THINK Ahead: Sweden's Midsummer Night's Dream

You don't need to remind the Swedes that winter is coming. They'll go particularly wild for '*midsommar*' this weekend. And, as the days get shorter, they have a warning to other central banks that things might get very chilly indeed if they drop the ball on interest rates. Here's James Smith's guide to what you should be watching out for next week

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

What central banks can learn from Sweden

Imagine you're a central banker. I reckon you'd be pretty chuffed with the way things have panned out. Sure, you were completely blindsided by the inflation surge. Let's hope the history books gloss over that bit (good luck with that). But having hiked rates further than anyone had thought possible, the wheels haven't come off the bus. The holy grail soft landing is all but delivered.

But before we start dishing out the Nobel prizes, what if the story isn't over yet?

Just ask the folks over in Sweden. The Riksbank, which meets next week, is facing up to the fact that it can't sustain these high interest rates in an economy that's coming under increasing strain. Unemployment is up. Bankruptcies are the highest since the late 1990s. And it's not alone. The Bank of Canada cut rates this month despite its close links to the buoyant US economy.

None of this should be that surprising. It's no secret that these countries are particularly sensitive to higher interest rates. Take a look at our chart of the week below. It shows that those economies with high household debt ratios and lots of floating-rate mortgages have suffered larger rises in unemployment rates. The chart looks very similar if you use house prices, an important part of monetary policy transmission.

I'm oversimplifying, of course. Plenty of other characteristics undoubtedly feed in too, not least the size and stage of the economic cycle. Read what Rob Carnell has to say about Australia, where amazingly, the central bank is mulling yet more rate hikes, despite on paper being among the most sensitive to past tightening.

Still, it's a reminder that the ability of the Federal Reserve and European Central Bank to deliver lower inflation with remarkably strong jobs markets is in no small part because households, and to a lesser extent businesses, haven't seen their interest rates rise nearly as quickly as they might have done in years gone by. It's why officials in Frankfurt and Washington feel they can take their time in bringing rates lower.

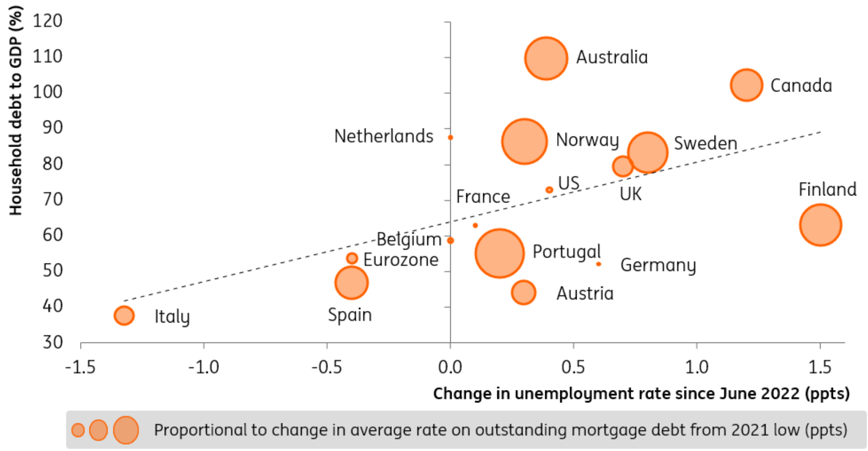
Carsten even detects a hint of regret among some ECB officials after the recent rate cut. The Governing Council won't be nearly as eager to commit to a September rate cut, he reckons.

The message from Sweden, though, is not to ignore the warning signs unless you want to turn a lovely dream into an ugly nightmare. Let's not forget that bank lending growth has already slowed considerably on both sides of the Atlantic. Consumer delinquencies are rising in the US, while German bankruptcies are particularly eye-catching, even if some of that could simply be a post-Covid catch-up. Here in the UK, the jobs market is creaking. No wonder the Bank of England is itching to get on with the job of cutting rates.

Rate hikes may be taking longer than usual to hit the economy, but the same logic applies to rate cuts too. If the economy starts to weaken – and remember that unemployment is a lagging indicator – then don't expect hastily announced rate cuts to help as much as they did in the past.

There are, admittedly, no easy answers for central banks. Policymakers are still haunted by the ghosts of the 1980s, after all. But the history books are still being written. Now is not the time to get complacent.

Chart of the week: Unemployment is on the rise in the interest-rate sensitive economies



Source: Macrobond, ING calculations

Household debt-to-GDP data from the Bank for International Settlements for consistency. Countries with a higher prevalence of floating rate debt have typically seen a bigger rise in the average rate on outstanding mortgage debt.

THINK Ahead in developed markets

United States (James Knightley)

- **Personal income and spending (Fri)**: The key focus here is on the Fed's favoured measure of inflation, the core PCE deflator. Given the inputs from the CPI and PPI reports, it looks set to post the second consecutive print at 0.2% month-on-month or below. We are hopeful that it could round down to just a 0.1% MoM outcome, which would help boost expectations of a September interest rate cut from the Federal Reserve. The report is also likely to reinforce recent messaging that household income growth is barely growing in real terms and that consumer spending is cooling.

Eurozone (Bert Colijn)

- **Economic sentiment** (Thu): For the eurozone, it's a data-light week coming up. The economic sentiment indicator of the European Commission will be closely watched as the PMI for June disappointed. If the ESI also drops in June, that will provide some confirmation of a slower growth environment at the end of 2Q, which could bring down expectations for GDP growth a bit. Also relevant is the selling price expectations component of the survey. Does the ESI confirm further easing of price pressures in the service sector? If so, that will keep the door open for further ECB cuts this year, although July will be too early for the second cut to materialise.
- **French election build-up:** The election campaign for the parliamentary elections at the end of June is in full swing and fiscal policy is back in the spotlight. Read our team's thoughts on what could happen next.

Canada (James Knightley)

- **CPI inflation (Tue)**: After Canada cut interest rates earlier this month the focus will be on inflation. Further moderation here would lift expectations that the Bank of Canada could follow up with a second cut on 24 July. Currently, markets are pricing around 17bp of a potential 25bp cut at that meeting. We are looking for three more cuts this year in total after the June move and have been favouring September, October and December. A 2.5% inflation print plus dovish comments from BoC officials would likely see us bring the September move forward.

Sweden (James Smith)

- **Riksbank rate decision** (Thu): Having cut interest rates for the first time back in May, Sweden's Riksbank is widely expected to keep them on hold this month. On the face of it, the data isn't pointing to any urgency to cut rates again in the short term. But unemployment is rising and pressure to continue easing will build. We expect three more rate cuts this year. Read our full preview

THINK Ahead for Central and Eastern Europe

Hungary (Peter Virovacz)

- **Current account (Wed)**: Based on the monthly current account statistics of the National Bank of Hungary, we see a significant improvement in the balance. After a deficit in the fourth quarter, we see a large surplus in the first quarter of 2024. The main driver of the improvement in the external balance is the goods balance, where the lack of imports (due to the lower energy bill and still weak domestic demand) is a big help.
- **Unemployment rate (Fri)**: We expect the labour market to have continued its recovery in May. According to the National Employment Service, the number of people claiming unemployment benefits is falling. As a result, the official unemployment rate (3-month moving average) will fall to 4.4%. The faster-than-expected recovery in the labour market poses an upside risk to both the GDP and inflation outlook.

Poland (Adam Antoniak)

- **Retail sales (Mon)**: Market participants will be seeking confirmation that the rebound in consumption is continuing and that demand for durable goods continues to recover. We see real sales up by 6.7% year-on-year after a 4.1% YoY increase in April.
- **CPI flash (Fri)**: According to our estimates, both headline and core inflation were broadly unchanged vs. May at 2.5% YoY and 3.8% YoY, respectively. Food inflation remains subdued amid favourable weather conditions for vegetables and fruits, as well as fierce competition between large retailers.

Turkey (Muhammet Mercan)

- **Interest rates (Thu)**: Last month, the Central Bank of Turkey left its policy rate unchanged at 50% and retained a tightening bias, while it announced broad-based hikes in reserve requirement ratios and a new monthly growth cap on FX loans. At the June meeting, the bank will likely keep its policy rate at 50% as it continues to monitor the lagged impact of monetary tightening on domestic demand and inflation. Given that deposit rates are relatively flat, FX lending is losing momentum and the CBT has been a net lender in Open Market Operations (OMOs) since the last meeting, the bank should not feel an urgent need to further fine-tune the macro-prudential framework. These moves have supported the transmission from the policy rate to the interbank rate and to broader financial conditions.

Czech Republic (David Havrlant)

- **Confidence indicators (Mon)**: We expect consumer and business confidence to have resumed the upward trend in June after a brief hiccup. The theme of consumer and producer inflation should be reflected positively in both indicators. Consumers are better off due to the solid real wage growth and businesses could appreciate the recovery in domestic and foreign demand.
- **Interest rates (Thu)**: The Czech National Bank will likely carry on with monetary easing, as headline inflation in May softened to 2.6%. A 25bp or 50bp cut is the most probable outcome. There are arguments both ways: Lofty wage growth and improving household spending suggest potential future price pressures and warrant more caution, while subdued investment and an overall fragile recovery suggest a more relaxed monetary policy stance. We take the 25bp cut as a base case scenario.
- **1Q revised GDP (Fri)**: The GDP numbers are about to confirm the previous reading. However, the unprecedented slump in investment is a good candidate for an upward revision. The downfall in gross fixed capital formation may also reflect an end to an EU funds drawdown period with some administrative issues causing the delay in the launch of the subsequent phase.

Key events in developed markets next week

Country	Time Data/event	ING	Prev.
	Monday 24 June		
Germany	0900 Jun ifo Business Climate	89.6	89.3
	0900 Jun ifo Current Conditions	88.5	88.3
	0900 Jun ifo Expectations	91.5	90.4
	Tuesday 25 June		
US	1400 Apr Case-Shiller Home Price Index (MoM%/YoY%)	0.2/6.9	0.3/7.4
	1500 Jun Consumer Confidence	100	102
Canada	1330 May CPI Inflation (MoM%/YoY%)	0.3/2.6	0.5/2.7
	1330 May Median Core CPI Inflation (YoY%)	2.5	2.6
	Wednesday 26 June		
US	1500 May New Home Sales - Units mn	0.645	0.634
Germany	0700 Jul GfK Consumer Confidence	-18	-20.9
	Thursday 27 June		
US	1330 May Durable Goods Orders (MoM%)	0	0.7
	1330 Q1 GDP Final (QoQ% annualised)	1.5	1.3
Italy	0900 Jun Consumer Confidence	-	96.4
	0900 Jun Business Confidence	-	88.4
Sweden	0830 Riksbank Rate	3.75	3.75
Eurozone	0900 May Money - M3 Annual Growth	1.2	1.3
	1000 Jun Business Climate	-	-0.39
	1000 Jun Economic Sentiment	95	96
	Friday 28 June		
US	1330 May Personal Income (MoM%)	0.3	0.3
	1330 May Personal Consumption Real (MoM%)	0.1	-0.1
	1330 May Consumption, Adjusted (MoM%)	0.4	0.2
	1330 May Core PCE Price Index (MoM%)	0.1	0.2
Germany	0700 May Retail Sales (MoM%/YoY%)	1.0/0.0	-1.2/-0.6
	0855 Jun Unemployment Rate	5.9	5.9
France	0745 Jun CPI Prelim (MoM%/YoY%)	-	0/2.6
UK	0700 Q1 Current Account (GBP bn)	-	-21.177
Italy	1000 Jun CPI Prelim (MoM%/YoY%)	-/-	0.2/0.8
Canada	1330 Apr GDP (MoM%)	-	0
Portugal	1100 Jun CPI Flash (MoM%/YoY%)	-	0.2/3.1

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time Data/event	ING	Prev.
	Monday 24 June		
Poland	0900 May Retail Sales (YoY%)	6.7	4.1
	1300 May M3 Money Supply (YoY%)	7.5	7.4
Czech Rep	0800 Consumer Confidence	102.6	101.6
Czech Rep	0800 Business Confidence	96.4	95.4
	Tuesday 25 June		
Poland	0900 May Unemployment Rate	4.9	5.1
	Wednesday 26 June		
Hungary	0730 Q1 Current Account Balance (EUR bn)	1.79	-0.56
	Thursday 27 June		
Turkey	1200 Jun CBT Weekly Repo Rate	50	50
	1200 Jun Overnight Lending Rate	53	53
	1200 Jun Overnight Borrowing Rate	47	47
Czech Rep	1330 CNB Repo Rate	-	5.25
	Friday 28 June		
Turkey	0800 May Trade Balance	-6.50	-9.86
Czech Rep	0800 Q1 Revised GDP (QoQ%/YoY%)	-	0.3/0.2
Hungary	0730 May Unemployment Rate	4.4	4.5
Poland	0900 Jun CPI Flash (YoY%)	2.5	2.5

Source: Refinitiv, ING

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