

Key events in developed markets

The Fed's semi-annual monetary policy testimony is the highlight of next week, with tapering being the major talking point. In the UK, a further pick-up in inflation is likely to coincide with another improvement in the jobs market



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US: Potential tapering of QE asset purchases following rises in core inflation

The US has a busy calendar with inflation, retail sales, industrial production and Fed Chair Jerome Powell's semi-annual monetary policy testimony to Congress.

We already know that a tapering of the Fed's QE asset purchases are up for discussion and a further increase in core inflation to 4%YoY, which would mark the highest reading since December 1991, could intensify the debate. With labour supply issues and supply chain disruptions putting up costs there is growing evidence that companies are passing them onto consumers given the strong demand environment. This means elevated inflation readings are looking less transitory and more prolonged than the Fed would like.

These disruptions are also holding back activity with industrial production numbers likely to post only modest growth despite very strong order books. It is also impacting retail sales given carmakers are failing to keep up with demand and a lack of inventory of finished goods means autos could be a significant drag on consumer spending this month.

We will get an updated interpretation of what this all means when Jerome Powell gives his semi-annual testimony to Congress. The Fed has made it clear that by moving to an “average” inflation target they are prepared to allow the economy to run somewhat hotter, with inflation temporarily running above target, to ensure more people feel the benefits of growth. However, given the supply-side strains within the economy, the likely timing of policy tightening is being brought forward and he may offer clearer hints that a tapering of QE asset purchases will start this year.

The Bank of Canada is set to announce another tapering of their QE asset purchases, reducing it to C\$2bn per week from C\$3bn. This would be the third taper with QE purchases initial up at C\$5bn per week. However, a very successful vaccine program over recent months, coupled with strong commodity markets and a rapid rebound in employment mean the economy is on course for strong growth and prolonged above-target inflation readings. We expect the BoC to re-affirm that we should expect interest rate rises from the second half of next year.

UK: Inflation to drift higher as unemployment rate falls (for now)

UK inflation data looks set to be fairly volatile over the summer months, and a further move above target next week won't necessarily tell us a great deal about where things are heading next. That said, we'll be looking for any further hints of reopening pressures after last month saw spikes in various consumer services categories. We expect inflation to peak at roughly 3% in the fourth quarter, though a higher number is certainly not inconceivable.

But things are likely to calm down in 2022, not least because wage pressures are unlikely to build significantly beyond the short-term. Next week's jobs data is likely to show further signs of recovery in the hardest-hit sectors, though the unemployment rate is still likely to notch up in the autumn as wage support is removed. We expect roughly a one-percentage-point increase in the jobless rate over coming months.

Developed Markets Economic Calendar

| Country | Time | Data/event | ING Survey | | Prev. |
|--------------------------|------|--|------------|---------|---------|
| Monday 12 July | | | | | |
| UK | 0001 | Jun BRC Retail Sales (YoY%) | - | | 18.5 |
| Portugal | 1100 | Jun CPI (MoM/YoY%) | -/- | | 0.1/0.5 |
| Tuesday 13 July | | | | | |
| US | 1330 | Jun Core CPI (MoM/YoY%) | 0.4/4.0 | 0.4/4.0 | 0.7/3.8 |
| | 1330 | Jun CPI (MoM/YoY%) | 0.4/4.8 | 0.5/4.9 | 0.6/5 |
| Germany | 0700 | Jun CPI Final (MoM/YoY%) | 4/2.3 | | 0.4/2.3 |
| France | 0745 | Jun CPI (YoY%) NSA | - | | 1.5 |
| | 0745 | Jun CPI (MoM%) NSA | - | | 0.2 |
| Sweden | | Jun Reg Unemployment Rate | - | | 7.9 |
| Wednesday 14 July | | | | | |
| US | | Federal Reserve Monetary Policy testimony | | | |
| UK | 0700 | Jun Core CPI (MoM/YoY%) | 0.2/2.0 | | 0.8/2.0 |
| | 0700 | Jun CPI (MoM/YoY%) | 0.2/2.2 | | 0.6/2.1 |
| Spain | 0800 | Jun CPI (MoM/YoY%) | -/- | | 0.4/2.6 |
| Canada | 1500 | BoC Rate Decision | 0.25 | 0.25 | 0.25 |
| Sweden | 0830 | Jun CPI (MoM/YoY%) | -/- | | 0.2/1.8 |
| | 0830 | Jun CPI (MoM/YoY%) | -/- | | 0.2/2.1 |
| Netherlands | 0530 | May Trade Balance | - | | 5.22 |
| Eurozone | 1000 | May Industrial Production MM | - | | 0.8 |
| | 1000 | May Industrial Production YY | - | | 39.3 |
| Thursday 15 July | | | | | |
| US | 1330 | W 0 Initial Jobless Claims | - | | - |
| | 1330 | W 2 Cont Jobless Claims | - | | - |
| | 1415 | Jun Industrial Production (MoM%) | 0.6 | 0.6 | 0.8 |
| UK | 0700 | May ILO Unemployment Rate | 4.6 | | 4.7 |
| | 0700 | May Employment Change | 120 | | 113 |
| Eurozone | 1100 | Jun Reserve Assets Total | - | | 885 |
| Friday 16 July | | | | | |
| US | 1330 | Jun Retail Sales (MoM%) | 0 | -0.1 | -1.3 |
| | 1330 | Jun Retail Sales control group (MoM%) | 0.4 | 0.3 | -0.7 |
| | 1500 | Jul University of Michigan Sentiment Prelim | 87 | 86.5 | 85.5 |
| | 1500 | Jul University of Michigan Conditions Prelim | - | | 88.6 |
| | 1500 | Jul University of Michigan Expectations Prelim | - | | 83.5 |
| Italy | 0900 | May Global Trade Balance | - | | 5.9 |
| Eurozone | 1000 | May Total Trade Balance SA | - | | 9.4 |

Source: Refinitiv, ING, *GMT

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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