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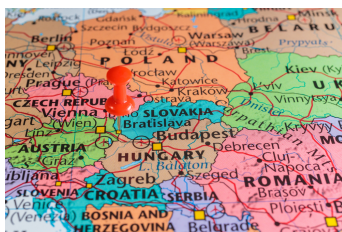


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US: A close call, favouring 25bp as of now

Next week's Federal Reserve policy meeting is a very close call. On the one hand, inflation continues to run hot, the jobs market is strong and Federal Reserve Chair Jerome Powell's testimony, which opened the door to a 50bp hike, suggested a desire to get interest rates a fair bit higher. However, lending conditions were already tightening and the fallout from recent events surrounding Silicon Valley Bank, Signature Bank and Credit Suisse will only make banks more cautious. Regulators are also likely to recognise the need to be more proactive in this environment, which could in turn feed into more pressure on the banks and greater caution with regards to who they lend to, how much they lend and at what rate. This is a de-facto tightening of monetary and financial conditions in the US which could weigh heavily on economic activity. The Fed may be wary that a no-change response could signal that they have finished tightening and the next move will be lower rates, but they can head that off by signalling in the text that this is a temporary pause and they stand ready to tighten again should conditions warrant it. Moreover, they also have the updated forecasts this month which could continue to show their central tendency is for rates to end the year higher than their current level. Nonetheless, with the European Central Bank hiking rates by 50bp without causing too many market ructions, this is likely to embolden the Fed to move by 25bp.

✓ UK: Bank of England decision on a knife edge

Last month, the Bank of England signalled it might finally be done with tightening, or at least that it was close. It said it would be monitoring signs of “inflation persistence” and hinted the burden of proof was on seeing inflation fall back, rather than vice versa. Since then the data has been encouraging – wage growth is finally showing signs of having peaked, though it’s early days. The Bank’s own Decision Maker Survey has suggested firms’ pricing strategies are becoming less aggressive too. We’ll get one more inflation reading next week before Thursday’s meeting, but last month saw a surprise dip in core services CPI. Until the recent drama in financial markets, and on the basis of recent BoE communications, we felt this data probably wasn’t quite enough to steer the BoE away from a 25bp hike this month, but we also felt that if those encouraging trends continued, the committee could pause in May.

We’re still leaning towards that outcome, though clearly a lot can change in the days leading up to the meeting. It’s clear from recent communication that the bar for pausing is much lower at the BoE than at the ECB or the Fed, with officials noting that the impact of past hikes is still largely to feed through. On the flip side, last September/October’s volatility in UK markets after the ‘mini Budget’ saw the BoE use targeted measures to address financial stability issues, which policymakers indicated would allow the Bank’s monetary policy to continue focusing on inflation. We suspect that the philosophy of (at least trying to) separate inflation fighting and financial stability, which was also adopted by ECB President Christine Lagarde this week, will again underpin next week’s decision-making.

In short, the meeting is on a knife edge and to a large extent it will come down to whether stability in financial markets starts to return. Either way, expect the committee to remain heavily divided.

✓ Eurozone: Little sign of a strong rebound

For the eurozone, all eyes will be on the PMI and consumer confidence data for signs about how the first quarter is shaping up. So far, sentiment data has painted a relatively positive picture of the economy in February, but hard data for the first quarter shows little sign of a strong rebound. Also interesting will be the trade balance for January, which has seen big moves in energy import volumes and prices.

✓ Switzerland: Central bank will act with caution

In Switzerland, since the beginning of the year, inflation has continued to rise and exceed expectations, reaching 3.4% in February, after having fallen in the second half of 2022. As the Swiss National Bank only meets once a quarter and has only raised rates by 175 basis points since the start of the tightening cycle (compared to 350 basis points for the ECB and 475 basis points for the Fed), recent inflation developments in Switzerland argue for a 50 basis point rate hike at the March meeting. A fortnight ago, this was a fairly safe bet, but recent developments in the financial markets have clearly reduced the likelihood of this happening. As Credit Suisse is one of the two largest banks in Switzerland, which implies that the systemic risk is greater there than elsewhere, the SNB will have to act with caution. Ideally, the SNB would like to manage the risks to financial stability with other instruments than interest rates, such as providing liquidity to banks that need it, so that it can continue to use interest rates to fight inflation. For the moment, this seems feasible, but one knows that market conditions can change very quickly. A conflict between the financial stability and monetary policy objectives could emerge, forcing the SNB to act more cautiously in its rate increases. In conclusion, our baseline scenario remains a 50bp rate hike, but

the probability of this has seriously diminished, and neither the status quo nor a 25bp hike can be ruled out. Unlike the ECB, the SNB has not pre-announced anything, so it is freer in its choices.

Key events in developed markets

| Country | Time | Data/event | ING | Survey | Prev. |
|---------------------------|------|--|----------|--------|-----------|
| Monday 20 March | | | | | |
| Eurozone | 1000 | Jan Total Trade Balance SA | -8.9 | | -18.1 |
| Tuesday 21 March | | | | | |
| Canada | 1230 | Feb CPI Inflation (MoM%/YoY%) | -/- | / | 0.5/5.9 |
| | 1230 | Feb CPI BoC Core (MoM%/YoY%) | - | | 0.3/5 |
| | 1230 | Jan Retail Sales (MoM%) | - | | 0.5 |
| Wednesday 22 March | | | | | |
| US | 1800 | Fed Funds Target Rate | 4.875 | | 4.625 |
| | 1800 | Fed Interest On Excess Reserves | 4.9 | | 4.65 |
| UK | 0700 | Feb CPI (MoM%/YoY%) | 0.5/10.0 | | -0.6/10.1 |
| Eurozone | 0900 | Jan Current Account SA, EUR | - | | 15.9 |
| Thursday 23 March | | | | | |
| US | 1230 | Q4 Current Account | - | | -217.1 |
| | 1400 | Feb New Home Sales-Units | 0.635 | 0.638 | 0.67 |
| UK | 1200 | Mar BOE Bank Rate | 4.25 | | 4 |
| Norway | 0900 | Key Policy Rate | 3.00 | | 2.75 |
| Switzerland | 0830 | Q1 SNB Policy Rate | - | | 1 |
| Eurozone | 1500 | Mar Consumer Confidence Flash | -18.5 | | -19 |
| Friday 24 March | | | | | |
| US | 1230 | Feb Durable Goods | 0.5 | | -4.5 |
| | 1345 | Mar S&P Global Manufacturing PMI Flash | - | | 47.3 |
| | 1345 | Mar S&P Global Services PMI Flash | - | | 50.6 |
| | 1345 | Mar S&P Global Composite Flash PMI | - | | 50.1 |
| Germany | 0830 | Mar S&P Global Manufacturing Flash PMI | 46.9 | | 46.3 |
| | 0830 | Mar S&P Global Service Flash PMI | 49.8 | | 50.9 |
| | 0830 | Mar S&P Global Composite Flash PMI | 49.9 | | 50.7 |
| France | 0815 | Mar S&P Global Composite Flash PMI | - | | 51.7 |
| UK | 0700 | Feb Retail Sales (MoM%/YoY%) | -/- | | 0.5/-5.1 |
| | 0930 | Mar Flash Composite PMI | - | | 53.1 |
| | 0930 | Mar Flash Manufacturing PMI | - | | 49.3 |
| | 0930 | Mar Flash Services PMI | - | | 53.5 |
| Spain | 0800 | Q4 GDP (QoQ%/YoY%) | -/- | | 0.2/2.7 |
| Eurozone | 0900 | Mar S&P Global Manufacturing Flash PMI | 48.8 | | 48.5 |
| | 0900 | Mar S&P Global Services Flash PMI | 52.2 | | 52.7 |
| | 0900 | Mar S&P Global Composite Flash PMI | 51.9 | | 52 |

Source: Refinitiv, ING

Authors

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Bert Colijn

Senior Economist, Eurozone

bert.colijn@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Asia week ahead: Regional central bank meetings and trade data

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Expected slowdown in India's current account deficit

India's current account deficit has widened substantially and although the trade deficit slowed its increase in the last three months of the year, the consensus forecast for a narrowing of the broader current account deficit looks optimistic.

Upcoming RBA minutes of March policy meeting

The minutes from the Reserve Bank of Australia's March meeting next Tuesday could be an interesting read and may shed more light on what appeared to be a hint that peak rates were nearing.

Upcoming CPI and PMI data from Japan

Consumer inflation in Japan is expected to cool to 3.5% year-on-year in February (vs 4.3% in January) due to the government's energy subsidy programme, helped along by the base effects of a slowdown. For the fresh PMI reports, we believe the trend of weak manufacturing alongside a strong services sector will continue.

Trade data from Korea

Early April trade data will be out from Korea and we expect sluggish exports to continue. The trade deficit however is expected to narrow in April as imports of commodities could decline more sharply.

China to announce target interest rate

Banks in China will announce their loan prime rate and we expect no change at 3.65% and 4.3% for 1-year and 5-year, respectively. The ongoing economic recovery means that banks do not have to ease further.

Busy week for Taiwan

Taiwan's central bank will decide on policy in the coming days. We believe the recent Silicon Valley Bank collapse will be another factor in the central bank's rate decision. The best way forward for the central bank should be to stay put at 1.75% as hiking further may create concerns for the financial market.

Meanwhile, Taiwan's industrial production and export orders should continue to reflect slowing growth in the US and European economies. We do not think China's growth can fill the gap. A mid-teen yearly contraction is likely for both reports.

Singapore inflation stays hot

Price pressures remain in Singapore as the impact of the recent implementation of the goods and services tax feeds through. Headline inflation could slow slightly to 6.4% YoY but core inflation is likely to heat up further to 5.6%. Faster inflation is expected to weigh on overall retail sales for at least the first half of the year. Elevated inflation could produce a potential policy response from the Monetary Authority of Singapore (MAS) at the April meeting. We expect MAS to retain its current hawkish stance given the significant challenges faced by Singapore's growth outlook.

BSP to hike again as inflation remains an issue

Bangko Sentral ng Pilipinas (BSP) meets next week to discuss policy. Although we expect the central bank to sustain its rate hike cycle, we could see Governor Felipe Medalla downshift to a 25bp increase. Medalla recently hinted at a less aggressive rate hike when he called for the rapid deployment of supply-side measures to address the tight supply of basic food items. Recent developments in the global banking system will also be watched closely and thus we believe that next Thursday's hike could be the last for this tightening cycle.

Key events in Asia next week

| Country | Time | Data/event | ING Survey | Prev. |
|--------------------------|----------|----------------------------------|------------|-----------|
| Monday 20 March | | | | |
| China | 0115 Mar | Loan Prime Rate 1Y/5Y | - | 3.65/4.3 |
| Korea | - | First 20 days exports | - | - |
| Thursday 23 March | | | | |
| Australia | 2200 Mar | Manufacturing PMI Flash | - | 50.5 |
| | 2200 Mar | Services PMI Flash | - | 50.7 |
| | 2200 Mar | Composite PMI Flash | - | 50.6 |
| Philippines | 0700 | Policy Interest Rate | 6.250 | 6 |
| Singapore | 0500 Feb | Core CPI (YoY%) | 5.6 | 5.5 |
| | 0500 Feb | CPI (YoY%) | 6.4 | 6.6 |
| | 0500 Feb | Manufacturing Output (MoM%/YoY%) | -/- | -1.1/-2.7 |
| Taiwan | 0800 Q1 | Discount Rate | - | 1.75 |
| | 0800 Feb | Industrial Output (YoY%) | - | -20.5 |
| | 0820 Feb | Money Supply - M2 (YoY%) | - | 6.67 |
| Japan | 2330 | CPI (YoY%) | 3.5 | 4.3 |
| Friday 24 March | | | | |
| India | 1130 Q4 | C/A Balance (USD bn) | - | -36.4 |
| | 1130 Q4 | Balance Payments (USD bn) | - | -30.4 |
| Indonesia | 0300 Feb | M2 Money Supply (YoY%) | - | 8.2 |
| Taiwan | 0800 Feb | Unemployment rate (%) | - | 3.6 |

Source: Refinitiv, ING

Authors

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Key events in EMEA next week

A relatively quiet week ahead for the EMEA regions. Given the Central Bank of Turkey cut the policy rate last month, and signalled that cuts would not be...



Source: Shutterstock

✓ Poland

Industrial output (Feb): 1.0% YoY

A relatively strong January reading (2.3% year-on-year) was supported by calendar effects, but with a neutral impact of working days in February, industrial output growth is projected to have eased to 1.0% YoY. Even though the severity of the European energy crisis is smaller than feared, the outlook for the real economy, especially manufacturing in the EU, looks better than expected. PMI surveys point to slower declines in new orders and output, while cost pressures have eased. Demand and supply are more aligned, but Poland's industrial growth is projected to be sluggish in the near term and the emergence of concerns about financial stability risks are skewed to the downside.

Retail sales (Feb): -1.4% YoY

Household consumption fell in the fourth quarter of 2022 and consumer demand remains subdued in early 2023 as a result of elevated inflation that has eroded the real purchasing power of consumers. We project continued weakness in retail sales of goods in early 2023, and yet another annual decline in consumption, especially given the high reference base from the first quarter of

2022.

✓ Turkey: Central bank expected to remain on hold

Last month when the Central Bank of Turkey cut the policy rate to 8.5%, it signalled that interest rate cuts would not continue as a series. Given this backdrop, we expect the bank to remain on hold this month. But we can expect further macro-prudential measures to maintain favourable financial conditions with the objective of minimising the effects of the earthquakes in the period ahead.

✓ Hungary: Unemployment expected to increase further

The relatively quiet period regarding data releases is set to continue in Hungary. The only hard data is the unemployment rate for February, where we see a further increase as companies are adjusting to the new reality earmarked by the technical recession.

Key events in EMEA next week

| Country | Time | Data/event | ING | Survey | Prev. |
|---------------------------|------|--|------|--------|-----------|
| Monday 20 March | | | | | |
| Poland | 0900 | Feb Industrial Output (YoY%) | 1.2 | 1.0 | 2.6 |
| Mexico | 1200 | Jan Retail Sales (MoM%/YoY%) | - | | 2.5 |
| | 1200 | Jan Retail Sales (MoM%) | - | | 0.1 |
| Tuesday 21 March | | | | | |
| Poland | 0900 | Feb Retail Sales (YoY%) | -1.4 | -1.4 | -0.3 |
| Wednesday 22 March | | | | | |
| Russia | 1600 | Feb PPI (MoM%/YoY%) | -/- | | -0.9/-4.6 |
| Poland | 1300 | Feb M3 Money Supply (YoY%) | 6.5 | 6.5 | 6.9 |
| South Africa | 0800 | Feb CPI (MoM%/YoY%) | -/- | | -0.1/6.9 |
| | 0800 | Feb Core inflation (MoM%/YoY%) | -/- | | 0.2/4.9 |
| Brazil | 2100 | Selic Interest Rate | - | | 13.75 |
| Thursday 23 March | | | | | |
| Turkey | 1100 | Mar CBT Weekly Repo Rate | 8.5 | | 8.5 |
| | 1100 | Mar O/N Lending Rate | 10 | | 10 |
| | 1100 | Mar O/N Borrowing Rate | 7 | | 7 |
| Poland | 0900 | Feb Unemployment Rate | 5.6 | 5.5 | 5.5 |
| Mexico | 1200 | Mar 1st Half-Month Core Inflation (MoM%) | - | | 0.35 |
| | 1200 | Mar 1st Half-Month Inflation (MoM%) | - | | 0.3 |
| Friday 24 March | | | | | |
| Hungary | 0730 | Feb Unemployment Rate 3M | 4.1 | | 4.0 |
| Brazil | 1200 | Mar IPCA-15 Mid-Month CPI | - | | 0.76 |
| | 1200 | Mar IPCA-15 Mid-Month CPI (YoY%) | - | | 5.63 |
| Mexico | 1200 | Jan IGAE Econ Activity (YoY%) | - | | 2.6 |

Source: Refinitiv, ING

Authors

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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