

## Key events in developed markets next week

The Fed's hawkish shift means that an earlier than expected rate hike cycle is on the cards. Also, the Bank of England is unlikely to give much away about policy tightening just yet, however, we are pencilling in a first rate hike in 1Q23 with asset purchases unwinding doing some of the legwork



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### **US: Three rate hikes in 2023 expected in Fed's hawkish shift**

The Fed's hawkish shift continues to reverberate around markets.

Seven out of 18 Fed officials now expect a rate rise in 2022, with 13 out of 18 favouring 2023 for the start point. Previously it was four and seven members respectively for 2022 and 2023. The result is the Fed is now signalling 50 basis points of rate rises by the end of 2023, which is in line with the pricing on Fed funds futures contracts. Over the coming week we will get updates from eight individual Fed members, including Chair Jerome Powell. They could provide some nuance with hints on where they each see the balance of risks surrounding the outlook for monetary policy.

*Our view is that there will be three 25bp rate hikes in 2023, starting in the first quarter with the risks skewed towards earlier tightening.*

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There is a combination of housing numbers, durable goods orders and personal incomes, spending and inflation data in terms of the economic releases. Housing figures have softened of late, but this reflects the lack of supply on the market, which has bid prices sharply higher. Actual demand remains strong but is unfilled. Durable goods orders should remain on a strong path, but again the issue is being able to meet that demand.

The ISM has reported a record order backlog with supplier delivery times continuing to lengthen. Consequently, we expect this to prompt more business capital expenditure in the quarters ahead. Rounding out the reports we may see a slight fall in income growth in a lagged response the stimulus payment in March not being repeated. However, income from private sources continues to improve, and spending should continue to expand. The focus, though, will be the core personal consumer expenditure deflator, the Fed's favoured measure of inflation. It should post another sizeable gain as strong demand come up again, supply frictions in the economy.

## **Don't expect many new rate hike clues from the Bank of England just yet**

Will the Bank of England join the likes of the Bank of Canada in hinting at a possible rate hike in 2022?

Markets certainly are beginning to think this way and now have two hikes priced in by mid-2023 (albeit one of those is a 'partial' one from 0.1% to 0.25%). And we've also had Gertjan Vlieghe, a typically dovish committee member (though one that will shortly leave his post), floating the possibility of a hike later into 2022.

The reality is that the central bank is unlikely to say anything new on this next week, and indeed it has recently shied away from saying anything particularly concrete on the timing of a first move. Instead, UK policymakers have taken a leaf out of the Fed's book by signalling it wants 'significant' progress on spare capacity before thinking about hiking. Having said that, the last set of forecasts from May (which won't be updated next week) effectively endorsed the market's then-view of 20bp of tightening by 2Q23. Forecasts based on that interest rate profile yielded no excess supply by the tail-end of its policy horizon and kept inflation roughly at 2%.

For the time being, we've pencilled in the first move for 1Q23, though we wouldn't rule out an earlier move. Possible triggers include a more rapid unwinding of household savings or a more permanent-looking increase in wage growth. When discussing future rate rises, it's worth remembering that the Bank of England under Governor Andrew Bailey seems fairly keen that shrinking the balance sheet should also do some of the heavy lifting.

## Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 21 June</b>					
<b>Tuesday 22 June</b>					
Sweden	0830	May Unemployment Rate	-		9.4
Portugal	-	Apr Current Account Balance	-		-0.47
Eurozone	1500	Jun Consumer Confidence Flash	-3.0		-5.1
<b>Wednesday 23 June</b>					
US	1330	Q1 Current Account			-188.5
	1445	Jun Markit Composite Flash PMI	-		68.7
	1445	Jun Markit Manufacturing PMI Flash	-		62.1
	1445	Jun Markit Services PMI Flash	-		70.4
	1500	May New Home Sales-Units	-	0.89	0.863
Germany	0830	Jun Markit Manufacturing Flash PMI	62.0		64.4
	0830	Jun Markit Service Flash PMI	55.0		52.8
	0830	Jun Markit Composite Flash PMI	58.0		56.2
France	0815	Jun Markit Manufacturing Flash PMI	-		59.4
	0815	Jun Markit Services Flash PMI	-		56.6
	0815	Jun Markit Composite Flash PMI	-		57
UK	0930	Jun Flash Composite PMI	63.5		62.9
	0930	Jun Flash Manufacturing PMI	64		65.6
	0930	Jun Flash Services PMI	63.5		62.9
Canada	1330	Apr Retail Sales (MoM%)	-		3.6
Eurozone	0900	Jun Markit Manufacturing Flash PMI	61.7		63.1
	0900	Jun Markit Services Flash PMI	58.5		55.2
	0900	Jun Markit Composite Flash PMI	59.1		57.1
<b>Thursday 24 June</b>					
US	1330	May Durable Goods	3.5	2.1	-1.3
	1330	Q1 GDP Final	6.4	6.4	6.4
Germany	0900	Jun Ifo Business Climate New	101.0		99.2
	0900	Jun Ifo Curr Conditions New	97.0		95.7
	0900	Jun Ifo Expectations New	105		102.9
UK	1200	Jun BOE Bank Rate	0.1		0.1
	1200	Jun Asset Purchase Prog	895		895
Spain	0800	Q1 GDP (QoQ/YoY%)	-/-		-0.5/-4.3
<b>Friday 25 June</b>					
US	1330	May Personal Income (MoM%)	-2.5	-2.8	-13.1
	1330	May Personal Consump Real (MoM%)	0.3		-0.1
	1330	May Consumption, Adjusted (MoM%)	-	0.5	0.5
	1330	May Core PCE Price Index (MoM%)	-	0.6	0.7
	1500	Jun U Mich Sentiment Final	-		86.4
Germany	0700	Jul GfK Consumer Sentiment	-4.0		-7.0
Italy	0900	Jun Consumer Confidence	-		110.6
Eurozone	0900	May Money-M3 Annual Grwth	7.3		9.2
	0900	May Broad Money	14804249		14774774

Source: ING, Refinitiv

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