

Key events in developed markets next week

Look out for hawkish signs from central banks in developed markets, with rate hikes not far off. The Federal Reserve is expected to taper its asset purchase programme in November, while the Bank of England is expected to announce its first rate hike



Source: Shutterstock

US: Fed tapering expected, with a rate hike not too far behind

After having more than doubled the size of its balance sheet to \$8.5t since the start of the pandemic, it is now time for the Federal Reserve to slow the rate of monthly asset purchases from the current \$120bn per month. A 3 November taper announcement looks inevitable now that officials, by and large, agree that “substantial further progress” has been made on both the inflation and employment mandates. Moreover, the minutes of the September FOMC meeting outlined a potential timetable that starts in November with asset purchases reduced by \$15b each month, split \$10b Treasuries and \$5b Agency Mortgage-Backed Securities. The plan is for purchases to be reduced to zero by June, but with the economy growing, creating jobs and likely experiencing elevated inflation through to at least the middle of next year, we think it could be concluded more swiftly.

We don't think interest rate increases will be far behind and markets seem to agree with earlier

interest rate hikes being anticipated across developed markets. We have been forecasting two interest rate increases in the second half of 2022 for quite some time – one in September and one in December. However, given the evident intensification of inflation pressures the risks are increasingly skewed towards the Federal Reserve taking a more aggressive position and hiking three times, starting in July. By moving earlier, the argument goes that this will mean that the terminal interest rate won't need to be as high, with Fed funds likely peaking below the 2.5% peak that Fed officials are currently predicting.

In terms of the data, we will have the ISM reports for both the manufacturing and services sectors. They should be consistent with firm economic activity that points to a re-acceleration in GDP growth after the Covid and supply chain constrained 2% reading for the third quarter. We will also look at their employment components as estimates for Friday's payrolls numbers are firmed up. Ahead of time, we think there should be some evidence of labour market supply shortages easing modestly. After all, schools are back to in-person tuition, so parents don't have to stay at home, there is an effective vaccine so Covid anxiety should be waning, and the extended unemployment benefits that may have diminished the financial need to get a job have concluded. However, given the accumulation of savings over the past 18 months, many people may be in no hurry to return to a job that they may not particularly like doing. Consequently, we are conservatively going for payrolls growth of 450k.

Bank of England poised to hike interest rates for the first time since Covid-19

Markets are fully pricing the first 15bp rate rise from the Bank of England (BoE) next week. Economists are less sure, and the consensus is relatively split. Certainly there are compelling reasons to think the MPC could wait – not least because we lack data on what's happened to the jobs market since the furlough scheme ended in September. But the message from Governor Andrew Bailey and his colleagues has strongly hinted that the Bank doesn't want to hang around. Waiting until December, as some have mooted, would mean the Bank lacks a post-meeting press conference or new forecasts to help explain its decision to the general public (something it takes seriously).

Even so, [markets are well ahead of themselves](#) on the extent and speed of future hikes from the BoE. Investors are pricing roughly four further moves by the end of 2022 – we think at most we're looking at one or maybe two. Policymakers may opt against making a huge deal about this in the statement, but we think there could be hints in the forecasts (which are based off market pricing) that investors are overestimating the tightening required. The vote to raise interest rates is also unlikely to be unanimous, which should act as a warning signal that future increase may not attract sufficient support on the MPC.

Brexit back in the headlines as tensions grow

The UK is reportedly ramping up preparations to trigger Article 16 of the Northern Ireland protocol, which in theory allows either side to unilaterally suspend parts of the deal if it's causing economic or social dislocation. This is now less a question of 'if' the government will do this, and increasingly 'when'. There's growing talk that this could come at some point in November, once world leaders have departed the UK after the COP26 summit. What then? The response from the EU would likely be fairly swift, and may well take the form of some retaliatory tariffs against the UK. The jury's out on whether this would cover a targeted list of products, or whether Brussels would go further and

suspend large parts (or even all) of the trade deal agreed late last year. Either way, this uncertainty will add a further growth headwind to the UK economy this winter.

✓ Norges Bank set to 'green light' a December rate rise

Norway was among the first to start a hiking cycle back in September, and another rate rise in December looks like a dead cert. Next week's meeting commands only a brief policy statement, but expect confirmation of another rate rise. We expect two or three additional moves next year.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 1 November					
US	1600	Oct ISM Manufacturing	62.0	60.4	61.1
	1600	Oct ISM Manufacturing Prices Paid	82.0		81.2
Germany	0800	Sep Retail Sales (MoM%/YoY%)	-/-		1.1/0.4
UK	1030	Oct Markit/CIPS Manufacturing PMI Final	57.7		57.7
Canada	1430	Oct Markit Manufacturing PMI	-		57.0
Tuesday 2 November					
Germany	0955	Oct Markit/BME Manufacturing PMI	-		58.2
France	0950	Oct Markit Manufacturing PMI	-		53.5
Switzerland	0830	Oct CPI (MoM%/YoY%)	-/-		0.0/0.9
Eurozone	1000	Oct Markit Manufacturing Final PMI	-		58.5
Wednesday 3 November					
US	1315	Oct ADP National Employment	400	369	568
	1500	Sep Factory Orders (MoM%)	-0.4	-0.1	1.2
	1600	Oct ISM Non-Manufacturing PMI	61.5	61.5	61.9
	1900	Fed Funds Target Rate	0.125	0.125	0.125
	1900	Fed Interest On Excess Reserves	-		0.15
UK	1030	Oct Composite PMI Final	56.8		56.8
Eurozone	1100	Sep Unemployment Rate	-		7.5
Thursday 4 November					
US	1330	Sep International Trade \$	-75	-74.1	-73.3
	1330	Initial Jobless Claims	280		281
	1330	Cont Jobless Claims	2200		2243
Germany	0800	Sep Industrial Orders (MoM%)	3.0		-7.7
	0955	Oct Markit Composite Final PMI	52.0		52.0
France	0950	Oct Markit Composite PMI	-		54.7
UK	1300	Nov BOE Bank Rate	0.25	0.1	0.1
	1300	Nov Asset Purchase Program	895	895	895
Italy	0945	Oct Composite PMI	-		56.6
Canada	1330	Sep Trade Balance C\$	-		1.94
Norway	1000	Key Policy Rate	0.25		0.25
Netherlands	0630	Oct CPI (MoM%/YoY%)	-		0.1/2.7
Eurozone	1000	Oct Markit Composite Final PMI	-		54.3
Friday 5 November					
US	1330	Oct Non-Farm Payrolls	450	400	194
	1330	Oct Private Payrolls	400	365	317
	1330	Oct Unemployment Rate	4.8	4.7	4.8
Germany	0800	Sep Industrial Output (MoM%/YoY%)	3.0/2.5		-4.0/1.6
France	0845	Sep Industrial Output (MoM%)	-		1
Canada	1330	Oct Unemployment Rate	-		6.9
Eurozone	1100	Sep Retail Sales (MoM%/YoY%)	-/-		0.3/0.0

Source: Refinitiv, ING, *GMT

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