

THINK Ahead: Yes, central banks. We see your 4-stage strategy

When it comes to dealing with President Trump, James Smith reckons central banks are taking inspiration from the 1980s. And no, he's not talking about economic history. More 'Yes, Mr President' than 'Yes, Prime Minister'. There's a lot riding on next week for the global economy, and here's what we're looking out for



Sir Humphrey Appleby, right, the fictional advisor in the British comedy *Yes, Prime Minister*

THINK Ahead: Central banks' four-stage strategy

Sir Humphrey Appleby might just be one of the most influential UK political figures of the last century. He's not even a real person. In fact, he's a thoroughly fictional civil servant in *Yes Prime Minister*, a British TV series.

Forty years have passed since he last graced our screens, but his comedic musings are still scarily accurate today. When it comes to the way central banks have approached the return of President Trump, look no further than Sir Humphrey's "four-stage strategy" for crisis management. If you've not seen it, [give it a watch](#).

Stage 1? Say nothing is going to happen. When that fails, in stage 2, you say that "something may be going to happen, but we should do nothing about it".

You'd be forgiven for thinking that sounds eerily familiar to the December round of central bank meetings. Remember, policymakers generally don't like confronting government policy proposals until they become official.

Sure enough, Fed boss Jay Powell [conceded in December](#) that not all of his officials had factored in Trump's proposed policies into their most recent predictions. As James Knightley [wrote this week](#), those comments cast doubt on the Fed's forecast of two rate cuts this year and whether it's a true reflection of what officials really thought at the time. The reality may have been more hawkish.

Here in Europe, the ECB's December forecasts looked similarly disconnected from reality. So much so that officials, including President Lagarde, have since [commented](#) that the situation is gloomier than those relatively optimistic GDP projections suggested.

But President Trump is formally back in office now. His flurry of executive orders this week left nobody in any doubt about his intentions.

Central banks are going to need a new line. And so we move onto stage 3 of Sir Humphrey's strategy: "Maybe we should do something about it, but there's nothing we can do."

The ECB, for instance, might fairly argue that there's not much they can do in the face of mounting structural pressures across Europe, many of which would be amplified by lighter-touch American regulation and potential tax cuts. That doesn't mean, of course, that they won't end up doing the heavy lifting.

In fairness to the central bankers, we're still none the wiser on the details of Trump's major economic policies not least whether the President follows through on his threat to impose tariffs next Saturday on Mexico, Canada and China. A move, as [Inga Fechner explains](#), which would require a national emergency to be declared using this year's hottest new acronym – the IEEPA (International Emergency Economic Powers Act). It's a law that's never yet been used to introduce tariffs.

If there are any lessons from the President's first week back in power, perhaps they lie in what he didn't do. [Lynn Song notes](#) that Trump's decision not to impose sweeping 60% tariffs on China on day one is being read positively. That doesn't make the task of securing a deal any easier, of course, and Lynn argues that markets are underpricing a more forceful response from China should a full-blown trade war unfold.

The good news for central banks, if you can call it that, is the economic data is largely telling them to take policy in the same direction that Trump's policies will probably necessitate anyway.

In Europe, [Carsten Brzeski](#) makes the fair point that sentiment indicators, like the [latest PMIs](#), have for some time embodied the Trump effect. That helps give the ECB a way of becoming more dovish without citing Trump explicitly. And it's why next week's rate cut is proving uncontroversial. Even the most hawkish officials concede more easing is inevitable.

Over in the US, the Fed can point to an economy that's holding up well and inflation data that has, [this month's data](#) notwithstanding, been proving sticky. That makes it much easier for the Fed to justify an extended pause while it awaits more clarity on Trump's agenda. [James K notes](#) that a March rate cut is becoming less likely, even if further easing is still probable later this year.

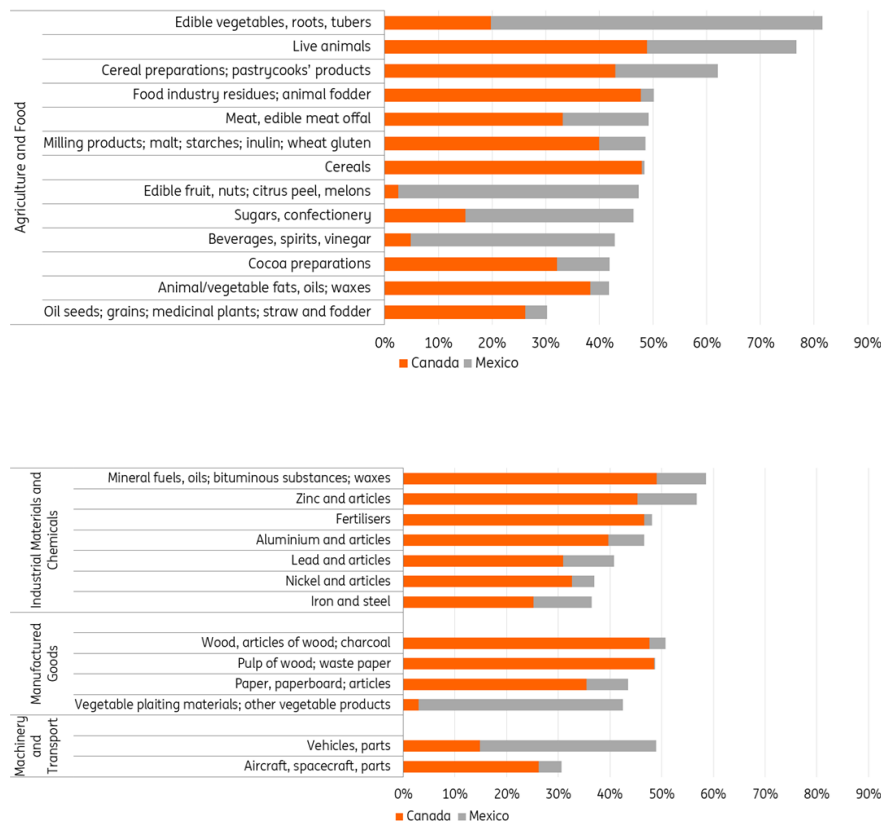
He explains more below, and my takeaway is that the Fed's balancing act is only going to get

more complicated as the year goes on.

Let's just hope Powell doesn't need to turn to the final stage, stage 4 of Sir Humphrey's playbook: "Maybe there was something we could've done, but it's too late now."

Chart of the week: The products most at risk from US tariffs on Canada/Mexico

Share of Mexican and Canadian goods in all US imports, as of 2023, by HS2-Code ([read more](#))



Source: LSEG Datastream, Global Trade Tracker, ING calculations

THINK Ahead in developed markets

United States (James Knightley)

- **Interest rates (Wed):** After 100bp of rate cuts through late 2024 the Federal Reserve has signalled it needs evidence of economic weakness and more subdued inflation prints to justify further policy loosening. That means no change to monetary policy is a certainty on 29 January and it makes our previous call of a March rate cut look unlikely – currently just 6bp of a 25bp move is discounted by financial markets.
- We are still forecasting three rate cuts for 2025, though. The jobs market is cooling and next month's annual benchmark revisions to non-farm payrolls could see significant cuts to the numbers originally reported. At the same time, rapid increases in Treasury yields have pushed both consumer and corporate borrowing costs sharply higher, and the dollar has strengthened by more than 8% on a trade-weighted basis since September. This is all counteracting the Fed's 2024 rate cuts. Therefore, we take the view that the Fed may need

to push harder and cut rates a little further than currently priced by markets, but nothing is likely before June.

- **GDP (Thu):** In terms of economic data, 4Q GDP growth should come in close to 3%, boosted by a strong end to the year for consumer spending, but we are looking for some encouraging news on inflation with the Fed's favoured measure – the core PCE deflator – expected to post a relatively modest 0.2%MoM increase. Wage pressures should also be relatively benign with the 4Q employment cost index suggesting a cooling continues.

Eurozone (Carsten Brzeski/Bert Colijn)

- **Interest rates (Thu):** Contrary to the run-up to the ECB's December meeting, the preparation for next week's has been relatively quiet, at least in public. There haven't been any controversial views about the next steps. Instead, there seems to be a growing consensus about the need for further rate cuts. Comments by ECB president Christine Lagarde suggest that a 25bp rate cut at next week's meeting is a no-brainer and that the rate cut cycle will continue. [Read more](#)
- **GDP (Thu):** Data for 4Q will shed light on whether the eurozone has indeed slowed down from a decent growth path seen in the earlier quarters of last year. Data so far shows that the services sector may have contributed positively to growth but that manufacturing continues to contract. Overall, we expect the economy to have stagnated in 4Q and see little uptick for 1Q so far. The winter months are coming in weak for the eurozone before some acceleration of growth can be expected.

Canada (James Knightley)

- **Interest rates (Wed):** The Bank of Canada is widely expected to cut the overnight rate next week with a 25bp move to 3% looking as the most likely outcome amidst tepid growth, benign inflation and an unemployment rate that's trending higher. Until there is clarity on what is happening on the US-Canada trade policy front, the BoC is likely to tread cautiously. Nonetheless, the risks to our view that the Bank for Canada policy rate bottoms at 2.75% appear to be skewed to the downside given the relatively subdued economic backdrop and the clear threat to growth and jobs from potential US trade tariffs. [Read more](#)

Sweden (James Smith)

- **Interest rates (Wed):** We expect a 25bp cut from the Riksbank, bringing the policy rate to 2.25%. The Swedish economy was hard hit by rising interest rates, but following one of the most aggressive cutting cycles, rebounding sentiment and housing activity point to a more cautiously optimistic growth outlook. Helpfully, CPIF is also consistently undershooting the 2% target. [Read more](#)

THINK Ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **GDP (Thu):** On the basis of monthly data, we estimate that the Polish economy expanded by 2.8%YoY in the fourth quarter. Consumption improved, but industry was still broadly stagnant and construction was in decline. In 2024 as a whole, we see economic growth at 2.7%. This year we see growth accelerating to 3.2% owing to a continued expansion in consumption, accompanied by a rebound in fixed investment, as projects financed from the

Recovery and Resilience Facility (RRF) and other EU funds kick in. Earlier in the week (Monday), we will learn that registered unemployment increased slightly on seasonal factors but remained close to an all-time low owing to a lack of domestic labour supply.

Hungary (Peter Virovacz)

- **Base rate (Tue):** We expect National Bank of Hungary to keep things on hold next week, keeping the key interest rate will remain at 6.50%. Some early red flags on the macro side (unanchored inflation expectations and narrowing external surpluses), combined with high financial market volatility, keep the door shut on conventional easing in the coming months.
- **GDP (Thu):** We expect fourth-quarter GDP data to be somewhat ambivalent. There will be positive quarter-on-quarter growth, which means that the technical recession in Hungary is quickly coming to an end. However, the growth rates (both quarterly and yearly) will be pedestrian, so it will be more of a correction than a major upturn in economic activity. Given such a sluggish final quarter, we see GDP growth averaging 0.5% in 2024.

Czech Republic (David Havrlant)

- **GDP (Fri):** The first 4Q24 real GDP estimate will likely show a continued Czech economic rebound, with annual growth gaining traction around year-end. Household consumption likely remained the main driving force of economic expansion in both annual and quarterly terms, supported by continued real wage growth and robust real retail sales. Meanwhile, fixed investment continued to play the role of Cinderella in the economic activity breakdown, dragged down by mounting uncertainty about the future of Czech and European manufacturing in a rapidly changing world.

Key events in developed markets next week

Country	Time (GMT)	Data/event	ING	Prev.
Monday 27 January				
US	1500	Dec New Home Sales (mn)	0.675	0.664
Germany	0900	Jan Ifo Business Climate	84.5	84.7
	0900	Jan Ifo Current Conditions	84.8	85.1
	0900	Jan Ifo Expectations	84	84.4
Eurozone		- ECB Lagarde, Holzmann, Kazimir, Vujcic Speech	-	-
Tuesday 28 January				
US	1330	Dec Durable Goods (MoM%)	0.7	-1.1
	1400	Nov Case-Shiller 20 (MoM%/YoY%)	0.2	0.3/4.2
	1500	Jan Consumer Confidence	-	104.7
Wednesday 29 January				
US	1900	Fed Funds Target Rate (Upper Bound)	4.50	4.50
Germany	0700	Feb GfK Consumer Sentiment	-22.5	-21.3
Italy	0900	Jan Consumer Confidence	96.4	96.3
Canada	1445	BoC Rate Decision	3.00	3.25
Sweden	0700	Q4 GDP (QoQ%/QoQ% ann.)	0.6/2.2	-0.1/-0.1
	0830	Riksbank Rate	2.25	2.50
Spain	0800	Q4 GDP (QoQ%/YoY%)	-/-	0.8/3.3
Thursday 30 January				
US	1330	Q4 GDP (QoQ% annualised)	3	3.1
	1330	Q4 Core PCE Price Index (QoQ%)	2.4	2.2
Germany	0900	Q4 GDP Flash (QoQ%/YoY%)	-0.1/-0.2	0.1/-0.3
France	0630	Q4 GDP (QoQ%/YoY%)	-/-	0.4/1.2
Italy	0900	Q4 GDP (QoQ%/YoY%)	0.1/0.6	0/0.4
	1000	Dec Unemployment Rate	5.7	5.7
Spain	0800	Jan CPI (MoM%/YoY%)	-/-	0.5/2.8
Eurozone	1000	Q4 GDP (QoQ%/YoY%)	0/0.9	0.4/0.9
	1000	Dec Unemployment Rate	6.3	6.3
	1315	Jan ECB Refinancing Rate	2.90	3.15
	1315	Jan ECB Deposit Rate	2.75	3.00
Friday 31 January				
US	1330	Dec Personal Income (MoM%)	0.4	0.3
	1330	Dec Personal Consumption Real (MoM%)	0.4	0.3
	1330	Dec Consumption, Adjusted (MoM%)	0.6	0.4
	1330	Dec Core PCE Price Index (MoM%/YoY%)	0.2/2.8	0.1/2.8
	1330	4Q Employment Cost Index (QoQ%)	0.9	0.8
	1445	Jan Chicago PMI	41	36.9
Germany	0700	Dec Real Retail Sales (MoM%/YoY%)	0.9/2.6	-0.6/2.5
	0855	Jan Unemployment Rate	6.2	6.1
	1300	Jan CPI (MoM%/YoY%)	-0.1/2.6	0.5/2.6
France	0745	Jan CPI (MoM%/YoY%)	-/-	0.2/1.8
Spain	0800	Dec Retail Sales (YoY%)	-	1
Canada	1330	Dec GDP (MoM%)	-	-0.1
Portugal	0930	Jan CPI (YoY%)	-	3

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (GMT)	Data/event	ING	Prev.
Monday 27 January				
Turkey	0700	Jan Business Confidence	-	99.1
Poland	0900	Dec Unemployment Rate	5.1	5
Tuesday 28 January				
Hungary	1300	Interest Rate Decision	6.50	6.50
Thursday 30 January				
Poland	0900	2024 Full Year GDP (YoY%)	2.7	0.2
Turkey	1100	Dec Bank NPL Ratio	-	1.8
Hungary	0730	Q4 GDP (QoQ%/YoY%)	0.5/0.2	-0.7/-0.8
	0730	Nov Trade Balance Final (EUR mn)	742	742
Romania	0700	Dec Unemployment Rate	5.3	5.3
Friday 31 January				
Turkey	0700	Dec Trade Balance Final (USD bn)	-8.8	-7.46
Czech Rep	0800	Q4 GDP (QoQ%/YoY%)	0.5/1.6	0.5/1.4
Hungary	0730	Dec PPI (YoY%)	10.6	7.9

Source: Refinitiv, ING

Authors

James Smith

Developed Markets Economist, UK

james.smith@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@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

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 <http://www.ing.com>.