Week Ahead 3rd – 7th August – BoE, RBA, NFP, HSBC, BP and Diageo Results

Fiona has a deep understanding of market fundamentals gained through 14 years' experience in the financial markets. She provides up to the minute analysis and insight into the financial markets, as well as the broader economy and monetary policy in the UK, Europe, US and Asia. She is regularly quoted in the global financial press, with her name often seen on Bloomberg, Reuters, Financial Times and the Telegraph. Fiona is a familiar face after years of regular TV appearances across the globe on the likes of BBC, Sky News and Reuters.

Our pick of the top macro data points and companies reporting this week.

Those in bold are discussed in more depth below.

Economic Data

Monday 3rd August	-Manufacturing PMI (Global)
Tuesday 4th August	**-RBA rate decision**
Wednesday 5th August	**-Service Sector PMI (Global)** - EZ Retail sales -US ADP employment repot
Thursday 6th August	**-BoE rare decision** -US jobless claims
Friday 7th August	**-US Non-farm payroll**

Companies reporting

Monday 3rd August	**-HSBC** -Hiscox
Tuesday 4th August	**-Diageo** **-BP** -Centamin -Walt Disney (US)
Wednesday 5th August	-Legal & General -Metro Bank -William Hill -Moderna (US)
Thursday 6th August	**-ITV** -Aviva -Glencore -Cineworld -Uber (US)
Friday 7th August	-Hargreaves Lansdown -Standard Life -Hikma

Key theme: Central Banks & Corporate Results As Covid Second Wave Fears Grow

This week is an action-packed week in terms of economic and corporate releases. Coronavirus will be the overriding concern as the impact on the past quarter are revealed in results. The BoE sets policy and the RBS meets amid growing concerns of deflation and a second wave. US Non-farm payroll will be the main data point with PMI figures from China shedding further light on how the economic recovery is progressing`

HSBC - Monday

HSBC is the last of the big UK listed banks to report. The H1 results come after HSBC's peers put aside more than expected in bad loan provisions in Q2 as loan defaults are expected to stack up in the coming months. In Q1 HSBC set aside $2.4 billion, as a result profits crashed 48% to $3.2 billion, despite income remaining solid. In addition to bad loans, net interest margins are also expected to come under further pressure. Not only is HSBC facing coronvirus headwinds, the National Security law in Hong Kong and troubles with Huawei have also put HSBC in the centre of a political storm between Beijing and the West meaning investors are giving the stock a wide birth. HSBC has continued falling since the mid-March hit from coronavirus, trading at levels last seen in 1998.

Reserve Bank of Australia - Tuesday

The RBA is not expected to adjust monetary policy when they make the announcement on Tuesday. Recent data has been encouraging with both the labour market and retail sales showing signs of a recovery although deflation could be a concern. The minutes from the previous meeting even say that the economic downturn caused by covid 19 hasn't been as severe as initially feared. Even the recent PMI figures point to a solid recovery. However, since then a second wave of covid has erupted in the state of Victoria resulting in Australia's second largest city, Melbourne going back into lockdown. The health crisis in Australia is heading in the wrong direction and that is a huge threat to the economic recovery. Therefore, despite improving data there is a good chance that the RBA will adopt a more cautious tone. This could spark a small correction in the high-flying Australian Dollar.

BP - Tuesday

BP reports Q2 results just 2 months after new boss Barnard Looney warned of write off's in the region of $13 -17 billion owing to the ongoing coronavirus pandemic and 10,000 job losses, which equates to around 15% of the workforce. These measures are being taken to shore up the balance sheet amid a sharp decline in the price of oil and to help prevent the firm from cutting its dividend. Rival Shell cut its dividend by 2/3 in Q1, whilst BP stood firm at 10.5 cents. If BP manages to hold its dividend here across the year it will be the largest dividend payer on the FTSE 100. However, it will be doing so despite much higher gearing and debt. Attention will also be on how Barnard Looney intends to make BP fit for the new low carbon economy and carbon net zero by 2050 ahead of the big strategy presentation in the Autumn. BP's share price recovery has stalled, and the stock still trades -48% YTD.

Diageo - Tuesday

Diageo is due to release final results. Overall, the picture is expected to show a big drop in on-trade sales and an increase in sales through shops. A near halt in international travel will see airport sales plunge. However, 20% of its revenue comes from Asia-Pacific which should be showing signs of recovery given that lockdown restrictions were lifted earlier than US or Europe. Europe could be the biggest drag on sales particularly given the high exposure to on trade business. Investors will be particularly keen to see how sales are picking up in Europe now that lockdown measures are easing. It is worth keeping in mind that Diageo's fixed costs are high. This means that any reduction in revenue can have a big impact on profit. The share price's recovery is showing signs of slowing and the stocks remains -20% YTD.

Service Sector PMI (Global) - Wednesday

The service sector pmi's for EU, UK and US are expected to show a continued improvement in the sector, despite rising concerns over a second wave of coronavirus infections. In the Eurozone, the biggest concern will be the health of the service sector in Spain, a country which is heavily dependant on tourism. The decision by the British, French and Norwegian governments to advise against non-essential travel to Spain will almost certainly impact the fragile recovery in the sector. However, this wont show through until August's reading. Rising US covid cases could start to show through in PMI data. The EURUSD trades close to the highest level since June ’18 signs that the Eurozone recovery is on a more solid footing that the US could see the pair extend gains towards US$1.19.

BoE - Thursday

Like the Fed, the BoE is not expected to make any change to monetary policy either to interest rates or to the QE programme. Data has broadly shown that the economic recovery is picking up. The composite PMI was a solid 57.1 in July and retail sales impressed. Still with the government starting to taper support to the jobs market as from August, there is a good chance that the BoE could be preparing themselves for a more sluggish recovery going forwards. For now, we don’t expect a shift in policy and this meeting will be more about tone and forward guidance. Given the Pound’s historic rise versus the USD pushing beyond $1.31, traders could use this meeting as a chance to book profits.

ITV - Thursday

When we heard from ITV back in May, the firm reported a -42% decline in advertising revenue as firms saw marketing budgets cut owing to the coronavirus crisis. This quarter is unlikely to see much change and amid the cancellation of several major sporting events. Whilst viewer numbers are likely to have increased owing to lockdown and stay at home orders, new shows have also been limited due to social distancing hitting filming and production capabilities. Investors will be keen to see if the online revenue streams such as subscription service Britbox has continued to see a strong uplift in numbers, helping ITV become a more diversified business. ITV share price has failed to make any recovery from the March covid inspired sell off and instead continues to stumble along the bottom, down -50% YTD.

Non Farm Payrolls - Friday

The US jobs data will come as the US Dollar experiences a marked fall from grace. A combination of concerns over rising US coronavirus numbers hampering the US economic recovery and expectations of more action from the Fed., calmer markets and a resurgent Euro have all dragged on the greenback. This weeks’ non-manufacturing PMI, jobless claims and Friday’s non-farm payroll data will all be crucial in determining whether the USD’s weakness will continue. NFP are expected to have risen by 2.3 million in July, bringing the unemployment rate down from 11.1% to 10.3%. Its worth keeping in mind that the NFP data is collected in the first half of the month which was before parts of the sunbelt really started rolling back reopening measures.

US additional rescue package – Friday?

What Congress does this week could be key for the USD and for stocks. So far there has been little progress on a new relief package after the additional unemployment benefit of $600/week expired on Friday 31st July. This will hit millions of Americans hard and cap consumption. Congress goes on recess on Friday, this means that there is a good chance that the Democrats and Republicans will manage to hash together some deal before then, neither side will want to be responsible to dashing the economic recovery this close to an election.