Bundle | 18 August 2023

Our view on next week's key events

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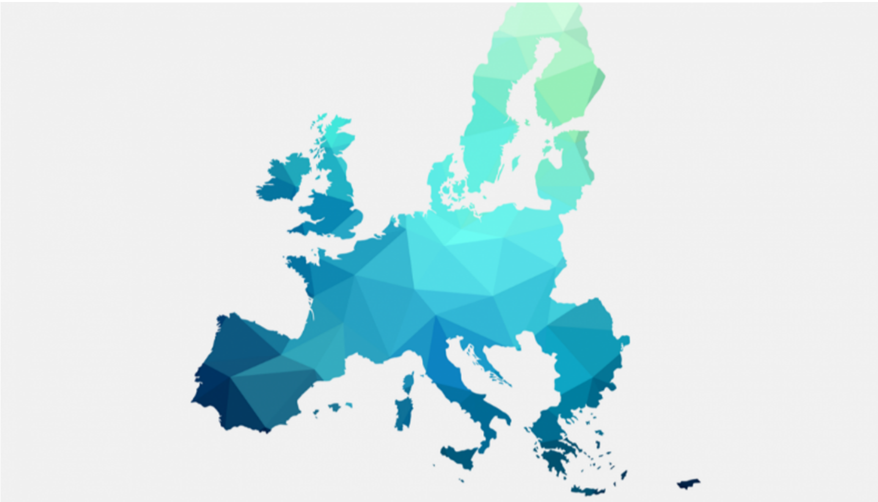
Key events in developed markets next week

The release of eurozone sentiment data releases will give an idea of whether third-quarter performance continues to be bleak



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US: The market's focus will be Fed Chair Jerome Powell's speech

Treasury yields have come under significant upward pressure over the past couple of weeks in the wake of the Fitch credit rating downgrade of US government debt and ongoing strong data that has cast doubt on how aggressive eventual Federal Reserve interest rate cuts will be. Interestingly, near-term interest rate expectations for Federal Reserve monetary policy have changed little with just 3bp of tightening priced for the September FOMC meeting and 10bp in total priced for November.

The highlight next week will be the Fed's Jackson Hole Symposium at which the outlook for monetary policy will be heavily discussed. The market's focus will be Fed Chair Jerome Powell's speech on Friday morning. Given slowing inflation, more moderate labour cost developments, and weaker hiring despite strong activity, we think he will back the case for a September pause, but leave the door open to a further possible rate rise in either November or December depending on how the incoming information pans out.

Our view is that the lagged effects of higher interest rates and of rapidly tightening lending conditions will mean that this final hike will not be required, while the exhaustion of pandemic-era savings and the restart of student loan repayments will act as an additional brake on economic activity that will also contribute to ongoing falls in inflation.

Eurozone: PMI tells a story of weakening performance

Next week is about sentiment data for the eurozone. With PMIs steadily sliding in recent months and the composite PMI now well below 50, next week will be all about gauging whether the third quarter continues to look bleak in terms of economic performance. While the second quarter actually turned out better than expected in terms of GDP growth, the PMI tells a story of weakening performance and it will be key to see whether August added to that or nuanced the picture somewhat.

UK PMIs in focus as policymakers look for inflation clues

Like in the eurozone, we'd expect the UK PMIs to highlight mounting stagnation in the service sector, coupled with ongoing problems in manufacturing. On the former, the Bank of England will be most interested in whether the surveys point to improvements in the inflation story, and the anecdotal evidence in the last PMI press release from S&P Global suggests the answer is 'yes'.

It highlighted the fact that lower energy prices are taking the pressure off output price inflation from companies, and we expect this trend to continue. That said, the BoE seems to have limited faith in surveys, which have been pointing to a better inflation story for months, but have thus far failed to translate into improvements in the official data. We continue to expect a September hike, but we're hopeful that some modest improvement in services inflation can enable the committee to pause in November.

Key events in developed markets

Country	Time	Data/event	ING	Survey	Prev.
		Tuesday 22 August			
Norway	0700	Q2 GDP Growth Mainland	0.1		0.2
	0700	Jun GDP Month Mainland	0.3		0.5
Eurozone	0900	Jun Current Account SA, EUR	-		9.1
		Wednesday 23 August			
US	1445	Aug S&P Global Manufacturing PMI Flash	-		49
	1445	Aug S&P Global Services PMI Flash	-		52.3
	1445	Aug S&P Global Composite Flash PMI	-		52
	1500	Jul New Home Sales-Units (mn)	0.7	0.707	0.697
Germany	0830	Aug S&P Global Manufacturing Flash PMI	38.5		38.8
	0830	Aug S&P Global Service Flash PMI	51.8		52.3
	0830	Aug S&P Global Composite Flash PMI	48.1		48.5
France	0815	Aug S&P Global Composite Flash PMI	-		46.6
UK	0930	Aug Flash Composite PMI	50.3		50.8
	0930	Aug Flash Manufacturing PMI	45.0		45.3
	0930	Aug Flash Services PMI	51.0		51.5
Canada	1330	Jun Retail Sales (MoM%)	-		0.2
Eurozone	0900	Aug S&P Global Manufacturing Flash PMI	42.5		42.7
	0900	Aug S&P Global Services Flash PMI	50.7		50.9
	0900	Aug S&P Global Composite Flash PMI	48.4		48.6
	1500	Aug Consumer Confidence Flash	-15		-15.1
		Thursday 24 August			
US	1330	Jul Durable Goods	-3.6	-4	4.6
	1330	Initial Jobless Claims (000s)	245	240	239
	1330	Continuing Jobless Claims (000s)	-	1690	1716
		Friday 25 August			
US	1500	Aug U Mich Sentiment Final	71.0	71.2	71.2
	1505	Fed's Powell speaks at Jackson Hole conference			
Germany	0700	Q2 GDP Detailed (QoQ%/YoY%)	-0.1/-0.6	/	0/-0.6
	0900	Aug Ifo Business Climate	87.1		87.3
	0900	Aug Ifo Current Conditions	91		91.3
	0900	Aug Ifo Expectations	83.6		83.5
Sweden	0700	Jul Unemployment Rate	-		9.2

Key events in developed markets

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Asia week ahead: Key central bank meetings and inflation reports

Over the coming week, inflation readings will be in focus alongside central bank meetings for Bank Indonesia and the Bank of Korea

China to lower LPR rates after surprise medium-term lending facility (MLF) rate cut

The People's Bank of China (PBoC) surprised the market on Tuesday with an unexpected cut to its one-year medium-term lending facility loan rates by 15bp to 2.5%. This is the steepest cut seen in three years. The 7-day reverse repo rate was also lowered by 10bp to 1.8%.

This was likely carried out in response to disappointing activity and aggregate finance data. The 5-year and 1-year LPR are likely to follow suit with a 15bp cut.

Taiwan industrial output and unemployment rate release

Taiwan’s exports for July fell by only 10.4% year-on-year, less than the consensus expectation of a 20.7% decline. Consequently, industrial output for July could come in lower than the consensus forecast of a 14.7% decline.

Taiwan's unemployment rate reached a 23-year low in June. Given the weak growth so far this year, new graduates may have a more difficult time finding employment than in previous years, leading to a slight increase in the unemployment rate.

Korea expects to keep policy rate

The Bank of Korea is expected to keep its policy rate at the current 3.5%. However, concerns over inflation by the BoK and a weaker won are expected to be the main reasons for reinforcing the hawkish stance.

Inflation is currently in the 2% range, but the base effect will be reversed in the coming months and will likely help nudge headline inflation higher. The recent KRW move should be a concern for the BoK, as it could push up inflationary pressures and heighten uncertainty in the financial market.

Tokyo CPI inflation likely steady

Tokyo's CPI inflation is expected to stay at the current level. With inflation in the 3% range and surprisingly higher than expected second quarter GDP results, the Bank of Japan is likely to consider taking another minor policy change over the next few months.

We think that BoJ Governor Kazuo Ueda's approach to the FX market will be different from that of the former governor. The continued weakness of JPY is a clear reflection of the yield gap which fails to address the recent solid recovery and relatively high inflation. Rising cost push inflation may also hurt households' consumption and investment recovery. The current JPY move does not justify the BoJ's claim that FX reflects the fundamentals of the economy.

Singapore inflation to drop slightly

Inflation is still on a downward trend but will remain relatively high. July inflation could dip to 4.3% YoY, down 0.3% from the previous month. Meanwhile, core inflation will likely slip to 4% YoY.

Moderating inflation alongside disappointing second quarter GDP growth numbers – which were revised lower recently – will likely prompt the Monetary Authority of Singapore to consider maintaining its current stance at their upcoming October meeting.

Bank Indonesia ready to resume rate hikes?

Bank Indonesia has kept rates unchanged since February since inflation remains well within its target band. However, given fast-narrowing interest rate differentials with the Fed (currently at 25bps), we believe BI will consider a rate hike at their next meeting.

Currency stability is a priority for the central bank, and Governor Perry Warjiyo believes a stable IDR will help him deliver his price stability mandate. Given a fading trade surplus and renewed pressure on the IDR, we believe there could be a chance for a rate hike next week.

Key events in Asia next week

Country	Time (GMT+8)	Data/event	ING	Survey	Prev.
		Monday 21 August			
China	0215	Aug Loan Prime Rate 1Y	3.4	3.4	3.55
	0215	Aug Loan Prime Rate 5Y	4.05	4.05	4.2
South Korea	2200	Aug BoK Consumer Sentiment Index	104		103.2
		Tuesday 22 August			
Indonesia	-	Q2 Balance of Payments	-		6.5
	-	Q2 Current Account/GDP	0.6		0.9
Taiwan	0900	Jul Unemployment rate (%)	3.5	3.5	3.45
South Korea	2200	Sep BOK Manufacturing BSI	75		71
		Wednesday 23 August			
Australia	0000	Aug Manufacturing PMI Flash	49.1		49.6
	0000	Aug Services PMI Flash	47.4		47.9
	0000	Aug Composite PMI Flash	-		48.2
Japan	0130	Aug Manufacturing PMI Flash	49		49.6
	0130	Aug Services PMI Flash	54		53.8
	0130	Aug Composite PMI Flash	52.5		52.2
Singapore	0600	Jul Core CPI (YoY%)	4	4.4	4.2
	0600	Jul CPI (MoM%/YoY%)	-0.3/4.3		0.5/4.5
Taiwan	0900	Jul Industrial Output (YoY%)	-14.5		-16.63
		Thursday 24 August			
Indonesia	0800	Aug 7-Day Reverse Repo	6	5.75	5.75
Taiwan	0920	Jul Money Supply - M2 (YoY%)	5.97		5.93
South Korea	0200	Aug Bank of Korea Base Rate	3.5	3.5	3.5
		Friday 25 August			
Japan	0030	Aug Tokyo CPI (YoY %)	3.2		3.2
		Aug Tokyo CPI Ex-Fresh food, Energy (YoY %)	4		4
Indonesia	0500	Jul M2 Money Supply (YoY%)	-		6.1
Philippines	-	Jul Budget Balance	-		-225.4
Singapore	0600	Jul Manufacturing Output (MoM%/YoY%)	-/-	/	5/-4.9

Source: Refinitiv, ING

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Key events in EMEA next week

In the EMEA region this week, we expect the Turkish Central Bank to raise its policy rate

Source: Shutterstock

☑ Turkey: Central bank expected to raise the policy rate

We expect the Turkish Central Bank to raise the policy rate (one-week repo rate) by 250bp to 20% on 24 August. Since the start of the ongoing policy shift to a more orthodox stance, the bank has hiked by 900bp from 8.5% and taken initial steps to ease “liraisation” targets and security maintenance requirements, but the macro-prudential policy framework is still largely in place.

Whether the appointment of new members to support the policy shift will lead to a revision in the pace of tightening will be more evident at this month's Monetary Policy Committee meeting.

☑ Hungary: Labour market data take centre stage

In Hungary, the upcoming week is about the labour market and we don’t see any significant surprises here. Wage growth will remain sound on the back of the ongoing labour shortage (especially in manufacturing and leisure-related sectors). However, it will still lag inflation and we expect to see the continued deterioration of household purchasing power.

The latest unemployment rate will reflect an unusually tight labour market in a four-quarter technical recession. As employers are still hopeful that better days are ahead, they are trying to keep the labour in-house even if it means they need to give up some profit. The mindset is that during a boom, the structural labour shortage will put those who are laying people off now in a difficult situation when they want to fill roles again.

Poland: Industrial output seems to be bottoming out

Industrial output (July): -0.5% year-on-year

Poland's industrial output seems to be bottoming out, but recent developments in China (the general economic slowdown) and Germany (the poor performance of industry) has increased the risk of further weakness of Polish manufacturing in the coming months. New orders paint a bleak outlook for future output. At the same time, the most acute phase of destocking is probably behind us. Surveys and leading indicators are mixed. On the one hand, businesses declare they expect improvement in economic conditions in the third quarter, but at the same time foresee softer demand in the months ahead. We project industrial output to remain subdued in the third quarter and experience a more visible rebound in the fourth quarter.

PPI (July): -1.2% YoY

We forecast that recent rapid disinflation has led to outright deflation in July. Prices in manufacturing have been falling on a monthly basis since November 2022 and are lower than a year ago. Declines in energy prices (coal, oil) play an important role in the turnaround in producer prices. We expect PPI deflation to prevail until at least the end of 2023, which should facilitate a further decline in CPI inflation given the lag between the two gauges of prices.

Wages (July): +12.0% YoY

Wages growth in the enterprise sector has stabilised around 12%YoY in recent months. Despite a high reference base from July 2022, we still project a 12%YoY wage increase in July this year due to high bonuses in mining as employees benefited from the exceptional profitability of the sector in 2022. We expect wage growth to continue rising at a double-digit pace over the medium term due to shortages of labour supply and a substantial increase in the minimum wage in 2024.

Employment (July): +0.1% YoY; Unemployment (July): 5.0%

We forecast that in July, employment in the enterprise sector was at a similar level to a year ago. The level of employment has been declining slightly in recent months and stalled in July. Still, the registered unemployment rate remains low and in July it stood at 5.0%, i.e. at the same level as in June.

Retail sales (July): -3.1% YoY

According to our forecasts, July was yet another month of decline in retail sales of goods, but the situation seems to be stabilising as lower inflation has allowed for a return of real growth in wages. The gap between nominal and real sales narrowed, pointing to slowing goods inflation. But, we expect a visible improvement in household consumption in the fourth quarter as the real purchasing power of households improves further.

Key events in EMEA next week

Country	Time	Data/event	ING	Survey	Prev.
		Monday 21 August			
Poland	0900	Jul Industrial Output (YoY%)	-0.5	-0.6	-1.4
	0900	Jul PPI (YoY%)	-1.2	-1.2	0.5
	0900	Jul Wages (YoY%)	12.0	10.9	11.9
	0900	Jul Employment (YoY%)	0.1	0.1	0.2
		Tuesday 22 August			
Poland	0900	Jul Retail Sales (YoY%)	-3.1	-3.8	-4.7
		Wednesday 23 August			
Russia	1700	Jul Industrial Output	5.6	5.1	6.5
Poland	1300	Jul M3 Money Supply (YoY%)	7.8	7.7	7.9
South Africa	0900	Jul CPI (MoM%/YoY%)	-/-	/	0.2/5.4
	0900	Jul Core inflation (MoM%/YoY%)	-/-	/	0.4/5
		Thursday 24 August			
Turkey	1200	Aug CBT Weekly Repo Rate	20		17.5
	1200	Aug O/N Lending Rate	21.5		19
	1200	Aug O/N Borrowing Rate	18.5		16
Poland	0900	Jul Unemployment Rate	5.0	5.0	5.0
Hungary	0730	Jun Average Gross Wages (YoY%)	17.7		17.9
Mexico	1300	Aug 1st Half-Month Core Infl (MoM%)	-		0.24
	1300	Aug 1st Half-Month Infl (MoM%)	-		0.29
		Friday 25 August			
Hungary	0730	Jul Unemployment Rate 3M	3.9		3.9
Kazakhstan	1000	Aug Base Interest Rate	-		16.75
Brazil	1300	Aug IPCA-15 Mid-Month CPI	-		-0.07
	1300	Aug IPCA-15 Mid-Month CPI (YoY%)	-		3.19
	-	Jul Current Account	-		-0.843
	-	Jul Foreign Direct Investment	-		1.88
Mexico	1300	Q2 GDP (YoY%) Final	-		3.7
	1300	Q2 GDP (QoQ%) Final	-		0.9

Source: Refinitiv, ING

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