

## Key events in developed markets next week

We expect the US Federal Reserve to leave interest rates unchanged next week, although the door will be left open for future hikes. The Bank of England, on the other hand, is expected to hike rates, although a pause should not be ruled out. We think there'll be further rate hikes at both the Sweden and Norway central bank meetings



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### **US: We expect to see the Fed leave interest rates on hold**

The Federal Reserve has received some encouraging news on US inflation over the past few months, with two consecutive 0.2% month-on-month prints and a third coming in at 0.278%, much better than the 0.4-0.5%MoM consecutive prints we got over the prior six months. There has also been good news on moderating labour costs (the Employment Cost index and cooling average hourly earning growth) and more modest job creation. Yet activity data continues to run hot and the Fed doesn't want to take on any chances that inflation lingers. So while we expect to see the Fed leave interest rates on hold next week, the door will be left open for a potential future hike. Economists are universally expecting the Fed funds target rate range to be left at 5.25-5.5% on 20 September, with markets not pricing even 1bp of potential tightening.

In terms of its forecasts, the key change in June was the inclusion of an extra rate hike for this year, leaving the Fed funds range at 5.5-5.75%. It seems highly doubtful this will be changed given

the data flow, while the unemployment and inflation numbers seem broadly on track. GDP for 2023 will be revised up substantially though given the remarkable resilience of activity and the consumer spending splurge over the summer, much of which appears to have gone on leisure activities.

We don't think the Fed will carry through with that final forecast hike though. The combination of higher borrowing costs and less credit availability, plus pandemic-era savings being exhausted and student loan repayments restarting, should mean that households feel more of a financial squeeze in the fourth quarter and beyond. Rising credit card and auto loan delinquencies also hint at more pain with the Federal Reserve's Beige Book warning that we may be in "the last stage of pent-up demand for leisure travel from the pandemic era".

The concern is that economic softness could go too far (as highlighted by some officials in the July FOMC minutes) and heighten the chances of recession. Given this risk and the positive developments on inflation and labour costs, we think the Fed will be on hold for a number of months with the data flow gradually weakening the case for a November or December rate hike – which the market itself only gives around a 50:50 chance of happening. Our base case continues to be: more aggressive interest rate cuts through 2024 than suggested by the Fed and priced by financial markets.

## **UK: Bank of England to hike rates further, but don't rule out a pause**

Markets are once again toying with the idea of a pause from the Bank of England next week. We certainly don't rule that out, and recent comments suggest the BoE is laying the ground for the end of this tightening cycle. The central bank might be tempted by a Fed-style "skip" this month, accompanied by strong hints that it could hike again in November.

That's not our base case, given both wage growth and services inflation – the two key metrics upon which the BoE is basing policy – are higher than forecasted back in August. We suspect the Bank will keep its options open for November, but ultimately we think September's meeting will mark the peak in this hiking cycle.

## **Sweden: Riksbank set for a further 25bp rate hike**

With Swedish services inflation still uncomfortably high and the trade-weighted value of the krona back to its lows, the Riksbank is set for another hike this month and we don't rule out another by year-end. Yet the economy is clearly reacting to higher interest rates. A 0.8% decline in second-quarter GDP, while not as bad as initially reported, shows the economy is under strain. While the Riksbank clearly isn't quite done with rate hikes, the fragile economic backdrop suggests we're near the peak.

## **Norway: Norges Bank set for further hike amid higher oil prices and a weaker NOK**

Back in August, Norges Bank all but confirmed it intended to hike rates again this month. The question is whether this will mark the top in the cycle. That was what was implied by the most recent interest rate projection from the central bank in June. Since then oil prices have risen a fair bit, and that's viewed as a hawkish factor in the Bank's models.

The krone has also started to weaken again, though on a trade-weighted basis is still slightly stronger than the Bank's forecasts had been assuming in June. Underlying inflation has also been coming down, in line with the June projections.

We suspect the bank's new interest rate forecast, which will accompany next week's decision, will at least flag a risk of another hike later this year. But for now, our base case is that the central bank remains on hold beyond September.

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Country	Time	Data/event	ING	Survey	Prev.
<b>Tuesday 19 September</b>					
Canada	1330	Aug CPI Inflation (MoM%/YoY%)	0.5/4.1	/	0.6/3.3
	1330	Aug CPI BoC Core (MoM%/YoY%)	-		0.5/3.2
Eurozone	0900	Jul Current Account SA, EUR	-		35.84
	1000	Aug CPI (YoY%)	-		5.3
<b>Wednesday 20 September</b>					
US	1900	Fed Funds Target Rate	5.375	5.375	5.375
	1900	Fed Interest On Excess Reserves	5.4		5.4
UK	0700	Aug Core CPI (MoM%/YoY%)	0.7/6.8	/	0.3/6.9
	0700	Aug CPI (MoM%/YoY%)	0.7/7.0	/	-0.4/6.8
Sweden	0700	Aug Unemployment Rate	-		6.2
<b>Thursday 21 September</b>					
US	1330	Q2 Current Account	-225	-219.8	-219.3
	1330	Initial Jobless Claims	225	-	220
	1330	Continuing Jobless Claims	1700	-	1688
UK	1200	Sep BOE Bank Rate	5.50		5.25
Norway	0900	Key Policy Rate	4.25		4.00
Sweden	0830	Riksbank Rate	4.00		3.75
Switzerland	0830	SNB Policy Rate	-		1.75
Eurozone	1500	Sep Consumer Confidence Flash	-		-16
<b>Friday 22 September</b>					
US	1445	Sep S&P Global Manufacturing PMI Flash	-		47.9
	1445	Sep S&P Global Services PMI Flash	-		50.5
	1445	Sep S&P Global Composite Flash PMI	-		50.2
Germany	0830	Sep S&P Global Manufacturing Flash PMI	38.6		39.1
	0830	Sep S&P Global Service Flash PMI	46.5		47.3
	0830	Sep S&P Global Composite Flash PMI	43.8		44.6
France	0815	Sep S&P Global Composite Flash PMI	-		46
UK	0700	Aug Retail Sales (MoM%/YoY%)	0.0/-1.7	/	-1.2/-3.2
	0930	Sep Flash Composite PMI	48.2		48.6
	0930	Sep Flash Manufacturing PMI	43.0		43.0
	0930	Sep Flash Services PMI	49.0		49.5
Spain	0800	Q2 GDP (QoQ%/YoY%)	-/-	/	0.4/1.8
Canada	1330	Jul Retail Sales (MoM%)	-		0.1
Eurozone	0900	Sep S&P Global Manufacturing Flash PMI	-		43.5
	0900	Sep S&P Global Services Flash PMI	-		47.9
	0900	Sep S&P Global Composite Flash PMI	-		46.7

Source: Refinitiv, ING

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