

## Key events in developed markets next week

All eyes will be on the G20 Xi-Trump meeting next week, but even if both leaders are open to resuming talks, there are many bridges to cross before a deal is struck. We're confident that a resolution will eventually be reached though, which limits the need for aggressive Fed rate cuts



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### Reaching a US-China deal will be tricky, despite G20 Xi-Trump meeting

Markets are anxiously waiting for the outcome of the Trump-Xi meeting at the G20 meeting on Friday and Saturday. A commitment to restarting the trade talks seems to be the best obtainable result. Both leaders want a deal but to avoid losing face, both need to get concessions from the other side. Xi will have to assure Trump that China is willing to offer more than it did during the last round of talks. At the same time, Trump needs to assure Xi that he respects China by, for example, agreeing to reciprocity regarding penalties in case of non-compliance with the trade deal. But even if both leaders decide to resume the talks, there are too many bridges to be crossed to get a deal quickly. We think this will lead to the US imposing another round of tariffs this quarter to ramp up the pressure. China will retaliate. Only after both sides experience the increasing negative effects of the trade war during the remainder of this year will they be prepared to

make concessions and finally strike a deal.

## ✔ US: We're cautious, but not as cautious as markets

Markets are increasingly of the view that the Fed will cut interest rates aggressively to head off the threat of recession. Trade policy is critical to this view given the fear that intensifying tensions will hurt sentiment, put up business costs and weaken profitability, which in turn will lead to weaker investment spending and hiring. This in turn could lead to a broader economic downturn, with inflation more likely to undershoot its target. We agree that precautionary rate cuts are likely but feel that two 25 basis point moves is more probable than the four priced in by futures contracts.

This week's data flow should show that the US economy has decent underpinnings with consumer confidence remaining firm, although durable goods orders may soften due to an inventory overhang in the manufacturing sector. More importantly, we are of the view that President Trump wants to get re-elected next year and for that to happen, he needs a strong economy and equity market. As our trade team have noted above, we remain confident that a deal will eventually be struck, which will again limit the need for interest rate cuts.

## ✔ Eurozone: Focus on inflation

The focus for the eurozone will turn to inflation. Kicking off next week we've got German inflation data (and the IFO survey), which should provide evidence as to whether the ECB may be forced to act in July or wait until the end of summer.

Obviously, the global economic environment is a key factor but weaker-than-expected inflation data in the eurozone is also in the mix. Some recovery after the weak May reading is expected but with fuel price growth down on the year, the scope for an upside surprise from the headline figure is limited.

Nevertheless, the ECB is seemingly keen to reduce rates, the question now is what the trigger will be?

## ✔ Canada: Things are looking pretty good - domestically

There were a few things driving growth figures in April, but funnily enough they were not related to cars. Largely due to assembly plant shutdowns, sales of motor vehicles - and in turn motor vehicle parts, fell and this weighed on manufacturing sales (-0.6% month-on-month). However, given that the shutdowns are likely to be temporary, we suspect this won't be a cause for concern.

On a more positive note, even though automotive exports were lower, there was a bright spot (quite literally) in the form of rising gold exports, which resulted in a decent uptick in the overall figure for a second straight month. This brought the trade deficit in April to its lowest level since October 2018, and this renewed strength in exports reinforces our view that the domestic economic outlook is looking a little brighter.

## Developed Markets Economic Calendar

| Country                  | Time | Data/event   | ING      | Survey | Prev.    |
|--------------------------|------|--|----------|--------|----------|
| <b>Monday 24 June</b>    |      |  |          |        |          |
| Japan                    | 0600 | Apr F Leading economic index   | -        | -      | 95.5     |
| Germany                  | 0900 | Jun IFO Business Climate   | 98.3     | -      | 97.9     |
|                          | 0900 | Jun IFO Expectations   | 96.3     | -      | 95.3     |
|                          | 0900 | Jun IFO Current Assessment   | 100.4    | -      | 100.6    |
| Australia                | 0030 | RBA Governor Lowe speaks on Canberra panel                                   |          |        |          |
| Netherlands              | 0530 | 1Q F GDP (QoQ%)  | 0.5      | -      | 0.5      |
| <b>Tuesday 25 June</b>   |      |  |          |        |          |
| US                       | 1500 | Jun Consumer Confidence  | 130.0    | 132.0  | 134.1    |
|                          | -    | Fed's Speakers: Williams (1345), Bostic (1700), Powell (1800), Barkin (2030) |          |        |          |
| Japan                    | 0050 | May PPI Services (YoY% )   | 1.0      | -      | 0.9      |
|                          | 0050 | BOJ Minutes of April Policy Meeting  |          |        |          |
| Australia                | 0805 | RBA's Bullock Gives Speech in Berlin   |          |        |          |
| <b>Wednesday 26 June</b> |      |  |          |        |          |
| US                       | 1330 | May P Durable Goods Orders (MoM%)  | -1.0     | 0.3    | -2.1     |
|                          | 1330 | May P Durable Goods Orders (ex. Transport, MoM%)                             | -0.5     | 0.2    | 0.0      |
| UK                       | 1015 | BOE's Carney, Cunliffe, Tenreyro and Saunders Speak                          |          |        |          |
| New Zealand              | 0300 | RBNZ Official Cash Rate decision   | 1.50     | -      | 1.50     |
|                          | 2300 | N.Z. Government 11-Month Financial Statements                                |          |        |          |
| Norway                   | 0700 | Apr Unemployment Rate AKU  | -        | -      | 3.5      |
| <b>Thursday 27 June</b>  |      |  |          |        |          |
| US                       | 1330 | 1Q T GDP (QoQ Annualised %)  | 3.2      | 3.2    | 3.1      |
| Japan                    | 0050 | May Retail trade (MoM SA/YoY%)   | -0.4     | -/-    | -0.1/0.4 |
|                          | 0050 | The BOJ releases 1Q Money Flow   |          |        |          |
|                          | 0230 | BOJ Wakatabe speaks in Aomori  |          |        |          |
| Eurozone                 | 1000 | Jun Economic Confidence  | 104.8    | -      | 105.1    |
| Germany                  | 1300 | Jun P CPI (MoM/YoY%)   | 0.1/1.3  | -/-    | 0.2/1.4  |
| Spain                    | 0800 | Jun P HICP (MoM/YoY%)  | -/-      | -/-    | 0.2/0.9  |
| Norway                   | 0700 | May Retail Sales (Ex. Motor Vehicles, SA, MoM%)                              | -        | -      | 1.8      |
| <b>Friday 28 June</b>    |      |  |          |        |          |
| Global                   | -    | G20 meeting begins in Osaka - US/China bilateral meeting expected            |          |        |          |
| US                       | 1500 | Jun F U. of Mich. Sentiment Index  | 97.5     | -      | 97.9     |
| Japan                    | 0050 | May P Industrial production (MoM/YoY%)                                       | 0.8/-1.1 | -/-    | 0.6/-1.1 |
|                          | 0050 | May Jobless rate (%)   | 2.5      | 2.4    | 2.4      |
|                          | 0050 | BOJ Summary of Opinions  |          |        |          |
| Eurozone                 | 1000 | Jun Flash Core CPI (YoY%)  | 1.1      | -      | 0.8      |
|                          | 1000 | Jun Flash CPI (YoY%)   | 1.3      | -      | 1.2      |
| UK                       | 0930 | 1Q F GDP (QoQ/YoY%)  | 0.5/1.8  | -/-    | 0.5/1.8  |
| Italy                    | 1000 | Jun P HICP (YoY%)  | -        | -      | 0.9      |
|                          | -    | Bank of Italy to Release 1Q Credit Conditions and Risk                       |          |        |          |
| Canada                   | 1330 | Apr GDP (MoM/YoY%)   | 0.1/1.4  | -/-    | 0.5/1.4  |
| Norway                   | 0700 | May Credit Indicator (YoY%)  | -        | -      | 5.7      |
|                          | 0900 | Jun Unemployment Rate  | 2.1      | -      | 2.1      |
| Sweden                   | 0830 | May Retail sales (Ex. Fuel, MoM/YoY%)  | -1.0/-   | -/-    | 1.9/3.9  |
| Portugal                 | -    | Portugal Releases Year-to-Date Budget Report                                 |          |        |          |

Source: ING, Bloomberg

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