THINK Ahead: Powell to the people

Five days on from *that* video from Fed Chair Powell, insisting that a criminal investigation against him is all about exerting pressure to cut rates, markets remain... unfazed. Is it simply because nothing has escalated since? Or is falling inflation keeping a lid on concerns about Fed independence? And what about next week? Read on...

Jay Powell said a criminal investigation is a pretext to undermine the Fed's independence

Why markets aren't moved by 'that' video

What's more surprising: the Fed Chair addressing the world by speaking directly to camera to accuse the White House of undermining the central bank's independence - or markets barely reacting?

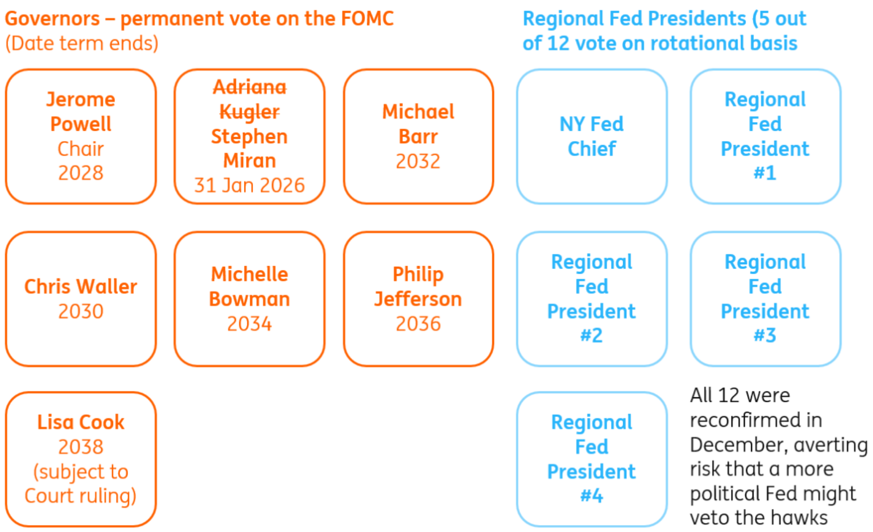
Initial "sell America" echoes from last April - when equities, Treasuries and the dollar fell in unison - turned out to be just that: echoes. The dollar index is on track to finish the week marginally higher, helped by firmer economic data.

Maybe one reason for the calm is that nothing in the story has materially changed since the video dropped on Sunday. Yet the fact that the Chair felt compelled to make it - and that central bankers worldwide rushed to support him - suggests this might not be the end of it.

Maybe it's because the fears that dominated last summer around Fed independence simply haven't materialised. Trump appointed Governors Christopher Waller and Michelle Bowman haven't joined calls for aggressive cuts, despite being contenders to succeed Powell. Attempts to remove board members haven't escalated beyond the ongoing legal battle involving Governor Lisa Cook, which goes before the Supreme Court next week. And the risk that a more political Fed leadership might veto regional Fed Presidents seen as insufficiently dovish hasn't come to pass.

Add that all together, and while yes, we might get a considerably more dovish Fed Chair, they are just one of twelve voting committee members.

How the Fed committee is made up



Source: Federal Reserve, ING

But perhaps the simplest explanation is that we aren't in an inflationary environment. Fed independence, or lack of, perhaps feels less urgent when the central bank is already cutting rates.

December inflation was surprisingly benign, particularly given that November's price data was suspiciously low following the government shutdown. Tariff sensitive categories like audio equipment and furniture are now seeing outright price declines; rents and other service components - the bulk of the inflation basket - should show renewed disinflation throughout 2026.

That's why James Knightley still expects rate cuts in March and June, even as markets have largely priced out easing before summer.

Could that benign backdrop change later this year? We are yet to be convinced, but there are those out there who think it might.

Pro-inflation investors tend to point to fiscal policy, which is set to become a big theme in 2026. The White House is shifting more focus toward the cost of living, floating plans to buy mortgage backed securities to ease interest costs and even cap credit card rates. Then there's the backdated refunds for tax cuts on overtime and tips that should start landing soon - likely peaking in late February. Tariff rebate checks also remain a possibility, if Congress can be persuaded, though even if it can, James Knightley cautions that the consumer response to all this government cash might be more muted than during the pandemic.

Then there's the Supreme Court's looming ruling on the President's use of emergency powers to impose tariffs. A decision could come as early as next week – the court sits on Tuesday and Wednesday - but otherwise may slip to late February.

Remember: most expect the White House to lose its appeal. Most also expect the President to rebuild the tariff wall using other methods. Yet with mounting political focus on living costs, don't rule out further tariff reductions later this year, as we've already seen with food. In our webinar on Monday, 41% of attendees thought tariffs would end 2026 lower than today; fewer than 10% thought they'd rise. Investors are increasingly of the mindset that lower tariffs would be pro inflation, via higher spending and reduced labour market pressure.

Speaking of government policy, a shift is emerging here in Europe. There's been plenty of scepticism among investors over how quickly Germany's much discussed "wall of money" will hit the real economy. But the data suggest momentum is gathering: industrial orders are rising and production expectations are improving. Next week's PMI releases will tell us whether the sentiment shift is broadening. A ketchup bottle effect, popcorn kernels popping – both ways, an increasingly upbeat and seemingly hungry Carsten Brzeski describes the situation. You can read our team's latest Eurozone quarterly here.

He reckons the approval of the 2026 budget late last year should help accelerate activity. But the bigger surprise may be the rapid ramp up of domestic defence industry capacity. That challenges the earlier assumption – to which I'd previously subscribed - that most of Europe's extra defence spending would continue flowing overseas, as it largely has since the war in Ukraine began. Our forecasts see German growth at 0.9% this year and 1.9% in 2027, up from the unremarkable 0.2% in 2025.

Whether this proves inflationary remains to be seen. But any lingering hopes of renewed ECB rate cuts this year have largely vanished. Markets have virtually fully priced out further easing. And if German data continue trending positively, surely it's only a matter of time before we start talking about the timing of the first ECB rate hike?

That is, of course, if geopolitics don't completely rewrite the outlook for this year. Geopolitical stress hasn't yet produced a meaningful spike in energy prices, largely thanks to the oil surplus our team has repeatedly flagged. But if the year carries on how it has started, you can't rule much out. So what better time for a 30-minute commodity focused webinar, hitting your screens next Wednesday?

Whether you care about crude or simply want to know whether gold can rally another 20%, get yourself signed up today.

THINK Ahead in developed markets

United States (James Knightley)

- **PCE** (Thur): The data flow should have little impact on markets over the coming week. The Fed is in quiet mode, given the proximity to the Jan 28th FOMC meeting, with the most notable economic report being the personal income and spending figures. Within that, the core PCE deflator should confirm inflation pressures are relatively muted despite the lingering challenge from tariffs. Yet economic growth remains resilient, and equity markets are close to all-time highs. Unsurprisingly, the FOMC meeting is expected to be a non-event with just 1bp of a potential 25bp cut currently being priced by markets.

United Kingdom (James Smith)

- **Jobs report** (Tue): With most of next week's macro data, there's a risk it temporarily reinforces the Bank's caution on rate cuts and potentially could trigger a hawkish market reaction. Against consensus, we think there's a risk the unemployment rate (temporarily) drops next week. We're also not convinced the recent signs of redundancies rising will turn into much more. Still, the big picture is that wage growth is rapidly slowing. And assuming that continues, by March, we think it will cement the need for further BoE easing.
- **Inflation** (Wed): A lot depends on air fares, which unsurprisingly tend to surge around Christmas. 2024's festive rise was much lower than usual though, so we should see a pickup in services inflation on a more "normal" rise in ticket prices in late 2025. How large that pick-up is depends exactly on when the ONS measures it. There's an outside risk we get a big spike here, and though, of course, it will be unwound in January, optically it wouldn't look great for the Bank. We're also watching if food inflation temporarily rebounds, though evidence from elsewhere in Europe suggests the trend is downwards. By April, we expect inflation to be back to 2%.

THINK Ahead in Central and Eastern Europe

Romania (Valentin Tataru)

- **Rate Decision** (Mon); With a still-elevated inflation profile in the coming months and some ‘known unknowns’ still to play out, we wouldn’t be surprised to see a rather neutral stance from the Bank at its 19 January policy meeting, despite the still worrisome impact of the cautious consumer stance on domestic demand when it comes to the growth outlook. Barring any unexpected shocks, we expect the NBR to keep its policy rate at 6.50% until May 2026, after which we expect 100bp of rate cuts by the end of the year.

Czech Republic (David Havrlant)

- **PPI** (Mon): Producer prices remained in annual decline in December, dragged down by lower Brent crude prices and the stronger koruna. That said, it seems that the three frail years are coming to an end, as Czech manufacturing benefits from low energy prices and is starting to recover gradually.

Turkey (Muhammet Mercan)

- **Rate Decision** (Thur): Given the CBT’s easing bias, lower than expected December CPI driven by non-food items and reserves at all-time highs, we expect a 150bp cut to 36.5% in the January MPC meeting. However, risks are on the downside towards a lower 100bp adjustment as early indicators point to strengthening pricing pressures in the food group this month and recent data signal a recovery in domestic demand.

Kazakhstan (Dmitry Dolgin)

- **Rate Decision** (Fri): We expect the National Bank of Kazakhstan to keep the base rate unchanged at 18.00% next Friday. While inflation has eased more than anticipated – headline CPI at 12.3% YoY and core at 11.1% in December 2025, supported by a firm tenge – a cautious stance remains appropriate given the recent VAT rate increase from 12% to 16% and a rise in households’ inflation expectations.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 19 January		
Canada	1330	Dec CPI (MoM%/YoY%)	-0.4/2.2	0.1/2.2
	1330	Dec Core CPI (YoY%)	-/-	-0.1/2.9
		Tuesday 20 January		
US	1315	ADP weekly private jobs (000s)	15	11.8
Eurozone	0800	Nov Current Account (EUR bn)	-	32
	1000	Nov ZEW Economics Sentiment Index	-	33.7
Germany	0700	Dec PPI (MoM%/YoY%)	-0.5/-2.8	0/-2.3
UK	0700	Nov ILO Unemployment Rate	5.0	5.1
	0700	Nov Employment Change (000s)	60	-16
	0700	Nov Average Weekly Earnings (3M YoY%)	4.6	4.7
	0700	Nov Average Weekly Earnings ex Bonus (3M YoY%)	4.4	4.6
		Wednesday 21 January		
US	1500	Oct construction spending (MoM%)	0.1	0.2
UK	0700	Dec Core CPI (YoY%)	3.3	3.2
	0700	Dec Services CPI (YoY%)	4.6	4.4
	0700	Dec CPI (MoM%/YoY%)	0.4/3.3	-0.2/3.2
		Thursday 22 January		
US	1330	Nov Personal Income (MoM%)	0.4	0.4
	1330	Nov Personal Spending (MoM%)	0.5	0.3
	1330	Nov Core PCE Price Index (MoM%/YoY%)	0.2/2.8	0.2/2.8
	1330	Initial Jobless Claims (000s)	205	198
Norway	0900	Rate Decision	-	4.00
		Friday 23 January		
US	1445	Jan S&P Global Manufacturing PMI Flash	-	51.8
	1445	Jan S&P Global Services PMI Flash	-	52.5
	1445	Jan S&P Global Composite PMI Flash	-	52.7
	1500	Jan Michigan Sentiment Final	54	54
Eurozone	0900	Jan HCOB Manufacturing PMI Flash	-	48.8
	0900	Jan HCOB Services PMI Flash	-	52.4
	0900	Jan HCOB Composite PMI Flash	-	51.5
	1000	Jan Economic Sentiment	-	96.7
Germany	0830	Jan HCOB Manufacturing PMI Flash	-	47
	0830	Jan HCOB Service PMI Flash	-	52.7
	0830	Jan HCOB Composite PMI Flash	-	51.3
France	0815	Jan HCOB Composite PMI Flash	-	50
	0815	Jan HCOB Manufacturing PMI Flash	-	50.7
	0815	Jan HCOB Services PMI Flash	-	50.1
UK	0700	Dec Retail Sales (MoM%/YoY%)	0.4/1.6	-0.1/0.6
	0700	Dec Retail Sales ex fuel (MoM%/YoY%)	0.5/2.2	-0.2/1.2
	0930	Jan S&P Global Composite PMI Flash	51.5	51.4
	0930	Jan S&P Global Manufacturing PMI Flash	50.5	50.6
	0930	Jan S&P Global Services PMI Flash	51.5	51.4

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 19 January		
Czech Rep	0800	Dec PPI (MoM%/YoY%)	0.0/-1.9	0.3/-1.3
Romania	1300	Rate Decision	6.50	6.50
		Wednesday 21 January		
Russia	1300	Q4 Current Account (USD bn)	-2.1	9.4
		Thursday 22 January		
Turkey	1100	Rate Decision	36.50	38.00
	1100	Jan Overnight Lending Rate	39.50	41.00
	1100	Jan Overnight Borrowing Rate	35.00	36.50
	1130	Jan FX Reserves (USD bn)	-	74.6
Poland	0900	Dec Industrial Output (YoY%)	1.9	-1.1
	0900	Dec PPI (YoY%)	-2.1	-2.4
	0900	Dec Employment (YoY%)	-0.7	-0.8
	0900	Dec Wages (YoY%)	6.9	7.1
		Friday 23 January		
Russia	1300	Nov Balance of Trade (USD bn)	-	11.1
Turkey	0700	Jan Consumer Confidence	-	83.5
Hungary	0730	Dec Unemployment Rate	4.4	4.4
	0730	Nov Average Gross Wages (YoY%)	8.2	8.7
Kazakhstan	0000	Rate Decision	18.00	18.00

Source: Refinitiv, ING

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