

Key events in developed markets next week

All eyes are on the European Central Bank meeting next Thursday, when we are expecting a hike of 25bp



Source: Shutterstock

Despite increasing expectations of the larger hike, we believe the Fed will repeat June's move

The market is split as to whether the Federal Reserve will raise rates by 75bp or 100bp on 27 July. The strong June US inflation print of 9.1% and the Bank of Canada's decision to raise its own policy rate by 100bp have helped fuel expectations of a larger hike. However, the weakening economic growth outlook and the fact that two of the most hawkish FOMC members, Chris Waller and James Bullard, have hinted they favour 75bp means we think they will indeed opt to repeat June's 75bp move.

Given there is the usual Fed blackout period starting on 16 July, there will be no additional comments from officials to provide guidance – although that doesn't rule out someone getting in touch with the Wall Street Journal should there be a material change. In any case, the data flow is largely second-tier with an update on the housing market, which given rising mortgage rates is likely to remain under pressure.

✓ Bank of England gearing up for 50bp August hike, despite little impetus from domestic data

On the face of it, next week's data is unlikely to offer too much in the way of support for a 50bp rate hike in August. Another notch higher in the unemployment rate and a slight uptick in inflation will come as little surprise to the committee, which only a few weeks ago resisted pressure to step up the pace of rate hikes, opting instead for another 25bp move. However, the potential for another 75bp rate hike from the Fed, mounting worries among Bank of England hawks about GBP weakness, and earlier explicit warnings about more aggressive hikes from officials, suggest the Bank may well be tempted to join the growing number of central banks that have opted for larger rate increases. We narrowly expect a 50bp rate hike in August, though this may well be a one-off. Our central view is that the Bank of England will stop hiking when the Bank rate gets to roughly 2%.

✓ Bank of Canada's 100bp hike was only the beginning – more to come

In Canada, we will be closely following inflation data, which will hit new highs on rising gasoline, but there will be broad gains elsewhere too. The central bank's 100bp hike on 14 July was to "front load" tightening to ensure inflation expectations remain anchored, but an upside surprise in CPI could heighten fears it repeats the move in September. Currently, we favour a 75bp hike.

✓ ECB's first hike in 11 years: 25bp or 50bp?

It's ECB week next week, so naturally all eyes are on the Thursday meeting. Expect the ECB to fiercely debate whether the first hike in 11 years will be just 25bp or perhaps 50bp after all. Also key out of next week's meeting will be the anti-fragmentation tool which investors will watch closely to see how robust it can be to curb spreads in the eurozone. With Italian political problems surfacing, an additional challenge is added to next week's meeting. While summer meetings at the ECB can be dull, this one clearly won't be. Also important is how much the economy is cooling off in the eurozone. Next week's PMI and consumer confidence data will give some evidence of that. This will be especially important for how much the ECB will hike in the coming cycle and we expect the economy to cool enough to keep the ECB's cycle quite limited.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 18 July					
Italy	0900	May Global Trade Balance	-		-3.67
Tuesday 19 July					
US	1330	Jun housing starts (000)	1520	1583	1549
UK	0700	May ILO Unemployment Rate (%)	3.9		3.8
	0700	May Employment Change	185		177
Eurozone	1000	Jun CPI (YoY%)	-	8.6	8.6
Wednesday 20 July					
US	1500	Jun existing home sales (mn)	5.37	5.40	5.41
UK	0700	Jun Core CPI (MoM%/YoY%)	-/-		0.5/5.9
	0700	Jun CPI (MoM%/YoY%)	-/9.3		0.7/9.1
Canada	1330	Jun CPI Inflation (MoM%/YoY%)	1.2/8.7	-	1.4/7.7
Eurozone	1000	May Current Account SA, EUR	-6.70		-5.76
	1500	Jul Consumer Confidence Flash	-24.0		-23.6
Thursday 21 July					
US	1330	Initial Jobless Claim 000s	240		244
	1330	Continue Jobless Claim 000s	1350		1331
Eurozone	1315	Jul ECB Refinancing rate	0.25		0
	1315	Jul ECB Deposit rate	-0.25		-0.50
Friday 22 July					
US	1445	Jul Markit Manufacturing PMI Flash	-		52.7
	1445	Jul Markit Services PMI Flash	-		52.7
	1445	Jul Markit Composite Flash PMI	-		52.3
Germany	0830	Jul Markit Manufacturing Flash PMI	49.5		52.0
	0830	Jul Markit Service Flash PMI	50.9		52.4
	0830	Jul Markit Composite Flash PMI	49.8		51.3
France	0815	Jul Markit Composite Flash PMI	-		52.5
UK	0001	GfK Consumer Confidence	-42.0		-41.0
	0700	Jun Retail Sales (MoM%/YoY%)	-0.4/-		-0.5/-4.7
	0930	Jul Flash Composite PMI	-		53.7
	0930	Jul Flash Manufacturing PMI	-		52.8
	0930	Jul Flash Services PMI	-		54.3
Canada	1330	May Retail Sales (MoM%)	-		0.9
Eurozone	0900	Jul Markit Manufacturing Flash PMI	51.0		52.1
	0900	Jul Markit Services Flash PMI	51.6		53.0
	0900	Jul Markit Composite Flash PMI	51.0		52.0

Source: Refinitiv, ING

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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 www.ing.com.