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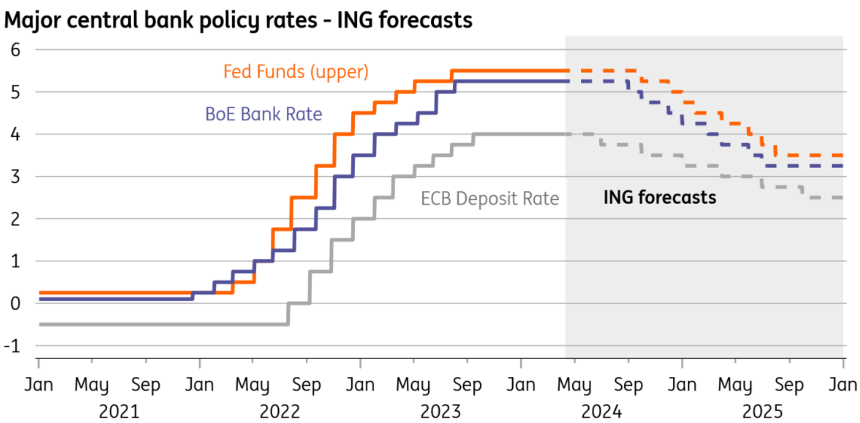
Our view on the major central banks

We've made changes to our Federal Reserve call and now expect fewer rate cuts this year. That suggests the US will start cutting rates later than the European Central Bank

Go! The ECB is likely to cut interest rates before the Fed

ING's central bank forecasts (%)



Source: Macrobond, ING

Federal Reserve

We have changed our view from the Federal Reserve implementing five 25bp rate cuts in 2024 to only three. There is a large discrepancy between official data that suggests the economy is performing strongly and is adding significant numbers of jobs, whereas survey data is painting a much bleaker picture for the economy. While the Fed is inclined to cut rates towards a more neutral level if it can, it needs the official data to turn softer to back such action.

Taking a dispassionate look at the situation, will we get enough 0.2% month-on-month core CPI prints and payrolls slowing towards 100k per month to trigger action in the next couple of months? We can't say that with certainty, so acknowledge that the most likely path right now is a third-quarter starting point rather than June. The Fed is still signalling that in their view 2.6% is the likely long-term settling point for the Fed funds rate, but the ongoing prospect of loose fiscal policy means we think it is higher. We target 3.5% for the fed funds for summer 2025.

James Knightley

European Central Bank

For the first time in a long while, the ECB seems to be leading the way for major central banks. The faster-than-expected drop in inflation and the ECB’s expectation that inflation will be at target in the second half of next year is reason enough for a first rate cut in June. Increasing evidence that the effects of monetary policy tightening over the last two years are longer-lasting, as illustrated by still lacklustre bank lending, adds to rate cut arguments.

Looking beyond the timing of the first rate cut, there are two opposing factors determining the magnitude of easing monetary policy tightening. While any strengthening of a cyclical recovery will fuel reflation fears and limit the room for rate cuts, any faster disinflation and target undershooting could trigger more significant rate cuts before year-end. We expect the ECB to remain cautious and to only gradually reduce the degree of restrictiveness by cutting rates by a total of 75bp this year.

Carsten Brzeski

Bank of England

Recent comments from Governor Andrew Bailey have opened the door to a rate cut by the summer. Bailey said that market pricing of between two and three cuts for this year was reasonable and struck an optimistic tone on the inflation outlook. We think it’s unlikely that a rate cut happens at the May meeting, but June could be in play if services inflation and wage growth falls in line with Bank of England forecasts.

We think the former could be a little stickier, particularly when we get the CPI data for April in late May. Given the fact that we think the Federal Reserve will now cut a little later, this suggests an August rate cut is still more likely than June. But we’re splitting hairs to some extent, and once the cutting cycle begins, we think it could prove a little more aggressive than markets are currently pricing.

James Smith

Bank of Japan

We expect the Bank of Japan to pause at its April meeting after a major policy change in March. However, the market will be watching closely to see how the Quarterly Outlook Report hints at future policy actions by looking at the updated inflation and growth forecasts. We expect the inflation outlook to be revised upwards, confirming the BoJ's confidence in the virtuous cycle between wages and inflation.

In addition, data development and wage negotiations since the March meeting have been supportive of a recovery in consumption and sustainable inflation. We believe the BoJ will take further steps towards normalisation once the hard monthly data (cash earnings and private consumption) turns positive. We think July is the right time for the BoJ to raise the target range to 0.15-0.25%.

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