

Our view on central banks

Our view on what could be next for major central banks across the globe



ECB President, Christine Lagarde addresses a press conference following the meeting of the ECB Governing Council

Federal Reserve: First rate cuts expected in May

The Federal Reserve has formally removed its tightening bias, but strong data on jobs and growth has meant that officials have firmly pushed back against talk of an imminent interest rate cut. We continue to see some downside risks for growth in the coming quarters as the legacy of tight monetary policy and credit conditions weighs on activity and Covid-era accrued household savings provide less support for spending. Inflation pressures are subsiding, with the core personal consumer expenditure deflator heading towards 2%, while the employment cost index offered more evidence that inflation pressures emanating from the jobs market are fading fast.

Fed Chair Jerome Powell acknowledged that monetary policy is well into “restrictive territory” and it will be “appropriate to dial back” on that at some point this year. We expect that May will be the start point, by which time we think ongoing subdued core inflation measures will give the central bank the confidence to cut rates, with the policy rate getting down to 4% by the end of this year and 3% by mid-2025. This will merely get us close to neutral territory – the Fed’s view is that 2.5% is likely the long-term average. If the economy does enter a more troubled period, such as through banking stresses, there is scope for much deeper cuts than we are forecasting.

James Knightley

✓ European Central Bank: ECB won't be fooled by lower headline inflation

Since the European Central Bank's December meeting, financial markets have been speculating on a first rate cut already in April. The drop in January eurozone inflation fuelled this speculation, but we doubt that the ECB will be fooled by this drop in headline inflation. The monthly increase and still high underlying inflationary pressure clearly argue against premature rate cuts.

Instead, we continue to expect the ECB to start cutting rates in June. Why? First of all, as long as the eurozone remains in de facto stagnation mode and doesn't slide into a more severe recession, and as long as the ECB continues to predict a return to potential growth rates one or two quarters later, there is no reason for the central bank to react to more sluggish growth with imminent rate cuts. Secondly, the job of bringing inflation back to target is not done yet. Finally, ECB officials never tire of emphasising the role of wage developments in future rate decisions. Even if the relationship between wages and inflation is not straightforward or mechanic, the ECB simply needs more data to make up its mind. This data will only be available at the June meeting, strengthening our call for a first rate cut at that point.

Carsten Brzeski

✓ Bank of England: 100bp of BoE rate cuts this year

The Bank of England has so far shown itself to be more reluctant than others to endorse the idea of rate cuts this year. But even if the BoE is slightly later to the cutting game than the likes of the Fed and ECB, we think the difference will be measured in weeks, not months. And the cutting cycle that ensues thereafter will, if anything, be more aggressive than the likes of the ECB.

The reason for expecting a slightly later start date to rate cuts is two-fold. Firstly, the key metrics that the Bank of England is using as a guide for policy – services inflation and private-sector wage growth – are likely to remain sticky through the first quarter, before falling more noticeably in the second. In other words, the committee won't have quite enough information to be comfortable with cutting rates by the time of the May meeting.

Secondly, there are widespread expectations that the Chancellor will use the March budget to implement material tax cuts. If that's the case, then the committee will be minded to offset the impact on demand with slightly tighter monetary policy. That is likely to manifest itself in a slightly later starting point.

But ultimately, we've long argued that the UK isn't an outlier on inflation and that the higher headline/core rates in Britain are more down to lags than anything else. We think services inflation will be back below 5% over the summer (from 6.4% now), while the more reliable data we have on the jobs market suggests hiring demand is continue to cool. That suggests wage growth should continue to gradually ease back too. We expect 100bp of BoE rate cuts this year.

James Smith



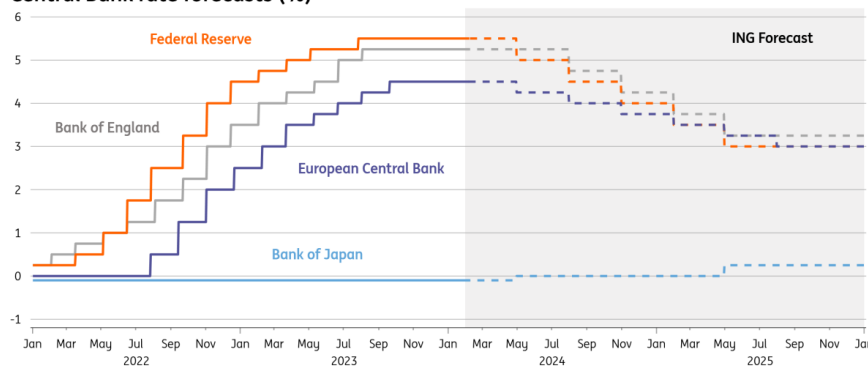
Bank of Japan: No major policy changes at the March meeting

The Bank of Japan has already been in deep discussion over the timing of an exit from negative interest rates, according to the December policy meeting minutes. The initial outcome of wage negotiations on 15 March (just a few days before the 18-19 March meeting) should be key in determining the timing of policy move, but some members noted the result itself shouldn't necessarily trigger a rate hike. Tokyo CPI inflation, a leading indicator for nationwide CPI trend, slowed faster than expected to 1.8% year-on-year in January. The impact of recent earthquakes will also begin to appear in data from February, so the Bank of Japan won't make any major policy changes at its March meeting.

The inflation path will be quite choppy up until April, exacerbated by the government's energy subsidy programmes. Inflation for the recent three months has stayed on the decline, but is expected to pick up again in February. April CPI is a key piece of data for judging the true inflation trend, but by the time the 25-26 April meeting is held, the nationwide CPI report won't be available. The BoJ also wants to confirm if wage growth could lead to sustained inflationary pressure, particularly in service prices, and will wait for a couple more months until June. The central bank will take orderly steps, including forward guidance being revised, before any action is taken. We expect to see a revision at the April meeting.

Min Joo Kang

Central Bank rate forecasts (%)



Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@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.