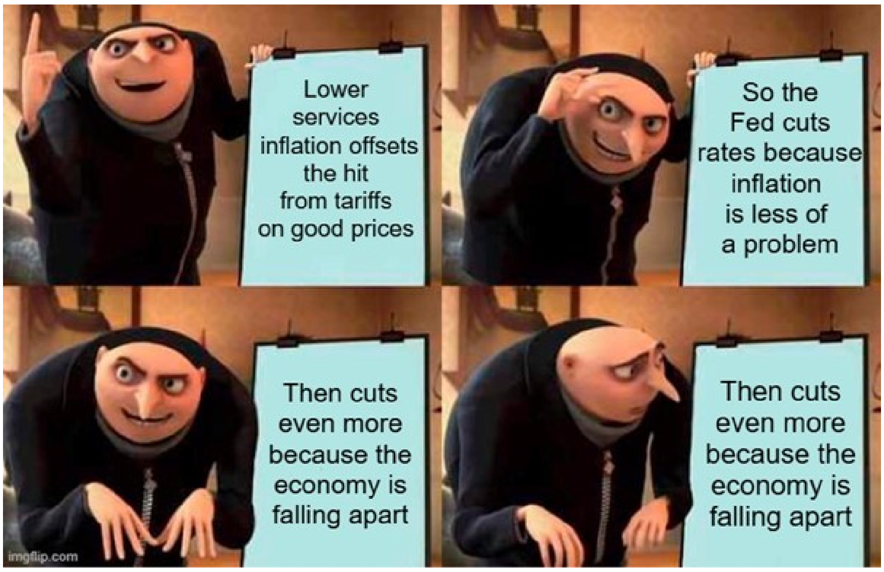
Article | 13 June 2025

THINK Ahead: Good cut, bad cut

When it comes to rate cuts, there's the good - when inflation falls all by itself - and the bad - when the economy falls apart too. Markets think we're heading for the former. James Smith isn't so sure. There are central banks everywhere you look next week. Here's our meme-tastic guide to what's coming your way



Our message to global investors: Don't be like Gru from Despicable Me...

Source: Imgflip

Good cuts, bad cuts

Alright, kids, what meme best describes how markets are thinking about central banks right now?

How about Gru from Despicable Me? If you've not heard of him – and I'll confess I hadn't - it's a scene where he's explaining his faultless plan to steal the moon, only for it to take an unexpected turn mid-way through.

Bear with me and let me explain my thinking. That's if it's not already clear from my work of art above...

Rate cuts come in two forms. There are the good – that is, when inflation comes down without any collateral economic damage. And there are the bad, when economies begin to fall apart and central banks realise they're behind the curve.

Investors seem to be expecting the next batch of cuts to fall into that first category.

If inflation's not as bad as feared, the folks in Washington can gradually cut rates, even if the economy powers on. Lower rates, solid-enough earnings? That's one way of explaining the heroic rise in US stock markets since mid-April, anyway.

Looking at the latest inflation numbers, it's easy to see why. For all the concern about tariffs, both consumer and producer price data is remarkably benign. And there's a growing recognition that service-sector price pressures are cooling rapidly – and services are three-quarters of the US core inflation basket.

We've been banging the drum about this latter point for some time. Yet that doesn't mean inflation won't still rise this summer. Chatting to James Knightley this week, he thinks it is a matter of time.

Firms loaded up on inventory before the worst of the tariffs hit earlier this year. That's what has potentially allowed them to hold tight on raising prices so far. But that can't last forever, and the Fed's recent Beige Book – a collection of anecdotes from the US economy – points to widespread, faster price rises within three months.

That means we're expecting the pace of month-on-month price rises to pick up from the very benign 0.1% figures we've had recently to 0.3% or 0.4%, perhaps higher this summer. Higher oil prices only make things worse. And remember, tariffs are unlikely to go down but may well go up over the next few weeks.

That all makes it very difficult for the Fed to cut rates until much later this year and a September move, James K thinks, looks increasingly unlikely.

But come November or December, that tariff-induced inflation will have begun to ease off. Housing, which is 40% of the inflation basket and driven by rental price growth, should have come much lower, too. All the while, the economic impact of tariffs will have become much more evident.

James points to the jobs market, where 87% of the employment created since January 2023 has been concentrated within government, private education, healthcare services, and leisure and hospitality. The former is threatened by Federal cost-cutting, while healthcare is vulnerable to the Medicaid cuts in the President's tax bill. And hospitality is usually the first shoe to drop when the economy turns south.

This all means that when the Fed does eventually start cutting, it's going to do so with urgency. James K thinks a bold 50bp cut in December could kick things off. That may sound remarkably similar to last summer, when the Fed kept rates on hold for some time, only to cut them by a full percentage point in very short order.

Back then though, the catalyst – a surprise rise in the unemployment rate – proved to be short-lived. Markets cheered. This time, things could look quite different. We expect a total of 125bp worth of cuts by next summer.

This whole "good cut", "bad cut" debate resonates here in Britain too. The Bank of England seems content with cutting rates just once per quarter and I'd expect little sign of that changing at next week's meeting. What little cutting has happened so far has been on the back of a very gradual decline in inflationary pressures.

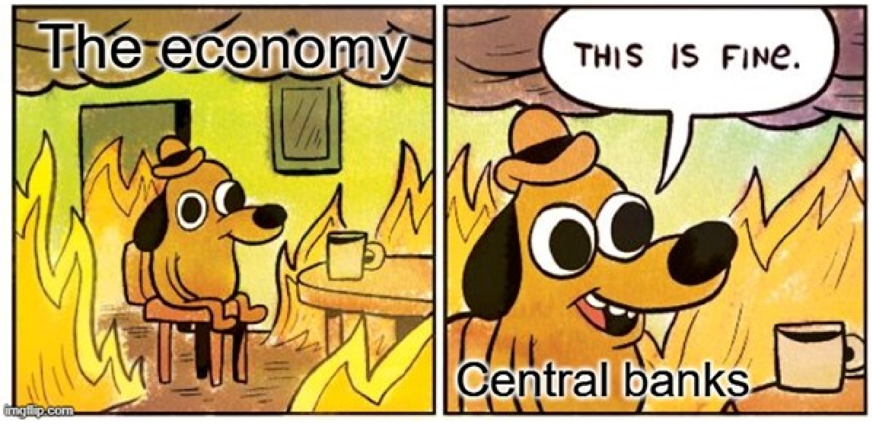
I am more optimistic about that inflation story than the Bank, and I've long felt those quarterly cuts could continue into 2026.

But a particularly worrisome set of jobs numbers earlier this week raises the very clear possibility that the BoE is slipping behind the curve – and that these relatively benign rate cuts end up happening for “bad” reasons.

A cut in August is baked in. Recent commentary suggests the bar to speeding things up thereafter is set relatively high. But another bad jobs report or two could quickly change that.

So when it comes to rate cuts, there’s the good, the bad and of course sometimes even the ugly. Which of those we end up with this year will matter enormously for the way markets react. And let’s just hope we don’t end up with this...

Chart of the week



Source: Imgflip

THINK Ahead in developed markets

United States (James Knightley)

- **Federal Reserve meeting (Wed):** The Fed is widely expected to leave monetary policy unchanged next week. The economy contracted 0.2% in the first quarter, employment growth has slowed, and inflation has looked very benign over the past couple of months, which could be used to argue for a rate cut. However, the weakness in activity was caused by a surge in imports as companies looked to front-run tariffs. Underlying demand held up well, and the unwind in imports in 2Q means we could see GDP growth of close to 4%. At the same time, unemployment remains low while tariffs look set to lift inflation meaningfully over the summer. As such, the Fed remains in a wait-and-see mode, but we will be closely watching their updated forecasts for indications as to what they might do later in the year. The market is currently pricing two rate cuts for September and December, so there appears to be little pressure for the Fed to change their forecast from what they published three months ago of 50bp of cuts this year and 50bp in 2026.
- **Retail sales/industrial production (Tue):** We know that auto sales volumes were down heavily in May, which will drag down the headline retail growth rate, while a soft ISM report suggests manufacturing is receiving little benefit from the current trade tensions.

United Kingdom (James Smith)

- **Inflation (Wed):** More muted service-sector price pressure should have helped drag headline inflation a little lower in May. Back in April, services inflation surged on account of Easter's timing, as well as a dramatic increase in road tax. The Office for National Statistics has since conceded it overestimated this tax change and that should help bring services inflation almost a percentage-point lower.
- **Bank of England meeting (Thur)**: A rate cut is highly unlikely, but this week's dire set of jobs numbers might convince an extra one or two members to dissent. We'd expect at least two members to vote for a cut next week, but that could easily be three. We doubt, though, that the Bank will change its signal about future cuts, which simply says they will be gradual and careful. We expect the next cut in August. Read our full preview

Sweden (James Smith)

- **Riksbank meeting (Wed):** It's a close call, but we think the Riksbank will cut one last time next week. Though the committee had signalled it was probably done, core inflation has undershot its forecasts and growth has disappointed.

Norway (Francesco Pesole)

- **Norges Bank meeting (Thur):** We are (reluctantly) aligning with the market and consensus call for a hold at the 19th June meeting. In our view, Norges Bank is missing out on good conditions to cut, as underlying inflation has abated, and currency volatility can return at any moment to thwart easing plans. Based on this, we favour August over September for the next move. Read more

Switzlerand (Charlotte de Montpellier):

- **Swiss National Bank meeting (Thur):** Inflation in Switzerland has dipped back into negative territory, and that points to a 25bp rate cut next week. Our base case includes a second 25bp cut in September, bringing the policy rate to -0.25%. While the SNB would prefer to avoid deeper cuts, a 50bp reduction in June cannot be ruled out. Read more

THINK Ahead in Central and Eastern Europe

Turkey (Muhammet Murcan)

- **Rate decision (Thur):** Given continued disinflation and improving appetite for TRY assets, the Central Bank of Turkey has started easing liquidity conditions to normalise the average funding cost around the one-week repo rate. If sustained, this will lead to a decline in CBT funding costs to 46% from 49% ahead of the June MPC. Given this backdrop, we think the bank will wait for the July meeting to start cutting the policy rate.

Czech Republic (David Havrlant)

- **Producer prices (Mon):** Producer prices within industry are likely to continue declining in May, driven by weaker Brent crude and natural gas prices from both the current and previous months. A stronger koruna against the dollar is also adding to the major downward pressure. These lower input costs come amid ongoing intense price competition and subdued employment dynamics in manufacturing.

Armenia (Dmitry Dolgin)

- **Central Bank of Armenia (CBA) decision (Tue):** We expect the refinancing rate to remain unchanged at 6.75%. While headline inflation accelerated to 4.3% year-on-year in May, surpassing our expectations and challenging the long-term official target of 3%, the increase was primarily driven by food prices. In contrast, inflation in more demand-sensitive categories such as non-food goods and services remains subdued. Additional arguments against a rate hike include signs of slowing economic activity in both the industrial and retail sectors, as well as the continued strength of the dram. At the same time, robust growth in corporate and retail lending—supported by an expansionary fiscal stance—suggests that rate cuts are also unlikely in the near to medium term, in our view.

Key events in developed markets next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 16 June		
Eurozone	0800	ECB's Nagel Speech	-	-
		Tuesday 17 June		
US	1330	May Retail Sales (MoM%)	-0.8	0.1
	1415	May Industrial Production (MoM%)	0	0.1
Germany	1000	ZEW Economic Sentiment Index	27	25.2
Sweden	0700	May Unemployment Rate	-	8.9
		Wednesday 18 June		
US	1900	Fed Funds Target Rate (Upper Bound)	4.5	4.5
	1900	Fed Interest On Excess Reserves	4.4	4.4
Eurozone	0900	Apr Current Account (EUR bn)	-	50.9
	1000	May CPI Final (YoY%)	2.3	2.3
UK	0700	May Core CPI (YoY%)	3.5	3.8
	0700	May CPI (MoM%/YoY%)	0.1/3.3	1.2/3.5
	0700	May Services CPI (YoY%)	4.6	5.4
Sweden	0830	Riksbank Rate	2.00	2.25
		Thursday 19 June		
US	1330	Initial Jobless Claims (000s)	245	248
UK	1200	BoE Bank Rate	4.25	4.25
Norway	0900	Key Policy Rate	4.50	4.50
Switzerland	0830	SNB Policy Rate	0.00	0.25
		Friday 20 June		
UK	0700	May Retail Sales (MoM%/YoY%)	-/-	1.2/5.0
Germany	0830	PPI (MoM%/YoY%)	-0.5/-1.4	-0.6/-0.9
Canada	1330	Apr Retail Sales (MoM%)	-	0.8
Eurozone	0900	ECB Economic Bulletin	-	-
	1500	Jun Consumer Confidence Flash	-	-15.2

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 16 June		
Turkey	0800	Apr Current Account Balance	-7.0	-4.1
	0900	May Budget Balance	-	-174.7
Poland	1300	May Core CPI (YoY%)	3.3	3.4
Czech Republic	0800	Jun PPI (MoM%/YoY%)	-0.4/-0.6	-0.8/-1.3
Croatia	1000	May CPI (YoY%)	3.5	3.2
		Tuesday 17 June		
Hungary	0730	Apr Average Gross Wages (YoY%)	8.0	8.5
Armenia	0800	Jun Refinancing rate	6.75	6.75
		Thursday 19 June		
Turkey	1200	CBT Weekly Repo Rate	46	46.00
	1200	Overnight Lending Rate	49	49.00
	1200	Overnight Borrowing Rate	44.5	44.50

Source: Refinitiv, ING

Author

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

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

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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

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

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