Week ahead. Week beginning 06-06-2022

Memorial Day on Monday in the US means markets are shut all day. So a four-day shortened week in the US whilst in the UK, the traditional May bank holiday on Monday is moved to Thursday with an additional Friday holiday added in celebration of the **Queens Platinum Jubilee**, resulting in a three-day shortened week.

This week will be **key for markets** with the all in important release of US employment data in the **Non Farm employment** report this Friday. In the **Eurozone** we have the release of **inflation data** which will focus minds at the Start of a new full week in both US and UK following shortened week in the US and the 3-day week last week in the UK.

However with some European markets closed on Monday in observance of Whitmonday markets may be quieter than normal ahead of the US open on Monday afternoon.

Markets Review / Preview –

UK markets open for the first time since last Wednesday during which time US markets **jumped higher Thursday** then **fell back** as much on **Friday**.

This week the markets will continue to digest last weeks better than consensus **Nonfarm employment data**, ahead of the **FED FOMC meeting next week** and a likely 0.5% increase in rates.

Review

FTSE -37 -0.48% DOW -334 -1.0% S&P -56 -1.34% NASDQ -163 -1.28%
DAX unchanged NIKKEI +413 +1.52% Hang Seng +551 +2.64%

US markets started to discount a slightly more dovish Federal Reserve in light of softening PCE data and weaker than expected ADP data last Thursday.

However, as we all knew it would, it came down to the **non-Farm employment data**. If the number was as consensus or softer then analysts would conclude the employment market was starting to cool.

But this was **not the outcome** as NFP data came in at **390K new jobs** and with a small upgrade to the previous month's number.

All told the number was a **better than consensus by 72K jobs** which was enough to quell any thoughts that the Federal Reserve might be less aggressive with the rate rises at the next three FOMC meeting.

The **ISM Services PMI** release did little to lift the mood, although the data was softer than consensus but still well above the 50 level.

The **FOMC meeting next week**, on the 15th of June, is almost **certain** to be a **0.5% increase in rates** whilst the following two meetings, on **27th July and 21st September**, are also expected to result in **0.5% rate rises**.

So, markets of course reacted negatively. However, its not certain regarding future rate rises after the June meeting as data could still play a significant role.

Perhaps this is not the week for that though with data releases this week quite thin on the ground.

EURUSD -0.17 -0.15% GBPUSD -1.36 -1.07% USDJPY +3.73 +2.93%

The **USD rallied** on the back of the stronger than expected employment data although understandable the move was quite **muted versus the Euro**, ahead of the **ECB policy meeting** this week.

Sterling continues to be the more **volatile currency** with many analysts regarding Sterling as the most vulnerable. The GBPUSD pair lost ground last Wednesday ahead of the extended Platinum Jubilee holiday. Allies of Boris Johnson suggest that the **trigger for a no-confidence vote is getting close** and **could happen this week**. If not, then with **two by-elections** (Wakefield and Tiverton & Honiton) looming it looks like there could well be a non-confidence vote in Boris Johnson if the Tories lose these seats.

The USDJPY pair had another jump up as **Prime Miniter Kishida** looks set to support the BoJ on its current path. This effectively means that Governor **Kuroda's replacement** will be expected to **pursue** the **same policies** as the current governor.

Gold unch   UK OIL +2.01 +1.68% US OIL +5.25 +4.56%
Bitcoin +1,823 +6.36%

OPEC finally agreed to pressure from G7 ministers and the Biden administration, to **increase production** more than originally planned. OPEC agreed to increase production in each of the following two months by 650,000 barrels per day rather than 400,000 barrels per day. That's a **net increase on 250,000 per day** over two months
Markets fell but **quickly rallied** as traders regard this as such a **minor increase** that will have little impact on prices in the medium term – with such a volatile backdrop with supply and demand.

Gold reflected the **US Dollar's slight recovery** especially versus the Jap Yen. Crypto tracked equities with Thursday's move lifting bitcoin back above the 30,000 level again.

Data / Events this week

Following Non-Farm employment data, the calendar is quite light. The main events undoubtedly the ECB monetary policy meeting this Thursday and the inflation data in the US this Friday.

Monday

Eurozone	Bank holiday in observance of **Whitmonday**. Half of the Europeans markets are closed.

Tuesday

Australia	Reserve Bank of Australia monetary policy meeting. Having raised rates a little more than expected last time the consensus this time is for an**other rate rise of 0.35%** to 0.75% which will be the second rate rise in two months. Before this the last time rates went up was 13years ago in October 2009.

Wednesday

No major releases

Thursday

Eurozone	**ECB Monetary policy meeting.** Up until early this year Lagarde had insisted that the ECB would not be raising rates in 2022. With inflation at 8.1% in the bloc, **4 times the target rate**, the bank is expected to announce plans to **raise rates**. When the **QE program in July**, currently €20 Bln / month, finally ends then the bank will raise rates. Forecasts are for rates to rise by 0.25% to -0.25% FROM -0.5% in July and by another 0.25% to Zero in September. At the same time the bank is making plans to support the bond markets in those highly indebted members, such as **Italy**, where **yields could rise quickly** if confidence and support is not maintained. Currently the spread of **Italian yields over the benchmark German bond**s is the widest since the pandemic at **1.91%.**

Friday

US	Inflation data. Forex factory report month-on-month numbers but the headline number tends to be the annual inflation rate. In May the report for April showed a slight decline in the annual rate to 8.3% compared to the previous month's reading of 8.5%. The hope is that the rate will ease again but forecasts are for just a small decline YOY to 8.2% and in the core CPI to 5.9% from 6.2%. **Markets** will be **extremely sensitive** to this release. A weaker number than expected might encourage another bout of dovish moves in rate expectations for the year end. However, this happened a couple of weeks ago and quickly expectations snapped back with three 0.5% rate hikes expected over the next three FOMC meetings.