

# THINK Ahead: How the central banks could steal Christmas

Markets are dreaming of a white Christmas and rate cuts to match. But the Grinches up on Mount Central Bank may have other ideas, explains James Smith. Will we get one last surprise before Christmas?



Actual picture of James Smith when he couldn't get US data because of the shutdown...

## How the central banks could steal Christmas

What's your favourite Christmas movie? Mine's the Grinch, the tale of a grumpy green creature who steals Christmas from the unsuspecting and excessively festive town of Whoville. Sound familiar?

We've got the Whos – that's you by the way, sat behind your Bloomberg terminals, convinced that interest rates will bring us some holiday cheer. December rate cuts from the Fed and the Bank of England, and another ECB pause, are all priced with at least 90% certainty in financial markets.

A bit convenient, isn't it? Not that we disagree with those calls (we don't). But it all looks like a much closer call than investors seem to think. Because somewhere up on Mount Central Bank, our pantomime Grinches are looking down on it all and are not at all impressed by all this jubilation.

Take the Fed. Jay Powell [told us last month](#) that a December cut was "far from" a foregone conclusion. Many of his colleagues agree; October's meeting minutes were unusually explicit in their pushback against another cut before year-end. All very grinchy...

When it was also announced there'd be no jobs of inflation numbers before the next decision, I confess I'd begun to conclude a festive rate cut was looking dead and buried. So did markets; 10 days ago, a December cut was just 35% priced.

So why the turnaround in thinking? A few influential officials – including the New York Fed’s John Williams – have since thrown their weight behind a December cut. And September’s jobs report was read as a tad dovish too, inasmuch as the unemployment rate, which rose, is currently seen as more influential at the Fed than the stronger-than-expected payrolls data.

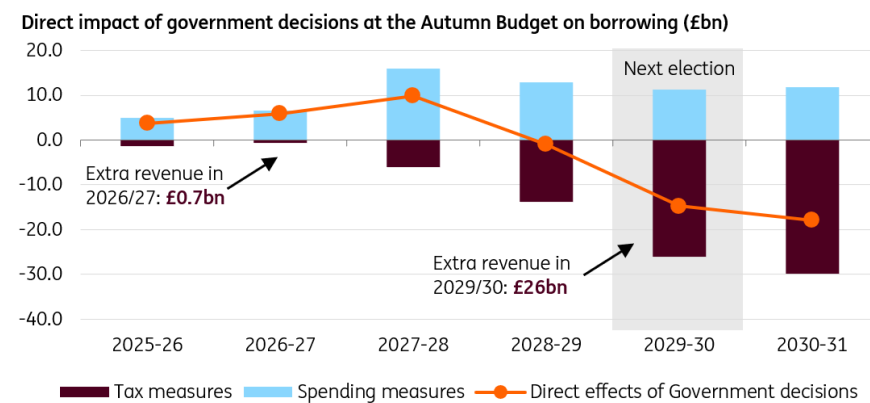
And for all the division at the Fed, there remain strong arguments to keep cutting rates. James Knightley discusses some of them below – but the gist is that the jobs market is precarious and even if tariff-related inflation finally shows through, there are enough factors working in the opposite direction.

Is a December cut less assured than markets think? Probably. But more importantly, is the Fed really going to come out and surprise markets? It feels unlikely, especially now that officials are heading into their pre-meeting quiet period. Sat in a cave, staring into the abyss... again, very grinchish.

Staying with the topic of surprises, if you’d have shown me the contents of this week’s UK Autumn Budget and asked me how I thought markets would have reacted, I probably wouldn’t have predicted the relief rally. Bond yields were down 8bp in the hours after the Chancellor spoke.

It’s weird, given that there were basically no tax rises. Not in 2026, anyway. Yes, the budget did promise £26bn (0.7% of GDP) of additional annual revenue by the end of the decade. And no real-terms departmental spending growth in 2029/30, either. All that, in an election year? I’ll let you decide how likely that is to happen. Still, markets were clearly braced for worse.

## The UK isn't raising taxes. Not in 2026, anyway...



Source: Office for Budget Responsibility

If there’s no new fiscal tightening in 2026, theory dictates there’s less need for monetary policy to loosen. Certainly, it raises a question mark over a December rate cut, but I still think it’s likely to happen. The much bigger story here is the inflation picture, which is looking more optimistic for next year on account of slower wage growth.

Measures in the budget, like the cut to energy bills, help at the margin too. And though the latest budget didn’t change much, it is worth remembering that previously announced plans – like the ongoing freeze in tax thresholds – mean next year’s deficit will fall from 4.5% to 3.5%. Fiscal policy is going to be a drag on UK growth next year

A December cut is a close call; four out of nine officials are firmly on Team Grinch. But Santa Andrew Bailey is likely to cast his deciding vote in favour of a cut, which we think will be followed by two more next year.

Over in Frankfurt, the ECB is in its “good place”. So good, in fact, it told us this three times in its [latest minutes](#). No rate cuts for you, EuroWhoville....

Officials still have a slight bias to ease policy further, if anything. Yet what stands out is the chorus of hawks talking about the upside risks to inflation, be it from rising food prices or hints of a cyclical recovery in the economy. The latter is presumably a reference to the better Purchasing Managers' Indices (PMIs). Most likely then, rates aren't going anywhere any time soon.

A lot still depends on Germany, of course, where the government has become embroiled in a crisis over pension reform, which has even led some to question the coalition's future. Still, a budget should get passed, and the much-anticipated fiscal spending should be more helpful next year.

Yet public investment has been underwhelming in 2025. Carsten has a great stat that military spending hadn't even reached 50% of its full-year target after the first ten months of the year. The result is [faltering business confidence](#) and [stagnant economic data](#).

Away from Frankfurt, markets should still wake to stockings stuffed with rate cuts this Christmas. But if you hear a thud on the roof tonight, don't assume Santa's come early. Better check Powell isn't poking out of your fireplace, sleighing those easing expectations and making off with the roast beast...

## THINK Ahead in developed markets

### United States (James Knightley)

- We now know that we won't get any further official jobs data or consumer price inflation numbers ahead of the December 10<sup>th</sup> Federal Reserve policy meeting. Following recent comments from key officials and a mixed jobs report, the market is back to strongly anticipating a third consecutive 25bp rate cut. The upcoming data is likely to reinforce that view with the ISM manufacturing index set to remain in contraction territory and the ISM services index set to move closer to neutral based on regional survey evidence. Furthermore, the soft core CPI and PPI reports suggest that tariffs continue to have more bark than bite with regard to inflation, and this should also be reflected in this week's September core PCE deflator.
- Some of the Fed hawks remain wary, but the longer it takes for tariffs to have an impact on prices, the more time there is for lower energy costs, weaker wage growth and slowing housing rents to mitigate. We believe this provides room for the Fed to respond to the risks of ongoing weakness in the jobs market with at least two additional interest rate cuts in 2026. In this regard, also watch the ADP report on private sector jobs numbers. We forecast zero jobs growth, but the risk, based on weekly numbers, is that we see a drop in employment.

### Eurozone (Bert Colijn)

- **CPI (Tue):** The inflation environment remains steady for the moment. While some outside drivers, like producer prices and the strong euro, provide downward pressure on inflation,

domestic drivers, manifesting themselves especially in services inflation, still keep inflationary risks balanced for the short run. On Tuesday, November inflation will be released and we expect a slight tick down. In any case, inflation likely remains close to target for this month and the coming months as well. For the ECB, inflation sticky around the 2% target does not provide much reason for a rate change in any direction for the moment.

## THINK Ahead in EMEA

### Poland (Adam Antoniak)

- **3Q25 GDP** (Mon): Flash estimate pointed to 3.7% YoY growth and now we await the detailed composition of this growth. We forecast that households' consumption jumped up by 4.3% YoY (4.5%YoY in 2Q25) and fixed investment advanced by 2.5% YoY (-0.7% YoY in the previous quarter). Change in inventories contributed some 0.9 percentage points, while net exports knocked off about 0.5 percentage points.
- **NBP rates** (Wed): December is not a month when policymakers tend to change rates, but with clear signs of ongoing disinflation, we expect another 25bp cut at the upcoming meeting. According to preliminary estimates, headline inflation was below the National Bank of Poland (NBP) target in November, and wage growth moderated more than was expected in October. The upside risks to inflation that the Monetary Policy Council (MPC) feared are clearly abating.

### Hungary (Peter Virovacz)

- **GDP** (Tue): The final print of the third-quarter GDP figures will provide some clarity on the poor performance of the Hungarian economy. It will provide important insights into what went wrong. If mounting core problems, such as the negative surprise caused by weak consumption, continue to emerge, we may need to reconsider the economic outlook for the next five quarters. And definitely not on the upside.
- **Retail/Industry** (Thu/Fri): The first batch of hard data from the fourth quarter is also due next week. Continued weakness would be the last nail in the coffin and strengthen our case for a downward revision, due to both the actual economic performance and the possibly weaker carry-over effect. Based on the latest seasonal patterns and the recently improving consumer confidence, we expect a strong monthly increase in retail sales. Conversely, October was probably a weak month for manufacturers following the post-summer increase in production in September. So volatility and the downtrend in industry will continue in Hungary.

### Czech Republic (David Havrlant)

- **PMI** (Mon): We see that the Czech industry has stabilised this year, which implies our view of a positive correction in the PMI for November, following a series of declines. Both nominal and real wage growth have likely remained upbeat in the third quarter, as layoffs in manufacturing have slowed and other sectors remain strong. Real retail sales are likely to have recovered in October, driven by strong consumer sentiment and robust real wage gains so far. November's headline inflation is expected to have remained stable in annual terms, mitigated by reductions in electricity prices from some distributors. That said, core inflation remained elevated, hovering close to the upper bound of the tolerance band.

**Turkey** (Muhammet Mercan)

- **CPI (Thur):** The first week of December will be under focus, given 3Q GDP and November CPI releases. We expect 3Q GDP to be at 3.8% YoY, while sequential growth is likely to lose momentum as both supply and demand indicators point to a slowdown. On the inflation side, following the decline in the momentum of the headline in October, we will likely see a benign number at 1.3% in November, leading to a further decline in the annual figure to 31.6% from 32.9% a month ago. Positive surprise will likely support expectations of a higher than 100bp policy rate cut in the December MPC.
- The manufacturing PMI and capacity utilisation rates fell in the third quarter, while sluggish labour market trends and relatively soft core imports confirm that domestic demand remains subdued. Showing an acceleration vs 1Q with base effects. However, sequential growth will lose momentum given tightening in financial conditions following volatility in March. We see below consensus monthly inflation for August at 1.5% MoM, pulling the annual figure down to 32.2% from 33.5% a month ago. Given this backdrop, we expect the central bank to come up with another 300bp in the September MPC.

**Key events in developed markets in next week**

Country	Time Data/event	ING	Prev.
<b>Monday 1 December</b>			
US	1500 Nov ISM Manufacturing PMI	49	48.7
	1500 Nov ISM Manufacturing Prices	57	58
Eurozone	0900 Nov HCOB Manufacturing PMI Final	-	49.7
Germany	0855 Nov HCOB Manufacturing PMI Final	48.4	48.4
UK	0930 Nov S&P Global/CIPS Manufacturing PMI Final	-	50.2
Italy	0845 Nov S&P Global/IHS Manufacturing PMI	50.1	49.9
<b>Tuesday 2 December</b>			
Eurozone	1000 Nov CPI Flash (YoY%)	2	2.1
	1000 Nov Core CPI Flash (YoY%)	2.3	2.4
	1000 Oct Unemployment Rate	6.3	6.3
Italy	0900 Oct Unemployment Rate	6.1	6.1
<b>Wednesday 3 December</b>			
US	1315 Nov ADP National Employment	0	42
	1415 Sep industrial production (MoM%)	0.0	0.1
	1445 Nov S&P Global Composite PMI Final	-	54.8
	1445 Nov S&P Global Services PMI Final	-	55
	1500 Nov ISM Non-Manufacturing PMI	51.8	52.4
Eurozone	0900 Nov HCOB Services PMI Final	-	53.1
	0900 Nov HCOB Composite PMI Final	-	52.4
Germany	0855 Nov HCOB Services PMI Final	52.7	52.7
	0855 Nov HCOB Composite PMI Final	52.1	52.1
France	0850 Nov HCOB Composite PMI	-	49.9
UK	0930 Nov S&P Global/CIPS Serv PMI Final	50.5	50.5
	0930 Nov S&P Global Composite PMI Final	50.5	50.5
Italy	0845 Nov Services PMI	53.3	53.1
Spain	0815 Nov Services PMI	-	56.6
Switzerland	0730 Nov CPI (MoM%/YoY%)	-/-	-0.3/0.1
<b>Thursday 4 December</b>			
US	1330 Sep International Trade (USD bn)	-	-59.6
	1330 Initial Jobless Claims (000s)	-	220
Eurozone	1000 Oct Retail Sales (MoM%/YoY%)	-/-	-0.1/1
Switzerland	0800 Nov Unemployment Rate	-	2.9
Austria	0800 Q3 GDP Final (QoQ%)	-	0.1
<b>Friday 5 December</b>			
US	1330 Sep real personal income (MoM%)	0.2	0.4
	1330 Sep real spending (MoM%)	0.2	0.4
	1330 Sep core PCE deflator (MoM%/YoY%)	0.2/2.9	0.2/2.9
	1500 Sep Factory Orders (MoM%)	0.6	1.4
	1500 Dec University of Michigan Sentiment Flash	50.5	51
	1500 Dec UoM current conditions Flash	51	51.1
	1500 Dec UoM Expectations Flash	50.4	51
	2000 Oct Consumer Credit Change (USD bn)	6	13.09
Eurozone	1000 Q3 Employment Final (QoQ%/YoY%)	0.1/0.5	0.1/0.5
	1000 Q3 GDP Revised (QoQ%/YoY%)	0.2/1.4	0.2/1.4
Germany	0700 Oct Industrial Orders (MoM%)	-0.5	1.1
France	0745 Oct Industrial Output (MoM%)	-	0.8
	0745 Oct Trade Balance (EUR bn)	-	-6.58
Canada	1330 Nov Unemployment Rate	7.0	6.9

## Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
<b>Monday 1 December</b>				
Russia	0600	Nov S&P Global Manufacturing PMI	-	48
Turkey	0700	Q3 GDP (QoQ%/YoY%)	-3.8	1.6/4.8
	0700	Nov Manufacturing PMI	-	46.5
Poland	0800	Nov S&P Global Manufacturing PMI	48.2	48.8
	0900	Q3 GDP (QoQ%/YoY%)	0.8/3.7	0.8/3.7
Czech Rep	830	Nov S&P Global PMI	48.0	47.2
Hungary	0730	Oct Trade Balance Final (EUR bn)	589	589
	0800	Nov Manufacturing PMI	49.5	51
Kazakhstan	-	Nov CPI (MoM%/YoY%)	1.0/12.6	0.5/12.6
<b>Tuesday 2 December</b>				
Hungary	0730	Q3 GDP Final (YoY%)	0.6	0.6
<b>Wednesday 3 December</b>				
Russia	0600	Nov S&P Global Services PMI	-	51.7
	1600	Oct Retail Sales (YoY%)	2.0	1.8
	1600	Oct Unemployment Rate	2.2	2.2
	-	Oct GDP (YoY%) Monthly	-	0.9
Turkey	0700	Nov CPI (MoM%/YoY%)	1.3/31.6	2.6/32.9
	0700	Nov PPI (MoM%/YoY%)	-/-	1.6/27
Poland	1400	Dec NBP Rate Decision	4	4.25
<b>Thursday 4 December</b>				
Turkey	1130	Gross FX Reserves (USD bn)	-	80
	1130	Nov Balance of Trade (USD bn)	-	-7.4
Czech Rep	800	Q3 Gross wages (YoY%)	4.7	5.3
	800	Nov CPI (MoM%/YoY%)	0.1/2.5	0.5/2.5
Hungary	0730	Oct Retail Sales (YoY%)	3.1	3.0
<b>Friday 5 December</b>				
Czech Rep	800	Oct Retail Sales (YoY%)	2.8	2.6
Hungary	0730	Oct Industrial Output (MoM%/YoY%)	-1.7/-5.4	1.3/1.3
	1000	Nov Budget Balance (HUF bn)	-700	-339

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