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THINK Ahead: Central bankers' calm before the inevitable storms

Whisper it, but maybe life's not so bad for many of the world's central bankers right now. But James Smith, ever the optimist, reckons that's not going to last long. From tariffs to tech tantrums, we're facing up to another pivotal week for global markets. Here's what we expect

Things are likely to get more difficult for central bankers like the Fed's Jerome Powell

Things could get feisty soon

I'm going to say it: This week's central bank meetings were probably the most boring thing I'll watched all year. I know, I know; it's my job to find this stuff interesting. And yes, my tune might change once my newborn grows into the world of tots TV; when I opine on what lessons Peppa Pig has for major banks, you'll know it's time to send help.

Anyway, boring is good, as far as the likes of Jay Powell and Christine Lagarde are concerned. And as I argued last week, life's actually not so difficult for the major central banks right now, political threats notwithstanding. The data is justifying taking the path for interest rates that Trump's Presidency will probably require, anyway.

Just look at the contrast between US and European GDP data this week, which only reinforced the narrative of American exceptionalism and European vulnerability. The Fed can comfortably justify a pause, while the ECB's policy is still undeniably restrictive enough to make further rate cuts look like a no-brainer.

But narratives can, and almost certainly will, change quickly. Just look at Deepseek, the Chinese AI company that upended conventional wisdom in the US tech industry last weekend. What might be bad news for the major American players could easily go hand in hand with greater overall demand for cheaper, less energy-intensive AI globally.

For the time being, though, the Fed will be more preoccupied with whether the sell-off in American stocks is truly over. Any renewed carnage in equities could, our US team argues, hit the wealthier households that have been propelling consumer spending and ultimately move the dial in favour of renewed rate cuts.

Then, of course, there's the imminent threat of tariffs. At the time of writing – a phrase I feel I'll repeat a lot over the next four years – we're awaiting President Trump's decision on Mexico/Canada tariffs. Our James Knightley tentatively thinks the general direction is towards more incremental and targeted tariffs, at least at first. Either way, we'll learn a lot this weekend about the Administration's true thinking on trade. Remember that Treasury Secretary Scott Bessent is reportedly still pushing for 2.5% universal tariffs that rachet up by the same amount each month.

That would certainly be a much more measured response than many had come to expect in the run-up to November's election. But even that sort of stance would have big ramifications for the Fed. Those month-on-month core inflation figures that markets obsess over would undoubtedly jump within just a few months. And that's just as these figures tentatively begin to look more benign.

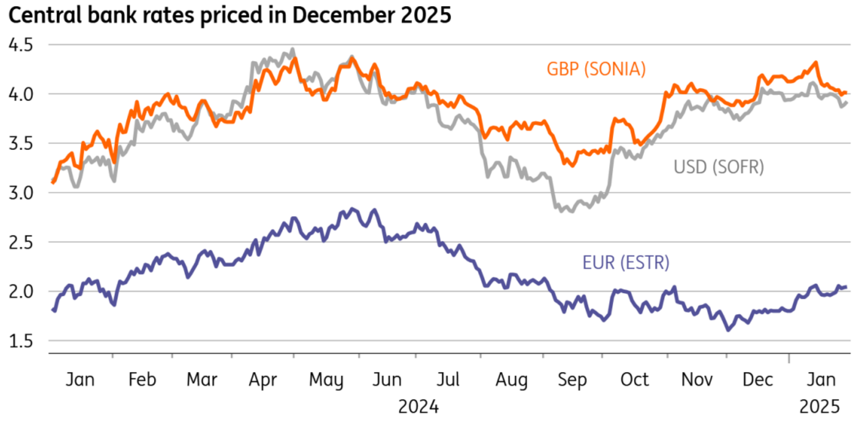
Then there's the jobs market. The Fed this week described it as "solid", an assessment that will be massively tested next week. Next Friday, we'll learn how wrong the payrolls figures have been these past few months. Net hiring averaged out at 165,000 in the second half of last year. The fear is the true figure, once revised, could be much lower. There's more from James on that below.

It's not just the US where things look challenging. In his analysis of Germany's dismal growth data (or lack thereof) this week, Carsten notes how the steady rise in corporate bankruptcies risks accelerating the gradual cooling of the jobs market we've seen so far.

Here in the UK, the jobs market is also looking shaky, throwing into question the market's assertion that the Bank of England will largely mirror the Fed with relatively few cuts this year. Don't expect many clues on the BoE's future intentions at its meeting next week. But faster easing, though not our base case, could still come through if the jobs market keeps turning weaker and services inflation moves dramatically lower in the spring.

Life may be dull – dare I say it, relatively comfortable – for the world's most influential central bankers right now. But if the last few years have taught us anything, well, enjoy it while it lasts...

Chart of the week: Where markets expect central bank rates to end 2025



Source: Macrobond

THINK Ahead in developed markets

United States (James Knightley)

- **Tariff decision:** The big story for the coming week is what President Donald Trump decides to do on tariffs. He has threatened Canada and Mexico with universal tariffs of 25% and China with 10% tariffs from February 1st. Should they be enacted, the market repercussions will be significant, and it will heighten fears of a global trade war. While tariffs should improve the competitiveness of domestic US manufacturers, those with international supply chains will face higher costs, while exporters will fear reprisals from foreign nations. At the same time, much of the cost increase caused by tariffs will be passed onto US consumers. The burden will fall disproportionally on low-income households, who spend more of their income on physical goods, relative to higher-income households, who spend more of their income on services and experiences which aren't subject to tariffs.
- **Labour market (Fri):** In terms of data releases, the highlight will be the jobs report next Friday. The best predictor of what it will do is to simply take the average of the past six readings, which is around 160,000. However, we have the added complication of dealing with annual benchmark revisions. The provisional revisions released last year revealed that when cross-referencing with tax data, it appeared that the Bureau for Labor Statistics overestimated job creation by around one-third. This suggests there have been some major problems with their model and that we should expect substantial revisions to the monthly payrolls numbers next Friday.

United Kingdom (James Smith)

- **Bank of England (Thu):** Another 25bp rate cut shouldn't be much of a surprise. The Bank seems content with cutting once per quarter, though we doubt it will say much about its future intentions next week. The biggest dovish risk is if arch-hawk Catherine Mann finally joins the crowd and votes for a rate cut. We suspect that's unlikely and expect an 8-1 vote in favour of a cut. Growth and inflation forecasts are also set to be cut across the medium-term.

THINK Ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **NBP rate decision (Wed):** The National Bank of Poland (NBP) is expected to keep interest rates at 5.75%. Since the January meeting, we've only had solid economic growth data, with no news on inflation. Expect Governor Glapiński to be asked what a firmer PLN means for the outlook, where he'll likely emphasise Poland's floating exchange rate. Remember, the NBP only intervenes when FX moves are seen as excessive. Recent comments suggest rate cuts will be delayed until the second half of this year, though a stronger currency and the improved inflation outlook that would imply could justify earlier action, particularly if the ECB keeps easing.

Hungary (Peter Virovacz)

- **Industry & Retail sales (Thu):** December's figures will reflect the rather sluggish economic activity in the fourth quarter, as demonstrated by the latest GDP data. We expect both sectors to show a month-on-month decline. Moreover, the year-on-year retail sales figure includes a significant base effect, while the non-calendar-adjusted (raw) industrial data is supported by an extra working day.

Czech Republic (David Havrlant)

- **Manufacturing PMI (Mon):** The sector likely showed some improvement but remains firmly in contraction. Hopes of an economic reset elsewhere in Europe, linked to Germany's election or the European Commission's competitiveness plans, may buoy sentiment.
- **Industrial output (Thu):** December saw a deeper production slump against a backdrop of weak European demand and mounting headwinds throughout the continent's industrial base. Higher electricity and emission permit prices are hitting margins while layoffs are continuing. Combined with elevated Christmas imports, the trade surplus likely fell at the end of the year.
- **Retail sales (Wed):** Spending looked good around Christmas, helped by continued real wage growth. However, growing uncertainty and a worsening labour market could quickly cause households to slam on the brakes.
- **Inflation (Thu):** Headline inflation likely fell, but the core reading was likely up, driven by the service sector and pressure from rents. That, along with food prices, is the biggest upward risk to January's CPI data. But barring any nasty surprises, the Czech National Bank will likely resume rate cuts.

Turkey (Muhammet Mercan)

- **Inflation (Mon):** January's inflation data will be under pressure from new-year wage adjustments and seasonality linked to high renewal rates of rental contracts. Favourable base effects should bring annual inflation down to 40.8% from 44.4% a month ago.

Armenia (Dmitry Dolgin)

- **CBA Interest rates (Tue):** Benign inflation argues in favour of another 25bp rate cut next week. CPI was reported at just 1.5% at the end of 2024. While it's likely to increase this year, it should stay within the recently updated 3% medium-term target. The strong dram and slowing domestic economic activity will act as disinflationary factors. However, the CBA will be attentive to the risks of global food price growth, high inflation in Armenia's CIS trading partners, a widening fiscal deficit and accelerating lending growth. That suggests that further downside to the refinancing rate is limited.

Key events in developed markets next week

Country	Time (GMT)	Data/event	ING	Prev.
		Monday 3 February		
US	1500	Jan ISM Manufacturing PMI	50	49.3
	1500	Jan ISM Manufacturing Prices Paid	52.5	52.5
Germany	0855	Jan HCOB Manufacturing PMI Final	44.1	44.1
UK	0930	Jan S&P Global Manufacturing PMI Final	-	48.2
Italy	0845	Jan HCOB Manufacturing PMI	-	46.2
	1000	Jan CPI (MoM%/YoY%)	-/-	0.1/1.4
Eurozone	0900	Jan HCOB Manufacturing PMI Final	-	46.1
	1000	Jan CPI (YoY%)	-	2.4
	1000	Jan Core CPI (YoY%)	-	2.7
		Tuesday 4 February		
US	1500	Dec JOLTs Job Openings (mn)	7.9	8.1
	1500	Dec Factory Orders (MoM%)	-0.4	-0.4
		Wednesday 5 February		
US	1315	Jan ADP National Employment	160	122
	1330	Dec Trade Balance (USD bn)	-87.5	-78.2
	1445	Jan S&P Global Composite PMI Final	-	52.4
	1445	Jan S&P Global Services PMI Final	-	52.8
	1500	Jan ISM Non-Manufacturing PMI	53.5	54.1
Germany	0855	Jan HCOB Services PMI Final	52.5	52.5
	0855	Jan HCOB Composite PMI Final	50.1	50.1
France	0745	Dec Industrial Output (MoM%)	-	0.2
	0850	Jan S&P Global Composite PMI	-	48.3
UK	0930	Jan S&P Global Services PMI Final	-	51.2
	0930	Jan S&P Global Composite PMI Final	-	50.9
Italy	0845	Jan Composite PMI	-	49.7
Spain	0815	Jan HCOB Services PMI	-	57.3
Canada	1330	Dec Trade Balance (CAD bn)	-	-0.32
Eurozone	0900	Jan HCOB Services PMI Final	-	51.4
	0900	Jan HCOB Composite PMI Final	-	50.2
		Thursday 6 February		
US	1330	Initial Jobless Claims (000s)	218	207
Germany	0700	Dec Industrial Orders (MoM%)	-1	-5.4
UK	0930	Jan S&P Global Construction PMI	-	53.3
	1200	BoE Bank Rate	4.50	4.75
Switzerland	0645	Jan Unemployment Rate	-	2.6
Eurozone	1000	Dec Retail Sales (MoM%/YoY%)	-/-	0.1/1.2
		Friday 7 February		
US	1330	Jan Non-Farm Payrolls	140	256
	1330	Jan Private Payrolls	120	223
	1330	Jan Unemployment Rate	4.2	4.1
	1500	Feb Michigan Sentiment Flash	70	71.1
	1500	Feb Michigan Conditions Flash	71	74
	1500	Feb Michigan Expectations Flash	71	69.3
	2000	Dec Consumer Credit	10.5	-7.49
Germany	0700	Dec Industrial Output (MoM%/YoY%)	-2/-3.5	1.5/-2.85
	0700	Dec Exports (MoM%)	-1	2.1
	0700	Dec Imports (MoM%)	1	-3.3
	0700	Dec Trade Balance (EUR bn)	-	19.7
France	0745	Dec Reserve Assets Total	-	275572
	0745	Dec Trade Balance (EUR bn)	-	-7.085
Canada	1330	Jan Unemployment Rate	6.7	6.7

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (GMT)	Data/event	ING	Prev.
		Monday 3 February		
Russia	0600	Jan S&P Global Manufacturing PMI	-	50.8
Turkey	0700	Jan CPI (MoM%/YoY%)	4.1/40.8	1/44.4
	0700	Jan Manufacturing PMI	-	49.1
Poland	0800	Jan S&P Global Manufacturing PMI	48.2	48.2
Czech Rep	0830	Jan S&P Global PMI	45.2	44.8
Hungary	0730	Dec Trade Balance (EUR mn)	-575	819
Croatia	1000	Jan CPI (YoY%)	3.6	3.4
		Tuesday 4 February		
Armenia	0800	CBA Refinancing Rate	6.75	7.00
		Wednesday 5 February		
Russia	0600	Jan S&P Global Services PMI	-	51.2
	1600	Dec Industrial Output	5.00	3.7
	1600	Dec Retail Sales (YoY%)	6.6	6
	1600	Dec Unemployment Rate	2.3	2.3
Poland	1300	NBP Base Rate	5.75	5.75
Czech Rep	0800	Dec Retail Sales (YoY%)	4.4	4.9
Hungary	1500	Jan Budget Balance (HUF bn)	100	-812
		Thursday 6 February		
Czech Rep	0800	Dec Industrial Output (YoY%)	-4.2	-2.7
	0800	Dec Trade Balance (CZK bn)	5.6	23.6
	0800	Jan CPI (MoM%/YoY%)	1.0/2.5	-0.3/3.0
	1330	CNB Repo Rate	3.75	4.00
Hungary	0730	Dec Industrial Output (raw, YoY%)	-3.0	-4.2
	0730	Dec Retail Sales (YoY%)	-	4.1
		Friday 7 February		
Russia	1500	2024 Full Year GDP	-	3.6

Source: Refinitiv, ING

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

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