

Key events in developed markets next week

The war in Ukraine means that the European Central Bank will try its best to keep all options open when it meets next week. Meanwhile, inflation data in the US is likely to keep the Federal Reserve on track for a total of six rate hikes this year



ECB President Christine Lagarde

US inflation set to reinforce the case for six rate hikes this year

While Russia's invasion of Ukraine has undoubtedly created economic uncertainty via higher commodity prices, supply and freight disruption, and general anxiety about escalating military conflict, the Federal Reserve has provided a vote of confidence in the US economy.

Chair Jerome Powell and other members of the Federal Open Market Committee (FOMC) have strongly backed the case for a 25bp rate rise on 16 March by arguing the economy is fundamentally sound. In an environment where the economy is growing strongly while unemployment is down at 4% and inflation is running at 40-year highs, interest rates should not be at zero and we fully agree that rates will be raised on 16 March with further increases to come.

Powell argued that the uncertainty means the Fed needs to be "nimble", but markets continue to price the prospect of around six 25bp rate hikes in total for the year. That view is likely to be

reinforced by a strong inflation print next week. We look for the annual rate of CPI to rise to 7.9%, but an 8% reading is certainly possible, which would be the fastest rate of inflation since January 1981.

The theme of inflation will also feature heavily in the NFIB small business survey. Last month a record proportion of companies were able to raise their prices – the survey goes back 48 years. The depth and breadth of price pressures will continue to alarm many Fed officials and is likely to keep markets on edge about the prospect of sharply higher interest rates. We will also be closely following the University of Michigan consumer sentiment index to see if Russia's invasion (and its potential economic hit to household spending power via higher gasoline prices) is impacting yet.

European Central bank to keep its options open amid heightened uncertainty

The latest eurozone inflation data and the overall economic picture since the start of the war in Ukraine have once again complicated the road to normalisation.

We will probably have a situation at next week's European Central Bank (ECB) meeting in which the inflation projections for 2023 and 2024 could be at 2%, calling for ECB action. In fact, the risk of stagflation has clearly increased, complicating the ECB's dilemma: how to react to accelerating inflation that cannot be softened by monetary policy. No one can seriously expect the ECB to start normalising monetary policy at such a moment of high uncertainty.

Therefore, we expect the central bank to strike a cautious balance between staying on track for policy normalisation while at the same time keeping maximum flexibility. This strategy would mean the ECB sticks to the already-announced rotation of its asset purchase programmes, i.e. ending the Pandemic Emergency Purchase Programme in March and increasing the Asset Purchase Programme from €20bn to €40bn, and instead of announcing targets for 3Q and 4Q, announcing a monthly reduction of the net asset purchases by €5-10bn per month, starting in May. Contrary to the December meeting, the ECB will want to avoid hinting at end dates for quantitative easing (QE) or start dates for rate hikes.

UK growth set for modest rebound reflecting Omicron recovery

Despite vast numbers of Covid-19 cases before Christmas, the UK economy recorded a very modest 0.2% decline in December's GDP. Admittedly that was partly down to the widescale increase in testing and vaccines, which feeds through to GDP via health output (incidentally without that extra spending during the pandemic, GDP would be around 1.3% lower). We'll get January's numbers next week, and we expect a very slight rebound, reflecting increased appetite among consumers to socialise after the New Year. We expect to see a more noticeable recovery in February's figures due in a month's time.

Canadian jobs data set to rebound after Omicron

In Canada we will be watching the February jobs report after the Bank of Canada (BoC) raised rates this week. Markets are positioned for an aggressive series of rate increases given the economy has fully recovered all the output and jobs lost due to the pandemic while inflation is running at 30-year highs. Employment fell 83,000 in January due to Omicron-related lockdowns, but those containment measures have since been lifted and we should get a decent rebound for February. Canada also has little financial and trade linkages with Russia and given Canada is a major

commodity producer, higher prices should be supportive for investment in the sector. We look for five further 25bp rate increases this year from the BoC.

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Country	Time	Data/event	ING	Survey	Prev.
Monday 7 March					
US	2000	Jan Consumer Credit	24	21.5	18.9
Germany	0700	Jan Industrial Orders (MoM%)	-1.0		2.8
	0700	Jan Retail Sales (MoM%/YoY%)	-/-	1.5/9.5	-5.5/0
Tuesday 8 March					
US	1100	Feb NFIB small business optimism	98	97.4	97.1
	1330	Jan International Trade USD	-87.5	-86.6	-80.7
Eurozone	1000	Q4 Employment Final (QoQ%/YoY%)	0.5/2.1		0.5/2.1
	1000	Q4 GDP Revised (QoQ%/YoY%)	0.3/4.6		0.3/4.6
Germany	0700	Jan Industrial Output (MoM%/YoY%)	0.8/1.0		-0.3/-4.18
Norway	0700	Jan GDP Month Mainland	-0.2		-0.4
Wednesday 9 March					
Italy	0900	Jan Industrial Output (MoM%/YoY%)	-1/1.2		-1/4.4
Thursday 10 March					
US	1330	Feb Core CPI (MoM%/YoY%)	0.6/6.5	0.6/6.5	0.6/6.6
	1330	Feb CPI (MoM%/YoY%)	0.8/7.9	0.8/7.9	0.6/7.5
	1330	Initial Jobless Claims	210	-	215
Eurozone	1245	Mar ECB Refinancing rate	0.0	0.0	0.0
	1245	Mar ECB Deposit rate	-0.5	-0.5	-0.5
Norway	0700	Feb CPI (YoY%)	3.00		3.2
Netherlands	0530	Feb CPI (MoM%/YoY%)	-		0.5/6.4
	0530	Jan Manufacturing Output (MoM%)	-		1.6
Friday 11 March					
US	1500	Mar University of Michigan Sentiment	62	63.1	62.8
	1500	Mar University of Michigan Conditions	69		68.2
	1500	Mar University of Michigan Expectations	58		59.4
Germany	0700	Feb CPI Final (MoM%/YoY%)	0.7/5.1		-
UK	0700	Jan GDP Estimate (MoM%)	0.1		-0.2
Italy	0900	Jan Unemployment Rate	9.1		9
Canada	1330	Feb Unemployment rate (%)	6.3		6.5
	1330	Feb employment change (000s)	25.00		-82.7

Source: Refinitiv, ING

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