

Key events in developed markets next week

All eyes on US inflation next week, as there is a growing suspicion that its rise could be larger and longer-lasting than the Fed expects. In the UK, fourth-quarter GDP should see a small rebound while in Sweden there appears to be limited appetite to return to negative rates



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US: Inflationary pressures rising, and sentiment looking steady

In the US, inflation is becoming a prominent theme for financial markets with a growing suspicion that its rise could be larger and longer-lasting than the Federal Reserve is currently anticipating. The economic backdrop has improved and with vaccine roll-out gaining momentum we remain hopeful that Covid-19 containment measures will be eased more broadly during mid to late 2Q21. We anticipate significant pent up demand, fueled by a \$2.4tn increase in household savings over the past year, once this occurs. The issue is that vigorous demand could come up against a supply-constrained service sector given significant business closures in the travel, leisure and hospitality sectors, which will push up price pressures. When compared to prices in 2020 that were significantly depressed due to the pandemic, annual inflation numbers could look striking.

In terms of next week, we look for CPI to rise 0.4% month-on-month, primarily on the back of a 10% increase in gasoline prices

Commodity and energy prices are rebounding sharply and we are already seeing bottlenecks in key areas, such as the cost of freight. Consequently, our central case is that headline inflation is likely to push well above 3% in mid-2021. Assuming the bottlenecks in production and freight are rectified, the ongoing sizeable pool of available labour should limit wage pressure and mean CPI settles back down to 2-2.5% for much of next year. The core should be a little lower. Nonetheless, the risks are looking more and more skewed to a longer period of above-target inflation, particularly given additional fiscal stimulus is in the offing.

In terms of next week, we look for CPI to rise 0.4% month-on-month, primarily on the back of a 10% increase in gasoline prices, while rising rents could start to feed through into the housing component. This would push the annual rate of CPI up to 1.6%, while a 0.2% MoM core (ex-food and energy) reading would leave the annual rate at 1.6% also.

Other data include the NFIB small business optimism, which should rise reflecting the improving outlook and decent readings already seen in the ISM reports. University of Michigan consumer confidence is likely to hold close to steady given choppy equity market moves, higher gasoline prices and some mixed jobs news with support underpinned by encouraging news on the vaccine roll-out.

UK: December GDP rebound inevitably won't last

All the signs suggest December saw a partial rebound in activity after November's month-long lockdown. And in fact, this should mean fourth-quarter GDP actually registered a small amount of growth (though this is helped by favourable base effects, given we're comparing to the third quarter where the economy was still in the process of reopening).

Nevertheless, with the country back under strict measures, clearly, this will be reversed again when we get the data for January. Indeed, the dip we are likely to see in GDP at the start of 2021 is likely to be more pronounced than in November. Schools are closed, which directly feeds into GDP, but also limits worker availability given childcare needs. We also know from mobility data that fewer people are going to workplaces. Still, the damage is unlikely to be as bad as last spring, where the economy was 25% below pre-virus levels. The figure is more like -11% now.

However, the UK's vaccine rollout programme appears to be going from strength to strength, and the prospect of all over-50s receiving their first dose of the vaccine before Easter raises the possibility of a reopening through April and May. We expect a 5% bounce in 2Q GDP.

Sweden: Rates to stay on hold

Despite mounting Covid-19 cases, GDP was a bit better than the Riksbank had anticipated at the tail-end of last year, helped along by the ongoing recovery in trade and manufacturing. That said, it's pretty clear the outlook for the Swedish economy is a cautious one - like the wider EU, the vaccine programme is only just getting started.

There appears to be limited appetite to return to negative rates, so instead expect the Riksbank to

continue signalling a flat rate path out to 2024. There's little pressure to do anything on QE following November's expansion, which allows purchases to continue to the end of the year, albeit the central bank may signal a slightly front-loaded buying scheduled for Q2.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Sunday 7 February					
Japan	2350	Dec Current Account NSA	1770.0		1878.4
Monday 8 February					
Japan	2330	Dec Labor cash earnings (YoY%)	-2.0		-1.8
Germany	0700	Dec Industrial Output (MoM/YoY%)	0.6		0.90/-2.56
Netherlands	0530	Jan CPI (MoM/YoY% NSA)	-1.0		0.2/1.0
Tuesday 9 February					
Germany	0700	Dec Exports	-2.0		2.2
	0700	Dec Imports	1.0		4.7
	0700	Dec Trade Balance	-		16.4
Italy	0900	Dec Industrial Output (MoM/YoY%)	-/-		-1.4/-4.2
Japan	2330	Jan PPI (%YoY/MoM)	-9.0		-4.0
Wednesday 10 February					
US	1330	Jan Core CPI (MoM/YoY%)	0.2/1.6	0.2/1.6	0.1/1.6
	1330	Jan CPI (MoM/YoY%)	0.4/1.6	0.3/1.5	0.4/1.4
Germany	0700	Jan CPI Final (MoM/YoY%)	0.8/1.0		0.8/1.0
France	0745	Dec Industrial Output (MoM%)	-		-0.9
UK	0700	Dec Goods Trade Balance	-		-16.01
Norway	0700	Jan CPI (MoM/YoY%)	-/-		0.4/1.4
	0700	Jan Core Inflation (MoM/YoY%)	-/-		-0.1/3.0
Sweden	0830	Riksbank Rate	0.00		0.00
Netherlands	0530	Dec Manufacturing Output (MoM%)	0.5		-0.2
Portugal	1100	Jan CPI (MoM/YoY%)	-/-		-0.3/0.3
Thursday 11 February					
New Zealand	2130	Jan Manufacturing PMI	-		48.7
Sweden	0500	Jan Reg Unemployment Rate	-		8.8
Netherlands	0530	Dec Trade Balance	6.6		5.97
Friday 12 February					
US	1500	Feb university of Michigan consumer s	80.0	80.5	79.0
UK	0700	Dec Monthly GDP (MoM%)	1.0		-3.6
	0700	Q4 GDP Prelim (QoQ%)	0.6		16.0
Spain	0800	Jan CPI (MoM/YoY%)	-/-		0.1/0.6
Norway	0700	Q4 GDP Growth Mainland (QoQ%)	1.4		5.2
Eurozone	1000	Dec Industrial Production (MoM/YoY%)	-		2.5/-0.6

Source: ING, Refinitiv

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