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THINK Ahead: Back to the 90s

'What do interest rates and Oasis have in common?' asked nobody this week. But James Smith has got the answer for you anyway. In fact, he's *mad fer it* and ponders how supersonic any central bank rate cuts are likely to be. One thing's for sure: it's going to be another big market week. And that's enough puns [Ed]

The British band, Oasis have announced new tour dates for next year

THINK Ahead: Back to the 90s

What was big in the 1990s, collapsed in the late 2000s but has staged a surprise resurgence after many years of absence? Yep, you guessed it. I've succeeded in making the heroic leap from the rock band Oasis and its comeback tour, to interest rates.

It's not just the music fans that have been going through the back catalogue this week. Central banks are also digging out their parka jackets and looking back to the 1990s as they face up to the question of how far and fast rates need to fall. And not everyone is reaching the same conclusion.

Half the world away (sorry…) in Jackson Hole last week, Andrew Bailey, the Governor of the Bank of England, set out three potential paths for "persistent" inflation, all of which would imply very different paths for interest rates over the next couple of years.

First, would inflation simply fall away of its own accord – without any economic damage?

Second, would it take more pain in the jobs market to get inflation consistently back to target?

Or finally, do we now live in a world where pricing behaviour has changed for good and wage bargaining power has increased? That would imply it will be much harder to get inflation down permanently, and rates may barely fall at all.

Listening to Fed Chair Jerome Powell last week, it sounds like he's very much in the first camp. Revealingly, he said that he doesn't welcome any further weakening in the jobs market.

It sounds like he has become much more open to kicking off the easing cycle with a 50 basis-point cut in September, even if some of his colleagues appear less convinced. In practice, as James Knightley explains below, the size of that cut will almost entirely come down next week's unemployment data.

Over in Europe, policymakers are still making their mind up on which of Bailey's worlds we now live in. Wage pressure is still too high, but is that simply Europe's collective bargaining wage process being slow to catch up after a period of higher energy prices? Or does it tell us that workers find it easier to protect their disposable incomes and lock in bigger pay rises than before the pandemic?

Part of the challenge lies in the fact that eurozone unemployment is still at record lows. Of course, that could start to change, and my colleague Peter Vanden Houte points to confidence data this week, which suggests consumers are slowly becoming more wary about their job security. Formally, at least, the ECB expects wage growth to fall measurably over the next year.

Bailey himself also seems sceptical that we're in a world where price and wage power has increased permanently. But not all of his colleagues agree, and as long as services inflation stays uncomfortably high, the Bank of England seems set on moving slowly for the time being. That means no cut in September, regardless of what the Fed does, and the recent strength in the pound suggests investors are taking notice.

Any notion of policy divergence, however, I suspect will be short-lived. We reckon rates are headed to a similar destination in most developed economies, and for most, that probably means rates of 3% in the medium term, plus or minus half a percent or so. And as Padhraic Garvey writes this week, that means the 2000s might be a useful benchmark after all in terms of where US Treasury yields go from here.

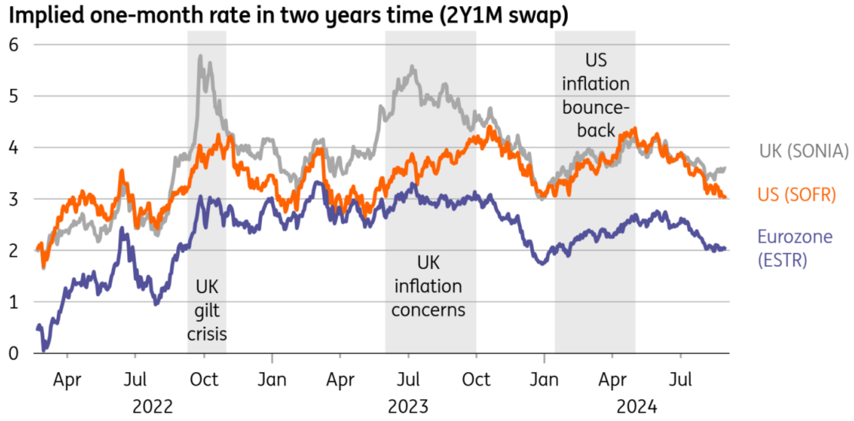
If that comes to pass, then the Fed should be pretty chuffed. The 1995 rate-cutting cycle, much like the one in 2019, was a rare example of a central bank nudging rates back to a more neutral level without any major hiccups.

Of course, it's much more common that rate cuts are started – or accelerated – by the wheels falling off the bus. And the added challenge today is that widespread fixed-rate lending means it takes longer for interest rate cuts to hit the economy.

Those US jobs figures will give us a clue as to whether we're entering this more precarious scenario. And if we are, then there's a real risk central banks have left it too late to start cutting rates.

If they have? Well Oasis might say they needn't *look back in anger*, economic recoveries don't *live forever*. And hey, at least we've got someone other than Taylor Swift to blame for poor inflation forecasts next summer.

Chart of the week: Markets are reassessing how far rates need to fall



Source: Macrobond, ING

THINK Ahead in developed markets

United States (James Knightley)

- Fed Chair Jerome Powell made it clear at the recent Jackson Hole conference that the Federal Reserve will cut interest rates on September 18, stating that "the time has come for policy to adjust. The direction of travel is clear." The question is whether it will be a 25bp move or a 50bp cut. The market is favouring 25bp.
- Our most recent forecast update round coincided with the market volatility at the beginning of August, and we changed our three 25bp rate cut call for this year to one whereby the Fed could cut by 50bp in September before reverting back to 25bp moves in November and December with the policy rate reaching 3.5% by summer 2025. The perhaps looks a little aggressive now, but the coming week will be critical in determining how aggressive the Fed will be on September 18.
- The jobs report is the clear focus after recent weakness and downward revisions to payrolls. If we get a sub 100k on payrolls and the unemployment rate ticks up to 4.4% or even 4.5% then 50bp looks likely given Powell's comment that "we don't seek or welcome further cooling in labour market conditions". However, if payrolls come in around the 150k mark and the unemployment rate stays at 4.3% or dips to 4.2%, we can safely say it will be a 25bp. We are forecasting something in between for both, which will make the 25bp or 50bp call a difficult one. We will also get the ISM reports for the manufacturing and services sectors, plus other job market indicators that will help us firm up expectations for the jobs report as we head through the week.

THINK ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **NBP decision CPI (Wed):** With inflation well above target, Polish rate-setters are expected to keep rates unchanged next week. But Thursday's press conference will be important. After July's decision, Governor Glapiński sounded exceptionally hawkish, stating that rates might need to stay unchanged until 2026. Other policymakers suggested rate cuts should start

earlier, while government measures to prevent high energy prices next year should mean the inflation path is more favourable than the NBP thought in June. More recently, Glapiński realised that there is probably sufficient support in the Council to discuss rate cuts in 2025 and amended his wording accordingly, surprising markets with his less-hawkish policy stance. We still expect the first cut in the second quarter of 2025 and think that rates could fall by 100bp next year, especially if the energy shield is not fully withdrawn.
- **Manufacturing PMI (Mon):** We expect a deterioration in the PMI gauge in August as the external environment facing Polish manufacturing remains challenging. The poor performance of European industry, especially the German automotive industry, is weighing on domestic conditions in manufacturing. We expect the manufacturing PMI to moderate to 46.5. from 47.2. in July.

Hungary (Peter Virovacz)

- **GDP (Tue):** This is history now, but the Statistical Office will reveal what was behind the surprising quarterly drop in real GDP in the second quarter of 2024. We think the weakness was broad-based, with investment being the main drag on growth. Consumption may show a slight improvement (but we had hoped for much more), while the lack of domestic demand will keep the contribution from net exports in positive territory. On the production side, we expect negative contributions from agriculture and industry, with some offset from construction and services.
- **Retail / Industry (Thu / Wed):** A series of high-frequency data on economic activity will provide the first glimpse at third-quarter performance. We expect retail sales to be rather weak in July as the summer holiday season kicks in and households are more likely to spend their holidays abroad. After surprisingly positive industrial momentum last month, we see a correction in July as summer shutdowns kick in. However, the raw data will show an improvement due to two more working days in July this year compared to the same month in 2023. All in all, we don't think the third quarter got off to a great start.

Czech Republic (David Havrlant)

- **PMI (Mon):** The manufacturing PMI likely dived deeper into contractionary territory in August but at a slower pace than in the preceding two months. The economic situation among the main trading partners looks less rosy, which is fuelling concerns about sufficient foreign demand. However, the recent stabilisation in the automotive industry should offer some support
- **Retail sales (Thu):** Real retail sales likely recorded a slower annual growth in July, mirroring the drop in consumer mood and business sentiment in the service sector. Meanwhile, household spending still benefited from real wage growth and some pent-up demand after the previous year's weakness in consumer expenditure. That said, real wage growth likely softened in the second quarter due to a less buoyant nominal wage increase and higher inflation.
- **Industrial output (Fri):** Seasonally adjusted industrial production likely remained unchanged from the preceding month in July and declined only marginally in annual terms. We see some bottoming out in the automotive industry, but lukewarm external demand across other sectors likely left the industry to tread water. July's trade balance is expected to have remained positive but also much softer than in the previous reading.

Turkey (Muhammet Mercan)

- **GDP (Mon):** After a strong performance in the first quarter, indicators for the second point to a slower pace of growth as domestic demand cools down. We expect 3.5% YoY growth in the second quarter, while downside risks are mounting for the second half of this year, given increased signs of weakness in economic activity and the labour market.
- **CPI (Tue):** Annual inflation fell back in July, as supportive base effects offset tax and administrative price adjustments, as well as food price pressure. That downtrend probably continued in August thanks to those continued base effects and more benign food price rises. But a hike in natural gas prices implied a 24.4% rise in the average price paid by households according to the energy regulator. That will likely add 0.6pp to monthly inflation. We expect August's inflation at 2.5% month-on-month, which translates into an annual figure of 51.9%, down from 61.8%.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 2 September		
Germany	0855	Aug HCOB Manufacturing PMI Final	42.1	42.1
UK	0700	Aug Nationwide House Prices (MoM%/YoY%)	-/-	0.3/2.1
	0930	Aug S&P Global Manufacturing PMI Final	-	52.1
Italy	0845	Aug HCOB Manufacturing PMI	-	47.4
	0900	Q2 GDP Final (QoQ%/YoY%)	-/-	0.2/0.9
Eurozone	0900	Aug HCOB Manufacturing PMI Final	-	45.6
		Tuesday 3 September		
US	1500	Aug ISM Manufacturing PMI	48.5	46.8
	1500	Aug ISM Manufacturing Prices Paid	52.5	52.9
Switzerland	0730	Aug CPI (MoM%/YoY%)	-/-	-0.2/1.3
	0800	Q2 GDP (QoQ%/YoY%)	-/-	0.5/0.6
		Wednesday 4 September		
US	1330	Jul Trade Balance (USD bn)	-78.2	-73.1
	1500	Jul JOLTs Job Openings	8100	8.184
	1500	Jul Factory Orders (MoM%)	5.2	-3.3
Germany	0855	Aug HCOB Services PMI Final	51.4	51.4
	0855	Aug HCOB Composite PMI Final	48.5	48.5
France	0850	Aug S&P Global Composite PMI	-	52.7
UK	0930	Aug S&P Global Services PMI Final	-	53.3
	0930	Aug S&P Global Composite PMI Final	-	53.4
Italy	0845	Aug HCOB Composite PMI	-	50.3
	0845	Aug HCOB Services PMI	-	51.7
Spain	0815	Aug Services PMI	-	53.9
Canada	1330	Jul Trade Balance (CAD bn)	-	0.64
	1445	BoC Rate Decision	-	4.5
Austria	1200	Q2 GDP Final (QoQ%/YoY%)	-/-	0/0.7
Eurozone	0900	Aug HCOB Services PMI Final	-	53.3
	0900	Aug HCOB Composite PMI Final	-	51.2
		Thursday 5 September		
US	1315	Aug ADP National Employment	120	122
	1445	Aug S&P Global Composite PMI Final	-	54.1
	1445	Aug S&P Global Services PMI Final	-	55.2
	1500	Aug ISM Services PMI	52.5	51.4
Germany	0700	Jul Industrial Orders (MoM%)	-2	3.9
Switzerland	0645	Aug Unemployment Rate	-	2.3
Eurozone	1000	Jul Retail Sales (MoM%/YoY%)	-/-	-0.3/-0.3
		Friday 6 September		
US	1330	Aug Non-Farm Payrolls	125	114
	1330	Aug Private Payrolls	100	97
	1330	Aug Unemployment Rate	4.4	4.3
Germany	0700	Jul Industrial Output (MoM%/YoY%)	0.5/-2.5	1.4/-3.9
	0700	Jul Exports (MoM%)	4	-3.4
	0700	Jul Imports (MoM%)	2	0.3
	0700	Jul Trade Balance (EUR bn)	21	20.4
France	0745	Jul Industrial Output (MoM%)	-	0.8
	0745	Jul Trade Balance (EUR bn)	-	-6.088
Canada	1330	Aug Unemployment Rate	6.5	6.4
	1500	Aug Ivey PMI	54	57.6
Eurozone	1000	Q2 Employment Final (QoQ%/YoY%)	-/-	0.2/0.8
	1000	Q2 GDP 3rd Estimate (QoQ%/YoY%)	-/-	0.3/0.6

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
		Monday 2 September		
Russia	0700	Aug S&P Global Manufacturing PMI	-	53.6
Turkey	0800	Q2 GDP (QoQ%/YoY%)	-/3.5	2.4/5.7
	0800	Aug Manufacturing PMI	-	47.2
Poland	0800	Aug S&P Global Manufacturing PMI	-	47.3
Czech Rep	0830	Aug S&P Global Manufacturing PMI	43.4	43.8
	1300	Aug Budget Balance	-208.6	-192.3
Hungary	0730	Jun Trade Balance Final (EUR mn)	1095	1095
	0800	Aug Manufacturing PMI	49.0	49.2
		Tuesday 3 September		
Turkey	0800	Aug CPI (MoM%/YoY%)	2.5/51.9	3.2/61.8
Czech Rep	0800	Q2 Real Wages (YoY%)	4.2	4.8
	0800	Q2 Nominal Wages (YoY%)	6.8	7.0
Hungary	0730	Q2 GDP Final (QoQ%/YoY%)	-0.2/1.5	-0.2/1.5
		Wednesday 4 September		
Russia	0700	Aug S&P Global Services PMI	-	51.1
Poland	1300	NBP Base Rate	5.75	5.75
		Thursday 5 September		
Czech Rep	0800	Jul Retail Sales (MoM%/YoY%)	0.1/3.9	0.7/4.4
Hungary	0730	Jul Retail Sales (YoY%)	2.6	2.6
	0730	Jul Trade Balance (EUR mn)	50	1095
		Friday 6 September		
Czech Rep	0800	Jul Industrial Output (MoM%/YoY%)	0/-0.3	0.7/-3.4
	0800	Jul Trade Balance (CZK bn)	-	29.3
Hungary	0730	Jul Industrial Output (YoY%)	-4.9	-8.2

Source: Refinitiv, ING

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