but the consumer is not quite ready to spend yet." Nonetheless, according to industry data from the British Retail Consortium (BRC), Retail Sales in the UK saw a recovery in July 2024, with a Y/Y increase of 0.5% (vs prev. -0.2% in June). BRC noted a notable increase in purchases of summer clothes and health and beauty products, driven by the arrival of warm weather and consumer preparation for outdoor activities and holidays. Conversely, spending on Furniture and Household Appliances weakened as consumers prioritised holidays and entertainment over indoor goods, resulting in negative growth for non-food items, particularly in-store sales. BRC also observed that with election uncertainty resolved, retailers are now looking towards the Autumn Budget for relief from business rates rises and potential reforms promised in Labour's manifesto. Meanwhile, KPMG added that while summer staples have driven growth, the upturn is less significant than expected for this critical period. Televised sports events have boosted sales of electronics, such as TVs and tablets, but big-ticket purchases remain subdued. KPMG added that many households face financial pressure due to increased mortgage and rent costs, leading to cautious spending.