Bank of Nassau
SINCE 1982

Economy Week Ahead

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"Economics is not an exact science. It's a combination of an art and elements of science."

Paul Samuelson

Markets ended last week on an optimistic note as expectations build for some sort of deal that reopens the Strait of Hormuz (see below). However, the most recent US data confirmed our fears that high inflation is weighing on consumption as real incomes are getting squeezed. This week brings key labor market data and PMI readings from the US. While the economy remains resilient, headwinds are building.

Geopolitics

Reports emerged that Iran and the US are close to an agreement on a 60-day extension of the ceasefire. President Trump convened his cabinet Friday to make a "final determination" but the meeting ended with no announcement at all. Rather, it appears the US has sent back a revised proposal that reportedly contains tougher conditions on Iran's nuclear material and on reopening the Strait of Hormuz.

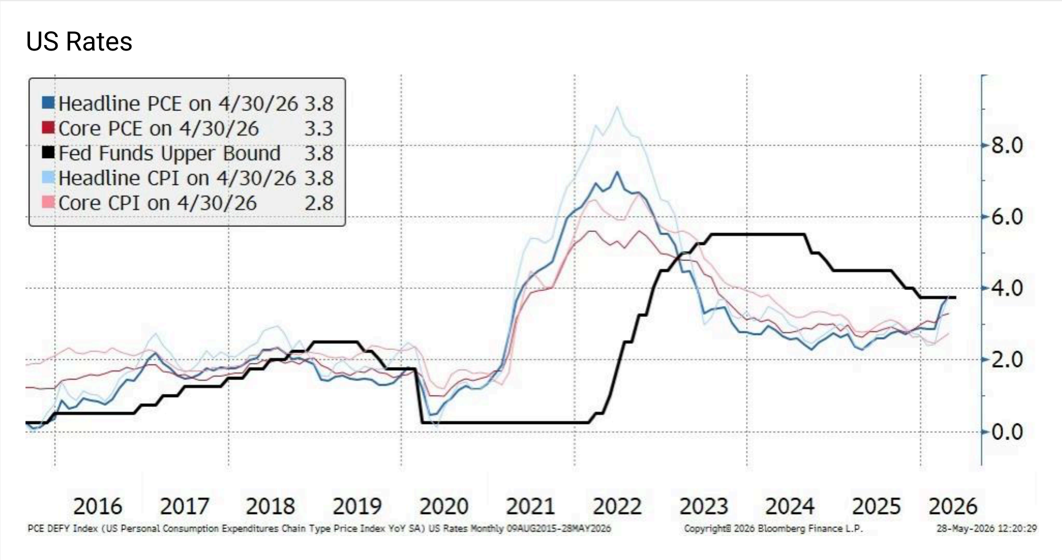
As of this writing, Iran has not yet responded to these new proposals. However, several Americans were injured in a missile attack on an airbase in Kuwait. Elsewhere, Israel is intensifying its attacks on Lebanon in response to Hezbollah attacks on Israeli forces in Lebanon and northern Israel. It remains to be seen how a potential collapse of the Israel-Lebanon ceasefire and sporadic attacks on US Gulf allies will impact the US-Iran negotiations, but for now, it seems both sides are trying hard to de-escalate. As such, we suspect that last week's market optimism will carry over into this week.

Americas

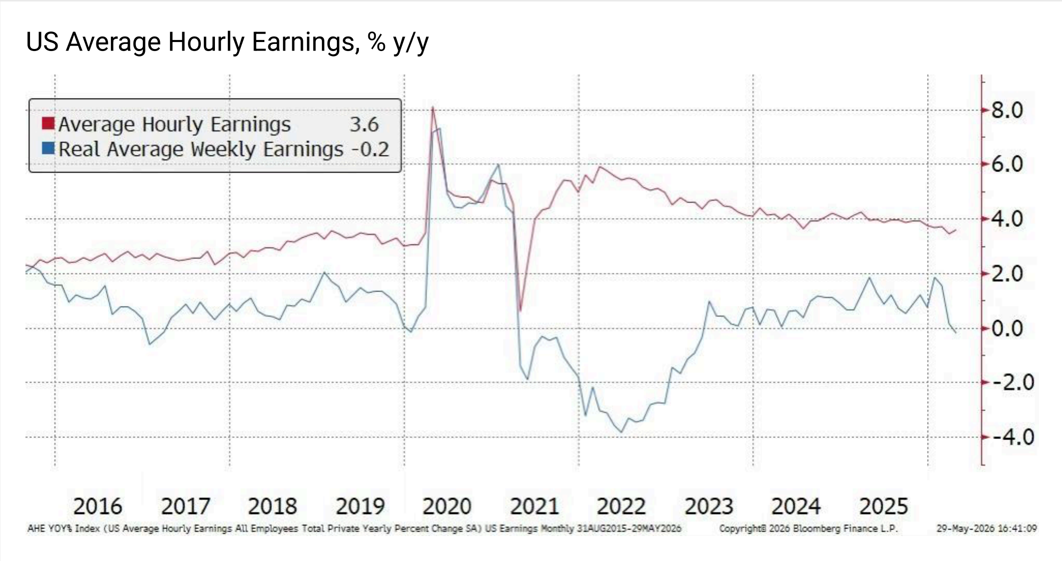
The Fed releases its Beige Book report Wednesday for the upcoming June 16-17 FOMC meeting. The previous Beige Book on Overall Economic Activity - *Overall economic activity increased at a slight to modest pace in eight of the twelve Federal Reserve Districts, while two Districts reported little change and two Districts reported slight to modest declines. The conflict in the Middle East was cited as a major source of uncertainty that complicated decision-making around hiring, pricing, and capital investment, with many firms adopting a wait-and-see posture. On Labor Markets - On balance, employment was steady to up slightly during this reporting period, though one District noted a slight decline. Most Districts described labor demand as stable, with low turnover, minimal layoffs, and hiring mostly for replacement. On Prices - Price growth mostly remained moderate overall, with the vast majority of Districts reporting moderate increases and others pointing to modest growth. Generally, input cost increases outpaced selling price growth, compressing margins.*

We would expect this Beige Book to highlight modest growth and the stable labor market whilst pointing to increasing price pressures. This would set the Fed up to stay on hold at this meeting and to remove the easing bias.

That would also mean that Fed officials will remain hawkish. Kashkari and Hammack speak Tuesday. Barr and Logan speak Wednesday. Barkin and Daly speak Thursday. At midnight Friday, the media blackout goes into effect and there will be no Fed speakers until Chair Warsh's post-decision press conference June 17.

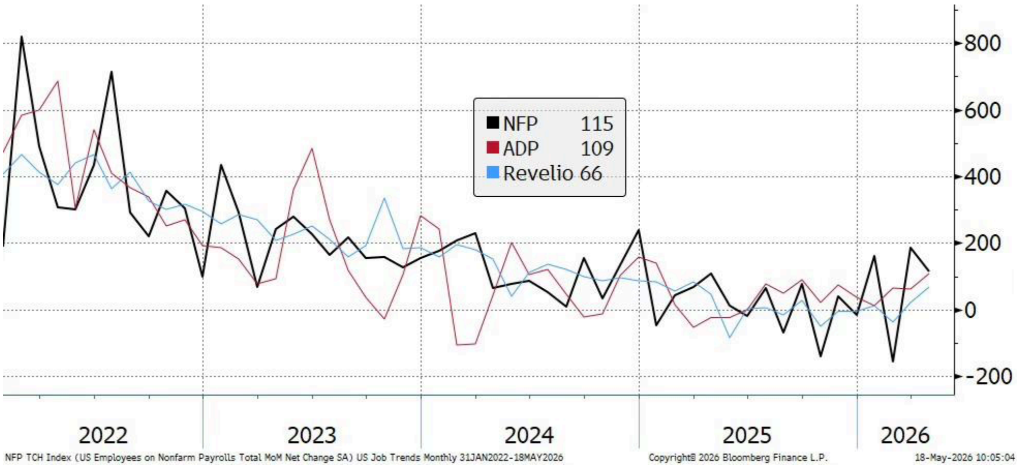


The May jobs report Friday will be the data highlight. Bloomberg consensus for NFP stands at 90k vs. 115k in April, while its whisper number stands at 87k. The unemployment rate is expected to remain steady at 4.3%, while average hourly earnings are expected to fall two ticks to 3.4% y/y. Real average hourly earnings fell -0.2% y/y in April and that is likely to get worse in May. Similarly, April data last week showed that personal income fell -1.1% y/y in real terms even as the savings rate fell to a cycle low of 2.6%. All these readings underscore why we believe consumption will soften significantly under the weight of high energy prices.



Ahead of the jobs data, ADP reports its private sector jobs estimate Wednesday and is expected at 118k vs. 109k in April. Revelio reports its estimate Thursday and there is no consensus estimate available. Last month, ADP was the closest to NFP.

US Jobs, 000s

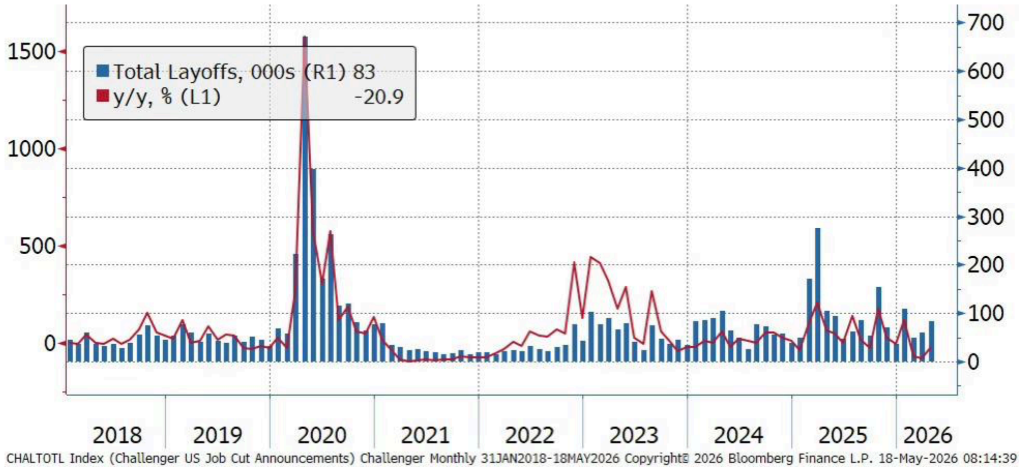


April JOLTS data will be reported Tuesday. Job openings are expected at 6850k vs. 6866k in March. If so, the openings rates could edge down from 4.1% in March and remain below the 4.5% threshold that typically signals a rise in the unemployment rate ahead.

JOLTS Data

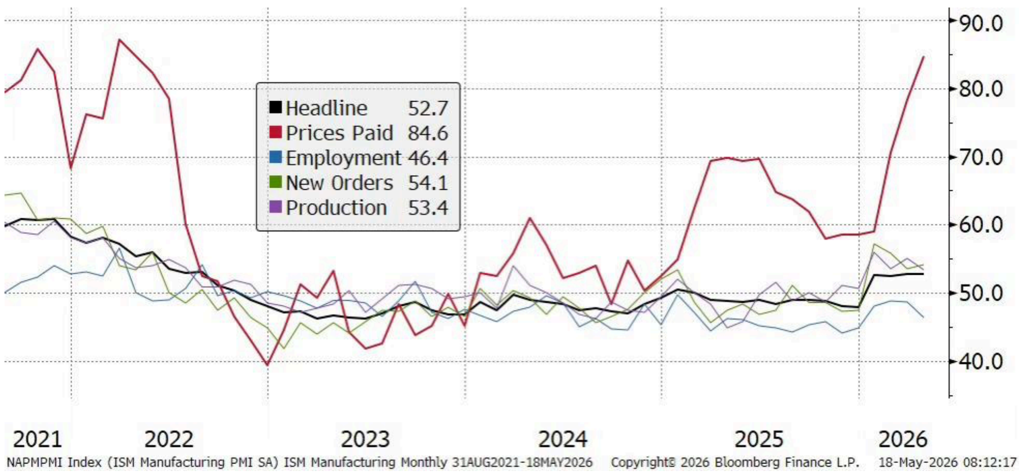
May Challenger job cuts will be reported Thursday. After the April report, Challenger noted that "Technology companies continue to announce large-scale cuts and are leading all industries in layoff announcements. They are also often citing AI spend and innovation. Regardless of whether individual jobs are being replaced by AI, the money for those roles is."

Challenger Layoffs



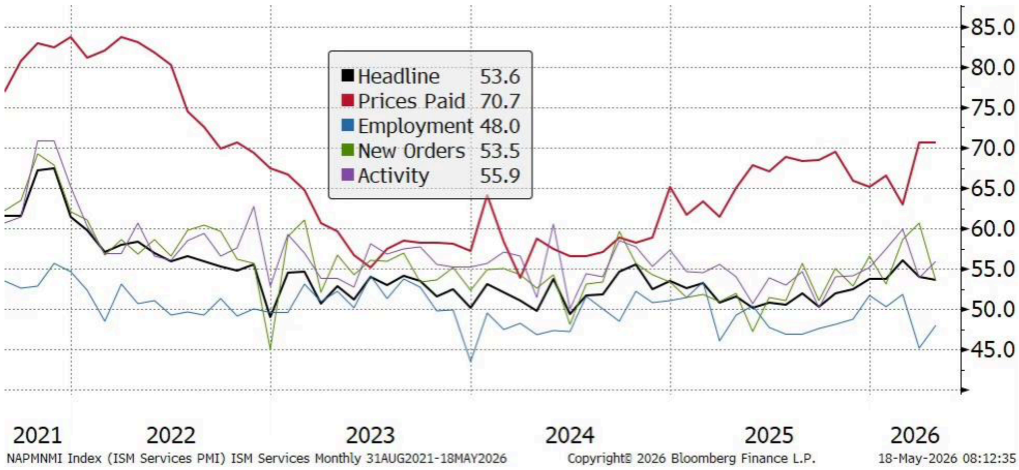
ISM reports its May PMIs this week. Manufacturing will be reported Monday. Headline is expected to rise three ticks to 53.0. The prices paid component is expected to rise nearly half a point to 85.0, while employment is expected to rise two points to 48.4. Of note, S&P Global reported its preliminary May manufacturing PMI at 55.3 vs. 54.5 in April.

ISM Manufacturing PMI



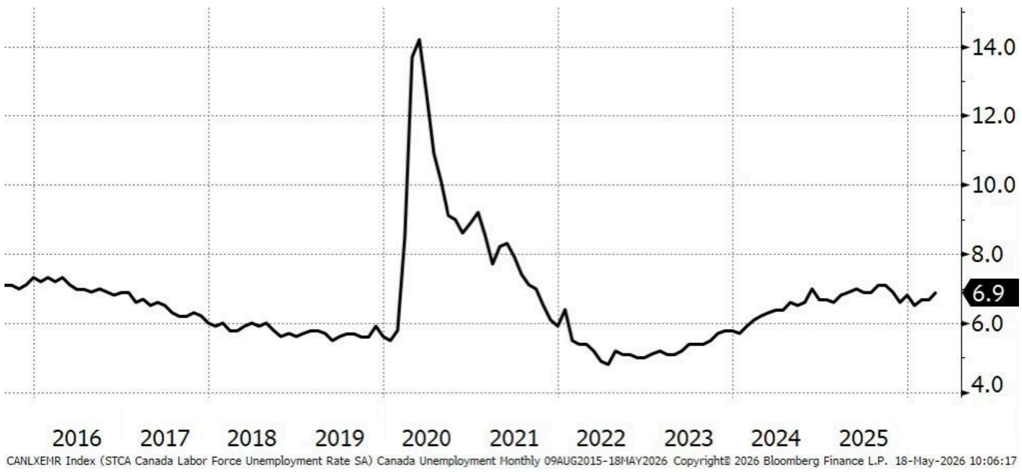
Services PMI will be reported Wednesday. Headline is expected to rise two ticks to 53.8. Prices paid component is expected to rise nearly a point and a half to 72.0, while employment is expected to rise half a point to 48.5. Of note, S&P Global reported its preliminary May services PMI at 50.9 vs. 51.0 in April.

ISM Services PMI



Canada highlight will also be the May jobs report Friday. Consensus sees 10.0k jobs added vs. -17.7k in April, while the unemployment rate is seen steady at 6.9%. After the weak April jobs report, some stabilization would be welcomed by policymakers. However, the unexpected -0.1% SAAR contraction in Q1 GDP suggests downside risks remain in place. With April CPI data coming in a bit softer than expected, the Bank of Canada can maintain its cautious stance. Next meeting is June 10 and no change is expected then. Looking ahead, a hike is not fully priced in until December.

Canada Unemployment Rate, %



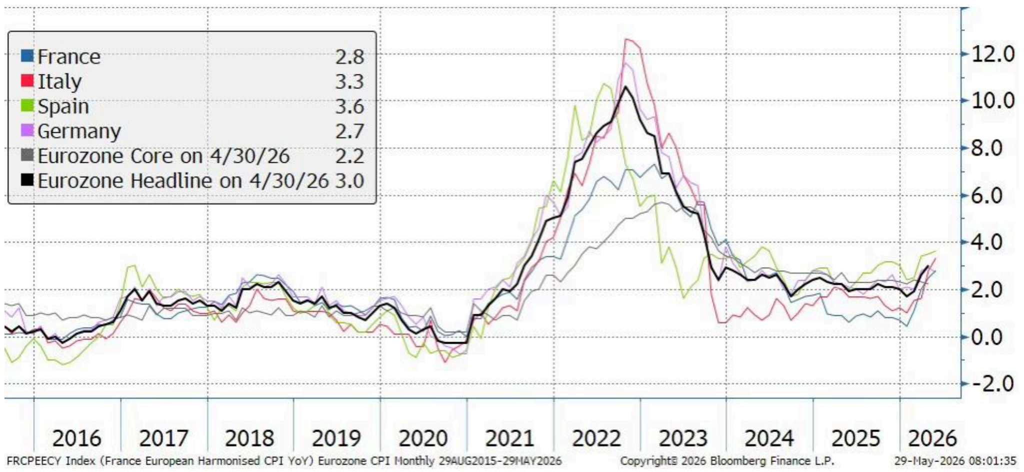
Canada also reports May PMIs this week. S&P Global manufacturing PMI will be reported Monday, followed by its services and composite PMIs Wednesday. Ivey PMI will be reported Friday. The recent improvements in the PMI readings have not been confirmed by the hard data, which show ongoing weakness.

Canada PMIs

Europe

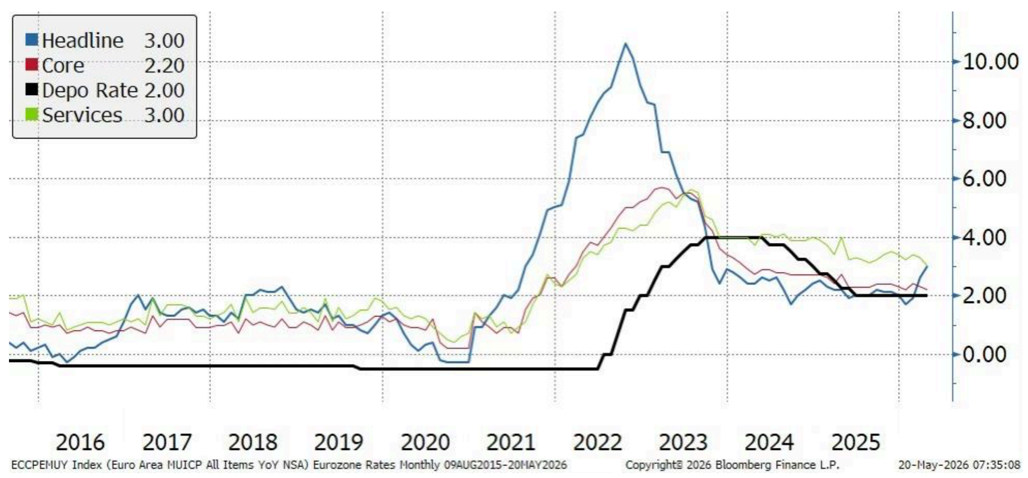
Eurozone highlight will be May CPI data Tuesday. Headline is expected to pick up two ticks to 3.2% y/y and core is expected to pick up two ticks to 2.4% y/y. If so, headline would be the highest since September 2023 and would move further above the ECB's 2% target. This should cement a 25 bp hike at the next ECB meeting June 10-11. Last week, Germany and France both reported slightly lower than expected inflation and so there are modest downside risks to the eurozone reading.

Eurozone CPI, % y/y



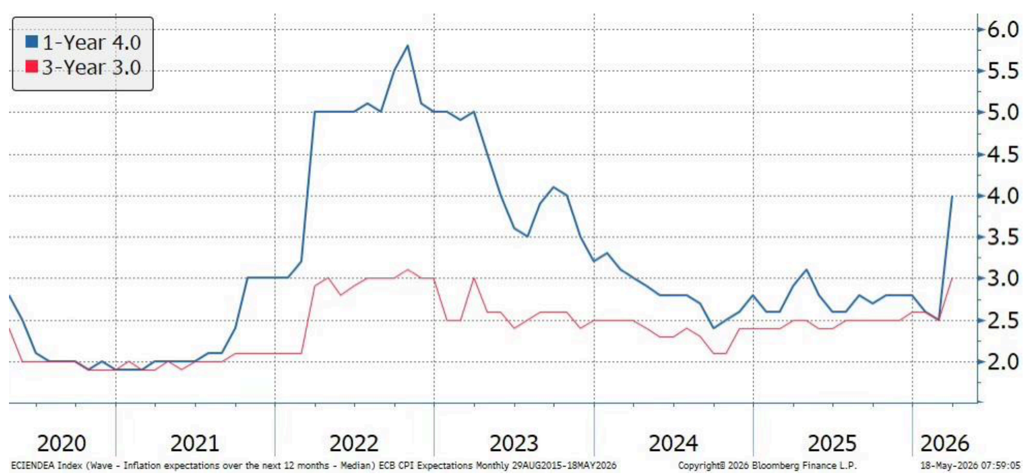
European Central Bank officials will get their last chance to air their views ahead of the June 11 meeting. Schnabel speaks Monday. Rehn, Vujcic, and Sleijpen speak Tuesday. Rehn, Dolenc, Elderson, and Cipollone speak Wednesday. Lagarde speaks Thursday. After Thursday, the quiet period begins and there will be no ECB speakers until President Lagarde's post decision press conference June 11, when a 25 bp hike is over 90% priced in. Looking ahead, the swaps market is pricing in 50-75 bp of total tightening over the next twelve months.

Eurozone Rates

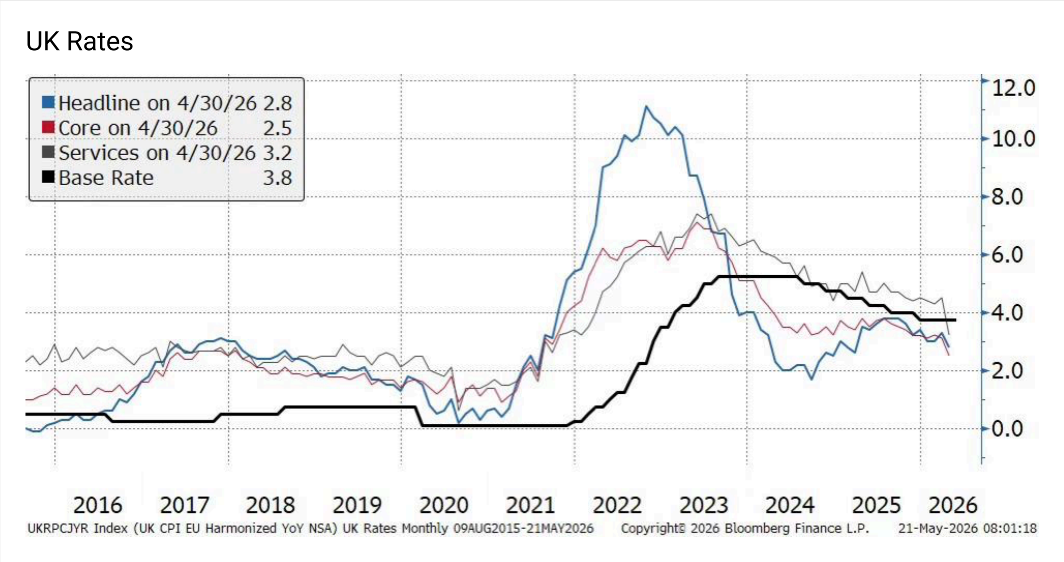


ECB reports April inflation expectations Monday. 1-year expectations are expected to rise a tick to 4.1% and 3-year expectations are expected to remain steady at 3.0%. This is another area of concern for the ECB, as both the 1- and 3-year expectations jumped sharply in March.

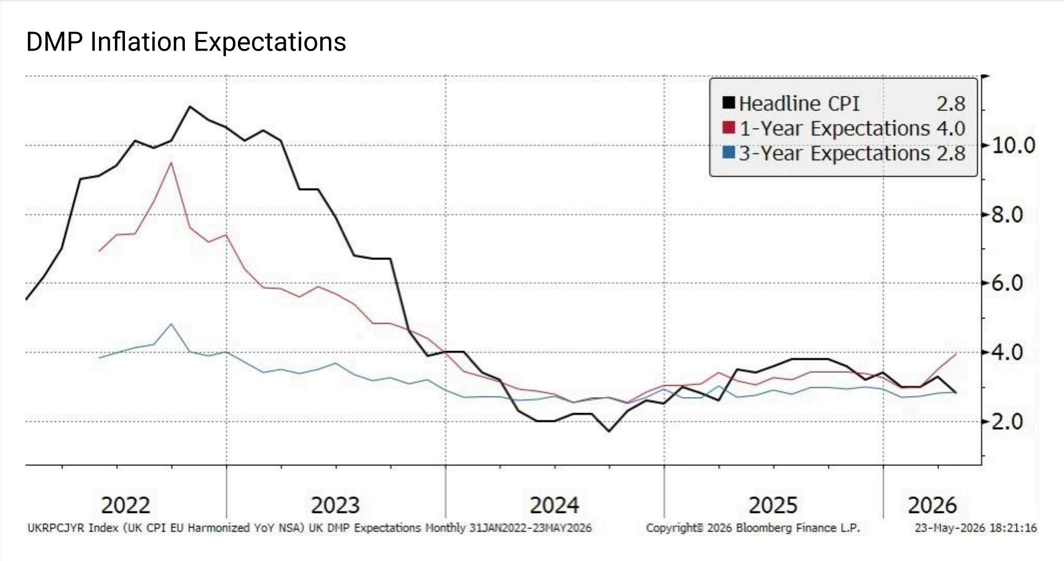
ECB Inflation Expectations



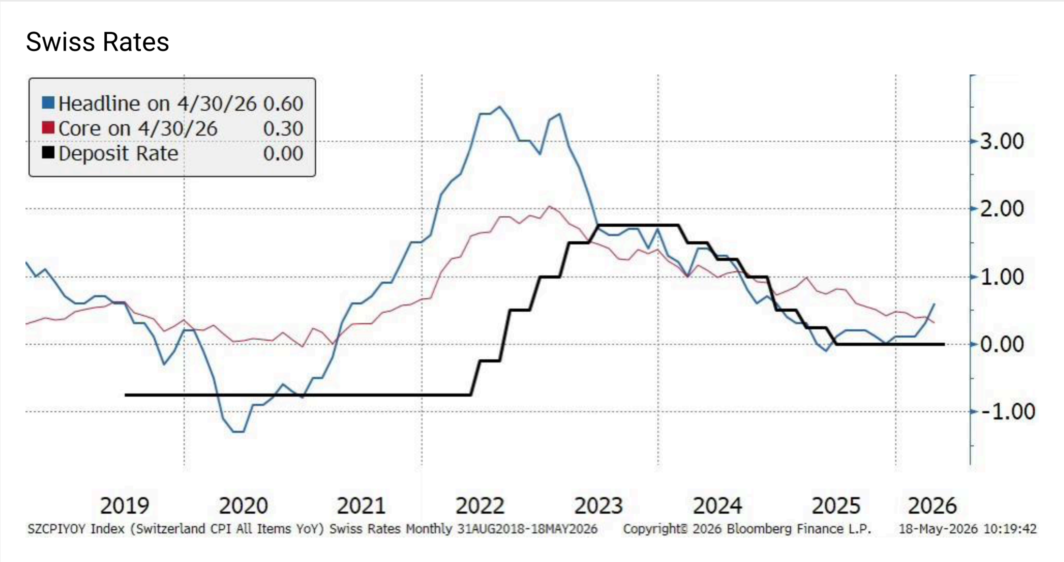
There are many Bank of England speakers this week. Governor Bailey and MPC member Greene speak Tuesday. Bailey speaks again Thursday. MPC member Dhingra and Bailey speak Friday. After the recent spate of soft UK data, market expectations for a hike have been pushed out to November vs. July right after the April meeting.



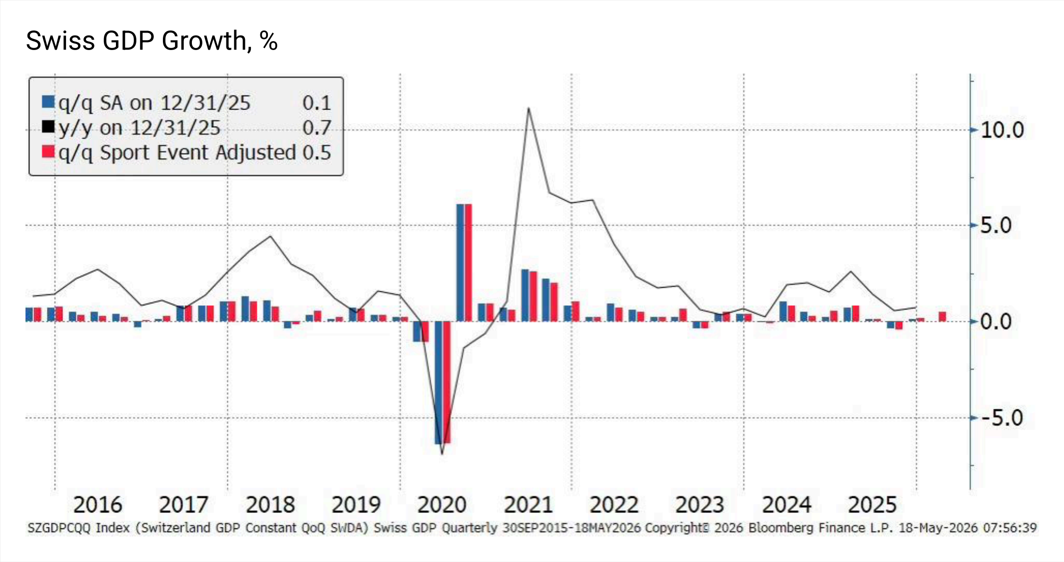
UK Decision Maker Panel survey of inflation expectations for May will be reported Friday. April CPI data came in softer than expected, with headline easing half a point to 2.8% y/y, the lowest since March 2025. As such, inflation expectations may remain somewhat anchored.



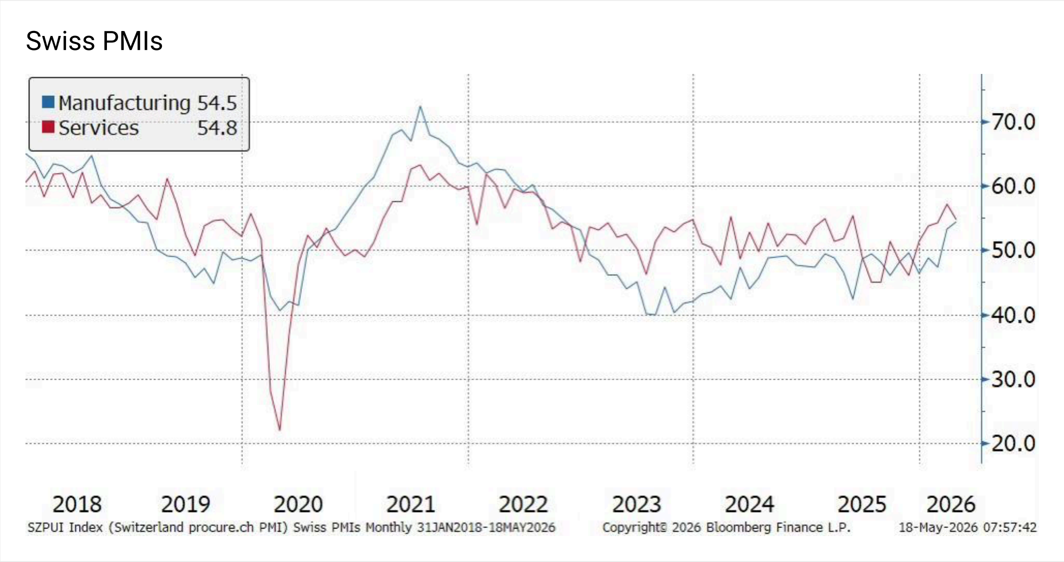
Switzerland reports May CPI data Thursday. Headline is expected to pick up a tick to 0.7% y/y and core is expected to remain steady at 0.3% y/y. If so, headline would be the highest since November 2024 and slightly above the Swiss National Bank's 2026 forecast of 0.5%. The Swiss National Bank next meets June 18 and is expected to keep rates steady at 0.0%. At the last meeting March 19, the bank kept rates steady as President Schlegel stressed that there remains a "high threshold" to take rates negative whilst stressing that "if necessary, we are always prepared to use this instrument again to fulfill our mandate." Looking ahead, the swaps market is pricing in only 25 bp of total tightening over the next twelve months. While plausible, a hike seems unlikely given ongoing deflationary risks and the strong franc. Schlegel speaks Friday and could set the tone for the June 18 meeting.



Switzerland also reports Q1 GDP data Monday. Growth is expected at 0.6% q/q vs. 0.1% in Q4, while the y/y rate is expected at 0.4% vs. 0.7% in Q4. Earlier this month, sport event adjusted GDP growth was reported at 0.5% q/q. Of note, the SNB maintained its 2026 growth forecast of 1% at its March meeting.

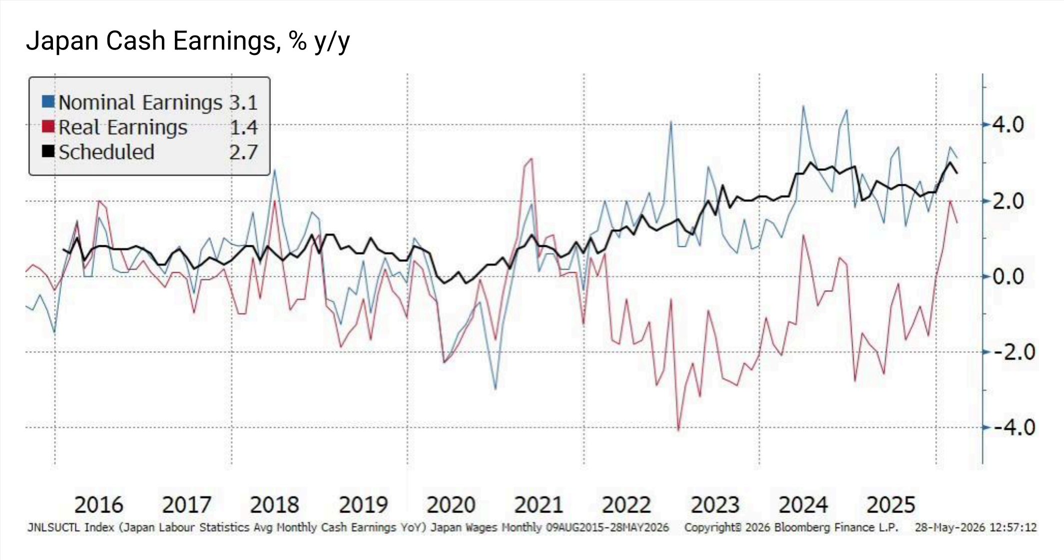


Switzerland also reports May PMIs Monday. Manufacturing is expected to fall half a point to 54.0. Both have remained above 50 since March, suggesting the economy will improve in Q2.

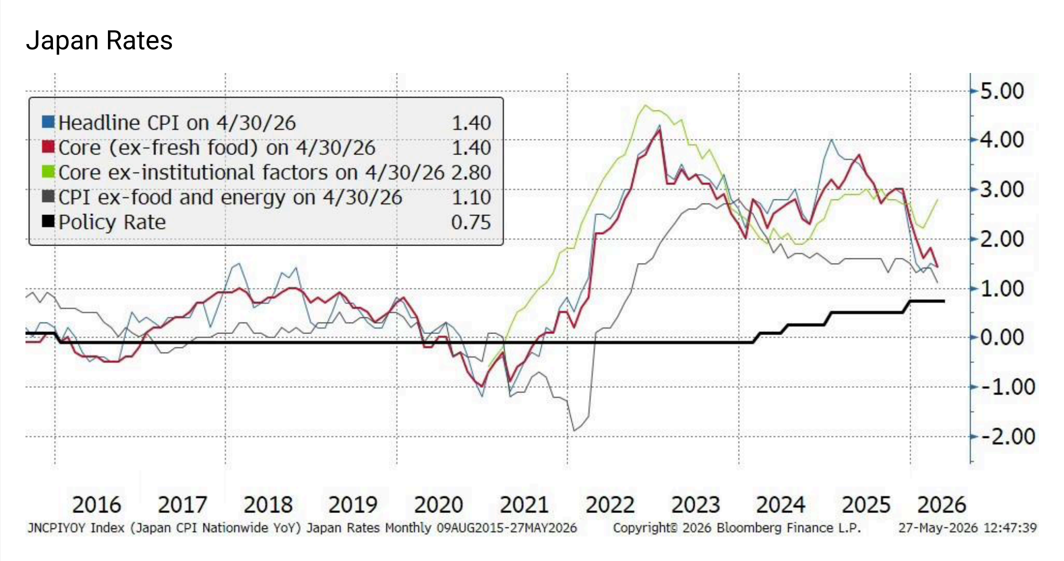


Asia

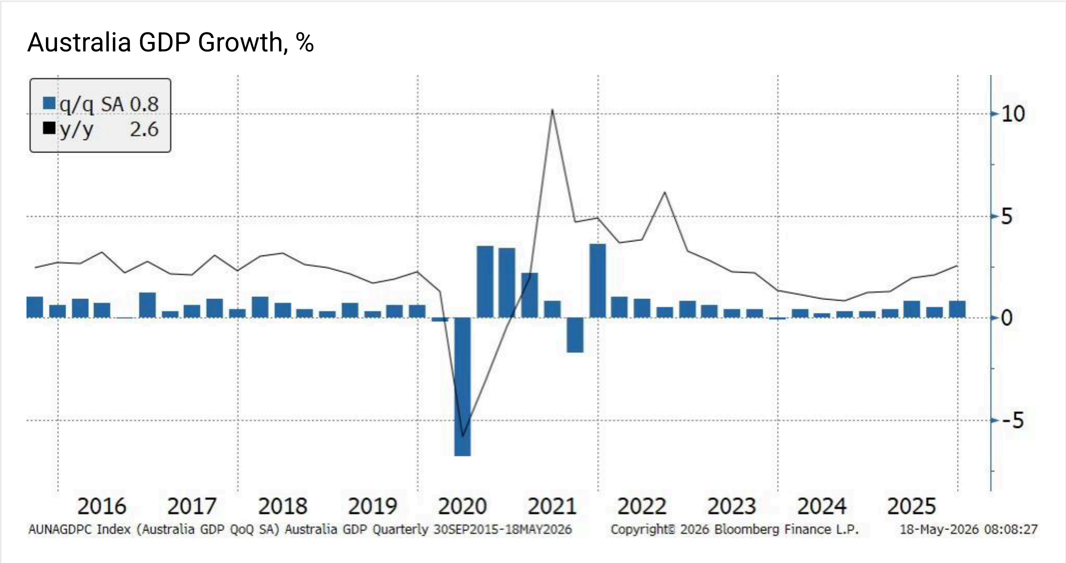
Japan highlight will be April cash earnings data Friday. Nominal earnings are expected to remain steady at 3.1% y/y while real earnings are expected to pick up three ticks to 1.7% y/y. Scheduled full-time pay is expected to pick up three ticks to 3.0% y/y and so the rising wage outlook supports further Bank of Japan tightening.



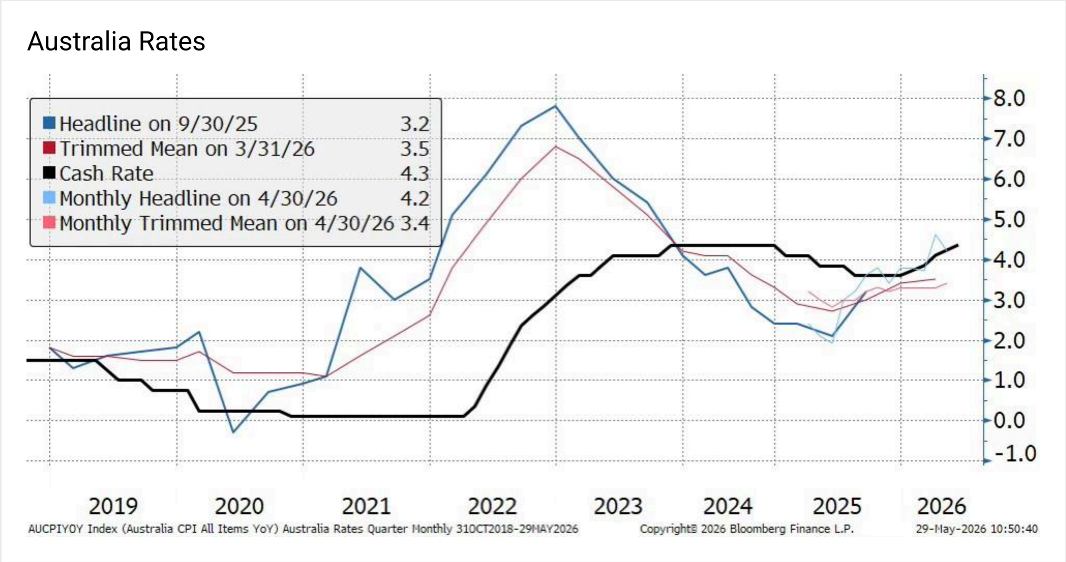
Bank of Japan Governor Ueda speaks Wednesday. Markets are keen to see whether or not he gives any hints of a hike at the upcoming meeting June 15-16. At the last meeting April 27-28, the BOJ kept rates steady by a 6-3 vote. The two hawks Takata and Tamura were joined by the dovish Nakagawa to dissent in favor of a 25 bp hike. Since that meeting, board members Koeda and Masu have come out in favor of tightening policy and so a hike at the June meeting is about 80% priced in. Looking ahead, the swaps market is pricing in 50-75 bp of total tightening over the next twelve months.



Australia highlight will be Q1 GDP data Wednesday. Growth is expected at 0.5% q/q vs. 0.8% in Q4, while the y/y rate is expected remain steady at 2.6%. The economy has held up relatively well but recent soft PMI readings suggest a significant slowdown will be seen in Q2. No wonder the Reserve Bank of Australia signaled a pause after its latest 25 bp hike in May.

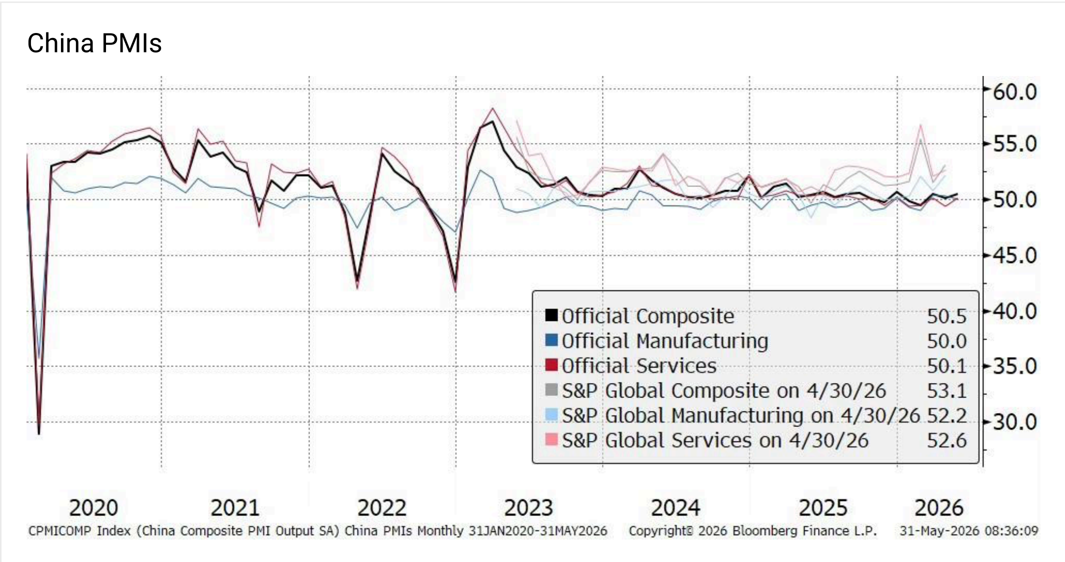


There will be several RBA speakers this week. Board member Harper speaks Tuesday. Governor Bullock speaks Thursday. Deputy Governor Hauser speaks Friday. Next meeting is June 16 and no change is expected then. However, the swaps market is pricing in 50% odds of one last 25 bp hike over the next twelve months.



S&P Global reports China May PMIs. Manufacturing will be reported Monday and is expected to fall nearly a point to 51.3. Services and composite will be reported Wednesday and services is expected to fall three ticks to 52.3. If so, the composite would likely fall more than a point from 53.1 in April. Over the weekend, official PMIs came in mixed. Manufacturing fell three ticks to 50.0 while non-manufacturing rose seven ticks to 50.1. As a result, the composite rose four ticks to 50.5 and matches the high for this year in March.

The mainland economy has held up relatively well from the global impact of the Iran conflict, but headwinds are building and the April real data came in much weaker than expected. We suspect policymakers stand ready to inject stimulus into the economy but are holding off for now due to the heightened uncertainty surrounding the conflict.



Korea reports May CPI data Tuesday. Headline is expected to pick up three ticks to 2.9% y/y and core is expected to pick up a tick to 2.3% y/y. If so, headline would be the highest since April 2024 and would move further above the 2% target. However, we noted that fuel subsidies have kept inflation artificially low. The Bank of Korea just kept rates steady at 2.5% by a 7-2 vote, with the two dissents in favor of a 25 bp hike. However, new Governor Shin noted that "I believe a convincing case could certainly have been made even for raising rates at this meeting." Of note, the median projection for the 6-month Dot Plot was 3.0%, suggesting two hikes over that period. This matches up with the current swaps market pricing.