

At a glance: The world right now

Recession risks, rate cut bets, carry trade unwinds. This summer had it all. Here's our look at where the world is as we head into Autumn



The yen carry trade has largely been unwound

July was dominated by the, at times, disorderly unwind of the yen carry trade. At the heart of the story was extreme, one-way positioning in the yen, a hawkish Bank of Japan and some softer US data. The surge in volatility on the back of this undoubtedly added to the broad risk reduction seen into early August, which included a sharp correction in US tech stocks. The 12% peak-to-trough adjustment in USD/JPY now leaves speculative positioning in the yen near flat.

The US jobs market isn't looking too healthy

A particularly weak July jobs report was enough to spark widespread fears about an imminent US recession. The unemployment rate has risen from 3.4% to 4.3% in little over a year, which is above the 4% rate the Fed predicted for the end of the year. This has in turn triggered the Sahm rule, a momentum measure of changes in the unemployment rate that has historically been consistent with recession.

On top of that, the Bureau of Labor Statistics has adjusted its figures, removing a third of the jobs previously believed to have been added in the 12 months leading up to March 2024. This revision, stemming from incorrect assumptions about job creation in small businesses, raises serious

questions about whether the slowdown in job creation since April has been worse than reported. We think the unemployment rate will be closer to 5% than 4% at the end of this year.

The Fed has opened the door to big rate cuts

Fed chair Jerome Powell used his speech at the Jackson Hole symposium to tell us that the “time has come” to cut interest rates. He also said he didn’t welcome further weakness in the jobs market and did little to dispel lingering expectations of a 50 basis point cut at the September meeting.

A 25bp move on 18 September is slightly favoured by markets right now, but if we get a sub-100k on payrolls and the unemployment rate ticks up to 4.4% or even 4.5%, then 50bp looks likely.

An Olympics boost is masking sluggish economic growth in the eurozone

The combined impact of the Paris Olympics, and a strong tourist season in Spain/Italy, has helped lift service-sector sentiment in the eurozone. But it would be premature to label this as the start of an acceleration of growth. Manufacturing remains weak and is likely to stay that way while US growth is slowing and domestic demand in China remains under pressure.

Consumers are enjoying positive real wage growth, but increasing wariness about job security might simply push up the savings ratio rather than spending. We expect the eurozone economy to continue to grow, but at a slower pace.

The ECB is treading more cautiously than the Fed

The ECB is finally rallying around a September rate cut but appears more cautious than the Federal Reserve in endorsing further easing. Headline wage growth is slowing, but partly due to base effects from last year’s inflation compensation schemes.

Big union demands in Germany are also a reminder that the direction for pay remains an uncertainty for the ECB. We therefore expect gradual cuts in September and December, but a weaker growth outlook suggests the ECB can step up the pace thereafter.

The Bank of England is moving slowly – for now

Not for the first time in recent years, investors are thinking that the Bank of England will take a more hawkish path than the Federal Reserve. That follows very strong growth in the first half of the year, ongoing stickiness in services inflation, and a more hawkish tone from BoE officials. That means August’s BoE rate cut is unlikely to be followed by another later this month. We expect the next cut in November, but like the ECB we think the pace of cuts will accelerate as it becomes clearer that inflation “persistence” is reducing.

Momentum in China’s economy has continued to slow

After a surprisingly strong performance in the first half of the year, China’s manufacturing sector seems to be slowing down. This is partly due to a significant decline in auto production, which risks turning this sector from a supportive tailwind into a challenging headwind for the broader economy in the near future.

Meanwhile, a negative wealth effect and low wage growth continue to suppress consumption. This will make it challenging for China to hit its 5% growth target this year. We will need to see continued policy rollout to reverse the momentum, particularly as base effects turn less supportive for growth in the second half of the year.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.