

Our view on next week's key events

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Asia week ahead: Holiday lull takes over

The markets may slacken slightly ahead of the Lunar New Year holiday, but central banks and statistical agencies will still be busy at work



Source: Shutterstock

➔ A short week ahead

It's a short week for markets as most Asian countries celebrate the arrival of the Lunar Year of the Ox.

China begins its new year-Golden Week holiday on 11 February as does Korea while Taiwan starts a day earlier on Wednesday. Most other countries will be out on Friday.

The holiday lull is expected to drain the liquidity from the markets, making it a relatively quiet week for market watchers.

➔ The data

Even as regional markets slacken next week in the run-up to the holiday, statistical authorities in some countries will remain busy.

China's Statistical Bureau will begin its monthly data dump for January and the front-loading of activity ahead of the New Year holiday should underscore firmer growth trend coming into 2021. Lined up next week are foreign exchange reserves and inflation figures, though we might get monetary and trade releases for January before the holiday starts.

Following on strong January export reading in Korea, Taiwan's exports data for January should further confirm the positive global semiconductor cycle. The cyclical upswing also received a further boost from a favourable base effect, which is what underlies the consensus of over 20% year-on-year surge in Taiwan's exports in the last month.

Malaysia will be in the limelight for its 4Q20 GDP report. No prizes for guessing that accelerated Covid-19 spread dented output further. We anticipate a steeper GDP contraction in the last quarter, by -5.2% YoY than the -2.7% seen in 3Q20. This should strengthen our call of a 25bp policy rate cut from the central bank this quarter.

➔ Philippines central bank meeting

The Philippines' central bank, which meets next Thursday paused its rate cut cycle at the last meeting in December after slashing the policy rate by total 175 basis points in the last year. The economy continues to take a beating from the pandemic as reflected by continued GDP contraction. However, CPI inflation also has started moving higher in recent months, which blunts the argument of more policy support for growth.

With the central bank's overnight borrowing rate of 2.0% and about 3.5% inflation rate, the real rate is already negative. We don't think the BSP wants to push it even lower and risk a weaker currency and potentially high inflation. In our view, the BSP easing cycle has run its course. The next move in the policy rates will be higher, though that's not something for this year or even the next.

Asia Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|------------------------------|------|------------------------------|-----------|--------|-----------|
| Sunday 7 February | | | | | |
| China | | - Jan FX Reserves (Monthly) | - | | 3.217 |
| Monday 8 February | | | | | |
| Malaysia | 0400 | Dec Industrial Output (YoY%) | 1.5 | | -2.2 |
| Indonesia | | - Q4 Balance of Payments | - | | 2.1 |
| | | - Q4 Current Account/GDP | - | | 0.4 |
| | | - Jan Forex Reserves | - | | 135.9 |
| Singapore | 0900 | Jan Foreign Reserves USD | - | | 362.3 |
| Taiwan | 0800 | Jan Imports | - | | 0.9 |
| | 0800 | Jan Exports | - | | 12 |
| | 0800 | Jan Trade Balance | - | | 5.76 |
| Tuesday 9 February | | | | | |
| South Korea | 2300 | Jan Unemployment Rate | 4.5 | | 4.6 |
| Wednesday 10 February | | | | | |
| China | 0130 | Jan CPI (YoY%) | - | | 0.2 |
| | 0130 | Jan PPI (YoY%) | - | | -0.4 |
| | | - Jan M2 Money Supply (YoY) | - | | 10.1 |
| | | - Jan Exports (%YoY) | - | | 18.1 |
| | | - Jan Imports (%YoY) | - | | 6.5 |
| | | - Jan Trade balance (US\$bn) | - | | 78.2 |
| Thursday 11 February | | | | | |
| Malaysia | 0400 | 4Q20 GDP (QoQ SA/YoY %) | -2.0/-5.2 | | 18.2/-2.7 |
| | 0400 | Q4 Current Account Balance | 29.9 | | 26.1 |
| Philippines | 0800 | Policy Interest Rate | 2.00 | | 2.00 |
| Friday 12 February | | | | | |
| India | 1200 | Jan CPI Inflation (YoY%) | 4.7 | | 4.59 |
| | 1200 | Dec Industrial Output (YoY%) | -1.5 | | -1.9 |

Source: ING, Refinitiv, *GMT

Key events in developed markets next week

All eyes on US inflation next week, as there is a growing suspicion that its rise could be larger and longer-lasting than the Fed expects. In the UK,...



Source: Shutterstock

US: Inflationary pressures rising, and sentiment looking steady

In the US, inflation is becoming a prominent theme for financial markets with a growing suspicion that its rise could be larger and longer-lasting than the Federal Reserve is currently anticipating. The economic backdrop has improved and with vaccine roll-out gaining momentum we remain hopeful that Covid-19 containment measures will be eased more broadly during mid to late 2Q21. We anticipate significant pent up demand, fueled by a \$2.4tn increase in household savings over the past year, once this occurs. The issue is that vigorous demand could come up against a supply-constrained service sector given significant business closures in the travel, leisure and hospitality sectors, which will push up price pressures. When compared to prices in 2020 that were significantly depressed due to the pandemic, annual inflation numbers could look striking.

In terms of next week, we look for CPI to rise 0.4% month-on-month, primarily on the back of a 10% increase in gasoline prices

Commodity and energy prices are rebounding sharply and we are already seeing bottlenecks in key areas, such as the cost of freight. Consequently, our central case is that headline inflation is likely to push well above 3% in mid-2021. Assuming the bottlenecks in production and freight are rectified, the ongoing sizeable pool of available labour should limit wage pressure and mean CPI settles back down to 2-2.5% for much of next year. The core should be a little lower. Nonetheless, the risks are looking more and more skewed to a longer period of above-target inflation, particularly given additional fiscal stimulus is in the offing.

In terms of next week, we look for CPI to rise 0.4% month-on-month, primarily on the back of a 10% increase in gasoline prices, while rising rents could start to feed through into the housing component. This would push the annual rate of CPI up to 1.6%, while a 0.2% MoM core (ex-food and energy) reading would leave the annual rate at 1.6% also.

Other data include the NFIB small business optimism, which should rise reflecting the improving outlook and decent readings already seen in the ISM reports. University of Michigan consumer confidence is likely to hold close to steady given choppy equity market moves, higher gasoline prices and some mixed jobs news with support underpinned by encouraging news on the vaccine roll-out.

UK: December GDP rebound inevitably won't last

All the signs suggest December saw a partial rebound in activity after November's month-long lockdown. And in fact, this should mean fourth-quarter GDP actually registered a small amount of growth (though this is helped by favourable base effects, given we're comparing to the third quarter where the economy was still in the process of reopening).

Nevertheless, with the country back under strict measures, clearly, this will be reversed again when we get the data for January. Indeed, the dip we are likely to see in GDP at the start of 2021 is likely to be more pronounced than in November. Schools are closed, which directly feeds into GDP, but also limits worker availability given childcare needs. We also know from mobility data that fewer people are going to workplaces. Still, the damage is unlikely to be as bad as last spring, where the economy was 25% below pre-virus levels. The figure is more like -11% now.

However, the UK's vaccine rollout programme appears to be going from strength to strength, and the prospect of all over-50s receiving their first dose of the vaccine before Easter raises the possibility of a reopening through April and May. We expect a 5% bounce in 2Q GDP.

Sweden: Rates to stay on hold

Despite mounting Covid-19 cases, GDP was a bit better than the Riksbank had anticipated at the tail-end of last year, helped along by the ongoing recovery in trade and manufacturing. That said, it's pretty clear the outlook for the Swedish economy is a cautious one - like the wider EU, the vaccine programme is only just getting started.

There appears to be limited appetite to return to negative rates, so instead expect the Riksbank to continue signalling a flat rate path out to 2024. There's little pressure to do anything on QE following November's expansion, which allows purchases to continue to the end of the year, albeit the central bank may signal a slightly front-loaded buying scheduled for Q2.

Developed Markets Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|------------------------------|------|---------------------------------------|---------|---------|------------|
| Sunday 7 February | | | | | |
| Japan | 2350 | Dec Current Account NSA | 1770.0 | | 1878.4 |
| Monday 8 February | | | | | |
| Japan | 2330 | Dec Labor cash earnings (YoY%) | -2.0 | | -1.8 |
| Germany | 0700 | Dec Industrial Output (MoM/YoY%) | 0.6 | | 0.90/-2.56 |
| Netherlands | 0530 | Jan CPI (MoM/YoY% NSA) | -1.0 | | 0.2/1.0 |
| Tuesday 9 February | | | | | |
| Germany | 0700 | Dec Exports | -2.0 | | 2.2 |
| | 0700 | Dec Imports | 1.0 | | 4.7 |
| | 0700 | Dec Trade Balance | - | | 16.4 |
| Italy | 0900 | Dec Industrial Output (MoM/YoY%) | -/- | | -1.4/-4.2 |
| Japan | 2330 | Jan PPI (%YoY/MoM) | -9.0 | | -4.0 |
| Wednesday 10 February | | | | | |
| US | 1330 | Jan Core CPI (MoM/YoY%) | 0.2/1.6 | 0.2/1.6 | 0.1/1.6 |
| | 1330 | Jan CPI (MoM/YoY%) | 0.4/1.6 | 0.3/1.5 | 0.4/1.4 |
| Germany | 0700 | Jan CPI Final (MoM/YoY%) | 0.8/1.0 | | 0.8/1.0 |
| France | 0745 | Dec Industrial Output (MoM%) | - | | -0.9 |
| UK | 0700 | Dec Goods Trade Balance | - | | -16.01 |
| Norway | 0700 | Jan CPI (MoM/YoY%) | -/- | | 0.4/1.4 |
| | 0700 | Jan Core Inflation (MoM/YoY%) | -/- | | -0.1/3.0 |
| Sweden | 0830 | Riksbank Rate | 0.00 | | 0.00 |
| Netherlands | 0530 | Dec Manufacturing Output (MoM%) | 0.5 | | -0.2 |
| Portugal | 1100 | Jan CPI (MoM/YoY%) | -/- | | -0.3/0.3 |
| Thursday 11 February | | | | | |
| New Zealand | 2130 | Jan Manufacturing PMI | - | | 48.7 |
| Sweden | 0500 | Jan Reg Unemployment Rate | - | | 8.8 |
| Netherlands | 0530 | Dec Trade Balance | 6.6 | | 5.97 |
| Friday 12 February | | | | | |
| US | 1500 | Feb university of Michigan consumer s | 80.0 | 80.5 | 79.0 |
| UK | 0700 | Dec Monthly GDP (MoM%) | 1.0 | | -3.6 |
| | 0700 | Q4 GDP Prelim (QoQ%) | 0.6 | | 16.0 |
| Spain | 0800 | Jan CPI (MoM/YoY%) | -/- | | 0.1/0.6 |
| Norway | 0700 | Q4 GDP Growth Mainland (QoQ%) | 1.4 | | 5.2 |
| Eurozone | 1000 | Dec Industrial Production (MoM/YoY%) | - | | 2.5/-0.6 |

Source: ING, Refinitiv

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Key events in EMEA next week

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Source: Shutterstock

✓ Poland: 4Q GDP data to show contraction

The annual 2020 GDP decline by 2.8% translated into -2.9% YoY in 4Q20 in Poland. Like other countries, 4Q20 showed a diminishing impact of the pandemic.

While the number of Covid-19 cases during this period was much higher than in the spring, our index of economic restrictions indicates that those associated with the second wave of the pandemic were a quarter to a half less onerous.

We estimate that the quarter-on-quarter contraction of GDP in 4Q20 was only about a tenth of that in 2Q20 (-1.2% quarter-on-quarter in 4Q20 vs. -9% QoQ in 2Q20).

✓ Hungary: Record budget deficit however pressures could ease

After a rough year in 2020, we expect the Hungarian budget to start this year with a record January deficit. However, EU transfers may counterbalance the missing revenue and the extra expenditures on Covid-19 defence, so we can't rule out an upside surprise.

On Friday, we will get insight as to whether the usual pricing pattern remains or if the pandemic has changed seasonality. Usually, we see a significant repricing at the start of the year, especially in services. This time given that the majority of the services are still closed, we might see some easing in the headline inflation.

On the other hand, fuel and tobacco prices will put significant upside pressure on the average price index.

Russia: Rates to stay on hold for now but the dovish tone is fading

Bank of Russia is likely to keep the key rate unchanged at 4.25% next week, of which there is little doubt in the market, but the accompanying statement will be in focus.

While previously there were expectations that the central bank will maintain a dovish stance due to weak demand and presumed temporary nature of CPI acceleration, now this view is challenged by [higher than expected CPI](#), [smaller than expected drop in GDP](#), and [continued pressure on the local financial markets](#).

The central bank commentary, particularly on the CPI trend, may show whether its previous guidance on return to neutral policy stance (nominal key rate of 5-6% amid CPI of 4%) not earlier than 2022-23 still stands or is becoming more urgent.

Aside from that, January balance of payments is due to be released on Tuesday likely showing a widening in the current account surplus as a result of higher Urals price and seasonal decline in imports, confirming that the key challenges to the ruble performance lie on the capital account side. Budget fulfilment for January, expected sometime during the week, is likely to show small surplus due to seasonality before slipping into deficit later into the year.

Given the excess cash held by the finance ministry (coming from RUB4.6 tr net local debt placement amid RUB4.1 tr budget deficit and net withdrawal of RUB0.3 tr from the bank deposits in 2020), there is no urgency to actively place new local debt at the moment.

Czech Republic: Inflation to decelerate below 2%

January CPI should further slow down below 2% due to a high base, however, volatile food prices might again bring some surprise as they have in the last few months and January CPIs are the most uncertain to estimate as many prices change at the beginning of the year. Still, CPI below 2% in some months of this year shouldn't come as a surprise, as many ad-hoc factors pushed inflation higher last year, and those are unlikely to repeat this year.

Industrial production should record a solid figure in December 2020, amid i) low base ii) calendar bias iii) and solid car production which increased by 11% in December according to the Czech automotive industry association.

EMEA Latam Economic Calendar

| Country | Time | Data/event | ING | Survey | Prev. |
|------------------------------|------|---------------------------------------|---------|--------|------------|
| Monday 8 February | | | | | |
| Czech Rep | 0800 | Dec Industrial Output (YoY%) | - | | 0.4 |
| | 0800 | Dec Trade Balance | - | | 32.2 |
| | 0800 | Jan Unemployment Rate | - | | 4.0 |
| Hungary | 1000 | Jan Budget Balance | -250 | | -2250 |
| Tuesday 9 February | | | | | |
| Ukraine | - | Jan CPI (MoM/YoY%) | -/- | | 0.9/5.0 |
| Romania | 1300 | Monetary Policy Rate | 1.25 | | 1.25 |
| Brazil | 1200 | Jan IPCA Inflation Index (MoM/YoY%) | -/- | | 1.35/4.52 |
| Mexico | 1200 | Jan Headline Inflation | - | | 0.38 |
| | 1200 | Jan Core inflation | - | | 0.55 |
| Wednesday 10 February | | | | | |
| Turkey | 0700 | Nov Undemployment Rate (%) | - | - | 12.7 |
| Kazakhstan | - | Jan Industrial Production (MoM%) | - | | 5.7 |
| Brazil | 1200 | Dec Retail sales (MoM/YoY%) | -/- | | -0.1/3.4 |
| Thursday 11 February | | | | | |
| Kazakhstan | - | Jan Industrial Production (YoY%) | - | | -0.7 |
| Mexico | 1200 | Dec Industrial Output (MoM/YoY%) | - | | 1.1/-3.7 |
| | 1900 | Jan Interest Rate | - | | 4.25 |
| Friday 12 February | | | | | |
| Turkey | 0700 | Dec Industrial Production (MoM/YoY%) | -/3.1 | -/- | 1.31/11.00 |
| | 0700 | Dec Current Account Balance (US\$ bn) | -3.3 | | -4.063 |
| Russia | 1030 | Feb Central bank key rate | 4.25 | 4.25 | 4.25 |
| Poland | 0900 | Q4 GDP (QoQ/YoY%) Flash | -2.9 | | 7.9/-1.5 |
| Czech Rep | 0800 | Jan CPI (MoM/YoY%) | 0.8/1.7 | | -0.2/2.3 |
| Hungary | 0800 | Jan Core CPI (YoY%) | 4.0 | | 4.0 |
| | 0800 | Jan CPI (MoM/YoY%) | 0.8/2.6 | | 0.3/2.7 |
| Romania | 0700 | Jan CPI (YoY%) | 2.35 | | 2.1 |

Source: ING, Refinitiv

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