

## Key events in developed markets next week

New record CPI readings will keep central banks in the US and Canada on their rate hike paths. In the UK, the market continues to overestimate the number of hikes, and in the EU, significant uncertainty is casting a shadow over ECB decisions



### US: Fresh price jumps prompt further tightening

The Federal Reserve has laid the groundwork for a 50bp interest rate rise and an announcement of phased-in quantitative tightening at the 4 May Federal Open Market Committee (FOMC) meeting. Fifty basis point rate hikes are also likely at the June and July FOMC meetings, in our view, with an eventual Fed funds peak of 3% in early 2023. Markets are not there yet, but this week's upcoming data could push them further in that direction.

The highlight will be the March consumer price inflation release and it is expected to jump again due to the surge in gasoline prices. The national average was \$3.50/gallon in February versus \$4.19/gallon in March. Food prices have been rising sharply too while supply chain strains, rising commodity prices, and higher labour cost inputs in an environment where companies have decent pricing power mean broad-based contributions. As such, we look for the headline rate to reach 8.6% year-on-year and the ex-food and energy core figure to hit 6.7%. This would be the highest

headline inflation rate since December 1981 and the highest core rate since August 1982, which will heap more pressure on the Fed to hike interest rates.

Retail sales will also be influenced by the surge in gasoline prices given this is a nominal dollar figure change and demand for gasoline is pretty inelastic. Strip out gasoline and the numbers will obviously be softer, but not necessarily terrible given employment and wages continue to rise, partially offsetting the higher cost of living, and household wealth has surged through the pandemic. Industrial production on 15 April should also be interesting. We look for another solid report with a keen eye on whether US oil and gas output is on the rise given the rapid increase in prices and European countries having a desire to diversify away from Russia as an energy provider.

## ✓ **Canada: Rate hike expected with employment and inflation at record levels**

In Canada, the highlight will be the Bank of Canada (BoC) policy meeting. We expect a 50bp interest rate increase given the economy is in a strong position, particularly given commodity production is such an important story, employment is at record levels, and inflation is at 30+ year highs. BoC voters have made the case for acting aggressively and we expect them to follow up their words with strong action.

## ✓ **ECB: Look for more clarity on the central bank's options**

The macro-economic backdrop with looming stagflation has complicated the ECB's life, and probably also widened the rift between doves and hawks. While the doves are likely to focus on the worsening economic outlook and high uncertainty, the hawks have been very vocal in calling for at least two rate hikes this year.

Next week's meeting is not a meeting for actual policy action. There simply is too little hard data on the macro-economic implications of the war in Ukraine yet. And there simply is too much uncertainty about how the war will evolve. Staying put and continuing with the announced reduction of net asset purchases looks like the only viable option for now. However, given the latest market pricing of future ECB rate hikes and unclarity about the ECB's exact reaction function in these times of high uncertainty, ECB President Christine Lagarde could be forced to somewhat limit the ECB's optionality to a few options.

[Read our full preview here](#)

## ✓ **UK: Packed data week set to point to another rate hike in May**

- **February GDP (11 April):** Expect another modest recovery in UK GDP through February. Card spending data suggests consumer services continued to recover after Omicron, even if other areas (eg retail) looked less exciting. Clearly, this data is somewhat outdated now, and we're expecting at least one negative monthly growth reading in the second quarter. That's partly because of the rapidly increasing squeeze on living standards, but also because the government has now ended free Covid-19 testing (and vaccine numbers will have also dropped in the aftermath of the booster campaign). Both feed through to the GDP figures, and indeed health spending through the pandemic has been a key driver of growth at

various points. Expect a modestly negative overall second quarter GDP figure, but the jury's out on whether the economy is heading into a technical recession.

- **Jobs report (12 April):** The jobs market is undeniably hot right now, with vacancies high and the unemployment rate back to pre-Covid levels. The question is how much of the recent labour shortage issues are borne out of a) increased churn after the post-Covid reopenings last year, which could begin to fade or b) structural issues, linked to lower migration and increased inactivity rates. For the time being, wage growth remains strong and that's been a key reason behind recent Bank of England hikes. Expect a similar story from next week's figures.
- **Inflation (13 April):** Petrol prices were up almost 9% in March and that's going to drag headline inflation higher again, along with mounting pressures elsewhere (notably from food). We expect CPI to peak a little above 8% in April when the 54% increase in the household energy cap feeds through. And broadening price pressures related to the war in Ukraine will keep headline rates above 6% throughout this year.

All in all, there's likely to be enough here to keep the Bank of England on track for one or perhaps two more 25bp rate hikes at the next couple of meetings. But mounting growth risks suggest the Bank is nearing the point of pausing its tightening cycle ahead of the summer. After all, a lot of the external cost pressure is inflationary in the short-term but potentially disinflationary in the medium-term given the hit to growth. Markets are still probably overestimating the number of rate hikes that the Bank is likely to deliver this year.

## Developed Markets Economic Calendar

Country	Time	Data/event	ING Survey		Prev.
<b>Monday 11 April</b>					
UK	0700	Feb GDP Estimate (MoM%)	0.2		0.8
Italy	0900	Feb Global Trade Balance	-		-5.052
Norway	0700	Mar Core Inflation (MoM%/YoY%)	-/-		1.2/3.7
	0700	Mar CPI (MoM%)	-		1.1
<b>Tuesday 12 April</b>					
US	1330	Mar CPI (MoM%/YoY%)	1.3/8.6	1.2/8.4	0.8/7.9
	1330	Mar core CPI (MoM%/YoY%)	0.6/6.7	0.5/6.6	0.5/6.4
Germany	0700	Mar CPI Final (MoM%/YoY%)	2.5/7.3		2.5/7.3
France	0745	Feb Trade Balance	-		-8.03
UK	0700	Feb Employment Change	65		-12
	0700	Feb ILO Unemployment Rate	3.9		3.9
<b>Wednesday 13 April</b>					
UK	0700	Mar CPI (MoM%/YoY%)	0.7/6.6		0.8/6.2
Italy	0900	Feb Industrial Output (MoM%/YoY%)	-		-3.4/-2.6
Spain	0800	Mar CPI (MoM%/YoY%)	-		3.0/9.8
Canada	1500	BoC Rate Decision	1.00	1.00	0.50
<b>Thursday 14 April</b>					
US	1330	Mar Retail Sales (MoM%)	0.6	0.5	0.3
	1330	Mar retail sales - control group (MoM%)	-0.2	-0.1	-1.2
	1330	Continuing Jobless Claims (000s)	1500		1523
	1330	Initial Jobless Claims (000s)	170		166
	1500	Apr University of Michigan Expectations Prelim	53.0		54.3
	1500	Apr University of Michigan Conditions Prelim	67.0		67.2
	1500	Apr University of Michigan Sentiment Prelim	58.5	58.8	59.4
Sweden	0700	Mar CPI (MoM%/YoY%)	-/-		0.9/4.3
	0700	Mar CPI (MoM%)	-		0.9
Eurozone	1245	Apr ECB Deposit rate	-0.5		-0.5
	1245	Apr ECB Refinancing rate	0		0
<b>Friday 15 April</b>					
US	1415	Mar Industrial Production (MoM%)	0.5	0.4	0.5
France	0745	Mar CPI (MoM%/YoY%)	-/-		1.4/4.5

Source: Refinitiv, ING, \*GMT

## Authors

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.