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THINK Ahead: Temper, temper! You can't always have what you want

Markets want more rate cuts. Central banks are saying they'll have to wait. Let's hope nobody throws their toys out of the pram. A lot's going to happen next week, so settle back and enjoy the show

Central banks seem to be telling markets, you can't always have what you want

You never listen to what I say!

You know the scene, the sweetie-demanding kid at the checkout having a mini-meltdown and the exasperated parents telling him he can't have them. Is it getting a bit like that with central banks?

'I told you last week: you can't have big rate cuts; they're not good for you!'.

'That's not true, it's so unfair!' say markets.

'You had some last week!'.

'But my friends get more, their parents are so much cooler!'.

Hmm. Are some policymakers not keeping up with the latest trends? Are investors falling into the classic trap of favouring their own biases over what central banks are actually telling them? Or are policymakers falling behind the curve?

Last week, I argued it may well be the latter. If central banks have decided rates need to go to "neutral" – and that's what they seem to be saying - then there's a decent case for getting there ASAP.

Enter the Swedes. The Riksbank said this week that interest rates may need to go into "expansionary" territory. That's not a word I've heard from a developed-market central bank for quite some time.

Markets are pricing a repeat 50 basis-point Fed rate cut in either November or December. An October rate cut from the ECB is almost fully baked into markets now too.

So then, what needs to happen in the data for those dovish market expectations to be validated?

Over in the US, the answer seems obvious. The Fed is now laser-focused on the labour market, so next week's payrolls report should, on paper, be critical. James Knightley reckons it could be weak, backing the case for swifter easing.

But here's the problem: does anyone believe the data? Fed Chair Powell has himself said that he'll be mentally marking down payrolls growth, given we know downward revisions are coming. Remember that September's jobs growth didn't fall off a cliff, but the Fed cut rates aggressively anyway.

Powell has told us he's looking at a wider range of jobs data. As James explains below, we're really looking for any signs of weaker hiring demand that might herald higher layoffs. The Fed has already told us that further falls in vacancies – which we'll also get next week – may go hand-in-hand with a sharper rise in redundancies. Consumers are increasingly worried about just that – take a look at our chart of the week below, courtesy of James K.

This debate should resonate here in Europe, too. Activity is clearly weakening; just take a look at the latest worrisome batch of Purchasing Managers Indices (PMIs). Speaking to Carsten Brzeski, he's worried that this weakness will begin to chip away at the jobs market which, until now, has been one of the few bright spots in the eurozone economy.

German unemployment is increasing. And after 18 months of rising insolvencies and a growing number of employer announcements, that trend is set to continue. In Carsten's words, today's bankruptcies are tomorrow's redundancies. And if that's the case, then the risk of persistent wage growth should become less of a concern for the hawks in Frankfurt.

The ECB seems to be taking notice. A Reuters story this week revealed the doves are limbering up for a fight for faster cuts. Just two weeks ago, there seemed to be no debate that the ECB would wait until December before cutting rates again. We'll hear publicly from some of the ECB's heavy hitters next week.

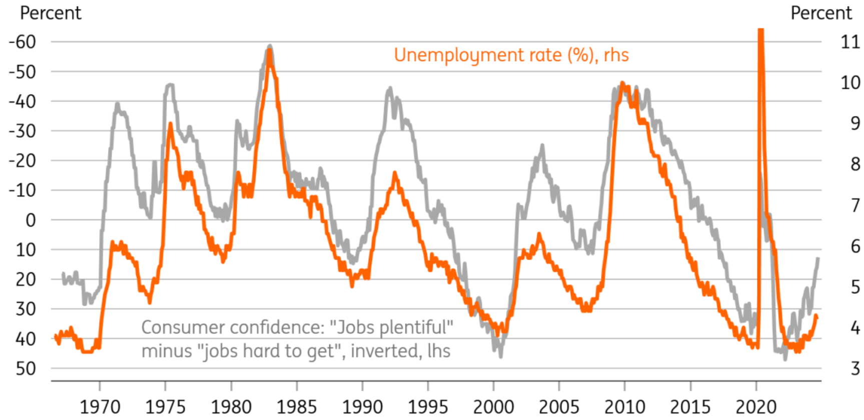
Carsten reckons an October cut, though not yet the base case, is on the table, particularly if next week's inflation data undershoots expectations. Failing that, he isn't ruling out a Fed-style 50bp catch-up cut in December.

Here in the UK, the data facing the Bank of England is less clear-cut. Services inflation and wage growth are still the main concerns. And given the UK has been outperforming most of Europe on growth, officials aren't yet feeling the heat. Markets don't think the BoE will be nearly as aggressive on rate cuts as the Federal Reserve.

Keep an eye on next week's Decision Maker Panel survey, though. The BoE places a lot of faith in these numbers, and they're signalling that both wage and price growth are slowing fast. It's exactly this kind of data that makes me think the Bank will have to pick up the pace of easing, just like everyone else.

The data will decide whether it's central banks or investors that have it right. In the meantime, time to buy those sweets, settle back, and enjoy the show.

Chart of the week: US consumers are noticing the weaker jobs market



Source: Macrobond

THINK Ahead in developed markets

United States (James Knightley):

- Having cut the policy rate by 50bp in September, the market is increasingly of the view that the Federal Reserve could follow up with a similar-sized move at the November FOMC meeting. The upcoming data will be critical in determining what they do with the ISM business surveys and the September jobs report, the highlights for next week.
- Regional surveys suggest little change in the ISM reports, which means that they would remain at levels historically consistent with a slowdown in GDP growth from around 3% to something closer to 1%. The jobs report is less clear-cut. Recent benchmark revisions have undermined confidence in the data while lead surveys of hiring demand are deteriorating, and consumer confidence readings suggest that households are starting to experience a cooling economy. However, we are yet to see any major job layoffs. If we see payrolls rise by 75,000 or less and the unemployment rises to 4.3% or 4.4%, expect the market to price in the prospect of swifter monetary policy easing – remember, the Fed is forecasting the unemployment will end the year at 4.4%.

Eurozone (Bert Colijn):

- **Inflation (Tue):** Next week's September headline inflation will very likely drop. This is widely known, so much so that Christine Lagarde referred to it in her latest press conference. Look out for core inflation, which, of course, will be more important to the ECB. With oil prices down and domestic demand weak – see this week's poor PMI – the risks to our inflation outlook are generally to the downside. However, it remains to be seen how fast that is reflected in core inflation. Services inflation has been stubborn for some time now.

- **Unemployment (Wed):** Unemployment is also out next week and has been stable at historical lows for some time now. Don't expect imminent changes, although the labour market outlook does seem to be weakening, with labour shortages becoming a bit less problematic.

THINK Ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **Flash CPI (Mon):** We expect the flash estimate to indicate that headline inflation rose to about 4.8%YoY in September from 4.3% in August, mainly due to base effects. Back in September 2023, consumer prices fell 0.4% MoM, in light of an updated list of refunded drugs, the introduction of free pharmaceuticals for young and elderly, government measures to reduce electricity prices, substantial declines in TV fees/subscriptions and cheaper foreign holidays packages. We forecast that prices were broadly stable MoM in September this year. The mentioned base effect on pharmaceuticals and the expected substantial increase of prices in education, linked to earlier hikes in teachers' wages, pushed September core inflation above 4% YoY.
- **Manufacturing PMI (Tue):** Domestic manufacturing keeps struggling, given fragile external demand, especially poor conditions in the German automotive sector. We expect the Polish PMI to decline to 47.2 from 47.8 in August, given the corresponding slide in the German gauge. New orders and current output remain subdued.
- **NBP decision (Wed):** Nobody expects the MPC to change rates in October. Inflation is on an upward trend and policymakers have started debating monetary easing in 1Q25 at the earliest. If anything, recent flooding in the south of the country has increased uncertainty about GDP growth and CPI inflation, however the scale of the natural disaster was lower than in 1997 by several order of magnitudes. November's NBP staff macroeconomic projection will be based on many uncertain assumptions, so the March 2025 update is likely to be perceived as the more reliable guide for policymakers. We expect the first 25bp rate cut in 2Q25 and expect rates to go down by 100bps in total in 2025.

Hungary (Peter Virovacz)

- **Industry (Fri):** None of the summer data released so far has shown a significant decline in industrial production in Hungary. We therefore expect August to be the one, burdened by planned summer shutdowns. Even if we don't get a significant drop, the chances of an upturn are rather low, given both the hard data from other countries and the recent soft indicators on local manufacturing. With two fewer working days than a year ago, the unadjusted production data could turn out to be ugly.

Czech Republic (David Havrlant)

- **GDP (Tue):** The refined real GDP estimate will likely confirm the continued recovery of the Czech economy at an annual rate of 0.6% in the second quarter. However, the composition may change from the previous reading, given that the pickup in real retail sales growth in the same quarter to an average of 4.3% YoY does not marry up with the softer increase in household consumption expenditures of 1% from a year earlier.
- **PMI (Tue):** The manufacturing PMI is expected to have remained in the contractionary zone

in September, with a downward correction after the previous month's gain. This is mainly linked to the continued flow of disappointing news related to the German economy, which is not supportive of the Czech export-oriented industry.

Turkey (Muhammet Mercan)

- **Inflation (Thu):** The downward trend in annual inflation has accelerated in the last two months, given supportive base effects, despite administrative price adjustments and no respite from services. The lagged effects of monetary tightening on credit and domestic demand, combined with the continued real appreciation of the lira, will likely keep the underlying inflation trend on a downward path for the remainder of this year. We expect September inflation at 2.2% MoM, translating into annual inflation at 48.3%, down from 52.0% a month ago.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 30 September		
US	1800	Fed Powell Speech	-	-
Germany	1300	Sep CPI (MoM%/YoY%)	0.0/1.8	-0.1/1.9
UK	0700	Q2 GDP Final (QoQ%/YoY%)	0.6/0.9	0.6/0.9
Italy	1000	Sep CPI (MoM%/YoY%)	-/-	0.2/1.1
Eurozone	1400	ECB Lagarde Speech	-	-
		Tuesday 1 October		
US	1500	Sep ISM Manufacturing PMI	48	47.2
	1500	Aug JOLTs Job Openings (000s)	7700	7673
	1600	Fed Bostic Speech	-	-
Germany	0855	Sep HCOB Manufacturing PMI Final	40.3	40.3
UK	0930	Sep S&P Global Manufacturing PMI Final	-	51.5
Eurozone	0900	Sep HCOB Manufacturing PMI Final	44.8	44.8
	1000	Sep CPI Flash (YoY%)	1.9	2.2
	1000	Sep Core CPI Flash (YoY%)	2.7	2.8
	1630	ECB Schnabel Panel Talk	-	-
		Wednesday 2 October		
Italy	0900	Aug Unemployment Rate	-	6.5
Eurozone	1000	Aug Unemployment Rate	6.4	6.4
		Thursday 3 October		
US	1445	Sep ISM Services PMI	51.5	51.5
	1445	Sep S&P Global Services PMI Final	-	55.4
	1500	Aug Factory Orders (MoM%)	-3.0	5.0
	1500	Sep ISM Non-Manufacturing PMI	-	51.5
	1230	Sep Challenger Layoffs (YoY%)	3.5	1.0
Germany	0855	Sep HCOB Services PMI Final	50.6	50.6
	0855	Sep HCOB Composite PMI Final	47.2	47.2
France	0850	Sep HCOB Composite PMI Final	-	47.4
UK	0930	BoE Decision Maker Panel Survey		
Italy	0845	Sep HCOB Composite PMI Flash	-	50.8
Eurozone	0900	Sep S&P Global Services PMI Final	50.5	50.5
	0900	Sep S&P Global Composite PMI Final	48.9	48.9
	1030	ECB Lane Panel Talk	-	-
		Friday 4 October		
US	1330	Sep Non-Farm Payrolls	115	142
	1330	Sep Unemployment Rate	4.3	4.2
	1330	Sep Average Hourly Earnings (MoM%)	0.3	0.4

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
		Monday 30 September		
Poland	0900	Sep CPI (MoM%/YoY%)	0.0/4.8	0.1/4.3
Hungary	0730	Aug PPI (YoY%)	2.1	2.5
		Tuesday 1 October		
Russia	0700	Sep S&P Global Manufacturing PMI	-	52.1
Poland	0800	Sep Manufacturing PMI	47.2	47.8
Turkey	0800	Sep Manufacturing PMI	-	47.8
Czech Rep	0800	Q2 GDP Final (QoQ%/YoY%)	-/-	0.3/0.6
	0830	Sep S&P Global Manufacturing PMI	45.8	46.7
Hungary	0730	Sep Manufacturing PMI	45.7	47.6
		Wednesday 2 October		
Russia	1700	Aug Unemployment Rate	2.4	2.4
Poland	1300	NBP Base Rate	5.75	5.75
		Thursday 3 October		
Russia	0700	Sep S&P Global Services PMI	-	52.3
Turkey	0800	Sep CPI (MoM%/YoY%)	2.2/48.3	2.5/52.0
		Friday 4 October		
Hungary	0730	Aug Industrial Production (MoM%/YoY%)	-2.3/-9.1	0.0/-1.3
Romania	1400	Interest Rate Decision	6.5	6.5

Source: Refinitiv, ING

Author

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

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