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THINK Ahead: Roll up, roll up, play the data dependence game of doubt!

Markets expect three rate hikes from the ECB and Bank of England. ING expects none. Roll up! Come take your chance! If you re going to be right, it won t be decided by the data, argues James Smith, but by energy prices. And that s where investors may be getting central banks wrong

What a circus! Investors may be getting central banks wrong on rate hikes

Doubting data dependence

Can anything stop the central banks from hiking rates in April?

Financial markets increasingly say “no”. Investors are pricing a 60-70% probability of ECB/Bank of England hikes next month.

We’re way less convinced, but that’s not the point. The question here is what will sway central banks one way or the other.

They would tell you it is the data. ECB President Lagarde said so in her speech this week. Officials want to keep an open mind and let the numbers do the talking.

Except that isn't going to happen. Quite the opposite. I'm here to tell you that none of the economic data released over the next month will have much - if any - bearing on whether the central banks hike rates in April.

Remember, the fundamental unknown is not whether inflation will rise in the aftermath of the Middle East crisis, but whether we will see the so-called “second round effects”. Will we see businesses across the economy, including in the service sector, raising prices in response to higher energy costs? And will workers demand higher pay as their bills rise?

Clearly, the higher energy prices rise – and the longer they stay high – the greater the risk of that happening. And as I wrote last week, the relationship is not necessarily linear.

But it also requires central bankers to take a view on the underlying power of businesses and workers to protect their bottom lines.

Some will argue rates should rise because that’s what you do in energy price shocks. I’m thinking particularly of those acolytes of the 1970’s Bundesbank (where aggressive rate hikes famously helped Germany avoid the worst of the inflation wave). Bank of England Chief Economist Huw Pill, who openly counts himself as an admirer, argued this week that uncertainty is no excuse for a delay on rate hikes.

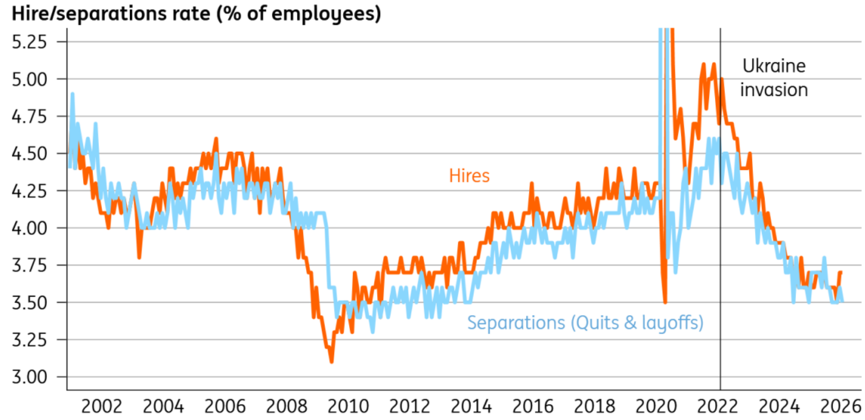
Others – like us – will argue that the economy looks wildly different to how it did in 2022, when the last energy shock hit. The jobs market is much, much cooler. Fiscal policy is no longer a tailwind (notwithstanding Germany), and in many cases it's a headwind (UK!). Central bank rates are at or above neutral, where they were still at zero back in early 2022.

The economy's ability to generate long-lasting inflation is greatly diminished.

Still, whichever side of the fence you’re on, the data over the next few weeks isn’t going to change your mind.

Take the jobs numbers, which we’ll get in the US next week. January was strong, February weak, the picture muddied by strikes and weather. March will give us a hint as to where the true story lies – James Knightley discusses it more below. But in short, the wider body of evidence suggests this is a low-hire, low-fire economy. Europe is in a similar predicament, and a period of heightened uncertainty won’t help.

Low hire, low fire



Source: Macrobond, ING

How about inflation? We'll get the initial read on March in Europe next week. Rising petrol/diesel prices will push it up. But the impact on core inflation could take months to emerge.

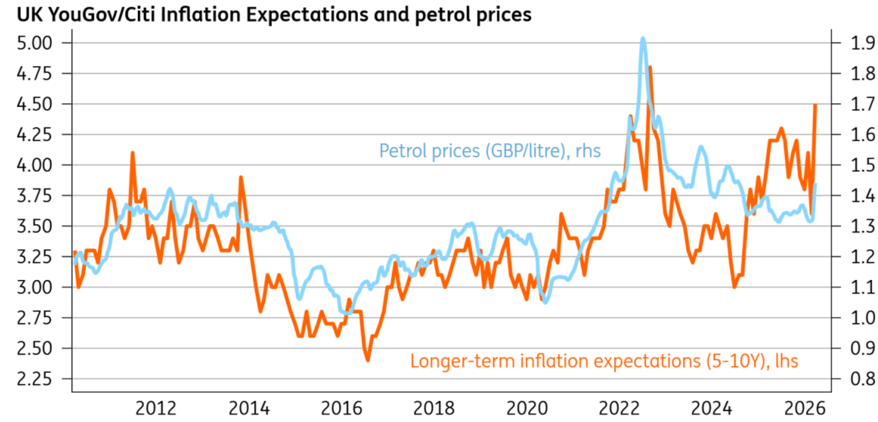
So that puts the focus squarely on the surveys, which fall into three categories.

First, pricing. We had the purchasing managers' indices this week. My main takeaway was that the proportion of firms experiencing higher input costs rose much faster than those that are raising selling prices. It hints that companies will encounter some difficulties in passing these energy costs on. But let's be honest, it's still very early days; PMIs aren't always reliable at major economic turning points. We'll get similar data from the European Commission next week, and the ECB has said it'll be watching closely.

Second, wages, which are a better gauge of whether inflation is likely to persist. And we'll get the BoE's "Decision Maker Panel" survey of CFOs next week. Wage growth has fallen a long way over the past year. But the hawks would argue wage expectations were still a little higher than they'd like. Still, pay growth is just about the most lagging indicator of economic performance. We won't know the true impact here for several months at a minimum.

Third, inflation expectations. What central banks fear most is that individuals will recognise prices are rising faster and act differently in a way that makes inflation harder to control. I'm deeply sceptical of this logic. Petrol prices rise. And as night follows day, so will consumer perceptions of inflation. They already are; here's what happened to the latest UK data:

As petrol prices have spiked, so have inflation expectations



Source: Macrobond, ING

But this makes little difference in an economy where unemployment is rising and the ability to demand higher pay is diminished. Still, if I had to pick out one number that might panic the central banks into hiking rates, it would be this.

That aside, I really don't think the data over the coming weeks will have a say on what the ECB or BoE will do in April.

So who will decide who's right: markets, which expect three hikes this year from both central banks, or us, who expect none?

If you take those market expectations at face value - and there are many reasons, not least poor liquidity, why you shouldn't - then maybe investors simply expect the crisis to last longer with more permanent damage.

More likely, though, markets are misreading the reaction function of central banks to the current crisis. Carsten Brzeski's read of this week's ECB commentary was that the central bank is much further away from hiking rates than investors think. Reports here in Britain that Governor Bailey was “infuriated” by the hawkish repricing in UK rates after last week's meeting are also pretty telling.

Rate hikes aren’t out of the question. But they rely on energy prices rising faster or the conflict lasting longer. Our call, for now, is that European rates stay on hold for the foreseeable future.

THINK Ahead in developed markets

United States (James Knightley)

- With the conflict in the Middle East continuing to be the main theme for markets, the US

data will take something of a back seat. Nonetheless, there are a number of key reports that could yet influence the Fed's thinking on whether it should hike interest rates if it can afford to "look through" an energy-related inflation spike.
- **Retail sales** (Wed): Retail sales will be lifted by decent auto sales numbers in February, but outside of that, the concern remains that higher energy costs will be demand-destructive, leaving less money to spend on discretionary items. The ISM manufacturing index may also be stronger than many analysts think. The European measures showed manufacturing outperforming services in March, which may be tied to stronger order books as customers fear the potential for higher energy costs to feed through to higher manufactured goods prices if they delay.
- **NFP** (Fri): The main report for markets will be the March jobs report. The labour market has effectively flatlined for the past twelve months, with all other sectors outside of government, leisure & hospitality and private education & healthcare services losing workers over the past 12 months. 92,000 jobs were lost in February, but this was probably over-representing the weakness due to bad weather and strikes depressing the employment story. We look for a rebound to around 60,000 positive, but the underlying trend remains very weak. Given the Fed has a dual mandate of price stability and maximum employment, this is another argument for the Fed to look through what we believe will be a short-term energy-driven price shock.

Eurozone (Bert Colijn)

- **Economic sentiment** (Mon): the PMI already dropped significantly this month, and expectations are no different for the European Commission's sentiment indicator. Consumer confidence already took a nosedive in March, from -12.2 last month to -16.3. In essence, this crisis captures two of the main consumer fears in one: geopolitical turmoil and higher prices.
- For businesses, the PMI saw a strong drop in services while manufacturing held up. With more detail here, it will be interesting to see how energy-intensive industry is now performing.
- **Inflation** (Tue): on Tuesday, the ECB can say goodbye to 'the good place' it had considered inflation to be in over recent months. The higher energy prices will translate into increased headline inflation in March already, even though the impact of the war on consumer prices accelerated over the course of the month.

THINK Ahead in Central and Eastern Europe

Poland (Adam Antoniak)

- **CPI** (Tue): The Middle East conflict and resulting spike in crude oil prices pushed petroleum prices at the pumps to levels not seen since 2022, when Russia invaded Ukraine. Higher gasoline and diesel prices alone pushed CPI by more than 1 percentage point up vs. February. Along with higher food price dynamics and slightly higher core inflation, it pushed headline CPI to 3.5% YoY i.e. the upper bound of acceptable deviations from the 2.5% inflation target. New energy shock is the major threat to the mid-term inflation outlook. The central bank will no longer cut rates this year, but at the current stage is reluctant to tighten monetary policy until the scale of the shock is clearer.

Hungary (Peter Virovacz)

- **Trade balance** (Mon): We see a significant improvement in the monthly trade balance in February, as the January figure was distorted by the cold spell and the subsequent increase in energy imports. As the Druzhba pipeline has not been pumping oil towards Hungary for a month, this could also temporarily boost the trade balance.
- **Wages** (Tue): The minimum wage increases of 11% and 7% for unskilled and skilled workers, respectively, will probably accelerate wage growth to close to double digits in January 2026. In addition, lower employment could also increase the average wage via the composition effect.

Czech Republic (David Havrlant)

- **PMIs** (Wed): Industrial PMI likely flipped to contraction zone in March, as the actual production situation improved, but the onset of the conflict in the Middle East likely dashed the optimism on the outlook. That said, the repercussions of the current negative supply shock for economic activity and confidence will only get more tangible as time passes by.

Turkey (Muhammet Mercan)

- **CPI** (Fri): Given the impact of geopolitical shocks on the energy complex, we expect March CPI at 2.2% as a result of higher fuel prices. This translates into annual inflation at 32.2%, down slightly from 31.5% recorded in February.

Azerbaijan (Dmitry Dolgin)

- **Rate decision** (Wed): We expect Azerbaijan's central bank (CBAR) to keep the refinancing rate unchanged at 6.50% at the upcoming policy meeting on 1 April (Wednesday), following a 25bp cut in February. CPI stood at 5.6% YoY in February, showing no material improvement compared with previous months. While the outbreak of war in the Middle East is positive for Azerbaijan's exports, it also increases the risk of imported cost inflation and may entail additional fiscal spending related to defence and security. A further 25bp cut, while less likely, remains possible and would signal CBAR's concern about the growth outlook, which has been under pressure in recent months.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 30 March		
Eurozone	1000	Mar Economic Sentiment	96.7	98.3
	1000	Mar Consumer Confidence Final	-16.3	-12.2
Germany	1200	Mar CPI (MoM%/YoY%)	1.2/2.7	0.2/1.9
Spain	0800	Feb Retail Sales (YoY%)	-	4
		Tuesday 31 March		
US	1300	Jan Case-Shiller 20 (MoM%/YoY%)	0.1/1.2	0.5/1.4
	1345	Mar Chicago PMI	52	57.7
	1400	Mar Conference Board Consumer Confidence	86	91.2
	1400	Feb Job Openings (mn)	7	6.9
Eurozone	0900	Mar CPI Flash (YoY%)	2.6	1.9
	0900	Mar Core CPI Flash (YoY%)	2.5	2.4
Germany	0600	Feb Retail Sales (MoM%/YoY%)	-0.6/0.6	-0.9/1.2
	0755	Mar Unemployment Rate SA	6.4	6.3
France	0645	Mar CPI (MoM%/YoY%)	-	0.6/0.9
UK	0600	Q4 GDP Final (QoQ%/YoY%)	0.1/1	0.1/1
	0600	Q4 Current Account GBP	-	-12.1
Italy	0900	Mar CPI Prelim (MoM%/YoY%)	-/-	0.5/1.5
Canada	1230	Jan GDP (MoM%)	-	0.2
Portugal	1000	Mar CPI Flash (YoY%)	-	2.1
		Wednesday 1 April		
US	1215	Mar ADP National Employment (000s)	40	63
	1230	Feb Retail Sales (MoM%)	0.6	-0.2
	1400	Mar ISM Manufacturing PMI	52	52.4
	1400	Mar ISM Manufacturing Prices Paid	73	70.5
Eurozone	0800	Mar HCOB Manufacturing PMI Final	51.4	51.4
	0900	Feb Unemployment Rate	6.2	6.1
Germany	0755	Mar HCOB Manufacturing PMI Final	50.9	50.9
UK	0830	Mar S&P Global Manufacturing PMI Final	51.4	51.4
Italy	0745	Mar S&P Global/IHS Manufacturing PMI	-	50.6
	0800	Feb Unemployment Rate	-	5.1
		Thursday 2 April		
US	1230	Feb Balance of Trade (USD bn)	-61	-54.5
	1230	Initial Jobless Claims (000s)	215	210
Canada	1230	Feb Trade Balance (CAD bn)	-	-3.7
Switzerland	0630	Mar CPI (MoM%/YoY%)	-/-	0.6/0.1
UK	0930	Bank of England Decision Maker Panel survey		
		Friday 3 April		
US	1230	Mar Non-Farm Payrolls (000s)	60	-92
	1230	Mar Private Payrolls (000s)	60	-86
	1230	Mar Unemployment Rate	4.4	4.4
	1345	Mar S&P Global Composite PMI Final	-	51.4
	1345	Mar S&P Global Services PMI Final	-	51.1
France	0645	Feb Industrial Output (MoM%)	-	0.5

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 30 March		
Hungary	0730	Feb Trade Balance (EUR mn)	900	292
Bulgaria	1000	Mar Flash CPI (MoM%/YoY%)	-0.1/3.3	0.4/3/3
		Tuesday 31 March		
Turkey	0700	Feb Trade Balance (USD bn)	-9.2	-8.4
	0700	Feb Unemployment Rate	-	8.1
Czech Rep	0700	Q4 Revised GDP (QoQ%/YoY%)	0.6/2.6	0.6/2.6
Hungary	0630	Jan Average Gross Wages (YoY%)	9.5	8.5
Poland	0830	Mar Flash CPI (MoM%/YoY%)	1.6/3.5	0.3/2.1
Croatia	1100	Mar Flash CPI (MoM%/YoY%)	1.0/4.4	0.3/3.8
		Wednesday 1 April		
Russia	0600	Mar S&P Global Manufacturing PMI	-	49.5
	1600	Feb Retail Sales (YoY%)	1.3	0.7
	1600	Feb Unemployment Rate	2.2	2.2
	-	Feb GDP (YoY%) Monthly	1.0	-2.1
Turkey	0700	Mar Manufacturing PMI	-	49.3
Poland	0800	Mar S&P Global Manufacturing PMI	48.1	47.1
Czech Rep	0730	Mar S&P Global PMI	49.2	50.0
Hungary	0700	Mar Manufacturing PMI	53.1	51.3
Kazakhstan	-	Mar CPI (MoM%/YoY%)	1.0/11.5	1.1/11.7
		Wednesday 1 April		
Azerbaijan		Mar refinancing rate (%)	6.5	6.5
		Friday 3 April		
Russia	0600	Mar S&P Global Services PMI	-	51.3
Turkey	0700	Mar CPI (MoM%/YoY%)	2.2/31.2	3.0/31.5

Source: Refinitiv, ING

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