

## 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



Source: Shutterstock

### 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

[Click here to download a printer-friendly version of this table](#)

## Authors

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.