Key events in developed markets next week

As we approach the big central bank meetings, next week's data in both the US and the UK will be crucial in determining the size of the hike. We expect soft activity data in the US and declines in industrial production. In the UK, we see few signs of job market deterioration as wage pressures persist, which for now is the strongest argument in favour of a 50bp hike

Source: Shutterstock

US: 5% should mark the peak for the Fed funds target range

We are getting closer to the Federal Reserve's February Federal Open Market Committee (FOMC) meeting, and at the moment the market is split between whether the central bank opts for a 25bp or a 50bp rate hike. After 425bp of rate hikes so far there is a strong chance that it chooses to "step down" to the more traditional 25bp increments given most of the policy tightening work is already done and there are broadening signs that the economy is responding to it. However, inflation remains well above the 2% target and the labour market remains tight with the unemployment rate back to a cycle low of 3.5%. If it does choose to go for a 25bp move, we would expect it to strongly state that this is not the end of the rate hike cycle and that a further 25bp in March is on the cards. This would leave the ceiling of the Fed funds target range at 5%, which we think will mark the peak.

Next week's data flow will have an important influence on the decision. The calendar includes retail sales, industrial production, housing transactions and producer price inflation. The activity numbers are likely to be soft with retail sales dragged down by a big fall in auto sales in December, while squeezed household incomes and bad weather may also help to dampen spending. Industrial production is also likely to have fallen given the weakness seen in key surveys such as the ISM manufacturing report, whose production component fell into contraction (sub-50) territory for the first time since May 2020. Some offset should come from the utilities sub-component given much colder weather, but lower oil prices may have weighed on mineral extraction.

Inevitably, the housing market data will be weak given that mortgage rates have more than doubled over the past 12 months, making a property purchase even less affordable. Given the swing in the market from excess demand towards excess supply, falling transactions will also be accompanied by lower home prices.

UK: data to determine the size of the February Bank of England rate hike

Market pricing is split between a 25bp and 50p hike at the Bank of England's February meeting, though is biased towards the latter. The centre of gravity on the committee shifted noticeably in favour a 'smaller' 50bp hike back in December, and the minutes of that meeting contained vague hints that a further slowdown could be on the cards. Next week's data is key, and here's what we'll be looking at:

- **Jobs (Tues):** The BoE will look at this data through the lens of a) whether labour shortages are easing and b) whether wage pressures are still just as persistent as ever. So far the jobs market has shown few signs of deterioration, other than a gradual reduction in the number of unfilled vacancies. We'll be watching for any hints of redundancies increasing, as firms battle higher energy costs and interest rates, though we suspect these will remain low for the time being. Meanwhile regular pay growth has been running at 7-8% on an annualised basis, and that's consistent with the recent readings coming from the BoE's own Decision Maker survey. For now, this is the strongest argument in favour of another 50bp hike.
- **Inflation (Weds):** Headline CPI has peaked but is likely to remain in double digits through early 2023. But the Bank's favoured measure of 'core services' inflation, perhaps the cleanest gauge of domestically-driven price pressures, has edged higher in recent months and this will be key. Signs that this is reaching a peak would boost the case for a more modest rate hike in February.
- **Retail sales (Fri):** Until November, retail figures had risen by roughly 4% in value terms through 2022 but fallen by an even greater percentage in volumes, neatly encapsulating the cost of living squeeze that's dominating the UK outlook this year. While fourth quarter GDP looks like it'll come in flat, partly thanks to an artificial bounce in activity after the Queen's funeral Bank Holiday, the first quarter output is likely to show a material decline – thanks in part to weaker retail numbers. We expect a small bounce-back in December, though that's likely to reflect volatility surrounding Christmas more than anything else. We wrote more about the UK's growth outlook here.

Norway: Norges Bank to hike by 25bp – but will this be the last?

Norges Bank has signalled it expects its policy rate to peak at 3% early this year, and there's been little change in the key indicators it looks at since that prediction last December. We expect a 25bp rate hike next week, which would mean that the 3% level is reached. We see little reason not to take Norges Bank at its word and we suspect that will indeed be the peak, though much depends on oil prices and what other central banks end up doing through the spring.

Key events in developed markets next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 16 January			
Italy	0800	Nov Global Trade Balance	-		-2.123
Eurozone	1100	Dec Reserve Assets Total	-		1115.1
		Tuesday 17 January			
US	1330	Jan Empire manufacturing survey	-9.0	-7.5	-11.2
Germany	0700	Dec CPI Final (MoM%/YoY%)	-0.8/8.6		-0.8/8.6
UK	0700	Nov ILO Unemployment Rate	3.7		3.7
	0700	Nov Employment Change	40		27
Canada	1330	Dec CPI Inflation (MoM%/YoY%)	-/-		0.1/6.8
	1330	Dec CPI BoC Core (MoM%/YoY%)	-		0/5.8
Netherlands	0530	Nov Trade Balance	-		4.01
		Wednesday 18 January			
US	1330	Dec Retail Sales (MoM%)	-1.0	-0.8	-0.6
	1330	Dec PPI (MoM%/YoY%)	-0.1/6.7	0.0/6.8	0.3/7.4
	1415	Dec Industrial Production (MoM%)	-0.1	-0.1	-0.2
	1700	Federal Reserve Beige book	-	-	-
UK	0700	Dec Core CPI (MoM%/YoY%)	-/-		0.3/6.3
	0700	Dec CPI (MoM%/YoY%)	0.4/10.6		0.4/10.7
Eurozone	1000	Dec CPI (YoY%)	-		9.2
		Thursday 19 January			
US	1330	Initial Jobless Claims (000s)	-		205
	1330	Continue Jobless Claims (000s)	-		1634
	1330	Dec Housing starts (000s)	1340	1358	1427
	1330	Dec Building permits (000s)	1375	1375	1351
	1330	Dec Philadelphia Fed index	-11.0	-10	-13.8
Norway	0900	Key Policy Rate	3.00		2.75
Eurozone	0900	Nov Current Account SA (EUR bn)	-		-0.402
		Friday 20 January			
US	1500	Dec existing home sales (mn)	3.90	3.94	4.09
UK	0700	Dec Retail Sales (MoM%/YoY%)	0.6/-3.9		-0.4/-5.9
Canada	1330	Nov Retail Sales (MoM%)	-		1.4

Source: Refinitiv, ING

Authors

James Knightley
Chief International Economist
james.knightley@ing.com

James Smith
Developed Markets Economist
james.smith@ing.com

Disclaimer