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Our view on next week's key events

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Source: Shutterstock

US: 5% should mark the peak for the Fed funds target range

We are getting closer to the Federal Reserve's February Federal Open Market Committee (FOMC) meeting, and at the moment the market is split between whether the central bank opts for a 25bp or a 50bp rate hike. After 425bp of rate hikes so far there is a strong chance that it chooses to "step down" to the more traditional 25bp increments given most of the policy tightening work is already done and there are broadening signs that the economy is responding to it. However, inflation remains well above the 2% target and the labour market remains tight with the unemployment rate back to a cycle low of 3.5%. If it does choose to go for a 25bp move, we would expect it to strongly state that this is not the end of the rate hike cycle and that a further 25bp in March is on the cards. This would leave the ceiling of the Fed funds target range at 5%, which we think will mark the peak.

Next week's data flow will have an important influence on the decision. The calendar includes retail sales, industrial production, housing transactions and producer price inflation. The activity numbers are likely to be soft with retail sales dragged down by a big fall in auto sales in December, while squeezed household incomes and bad weather may also help to dampen spending. Industrial production is also likely to have fallen given the weakness seen in key surveys such as the ISM manufacturing report, whose production component fell into contraction (sub-50) territory for the first time since May 2020. Some offset should come from the utilities sub-component given much colder weather, but lower oil prices may have weighed on mineral extraction.

Inevitably, the housing market data will be weak given that mortgage rates have more than doubled over the past 12 months, making a property purchase even less affordable. Given the swing in the market from excess demand towards excess supply, falling transactions will also be accompanied by lower home prices.

UK: data to determine the size of the February Bank of England rate hike

Market pricing is split between a 25bp and 50p hike at the Bank of England's February meeting, though is biased towards the latter. The centre of gravity on the committee shifted noticeably in favour a 'smaller' 50bp hike back in December, and the minutes of that meeting contained vague hints that a further slowdown could be on the cards. Next week's data is key, and here's what we'll be looking at:

- **Jobs (Tues):** The BoE will look at this data through the lens of a) whether labour shortages are easing and b) whether wage pressures are still just as persistent as ever. So far the jobs market has shown few signs of deterioration, other than a gradual reduction in the number of unfilled vacancies. We'll be watching for any hints of redundancies increasing, as firms battle higher energy costs and interest rates, though we suspect these will remain low for the time being. Meanwhile regular pay growth has been running at 7-8% on an annualised basis, and that's consistent with the recent readings coming from the BoE's own Decision Maker survey. For now, this is the strongest argument in favour of another 50bp hike.
- **Inflation (Weds):** Headline CPI has peaked but is likely to remain in double digits through early 2023. But the Bank's favoured measure of 'core services' inflation, perhaps the cleanest gauge of domestically-driven price pressures, has edged higher in recent months and this will be key. Signs that this is reaching a peak would boost the case for a more modest rate hike in February.
- **Retail sales (Fri):** Until November, retail figures had risen by roughly 4% in value terms through 2022 but fallen by an even greater percentage in volumes, neatly encapsulating the cost of living squeeze that's dominating the UK outlook this year. While fourth quarter GDP looks like it'll come in flat, partly thanks to an artificial bounce in activity after the Queen's funeral Bank Holiday, the first quarter output is likely to show a material decline – thanks in part to weaker retail numbers. We expect a small bounce-back in December, though that's likely to reflect volatility surrounding Christmas more than anything else. We wrote more about the UK's growth outlook here.

Norway: Norges Bank to hike by 25bp – but will this be the last?

Norges Bank has signalled it expects its policy rate to peak at 3% early this year, and there's been little change in the key indicators it looks at since that prediction last December. We expect a 25bp rate hike next week, which would mean that the 3% level is reached. We see little reason not to take Norges Bank at its word and we suspect that will indeed be the peak, though much depends on oil prices and what other central banks end up doing through the spring.

Key events in developed markets next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 16 January			
Italy	0800	Nov Global Trade Balance	-		-2.123
Eurozone	1100	Dec Reserve Assets Total	-		1115.1
		Tuesday 17 January			
US	1330	Jan Empire manufacturing survey	-9.0	-7.5	-11.2
Germany	0700	Dec CPI Final (MoM%/YoY%)	-0.8/8.6		-0.8/8.6
UK	0700	Nov ILO Unemployment Rate	3.7		3.7
	0700	Nov Employment Change	40		27
Canada	1330	Dec CPI Inflation (MoM%/YoY%)	-/-		0.1/6.8
	1330	Dec CPI BoC Core (MoM%/YoY%)	-		0/5.8
Netherlands	0530	Nov Trade Balance	-		4.01
		Wednesday 18 January			
US	1330	Dec Retail Sales (MoM%)	-1.0	-0.8	-0.6
	1330	Dec PPI (MoM%/YoY%)	-0.1/6.7	0.0/6.8	0.3/7.4
	1415	Dec Industrial Production (MoM%)	-0.1	-0.1	-0.2
	1700	Federal Reserve Beige book	-	-	-
UK	0700	Dec Core CPI (MoM%/YoY%)	-/-		0.3/6.3
	0700	Dec CPI (MoM%/YoY%)	0.4/10.6		0.4/10.7
Eurozone	1000	Dec CPI (YoY%)	-		9.2
		Thursday 19 January			
US	1330	Initial Jobless Claims (000s)	-		205
	1330	Continue Jobless Claims (000s)	-		1634
	1330	Dec Housing starts (000s)	1340	1358	1427
	1330	Dec Building permits (000s)	1375	1375	1351
	1330	Dec Philadelphia Fed index	-11.0	-10	-13.8
Norway	0900	Key Policy Rate	3.00		2.75
Eurozone	0900	Nov Current Account SA (EUR bn)	-		-0.402
		Friday 20 January			
US	1500	Dec existing home sales (mn)	3.90	3.94	4.09
UK	0700	Dec Retail Sales (MoM%/YoY%)	0.6/-3.9		-0.4/-5.9
Canada	1330	Nov Retail Sales (MoM%)	-		1.4

Source: Refinitiv, ING

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Asia week ahead: China activity data, Australia's jobs report plus key central bank decisions

Next week's data calendar features China's GDP numbers, jobs data from Australia, and a rate hike by Bank Indonesia

Source: Shutterstock

RBA looking to jobs report next week for direction

After the disappointingly high November inflation numbers, the Reserve Bank of Australia (RBA) will want to see some evidence of slowing in the labour market if it is not going to have to raise rates more than the additional 50bp we are currently forecasting.

The consensus is for around 64,000 new jobs, which would indeed be a strong figure, and unless there was an offsetting rise in the unemployment rate, would probably prompt us to review our peak rates forecast in favour of an increase. We expect total employment of roughly 45,000 fresh jobs of which only 20,000 would be full-time jobs.

Lending rate and activity data out from China

The People's Bank of China (PBoC) will decide whether to cut the 1Y Medium Lending Facility rate (MLF) on 16 January. We expect the PBoC to pause at 2.75% as the economy is recovering. Furthermore, the government has emphasised that the central bank's actions should be more focused, and a general rate cut would not be considered a focused monetary policy move.

After the PBoC's announcement of 1Y MLF, Chinese banks will announce 1Y and 5Y Loan Prime Rates (LPR) on 20 January. We expect no change in these interest rates as banks usually follow the move of MLF and banks' interest margins have been thinner. But the government has urged banks to lend out more loans, which may imply banks could be under pressure to cut.

Meanwhile, China will announce activity data and GDP data between 10 and 27 January. We expect retail sales to contract deeper on a yearly basis while industrial production could turn from positive growth to mild contraction in December. This leaves the economy mainly supported by fixed-asset investments. As a result, GDP growth for the fourth quarter should be in slight year-on-year contraction.

BoJ to reiterate dovish stance while BI set to hike

The Bank of Japan (BoJ) is expected to stand pat after delivering its unexpected decision in December to expand the yield curve band. Governor Haruhiko Kuroda's future guidance will remain dovish, but apart from that, the market appears to be pricing in additional normalisation steps from the next BoJ governor. Considering that Tokyo CPI inflation hit 4% year-on-year earlier this week, national CPI inflation for December is likely to climb up to 4%. But, pipeline prices, such as import price and producer price, are expected to be lower than in the past month.

Meanwhile, Bank Indonesia (BI) meets to discuss policy next week and we expect Governor Perry Warjiyo to start the year with a rate hike to support the Indonesian rupiah (IDR). Softer inflation reported in the past few months and fading growth momentum suggest that BI will likely opt for a 25bp rate increase which would widen interest rate differentials to support the currency.

Indonesia's trade report to show slowing export growth

Indonesia also reports trade numbers next week. With commodity prices moderating, exports will likely manage to grow a modest 6.2% while imports could contract for a second straight month. The trade balance will likely remain in surplus but could slide to $3bn, lower than the previous month and less than half of the record $7.6bn recorded in April last year. With the trade surplus fading, we could see the IDR missing a key support in 2023, which could suggest some depreciation pressure on the currency this year.

Key events in Asia next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 16 January			
India	0630	Dec WPI Inflation (YoY%)	5.6	5.6	5.85
Indonesia	0400	Dec Trade Balance (USD bn)	3.0		5.16
	0400	Dec Exports Growth (YoY%)	6.2		5.58
	0400	Dec Imports Growth (YoY%)	-2.0		-1.89
China		1Y Medium Lending Facility rate (%)	2.75		2.75
		Tuesday 17 January			
China	0200	Dec Industrial Output (YoY%)	-2.3		2.2
	0200	Dec Retail Sales (YoY%)	-12.5		-5.9
	0200	Dec Fixed Assets Investments (YTD YoY%)	5		5.3
	0200	Q4 GDP (YoY%)	-0.4		3.9
	0200	2022 GDP (YoY%)	2.06		8.1
		Wednesday 18 January			
Japan	-	BOJ Rate Decision	-		-0.1
	2350	Dec Imports/Exports (YoY)	-		30.3/20
	2350	Dec Trade Balance Total (Yen bn)	-		-2029
Taiwan	0800	Dec Unemployment rate (%)	3.66		3.64
		Thursday 19 January			
Japan	2330	Dec CPI (YoY%) NSA	-		3.8
	2330	Dec Core CPI (YoY%) NSA	-		3.7
Australia	0030	Dec Unemployment Rate	3.5		3.4
	0030	Dec Full time employment change	20		64
	0030	Dec Reserve Assets Total	-		84019
Indonesia	-	Jan 7-Day Reverse Repo	5.75		5.5
		Friday 20 January			
China	0115	Jan Loan Prime Rate 1Y/5Y	3.65/4.30		3.65/4.3

Source: Refinitiv, ING

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Key events in EMEA next week

For Turkey's Monetary Policy Committee meeting next Thursday, we expect the central bank to keep the policy rate unchanged at 9%, given its pursuit of...

Source: Shutterstock

Poland: Core inflation continues to trend upward despite decline in headline inflation

Poland Core inflation (Dec): 11.7% YoY

Despite the sharp decline in headline inflation in December (down to 16.6% year-on-year from 17.5% YoY in November), core inflation continues to trend upwards as businesses keep passing on higher costs to the prices of final products. We expect broad-based price adjustments to the energy shock to keep core inflation elevated in 2023. After peaking in the first quarter of this year, inflation is projected to start moderating but will remain at double-digit levels at the end of this year.

Poland wages (Dec): 13.4% YoY

Two opposite forces are shaping average wages and salaries in the enterprise sector. On the one hand, employees received one-off bonuses in December compensating for high inflation and because of the good financial results businesses achieved. On the other hand, an exceptionally high number of seasonal flu cases probably translated into an increase in staff absences that reduced working hours and therefore wages. Even though wage demands are visible in the economy, the growth of average wages has been running below inflation for some time. A substantial increase in the minimum wage is forecast to keep wages growth at double-digit levels most of this year.

Poland employment (Dec): 2.3% YoY

We forecast that the number of employees in the enterprise sector remained broadly unchanged in December vs. November, which translated into a slight increase in annual employment growth (2.4% YoY vs. 2.3% YoY in November). Although economic activity is slowing down, demand for labour remains solid, keeping in mind that refugees from Ukraine (some 800,000 people have found a job in Poland since February 2022) are generally not covered by high-frequency enterprise sector data.

Turkey: Repo rate is expected to remain at 9%

With the 2023 Monetary and Exchange Rate Report release and recent regulatory changes strengthening the current macro prudential framework, the Central Bank of Turkey maintains the policy path of keeping interest rates low, relying on selective credit policy and pursuing a 'liraisation' strategy. Given this backdrop, we expect the bank to keep the policy rate unchanged at 9% at the January Committee meeting.

Key events in EMEA next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 16 January			
Poland	1300	Dec Net Inflation (YoY%)	11.7		11.4
Ukraine	-	Nov Trade Balance YTD	-		7.05
Kazakhstan	1200	Dec Industrial Production (MoM%)	-		10.2
		Tuesday 17 January			
Croatia	1000	Dec CPI (YoY%) NSA	14		13.5
	1000	Dec CPI (MoM%) NSA	0.5		0.9
		Wednesday 18 January			
South Africa	0800	Dec CPI (MoM%/YoY%)	-/-		0.3/7.4
	0800	Dec Core inflation (MoM%/YoY%)	-/-		0.1/5
	1100	Nov Retail Sales (YoY%)	-		-0.6
		Thursday 19 January			
Turkey	1100	Jan CBT Weekly Repo Rate	9		9
	1100	Jan O/N Lending Rate	11		10.5
	1100	Jan O/N Borrowing Rate	7.5		7.5
		Friday 20 January			
Poland	9000	Dec Wages (YoY%)	13.4		13.9
	9000	Dec Employment (YoY%)	2.3		2.2
Mexico	1200	Nov Retail Sales (MoM%/YoY%)	-		0.7/3.8

Source: Refinitiv, ING

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