

Our view on next week's key events

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By Dmitry Dolgin

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US: Cementing expectations

Markets are now firmly of the view that the Federal Reserve will cut interest rates by at least 25bp at the July 31st meeting. There are still some in the market that think a 50bp move is possible with market futures implying 30bp of cuts are priced. We think this is unlikely given that the most dovish member of the FOMC, James Bullard, thinks such a move would be too much while some FOMC members, such as Philadelphia Fed President Harker sees no case for a rate cut at all! Moreover, the current trade truce and the better than expected June jobs report suggest the macro backdrop may be more positive versus last month.

We will have several more Fed speakers over the coming week together with the Fed's Beige book – the anecdotal survey on the state of the economy – and the message is likely to be one that while there are external risks, the domestic story continues to look pretty solid. As such cautious precautionary loosening looks the order of the day. We look for a 25bp cut in July to be followed up with a further 25bp in September.

The market is currently pricing in an additional two 25bp cuts over the next 18 months, which we think is too aggressive. Data wise, retail sales and industrial production are the focus. Industrial production should post a modest increase given the fact the ISM remains in growth territory. Retail

sales should be stronger, especially when the volatile auto and gasoline components are removed. Consumer confidence remains firm thanks to rising asset prices and falling gasoline prices while real household disposable incomes are rising strongly thanks to employment gains and wage growth running faster than inflation. This points to ongoing solid spending.

Mixed UK data to signal stable Bank of England policy this year

Markets are mulling over the possibility of a UK rate cut by the end of the year. But as things stand, Bank of England policymakers have signalled a willingness to tighten policy, albeit this is heavily conditioned on a smooth Brexit outcome. So who's right?

Well, next week's raft of UK data is likely to give ammunition to both sides of the argument. Regular pay growth is likely to tick back up to a post-crisis high of 3.5%, and this is being predominantly driven by skill shortages in certain parts of the jobs market (albeit last month's acceleration was mainly down to a leap in public sector pay). But according to various indicators of retail sales, the high street isn't feeling the benefit of this modest improvement in real wage growth. With consumer confidence still pretty low, it appears shoppers are holding off on non-essential purchases. We may get a modest rebound in retail sales for June, but this follows two back-to-back declines earlier in the quarter.

With Brexit noise only likely to increase over the coming months, and a risk that trade tensions could worsen, we think the Bank of England will keep rates on hold for the rest of the year.

Developed Markets Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 15 July					
US	1350	Fed's Williams Speaks at Labor briefing			
New Zealand	2345	2Q CPI (Q) (QoQ/YoY%)	-/-	-/-	0.1/1.5
Sweden	0500	Jun PES Unemployment Rate	-	-	3.4
Tuesday 16 July					
US	1330	Jun Advance Retail Sales (MoM%)	0.3	0.2	0.5
	1330	Jun Retail Sales ex. Auto and Gas (MoM%)	0.4	-	0.5
	1415	Jun Industrial Production (MoM%)	0.2	0.2	0.4
	1315	Fed's Bostic Moderates Fed Listens Event in Augusta, Georgia			
	2030	Fed's Evans to Speak in Chicago			
Eurozone	1000	May Trade Balance (€bn)	14852	-	15326
Germany	1000	Jul ZEW Current Situation Index	3.0	-	7.8
UK	0930	May Weekly Earnings (3M avg)	3.0	-	3.1
	0930	May Weekly Earnings ex Bonus (3M avg)	3.5	-	3.4
	0930	May ILO Unemployment Rate (3M avg.)	3.8	-	3.8
	0930	May Employment Change (3M/3M)	55.0	-	32.0
	1300	BOE's Carney speaks on panel in Paris			
Italy	1000	Jun F HICP (YoY%)	-	-	0.8
Australia	0230	RBA Minutes of July Policy Meeting			
Wednesday 17 July					
US	1900	U.S. Federal Reserve Releases Beige Book			
Eurozone	1000	Jun F Core CPI (YoY%)	1.1	-	1.1
	1000	Jun CPI (MoM/YoY%)	0.1/1.2	-/-	0.1/1.2
UK	0930	Jun CPI (MoM/YoY%)	0.0/2.1	-/-	0.3/2
	0930	Jun Core CPI (YoY%)	0.1/1.9	-	1.7
Canada	1330	Jun CPI (MoM/YoY%)	-/-	-/-	0.4/2.4
Thursday 18 July					
US	1430	Fed's Bostic Speaks to Clarksville Chamber in Tennessee			
	1915	Fed's Williams Speaks on Monetary Policy			
Japan	0050	Jun Exports (YoY%)	-7.9	-	-7.8
	0050	Jun Adjusted trade balance (JPY bn)	-605	-	-609.1
	0050	Jun Imports (YoY%)	5.6	-	-1.5
UK	0930	Jun Retail Sales ex Auto Fuel (MoM/YoY%)	0.2/2.9	-/-	-0.3/2.2
	0930	Jun Retail Sales (MoM/YoY%)	0.2/3.1	-/-	-0.5/2.3
	0930	Bank of England Bank Credit Conditions Surveys			
Canada	1330	ADP Canada Releases June Payroll Estimates			
Australia	0230	Jun Employment change ('000)	24	-	42.3
	0230	Jun Unemployment rate (%)	5.2	-	5.2
	230	Jun Participation rate (%)	66.0	-	66.0
Friday 19 July					
US	1500	Jul P U. of Mich. Sentiment Index	98.6	98.4	98.2
	1605	Fed's Bullard (1606) and Rosengren (2130) Speak			
Japan	0030	Jun National CPI (YoY%)	0.7	-	0.7
	0030	Jun CPI ex-food, energy (YoY%)	0.4	-	0.5
	0530	May All industry activity index (MoM%)	-0.1	-	0.9
UK	0930	Jun Public Finances (PSNCR)	-	-	10.7
	0930	Jun PSNB ex Banks (€bn)	-	-	5.1

Source: ING, Bloomberg

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Asia week ahead: More central banks to join the easing bandwagon

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Source: Shutterstock

6.2% ING forecast of China's 2Q GDP growth

➔ China's growth lowest in three decades

Our house view of 6.2% growth in China's GDP in the second quarter is in line with the consensus median - a deceleration from 6.4% in 1Q, making it the worst quarter in nearly three decades. Anything better or worse than this may move the market. However, deviations by one-tenth of a percentage point from consensus, which have been the norm for many quarters, are less of a concern than the direction that growth is going. Indeed, a downward trajectory will cast a shadow over investor sentiment as the trade dispute with the US continues to cloud the growth outlook for the rest of the year.

A silver lining in the dark cloud though, year-on-year growth may benefit to some degree from low base effects in the second half of the year. While it's too soon to close a trade deal, our Greater China Economist, Iris Pang, sees a strong macro policy boost keeping the economy afloat with growth above 6%.

[China: Too soon to close a deal](#)

➔ More central banks on course for easing

With a US Federal Reserve rate cut just around the corner, we expect more Asian central banks to join the easing buzz. Central banks in Korea and Indonesia are likely to be next in line to ease policy. Both the Bank of Korea (BoK) and Bank Indonesia (BI) are due to announce their policy decisions next Thursday 18 July, and we expect each of them to cut policy rates by 25 basis points.

Facing the brunt of the trade war and the tech slump, Korea's growth is poised for more weakness ahead from export declines, which have now moved into double digits. The BoK policy decision will also be accompanied by the central bank's quarterly economic outlook report. We anticipate further cuts to the BoK's 2019 growth and forecasts, currently 2.5% and 1.1% respectively. If so, the fifth forecast cut in a year should force the BoK's hand into easing. [The economy is flirting with recession](#) and the consensus has still to come to terms with this, with a split-view of a 25bp BoK rate cut and no cut in the current quarter.

The Korean economy may actually be in a recession right now, we're simply waiting for the data to confirm it. – ING Asia Chief Economist Rob Carnell

Meanwhile, BI has already started on an easing path by cutting banks' reserve requirement ratio (RRR) by 50bp at the June policy meeting. With a Fed rate cut just around the corner, our Indonesia expert, Nicholas Mapa, now thinks the door is open to a BI rate cut, possibly as soon as next week. The appreciating currency (IDR) allows for some unwinding of aggressive BI policy tightening in 2018. Even as GDP growth remains well supported at a 5% level for the rest of the year, still a decent performance among Asian countries, an insurance rate cut won't hurt when inflation is anchored around 3%.

➔ And lots of data to gauge trade war impact

The trade figures from India, Indonesia, Singapore, and Japan will also be watched closely for what they say about the trade war impact.

Just like Korea, Singapore is one of the economies most impacted by the trade war and tech slump. June data on non-oil domestic exports (NODX) next week will reinforce this trend. The sustained deep declines in NODX depressing GDP growth are bringing the Monetary Authority of Singapore (MAS – the central bank) closer to reducing or even flattening the SGD-NEER appreciation path, possibly even earlier than the October meeting.

There is some good news from the Indonesian trade figures. A 10-fold widening of the trade surplus to our estimated \$1.9 billion will relieve BI from worries of imminent policy rate cuts hurting the currency. Unlike Indonesia, India's trade balance remains in red, likely posting a \$15 billion deficit again in June – not good news for the Indian rupee despite its recent outperformance on the back of a weaker US dollar and lower global oil prices.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 15 July					
China	0300	Jun Fixed asset investment (YTD, YoY%)	5.7	5.6	5.6
	0300	Jun Industrial Production (YoY%)	5.5	5.3	5
	0300	Jun Retail Sales (YoY%)	9.1	8.5	8.6
	0300	2Q GDP (QoQ% SA/YoY)	-/6.2	1.5/6.2	1.4/6.4
India	0730	Jun WPI (YoY%)	2.3	2.2	2.5
	-	Jun Imports (YoY%)	-3	-	4.3
	-	Jun Trade deficit (US\$bn)	-7	-14600	-15360
Indonesia	-	Jun Exports (YoY%)	-15	-	3.9
	0500	Jun Exports (YoY%)	-8.7	-	-9.0
	0500	Jun Imports (YoY%)	-11	-	-17.7
	0500	Jun Trade balance (US\$m)	1885	-	207.6
Philippines	-	May OCW remittances (YoY%)	-1.7	-	4.0
Wednesday 17 July					
Singapore	0130	Jun Non-oil domestic exports (YoY%)	-8.7	-	-15.9
	0130	Jun Non-oil domestic exports (MoM% SA)	-6.2	-	6.2
Thursday 18 July					
Indonesia	-	BI policy decision (7-day reverse repo, %)	5.75	-	6.00
South Korea	0200	7-Day Repo Rate	1.50	-	1.75
	2200	Jun PPI (YoY%/MoM)	0.4	-	0.4

Source: ING, Bloomberg, *GMT

Key events in EMEA and Latam next week

A calm week ahead in EMEA and Latam. In Russia, household indicators could offer some support for a rate cut while in Poland, we're looking for some...



Source: Shutterstock

✓ Russia: New readings to support a cut?

Russian industrial production is likely to show some statistical recovery in June vs. May thanks to calendar (workday number) effects, while the household indicators, including retail sales and real salary growth should remain sluggish. While not directly linked with monetary policy, those indicators could still serve as an additional argument in favour of a cut in the key rate from the current level of 7.5% after CPI decelerated to 4.7% year-on-year in June.

✓ Poland: Expect soft data

We expect relatively soft activity data in June with industrial production growth at 2.9% YoY and retail sales at 3.3% (constant prices). Both figures are close to the local market consensus. The strong deceleration is related to a difference in working days and a strongly negative statistical base. In our opinion, this weakness is temporary and both indicators should return to the 5-6% level from July.

We also forecast lower wages (6.7% YoY). Our forecast remains below the consensus of local market economists (7.1%). The negative drag will likely be related to a drop in the construction sector. We still see an acceleration in the coming months as the share of companies mulling wage

increases is very high.

EMEA and Latam Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Monday 15 July					
Russia	-	Jun Industrial Production (YoY%)	1.4	2	0.9
Poland	0900	Jun F CPI (YoY%)	2.6	2.6	2.6
	1300	May C/A (€mn)	385	375	718
	1300	May Trade Balance (€mn)	45	57	279
	1300	May Exports (€mn)	19128	19163.5	19440
	1300	May Imports (€mn)	19083	19107	19161
	-	Jun Budget Level (YTD)	-	-	-2157.7
Czech Rep	0900	May C/A (CZKbn)	-	-	17.7
Romania	-	May C/A YTD (€m)	-	-	-2306
Kazakhstan	1200	Key Policy Rate	-	-	9.00
Bulgaria	0900	Jun CPI (MoM%/YoY%)	-/-	-/-	0.1/3.5
Israel	1630	Jun CPI (MoM%/YoY%)	-/-	-/-	0.7/1.5
Tuesday 16 July					
Russia	-	Jun PPI (MoM/YoY%)	-/-	0.7/5.5	1.8/8.6
Turkey	0800	Apr Unemployment Rate (%)	-	-	14.05
Poland	1300	Jun Core Inflation (YoY%)	1.9	1.9	1.7
Israel	1100	1Q F GDP (QoQ Annualised %)	-	-	4.8
Wednesday 17 July					
Russia	1400	Jun Real wages (YoY%)	2.6	2.9	2.8
	1400	Jun Retail Sales (YoY%)	1.0	1.1	1.4
Poland	0900	Jun Avg Gross Wages (YoY%)	6.7	7.1	7.7
	0900	Jun Employment (YoY%)	2.6	2.7	2.7
Czech Rep	0800	Jun PPI (Industrial) (MoM/YoY%)	-/-	-/-	0.5/3.8
South Africa	1200	May Retail Sales (MoM/YoY%)	-/-	-/-	0.8/2.4
Thursday 18 July					
Poland	0900	Jun Industrial Output (YoY%)	2.9	2.4	7.7
	0900	Jun PPI (YoY%)	0.3	1.4	1.4
Ukraine	1200	Jul 18 Key Rate (%)	-	-	17.5
South Africa	-	Repo rate (%)	-	-	6.8
Israel	-	Jul 12Mth Inflation Forecast (%)	-	-	1.3
Friday 19 July					
Poland	0900	Jun Retail Sales (YoY%)	5.0	-/-	7.3
Serbia	-	May C/A (€mn)	-	-	-194.3
Croatia	1000	May Real Wages (YoY%)	-	-	3
	1000	Jun Unemployment Rate	-	-	7.5

Source: ING, Bloomberg

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