

THINK Ahead: Central bank Top Trumps

Which central bank needs to cut rates the most? James Smith has invented a very niche card game this week. Play along as we look ahead to another big week for financial markets



ING's James Smith on next week's world today

THINK Ahead: Central bank Top Trumps

Ever played Top Trumps? It's a card game where you battle it out on statistics, hoping to trump what's written on your opponent's card.

Whose dinosaur is taller? Which football player has made the most appearances? It's that sort of thing. And they've made hundreds of these games, but curiously they're yet to do one on central banks. I wonder why?

So this week, I've spotted a business opportunity. And I write this as we all eagerly await what Fed Chair Jay Powell may or may not say about interest rates later today (Friday). Let's not pretend we've got anything better to do...

Anyway, the name of today's very niche game is to find the central bank that needs to cut rates the most. Step one is to figure out what numbers should be going on my playing cards, and I think it comes down to four things:

1. Inflation. How far is it away from target and where's it heading over the next few months? And let's not forget services inflation, an increasingly important preoccupation of central bankers.
2. How weak is the economy? Here I'm comparing the current year-on-year rate of economic growth to a pre-Covid average.

- The jobs market. Is the unemployment rate comparatively high, and how far has it risen in the last 12 months? You might recognise that second bit from the so-called [Sahm rule in the US](#).
- How severely have prior rate hikes hit the economy? I like looking at the average interest rate on all outstanding mortgage debt. That gives us a decent sense of how much floating-rate lending there is out there and how hard rate hikes have hit borrowers.

Here are the fruits of my labour:

Which central bank needs to cut rates most urgently?

	Prior rate cuts (bps) Cuts from peak rate	Rate cuts/hikes (bps) Change by year-end*	Headline Inflation vs. official target	Headline Inflation ppt change in next 6M*	Services Inflation Latest vs. 2019 avg.	GDP growth vs. 2018-19 avg. (YoY%)	Unemp' rate vs. low in prior 12M	Unemp' rate Latest vs. 2019 avg.	Average mortgage rate vs. 2021 low
United States	0	-100	0.9	-0.8	2.2	0.4	0.5	0.5	0.5
Eurozone	25	-50	0.6	-0.3	2.5	-1.0	0.0	-1.2	0.8
United Kingdom	25	-50	0.2	0.4	3.5	-0.7	0.4	0.4	1.7
Switzerland	50	-25	-0.7	-0.2	1.8	-1.2	0.4	0.1	0.5
Sweden	50	-50	-0.3	-0.6	1.5	-2.0	0.9	1.4	2.6
Norway	0	-25	0.8	-0.4	1.5	-1.8	0.2	-0.3	3.9
Canada	50	-50	0.5	0.3	2.1	-1.8	0.9	0.6	2.5
Japan	0	25	0.8	-0.6	1.1	-0.9	0.1	0.2	0.0
Australia	0	0	0.8	-0.5	2.8	-1.2	0.5	-1.1	3.4
New Zealand	25	-50	1.3	-1.0	2.7	-3.2	1.0	0.5	3.5
Poland	100	0	1.7	1.2	2.3	-1.2	0.0	-0.5	4.9
Hungary	625	-50	1.1	0.8	5.0	-3.8	0.4	1.0	1.3
Czech Republic	250	-50	0.2	0.4	-0.5	-2.8	0.2	0.9	0.9
Romania	50	0	2.9	-1.8	4.7	-4.2	0.3	0.0	4.0

← Hawkish Scale Dvish →

Source: Macrobond, ING calculations

*Based on ING forecasts. 6-month ahead CPI based on ING's 1Q25 forecast.

Unemployment uses a three-month moving average. Pre-Covid GDP growth based on 2018-19 average. Definition of average interest rate on home-lending varies in Japan and New Zealand due to data availability.

More orange means a greater need to cut rates, in theory. And there's plenty of orange to be found in Sweden and Canada.

These economies have been hit harder by those previous rate hikes, both in terms of growth and unemployment. It's not surprising then that the [Riksbank cut rates again](#) this week. And what's interesting about both the Swedes and [the Canadians](#) is just how relaxed they are about diverging from other central banks, and how honest they've been about the need for more cuts this year.

It's a contrast to the US, eurozone and UK where officials are treading much more carefully. Policymakers in Frankfurt are contending with [mixed signals on wage growth](#), an economy that's [seemingly losing steam](#), but a jobs market that remains remarkably healthy. Our team thinks a 25bp rate cut in September is increasingly baked in, but as [Carsten wrote this week](#), officials still want to keep their options open. Next week's flash inflation data will be important.

It's a similar story here in Britain. Officials are reticent to allow markets to run away with the idea that August's rate cut is going to be repeated imminently. Above all, that's because services inflation is the most stubborn out of all the G10 economies.

What about Central and Eastern Europe? There's not much orange in Poland. It stands out as

having inflation that's well above target, and as Adam writes below, it's likely to stay that way for some time. It has a remarkably tight jobs market, too. Our team isn't expecting any policy changes this year, despite some interesting comments from the central bank this week.

Hungary and the Czech Republic are flashing orange by comparison, and that helps explain why further cuts are likely there before the year is out. Even so, check out David's explanation below of why Hungary's decision next week looks like [a close call](#).

Now, there's an obvious problem with my new game (other than nobody is likely to buy it). It's that the cards will need reprinting – a lot. [This week's downward revisions](#) to US payrolls were a case in point. They portrayed a jobs market that isn't nearly as strong as first thought.

The message was that the Fed ought to get cracking, or else I might have to expand my gaming empire to include a new version of Cluedo: who killed the global economy?

For everyone's sake, let's hope we don't get that far.

THINK Ahead in developed markets

United States (James Knightley)

- Recent downward revisions to nonfarm payrolls and a dovish set of minutes to the July Federal Reserve FOMC meeting where “the vast majority” of members thought it “would likely be appropriate” to cut interest rates in September, have firmed up expectations that lower borrowing costs are on their way. We currently have a 50bp cut in our projections, but the Fed appears cautious on cutting rates aggressively and it would likely take a very soft jobs report on 6 September to generate such an outcome. Right now the market is favouring a 25bp cut, but with around 100bp implemented in total by year-end.
- In terms of the coming week the highlight will be the Fed's favoured measure of inflation, the core personal consumer expenditure deflator. Given the information contained within the PPI and CPI reports, we are expecting a 0.2% print, which would be in line with the run rate required to hit the 2% inflation target.

Eurozone (Bert Colijn)

- **Flash inflation/unemployment rate (Fri):** [After encouraging wage data](#), all eyes will be on the August inflation figure due out on Friday. Not much is expected from core inflation but the headline rate is expected to tick lower on declining petrol prices. If that indeed plays out, don't expect it to have too much of an impact on the next rate decision. In general, things look quite favourable for a 25bp cut at the next meeting in September for the European Central Bank. Also out next week is the unemployment rate for July. Unemployment ticked up from 6.4 to 6.5% in June. This is by no means worrisome as 6.4% was the all-time low, but a small uptick would be in line with signs of a slightly cooling labour market.

THINK ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **Aug Flash CPI (Fri, 4.1% YoY):** This is key ahead of the September MPC policy decision.

Inflation rates are broadly expected to remain unchanged this year as the withdrawal of the energy shield pushes headline CPI above 4%. However, despite very hawkish statements suggesting the National Bank of Poland could remain unchanged until 2026, the central bank governor said last week that the debate on policy easing could start in the first half of 2025. Our preliminary forecasts suggest that consumer prices were broadly unchanged vs. July (0.0% month-on-month) and CPI inflation moderated slightly to 4.1% year-on-year from 4.2% YoY in July.

- **2Q24 GDP composition (Thu, 3.2% YoY):** Flash estimates of second-quarter GDP turned out stronger than expected, reaching 3.2%YoY. Next week we'll see the drivers of this performance. We're counting on robust private and public consumption, while investments likely fell year-on-year, and both net exports and the change in inventories contributed negatively to GDP growth. Looking at it by sector, it's likely that the positive surprise mainly came from services, given developments here are poorly covered by the monthly data.
- **Registered unemployment (Mon, 4.9% YoY):** We think the registered unemployment rate remained unchanged at 4.9% in July. The labour market remains tight, with a scarcity of skilled labour still high on the list of barriers to growth among companies. Supply-side factors like a declining working-age population and a lower flow of net migrants remain important elements shaping the labour market.

Hungary (David Szonyi):

- **Wage growth (Mon):** This year's wage dynamics show some new patterns compared to historical standards. However, based on the underlying trend, it seems that average wage growth will continue to accelerate, so we could see another uptick in June. If this is the case, it would come just one day before the National Bank of Hungary's August rate-setting meeting. The continued acceleration in wage growth will put further pressure on services inflation, a clear red flag from a monetary policy perspective.
- **NBH rate-setting meeting (Tue):** July's inflation print was an upside surprise to the central bank's latest forecast. Although the bulk of the surprise came from non-core items, the recent acceleration in core inflation and other underlying inflation measures (such as the three-month annualised rate of core inflation) may be enough to keep rates unchanged this time. In terms of market stability, last month had its fair share of ups and downs, but the market is currently leaning towards a 25bp rate cut from the Fed in September (and not 50bp), which limits the NBH's room for manoeuvre in the short term. Moreover, with EUR/HUF approaching 400, further easing in Hungary could risk a non-linear FX market reaction. Therefore, while we admit that it is a close call, we believe that the Monetary Council will prefer to keep rates on hold instead of cutting rates by 25bp.

Czech Republic (David Havrlant):

- **Sentiment (Mon):** Consumer confidence likely continued to deteriorate in August but at a slower pace than in the past three months. The previously upbeat economic outlook has turned out to be less optimistic over the past few months. Business confidence likely stabilised on the back of solid new orders and more upbeat pricing in the automotive sector.
- **GDP (Fri):** Real GDP growth will likely be confirmed at 0.3% quarter-on-quarter in the second quarter, with domestic demand and net exports contributing positively to the rebound. The statistical office indicated a significant negative impact from changes in inventories. This item represents a potential candidate for an upward revision or it could be offset in the next quarter. We expect the economic rebound to gradually pick up, with a 0.9% expected

overall growth this year.

Key events in developed markets next week

Country	Time Data/event	ING	Prev.
Monday 26 August			
US	1330 Jul Durable Goods Orders (MoM%)	-	-6.6
Germany	0900 Aug Ifo Business Climate	86.5	87
	0900 Aug Ifo Current Conditions	86.5	87.1
	0900 Aug Ifo Expectations	87	86.9
Tuesday 27 August			
US	1400 Jun Case-Shiller House Prices (MoM%/YoY%)	0.2/6.1	0.3/6.8
	1500 Aug Consumer Confidence	100	100.3
Germany	0700 Q2 GDP Final (QoQ%/YoY%)	-0.1/0.7	0.2/-0.1
Wednesday 28 August			
Germany	0700 Sep GfK Consumer Confidence	-18	-18.4
Eurozone	0900 Jul Money - M3 Annual Growth	-	2.2
Thursday 29 August			
US	1330 Q2 GDP 2nd Estimate	2.8	2.8
	1330 Aug Initial Jobless Claims (000s)	240	232
Germany	1300 Aug CPI (MoM%/YoY%)	0.1/2.3	0.3/2.3
Spain	0800 Aug CPI (MoM%/YoY%)	-	-0.5/2.8
Sweden	0700 Q2 GDP Final (QoQ%/YoY%)	-0.8/0	-0.8/0
Eurozone	1000 Aug Economic Sentiment	96.2	95.8
Friday 30 August			
US	1330 Jul Core PCE Price Index (MoM%/YoY%)	0.2/2.7	0.2/2.6
	1330 Jul Personal Income (MoM%)	0.2	0.2
	1330 Jul Personal Consumption (MoM%)	0.5	0.3
	1445 Aug Chicago PMI	47.5	45.3
	1500 Aug Michigan Sentiment Final	67.8	67.8
Germany	0855 Aug Unemployment Rate	6.1	6
France	0745 Q2 GDP Final (QoQ%/YoY%)	-/-	0.2/1.1
	0745 Aug CPI (MoM%/YoY%)	-/-	0.2/2.3
Italy	0900 Jul Unemployment Rate	7	7
	1000 Aug CPI (MoM%/YoY%)	0.3/1.2	0.4/1.3
Spain	0800 Jul Retail Sales (YoY%)	-	0.3
Canada	1330 Q2 GDP (QoQ% ann.)	1.4	1.7
Portugal	1100 Q2 GDP Final (QoQ%/YoY%)	-/-	0.8/1.5
Eurozone	1000 Aug CPI (YoY%)	2.3	2.6
	1000 Aug Core CPI (YoY%)	2.8	2.9
	1000 Jul Unemployment Rate	6.5	6.5

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time Data/event	ING	Prev.
Monday 26 August			
Turkey	0800 Aug Business Confidence	-	100.3
Poland	0900 Jul Unemployment Rate	4.9	4.9
Czech Rep	0800 Aug Consumer Confidence	98.1	98.4
	0800 Aug Business Confidence	94.9	94.5
Hungary	0730 Jun Average Gross Wages (YoY%)	15.8	14.8
Tuesday 27 August			
Hungary	1300 Hungary Base Rate	6.75	6.75
Croatia	1000 Q2 GDP (YoY%)	3.0	3.9
Wednesday 28 August			
Russia	1700 Jul Industrial Output	2.7	1.9
	1700 Jul Retail Sales (YoY%)	4.8	6.3
	1700 Jul Unemployment Rate	2.4	2.4
	1700 Jul GDP (YoY%) Monthly	2.2	3.0
Turkey	0800 Jul Trade Balance (USD bn)	-7.2	-5.9
Thursday 29 August			
Turkey	1200 MPC Minutes	-	-
Poland	0900 Q2 GDP Final (QoQ%/YoY%)	1.5/3.2	1.5/3.2
Kazakhstan	0700 Aug Base Interest Rate	14.25	14.25
Friday 30 August			
Poland	0900 Aug CPI (MoM%/YoY%)	0.0/4.1	1.4/4.2
Czech Rep	0800 Q2 GDP Final (QoQ%/YoY%)	0.3/0.4	0.2/0.3
Croatia	1000 Aug CPI (MoM%/YoY%)	0.0/1.7	0/2.2

Source: Refinitiv, ING

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