

## Rates Spark: Markets speculate on 2025 central bank cuts

European Central Bank speakers have dampened some of the rising expectations for easing. A 50bp cut in December is still on the table, but Friday's PMIs will be crucial. Alongside the US, we think markets have turned too hawkish on Bank of England rate cuts



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

Source: Shutterstock

### Expectations of ECB cuts in 2025 keep moving around

Markets are convinced that the next rate cut by the European Central Bank will be in December and are eyeing over 125bp of cuts by November next year, in contrast to the more hawkish sentiment in the US and UK. The divergence has clearly accelerated since Trump's election win two weeks ago, and with little data to work with since then, we wouldn't be surprised if the spread continues to widen. Having said that, on Monday markets gave some pushback, shaving off some 8bp from the ECB's landing zone, whilst expectations from the Fed and Bank of England budged little.

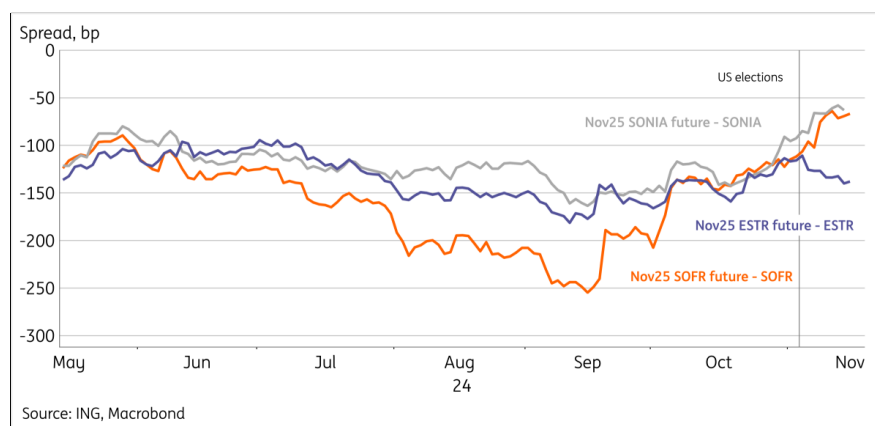
A 50bp cut for December is still on the table and Friday's PMI report could be the missing piece of the puzzle to make that happen. On Monday, three ECB speakers voiced concerns about growth due to possible trade tensions, and this could also potentially play a role in the ECB's rate-cutting decisions. However, markets appear reluctant to move on speculation about Trump's presidency and thus the macro data will for now be a more important driver of front-end rates.

## We think markets have turned too hawkish on Bank of England cuts

The most notable line in the chart below is actually the expectations about the landing point of the UK GBP overnight rate SONIA. The UK budget announcement on 30 October may be playing a role in the hawkish sentiment, but even after the US elections, the rate cut expectations from the BoE were reduced drastically. The rise in the short end of GBP rates also explains most of the increase in 10Y Gilt yields. We think those should find their way back to below USTs and hit 4% in mid-2025, significantly lower than the current 4.5%.

Overall, we think that the front end of the GBP swap curve is [looking particularly stretched](#) and expect this to recalibrate lower. But with few catalysts that could persuade markets of this move in the near term, we may have to wait until 2025 to see this materialise. On the data front, in particular, we would need a series of better services inflation numbers to convince markets of the BoE's ability to cut more than the meagre two or three total cuts currently priced in.

## Trump election marked divergence in rate-cutting expectations



### Today's events and market view

Final CPI readings and the current account will hardly prove market moving for EUR rates. But we will again face a number of ECB speakers with Muller and Panetta on the agenda. The speaker slate is unusually busy for the UK though, with BoE Governor Andrew Bailey, Deputy Governor Lombardelli, as well as Mann and Taylor appearing in front of parliament's Treasury Committee. The US will release housing starts and building permit numbers.

In primary markets, the main highlight is the EU's potentially final syndicated deal for the year, with taps of a 7Y bond and a 19Y green bond. Finland will auction 4Y and 10Y bonds (€1bn in total), while the UK sells 13Y gilts (£3.25bn).

## Author

### Michiel Tukker

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@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](http://www.ing.com).