Central banks: How our views compare to yours

We ran a series of live polls at our recent Economics Live webinar earlier this week, and this is how the views of our listeners compare to our own. You can listen back to our event via our THINK Aloud podcast

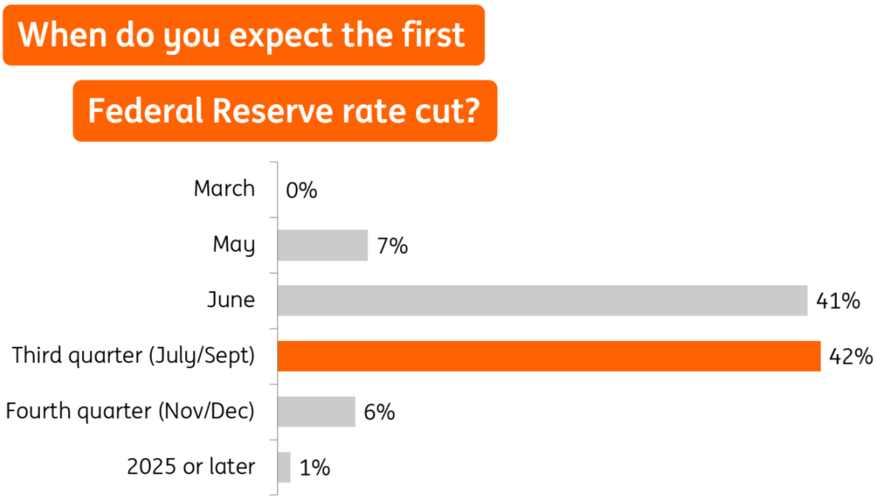
Governor of the Bank of England Andrew Bailey, ECB President Christine Lagarde, US Federal Reserve Board Chairman Jerome Powell

Source: Shutterstock

On Monday 11 March, we hosted over 400 ING customers and colleagues in a live webinar, looking at the latest central bank meetings and our longer-term expectations. We asked participants when they expected the first rate cuts and we've included the results below. We've also laid out how these compare to our own house view.

You can listen back to the event via our THINK Aloud podcast, available on our website and via Apple/Spotify podcasts.

Question one



Source: ING

Responses: 228

Our verdict: Federal Reserve

US growth, jobs and inflation data remain too hot for the Federal Reserve to contemplate imminent interest rate cuts. Nonetheless, officials believe that "the risks to achieving our employment and inflation goals have been moving into better balance".

At the December forecast update, the Fed signalled they felt three 25bp rate cuts were the most likely path forward for 2024. We expect a similar set of projections at the 20 March FOMC meeting with the messaging indicating that the Fed is inclined to cut rates later this year, but they need to see more evidence to justify that action.

We do expect to see weaker economic activity in coming months. The consumer remains key with the combination of elevated borrowing costs and tight credit availability plus pandemic-era savings being exhausted and student loan repayments having restarted constraining consumer spending growth over coming quarters.

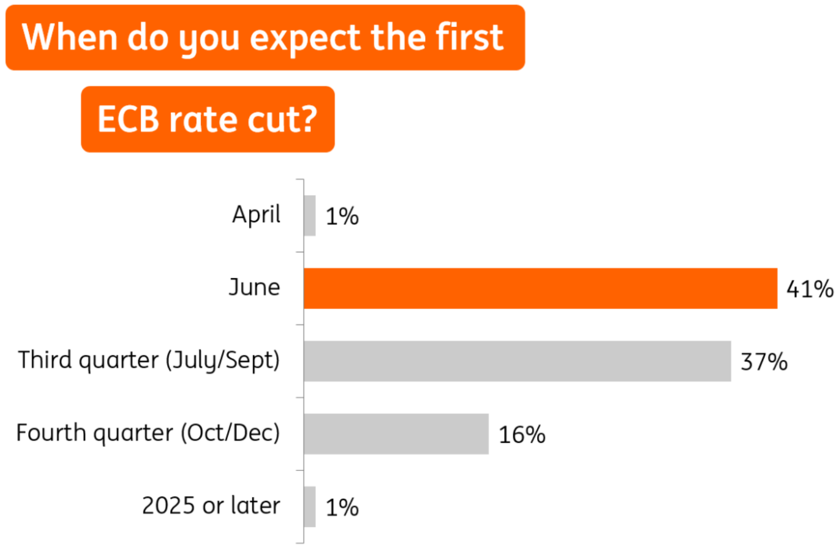
We are also seeing evidence that the jobs market is cooling even if it is yet to show up in payrolls numbers. The ISM employment components are in contraction territory, the National Federation of Independent Business suggests the weakest hiring by small businesses since May 2020 while the slowing quits rate – the proportion of workers quitting their job to move to a new employer each month – points to a less frenetic jobs market with diminishing wage pressures.

Inflation remains well above the 2% target, but corporate pricing power is easing with the recent Fed Beige Book noting that “businesses found it harder to pass through higher costs to their customers, who became increasingly sensitive to price changes.” With housing costs also set to dip further we look for inflation to return to 2% by year-end.

Given the Fed doesn’t want to cause a recession if it can avoid it, we believe they will be in a position to start moving monetary policy from restrictive territory to a more neutral footing before the summer. We expect 125bp of cuts this year, starting in June, with a further 100bp in 2025 as they seek a soft landing for the economy.

James Knightley

Question two



Source: ING

Responses: 231

Our verdict: European Central Bank

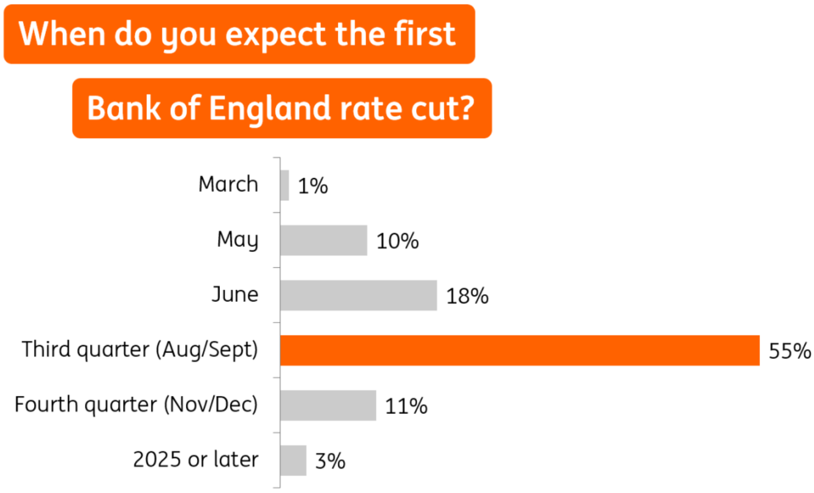
The ECB meeting last week as well as official comments since then have clearly marked the next stage of the ECB's tightening cycle: taking its feet slightly off the brakes. While ECB President Christine Lagarde said that the ECB did not discuss rate cuts last week, she stressed that the discussion on how to dial back the current restrictiveness had started.

Judging from official comments since the meeting, an April cut is not entirely off the table. However, a majority at the ECB seems to favour waiting for more data points on inflation, wages and also bank lending before deciding on rate cuts. Most of these data points will only be available at the June meeting. This is why we stick to our long-held call of a first rate cut of 25bp at the June meeting. More than 40% of the participants at our webinar agree with only 1% believing in the April option. Interestingly, almost 40% of the participants thought that the ECB would wait until the third quarter before cutting rates. Given the latest comments, but also the expected further slowdown in inflation and growth, it currently looks less likely that the ECB will wait for so long.

Looking beyond the timing of the first rate cut, we think that the ECB's next stage of dialling back the level of restrictiveness will be characterised by small and gradual steps. Still, remembering how it missed the inflation surge, the ECB wants to be perfectly sure that inflation has been tamed before focusing more on how to support a stagnating eurozone economy.

Carsten Brzeski

Question three



Source: ING

Responses: 169

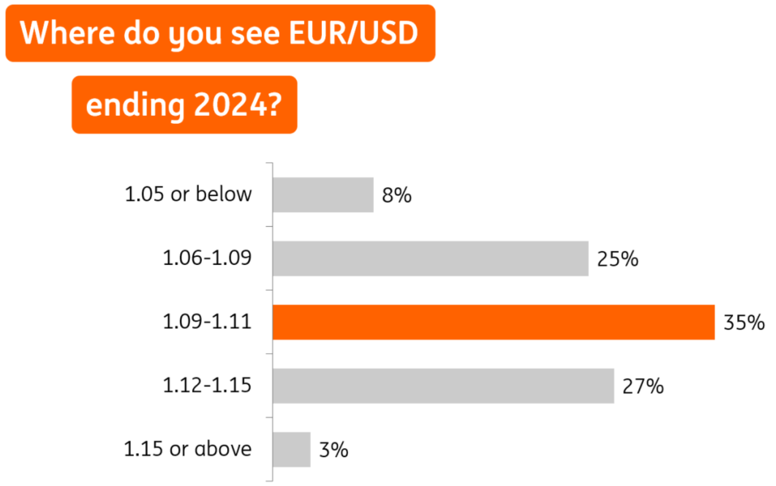
Our verdict: Bank of England

Both our live audience and financial markets expect the first BoE rate cut in August, and that's been our long-held view too. That pitches the UK slightly behind the US and eurozone, and arguably reflects the fact that inflation is coming down with a bit more of a lag. Services inflation and wage growth are the key ingredients for the BoE, and while both have shown progress, neither have come down far enough to give the Bank enough confidence – and indeed two out of nine committee members were still voting for rate hikes back in February.

The data for April and May will be key, as this is when the impact of annual price hikes shows through, as well as the near-10% hike in the National Living Wage. Last year we saw a surge in services inflation during the second quarter as a result of those factors, and while this year should be less aggressive, the BoE will want to get hard data on this. That suggests June's meeting is the earliest point for a rate cut, but we think it's more likely policymakers wait until August, at which point they'll have an extra month's worth of data and new forecasts.

James Smith

Question four



Source: ING

Responses: 185

Our verdict: EUR/USD

Our survey is a good benchmark of how varied the expectations on EUR/USD are at the moment. While the flat/modestly higher option (1.09-1.11) was the most popular response (35%), a decline of up to 1.06 and a rally of up to 1.15 came in as close seconds. So why exactly are views so widely distributed?

This very much mirrors the uncertainty about the Fed's rate path given a relatively dovish narrative by Fed Chair Jerome Powell and resilient US data. The Fed is, and should remain, the single most important driver of EUR/USD: our call is they will cut more than markets expect and crucially around 50bp more than the ECB. Given that we also see both central banks starting to ease in June, we expect a bigger rally in EUR/USD in the second half of the year, when USD:EUR short-term rate convergence should accelerate. We target 1.14 in 4Q24.

Another important reason for the lack of consensus on EUR/USD is the potential impact of geopolitical developments and the US elections. We admit those are non-negligible risks to our view. Rising geopolitical tensions, upward pressure on energy prices and a potential re-election of Donald Trump could all lead to a stronger dollar.

Francesco Pesole

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@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.

 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.