

Key events in developed markets next week

Politics and central banks dominate next week. The race to become the UK's next leader is well underway, and throw in an important European Council Meeting, a possible Norges Bank hike and the Fed appearing come off its "patient" stance, we have a very exciting week ahead



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Fed: An Easing Bias

At this stage, neither China nor the US seem willing to make the required concessions to get a deal done on trade, and if anything it looks as though tensions will escalate further in the near term, with a strong likelihood Europe and Japan are sucked into the malaise. The recent US data flow suggests the economy is becoming less resilient to the negative trade headlines than it was in late 2018 with payrolls numbers and manufacturing figures a clear cause for concern. We are now seeing a shift in language from Federal Reserve officials, with the term "patient" seemingly having been dropped with regards their assessment of on the timing of whether a change in interest rate policy was going to be required. Consequently, we believe that they will use the June FOMC meeting to signal an easing bias.

This would perhaps be through repeating Jerome's Powell use of the "closely monitoring" phrase and downward revisions to their economic projections and their "dot" diagram, which currently

has a rate hike in for 2020. We imagine they will be pencilling in one, possibly two rate cuts into their revised forecasts. Financial markets are currently pricing for 100bp of rate cuts, but we think President Trump wants to get a deal done ahead of next year's Presidential election and this could limit policy easing to precautionary cuts amounting to 50bp. We favour September and December rate cuts.

✓ Race to become the UK's next leader set to move to the next stage

Through a series of votes, the contenders to be the next leader of the UK Conservative party will be whittled down to a final short-list of two. As things stand, the former foreign secretary is odds-on to win, once the final two are put to a vote of party members. At face value, his comments suggest he would be prepared to take the UK out of the EU without a deal. However, in this case, we think parliament would vote down the government, and the risk of a late-2019 election is rising.

All of this uncertainty is continuing to weigh on economic growth, and data from the British Retail Consortium indicates that May was another tricky month for the high street. Despite a modest improvement in real wage growth over recent months, confidence remains low among shoppers. Elsewhere, core inflation is set to remain below target which adds another reason for the Bank of England to stay on hold next week. We don't expect rates to shift during 2019, particularly given the possibility of an election later this year. But given the better news on wage growth over the past six months or so, we wouldn't be surprised to hear the Bank talking up the possibility of earlier/faster rate hikes than implied by a virtually flat market curve.

✓ Eurozone: A 'meaty' Council meeting

Next week, the eurozone will focus on Brussels for a meaty European Council meeting. Quite a few things are on the agenda, including the EU budget and strategic agenda. The market focus will be on top EU jobs haggling that will happen during the meeting. Whether decisions will actually be made remains to be seen as this game of musical chairs is particularly challenging with no less than five key positions up for grabs.

After all that, leaders will discuss EMU reform on Friday afternoon. Will leaders still have the energy to put the hammer down on eurozone reform or will there just be small steps announced? The latter seems more likely. Also, keep an eye out for the PMIs and consumer confidence as concerns about the eurozone economy persist. With regards to the German economy, it's another light week, with only the ZEW index to look out for.

✓ Norges Bank set to hike rates and signal more to come

The Norges Bank told markets last month that it intended to hike interest rates at its June meeting. The bigger question now is how it adapts its interest rate projection for the rest of the year.

The economy is benefitting from an energy-driven spike in investment, and this is also translating into wage growth. Meanwhile, the Norwegian krone has weakened since the last projections, not strengthened as the central bank had assumed. This should translate into a steeper near-term interest rate projection, with a further rate hike possibly pencilled in for later this year. However, this will be tempered by the recent dip in oil prices and it's, therefore, possible we see a more gradual interest rate forecast further out.

We currently expect another rate hike in December.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 17 June					
Finland	0900	Finnish Finance Ministry Publishes Economic Forecast			
Tuesday 18 June					
Eurozone	1000	Apr Trade Balance (€bn)	17500.0	-	17935.5
	1000	May F Core CPI (YoY%)	0.8	-	0.8
	1000	May CPI (MoM/YoY%)	0.2/1.2	-/-	0.2/1.2
Germany	1000	Jun ZEW Current Situation Index	6.0	-	8.2
UK	1500	BOE Gov. Carney on Panel at ECB Forum in Sintra			
	-	Conservative Party Leadership Candidates Narrowed			
Australia	0015	RBA's Kearns Speaks in Canberra			
	0230	RBA Minutes of June Policy Meeting			
	0230	1Q House Price Index (QoQ/YoY%)	-2.4/-7.1	-/-	-2.4/-
Sweden	0830	Riksbank May Business Survey			
Wednesday 19 June					
US	1900	FOMC Rate Decision (Upper bound)	-	2.5	2.5
	1930	Fed Chair Powell Holds Press Conference After FOMC Meeting			
Japan	0050	May Exports (YoY%)	-0.1	-	-2.4
	0050	May Imports (YoY%)	0.2	-	6.5
	0050	May Adjusted Trade Balance (JPY bn)	-35.3	-	-110.9
	0736	BOJ Eto Speaks in Tokyo			
UK	0930	May CPI (MoM/YoY%)	0.4/2.1	-/-	0.6/2.1
	0930	May Core CPI (MoMYoY%)	0.3/1.8	-/-	-1/1.8
	-	Conservative Party Leadership Candidates Narrowed			
Canada	1330	May CPI (MoM, SA/YoY%)	0.2/2.0	-/-	0.3/2.0
New Zealand	2345	1Q GDP (Q) (QoQ, SA/YoY%)	-/-	-/-	0.6/2.3
Sweden	0800	Jun Economic Tendency Indicator	-	-	99.8
	0830	May Unemployment Rate (%)	6.2	-	6.2
	0500	Valueguard Swedish Home-Price Data			
	0815	Sweden's NIER Publishes New Forecasts			
	1100	Riksbank's Jansson Gives Speech			
Thursday 20 June					
Japan	0630	Apr All Industry Activity Index (MoM%)	0.0	-	-0.4
	-	Policy Rate	-0.1	-	-0.1
	-	Jun BOJ 10-yr Yield (%)	-	-	0.0
Eurozone	0900	ECB Publishes Economic Bulletin			
	1500	Jun A Consumer Confidence	-7.0	-	-6.5
	-	European Council Meeting (Extends to 21/06/2019)			
UK	0930	May Retail Sales ex. Auto Fuel (MoM/YoY%)	0.0/2.9	-/-	-0.2/4.9
	0930	May Retail Sales (MoM/YoY%)	0.0/3.2	-/-	0.0/5.2
	1200	BOE Policy Rate	0.75	-	0.75
	2100	BOE Governor Carney Mansion House Speech			
	-	Conservative Party Leadership Candidates Narrowed			
Canada	1330	ADP Canada Releases May Payroll Estimates			
Australia	0215	RBA Governor Lowe Gives Speech in Adelaide			
Norway	0900	Deposit Rates	1.25	-	1.0
Sweden	1030	Riksbank's Floden Gives Speech			
Friday 21 June					
US	1500	May Existing Home Sales	-	5.3	5.2
	1700	Fed Listens Event in Cincinnati with Brainard and Mester			
Japan	0030	May National CPI (YoY%)	0.7	-	0.9
	0030	May CPI ex. Food & Energy (YoY%)	0.4	-	0.6
Eurozone	0900	Jun P Markit Manufacturing PMI	47.9	-	47.7
	0900	Jun P Markit Services PMI	52.7	-	52.9
	0900	Jun P Markit Composite PMI	51.8	-	51.8
UK	0930	May Public Finances (PSNCR)	-	-	-7.1
	0930	May PSNB ex. Banks (£bn)	-	-	5.8

Source: ING, Bloomberg

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Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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