newsquawk

Week In Focus: 3rd - 8th May

Highlights include US NFP, ISM Services PMI, RBA, Canadian jobs and OPEC+

- **SUN**: OPEC+
- **MON**: Holiday: UK May Bank Holiday, Holiday: Japan's Greenery Day, Turkish Inflation (Apr), Global Manufacturing PMI (Apr), US Factory Orders (Mar)
- **TUE**: RBA Policy Announcement (May), BCB Minutes (Apr), Holiday: Japan's Children's Day, Swiss Inflation (Apr), US Building Permits Final (Mar), Canadian Balance of Trade (Mar), Canadian PMI (Apr), US PMI Final (Apr), US ISM Services (Apr), US JOLTS (Mar), US New Home Sales (Mar), US RCM/TIPP Economic Optimism (May), New Zealand Unemployment Rate (Q1)
- **WED**: ECB Wage Tracker (May), Holiday: Japan's Constitution Memorial Day, South Korean Inflation Rate (Apr), Chinese RatingDog PMI (Apr), Swedish Inflation (Apr), EU PMI Final (Apr), Italian Retail Sales (Mar), EZ PPI (Mar), Canadian Ivey PMI (Apr), US ADP Employment (Apr), US Treasury Refunding Announcement
- **THU**: Norges Bank Policy Announcement (May), Riksbank Policy Announcement (May) CNB Policy Announcement (May), Banxico Policy Announcement (May), CBR Minutes (May), UK Local Election, BoJ Minutes (Mar), Australian Balance of Trade (Mar), German Factory Orders (Mar), French Balance of Trade (Mar), EZ Construction PMI (Apr), EZ Retail Sales (Mar), US Challenger Job Layoffs (Apr), Mexican Inflation (Apr), US Jobless Claims (May 2)
- **FRI**: Japanese Services PMI Final (Apr), German Balance of Trade (Mar), German Industrial Production (Mar), Brazilian Inflation (Apr), Canadian Jobs Report (Apr), US Jobs Report (Apr), University of Michigan Survey Prelim. (May)

WEEK AHEAD

OPEC+ (SUN): Focus is on the 3rd May meeting after the UAE's formal exit, effective 1st May, removed a key producer from quota constraints and weakened cohesion within the group. The remaining "OPEC-7" are expected to proceed with a modest June output increase of about 188k bpd, scaled down from about 206k bpd to reflect the UAE's removal, though the move is largely symbolic given Strait of Hormuz disruptions that are limiting actual export capacity. The core objective is to signal "business as usual" and maintain credibility despite structural cracks. There is still a non-zero risk of a pause if conditions deteriorate further.

RBA POLICY ANNOUNCEMENT (TUE): Focus is on a likely 25bps hike, with Westpac explicitly calling for a move to 4.35%, which would mark a third consecutive increase, citing persistent inflation, tight labour market conditions and evidence the economy was running hotter than expected before the Middle East shock. The RBA has signalled inflation remains above target and requires further restraint, while recent data on wages, demand and capacity pressures supports a tightening bias. However, the key uncertainty now is the inflation impulse from the energy shock - policymakers will weigh whether this justifies further immediate action or a more cautious pace. Desks expect a hike as the base case, with attention on any indication the Bank sees inflation risks as structurally higher after the conflict, which would keep the path open for additional tightening. Market pricing currently implies an 81% chance of a hike at the upcoming meeting.

SWISS INFLATION (TUE): Expected to echo the trend seen elsewhere, of headline price pressures but limited pass-through to the core components at this stage. As a reminder, the March series was much cooler than expected on a headline level, with the upside primarily driven by the transportation component and within that, energy and fuel. April's series will provide better insight into the transmission of the energy shock into Swiss inflation. For the SNB, the base case remains on hold at 0.00% for the foreseeable.

US ISM SERVICES PMI (TUE): As a proxy, S&P Global's flash services PMI business activity index rose to 51.3 in April (from 49.8), a two-month high, but the details point to a still-muted services backdrop. The rebound only partly reversed March's dip, with S&P noting that services activity posted the second-weakest expansion in the past year as demand cooled further. New business at service providers rose only marginally, and at the slowest pace in two years, weighed by falling export demand and uncertainty linked to the Middle East conflict, as well as government policy and affordability pressures. S&P said service sector selling price inflation accelerated to a 45-month high, while services input cost inflation was the strongest since December, and among the sharpest in three years; firms cited higher energy, commodity and staffing costs. The employment sub-index rose only marginally in April, after falling slightly in March, with services seeing only a marginal return to jobs growth; S&P said the overall flat employment picture marked the weakest back-to-back months since late 2024.

US TREASURY REFUNDING ANNOUNCEMENT (WED): The US Treasury will release its Q2 financing estimates on Monday at 20:00 BST / 15:00 EDT, followed by the Quarterly Refunding Announcement on Wednesday at 13:30 BST / 08:30 EDT. In Q1, the Treasury projected USD 574bln of borrowing, assuming an end-March cash balance of USD 850bln. For Q2 (April–June), it guided to USD 109bln in privately-held net marketable borrowing, assuming an end-June cash balance of USD 900bln. Updated estimates for Q3 will also be released. Attention will focus on issuance guidance. The current stance is that the Treasury "anticipates maintaining nominal coupon and FRN auction sizes for at least the next several quarters," and any deviation from this would be notable for markets. The buyback programme will also be in focus. In Q1, the Treasury guided to up to USD 38bln in off-the-run purchases for liquidity support, alongside up to USD 75bln in the 1-month to 2-year sector for cash management purposes. Looking further ahead, potential changes to Fed balance sheet policy remain a longer-term consideration. Fed Chair nominee Warsh has signalled a preference for a smaller balance sheet and reduced holdings of longer-dated Treasuries. If implemented, this could reduce structural demand for duration and eventually require adjustments to issuance strategy. For now, however, the baseline expectation is for coupon sizes to remain unchanged, in line with existing Treasury guidance.

NORGES BANK POLICY ANNOUNCEMENT (THU): In March the policy rate was maintained at 4.00%, but the Bank guided that it will "likely be appropriate" to raise rates "at one of the forthcoming" meetings, as the committee judges that a tighter stance is needed to get inflation back to target. April's inflation lifted to 3.6% Y/Y (prev. 2.7%), with the core steady at 3.0% Y/Y and marginally cooler than expected; a headline rate that eclipsed the 3.4% 2026 peak the Norges Bank outlined in March's MPR. A hike is likely in either May or June, given the headline inflationary pressures and guidance from the last meeting, points which have led to a number of desks calling for a May hike.

RIKSBANK POLICY ANNOUNCEMENT (THU): Expected to keep rates on hold at 1.75%. This would be in line with guidance from the last meeting, which suggested the rate would be held "for some time to come". On the data front, the March inflation report further underscored Sweden's disinflation process. CPIF Y/Y came in at 1.6% (exp. 2.1%, prev. 1.7%), while M/M was -0.6% (exp. 0.00%) and core CPIF Y/Y also undershot expectations at 1.1% (exp. 1.6%, Riksbank forecast 1.5%). Note: The April inflation report will be released a day before the Bank's policy decision. Elsewhere, growth remains downbeat, while unemployment remains close to the Bank's expectations. For now, the Riksbank may avoid near-term cuts and follow the policy rate path set out in March, which points to rates staying steady through 2026. But a prolonged conflict and a significant rise in core metrics could bring a hike to the table. Further out, SEB expects the Bank to stand pat on rates through 2026, while Danske Bank sees rate hikes in both June and August this year.

BANXICO POLICY ANNOUNCEMENT (THU): Banxico last time out unexpectedly cut rates 25bps to 6.75%, in a 3-2 vote split, noting ahead that depending on the evolution of macroeconomic and financial conditions, the Board will evaluate the appropriateness and timing for an additional reference rate cut. As such, desks note that Banxico will ease gradually, as weaker growth builds slack, but inflation keeps policy restrictive. In commentary, Banxico Governor Rodriguez said the Bank is close to finishing its rate cutting cycle that began in 2024. Elsewhere, USTR said that the US and Mexico are to launch USMCA talks on the week of May 25th and they are to be held in Mexico City, whereby Pantheon Macroeconomics note that concerns about weakening institutions and tensions in Mexico's relationship with the US continue to weigh on corporate decision-making. Pantheon concludes, while relatively contained inflation and MXN strength have allowed Banxico to begin easing, transmission to activity remains slow.

UK LOCAL ELECTION (THU): On May 7th, the UK will elect officials to around 5k council seats across the nation, providing a snapshot of the political landscape and the largest test for Labour since the 2024 election. In short, Labour and the Conservatives are expected to see significant losses, of over 20pps in some areas, according to YouGov's MRP. Reform UK, and to a lesser extent, The Greens are expected to benefit, though many of the councils, and particularly so in London, are expected to see close races. Note, turnout at local elections is typically low vs general elections; but, given the widespread political focus in the UK at the moment, turnout may be higher than typical. The extent of Labour losses will likely determine the near-term political backdrop, with members of the Labour party, both within and outside of Parliament, i.e. Rayner and Burnham, seemingly waiting for an opportune moment to challenge for leadership. Rayner's path is theoretically easiest, though her ongoing civil case does hamper her; for markets, her fiscal views would likely spark an adverse reaction in UK assets. Burnham's path is more difficult, as he first needs a Labour MP to give up their seat, but if he re-enters Parliament, he potentially presents the most credible challenge to Starmer.

CANADIAN JOBS (FRI): The labour market report will be watched for signs of how the economy is holding up against higher energy prices and US tariffs. The latest BoC statement said the labour market was soft, with subdued employment growth over the past year and job losses in sectors targeted by US tariffs. The unemployment rate remains in the 6.5-7% range, reflecting weak hiring and fewer job seekers. The BoC MPR also said a range of indicators pointed to some slack in the labour market, while labour force participation has declined. Although economic activity remains strong, a further labour market slowdown could weigh on the Canadian economy, with tariff hikes and a softer jobs market already squeezing real incomes. The soft labour market is not contributing to inflation, with excess supply keeping growth in unit labour costs contained. However, non-labour cost pressures are elevated. The BoC stressed it was looking through the energy price shock on inflation. With the BoC maintaining rates at the lower end of its neutral estimate at 2.25%, it also offered no forward guidance, leaving its options open. Desks expect the BoC's next move to be a hike, but probably not until 2027 or perhaps end-2026, depending on the length of the war and how long oil prices remain elevated.

US NONFARM PAYROLLS (FRI): Analysts expect 73k nonfarm payrolls to be added to the US economy in April (vs 178k in March). The jobless rate is expected to remain unchanged at 4.3%, but some think it could edge lower to 4.2%, driven by a rebound in household survey employment and labour force participation; participation has fallen in recent months; analysts at Investec flag downside risks to the unemployment rate should that trend persist. Meanwhile, average hourly earnings are expected to rise +0.3% M/M (prev. 0.2%), which could bring annual wage growth back up to around 3.8% Y/Y (prev. 3.5% in March, which was the weakest since May 2021). Economists noted that March's headline gain of 178k flattered: there was a boost from returning healthcare strikers, which had dragged February's reading; across the two reports, underlying job creation was running at around 20-30k. In March, a St Louis Fed analysis estimated that breakeven employment growth range, the number of jobs needed each month to keep the unemployment rate steady, is somewhere between the wide range of 15-87K per month. Analysts think that the April data will soften vs March given the impact of the Iran war on corporate hiring appetite. In the week that coincides with the BLS survey window for the jobs data, initial jobless claims were at 215k vs 205k into the March data; claims have since edged lower to below 200k in the latest reporting week. S&P Global's flash PMI data showed employment rising only marginally in the month following a slight fall in March, which it says marks the weakest two-month picture since late 2024; manufacturing headcounts fell for the first time in nine months, while services jobs growth was marginal, with firms citing resignations, labour shortages, uncertain demand, high input prices and the need to cut staffing costs. In his last press conference as Fed Chair this week, Powell was generally constructive on the US economy, but noted that the labour market was softening; he said job gains remain low, labour demand has weakened, and conditions are still cooling; however, unemployment has been little changed, and is close to the natural rate, but low quits and hiring with no new job creation make the labour market feel uncomfortable. He also reiterated that the labour market was not a source of inflation currently. The Fed's focus remains on inflation, with Powell stressing policy is in a good place to wait and see while energy and core inflation risks persist. At the April confab, the Fed retained its easing bias, but the debate shifted hawkishly: three dissenters and some non-voters wanted to remove it. Powell also said that more officials see a hike as likely as a cut now, and a move to neutral guidance could come as soon as the next meeting. The outgoing Fed Chair, who will remain as governor, said that rate cuts will require progress on energy and tariffs, and some labour market softening, and spoke about the challenging nature of meeting its dual-mandate as both stretch the Fed in opposite directions.

WEEK IN REVIEW

US-IRAN REVIEW: Focus this week was the state of diplomacy. Islamabad talks stalled with no clear progress, while reports suggest the US is still reviewing "final blow" military options to force concessions. On the ground, Trump reaffirmed the naval blockade on Iranian ports, maintaining pressure on Tehran, while Iran labelled it an ongoing act of war and threatened retaliation against US naval assets. Meanwhile, under the War Powers Resolution, the Trump administration faced a deadline to either seek congressional authorisation or cease military operations. The administration argued that hostilities have "terminated" due to a previous ceasefire, effectively bypassing the need for immediate congressional approval. In the coming week, debates could arise over the administration's legal loophole to avoid the War Powers Act. Macro focus will also remain on any hostilities in the region or progress in mediation efforts.

BOJ POLICY ANNOUNCEMENT REVIEW: BoJ delivered a hawkish hold, keeping the policy rate at 0.75% but with a rare 6-3 split as three members pushed for an immediate hike to 1.0%. Inflation forecasts were sharply revised higher, with FY2026 core CPI seen at 2.8% from 1.9%, driven by energy costs, while growth was cut to 0.5% from 1.0% on Middle East risks. However, the press conference leaned dovish: Ueda stressed there was "no urgency" to hike, adopted a clear wait-and-see stance on geopolitical risks, avoided giving any firm timeline, including June, and confirmed no change to bond purchases, prioritising optionality over commitment. At the same time, he acknowledged upside inflation risks and the need to avoid falling "behind the curve", maintaining a conditional tightening bias. Market reaction reflected disappointment at the lack of a decisive signal, with USD/JPY breaking above 160 before reported intervention triggered a sharp reversal later in the week. Net-net, policy is on hold, but the path still points to tightening, with timing dependent on data and external risks.

FED POLICY ANNOUNCEMENT (WED): The updated statement and vote split was hawkish. The most striking development in the statement was the dissent; as anticipated, Governor Miran again voted for a 25bps rate cut; however, three additional dissenters (Hammack, Kashkari, and Logan) voted against the inclusion of any easing bias in the statement, which some analysts think could be a message to incoming Chair Kevin Warsh. Another key shift in the policy language was on inflation, with the line that inflation “remains somewhat elevated” being replaced with “elevated”, with the Fed explicitly attributing this to the recent surge in global energy prices, a hawkish tilt suggesting the Committee views the oil shock as more than purely transitory. On the Middle East, the statement drops the prior “uncertain implications” framing, instead stating directly that developments there are “contributing to a high level of uncertainty”. Meanwhile, growth and labour market language was largely unchanged; activity continues to expand “at a solid pace” and unemployment remains “little changed.” At his last post-meeting press conference as Fed Chair, Powell was asked a lot about Fed governance and independence. He said he will remain as Governor after his Chair term expires in May until the DoJ matter is “well and truly over”, framing the decision around unprecedented legal and political attacks on the Fed rather than policy opposition to Kevin Warsh. He said he would not act as a ‘shadow Fed Chair’, expects a normal transition, and described Warsh as qualified, but repeatedly warned that Fed independence is at risk and that the Committee is concerned that political pressure may continue. On policy, Powell repeatedly said policy is in a “good place” to wait and see, but acknowledged that the Committee is moving closer to dropping its easing bias, with more officials now viewing a hike as likely as a cut. He stressed no one is calling for a hike right now; however, analysts said that the threshold for cuts has risen: the Fed wants to see more progress on tariffs and energy prices before easing, while he noted that core inflation risks are “real”. He noted that in addition to the three dissenters, there were non-voters who would have preferred to move away from the easing bias but still supported the rate decision. On inflation, Powell said the Fed had long assumed tariffs would be a one-off, and is already looking through that shock, but was more cautious on energy, noting prices may not have peaked and could feed into gas, airfares and petroleum-linked services. He again said that the labour market was not a source of inflation, describing it as cooling, with low hiring and low quits, while growth and consumer spending remain resilient for now. In terms of the policy outlook, analysts said the bar for September cuts is now higher, and Powell suggested that the next 30-60 days are key for whether guidance shifts. Writing after the Fed announcement and Powell press conference, Goldman Sachs chief economist Jan Hatzius said broader FOMC support for balanced guidance mainly reflects upside inflation risks from the Iran war, adding that some labour market softening will be needed for Fed cuts, with risks now tilted towards a longer pause.

BOC POLICY ANNOUNCEMENT (WED): The BoC held rates at 2.25% as expected, keeping its options open amid the Middle-East conflict. The central bank reiterated it is looking through the war's immediate impact on inflation, but will not let higher energy prices become persistent inflation. As expected, the BoC raised its CPI inflation outlook, with 2026 lifted to 2.3% (prev. 2.0%), but unchanged at 2.1% for 2027. GDP growth projections were raised despite the ongoing war, 1.2% for 2026 (prev. 1.1%) and 1.6% for 2027 (prev. 1.5%). The central bank noted that since Canada is a large net exporter of oil, higher oil prices increase national income even as consumers are squeezed by higher gasoline prices. Ahead, it guided that changes in the policy rate are expected to be small as the economy evolves broadly in line with the base case. On trade, in the event the US imposes significant new trade restrictions on Canada, the BoC said they may need to cut the policy rate further to support economic growth. The BoC maintained its neutral rate estimate range of 2.25-3.25%. A very much expected decision, statement, and MPR from the BoC, leaving money markets slightly paring hawkish bets as any clear guidance towards hiking was absent.

BCB (WED): Brazil's central bank cut the Selic rate by 25bps to 14.5%, as expected, in a unanimous decision. The Copom gave no guidance on future moves and said current inflation and consumer price expectations had moved further above its 3% target. The Copom justified extending rate cuts as "calibration", saying the prolonged period of restrictive monetary policy still showed evidence that economic activity was slowing in 2026, bringing its inflation projection to a level compatible with the target despite oil shocks. Rabo said the lack of clarity over the duration of conflicts in the Middle East increased uncertainty around inflation projections, requiring "serenity and caution". Looking ahead, Copom gave no guidance and said it would depend on prospective data confirming direct and indirect effects on the price level over time.

AUSTRALIAN INFLATION (WED): Australian annual CPI rose to 4.6% Y/Y in March, versus expectations of 4.8% and a previous 3.7%, driven by transport, up 8.9% on a fuel shock tied to Middle East tensions and Strait of Hormuz disruption, housing, up 6.5% with electricity up 25.4%, and food, up 3.1%. Core inflation, as measured by the trimmed mean, held at 3.5%, still above the RBA's 2-3% target. In the aftermath, markets slightly trimmed May hike odds from about 85% to around 76-80%, though a 25bps move is still broadly expected, with the terminal rate seen around 4.60-4.70% by end-2026.

ECB REVIEW (THU): Broadly as expected from the ECB statement, with the policy rate maintained and the commentary acknowledging the increasingly stagflationary environment that is emerging. The ECB stuck to the script in terms of data-dependent and meeting-by-meeting guidance, points that potentially assisted in the slight dovish reaction as it unwound some outside calls for a more hawkish nod in the statement. Perhaps most pertinently, Lagarde said that a hike was discussed, but a unanimous decision to hold policy was taken. In terms of the justification for the hold, primarily amid the significant uncertainty present, long-term inflation expectations are anchored and the lack of significant second-round effects at this point. Ahead, Lagarde said she thinks she knows the direction of policy and believes that the six weeks to the June meeting, which will include new forecasts, will be sufficient to make an informed decision on monetary policy. Overall, Lagarde has laid the groundwork for a hike potentially at the June meeting. Post-meeting sources via Reuters indicate June is very likely for a hike.

BOE REVIEW (THU): The BoE was broadly in-line with consensus. An 8-1 split, which can be argued as dovish/hawkish or in-line depending on which of the wide spread of expectations was used. The announcement sparked a modest dovish reaction, seemingly on an unwinding of expectations for a more hawkish split post-Fed. Furthermore, the language from most policymakers outlined that a hold is the most appropriate course of action at this time, while they wait for information on the size and duration of the shock, alongside the potential second-round effects. Pertinently, and lending a hawkish skew to things, Governor Bailey's statement notes that he currently places weight on Scenario B, but with slightly reduced second-round effects, and some weight on Scenario C, which would require a stronger monetary policy response. Overall, the skew from the BoE is one to tightening in 2026. However, the timing and magnitude of any action remains unclear given the significant levels of uncertainty and lack of clarity on second round effects. As such, a move in June is plausible, but the skew is perhaps towards July and the next MPR at this point.

US PCE (THU): Headline PCE rose 0.7%, in line with expectations, accelerating from 0.4% previously. The Y/Y rate rose to 3.5%, also in line with expectations, from 2.8%. Although headline metrics accelerated in March, this was largely due to higher energy prices after the US/Iran war. Core PCE cooled to 0.3% M/M from 0.4%, in line with expectations, while the Y/Y rate rose to 3.2% from 3.0%, matching forecasts. Both Y/Y metrics were in line with Fed Chair Powell's assessment on Wednesday. The Fed leaned hawkish, with some dissenting on the decision to maintain the easing bias in the statement, while it revised its inflation language to "elevated" from "somewhat elevated". Powell also remained reluctant to look through price pressures from the energy price shock completely, but said the Fed expects tariff impacts to roll off over the next two quarters. Elsewhere in the report, personal income rose 0.6%, above the 0.3% forecast, while real consumption rose 0.2%, below the 0.3% forecast. Personal spending rose 0.9%, in line with consensus and above the prior 0.6%. Summarising the data, Pantheon Macroeconomics said spending was temporarily supported by tax refunds and expects stagnation in Q2. On prices, Pantheon expects core PCE to rise to 3.3% in April but said a sub-3% rate is still within reach by year-end as rent inflation continues to cool and the anniversary of tariff-related price rises is met.

US GDP Q1 (THU): The first estimate of Q1 GDP rose 2.0% (exp. 2.1%), accelerating from the 0.5% seen in Q4 2025. The contributors to the increase in real GDP in the first quarter were investment, exports, consumer spending, and government spending. ING highlighted that the government shutdown removed 1pp from headline growth in Q4, and the resumption added back 0.7pp in Q1. Imports, which are a subtraction in the calculation of GDP, also increased. Pantheon Macroeconomics highlight that "net trade subtracted 1.3pp from Q1 growth, as a 12.6% increase in real exports was more than offset by a 21.4% leap in imports, more than half of which reflected a further jump in imports of computer equipment, amid the AI boom". Within the report, Real Consumer spending rose 1.6% in Q1, cooling from the 1.9% in Q4. Prices meanwhile rose by 4.5%, well above the 3.9% forecast and 3.7% prior, while core PCE (ex-Food and Energy) rose 4.3%, largely accelerating from the prior 2.7%. ING summarises the data by noting "Amid some cooling in consumer spending, investment linked to tech and AI has clearly become the main engine of growth in the US."

JAPANESE TOKYO INFLATION (FRI): Tokyo CPI cooled more than expected in April, with core CPI at 1.5% Y/Y, versus 1.8% expected and 1.7% prior, marking a third straight sub-2% print and reinforcing soft underlying momentum. Headline CPI edged up to 1.5% from 1.4%, while core-core slowed sharply to 1.9% from 2.3%. The downside was driven by policy distortions, including free nursery education, and ongoing energy subsidies, alongside easing food inflation after earlier supply issues. The softer print complicates the BoJ's tightening path after its recent hawkish hold, with markets scaling back near-term hike expectations. A 44% chance of a 25bps hike is currently priced in for the 16th June announcement.