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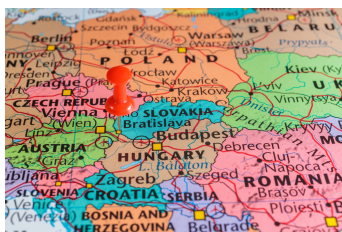


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US: A hawkish Fed message will likely fall on deaf ears

Markets are firmly expecting the Federal Reserve to opt for a 50bp hike at the 14 December Federal Open Market Committee (FOMC) meeting after already implementing 375bp of rate hikes, including consecutive 75bp moves at the previous four meetings. The central bank has been at pains to point out that despite smaller individual steps, we are likely to end up at a higher ultimate interest rate than the central bank indicated was likely back in September. Its forecasts are likely to show the Fed funds rate rising above 5% with potential slight upward revisions to near-term GDP and inflation and a lower unemployment rate to justify this.

Officials have been suggesting they may not cut rates until 2024 and we suspect Fed Chair Jerome Powell will echo this sentiment. Nonetheless, this “hawkish” rhetoric is likely the result of concern that the recent steep falls in Treasury yields and the dollar, coupled with a narrowing of credit spreads, is loosening financial condition – the exact opposite of what the Fed wants to see as it battles to get inflation lower. In terms of our view, we continue to expect a final 50bp rate hike in February, but with recession risks mounting, which will dampen inflation pressures further, we look for rate cuts from the third quarter of next year.

Ahead of that announcement, we will have consumer price inflation data. The surprisingly soft core

CPI print was the catalyst for the recent moves lower in Treasury yields and the dollar, and a second consecutive low reading would reinforce the market conviction that rate cuts are going to be on the agenda for the second half of 2023. This means Powell will have to battle hard with his commentary in the post-FOMC press conference to prevent financial conditions from loosening too much before inflation is defeated.

□ UK: Hectic data week proceeds key Bank of England decision

There's probably just about enough in the latest UK data and recent Autumn Statement for the Bank of England to pivot back to a 50bp rate hike at its meeting next Thursday. Inflation looks like it has peaked, although BoE hawks will be keeping a close eye on the data due a day prior to its announcement. Headline CPI is likely to dip, however core could be more sticky, and last month's data saw core services inflation come in slightly higher than the bank had forecast in November. Jobs data has also hinted at persistent labour shortages, which will keep the pressure on wage growth. Still, Chancellor Jeremy Hunt probably did enough last month to lower concerns that the BoE and the Treasury are working at cross-purposes, even if the fiscal tightening announced won't have a huge bearing on the economy, relative to the Bank's forecasts released last month. We expect a 50bp hike next week, and another 50bp hike in February, which is likely to mark the peak of this tightening cycle.

Read our full Bank of England preview [here](#).

□ Eurozone: Another jumbo rate hike has become more likely in recent days

Macro data since the European Central Bank's October meeting has shown resilience in the eurozone economy in the third quarter but also confirmed a further cooling of the economy in the last few months of the year. The drop in headline inflation, as little as it says about the impact of the rate hikes so far, could at least take away some of the urgency to continue with jumbo rate hikes.

At the same time, the ECB seems to be increasingly concerned that the fiscal stimulus and support measures announced could extend the inflationary pressure. ECB Executive Board Member Isabel Schnabel has been one of the more influential voices to watch, definitely since the summer with her Jackson Hole speech. Judging from her recent comments that "incoming data so far suggest that the room for slowing down the pace of interest rate adjustments remains limited, even as we are approaching estimates of the 'neutral' rate", 75bp is clearly still on the table.

We think that the risk of a 75bp rate hike at next week's ECB meeting has clearly increased. Next to the rate hike, the ECB is likely to set out some general principles of how it plans to reduce its bond holdings. We expect the ECB to eventually reduce its reinvestments of bond purchases but to refrain from outright selling of bonds.

Besides the ECB, industrial data for the eurozone are out on Wednesday. Don't expect anything that will influence the governing council meeting too much. While a tick down in production is to be expected, the fact that industry has outperformed recent expectations is likely to uphold. The Friday data are just as interesting as the PMI will show how the economy is faring at the end of the fourth quarter. Expect it to continue to signal a contraction, but just how deep is the question relevant for markets and policymakers. Finally, trade-in goods data are also out on Friday and will

provide a clue on how the trade deficit is faring, which is very important for euro fair value.

Read the full ECB preview [here](#).

Key events in developed markets next week

Country	Time	Data/event	ING	Survey	Prev.
Monday 12 December					
UK	0700	Oct GDP Estimate (MoM%/YoY%)	0.5/-		-0.6/1.3
Netherlands	0530	Oct Trade Balance	-		8.429
Tuesday 13 December					
US	1330	Nov Core CPI (MoM%/YoY%)	-/-	0.3/6.1	0.3/6.3
	1330	Nov CPI (MoM%/YoY%)	-/-	0.3/7.3	0.4/7.7
Germany	0700	Nov CPI Final (MoM%/YoY%)	-0.5/10		-0.5/10
UK	0700	Oct ILO Unemployment Rate	3.7		3.6
	0700	Oct Employment Change	-15		-52
Italy	0900	Oct Industrial Output (MoM%/YoY%)	-/-		-1.8/-0.5
Norway	0700	Oct GDP Month	-		0.5
	0700	Oct GDP Month Mainland	-		0.4
Wednesday 14 December					
US	1900	Fed Funds Target Rate (upper bound %)	4.5	4.5	4
	1930	Fed Chair Powell press conference	-	-	-
UK	0700	Nov Core CPI (MoM%/YoY%)	-6.4		0.7/6.5
	0700	Nov CPI (MoM%/YoY%)	0.5/10.9		2/11.1
Spain	0800	Nov CPI (MoM%/YoY%)	-/-		-0.1/6.8
Sweden	0700	Nov CPI (MoM%/YoY%)	-/-		0.2/10.9
	0700	Nov CPIIF (MoM%/YoY%)	-/-		-0.1/9.3
Eurozone	1000	Oct Industrial Production MM	-0.5		0.9
	1000	Oct Industrial Production YY	4.6		4.9
Thursday 15 December					
US	1330	Nov Retail Sales MM	-0.2	0	1.3
	1415	Nov Industrial Production (MoM%)	0.1	0.2	-0.1
	1330	Initial Jobless Claims	235	-	230
	1330	Continue Jobless Claims	1660	-	1671
UK	1200	Dec BOE Bank Rate	3.5		3
Norway	0900	Key Policy Rate	2.75		2.5
Switzerland	0830	SNB Policy Rate	-		0.5
Eurozone	1100	Nov Reserve Assets Total	-		1111.83
	1315	Dec ECB Refinancing rate	2.5		2
	1315	Dec ECB Deposit rate	2.0		1.5
Friday 16 December					
US	1445	Dec S&P Global Manufacturing PMI Flash	-		47.7
	1445	Dec S&P Global Services PMI Flash	-		46.2
	1445	Dec S&P Global Composite Flash PMI	-		46.4
Germany	0830	Dec S&P Global Manufacturing Flash PMI	46.2		46.2
	0830	Dec S&P Global Service Flash PMI	46.0		46.1
	0830	Dec S&P Global Composite Flash PMI	46.3		46.3
France	0815	Dec S&P Global Composite Flash PMI	-		48.7
UK	0700	Nov Retail Sales (MoM%/YoY%)	-0.2/-6.1		0.6/-6.1
	0700	Nov Retail Sales excluding auto fuel (MoM%/YoY%)	-0.2/-6.3		0.6/-6.1
	0930	Dec Flash Composite PMI	48.1		48.2
	0930	Dec Flash Manufacturing PMI	46.0		46.5
	0930	Dec Flash Services PMI	48.5		48.8
Italy	0900	Oct Global Trade Balance	-		-6.454
Sweden	0700	Nov Unemployment Rate	-		7.1
Eurozone	0900	Dec S&P Global Manufacturing Flash PMI	46.9		47.1
	0900	Dec S&P Global Services Flash PMI	48.2		48.5
	0900	Dec S&P Global Composite Flash PMI	47.6		47.8
	1000	Oct Total Trade Balance SA	-		-37.7
	1000	Nov CPI (YoY%)	-		10

Source: Refinitiv, ING

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Asia week ahead: China data and central bank decisions in focus

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China monthly activity data and PBoC in focus

Data reports from China, including industrial production, retail sales and fixed asset investment, are scheduled to be released on 15 December. Industrial production is expected to grow, but at a slower pace, while retail sales look likely to continue to contract. Sluggish property investment will also likely drag down fixed asset investment. The government recently announced the easing of Covid-19 measures, but consumption is not anticipated to pick up immediately. Meanwhile, we expect the People's Bank of China (PBoC) to keep its 1Y Medium-Term Lending Facility Rate at 2.75% as this week's Politburo meeting suggested that there would be no further general easing of monetary policy.

Central bank watch: keeping up with the Fed

The PBoC's likely inaction is the outlier in Asia next week, as other Asian central banks will probably follow the US Federal Reserve's policy direction, though the pace of rate hikes will vary from

country to country as well as how much further tightening will occur next year.

We believe that Taiwan's central bank will deliver a 12.5bp increase on Thursday to partially keep pace with the Fed's hikes, and the after-meeting statement will be important to assess whether the central bank will hike further in the first quarter of next year or not.

Bangko Sentral ng Pilipinas (BSP) governor Felipe Medalla indicated that he would be on par with the Fed in terms of policy. With the market expecting a 50bp rise from the Federal Open Market Committee (FOMC), the BSP is also expected to hike by 50bp. Inflation remains elevated (8.0%YoY), so we expect the BSP to also retain its hawkish stance next year.

Meanwhile, the Bank of Korea (BoK) will release its November meeting minutes on Tuesday. The decision of a 25bp increase at the last meeting was unanimous, but it is still worth watching how board members have changed their views on inflation and terminal rates. We think that given tight liquidity conditions in credit markets and rapid deterioration in exports and manufacturing activity, an additional 25bp hike in February may be the final action for the BoK's current tightening cycle.

Trade data from Japan, Indonesia, and the Philippines

Next week we also get trade reports out from Japan, Indonesia and the Philippines.

Japan and Indonesia will likely post double-digit growth in both exports and imports. In the case of Japan, the trade deficit is expected to decrease as import growth decelerates sharply due to stable energy prices and the quite strong recent depreciation of the Japanese yen (before the latest moves). In Indonesia, the overall trade surplus may narrow with export growth moderating.

Meanwhile, the Philippines' exports could slip back into contraction, given the sector's reliance on electronics exports. This will probably result in the Philippine trade deficit remaining wide, which should put added pressure on the peso to close out the year.

Other data releases next week

Japan's Tankan Survey will suggest that business sentiment for manufacturing is worsening, while optimism about non-manufacturing is likely to lead Japan's economy next year.

In Australia, the labour market report for November will be worth a look. But with the Reserve Bank of Australia seemingly more concerned with over-tightening than under-tightening, it probably won't have too much impact on markets, though it could in time be a factor to consider at what stage the RBA can halt its 25bp per month tightening. Right now, we think this will come with the cash rate at 3.6% in the first quarter of next year, though there is a large degree of uncertainty attached to that forecast.

India's inflation data will be important for judging where the Reserve Bank of India (RBI) calls the peak for rates in this tightening cycle following the 35bp hike to the repo rate on 7 December (now stands at 6.25%). And we think we will continue to see inflation falling, with even some downside risk to the consensus 6.36% forecast (ING forecast for November: 6.2%; October inflation: 6.8%). Lower food prices, especially vegetables, and stable energy/gasoline prices should see India's headline inflation index dropping to a level roughly in line with policy interest rates. It is an argument for the RBI to hike by only 25bp at its first 2023 meeting.

Korea's labour market report will hint at whether the current slump in manufacturing and exports is beginning to have a negative impact on the labour market. We expect some weakness in manufacturing and construction jobs, but for the unemployment rate to remain below 3%.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 12 December					
China		- Nov M2 Money Supply (YoY)	11.8		11.8
		- Aggregate Finance (CNY bn)	2300		907.9
		- New Yuan Loan (CNY bn)	1500		615.2
India	1200	Nov CPI Inflation (YoY%)	6.2		6.77
	1200	Oct Industrial Output (YoY%)	-0.2		3.1
	1130	Q3 C/A Balance (USD bn)	-39		-23.9
		- Nov Fiscal Deficit (USD bn)	-		
		- Nov Imports/Exports (USD bn)	-		
Singapore	0230	Q3 Unemployment Rate Final SA	-		2
Tuesday 13 December					
Japan	2350	Core Machine Orders (MoM%)			-4.6
	2350	Tankan Large Mfg Outlook	6		9
	2350	Tanaka Large Non-Mfg Outlook	12		11
Philippines	0100	Oct Imports/Exports (YoY%)	-15.2/5/4		14.1/7
	0100	Oct Trade Balance	-4650		-4820
South Korea	2300	Nov Unemployment Rate	2.9		2.8
Wednesday 14 December					
Japan	2350	Nov Imports/Exports YoY	25/20		53.5/25.3
	2350	Nov Trade Balance Total (Yen bn)	-1585		-2162.3
India	0630	Nov WPI Inflation (YoY%)	-		8.39
Thursday 15 December					
Australia	0030	Nov Unemployment Rate	3.5		3.4
	0030	Nov Reserve Assets Total	-		84690
	2200	Dec Manufacturing PMI Flash	51		51.3
	2200	Dec Services PMI Flash	47.4		47.6
	2200	Dec Composite PMI Flash	-		48
China	0200	Nov Industrial Output (YoY%)	3.8	3.9	5
	0200	Nov Retail Sales (YoY%)	-3.35	-2.4	-0.5
	0200	Nov Fixed Assets Investments (YTD YoY%)	5.6		5.8
	0220	1Y Medium Lending Facility rate (%)	2.75		2.75
Indonesia	0400	Nov Trade Balance (USD bn)	5.4		5.67
	0400	Nov Exports Growth (YoY%)	14.2		12.3
	0400	Nov Imports Growth (YoY%)	17.8		17.44
Philippines	0700	Policy Interest Rate	5.5		5
Taiwan		- Q4 Discount Rate	1.75		1.625

Source: Refinitiv, ING

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Key events in EMEA next week

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Source: Shutterstock

Poland: No turnaround in inflation yet

Current account (€-263mn)

We forecast that the current account deficit narrowed substantially in October even though the trade deficit in goods was at a similar level as in the previous month. The main improvement is projected to come from an improvement in the primary income balance. For 2022 as a whole, we project a current account deficit of about 4% of GDP, declining further to 3.2% in 2023 on the back of weak domestic demand and a moderate increase in foreign sales.

CPI (17.4%YoY)

According to the flash estimate, CPI declined to 17.4% year-on-year in November from 17.9%YoY in October, as an expected month-on-month drop in gasoline prices was accompanied by an unexpected fall in energy prices due to cheaper coal. Still, core CPI grew to 11.3%YoY from 11.0%YoY in the previous month. Lower inflation in November is not yet a sign of a turnaround in the inflation trend. We see consumer inflation peaking above 20%YoY in February 2023 before declining to around 10%YoY in the fourth quarter of next year. You can read more in our 2023 economic outlook [here](#).

□ Czech Republic: Inflation accelerates again

Surveys suggest that food prices in the Czech Republic continue to rise rapidly. While they rose by 3.0% in October, we expect a 2.1% month-on-month jump for November, which is still significantly higher than in the months leading up to October. On the other hand, we expect fuel prices to have fallen (1.7%). However, we believe this is the only item in the consumer basket that shows deflation in November. The main issue, as always, is energy prices. In October, the statistics office surprised with its aggressive approach to including the energy-saving tariff in the CPI, which led to a massive drop in inflation. This effect will last until December and will be replaced in January by the price cap, which we believe will have a similar effect on inflation. Unlike the price cap, the savings tariff allows energy prices to rise further. Therefore, we expect a slight increase in energy prices in November, but again, this is the main CPI item that may surprise. Thus, overall, we expect inflation to accelerate from -1.4% to 0.9% month-on-month, which should translate into a headline number rising from 15.1% to 15.9% year-on-year.

Key events in EMEA next week

Country	Time	Data/event	ING	Survey	Prev.
Monday 12 December					
Turkey	0700	Oct Current Account Balance	-1.6		-3.0
	700	Oct Unemployment Rate	-		9.9
Czech Rep	0800	Nov CPI (MoM%/YoY%)	0.9/15.9		-1.4/15.1
Kazakhstan	-	Nov Retail Sales (YoY%)	-		1.4
Serbia	1100	Nov CPI (MoM%/YoY%)	0.6/14.7		1.9/15
Mexico	1200	Oct Industrial Output (YoY%)	-		3.9
	1200	Oct Industrial Output (MoM%)	-		-0.2
Tuesday 13 December					
Turkey	0700	Oct Industrial Production (MoM/YoY%)	-/-		-1.6/0.4
Romania	0700	Nov CPI (YoY%)	16.4		15.32
Wednesday 14 December					
Russia	1600	Q3 GDP (YoY% quarterly revised)	-	-4	-4
Poland	1300	Oct Current Account	-263		-1561
Czech Rep	0900	Oct Current Account Balance	-		-55.76
Kazakhstan	-	Nov Industrial Production (YoY%)	1.5		1.4
South Africa	0800	Nov CPI (MoM%/YoY%)	-/-		0.4/7.6
	0800	Nov Core inflation (MoM%/YoY%)	-/-		0.5/5
	1100	Oct Retail Sales (YoY%)	-		-0.6
Thursday 15 December					
Turkey	0800	Nov Budget Balance	-		-83.25
Poland	0900	Nov CPI (MoM%/YoY%)	0.7/17.4		0.7/17.4
Ukraine	-	Oct Trade Balance YTD	-		-5.42
South Africa	0930	Nov PPI (MoM%/YoY%)	-/-		0.4/16
Mexico	1900	Dec Interest Rate	-		10
Friday 16 December					
Russia	1030	Dec Central bank key rate	7.5	7.5	7.5
Poland	1300	Nov Net Inflation (YoY%)	-	11.3	11
Croatia	1000	Nov CPI (MoM%/YoY%) NSA	0.4/12.8		1.3/13.2
Azerbaijan	-	Dec Central bank key rate	8.0		8.0

Source: Refinitiv, ING

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