Key events in developed markets next week

Both the Federal Reserve and European Central Bank are poised for further 25 basis point rate hikes as policymakers re-focus attention on the inflation battle after the March banking crisis

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Federal Reserve to hike by 25bp, but recession risks are rising

It's an important week ahead for US data and events. The obvious highlight is the Federal Reserve's upcoming FOMC meeting. Inflation remains "unacceptably high", but banking stresses are leading to a tightening of lending conditions. This will do more to slow the economy than the expected 25bp hike on Wednesday. While the Fed will leave the door ajar for further hikes, the need for higher policy rates is very questionable in our view. The combination of the most aggressive and rapid increase in interest rates for 40 years together with banks becoming far more reluctant to lend means a strong chance of a hard landing for the economy. We expect 100bp of rate cuts before year-end.

On Friday, we have the April jobs report and this is expected to record a further moderation in jobs growth. CEO confidence is at levels consistent with recession, while small business optimism is weaker than during the lowest point of the pandemic. This indicates that business leaders are likely adopting a more defensive mindset that equates to reduced capex spending. Job loss announcements are up 400% according to the Challenger survey, with jobless claims also starting to creep higher. The Fed itself forecasts the unemployment rate to rise to 4.5% by year-end as the result of a “mild recession", but we see more upside risk to the jobless rate.

Other important numbers include the ISM reports, which are likely to be consistent with subdued activity and the business survey evidence already mentioned.

ECB set for 25bp 'compromise' rate hike

As the banking crisis now seems to be contained, the ECB will stick to the widely-communicated distinction between using interest rates in the fight against inflation and liquidity measures plus other tools to tackle any financial instability. The fact that there are still no signs of any disinflationary progress (discounting energy and commodity prices), as well as the fact that inflation has increasingly become demand-driven, will keep the central bank in tightening mode. If the hawks were to remain in the driver’s seat, the terminal rate would probably be at 3.75% or 4%.

However, we still think that the turmoil of the last few weeks should have been a clear reminder for the ECB that hiking interest rates – and particularly the most aggressive tightening cycle since the start of the monetary union – comes at a cost. It is also a strong argument for the doves at the ECB. As with any further rate hike, the risk that something breaks increases.

For next week, both a 25bp and a 50bp rate hike seem to be on the table. The next inflation print, credit developments and the latest Bank Lending Survey (all to be released next week) will tip the balance. We think that given the growing divide within the ECB, a hike of 25bp would be a typical European compromise. However, we will revisit our call after Tuesday’s data flood. Read our full preview here

Norges Bank to follow through with another rate hike

Ongoing NOK weakness, amongst other things, saw Norges Bank add in an extra couple of rate hikes into its projections back in March. Since then, the story hasn’t changed hugely. The trade-weighted NOK has been a little more stable than in previous months, and core inflation is roughly in line with projections. As a result, we expect a 25bp rate hike next week and there’s currently no reason to doubt Norges Bank’s guidance that we’ll get another one in June.

Key events next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 1 May			
US	1500	Apr ISM Manufacturing PMI	46.5	46.6	46.3
	1500	Apr ISM Manufacturing Prices Paid	48.5		49.2
		Tuesday 2 May			
US	1500	Mar Factory Orders (MoM%)	2.0	0.8	-0.7
Germany	0700	Mar Retail Sales (MoM%/YoY%)	0.5/-6.0		-1.3/-7.1
Italy	1000	Apr CPI Prelim (MoM%/YoY%)	-0.1/7.6		0.8/8.1
Eurozone	0900	Mar Money-M3 Annual Grwth	1.5		2.9
	0900	Bank Lending Survey			
	1000	Apr CPI Flash (YoY%)	6.2		6.9
	1000	Apr Core CPI Flash (YoY%)	5.8		5.7
		Wednesday 3 May			
US	1315	Apr ADP National Employment	150	150	145
	1500	Apr ISM Non-Manufacturing PMI	52.0	51.6	51.2
	1900	Fed Funds Target Rate (ceiling)	5.25	5.25	5.00
	1900	Fed Interest On Excess Reserves	5.15	5.15	4.9
Eurozone	1000	Mar Unemployment Rate	6.6		6.6
		Thursday 4 May			
US	1330	Initial Jobless Claims	-		230
	1330	Continue Jobless Claims	-		1858
	1330	Mar International Trade (USD bn)	-	-70	-70.5
Germany	0700	Mar Imports/Exports	0.75		4.6/4
	0700	Mar Trade Balance	14		16
Canada	1330	Mar Trade Balance (CAD bn)	-		0.42
Norway	0900	Key Policy Rate	3.25		3.00
Eurozone	1315	May ECB Refinancing rate	3.75	3.75	3.50
	1315	May ECB Deposit rate	3.25	3.25	3.00
		Friday 5 May			
US	1330	Apr Non-Farm Payrolls	175	181	236
	1330	Apr Private Payrolls	150	156	189
	1330	Apr Unemployment Rate	3.6	3.6	3.5
	2000	Mar Consumer Credit	16.0	16.5	15.29
Germany	0700	Mar Industrial Orders (MoM%)	-2.5		4.8
France	0745	Mar Industrial Output (MoM%)	-		1.2
Canada	1330	Apr Unemployment Rate	4.9	-	5
Switzerland	0730	Apr CPI (MoM%/YoY%)	-/-		0.2/2.9
Eurozone	1000	Mar Retail Sales (MoM%/YoY%)	-/-		-0.8/-3

Source: Refinitiv, ING

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