Week Ahead

22nd - 26th July 2024

Political risk just won't go away

AUTHORS

NICK REES
FX Market Analyst
+44 (0) 203 650 3736
Nicholas.Rees@monexeurope.com

MARÍA MARCOS
FX Market Analyst
+34 911 988 460
Maria.Marcos@monexeurope.com

INTRODUCTION

With a light US data calendar and a busy schedule of releases in focus for other G10 currencies, this was supposed to be a week when the dollar stepped out of the limelight, at least temporarily. Not so, as it turns out. Admittedly, soft Canadian inflation data did help build BoC rate cut expectations, weighing on the loonie at the margin. But a raft of UK data did little to settle the debate around a BoE cut in August, while the third plenum in China produced plenty of nice noises, but little new in terms of substance. The ECB similarly offered minimal forward guidance alongside a hold in rates on Thursday. That left US political developments to dominate headlines and drive market price action this week. At no point was this clearer than on Wednesday, which saw a 0.5% selloff in the broad dollar triggered by an indication from Donald Trump that he favoured a weaker greenback. While the dollar's mid-week slide was soon reversed as traders continued to evaluate their views on Trump, next week the US looks set to remain in focus. On the data front, markets are set to see a first reading of US Q2 GDP, accompanied by a rate decision from the BOC, flash July PMI readings, and of course, yet more political stories with all the attention on President Biden's political future heading into the weekend.

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ECONOMIC CALENDAR

All times in BST

Monday 22/07

Time	Country	Event	Period	Estimate	Prior
02:15	China	5-Year Loan Prime Rate	Jul-22	3.95%	3.95%
		1-Year Loan Prime Rate	Jul-22	3.45%	3.45%

Tuesday 23/07

Time	Country	Event	Period	Estimate	Prior
06:00	Singapore	CPI YoY	Jun	2.70%	3.10%
		CPI Core YoY	Jun	3.00%	3.10%
		CPI NSA MoM	Jun		0.70%
08:00	Eurozone	ECB's Lane Speaks			
12:00	Turkey	One-Week Repo Rate	Jul-23	50.00%	50.00%
13:00	Hungary	Central Bank Rate Decision	Jul-23	6.75%	7.00%

Wednesday 24/07

Time	Country	Event	Period	Estimate	Prior
00:00	Australia	Judo Bank Australia PMI Composite	Jul P		50.7
		Judo Bank Australia PMI Mfg	Jul P		47.2
		Judo Bank Australia PMI Services	Jul P		51.2
01:30	Japan	Jibun Bank Japan PMI Composite	Jul P		49.7
		Jibun Bank Japan PMI Mfg	Jul P		50
		Jibun Bank Japan PMI Services	Jul P		49.4
07:00	Germany	GfK Consumer Confidence	Aug	-21	-21.8
08:15	France	HCOB France Manufacturing PMI	Jul P	46	45.4
		HCOB France Services PMI	Jul P	49.9	49.6
		HCOB France Composite PMI	Jul P	49	48.8
08:30	Germany	HCOB Germany Manufacturing PMI	Jul P	44.3	43.5
		HCOB Germany Services PMI	Jul P	53.5	53.1
		HCOB Germany Composite PMI	Jul P	50.8	50.4
09:00	South Africa	CPI YoY	Jun	5.10%	5.20%
		CPI MoM	Jun	0.00%	0.20%
		CPI Core MoM	Jun	0.40%	0.10%
		CPI Core YoY	Jun	4.60%	4.60%
	Eurozone	HCOB Eurozone Manufacturing PMI	Jul P	46.1	45.8

Time	Country	Event	Period	Estimate	Prior
	Eurozone	HCOB Eurozone Services PMI	Jul P	53	52.8
		HCOB Eurozone Composite PMI	Jul P	50.7	50.9
09:30	UK	S&P Global UK Manufacturing PMI	Jul P	51.2	50.9
		S&P Global UK Services PMI	Jul P	52.5	52.1
		S&P Global UK Composite PMI	Jul P	52.6	52.3
13:00	Mexico	Bi-Weekly CPI	Jul-15		0.53%
		Bi-Weekly CPI YoY	Jul-15		5.17%
		Bi-Weekly Core CPI	Jul-15		0.13%
		Bi-Weekly Core CPI YoY	Jul-15		4.08%
	Eurozone	ECB's Lane Speaks			
14:45	Canada	Bank of Canada Rate Decision	Jul-24	4.75%	4.75%
	US	S&P Global US Manufacturing PMI	Jul P		51.6
		S&P Global US Services PMI	Jul P		55.3
		S&P Global US Composite PMI	Jul P		54.8
21:05	US	Fed's Bowman, Logan Give Opening Remarks			

Thursday 25/07

Time	Country	Event	Period	Estimate	Prior
09:00	Germany	IFO Business Climate	Jul	89	88.6
		IFO Current Assessment	Jul	88.5	88.3
		IFO Expectations	Jul	89.5	89
12:00	Eurozone	ECB's Nagel Speaks			
13:00	Brazil	IBGE Inflation IPCA-15 MoM	Jul		0.39%
		IBGE Inflation IPCA-15 YoY	Jul		4.06%
13:30	Canada	Payroll Employment Change - SEPH	May		-22.7k
	US	GDP Annualized QoQ	2Q A	1.80%	1.40%
		Personal Consumption	2Q A		1.50%
		GDP Price Index	2Q A	2.60%	3.10%
		Core PCE Price Index QoQ	2Q A		3.70%
		Initial Jobless Claims	Jul-20		243k

Friday 26/07

Time	Country	Event	Period	Estimate	Prior
00:30	Japan	Tokyo CPI YoY	Jul	2.30%	2.30%
		Tokyo CPI Ex-Fresh Food YoY	Jul	2.20%	2.10%
		Tokyo CPI Ex-Fresh Food, Energy YoY	Jul	1.60%	1.80%
01:00	Singapore	MAS July 2024 Monetary Policy Statement			

Time	Country	Event	Period	Estimate	Prior
07:00	Sweden	Unemployment Rate	Jun		8.70%
09:00	Eurozone	ECB 1 Year CPI Expectations	Jun		2.80%
		ECB 3 Year CPI Expectations	Jun		2.30%
13:30	US	PCE Price Index MoM	Jun	0.10%	0.00%
		PCE Price Index YoY	Jun	2.50%	2.60%
		Core PCE Price Index MoM	Jun	0.20%	0.10%
		Core PCE Price Index YoY	Jun	2.60%	2.60%

DATA PREVIEWS

European PMIs preview: UK outperformance should continue

While political developments helped GBPEUR break sustainably above 1.18 for the first time since August 2022, how long the cross continues to trade at these heady levels is likely to hinge on a handful of upcoming releases, with next week's PMI reports a significant focus on this score. For GBPEUR to remain trading at current levels, the UK economy will need to continue to outperform, and the BoE will also need to hold rates in August, both of which are outcomes that we think next week's PMI reports will lean towards.

Starting with the continental PMI readings, we suspect these will be disappointing. Markets expect a composite print of 50.7 for the eurozone, down marginally from 50.9 in June. To us, this looks overly optimistic for two reasons. First, we suspect that ongoing political risks have continued to weigh on activity, particularly in France, with this having knock-on effects for the rest of the bloc too given France's role as a central player in the EU. Second, eurozone PMI readings have exhibited a notable seasonality in recent years, with readings from June onwards typically undershooting those seen in the first half of the year.

"This suggests that risks are likely skewed towards an undershoot for the PMIs next week, though this would be consistent with our long-standing view that the bloc continues to struggle for growth in the post-COVID period."

In contrast, we are inclined to think the UK PMIs will largely meet expectations, with the composite reading seen increasing to 52.6, up from 52.3 last month. Granted, the UK readings also display some seasonality, though this is less pronounced than for eurozone figures in our view. But crucially, political risks in the UK have evaporated to be replaced with increased certainty and confidence, which should support growth upside at the margin. While this is good news for the economy, it is likely to weigh against the BoE easing rate in August, particularly if increased confidence translates into a willingness from firms to pass on cost increases to consumers. Indeed, we would be surprised if this does not gain at least a mention in the UK PMI report next week, which should keep the MPC cautious come the August rate decision.

BoC Preview: More loonie downside in store

We expect the BoC to cut rates next week, from 4.75% to 4.50%, becoming only the second G10 central bank to deliver back-to-back cuts so far in this easing cycle. That said, even with a stack of data pointing to weak growth, slowing inflation, and a labour market that continues to loosen, next week's meeting is not a done deal in the eyes of some. Weighing against any decision to cut is the Governing Council's proclivity for defying economic logic, and a growing divergence between the Boc and the Fed. In our view though, recent rhetoric from Governor Macklem has suggested that these should be lesser factors going forward, supporting our call for a cut next Wednesday.

Looking at the recent data, next week's decision should be an easy one for the Governing Council. The economy grew by just 0.3% MoM and 1.1% YoY in May – a per capita recession when considering that population growth is running at 3-4% annually. Meanwhile, in June, the economy shed jobs, the unemployment rate increased 0.2pp to 6.4% and inflation ticked down to reverse a surprise overshoot seen the month prior. Taken together, this is not a picture of an economy in rude health.

"Rather all signs point to inflation that is well on its way back to target, with growing downside risks if rates are not eased rapidly in the coming months."

Despite our view that next week should be a done deal for the BoC, economists are split almost 50-50 between looking for a hold or a cut. Of the 26 sell-side economists surveyed by Bloomberg, 12 expect a cut, 13 look for a hold (one looks for a hike). We don't think it should be that close, though we can understand a degree of reluctance to pencil in a further round of BoC easing given the BoC's previous for ignoring economic reality. Traders, in contrast, have largely aligned with our view. Swap markets are pricing the implied odds of a rate cut next week at 93%. If we are right then, and the BoC does cut rates next week, then this should see the loonie coming under further depreciation pressure, though current positioning makes a sharp drop lower for CAD unlikely. Instead, we expect to see USDCAD trading around 1.38 following Wednesday's rate decision, reflecting the growing rate differential between the BoC and the Fed, in line with our month-end call for the pair.

US GDP Preview: Soft, but not too soft

Next week's advance GDP reading should show growth rebounded modestly in the second quarter of 2024, at least according to most estimates. Markets expect to see US economic growth rise to 1.8% QoQ annualised, up from 1.4% in Q1, as does the New York Fed nowcast, while the Atlanta Fed GDP tracker predicts Q2 growth of 2.7%. In our view, though, risks to next week's print look skewed marginally to the downside relative to consensus. We expect Q2 GDP to print in a 1.0-2.0% range. If realised, this should be another piece of evidence pointing to a US soft landing, without raising fears of a looming recession in H2. As such, we expect to see the dollar weaken at the margin next week on further signs that US economic exceptionalism is coming to an end, but without the data cooling by quite enough to trigger a dollar haven bid.

"At a high level, we think there are two broad competing pressures at play when looking at US GDP."

On the one hand, expansive fiscal spending continues to offer a positive impetus to US growth. As we have noted previously, it is hard to see an economy contract when the government is running a deficit that is circa 5% of GDP. On the other hand, high for longer rates have now seen the labour market fully normalise, with signs that consumers are reining in spending. At the same time, timelier activity indicators point to a pullback in activity suggestive of softening domestic demand. To us, this suggests growth that should be anaemic but positive in the short-to-medium term.

Zooming in on the Q2 data then, we expect to see another soft personal consumption reading. This was just 1.5% in Q1, and we suspect that if anything, this likely softened further given that personal spending averaged just 0.15% over the first two months of the quarter. Meanwhile, net foreign trade was also likely a drag on Q2 growth as well. The trade deficit for goods widened in both April and May, standing at -$100.6B in the most recent figures, up from -$92.2B at the end of Q1, with weak global growth conditions seemingly underpinning a sharp contraction in exports. That said, these drags on growth should be offset to some degree by a significant rebound in manufacturing activity following a weather-related slowdown at the start of the year. All told then, we think this points to a GDP reading that modestly undershoots consensus estimates to print broadly in line with the figures for Q1.

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