Key events in developed markets this week

Another round of (virtual) talks between the UK and EU this week is unlikely to produce results, and the Bank of Canada should remain on hold. But keep an eye out for the European Central Bank meeting, where we expect an increase in the size of the Pandemic Emergency Purchase Programme and a fresh new set of forecasts

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European Central Bank meeting: More

At the core of next week's meeting will be the newest set of staff forecasts. According to recent statements by ECB President Christine Lagarde and other ECB officials, the mild scenario has also become highly unrealistic and next week's forecasts could be somewhere between the medium and severe scenario. There are also strong arguments for the ECB to decide on a significant increase to the Pandemic Emergence Purchase Programme - we expect the ECB to increase the PEPP by some €500 billion at next week's meeting to extend it until mid-2021.

Read more about next week's ECB's meeting here.

US: Be wary of the artificial boost to the ISM manufacturing

We will get a mix of forward and backward looking indicators this week from the US. The May jobs report will attract the headlines, but we must remember the data is collected from the week of the 12th so tells us nothing of what has happened in the second half of the month where the re-openings across various states have increasingly got underway. The numbers will undoubtedly be bad – we look for employment to fall by 10 million, bringing the total number of jobs lost to 31 million since February, with the unemployment rate rising to 20% and the participation rate dropping to below 60% for the first time since 1971. Given a third of 16-65 year-olds are not in the workforce – taken early retirement, are students, carers or sick – this means less than half of the working age population will actually have earned a wage in May. Conversely average hourly earnings will jump again, but this is because the data is not mix-adjusted so when you have millions of relatively low earning workers in the leisure, hospitality and retail sectors dropping out, it is automatically going to boost the "average" hourly earnings of those that have kept their jobs. Consequently, we could be in the bizarre situation where annual wage growth breaks above 10% YoY. Ignore it.

The June report should be much better with reopenings spreading across the country. However, social distancing constraints and consumer caution (partly Covid-19 related, partly because of tens of millions of people out of work) means the recovery in employment will not be anywhere near as rapid as the rate at which the jobs were lost. Indeed, many small businesses may find it isn't economically viable to reopen, particularly with many potential workers receiving far more in unemployment benefits than they would in wages, given the $600 Federal government boost to unemployment benefits that will last through until the end of July.

We will also get the ISM manufacturing index for May and here we would suggest to ignore the headline index as it has been artificially boosted by the supplier delivery component. Ordinarily, long supplier delivery times would be a positive signal as it suggests demand is outstripping supply, so suppliers are taking longer to meet orders. However today, it is because of factory shutdowns, which is not a positive development at all so is misrepresenting the situation. Instead, we will be focusing on the output, new orders and employment components. They should rise, but will remain well below the break-even 50 level. This therefore means that we are still experiencing a broad contraction, just not as bad as in April.

UK: Brexit talks unlikely to yield much progress as markets eye transition extension deadline

The UK and EU will sit down for another round of virtual talks next week, but don't get your hopes up. Both sides remain poles apart on the key issues.

While it's tempting to conclude that the chances of a free-trade agreement being struck – at least a basic one – are falling, we'd argue there was never going to be much progress until much closer to the de-facto October deadline. A deal is perhaps still just about feasible, especially given some issues (including fishing) may ultimately prove fixable. In the end, we think it will all come down to whether the UK is prepared to accept some ongoing alignment with EU state aid rules – and the jury is still very much out on that.

The more pressing question for markets though is whether we are going to get an extension to the transition period, the standstill phase due to end on 31 December. This looks increasingly unlikely following recent comments from ministers, and barring a last minute U-turn, means we should start planning for large changes in the way the UK trades with Europe from the start of 2021 – even if a free-trade agreement is ultimately agreed.

Canada: BoC to stay put for now

The Bank of Canada will leave monetary policy unchanged this week having already cut the overnight lending rate to its "effective lower bound" of 0.25%. Having implemented a raft of other measures to support financial markets, including quantitative easing, we do not expect them to alter policy in anyway. Instead we will be looking to their forward guidance.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 1 June			
US	1500	May ISM Manufacturing	42	43	41.5
UK	0930	May F Markit/CIPS Manufacturing PMI	40.6	-	40.6
		Tuesday 2 June			
Japan	0050	May Monetary base (JPY tr)	521	-	529.2
Eurozone	0900	May F Markit Manufacturing PMI	-	-	39.5
Australia	0530	RBA Cash Rate Target	0.25	0.25	0.25
Norway	0900	May DNB/NIMA Manufacturing PMI	-	-	41.99
		Wednesday 3 June			
US	1315	May ADP Employment Change (000's)	-10000	-9250	-20236.1
	1500	May ISM Non-manufacturing	43	44.4	41.8
Eurozone	1000	Apr Unemployment Rate (%)	-	-	7.4
Germany	0855	May Unemployment Change (000's)	-	-	373
	0855	May Unemployment Rate (%)	6.2	-	5.8
UK	0930	May F Markit/CIPS Services PMI	27.8	-	27.8
	0930	May F Markit/CIPS Composite PMI	28.9	-	28.9
Canada	1500	Bank of Canada Policy Rate	0.25	0.25	0.25
Australia	0230	1Q GDP (QoQ/YoY%)	-0.6/1.7	-/-	0.5/2.2
Norway	0700	1Q Current Account Balance (NOKbn)	-	-	19073
Sweden	0730	May Swedbank/Silf Services PMI	-	-	39
Switzerland	0645	1Q GDP (QoQ/YoY%)	-/-	-/-	0.3/1.5
		Thursday 4 June			
US	1330	Apr Trade Balance (US$bn)	-40	-38	-44.415
Eurozone	0900	May F Markit Services PMI	-	-	28.7
	0900	May F Markit Composite PMI	-	-	30.5
	1000	Apr Retail Sales (MoM/YoY%)	-/-	-/-	-11.2/-9.2
	1245	ECB Main Refinancing Rate	0	-	0
	1245	ECB Marginal Lending Facility	0.25	-	0.25
	1245	ECB Deposit Facility Rate	-0.5	-	-0.5
	1330	ECB President Lagarde Holds Press Conference			
Australia	0230	Apr Trade balance (A$bn)	5.2	-	10.6
	0230	Apr Retail sales (MoM%)	-16	-	8.5
		Friday 5 June			
US	1330	May Change in Nonfarm Payrolls ('000s)	-10000	-8500	-20537
	1330	May Unemployment Rate (%)	20	19.5	14.7
	1330	May Average Hourly Earnings (MoM/YoY%)	2.0/9.5	1.0/8.1	4.7/7.9
	1330	May Participation Rate	59.3	-	60.2
Japan	-	Apr Household spending (YoY%)	-8.9	-	-6
Germany	0700	Apr New Orders (MoM/YoY%)	-17.0/-30.0	-/-	-15.6/-16
Canada	1330	May Net Change in Employment	-	-	-1993.8
	1330	May Unemployment Rate (%)	-	-	13
Norway	0700	Apr GDP Mainland (MoM%)	-	-	-6.9
	0700	Apr Industrial Production (MoM/YoY%)	-/-	-/-	1.4/7.6

Source: ING, Bloomberg

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