

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 CPIF (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

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