

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



Source: Shutterstock

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

Authors

James Knightley

Chief International Economist, US

james.knightley@ing.com

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

James Smith

Developed Markets Economist, UK

james.smith@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>.