

## THINK Ahead: The latest cats getting the cream

Politics still have plenty of scope to surprise this summer - just ask Larry, the Downing Street cat who's on his sixth UK Prime Minister. James Smith has got his paws all over what's going to be driving prices next week and beyond in our THINK Ahead



Larry, the Downing Street cat, has now lived with six British Prime Ministers

### What the world can learn from the UK's election

Cats may have nine lives; rarely do they live through six consecutive Prime Ministers like Larry the Cat, who's been resident in Downing Street since being adopted by David Cameron in 2011. Now he's got to cuddle up to Sir Keir Starmer.

And if you thought nothing would surprise you about the UK's general election, think again. Sure, there was nothing unpredictable about Labour's victory, nor the fact that it came with a massive majority to boot. [Read our full reaction here.](#)

But here's a crazy statistic: the UK Labour Party won 63% of the seats in Thursday's general election yet captured just 34% of votes. As our chart of the week shows, that vote share increased

just 1.5 percentage points on 2019's election result despite securing double the seats. Here's another eye-catching number, courtesy of [The Times](#), the average majority of each seat has almost halved since 2019.

Labour's majority is vast, but its roots are relatively shallow. And what's clear is that the major parties are collectively losing ground. Labour and Conservatives, traditionally the dominant forces in British politics, attracted less than 60% of Thursday's vote combined. It was 75% just five years ago. Voters are exacting a big price on incumbency. Britain's unusual First Past The Post electoral system may be generating some wild swings, but that's a symptom and not a cause of these underlying shifts.

The UK's results may seem worlds away from what's happening just across the Channel in France. But these are trends that will resonate with foreign leaders, not least President Emmanuel Macron who faces heavy losses in Sunday's final round of the French parliamentary elections.

Marine Le Pen's Rassemblement National came out on top of last weekend's vote. But as Philippe Ledent writes below, a wave of dropouts among centre and left candidates has made it more likely that no political group wins an absolute majority.

Investors are assuming this means fewer fiscal fireworks; [our rates team estimates](#) the risk premium that's emerged in French bond markets has started to recede. But the ominous public finance challenge remains. And when the complicated process of forming a majority in the French parliament gets underway, Carsten Brzeski argues that the country will hardly be in the driver's seat on big pan-European projects. As he says, Europe has always needed a strong German-Franco axis to move ahead, and it's hard to see this strengthening over coming months.

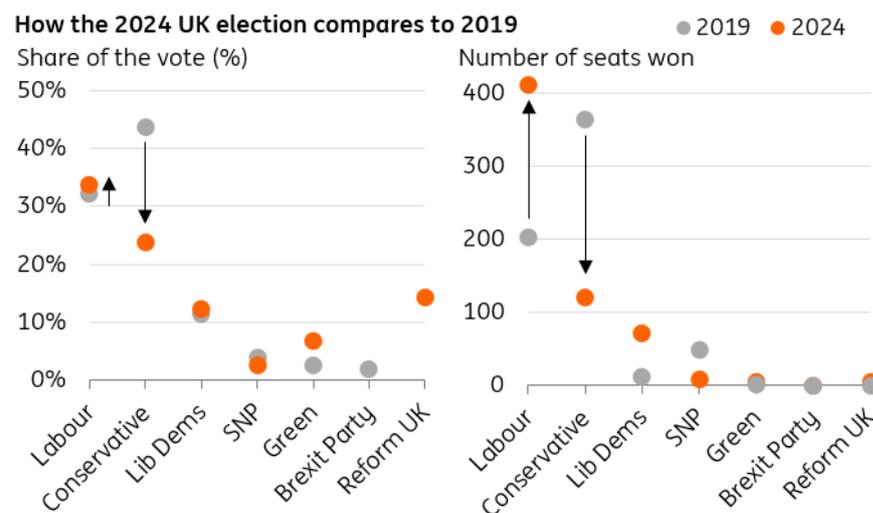
The lesson for investors is that European politics still has plenty of scope to surprise and drive prices this summer. As, of course, do events across the Atlantic in Washington, particularly the question of President Biden's future as Democratic nominee.

It's a theme that the Federal Reserve would prefer to stay well away from. An interviewer at the European Central Bank's Sintra conference received a [terse response](#) from Chair Jay Powell this week when asked about the impact the election might have on the economy.

Like it or not though, the issue of rate cuts will inevitably enter the political arena as we get closer to November's vote. Policymakers will be hoping, now more than ever, that the data makes the path ahead more obvious. And fortunately enough for them, that is what seems to be slowly happening. New figures show the unemployment rate rising and private-sector hiring slowing down.

That's one of the three things that James Knightley has argued needs to happen for the Fed to cut rates. Throw in a more benign core CPI reading next week, and we're another big step closer to the September cut we've long been expecting.

## Chart of the week: The UK's political earthquake



Source: BBC

## THINK Ahead in developed markets

### United States (James Knightley)

- Powell Testimony (Tue):** Two events stand out over the coming week. Firstly, we have Federal Reserve Chair Jerome Powell testifying before the Senate and House banking Committees on Tuesday and Wednesday, respectively. This is his semi-annual testimony relating to the publication of the Monetary Policy Report to Congress. Last week in Sintra he sounded tentatively dovish, recognising recent improved inflation numbers, but signalled the Fed need to see further improvements and a general cooling in activity before it seriously contemplates cutting interest rates. We expect to hear more of the same from him, which is likely to keep the prospect of a September interest rate cut alive.
- Inflation (Thu):** In terms of the data, we will be focusing on the consumer price inflation report on Thursday. Last month we finally got a 0.2% month-on-month core CPI print after a series of 0.4 and 0.3 readings over the previous six months. They were far too hot for the Fed to contemplate rate cuts, but if we can get another two or three 0.2% prints over the next few months that will give the Fed much more confidence that inflation is back on the path to the 2% target. We do indeed expect a second consecutive 0.2% reading this week with cooling consumer spending leading to a weakening in corporate pricing power.

### France (Philippe Ledent)

- Parliamentary elections (Sun):** The most likely scenario is that no political group will win an absolute majority. Only Marine Le Pen's Rassemblement National could achieve such an objective, but the latest polls do not point in that direction. We will therefore have to pay close attention to the possible alliances that will be formed in parliament, starting in the next few days. Although forming coalitions of different (or even opposing) parties remains difficult to imagine for the French electorate, a group bringing together elected moderates from the left, centre and right could attempt to form a relative majority. The president could then appoint, as early as next week, a new prime minister who would be a consensus figure. If, on the other hand, this process takes too long, the current Prime Minister Gabriel Attal would have to remain on an interim basis. If, finally, the Rassemblement National does

win an absolute majority, the president will be obliged to appoint Jordan Bardella as prime minister. In this case, we can expect major disruption to the French economy, potentially including strikes, demonstrations and protests in response to this result.

#### United Kingdom (James Smith)

- **Bank of England speakers:** With the election out of the way, BoE officials are free to make public comments again. Of the three speeches currently scheduled, watch Chief Economist Huw Pill on Wednesday for hints that an August rate cut is more likely than markets currently expect (60% probability). A move at the next meeting is our base case.

## THINK ahead for Central and Eastern Europe

#### Hungary (Peter Virovacz)

- **Budget (Mon):** The month of May brought a positive development in revenues, showing a favourable change in trend compared to previous years. Strong consumption should have helped in June, helping the budget balance. UEFA EURO 2024 is also a boost to consumption and thus also to budgetary revenues. We think we could therefore see a positive surprise. On the expenditure side, the payment structure of government bonds (especially retail bonds) was also favourable in June.
- **Inflation (Tue):** Inflation in Hungary remains a tale of two halves. We continue to see rather strong price pressures in services and durable goods, while unprocessed food, household energy and fuel prices were all disinflationary forces in June, according to our assessment. So while services should add to the headline reading, goods limit the upside. As a result, the headline figure could fall back to 3.7% year-on-year in June. With mostly non-core factors still keeping a lid on inflation, we expect core inflation to remain elevated at 4.0%.

#### Czech Republic (David Havrlant)

- **Industrial output (Mon):** Expect continued annual growth in May, though at a slower pace than previously. Industry has been facing some challenges, linked predominantly to foreign demand. This could undermine the gradual recovery, despite a better consumer picture. Meanwhile, a robust export performance has contributed to the continued trade surplus in May.
- **Unemployment rate (Tue):** The labour market remains tight, despite the gradual recovery in the economy. Meanwhile, the summer season is approaching along with the elevated need for jobs in the service sector. The unemployment rate should continue its gradual downward trend.
- **June CPI (Wed):** Headline inflation likely softened to 2.5% in June, with core inflation and fuel prices contributing to the slowdown. In contrast, we expect a renewed pickup in food prices. There is a downward risk to the June inflation reading linked to electricity prices, as some large distributors lowered their end prices. However, the impact on overall inflation depends on how many households will benefit from the move, as it affects the customers with floating tariffs and their share is not exactly known.

#### Turkey (Muhammet Mercan)

- **Current account balance (Fri):** After a temporary increase in April, we expect the 12-month current account deficit to fall to its lowest since mid-2022, in part because of a large base in

the same month last year. The expected deficit of US\$2.2bn in May alone implies a strong recovery in external imbalances, driven by a considerable contraction in the foreign trade deficit, while tourism revenues will be supportive of the monthly reading.

## Key events in developed markets next week

Country	Time Data/event	ING	Prev.
<b>Sunday 7 July</b>			
France	- Parliamentary Elections Final Round	-	-
<b>Monday 8 July</b>			
US	2000 May Consumer Credit	12	6.4
Germany	0700 May Exports	-0.9	1.6
	0700 May Imports	-1	2
	0700 May Trade Balance	19	22.1
France	0745 Jun Reserve Assets Total	-	245.9
UK	1715 BoE's Haskel speaks	-	-
<b>Tuesday 9 July</b>			
US	1600 Fed Powell Senate Banking Committee Testimony	-	-
Netherlands	0530 Jun CPI Final (MoM%/YoY%)	-	0.2/2.7
Greece	1000 Jun CPI (YoY%)	-	2.4
<b>Wednesday 10 July</b>			
	1430 BoE's Pill speaks		
Italy	0900 May Industrial Output (MoM%/YoY%)	0.5/-	-1/-2.9
Norway	0700 Jun CPI (MoM%/YoY%)	-/-	-0.1/3
	0700 Jun Core Inflation (MoM%/YoY%)	-/-	0.5/4.1
Netherlands	0530 May Manufacturing Output (MoM%)	-	0.4
Greece	1000 May Industrial Output (YoY%)	-	10.8
<b>Thursday 11 July</b>			
US	1330 Jun Core CPI (MoM%/YoY%)	0.2/3.4	0.2/3.4
	1330 Jun CPI (MoM%/YoY%)	0.1/3.1	0/3.3
	1330 Jul Initial Jobless Claims	230	238
UK	0700 May GDP Estimate (MoM%)	0.2	0.0
Germany	0700 Jun CPI Final (MoM%/YoY%)	0.1/2.4	0.1/2.4
<b>Friday 12 July</b>			
US	1330 Jun PPI (MoM%/YoY%)	0.1/2.3	-0.2/2.2
	1500 Jul Michigan Sentiment Prelim	67	68.2
	1500 Jul Conditions Prelim	65	65.9
	1500 Jul Expectations Prelim	69	69.6
France	0745 Jun CPI Final (MoM%/YoY%)	-	0.1/2.1
Spain	0800 Jun CPI (MoM%/YoY%)	-/-	0.3/3.6
Sweden	0700 Jun CPI (MoM%/YoY%)	-/-	0.2/3.7
	0700 Jun CPIF (MoM%/YoY%)	-/-	0.2/2.3

Source: Refinitiv, ING

## Key events in EMEA next week

Country	Time Data/event	ING	Prev.
<b>Monday 8 July</b>			
Czech Rep	0800 May Industrial Output (MoM%/YoY%)	2.3/1.6	0.6/-0.4
	0800 May Trade Balance	-	33.1
Hungary	1000 Jun Budget Balance	-57.5	49
<b>Tuesday 9 July</b>			
Czech Rep	0800 Jun Unemployment Rate	3.5	3.6
Hungary	0730 Jun Core CPI (YoY%)	4.0	4.0
	0730 Jun CPI (MoM%/YoY%)	0.0/3.7	0.1/4.0
<b>Wednesday 10 July</b>			
Russia	1700 Jun CPI (MoM%/YoY%)	0.7/8.6	0.7/8.3
Turkey	0800 May Industrial Production (MoM%/YoY%)	-	4.9/-0.7
Czech Rep	0800 Jun CPI (MoM%/YoY%)	0.2/2.5	0/2.6
Ukraine	1330 Jun CPI (MoM%/YoY%)	-/-	0.6/3.3
<b>Thursday 11 July</b>			
Turkey	0800 May Retail Sales (MoM%/YoY%)	-/-	-1.8/10.2
Romania	0700 Jun CPI (YoY%)	4.8	5.12
Serbia	1100 Jul Benchmark Interest rate	6.25	6.25
<b>Friday 12 July</b>			
Russia	1400 May Trade Balance	-	10.66
Turkey	0800 May Current Account Balance	-2.2	-5.29
Kazakhstan	0700 Jun Base Interest Rate	14.25	14.50
	1400 Jun Industrial Production (YoY%)	-	3
Serbia	1100 Jun CPI (MoM%/YoY%)	0.4/4.1	0.4/4.5

Source: Refinitiv, ING

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