

Key events in developed markets next week

As Interest rate expectations in the UK surge, the Bank of England is set to hike rates by 25bp given inflation data continue to come in above forecasts. Norway's Central Bank is poised for another rate hike given the weaker krone, higher swap rates and hotter inflation. And the US is left uncertain as the Fed pauses and gives a hawkish outlook for July



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Eurozone: PMI and consumer confidence data

The eurozone will get a first sense of how the month of June is shaping up in terms of economic activity, as the PMI and consumer confidence data is released. Last month brought a pretty bleak report on the economy as the PMI indicated that services experienced slower growth and manufacturing experienced a sharper contraction. The upside was around fading inflation expectations. So far, there's little indication that activity has picked up from there. Let's see if the survey turns this around on Friday.



UK: Bank of England set for a 25bp hike amid surging interest rate expectations

After some unwelcome inflation and wage data, markets now expect the Bank of England to take rates close to 6% over the coming months. That equates to almost six additional rate hikes and is very close to the highs we saw in the midst of the 'mini budget' crisis last year. The question for Thursday's meeting, where a 25bp hike is highly likely, is whether the Bank offers up similar pushback against investor expectations.

We suspect it won't, mainly because it will be reluctant to commit to any particular policy path given the recent tendency of inflation data to come in above forecasts. April's core inflation number came in much higher than expected, and May's data due next week will show only a fractional decline, if anything. Indeed services inflation – arguably of most relevance for the BoE – is likely to remain flat at 6.9%, or perhaps notch slightly higher.

But not pushing back against rate expectations is not the same thing as validating them. And we have strong doubts that the BoE will take rate hikes as far as markets expect. Near-6% mortgage rates would be highly problematic for the growth outlook, assuming they stayed there for some time. And beyond the headline figures, more forward-looking measures of inflation, including from the BoE's own survey of chief financial officers, suggests the story should turn more noticeably through the summer. Barring some further unpleasant and consistent surprises in the services inflation figures over the coming months, we think a 5% peak for the Bank rate seems reasonable.

US: Mortgage rates are back at 7% with property prices holding up

The hawkish hold from the Federal Reserve feels like an uncomfortable compromise, and then there is the legitimate question – if you say you are going to do an additional two interest rate rises this year, despite deteriorating leading indicators and slowing inflation, why did you not just do it immediately? There is clearly a broad range of views within the Federal Reserve FOMC, and Fed Chair Jerome Powell will be in the spotlight once again as he is grilled by politicians on Capitol Hill about the Fed's policy stance, inflation and the chances of recession. This will accompany the release of the Federal Reserve's semi-annual monetary policy report. We hope he will provide more clarity on what will be the catalyst for the next policy move, but we won't hold our breath. Unless we see a substantial drop in inflation and a material slowing in job creation, we have to accept that a July rate hike will be likely. After all, the Federal Reserve appears intent on stamping out any inflation threat once and for all even if that results in a recession.

The data flow mainly centres on the housing market. Mortgage rates are back at 7% and affordability is stretched to the limit, but the lack of available properties for sale means that prices are holding up. Existing homes are simply not available – people who would ideally move are being held prisoner by their ultra-low mortgage rate on their current property. They can't afford to take out a new mortgage on a different property at perhaps double the mortgage rate. Consequently, existing home transactions are likely to slow further with the result being new home sales are performing well as those few home buyers out there have little other option. We are therefore left with the highly unusual situation that housing construction is improving and housing starts are rising due to the dearth of properties available for sale even in such a weak demand environment.

✓ Norway: Norges Bank to hike rates by another 25bp

Norway's central bank is poised for another rate hike, which is unlikely to be the last. We'll get another set of interest rate projections next week, and it's likely to signal a peak of roughly 3.75%, which is higher than the last version in March. The krone is weaker on a trade-weighted basis than Norges Bank had anticipated, albeit less so over recent days. Swap rates have also risen globally since the last forecasts in March, which came amid the US banking crisis. Inflation has been a tad hotter as well. We currently expect a peak rate of 3.75% to be reached by September, though further NOK weakness and additional Fed rate hikes, were they to happen, could build the case for a 4% terminal rate.

Key events in developed markets this week

Country	Time	Data/event	ING	Survey	Prev.
Monday 19 June					
US	-	National holiday	-	-	-
	1500 Jun	NAHB home builder sentiment	51	51	50
Tuesday 20 June					
US	1330	May housing starts (000)	1450	1435	1417
Eurozone	0900	Apr Current Account SA, EUR	-		31.16
Wednesday 21 June					
UK	0700	May Core CPI (YoY%)	6.7		6.8
	0700	May CPI (MoM%/YoY%)	0.4/8.4	/	1.2/8.7
Canada	1330	Apr Retail Sales (MoM%)	-		-1.4
Sweden	0700	May Unemployment Rate	-		7.5
Thursday 22 June					
US	1330	Q1 Current Account (\$bn)	-220	-217	-206.8
	1330	Initial Jobless Claim	260	-	262
	1330	Continue Jobless Claim	1790	-	1775
	1500	May existing home sales (mn)	4.22	4.27	4.28
	1500	Fed Chair Powell delivers semi-annual monetary policy testimony to Congress	-	-	-
UK	1200	Jun BOE Bank Rate	4.75	4.75	4.5
Norway	0900	Key Policy Rate	3.5		3.25
Switzerland	0830	SNB Policy Rate	-		1.5
Eurozone	1500	Jun Consumer Confidence Flash	-17		-17.4
Friday 23 June					
US	1445	Jun S&P Global Manufacturing PMI Flash	-		48.4
	1445	Jun S&P Global Services PMI Flash	-		54.9
	1445	Jun S&P Global Composite Flash PMI	-		54.3
Germany	0830	Jun S&P Global Manufacturing Flash PMI	-		43.2
	0830	Jun S&P Global Service Flash PMI	-		57.2
	0830	Jun S&P Global Composite Flash PMI	-		53.9
France	0815	Jun S&P Global Composite Flash PMI	-		51.2
UK	0700	May Retail Sales (MoM%/YoY%)	-0.2/-2.6	/	0.5/-3
	0930	Jun Flash Composite PMI	54.2		54
	0930	Jun Flash Manufacturing PMI	47		47.1
	0930	Jun Flash Services PMI	55.5		55.2
Spain	0800	Q1 GDP (QoQ%/YoY%)	-/-	/	0.5/3.8
Eurozone	0900	Jun S&P Global Manufacturing Flash PMI	44.5		44.8
	0900	Jun S&P Global Services Flash PMI	54.8		55.1
	0900	Jun S&P Global Composite Flash PMI	52.5		52.8

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