

## Key events in developed markets next week

For the Fed, next week could mark the beginning of a new era of accommodative monetary policy but the Bank of England will probably stay on hold for the rest of the year



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### US: A new era

The US economy is in good shape with the robust growth, unemployment near 50-year lows and equity markets at all-time highs, yet the Federal Reserve is worried. Weaker external demand and concerns over the impact of protracted trade tensions mean that the Fed is prepared to step in with some precautionary policy easing – the first rate cuts since the financial crisis. Proponents, including the President, argue such a move would ensure that the current growth cycle, which is the longest since records began in 1854, can continue a good while longer. After all the inflation backdrop is benign and with markets fully pricing in four cuts by the end of next year there is a risk that if the Fed doesn't ease we actually see financial conditions tighten, which would be bad news for growth. The Fed is likely to ease again in September in our view, but thereafter the outlook is more uncertain. If trade talks conclude positively this will remove a dark cloud that has been hanging over the economy and the boost to sentiment it generates would be good news for asset prices and President Trump's prospects of winning re-election in 2020. Should talks falter and the economy really starts to struggle then the Fed will need to do more to support growth. For now we are in the camp favouring the former.

The FOMC meeting will overshadow the data this week, although there are some very important numbers. The ISM manufacturing index should rebound given the trade truce and the subsequent improvement seen in some of the regional surveys. The jobs report should also show ongoing job creation, but that the lack of available workers means competition for staff is strong with wages ticking higher. Such outcomes could see a modest steepening of the yield curve as markets modestly price out some of the aggressive policy easing they are currently anticipating.

## **UK: Bank of England unlikely to push back on rate cut expectations**

There will be less than three months left until Brexit when the Bank of England sits down to discuss monetary policy next week, making it very tricky to craft a set of new forecasts and guidance. On the face of it, market pricing – which is now pencilling in a 50% chance of a rate cut this year – is too flat for policymakers' liking. The Bank's May forecasts were already highlighting excess demand at the end of the forecast period – an implicit signal that rates may need to rise more quickly. The fact that the swaps curve has flattened significantly since May will only amplify the degree of overheating built into the Bank's projections.

That begs the question: will the Bank push back against the market's rate cut speculation – or even point to earlier tightening? We think it's pretty unlikely. Don't forget that the Bank's forecasts are premised on Brexit going smoothly – something that looks increasingly questionable. While it's tricky for policymakers to comment on the politics, they will probably use a similar tactic to June's meeting where they pointed towards rising financial market perceptions of 'no deal' as a reason for caution on rates.

We think UK interest rates will most likely stay on hold for the rest of this year.

## **Eurozone: Large flow of data incoming**

A whole batch of eurozone data will be released next week, inconveniently just after the ECB rate decision. GDP for the second quarter will be much anticipated as the first quarter had come in surprisingly strong but intermediate data has been dismal. We expect growth to have slipped in the second quarter. Inflation will be released for July, which will show whether subdued growth still translates into weak core inflation growth despite higher wages. Finally, keep an eye out for unemployment. As long as the labour market continues to perform quite well, service sector growth is likely to maintain a decent pace. That seems quite necessary as industrial production is still well below its December 2017 peak.

## **Developed Markets Economic Calendar**

Country	Time	Data/event	ING	Survey	Prev.
<b>Monday 29 July</b>					
Japan	0050	Jun Retail trade (MoM/YoY%)	-/-	-/-	0.4/1.3
Spain	0800	Jul P HICP (MoM/YoY%)	-/-	-/-	-0.1/0.6
<b>Tuesday 30 July</b>					
US	1500	Jul Consumer Confidence	128	124.7	121.5
Japan	0050	Jun P Industrial production - Prel (MoM/YoY%)	4.9/-2.5	-/-	2/-2.1
	-	Policy Rate	-0.1	-	-0.1
	-	BOJ Outlook Report			
Eurozone	1000	Jul Economic Confidence	102.8	-	103.3
Germany	1300	Jul P CPI (MoM/YoY%)	-/-	-/-	0.3/1.6
Norway	0700	Jun Retail Sales (Ex. Motor Vehicles, SA, MoM%)	-	-	-1.3
Sweden	0830	2Q P GDP (QoQ%)	-0.1	-	0.6
<b>Wednesday 31 July</b>					
US	1315	Jul ADP Employment Change (000's)	135	122.5	102.2
	1900	FOMC Rate Decision (Upper bound)	2.25	2.25	2.50
	1930	Fed Chair Powell Holds Press Conference After FOMC Meeting			
Japan	0600	Jul Consumer confidence index	-	-	38.7
Eurozone	1000	Jun Unemployment Rate (%)	7.5	-	7.5
	1000	2Q A GDP (QoQ/YoY%)	0.1/0.9	-/-	0.4/1.2
	1000	Jul A Flash Headline CPI (YoY%)	1.2	-	1.3
	1000	Jul A Core CPI (YoY%)	1.1	-	1.1
Germany	0855	Jul Unemployment Change (000's)	-	-	-1.0
	0855	Jul Unemployment Rate (%)	-	-	5.0
Italy	1000	Jul P HICP (YoY%)	0.8	-	0.8
	1100	2Q P GDP (QoQ/YoY%)	0.0/-0.1	-/-	0.1/-0.1
Canada	1330	May GDP (MoM/YoY%)	0.2/1.3	-/-	0.3/1.5
Australia	0230	2Q CPI (QoQ/YoY%)	0.5/1.2	-/-	0/1.3
<b>Thursday 1 August</b>					
US	1500	Jul ISM Manufacturing	53.5	52.5	51.7
Japan	0230	BOJ Amamiya speaks in Kagoshima			
UK	0930	Jul Markit/CIPS Manufacturing PMI	48.0	-	48.0
	1200	BoE Policy Rate	0.75	-	0.75
	1200	Bank of England Inflation Report			
Norway	0800	Jul DNB/NIMA Manufacturing PMI	-	-	51.9
<b>Friday 2 August</b>					
US	1330	Jul Change in Nonfarm Payrolls ('000s)	170	155	224
	1330	Jun Trade Balance (US\$bn)	-55	-54	-55.5
	1330	Jul Unemployment Rate (%)	3.6	3.6	3.7
	1330	Jul Average Hourly Earnings (MoM/YoY%)	0.3/3.3	0.2/3.2	0.2/3.1
	1330	Jul Participation Rate	62.9	-	62.9
	1500	Jul F U. of Mich. Sentiment Index	98.7	-	98.4
Japan	0050	Jul Monetary base (JPY tr)	-	-	523.2
	0050	BOJ Minutes of June Policy Meeting			
Eurozone	1000	Jun Retail Sales (MoM/YoY%)	0.3/1.3	-/-	-0.3/1.3
Australia	0230	2Q PPI (Q) (QoQ/YoY%)	0.4/2.1	-/-	0.4/1.9
	0230	Jun Retail sales (MoM%)	-	-	0.1
Norway	0700	Jun Credit Indicator (YoY%)	-	-	5.6
	0900	Jul Unemployment Rate	2.1	-	2.1

Source: ING, Bloomberg

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