

THINK Ahead: When a good place turns bad

Central banks from Washington to Frankfurt are telling us they're in a good place. And they have a point, even if that seems wildly at odds with *gestures at everything going on in the world*. Read on for James Smith's look at what could drag policymakers out of their happy place this year as the team looks ahead to another big week in markets



Exclusive footage from this week's Federal Reserve meeting

Source: Imgflip

This is fine... until it isn't

Central banking feels a lot like the internet's favourite dog meme right now. You know the one, a pup sitting calmly in a burning room, confidently proclaiming everything's fine – when the reality appears to be anything but.

Federal Reserve chief Jerome Powell took a leaf out of ECB President Christine Lagarde's book [this week](#), telling us that policy was in a “good place” – even as the dollar went up in flames. Over in Canada, an economy at the epicentre of President Trump's trade war, officials are getting [increasingly comfortable](#) with where interest rates are. It was much the same message from Stockholm this week.

And they all have a point. The global economy was remarkably well insulated from the myriad of political fires burning through 2025. [I wrote last week](#) about how there's no immediate sign that's going to change on either side of the Atlantic.

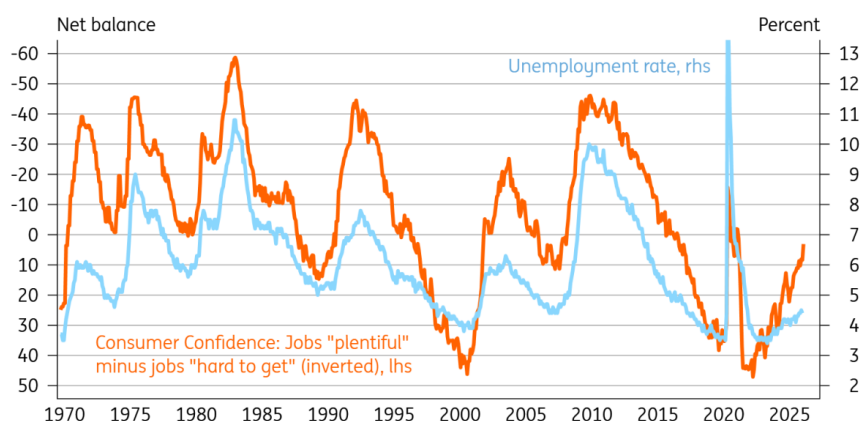
Still, it doesn't take much imagination to see how we could exit this "good place". New Fed Chair nominee Kevin Warsh thinks we already are. His argument for lower rates centres on AI and the wave of productivity it could unleash, lifting living standards without inflation.

That may be true in time. But in 2026? I'm no tech bro – I don't own a single item of Patagonia clothing. But personally, I'm not convinced most companies have tangibly figured out how AI will reshape their business just yet, let alone started making widespread changes. Our Chief Economist Marieke Blom [picked up](#) a similar vibe at Davos last week. If that's correct, then actually the sheer volume of AI-related investment and all the resources it's demanding could – if anything – mean more, not less, cost pressure this year.

And even if AI does propel productivity, is that simply because workers start getting laid off? Fed Governor Christopher Waller, who voted for a rate cut this week, [has previously said](#) that might be the near-term consequence.

AI or otherwise, the hiring data does jar a little with the Fed's more positive assessment of the jobs story this week. Not least the [consumer confidence](#) surveys, which point to an ever-trickier environment for finding work. The jobs market is a big source of uncertainty, particularly when immigration appears to be falling sharply.

US consumers are noticing the weak jobs market



Source: Macrobond, ING

For now, though, the Fed's mantra seems simple: yes, interest rates probably have a bit further to fall, but so long as unemployment stays contained, it can wait for more evidence that inflation has cooled further. The vibe is that this won't happen until the summer, and [we've pushed back](#) our own Fed call until June. That's unless next week's jobs report (and the one after it) is a disaster. And that's not what we expect.

Some caution on inflation is understandable, and it's striking that tariffs still aren't delivering the expected revenue. James Knightley's number crunching shows November's tariff take was 11.3% of imports, below October and well below the 17% implied by announced rates and 2024 import data. Sure, there has been some substitution toward lower tariff origins, but it also hints at weak compliance, which should tighten over time, potentially adding more cost pressure.

But is that the thing that pushes the Fed out of its happy place? I doubt it. Core goods, don't forget,

are only a quarter of the core inflation basket.

For my money, it depends more on fiscal policy. Bumper tax refunds are likely in February, but the bigger question is whether Congress votes in more fiscal stimulus ahead of November's midterms – an election that'll be heavily fought on affordability. If it does and any extra spending starts fanning the flames of inflation, that could become an issue for a Warsh-led Fed later this year.

Over here in Europe, the million-euro question is how much currency strength it would take for the ECB to start cutting rates again. Politicians and dovish central bankers alike have begun to grumble now that EUR/USD is nudging 1.20, a potential line in the sand. So far, [Carsten Brzeski reckons](#) fresh euro strength equates to a 0.1ppt reduction in the ECB's December inflation forecasts.

Not significant, in other words. It would take more than this, he thinks, to really get the ECB rallying behind another cut. And markets seem to agree; another rate cut by September is just 25% priced. [Our FX team also doubts](#) whether a rate cut would do very much to EUR/USD, at a time when the correlation with rate differentials has all but evaporated.

[Rising energy prices](#) also complicate the story. There are good reasons to think neither the spike in natural gas prices – which is linked to weather – nor the pick-up in oil prices will last. And the ECB can point to government measures to lower energy costs in Germany, buying it some time.

Maybe this is a bigger factor for the Bank of England here in London. It meets next week and is significantly more cautious on rate cuts than I would argue the data justifies. Higher gas prices will only add to that. The Bank's hawkish reaction to higher food inflation last year suggests the scars of the 2022 energy-driven inflation spike, which lasted longer than everyone expected, still run deep.

Yet there are still compelling reasons to cut rates further – not least weak hiring surveys and tumbling wage growth. And the fact that headline inflation is likely to halve by April. The odds of a March rate cut look much higher than the 20% markets are currently pricing.

For now, central banks are still the dog sipping its coffee. And with good reason. But the question is whether 2026 brings the moment they look up and say '... this is not fine'.

THINK Ahead in developed markets

United States (James Knightley)

- **Labour market:** A key takeaway from the 28 January FOMC meeting was the Federal Reserve sounding a little more upbeat on the jobs market. It removed the line that "downside risks to employment rose in recent months" while suggesting that there have been "some signs of stabilisation" in the unemployment rate. While the unemployment rate did dip lower in December, the jobs story in general doesn't look particularly robust to us, nor to the market.
- **NFP (Fri):** While we are not seeing much on the firing front, hiring remains lacklustre. Outside of government, leisure & hospitality and private education & healthcare services, the US has lost jobs in seven of the past eight months, and we suspect we will see a similar outcome for January when the report is published next Friday. Indeed, the market remains wary of what is happening in the jobs market and was unmoved by the Fed's positive spin, continuing to price two 25bp rate cuts this year.

- **ISM (Mon)**: Other numbers to watch include the ISM reports, while we appear likely to find out who the next Fed Chair will be after Jerome Powell's term ends on 15 May. Prediction markets suggest it is a two-horse race between former Fed Governor Kevin Warsh and BlackRock's CIO of its fixed income arm, Rick Rieder.

Eurozone (Bert Colijn/Carsten Brzeski)

- **Inflation (Wed)**: Eurozone inflation has remained very stable around the 2% target in recent months, and core inflation has also come down nicely to 2.3%. The ECB is set to keep the deposit rate at 2% for the foreseeable future on the back of the stable inflation environment. Then again, with energy prices rising, inflation could tick up modestly in the short run, although a weaker dollar does offset some of those effects. Don't expect a spectacular reading for January; inflation is firmly anchored around 2% for now.
- **ECB rate decision (Thur)**: We don't expect any changes from the European Central Bank at next week's meeting. However, the recent strengthening of the euro could revive the debate about another rate cut. [Read our full preview here.](#)

United Kingdom (James Smith)

- **Bank of England (Thur)**: We expect the Bank to vote 7-2 to keep rates on hold next week. We don't expect the Bank to massively change its tune relative to December, when it sounded cautious about further cuts despite conceding that inflation risks are diminishing. The risk is that Dave Ramsden also votes for a cut, or that Governor Andrew Bailey more explicitly opens the door to a March rate cut in the press conference. We're not convinced he will go that far, but assuming the next two rounds of jobs and wage data follow recent trends, we think a March cut is still the most likely timing of the next move. And failing that, then in April.

Canada (James Knightley)

- **Unemployment rate (Fri)**: The Bank of Canada [left its policy rate unchanged](#) this week and appears content with its current stance on monetary policy. The Canadian jobs numbers should post another increase in employment with a slight dip in unemployment, which should leave the market continuing to price stable rates through the rest of the year.

THINK Ahead in Central and Eastern Europe

Poland (Leszek Kqsek)

- **NBP interest rate decision (Wed)**: December's high-frequency data (unexpected acceleration in wage growth, solid activity growth in industry and construction) and today's solid 3.6% GDP growth reading in 2025 and around 4.0% in the fourth quarter of 2025 give the National Bank of Poland grounds to continue its pause in the monetary easing cycle in February. It's likely to leave the reference rate unchanged at 4.0%. In our view, policymakers should resume rate cuts in March as new projections are expected to point towards a low inflation path. Since the risk of inflation target undershooting is rising over the medium term, while GDP growth is accelerating slightly to 3.7% this year, we expect three rate cuts this year and see the target rate at 3.25%.

Hungary (Peter Virovacz)

- **Retail sales/industry** (Wed/Fri): Based on our expectations, after a strong October and a weak November, the final month of 2025 saw some positive results. Soft indicators suggest a rebound in industrial production, while the base effect will greatly improve the year-on-year performance of retail sales. However, as the flash GDP data for the fourth quarter will be released before these figures, downside surprises in the GDP data may point to generally weaker sectoral performance in December.

Czech Republic (David Havrlant)

- Industrial PMI likely improved in January, as output and mood are emerging from the woods. Czech exporters can meet overseas demand, and it seems things might start shifting for the better in Germany – a vital destination for Czech exports. Czech consumers are better off due to subsidised electricity and generally lower energy bills, so the improved real purchasing power should have kept retail spending going in December. With subdued food price dynamics, declining fuel prices, and regulated prices, we will likely see January headline inflation decelerate well below target, while core inflation is set to remain punchy, driven by ample discretionary purchases. That said, the Czech National Bank is expected to stay on hold in February and only consider a rate cut from March. The trade balance likely softened in December, as reviving investment activity requires hotter imports.

Turkey (Muhammet Mercan)

- **CPI** (Tue): The central bank has already warned us about risks of noisy inflation data in the first two months of the year due to food, inflation expectations, time-dependent price changes, administered price hikes, and re-weighting by TurkStat. But the key upside risk to January and February CPI is attributable to rising food prices. We expect January CPI at 4.2%, though favourable base effects are expected to help lower annual inflation to 29.8%, from 30.9% a month ago.

Armenia (Dmitry Dolgin)

- **Rate decision** (Tue): We expect the Central Bank of Armenia (CBA) to keep the policy rate unchanged at 6.50% at its upcoming meeting on Tuesday. Recent foreign policy and economic developments following December's 25bp rate cut suggest that policymakers remain split between further easing and maintaining the current stance.
- Arguments supporting another rate cut include ongoing foreign policy normalisation – reflected in the recent start of fuel purchases from Azerbaijan – and several disinflationary trends. These include lower than expected CPI growth of 3.3% YoY in December, increased bank deposit inflows, and continued strength of the dram. However, several factors argue against further easing. Household inflation expectations showed no improvement in 4Q25; the fiscal deficit also remains wide at 3.5-4.0% of GDP for the second consecutive year, while domestic economic activity keeps exceeding expectations despite a slowdown. Taken together, these risks suggest that Armenia's CPI in 2026 may remain above the CBA's long term target of 3%.

Azerbaijan (Dmitry Dolgin)

- **Rate decision** (Wed): We expect the Central Bank of Azerbaijan (CBRA) to keep the policy rate unchanged at 6.75% at its upcoming meeting on Wednesday. As in Armenia, policymakers face a choice between maintaining the current stance and delivering a rate

cut.

- Several factors support the case for further easing. GDP growth undershot expectations in 2025, reaching just 1.4% compared with the CBRA's 2.2% projection. Inflation has continued to slow, with December CPI easing to 5.2-5.3% YoY – comfortably within the long term target range of 2-6%. In addition, the share of foreign currency deposits in the banking sector has continued to decline, indicating improving confidence. However, caution is warranted. The consolidated fiscal balance net of the sovereign fund's (SOFAZ) fuel revenues continued to widen towards 11% of GDP in 2025 due to higher government spending, while the external trade balance deteriorated further below \$1bn for the full year as imports grew more quickly. These trends bolster the argument for maintaining the current policy stance in the coming months, in our view.

Key events in developed markets next week

Monday 2 February			
US	1500	Jan ISM Manufacturing PMI	49.5 47.9
	1500	Jan ISM Manufacturing Prices Paid	59 58.5
Eurozone	0900	Jan HCOB Manufacturing PMI Final	49.4 49.4
Germany	0700	Dec Retail Sales Real (MoM%/YoY%)	0.2/0.8 -0.6/1.1
	0855	Jan HCOB Manufacturing PMI Final	48.7 48.7
UK	0830	Jan S&P Global Manufacturing PMI Final	51.6 51.6
Italy	0845	Jan S&P Global/IHS Manufacturing PMI	48.5 47.9
Tuesday 3 February			
US	1500	Dec JOLTS job openings (000s)	7200 7146
France	0745	Jan CPI (MoM%/YoY%)	-/- 0.1/0.7
Wednesday 4 February			
US	1315	Jan ADP National Employment (000s)	40 41
	1445	Jan S&P Global Composite PMI Final	- 52.8
	1445	Jan S&P Global Services PMI Final	- 52.5
	1500	Jan ISM Non-Manufacturing PMI	53 54.4
Eurozone	0900	Jan HCOB Services PMI Final	51.9 51.9
	0900	Jan HCOB Composite PMI Final	51.5 51.5
	1000	Jan CPI Flash (MoM%/YoY%)	2 0.2/1.9
	1000	Jan Core CPI Flash (YoY%)	2.3 2.3
	1000	Jan PPI (MoM%/YoY%)	-/- 0.5/-1.7
Germany	0855	Jan HCOB Services PMI Final	53.3 53.3
	0855	Jan HCOB Composite PMI Final	52.5 52.5
France	0850	Jan HCOB Composite PMI	- 48.6
UK	0930	Jan S&P Global/CIPS Serv PMI Final	54.3 54.3
	0930	Jan S&P Global Composite PMI Final	53.9 53.9
Italy	0845	Jan Composite PMI	- 50.3
	1000	Jan CPI Prelim (MoM%/YoY%)	0.5/1.1 0.2/1.2
Spain	0815	Jan Services PMI	- 57.1
Thursday 5 February			
US	1330	Initial Jobless Claims (000s)	210 209
Eurozone	1000	Dec Retail Sales (MoM%/YoY%)	0.3/2.3 0.2/2.3
	1315	Feb ECB Refinancing Rate	2.15 2.15
	1315	Feb ECB Deposit Rate	2 2
Germany	0700	Dec Industrial Orders (MoM%)	-3 5.6
France	0745	Dec Industrial Output (MoM%)	- -0.1
UK	1200	Feb BoE Bank Rate	3.75 3.75
Friday 6 February			
US	1330	Jan Non-Farm Payrolls (000s)	80 50
	1330	Jan Private Payrolls (000s)	80 37
	1330	Jan Unemployment Rate	4.4 4.4
	1500	Feb Michigan Sentiment Flash	54 56.4
	1500	Feb Michigan Conditions Flash	53.5 55.4
	1500	Feb Michigan Expectations Flash	54 57
	2000	Dec Consumer Credit Change (USD bn)	6.5 4.2
Germany	0700	Dec Industrial Output (MoM%)	-0.5 0.8
	0700	Dec Exports	-0.5 -2.5
	0700	Dec Imports	-0.3 0.8
	0700	Dec Trade Balance (EUR bn)	- 13.1
France	0745	Jan Reserve Assets Total (EUR bn)	- 362.7
	0745	Dec Trade Balance (EUR bn)	- -4.2
Canada	1330	Jan Unemployment Rate	- 6.8
	1330	Jan net change in employment (000s)	22.0 10.1
Switzerland	0800	Jan Unemployment Rate Adjusted	- 3

Source: Refinitiv, ING

Key events in EMEA next week

Monday 2 February					
Russia	0600	Jan S&P Global Manufacturing PMI	-		48.1
Turkey	0700	Jan Manufacturing PMI	-		48.9
Poland	0800	Jan S&P Global Manufacturing PMI	49		48.5
Czech Rep	0830	Jan S&P Global PMI	50.8		50.4
Hungary	0800	Jan Manufacturing PMI	52.1		53.7
Kazakhstan	0000	Jan CPI (MoM%/YoY%)	2.3/13.7		0.9/12.3
Tuesday 3 February					
Turkey	0700	Jan CPI (MoM%/YoY%)	4.2/29.8		0.9/30.9
	0700	Jan PPI (MoM%/YoY%)	-/-		0.8/27.7
	0700	Jan Balance of Trade (USD bn)	-		-9.4
Armenia	0800	Policy Rate (%)	6.50		6.50
Wednesday 4 February					
Russia	0600	Jan S&P Global Services PMI	-		52.3
	1600	Dec Industrial Output	-1.2		-0.7
Poland	1400	Feb NBP Base Rate	4		4.00
Azerbaijan	0600	Azerbaijan Refi Rate (%)	6.75		6.75
Hungary	1800	Dec Retail Sales (YoY%)	4.9		2.5
Thursday 5 February					
Czech Rep	0800	Dec Retail Sales (YoY%, WDSA)	3.9		4.2
	0800	Jan CPI (MoM%/YoY%)	0.3/1.1		-0.3/2.1
	1330	CNB Rate Decision	3.50		3.50
Turkey	1300	Jan FX Reserves (USD bn)	83.5		84.2
Friday 6 February					
Russia	1600	2025 Full Year Growth	0.8		4.1
Czech Rep	0800	Dec Industrial Output (YoY%, WDSA)	4.0		5.6
	0800	Dec Trade Balance (CZK bn)	2.2		16.2
Hungary	0730	Dec Industrial Output (MoM%/YoY%)	1.1/1.2		-2.0/-5.4

Source: Refinitiv, ING

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Peter Virovacz

Chief Economist, Hungary

peter.virovacz@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

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