

Outlook 2025: The world right now

From the US to Europe, FX to rates, this is where the world is at as we approach 2025



United States

Donald Trump has been quick to name his cabinet picks as he looks to deliver on his key election promises of tax cuts, immigration controls, tariffs to incentivise re-shoring and cost-cutting efficiency savings to rein in the deficit.

Tax cuts and immigration restrictions are the easiest to make early progress on, while the speed and scale of tariff hikes remain open for debate. That said, it is assumed China and Mexico will feel the heat first, potentially within days of Trump's inauguration. There will be no winners from this with US consumers and exporters paying a high price. There remains significant scepticism over how deeply Elon Musk and Vivek Ramaswamy, co-heads of the Department of Government Efficiency, will be able to make the spending cuts required to bring the US fiscal position under control.

The Federal Reserve has been swift to acknowledge that they may not need to cut interest rates as quickly or as far as previously thought. The prospect of slightly stronger near-term growth as election clarity prompts some businesses to put money to work is set beside the risk of lingering tariff-induced inflation. Consequently, the December FOMC outcome is a coin toss. We still favour a December move with a January pause, but it could turn out to be the other way around.

□ Eurozone

The newly installed European Commission will rapidly be confronted with potential trade initiatives by the new US administration, while at the same time having to launch initiatives to put the recommendations of the Draghi Report in practice. With a constantly threatened minority government in France and German elections in February the political backdrop is not ideal to relaunch the eurozone economy, which has all but come to a standstill.

The PMI indicator for both the manufacturing and the services sector fell below the 50 boom-or-bust level in November, while the economic sentiment indicator from the European Commission stabilized at a low level. At the same time inflation is rising again on the back of adverse base effects. Wage growth came out higher than expected in the third quarter, though the latest wage agreements in Germany suggest some moderation is in the offing. While the inflation trend is still down, some factors, such as rising food prices, will make the outlook more volatile. That is likely to keep the ECB on a gradual easing path.

□ United Kingdom

The UK outperformed most of its Western European neighbours through the first three quarters of 2024. Admittedly, not all of that can be easily explained by underlying economic fundamentals, and more importantly, momentum seems to be slowing. We expect relatively modest fourth-quarter growth before the recent budget injects some fresh energy in the new year. Departmental budgets are getting a big uplift in the remainder of this and, indeed, the next financial year, much of which will end up in public sector wages. Inflation, meanwhile, is proving unhelpfully sticky. The headline rate is up above 2% again and will head towards 3% before the year is out, coming down again through 2025. That's all down to energy, but services inflation is proving sticky too. That helps explain the Bank of England's relative caution.

□ China

Since the US election, there have been two main developments in China. The first was the long-awaited National People's Congress meeting, where an RMB10tn fiscal programme was approved. Spread over 3-5 years, this announcement now sets the stage for what the Ministry of Finance characterised as a "more forceful" fiscal policy stance in 2025 by reducing local governments' short-term debt burden. We expect local governments to roll out the anticipated policies to support consumption and property markets in the coming months, with December's Central Economic Work Conference worth monitoring.

The second development was a second month of encouraging data in October, as most indicators stabilised or moved a little stronger. Data now looks encouraging for our 4.8% YoY GDP forecast, which should satisfy China's 'around 5%' growth target. We think as long as data continues to hold up, policymakers will shift the brunt of upcoming stimulus to 2025.

□ Rest of Asia

Disinflation continues to be a theme for Asia, with median headline CPI for Asia falling to 2.2% in the third quarter of 2024 from 2.8% at the beginning of the year. Core inflation at 2% is also within most central banks' comfort zone. Monetary policy divergence is getting more evident. While some countries like Korea, Thailand and the Philippines went ahead with their rate cut cycle, others like Indonesia chose to pause, given the high sensitivity of local currency to a rising US dollar. The risk

of a re-escalation of trade wars has sent Asia FX down since the US elections, with the largest decline seen in currencies that are more trade-oriented, such as the Thai Bhat, the Malaysian ringgit, the Taiwanese dollar and the Singapore dollar.

Within weeks of Trump's re-election, U.S. Defence Secretary Lloyd Austin visited Australia and Asia with a commitment to strengthening cooperation partnerships across the Indo-Pacific. The visit to the Philippines was particularly relevant as improving U.S.-Philippine defence ties will be critical in advancing regional security throughout the region.

□ Central and Eastern Europe

Although the global rate-cutting cycle is only in the early stages, it's at quite an advanced stage in the CEE region; it's now a case of fine-tuning for central bankers. We're seeing economic recovery, but it's slower than expected. The disinflation process has basically stalled and we're seeing some new inflationary risks in some places.

Poland's central bank is close to restarting the cutting cycle next May with 100bp rate cuts in total as our baseline. The Czech National Bank is considering pausing the cutting cycle after delivering 300bp, and another 100bp should come more slowly next year. In Hungary, the NBH should return to its cutting cycle in the middle of next year, with 75bp in total. We should also see more rate cuts from the National Bank of Romania, which suspended its cutting cycle in October; it's expected to resume in May next year with 75bp of cuts.

□ FX

The Federal Reserve's broadest measure of the trade-weighted dollar has rallied 5% over the last two months as markets positioned for and then witnessed a Republican clean sweep. European currencies have borne the brunt of dollar strength as the mixture of soft eurozone survey data and Europe's fiscal straitjacket has pressured US:Eurozone interest rate spreads to the widest levels since 2022.

Geopolitical developments have hit European currencies, too, as the war in Ukraine has escalated. Investors and corporates remember only too well the spike in energy prices in 2022 and the damage that did to the eurozone's trade surplus and the euro.

From the US side of the equation, the FX market is leaning towards the view that President-elect Donald Trump will hit the ground running. This has meant very little reprieve for any global currencies, although the more commodity-linked currencies are faring slightly better on the back of some fiscal stimulus out of China.

□ Rates

US market rates hit local highs on the Trump win, but since then have been on a drift lower. A decent retracement is fitting following the near 100bp move to the upside for the 10yr yield, a move that was, in fact, sparked by the first Fed rate cut in mid-September. But as we push through December, we're back to basic data watching. To the extent that the data softens, there's an excuse to test lower still for yields.

In the eurozone, the recent pull lower in market rates is in sync with widening macro malaise and an ECB that's prepared to keep chipping away at the deposit rate. A curve flattening impulse has

meant the entire curve has been shifting lower. A dominant outcome is wider spreads between US and eurozone market rates right along the curve, a theme that's not set to go away any time soon.

□ Commodities

Oil prices remain rangebound, with Brent trading in a mostly \$70-75/bbl range over November. The outcome of the US election is net bearish for oil, although we expect limited additional upside in US oil output with a Trump presidency. US producers are more price dependent and with the balance expected to be in surplus next year, we believe weaker prices will cap drilling activity.

OPEC+ policy is crucial for the oil market. The group agreed to extend supply cuts by another month. However, 2025 output policy is still unclear. We assume the group will gradually unwind its additional voluntary cuts next year.

European natural gas prices have rallied, with storage drawing quickly at the start of winter. A lack of wind has increased gas demand from the power sector. In addition, Russian supply risks linger. The Austrian energy company OMV stopped paying Gazprom for supplies to recoup damages it was awarded in arbitration, which saw Gazprom halt flows under the contract. However, Russian supplies continue unchanged, with Russia selling into the spot market instead. The market is bracing for the end of Russian transit flows through Ukraine, with the transit deal set to expire at the end of this year.

Authors

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

James Knightley

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

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

James Smith

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

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Warren Patterson

Head of Commodities Strategy
Warren.Patterson@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 <http://www.ing.com>.