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Housing data, bank rate hike mark unusually busy week

There will be a lot of activity this week that could jolt investors out of their deep summer slumber. While it's normally safe to take to the holiday hills in July without missing much market action, save for a round of quarterly earnings, the next five days are loaded with potentially disruptive events.

There's critical housing data, a likely bank rate hike, semi-annual congressional testimony by the Fed chairman, CPI data and – hopefully – a peak at the financial condition of dozens of Europe's major banks.

The data will be layered onto an anxious and slightly jumpy set of markets, serving up more smack than investors traditionally see in July.

"In terms of the sentiment out there, there are a lot of anxieties. I don't think they will settle soon, because of nervousness of what's happening in Europe and nervousness over the slowdown of the pace of the economic recovery," says Serge Pepin, head of investments at BMO Investments Inc.

The U.S. labour market will need to show signs of growth before investors gain confidence. In the meantime, some solid results from Europe's bank stress tests due Friday, plus a consistent flow of second-quarter financial results that show companies meeting expectations and boosting revenue and forecasts, will help settle some nerves, Mr. Pepin says.

"I think there is a show-me attitude this earnings season," he says. "The overhang of Europe is preventing markets from rebounding strongly at this point."

The European Union could start trimming that overhang this week, if financial regulators can deliver on their efforts to publish partial results from a stress test looking at 91 banks' resilience to potential future losses. In the U.S. a year ago, results from a similar industry stress test injected a shot of confidence into the domestic and international markets.

If the EU can deliver a clearer and healthier picture of its banks than the markets have seen to date, it could remove a lot of perceived risk for investors, which in turn would likely push down the value of the U.S. dollar and lift the loonie. But any indication that the banks need to bolster their capital would be a negative, implying tighter credit and less growth on the continent.

Global markets are in need of a boost this summer. Americans have become increasingly pessimistic about their financial prospects, and the chairman of the U.S. Federal Reserve is likely to paint another picture this week of the world's largest economy struggling to find firm footing on its course to recovery. Beginning Tuesday, Ben Bernanke delivers two days of testimony to Congress in his semi-annual report on monetary policy.

BMO Nesbitt Burns deputy chief economist Douglas Porter expects that the U.S. economy will limp toward 2 per cent GDP growth this quarter after achieving 3.4 per cent in the first four quarters of the recovery.

The U.S. and European malaise is expected to influence Canadian policy when the Bank of Canada announces its interest rate decision on Tuesday. The expectation is for a second 0.25 per cent hike in the overnight lending rate, following the first rise June 30.

With the Canadian job market growing at its fastest pace in more than two decades and businesses starting to invest again, Governor Mark Carney has little choice but to begin inching rates up. But economists say the hikes will be minimal as long as the U.S. and Europe struggle.