THINK Ahead: Would you bet your bottom euro on the ECB?

James Smith's indispensable guide to what you should be watching out for next week, and it's all eyes on Christine

ING's James Smith on next week's world today

Why a September ECB rate cut is far from a done deal

You can bet your bottom euro that when ECB boss Christine Lagarde talks to the press after Thursday's meeting, she'll say future rate cuts will be 'data dependent'. It's one of those catchphrases that only economists come up with. But is it true?

Data dependency is in the DNA of central banks, though it might make you roll your eyes. After all, it wasn't so long ago that the European Central Bank was telling us a June rate cut was highly dependent on wage growth coming in lower in the first three months of the year. When that didn't happen, we were told it would have fallen had it not been for 'one-off' factors (another all-time classic of the economist genre). A June rate cut had already long since been cast in stone.

I'm being cheeky, of course. There are valid reasons to take those wage figures with the ECB's recommended pinch of salt. But this whole saga reflects growing confidence in Frankfurt about the bank's forecasting ability – which makes it more confident about the future path for inflation, despite what the latest data might tell us. It's the same story here in London with the Bank of England.

It's also a visibly different approach to the Federal Reserve, where data dependency is very much in vogue. Maybe too much so. The new-found focus on inflation to two decimal places feels a tad extreme. Investors still aren't fully buying a September rate cut, though that could change if the surveys are right and next week's payroll figures come in weaker. James Knightley reckons they might.

Back to the ECB, though, and here's the obvious next question: if June was such a done deal, have policymakers already decided to cut again in September or even July? Investors are pricing a 65% chance of a rate cut in September. Markets seem more confident in the ECB's ability to deliver a string of cuts this year than in the US or the UK.

I put this question to our eurozone oracle Carsten ECBrzeski, and he's much less convinced that a September cut is a *'fait accompli'* as one official described June's meeting just a few weeks ago. Here's his take on what to expect on Thursday. You can also follow him on X.

> *Policy easing is almost always triggered by recession or crisis, neither of which is true today*

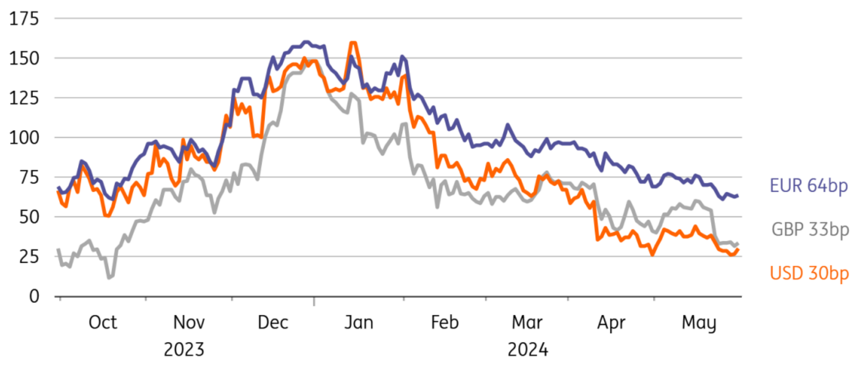
I've written in this newsletter before about how America's troubles with sticky inflation could yet wash up on European shores. And Carsten is understandably bemused by the ECB's new-found confidence in its predictive powers.

Then there are the ECB hawks, who presumably won't give in without a fight. I was faintly amused this week when Latvia's central bank chief Martins Kazaks said June's cut simply reverses last September's "insurance" rate hike. He won't be the only hawk to battle the idea of 'autopilot' rate cuts over the next few weeks, and Carsten sees plenty of room for horse-trading between the various factions as we head into the summer.

Above all, though, Carsten reminds us that policy easing is almost always triggered by recession or crisis, neither of which is true today. We reckon the ECB will eventually coalesce around another cut in September. But as long as darker economic tides are kept at bay, then he reckons it'll get harder for the boys and girls in Frankfurt to confidently pre-commit to these rate cuts ahead of time.

By the way, here's an opportunity not to be missed... Hear directly from me and the rest of the team, including Carsten in Frankfurt and James in New York, by joining our totally free webinar on all things central banks. It's on Tuesday. Sign up here.

Chart of the week: Markets more confident in ECB rate cuts than in the US or UK



Source: Macrobond, ING calculations

THINK Ahead in developed markets

US *(James Knightley)*

- Non-Farm Payrolls **(Fri):** The US focus will be the jobs report and, with business survey hiring numbers remaining subdued, we expect payrolls to slow a little further to a 150k expansion after 175k in April. The unemployment rate, which ticked up to 3.9% is expected to hold steady there while wage numbers should remain subdued at sub 4%YoY. As always, the payrolls are a bit of a lottery, but expectations will be firmed up as we progress through the week with the release of the ISM reports and the NFIB's small business employment numbers.

Eurozone *(Carsten Brzeski)*

- **European Central Bank (Thu):** A rate cut at next week's European Central Bank meeting looks like a done deal. We expect a slight upward revision of growth and inflation forecasts for this year but no changes to the profile and the timing of inflation dropping below 2%. Even so, a longer, more substantial rate-cut cycle will only materialise if inflation quickly returns to target. Any signs of reflation and also stronger economic activity would limit the ECB's room for manoeuvre. This is why we expect a hawkish cut next week and an ECB that will, at least at the press conference, try not to give any forward guidance.

Canada *(James Knightley)*

- **Bank of Canada meeting (Wed):** We think markets are underestimating (18bp) the chances of a rate cut next Wednesday. Consensus is split, but with inflation within the BoC's comfort band and unemployment rising, we see policymakers narrowly favouring a 25bp cut. However, the BoC may be cautious on signalling further easing as the rate spread with the Fed may widen excessively.

THINK ahead for Central and Eastern Europe

Hungary (*Peter Virovacz)*

- **1Q GDP - Final (Tue):** An accelerated release of preliminary data (30 days after quarter end) means there's a higher probability of revisions in the final print. Since the flash GDP estimate, first-quarter activity data has tended to surprise on the downside (construction, industry). Against this backdrop, we could see a slight downward revision to 0.7% QoQ and 1.0% YoY.
- **Retail Sales/Industry (Thu/Fri):** As with the March data, there are big surprises in store. The reason? There were three more working days in April 2024 than in April 2023. We've seen in March how such an exceptional calendar effect can significantly affect the data - retail sales caused a big upside surprise, while industry posted a big downside surprise. But in general, we see more or less stable growth in retail sales and a continued weak performance in industry.

Czech Republic (*David Havrlant)*

- **Manufacturing PMI (Mon):** This likely rebounded in May after previous temporary weakness. The Czech economy continues to benefit from an improved outlook for its main European trading partners.
- **Average wage growth (Tue):** The relative tightness of the labour market in a cyclical rebound implies more upbeat growth in nominal wages. That means real wage growth has likely returned, having dropped 18% from the 2021 peak. That's a welcome boost to household budgets and confidence.
- **Retail Sales (Wed):** Renewed real wage growth is providing some relief to the consumer and leaves more space for discretionary spending. Expect buoyant retail sales in excess of 6% in annual terms.
- **Industrial Output (Thu):** Support from both foreign and domestic demand means industrial output likely increased in April from a year earlier. Still, with the economic rebound only just gaining pace, expect only a gradual recovery in industrial performance.

Turkey (*Muhammet Mercan*)

- **May CPI (Mon):** Current consumer gas subsidies will be removed in May and that means we expect the inflation to accelerate, reaching a cyclical peak of 74.8% vs 69.8% a month ago. For the rest of this year, tighter financial conditions following the CBT's moves in recent months should have a positive impact on inflation, which is also helped by favourable base effects.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 3 June		
US	1500	May ISM Manufacturing PMI	49.5	49.2
	1500	May ISM Manufacturing Prices Paid	58.5	60.9
Germany	0855	May S&P Global/BME Manufacturing PMI	45.4	45.4
UK	0930	May S&P Global/CIPS Manufacturing PMI Final	-	51.3
Italy	0845	May S&P Global/IHS Manufacturing PMI	47.8	47.3
Eurozone	0900	May S&P Global Manufacturing PMI Final	-	47.4
		Tuesday 4 June		
US	1500	Apr Factory Orders (MoM%)	0.5	1.6
Germany	0855	May Unemployment Rate SA	5.9	5.9
Switzerland	0730	May CPI (MoM%/YoY%)	-/-	0.3/1.4
		Wednesday 5 June		
US	1315	May ADP National Employment	175	192
	1500	May ISM services	51.5	49.4
Germany	0855	May S&P Global Services PMI	53.9	53.9
	0855	May S&P Global Composite PMI Final	52.2	52.2
France	0745	Apr Industrial Output (MoM%)	-	-0.3
	0850	May S&P Global Composite PMI	-	49.1
UK	0930	May S&P Global/CIPS Serv PMI Final	-	52.9
	0930	May Composite PMI Final	-	52.8
Italy	0845	May Composite PMI	-	52.6
Spain	0815	May Services PMI	-	56.2
Canada	1445	BoC Rate Decision	4.75	5
Eurozone	0900	May S&P Global Services PMI Final	-	53.3
	0900	May S&P Global Comosite PMI Final	-	52.3
		Thursday 6 June		
US	1330	Apr International Trade $	-74	-69.4
	1330	Initial Jobless Claims	222	219
	1330	Continuing Jobless Claims	1800	1791
Germany	0700	Apr Industrial Orders (MoM%)	1.0	-0.4
UK	0930	May All-Sector PMI	-	54
	0930	May S&P Global/CIPS Cons PMI	-	53
Canada	1330	Apr Trade Balance C$	-	-2.28
Switzerland	0645	May Unemployment Rate Adjusted	-	2.3
Eurozone	1000	Q1 Employment Final (QoQ%/YoY%)	-	0.3/1.0
	1315	Jun ECB Refinancing rate	4.25	4.5
	1315	Jun ECB Deposit rate	3.75	4
		Friday 7 June		
US	1330	May Non-Farm Payrolls	150	175
	1330	May Private Payrolls	140	167
	1330	May Unemployment Rate	3.9	3.9
	2000	Apr Consumer Credit	8	6.27
Germany	0700	Apr Industrial Output (MoM%/YoY%)	1.4/-2.6	-0.4/-3.4
	0700	Apr Exports	-0.5	0.9
	0700	Apr Imports	0.2	0.3
	0700	Apr Trade Balance	21	22.3
France	0745	May Reserve Assets Total	-	247118
	0745	Apr Trade Balance	-	-5.473
Canada	1330	May Unemployment Rate	-	6.1
Eurozone	1000	Q1 GDP Revised (QoQ%/YoY%)	-/-	0.3/0.4

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
		Monday 3 June		
Russia	0700	May S&P Global Manufacturing PMI	-	54.3
Turkey	0800	May CPI (MoM%/YoY%)	3.0/4.8	3.18/69.8
	0800	May Manufacturing PMI	-	49.3
Poland	0800	May S&P Global Manufacturing PMI	47.5	45.9
	0900	Q1 GDP Final (QoQ%/YoY%)	-/-	0.4/1.9
Czech Rep	0830	May S&P Global PMI	45.4	44.7
	1300	May Budget Balance	-	-153.1
Hungary	0800	May Manufacturing PMI	52.1	51.8
		Tuesday 4 June		
Czech Rep	0800	Q1 Nominal wages (YoY%)	5.8	6.3
Czech Rep	0800	Q1 Real wages (YoY%)	3.7	-1.2
Hungary	0730	Q1 GDP Final (YoY%)	1.0	1.1
South Africa	1030	Q1 GDP (YoY%)	-	1.2
		Wednesday 5 June		
Russia	0700	May S&P Global Services PMI	-	50.5
	1700	Apr Retail Sales (YoY%)	8.2	11.1
	1700	Apr Unemployment Rate	2.7	2.7
Poland	1300	Jun NBP Base Rate	5.75	5.75
Hungary	0730	Apr P Trade Balance (EUR m)	720	1510
Czech Rep	0800	Apr Retail Sales ex Auto (YoY%)	6.4	6.1
South Africa	0815	May Std Bank Whole Econ PMI	-	50.3
		Thursday 6 June		
Czech Rep	0800	Apr Industrial NSA Output (YoY%)	1.4	-11.1
	0800	Apr Trade Balance	-	39.3
Hungary	0730	Apr Retail Sales (YoY%)	4.3	4.2
	1000	May Budget Balance	-	-276.5
South Africa	1000	Q1 Current Account	-	-165.5
		Friday 7 June		
Russia	1130	Jun Central bank key rate	16.00	16.00
Hungary	0730	Apr Industrial Output (YoY%)	7.9	-10.4

Source: Refinitiv, ING

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr