

The world right now

From rate cuts to fresh signs of economic recovery, here's everything we're expecting over the coming months in the US, the eurozone, the UK, Asia and Central and Eastern Europe



United States

We continue to see some downside risks for growth in the coming quarters relative to the consensus as the legacy of tight monetary policy and credit conditions weighs on activity and Covid-era accrued household savings provide less support. Inflation pressures are subsiding, and the December FOMC meeting showed that Federal Reserve officials have become more inclined to cut interest rates in 2024. They are indicating three 25bp rate cuts this year – but this has effectively given markets the green light to push on more aggressively. Six 25bp moves are now being priced in line with our own forecasts.

Nonetheless, the economy is still growing, the labour market is tight, and inflation for now remains well above 2%. The plunge in Treasury yields has also loosened financial conditions to some extent. Consequently, there isn't immediate pressure for a rate cut and we believe the Fed will choose to wait until May to make the first move. The major risk that we're most concerned about is rising loan losses on unsecured consumer credit and commercial real estate, which could create some financial system stress. This would add to downside risks for growth and could prompt a more aggressive response from the Federal Reserve.

James Knightley

Eurozone

The shallow recession in the eurozone is coming to an end. The eurocoin-indicator – a proxy of underlying GDP growth – saw a strong improvement in December, though still slightly negative (-0.22). The European Commission's economic sentiment indicator also ended the year on a stronger note. Growth is likely to pick up gradually in the first half of the year.

That said, on the back of the weakness seen in Germany, we only expect 0.4% GDP growth for the whole of the year, after 0.5% in 2023. Inflation rose to 2.9% in December due to energy-related base effects, while core inflation fell to 3.4%. The annualised three-month on three-month change shows both headline and core inflation now below 2%. This is encouraging, but it would be premature to declare victory in the fight against inflation. Indeed, selling price expectations increased across the board in December, while several tax decisions in Germany are also likely to have an upward impact on inflation. The European Central Bank is therefore likely to remain in wait-and-see mode for some time to come. We continue to see a first rate cut in June, with the ECB most likely proceeding more cautiously than the market is now pencilling in.

Peter Vanden Houte

United Kingdom

The UK economy may have entered a fractional technical recession in the latter half of 2023, but things are slowly looking up. Remember that, unlike much of Europe, the majority of UK mortgages are fixed for five years or less, meaning roughly 20% of borrowers refinance this year. But tumbling market rates mean the average rate paid on outstanding debt will rise from 3.2% to just 3.6% by year-end. Falling rates will also gift the government with an additional £12bn or so in “headroom” money that can be spent while still achieving the main fiscal targets. That will almost certainly get spent in the March budget on tax cuts, which will provide a modest (0.2-0.3% of GDP) boost. Meanwhile, inflation is set to fall to 1.6% in May, with services inflation also coming noticeably lower by summer. Prospects of a fiscal boost could tempt the Bank of England to hold fire on rate cuts a little longer than markets expect. We’re pencilling in the first cut for August, with 100bp of easing this year.

James Smith

China

China’s economic recovery remains fragile. Retail sales and the service sector are keeping things moving in a modestly positive direction. But anything related to the real estate sector is struggling, and this is having collateral effects on industry, which has relied on a thriving real estate market to generate demand. Government measures for providing support continue to be unfurled. The debt overhang from real estate is also weighing on the usual channels for local government revenue generation and spending, and infrastructure spending is failing to pick up the slack.

Unofficial reports have suggested that residential property prices have fallen far more than official data suggests. If there is any substance to this, it will make a recovery far more difficult. Monetary policy support is hamstrung while the CNY remains fragile. FDI data suggests that capital is now leaving China, and unless the USD weakens, rates will likely stay unchanged. Inflation is not

currently an issue in China. Recent negative inflation figures are mainly a reflection of historical food price spikes and recent energy price declines and nothing more serious – but inflation is very low and does need watching.

Robert Carnell

Rest of Asia

Asia's economies currently show weak manufacturing but stronger service sectors. Of the 12 Asian economies we routinely track, the manufacturing purchasing manager indices (PMIs) of only five are positive, with an unweighted average PMI of less than 50 – consistent with a slight contraction in activity. Weak overseas demand and softer exports are part of the story. There are some more positive developments in the semiconductor space, but these are concentrated in high-end chips made by Korea and Taiwan, not the legacy chips produced elsewhere in Asia.

The auto sector is also showing more signs of growth than other sectors, and this is helping the big auto exporters such as Japan and South Korea. Services are showing more resilience, helped by falling inflation and a resumption of tourist travel – although this has not yet recovered to pre-Covid levels, with Chinese tourism only recovering slowly. Apart from Japan, where we expect a cosmetic increase in policy rates in June, rates are likely to be trimmed later this year in most economies. Most Asian central banks will probably wait for the US Fed to move before they start to cut.

Robert Carnell

Central and Eastern Europe (CEE)

Given the Czech National Bank's first rate cut in late December, we can say that the CEE region is fully engaged in a rate-cutting cycle, with only the National Bank of Romania waiting on the sidelines. While we expect an economic recovery across the board in the region this year, the end of last year did not support this much. Monthly numbers surprised negatively, or at best are mixed. Risks coming from abroad for this year suggest a complicated recovery.

However, in January and February the focus will shift to inflation numbers, where we expect the last big drop in most of the region. This will be the main driver for the cutting cycle this year. The easiest picture seems to be in Hungary, where the play is between 75bp and 100bp steps for the next meetings. In the Czech Republic, the game plan for now seems to be 25bp in February and 50bp in March. In Poland, the first live meeting after the break won't be until March – but in any case, we see room for rate cuts as limited after the delivery of 100bp in late 2023. Romania remains last on the starting line, and given the pick-up in inflation at the start of the year, we expect the cutting cycle to start here in the second quarter.

Frantisek Taborsky

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

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