The global economy needs a half-time pep talk

There's nothing like a concerned manager giving his or her team a good talking to to boost their chances of winning the game - just look at the Euro football championships. So, halfway through the year, how worried or encouraged should we be about the global economy? And, how's the ING team doing...?

Why the global economy needs a half-time pep talk

Watch video

The Euro 2024 football championships are almost at an end. On Sunday, Spain and England will compete for the title. And the ups and downs, the drama and the histrionics of the past four weeks, in some ways, mirror the performance of the global economy. So, as a football fan and manager of all things macro here at ING, I thought I'd hang this ING Monthly on the soccer peg and check on our economists' performance as we reach half-time in this interesting, frustrating, sometimes baffling year.

The Euros have provided some new interesting insights. Who knew that England could actually win a penalty shootout? Yes, Germany can lose a match in the dying minute despite things looking good up to then. And it's clear that disruption can come from smaller countries, at least in terms of football; think of Austria and Switzerland.

The Championships have also shown the importance of a good half-time team review. And there's more to a half-time analysis than just listening to some more or less qualified experts on TV. Real professionals use the half-time break to analyse, reflect and draw conclusions. This is exactly what we're trying to copy from Euro 2024 to this ING Monthly. We're taking a look back at our main calls for the global economy from December last year. We'll celebrate what we got right, analyse why things didn't necessarily turn out as we expected, look ahead to the second half of the game, and see a clear path to success.

Overall, our first-half performance was not too bad. We didn't have any total failures, and I'm pleased to say that none of our players had to be substituted. However, we have had to make some minor changes to our tactics and strategies. We need to remain completely focused on central banks and their policies in the second half of the year after the US Fed surprised nearly everyone with its defensive tactics.

With the cooling of the labour market and inflation in the US, the sluggish recovery in the eurozone, and a stable longer-term inflation outlook, we do expect rate cuts in the major economies. But these won't be panicky strikes on goal. Instead, they'll be rate cuts from teams that feel comfortable thinking they're in complete control of their opponent. We'll have to wait to see whether that confidence is justified.

And this is a year of political upheaval. We don't make any election predictions, but politics will dominate the next six months. We've got to be alert to increasing trade tensions, the upcoming US elections, and Europe’s struggle to cope with the threat of policy indecisiveness after the European and French elections, among others.

One of the best football quotes comes from the Dutch legend Johan Cruyff: '*Football is a game of mistakes. Whoever makes the fewest mistakes wins.*' Central bankers and policymakers should remember this when the temptation builds to celebrate the final whistle just a little too early.

Our key calls this month

- **United States**: The US economy has slowed as we suspected it would, but inflation and the jobs market have been more resilient. However the consumer is cooling, unemployment is rising and inflation is showing signs of moderating; we’re expecting the first rate cut in September.
- **Eurozone**: We expect the European Central Bank to cut rates again at the September and December meetings; at least as long as the ECB itself continues to see inflation at 2% and below from the end of 2025 onwards.
- **United Kingdom**: We’re expecting the first Bank of England rate cut in August. In fact, we think further progress on services inflation should unlock three cuts in total this year.
- **China**: We predicted we’d see a shift in growth drivers for China this year, that policy would become more supportive, and that weak confidence would be an ever-increasing factor. For the most part, we got it right.
- **FX**: The currency market is no longer primarily a function of Federal Reserve rate expectations. While we expect the Fed to be led to cut in September as we begin to see softer data, domestic political and central bank stories should determine which currencies can benefit from a weaker dollar.

- **Rates**: We still like lower rates, steeper curves and wider eurozone spreads for 2024. But now for the US election drama! If Biden pulls out, Treasuries rally (yields fall). But if Trump wins, Treasuries sell off (yields rise), certainly eventually. But, for unobvious and contrarian reasons.

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