2 July 2021

THE WEEK AHEAD

China Reaches Cruising Altitude

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 7/5	Markets Closed for July Fourth Holiday		--		--
Tue 7/6	ISM Services Index	Jun	63.7	▼	64.0
Wed 7/7	JOLTS Job Openings	May	9344 K	▲	9286 K
Wed 7/7	FOMC Meeting Minutes	Jun	--		--
Thu 7/8	Consumer Credit	May			$18.612 B
Europe					
Mon 7/5	EZ Markit Composite PMI (Final Estimate)	Jun			59.2
Tue 7/6	ZEW EZ Survey Expectations of Economic Growth	Jul			81.3
Tue 7/6	EZ Retail Sales	May			-3.1% M/M
Wed 7/7	European Commission Summer Economic Forecasts		--		--
Asia Pacific					
Mon 7/5	Caixin China Services PMI	Jun	55.1	-	55.1
Fri 7/9	China Consumer Price Index	Jun	1.3% Y/Y	-	1.3% Y/Y
Fri 7/9	China Producer Price Index	Jun	8.8%	▼	9.0% Y/Y
7/8-7/15	China Aggregate Financing	Jun	2700.0 B	▲	1920.0 B

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- Keep an eye on the **JOLTS (Job Openings and Labor Turnover Survey) data for May**. The faster-than-anticipated reopening means labor demand in certain segments is outpacing supply, causing indicators such as JOLTS data to show a tight labor market, despite substantial slack. These pressures are likely temporary.
- **FOMC meeting minutes for the June 16 meeting** are scheduled to be released Wednesday, July 7, following the median dot's unexpected shift.

Europe

- We will **watch the final June European PMIs for lingering momentum**, given the early, impressive levels. The EZ manufacturing PMI is already above 60, and the reopening and more travel should support the services sector.

Asia Pacific

- **China money and loan growth will help assess the managed normalization policymakers are aiming for**, especially in real estate. Medium- and longer-term corporate loan growth will also be indicative of the appetite for additional private investment spending, given the healthy profits picture.
- **China inflation data for June will likely be benign**, with producer prices expected to ease somewhat, given the drop in commodity prices and decline in the purchasing price subcomponent in the latest PMI data.

Institute's Central Scenario

Chinese growth has been bumpy this year but we remain upbeat on the outlook. The PBOC adopted a more supportive tone, likely signalling that any additional policy tightening through H2 is unwarranted; together with expanding vaccinations, this should allow for a more balanced recovery. In the U.S., excess savings, the release of pent-up demand, and the labor market recovery should continue supporting strong consumer spending even as fiscal support fades. Longer-term growth prospects rely in part on the still-pending infrastructure bill, which remains under negotiation. While details are not finalized, our baseline outline calls for several trillion dollars under a broad definition of "infrastructure" over the coming years. In Europe, the likely boost to inflation data this summer from base effects should be temporary, and we expect it to fall back closer to 1.5% next year. Please see our Monthly Macro Dashboard.

IN REVIEW

China Growth Nears (Reaches?) Potential

The official manufacturing PMI for June moderated further to 50.9 (from 51), while non-manufacturing PMI saw a surprise drop to 53.5 (from 55.2). The latter was dragged down by a decline in services, likely driven by the lockdowns implemented in the Guangdong province.

Industrial profits remain robust, with the two-year average growth rate at 20.2% in May (from 22.6%). Profit margins continue to expand, supportive of an upswing in industrial capex.

Despite bumpy growth drivers this year—particularly in consumption, given lingering pandemic uncertainty—China's growth is likely settling close to or at its potential. Policymakers appear to have acknowledged as much in the Q2 monetary policy committee meeting, which signaled that any additional policy tightening is unwarranted through the end of the year. They also emphasized targeted support measures for still-lagging parts of the economy. Indeed, recent reforms on interest rate calculations are likely aimed at lowering lending rates. Similarly, fee cuts for transactions and payment services should help support smaller enterprises, which have so far lagged the recovery. While credit growth will continue to moderate, any growth will likely be skewed towards sectors supporting green investment, SMEs, and innovation.

U.S. Shoppers Ready to Spend in a Reopened World

Even as government support begins to fade, consumers are poised to continue spending at impressive levels. Personal income fell 2% M/M in May as stimulus checks faded from March and April. We will watch the trade-off from government transfers to growth in wages and salaries, which is already taking place with wages and salaries rising 0.8% M/M amid the labor market recovery.

PERSONAL CONSUMPTION EXPENDITURES, SAAR

Source: Haver. As of July 1, 2021.

Spending remained unchanged despite headline income falling over the month, which shows people are drawing-down savings to fuel pent-up demand. The personal savings rate fell from 14.5% to a still-elevated 12.4%. With the savings rate well-above the pre-crisis rate of ~8%, there is still significant excess savings left to be spent and fuel the reopening boom.

Data shows that while spending on goods eased, the reopening is fueling greater spending on services.

Overall, consumer spending is set to remain strong, even with gridlock in Congress, because: 1) consumers have ample excess savings; 2) the reopening will drive further spending; and 3) the labor market recovery is supporting wages and salaries.

American Infrastructure's Road Ahead

The bipartisan infrastructure deal legislators agreed on in principle last week is expected to bring $1.2 trillion in new spending over the next eight years. The package includes $579 billion for physical infrastructure and $266 billion on items ranging from the nation's broadband to power infrastructure. The partisan reconciliation bill could reach $6 trillion and will likely include a range of items, including tax increases and more spending on social programs, such as child tax credits and subsidized education; it could take months before the bill is ready for a vote. Democrats want a link between the bills while Republicans prefer a separate vote, lending uncertainty to the outcome. The bill won't pass before late July and more delays are possible, but expect U.S. spending on a broad definition of "infrastructure" to top trillions of dollars over the next few years.

EZ Inflation Drops Slightly

Euro area inflation dropped slightly, from 2% in May to 1.9% in June, a reflection of higher energy prices at this time last year. The important thing to remember is that base effects will kick in from August, and together with short-term pressures from supply chain bottlenecks, they will drive inflation close to 3% toward year-end. Inflation will likely fall to around 1.5% next year as one-time cost increase shocks drop out of the annual comparison. There is no sign of wage pressure building either as the economy restarts nicely.

The ECB will be able to discontinue its emergency bond purchase program when it expires in March 2022; expect the central bank to add the amount it bought under this program to its regular monthly PSPP asset purchases program to make up for it. This should support euro area yield curves as the U.S. tapers.

KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.05%	0 bps	4 bps	4 bps	-5 bps	-3 bps	-2 bps
3 Month USD Libor	0.15%	0 bps	1 bps	-6 bps	-9 bps	-16 bps	-9 bps
3 Month Euribor	-0.54%	0 bps	0 bps	0 bps	0 bps	-12 bps	0 bps
3 Month U.S. T-Bill	0.05%	0 bps	4 bps	4 bps	-3 bps	-11 bps	-3 bps
2-Year U.S. Treasury	0.25%	0 bps	11 bps	11 bps	12 bps	10 bps	13 bps
10-Year U.S. Treasury	1.45%	-3 bps	-13 bps	-28 bps	52 bps	80 bps	53 bps
10-Year German Bund	-0.21%	-2 bps	-2 bps	6 bps	37 bps	27 bps	37 bps
10-Year U.K. Gilt	0.71%	-6 bps	-8 bps	-13 bps	51 bps	57 bps	52 bps
10-Year JGB	0.06%	1 bps	-2 bps	-2 bps	4 bps	4 bps	4 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	0.95%	N/A	0.2%	0.6%	1.6%	-3.2%	-2.6%
Barclays Capital U.S. TIPS	1.07%	N/A	0.3%	0.6%	3.3%	6.5%	1.7%
Barclays Capital U.S. Aggregate	1.50%	32	0.3%	0.7%	1.8%	-0.3%	-1.6%
Barclays Capital Global Aggregate	1.12%	33	-0.1%	-0.7%	1.4%	2.6%	-3.2%
Barclays Capital U.S. ABS	0.47%	22	0.1%	0.0%	0.3%	1.3%	0.2%
Barclays Capital U.S. MBS	1.77%	27	0.1%	0.0%	0.4%	-0.4%	-0.8%
Barclays Capital U.S. Corporate Investment Grade	2.04%	80	0.5%	1.6%	3.7%	3.3%	-1.3%
BAML Euro Corporate Investment Grade	0.32%	84	0.1%	0.4%	0.3%	3.5%	-0.4%
Barclays Capital U.S. Corporate High Yield	3.75%	268	0.4%	1.3%	3.0%	15.4%	3.6%
BAML European Currency High Yield Non-Financial	2.66%	306	0.0%	0.6%	1.4%	11.4%	2.9%
CS U.S. Leveraged Loans	4.80%	443	0.1%	0.4%	1.4%	11.7%	3.5%
CS Western European Leveraged Loans Non-USD	4.20%	409	0.0%	0.3%	1.2%	9.5%	3.0%
JPM CEMBI Broad Diversified	4.26%	296	0.2%	0.8%	2.1%	8.7%	1.3%
JPM EMBI Global Diversified	4.91%	340	0.0%	0.7%	4.1%	7.5%	-0.7%
JPM GBI-EM Global Diversified	4.98%	N/A	0.1%	-1.0%	3.5%	6.6%	-3.4%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,297.50	1.31%	1.3%	2.3%	9.0%	40.8%	15.3%
Euro STOXX 600 (Local)	452.84	2.88%	-0.1%	0.9%	5.2%	25.7%	13.5%
U.K. FTSE 100 (Local)	7,037.47	3.02%	-0.5%	0.2%	3.9%	14.1%	8.9%
Japan Nikkei 225 (Local)	28,791.53	1.51%	-0.3%	-1.2%	-2.2%	29.2%	4.9%
China Shanghai Composite (Local)	3,591.20	2.01%	0.7%	-0.3%	3.9%	20.3%	3.4%
MSCI AC World (Local)	719.97	1.71%	0.9%	2.1%	7.2%	37.4%	13.6%
MSCI Emerging Markets (Local)	1,374.64	1.94%	1.0%	1.9%	3.9%	36.5%	8.1%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	535.98	1.4%	3.2%	14.3%	31.4%	64.7%	30.9%
WTI Crude ($/bbl)	73.46	0.5%	10.8%	21.3%	52.3%	87.1%	51.9%
Copper ($/lb)	4.30	-0.8%	-8.2%	7.9%	21.3%	58.3%	22.3%
Gold ($/oz)	1,763.15	-1.6%	-7.2%	4.7%	-6.6%	-0.3%	-6.6%
U.S. Dollar Index	92.44	0.7%	2.7%	-0.9%	3.1%	-5.1%	2.8%
Euro (USD/EUR)	1.19	-0.7%	-2.6%	1.1%	-3.6%	5.6%	-3.1%
British Pound (USD/GBP)	1.38	-1.1%	-2.6%	0.8%	1.5%	11.8%	1.1%
Japanese Yen (Yen/USD)	110.99	0.2%	0.9%	0.6%	7.5%	2.9%	7.5%
Chinese Yuan (CNY/USD)	6.46	-0.3%	1.5%	-1.6%	-1.1%	-8.7%	-1.2%

Source: FactSet and Bloomberg. As of June 30, 2021.

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