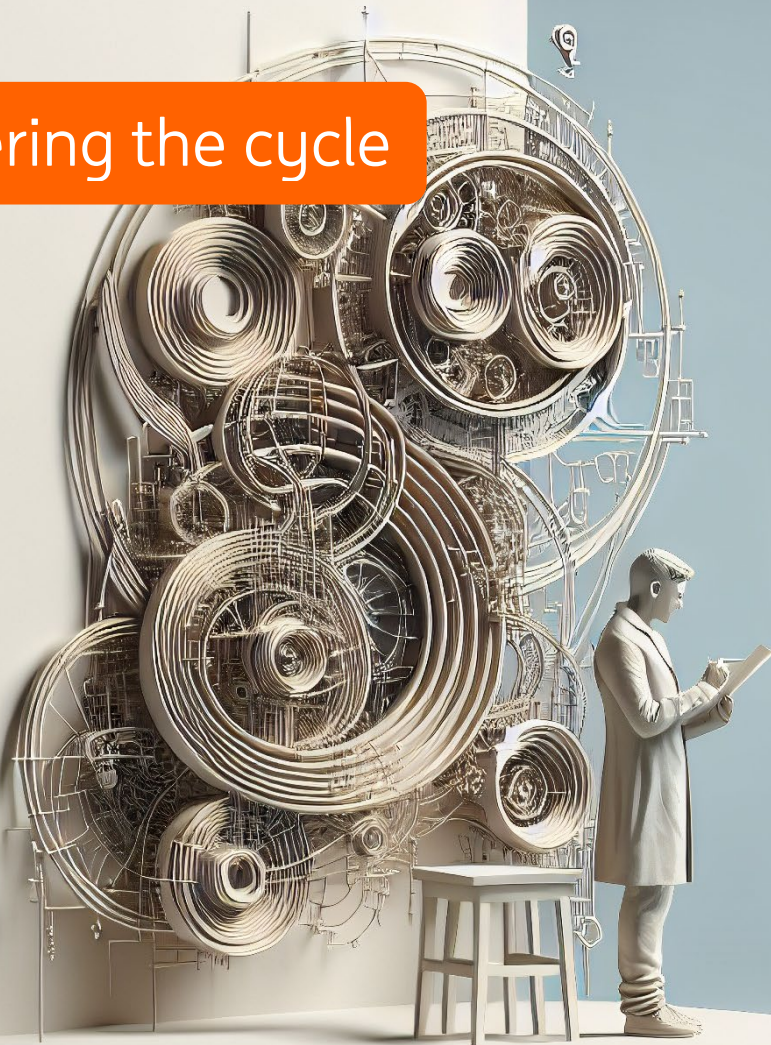
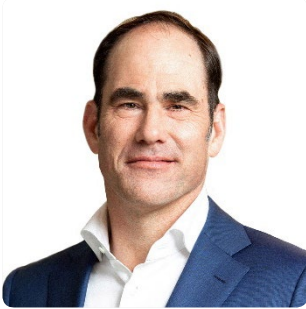


# ING Monthly

March 2024

## Deciphering the cycle





## Deciphering the cycle

**Financial markets still think this is a textbook economic cycle. But central bankers are increasingly doubtful**

More than four years after the start of the pandemic, and more than two years since the start of the Russian invasion of Ukraine, the global economy is still far from normal and continues to search for a new balance.

In terms of inflation and monetary policy, the last four years look like a typical textbook cycle. Inflation surged, monetary policy reacted, inflation came down and now everyone expects monetary policy to react again and to return to normal (or neutral). However, the problem is that the last four years were anything but a textbook cycle. In fact, the global economy and, in particular, developed economies, experienced a series of unusual distortions including lockdowns, supply shocks, one-off fiscal support, pent-up demand and massive rotations in consumer spending, mismatches in job markets, and high inflation which dented spending.

Despite this long series of distortions, central banks have fought inflation in a textbook style. Whether inflation has come down by itself (and base effects) or as a result of higher interest rates remains one of the great mysteries in the current episode of global economics. What is clear, however, is the fact that higher rates will continue to weigh on economic activity and the longer they remain high, the greater the risk of an economic accident.

The problem now is that financial markets still think they are in a typical textbook economic cycle, while central bankers seem to be increasingly doubtful. This is why markets started the year believing in imminent aggressive rate cuts and why they are now gradually pushing back their expectations. Until recently, market expectations about the next central bank steps followed the textbook models, with calls for recession coinciding with calls for a swift and aggressive monetary policy reaction. However, as long as the US stages a soft landing and the eurozone continues to see “only” anaemic growth without falling off a cliff, cutting interest rates at the current juncture will be motivated by avoiding more harm to the economy rather than reacting to a recession.

I think that it is rather unlikely that central banks will go all the way back to neutral interest rates or even below. And this not only has to do with reputational issues and inflation possibly staying more stubbornly above targets than previously thought. There are two other reasons to believe that the upcoming rate cut cycle will be more muted than before. The first is that with ongoing supply-side tensions, the risk is high that any quicker-than-expected economic recovery leads to reflation. The other factor arguing in favour of a more muted rate cut cycle is an increase in the natural interest rate. Here, the jury is still out but initial research papers point to somewhat higher natural interest rates both in the US and the eurozone. Add to that the possible positive impact of AI on productivity and hence growth and it is hard to see rates returning to pre-pandemic levels anytime soon.

Admittedly, any new era will eventually come to an end. Just as the era of “low-for-longer” came to an end, so the “not-so-low-for-longer” era will, too. High government debt and huge financing needs in many economies call for lower rates. It is impossible to tell when the mutual brotherhood of central bankers rethinks its priorities again, accepts somewhat higher inflation and puts more emphasis on growth again. But at some point, they will.

For this year, understanding and deciphering this very special atypical cycle will continue to be an enormous challenge for policymakers, markets and ourselves.

## Watch: Reasons to be cheerful on the global economy



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### Our key calls this month:

- **United States:** With GDP growth and jobs numbers beating all expectations and core inflation running too hot for comfort, 2024 market interest rate cut expectations have been pared back by 100bp since mid-January. We now expect the first cut in June.
- **Eurozone:** Another mild winter pushing down natural gas prices is helping the eurozone economy come out of the doldrums, though 2024 growth is likely to remain subdued. With sticky services inflation and still strong wage growth, the ECB is not in a hurry to cut interest rates. We expect the first cut in June.
- **United Kingdom:** The Bank of England will want to see the impact of annual price indexation and the National Living Wage hike in April before cutting rates. We're sticking to our call for an August rate cut.
- **China:** While inflation gives the PBoC plenty of room to consider more policy easing, resistance to depreciation in the renminbi remaining in place will limit room for policy easing before there is a broader global environment of rate cuts. Separately, the Two Sessions will start on 4-5 March, when we expect the 2024 growth target to be set at "around 5%" again.
- **Central and Eastern Europe:** Inflation is diverging more and more within the region, calling for a different approach by central banks. Our baseline scenario assumes Polish rates will remain unchanged until the end of 2024, but we should see further rate cuts in Hungary, Poland and Czech Republic.
- **Gold:** We expect gold prices to trade higher this year as safe haven demand continues to support amid geopolitical uncertainty with ongoing wars and the upcoming US election. We forecast prices to average \$2,150/oz in the fourth quarter and \$2,081/oz in 2024 on the assumption that the Fed starts cutting rates in the second quarter of the year and the dollar weakens.
- **FX:** Our core FX view is unchanged, and we think a clearer dollar decline will start to materialise by mid-spring and accelerate into the Fed's summer rate cuts – which we expect to be much larger than expected by markets. We forecast EUR/USD to hit 1.14 by year-end as EUR and USD rates start to converge. There is good upside potential in the commodity FX space, especially in NOK, AUD and NZD.
- **Rates:** Delivered inflation with a handle of 3% presents a problem for both US and eurozone bonds. The market is discounting a return to 2% inflation on both sides of the Atlantic, but that needs to be confirmed by realised inflation. We think that will happen, but progress has slowed. That's why market rates can remain under upward pressure for the coming month.

## ING global forecasts

	2023					2024					2025				
	1Q23	2Q23F	3Q23F	4Q23F	2023F	1Q24F	2Q24F	3Q24F	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F
<b>United States</b>															
GDP (% QoQ, ann)	2.2	2.1	4.9	3.3	2.5	2.1	1.4	-0.7	0.5	2.1	1.5	1.8	2.2	2.5	1.2
CPI headline (% YoY)	5.8	4.0	3.6	3.2	4.1	3.1	2.9	2.4	2.1	2.6	1.8	1.8	2.0	2.2	2.0
Federal funds (% eop)	5.00	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25	4.25	3.75	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	4.90	5.20	5.40	5.40	5.40	5.40	5.20	4.65	4.10	4.10	3.70	3.20	3.20	3.20	3.20
10-year interest rate (% eop)	3.50	3.80	4.25	3.90	3.90	4.25	3.75	3.50	3.50	3.50	3.75	4.00	4.00	4.00	4.00
Fiscal balance (% of GDP)					-6.1					-6.1					-5.8
Gross public debt / GDP					98.5					100.1					102.8
<b>Eurozone</b>															
GDP (% QoQ, ann)	0.4	0.5	-0.5	0.1	0.5	0.3	0.9	1.2	1.1	0.4	1.6	1.6	1.4	1.4	1.4
CPI headline (% YoY)	8.0	6.2	4.9	2.7	5.5	3.0	2.8	2.4	2.2	2.6	1.9	2.1	2.1	2.2	2.1
Refi minimum bid rate (% eop)	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	3.75	3.75	3.50	3.25	3.00	3.00	3.00
3-month interest rate (% eop)	3.00	3.60	3.95	3.95	3.95	3.90	3.70	3.40	3.10	3.10	2.90	2.75	2.50	2.50	2.50
10-year interest rate (% eop)	2.30	2.40	2.80	2.00	2.50	2.30	2.10	2.10	2.30	2.30	2.30	2.40	2.50	2.50	2.50
Fiscal balance (% of GDP)					-3.1					-2.9					-2.7
Gross public debt/GDP					91.2					89.4					89.3
<b>Japan</b>															
GDP (% QoQ, ann)	4.4	4.0	-3.3	-0.4	1.9	2.8	2.8	2.0	1.2	1.3	1.2	1.2	0.8	0.8	1.3
CPI headline (% YoY)	3.6	3.4	3.1	2.9	3.3	2.3	2.2	1.8	1.4	2.0	1.9	1.6	1.5	1.3	1.5
Interest rate on excess reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25
3-month interest rate (% eop)	0.00	0.05	0.08	0.08	0.08	0.08	0.15	0.15	0.25	0.25	0.30	0.30	0.40	0.50	0.50
10-year interest rate (% eop)	0.35	0.40	0.70	0.60	0.60	0.70	0.80	1.25	1.00	1.00	1.00	1.00	1.25	1.25	1.25
Fiscal balance (% of GDP)					-10.0					-12.0					-12.0
Gross public debt/GDP					265.0					280.0					290.0
<b>China</b>															
GDP (% YoY)	4.5	6.3	4.9	5.2	5.2	4	5.5	4.8	4.9	4.8	4.8	4.3	4.1	4.20	4.3
CPI headline (% YoY)	1.3	0.1	-0.1	-0.3	0.2	0.0	0.3	0.9	1.9	0.8	2.1	2.3	2.0	1.6	2.0
1 Year Loan Prime Rate (% eop)	3.65	3.55	3.45	3.45	3.45	3.35	3.35	3.25	3.15	3.15	3.05	3.05	3.05	3.05	3.05
3M SHIBOR (% eop)	2.45	2.17	2.30	2.60	2.53	2.25	2.20	2.20	2.15	2.15	2.15	2.10	2.10	2.05	2.05
10-year T-bond yield (% eop)	2.86	2.65	2.50	2.60	2.56	2.45	2.50	2.55	2.55	2.55	2.55	2.50	2.45	2.40	2.40
Fiscal balance (% of GDP)					-6.0					-5.0					-4.0
Public debt (% of GDP), incl. local govt.					131					132					129
<b>UK</b>															
GDP (% QoQ, ann)	0.9	0.0	-0.5	-1.4	0.1	1.2	0.8	1.2	1.2	0.4	1.3	1.3	1.3	1.3	1.2
CPI headline (% YoY)	10.2	8.4	6.7	4.2	4.2	3.5	1.6	1.5	1.8	1.8	1.8	1.7	2.1	2.1	2.1
BoE official bank rate (% eop)	4.25	5.00	5.25	5.25	5.25	5.25	5.25	4.75	4.25	4.25	3.75	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	4.40	5.40	5.40	5.30	5.25	5.25	5.05	4.55	4.15	4.15	3.60	3.20	3.20	3.20	3.20
10-year interest rate (% eop)	3.50	4.45	4.45	3.50	3.50	4.05	3.85	3.55	3.65	3.65	3.65	3.75	3.90	4.00	4.00
Fiscal balance (% of GDP)					4.1					2.9					2.4
Gross public debt/GDP					96.3					96.3					95.6
<b>EUR/USD (eop)</b>	1.08	1.08	1.06	1.10	1.10	1.08	1.10	1.12	1.14	1.14	1.15	1.14	1.13	1.12	1.12
<b>USD/JPY (eop)</b>	133	145	149	141	141	148	145	140	130	130	125	125	125	125	125
<b>USD/CNY (eop)</b>	6.87	7.24	7.30	7.15	7.10	7.20	7.14	7.05	7.00	7.00	6.90	6.85	6.80	6.80	6.80
<b>EUR/GBP (eop)</b>	0.88	0.87	0.87	0.87	0.87	0.86	0.87	0.88	0.88	0.88	0.90	0.90	0.90	0.90	0.90
<b>ICE Brent -US\$/bbl (average)</b>	82	78	86	83	82	82	80	82	84	82	84	80	80	77	80
<b>Dutch TTF - EUR/MWh (average)</b>	53	35	34	43	41	27	25	25	35	28	35	27	24	30	29

Source: ING forecasts



# Our latest calls for central banks

All of the latest from our team on ING's central bank forecasts and the key risks

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## Our developed market central bank forecasts

Developed Markets	Policy rate (%)	Next move	Hikes/ cuts (+/-) by Dec 2024	M A M J J A S O N D											
				M	A	M	J	J	A	S	O	N	D		
United States (Fed)	5.50	June 24 (cut)	-125bp				↓0.25	↓0.25		↓0.25		↓0.25	↓0.25		
Eurozone (ECB)	4.75	June 24(cut)	-75bp				↓0.25			↓0.25			↓0.25		
Bank of Japan (BoJ)	-0.10	June 24 (hike)	+10bp				↑0.10								
United Kingdom (BoE)	5.25	August 24 (cut)	-100bp						↓0.25	↓0.25		↓0.25	↓0.25		
Canada (BoC)	5.00	June 24 (cut)	-100bp				↓0.25			↓0.25	↓0.25		↓0.25		
Australia (RBA)	4.35	Sept. 24 (cut)	-50bp							↓0.25		↓0.25			
Sweden (Riksbank)	4.00	June 24 (cut)	-75bp				↓0.25			↓0.25			↓0.25		
Norway (Norges)	4.50	Sept. 24(cut)	-75bp							↓0.25		↓0.25	↓0.25		
Switzerland (SNB)	1.75	June 24 (cut)	-75bp				↓0.25			↓0.25			↓0.25		

## Federal Reserve

**Our call:** Interest rates cut from June, with 125bp implemented in 2024 and 100bp in 2025

**Rationale:** The combination of tight credit conditions and the most aggressive period of monetary policy tightening for 40 years will eventually slow the economy. Pandemic-era accrued household savings are close to being exhausted and will provide less support to growth, while high consumer borrowing costs are intensifying the pressure on household finances, with delinquency rates on credit cards and car loans rising quickly. Anecdotally at least, job loss announcements are on the rise and housing and vehicle price developments should help inflation slow to 2% later in the year, giving the Fed the scope to return monetary policy to a more neutral footing and helping facilitate the “soft landing”.

**Risk to our call:** The Fed errs on the side of caution and keeps interest rates higher for longer. After all, the economy is still growing, the labour market is tight and inflation remains well above 2%. As markets price for fewer interest rate cuts, Treasury yields rise back above 4.5% towards 4.75%, pushing up borrowing costs for households and businesses. This leads to a more serious increase in loan defaults and potentially reignites concerns about small bank solvency in the US economy, as well as the potential for recession. Such a scenario dampens inflation, with the Fed eventually cutting rates more aggressively than we are forecasting in our base case.

James Knightley

## European Central Bank

**Our call:** First rate cut in June, followed by cautious and gradual easing totalling 75bp in 2024

**Rationale:** Headline inflation, particularly services inflation, remains stubbornly high and the ECB is still not convinced that a price wage spiral can be entirely avoided. At the same time, the eurozone economy is not weak enough for the ECB to justify imminent rescue rate cuts. Therefore, we expect the central bank to wait for actual headline inflation to come down to around 2.5% for more than only one month, and for the first quarter wage data published in late May as well as for longer-term inflation forecasts to remain anchored at around 2%. The meeting in June should be the moment when all three boxes are ticked and the ECB can start cutting rates. As inflationary risks remain rather to the upside, the ECB will be very cautious in gradually easing monetary policy.

**Risk to our call:** Are twofold. On the one hand, inflation could come down faster than expected and longer-term inflation forecasts fall below 2%. This could push the ECB to cut rates more aggressively, e.g., by a total of 150bp this year. It would be a return of the Draghi ECB, putting more emphasis on growth than on inflation. On the other hand, it could take longer than June before actual inflation settles down at around 2.5%. In combination with higher wage pressure, the ECB could delay the first rate hike by one or two quarters.

Carsten Brzeski

## Bank of England

**Our call:** The first rate cut in August with 100bp of total easing in 2024

**Rationale:** Plunging household energy bills and rapid food price disinflation are set to drive headline inflation below 2% in April, and it's likely to stay below target for much – if not all – of this year. But the Bank of England is more focused on services inflation specifically, as well as wage growth. Both have shown more progress than the Bank had

anticipated back in November, but the downtrend is likely to remain gradual. Last year, we saw some big upside surprises in the second quarter which were linked to chunky annual re-indexations as well as the rise in National Living Wage. We'll see something similar this year, though assuming the impact is less severe, we should still see services inflation come a little lower on an annual basis in the second quarter. Wage growth should continue to come lower too, given that the labour market is cooling. But surveys of business leaders and wage growth expectations suggest progress will be slow. Bearing in mind we're also likely to get some (modest) tax cuts at the start of March, we think the second quarter is probably still too early to expect the first rate cut. By summer, we think the BoE should have greater comfort that underlying inflation is heading in the right direction to enable the first rate rate cut in August.

**Risk to our call:** Major downside surprises on services inflation could tempt the BoE to cut rates in June. Equally, having been caught out by the rise in inflation and given the economy isn't rapidly deteriorating, the BoE may decide it can afford to wait a little longer before easing.

James Smith

### Bank of Japan

**Our call:** The likelihood of a hike in June is slightly higher than in April

**Rationale:** The odds of the BoJ's first rate hike in April have increased recently with the stronger-than-expected January CPI results and hawkish comments from Governor Kazuo Ueda. He mentioned recently that he believes that the Japanese economy is in a virtuous cycle where inflation will rise with wage growth and employment will strengthen, signalling to the market that the BoJ is preparing to change its policy. We still think June is more likely timing for this – though it's a close call. First, there is little reason to rush into a rate hike after two consecutive quarters of weak growth. We expect overall growth to recover on the back of strong exports but consumption data to be on the soft side, which should be a key concern for the BoJ. Second, inflation is expected to be choppy over the next three months mainly due to the government's energy programmes last year. Inflation eased to 2.2% year-on-year in January (vs 2.6% in December) though not as sharply as the market expected. It's set to rebound to close to 3% in February. The BoJ is therefore likely to wait until May to assess trend-like inflation. Finally, the central bank is expected to hold off on raising rates until it sees not only the outcome of wage negotiations but also the pass-through to consumption. Regarding the yield curve control programme, the BoJ could scrap it in April as Japanese Government Bond (JGB) market functioning has improved and 10-year JGB yields have stayed below 0.8% for a considerable time.

**Risk to our call:** April's Tokyo inflation data, a leading indicator of nationwide CPI, will be out a week prior to the April BoJ meeting. If this alongside a stronger-than-expected preliminary Shunto result (wage negotiations) gives the BoJ confidence, the central bank could pivot in April.

Min Joo Kang

### Bank of Canada

**Our call:** 100bp of cuts in 2024, starting in June

**Rationale:** Subtle dovish shifts in the Bank of Canada's thinking and a weak growth backdrop give us increasing confidence that inflation concerns will fade and the BoC will cut rates from the late second quarter. The January policy meeting saw the BoC remove the line that the Bank "remains prepared to raise the policy rate further if needed" from the accompanying statement. Canadian mortgage rates will continue to ratchet higher for an increasing number of borrowers as their mortgage rates reset after their fixed

period ends. This will intensify the financial pressure on households, dampening both consumer spending and inflation. Unemployment is also expected to rise given the slowdown in job creation, with high immigration and population growth rates adding to the slack in the labour market.

**Risk to our call:** The BoC may choose to be more cautious on rate cuts in the near term given it currently states that it doesn't expect inflation to fall to 2% until 2025. High debt levels and cooling growth may mean that this intensifies slowdown fears and the BoC has to accelerate the policy easing process in late 2024 to early 2025.

**James Knightley**

### Reserve Bank of Australia

**Our Call:** Peak cash rates have been reached, and the RBA will commence easing from the third quarter of this year.

**Rationale:** Inflation has already dropped sharply, and there is clearer evidence that the macroeconomy is slowing and the labour market is loosening.

**Risk to our call:** In the near term, progress on inflation may start to unravel. Most of the fall in inflation so far owes to some helpful base effects. The current run-rate for inflation is too high to be consistent with the RBA's 2-3% inflation target and needs to fall over the coming months. The RBA has recently signalled that there is still some upside risk to rates, and we don't think (as most of the market does) that this is all bluster – though we tend to think that the need for higher rates can still be avoided. The RBA also has a very unambitious aim for getting inflation back to target, and policy rates didn't rise all that high to start with. Consequently, the central bank can afford to be quite cautious when it comes to easing. So, the first cut may come later than we forecast.

**Rob Carnell**

### Riksbank

**Our call:** First rate cut in June, with 75bp of easing in 2024

**Rationale:** The Riksbank dropped a large hint at its February meeting that rates could be lowered in the first half of this year. Reading the meeting minutes, it's clear this is contingent on further progress on core inflation, which fell dramatically in the second half of last year. It'll also hinge on the direction of the krona, something policymakers have been very sensitive to in the rate hike cycle. Barring a dramatic depreciation or unexpected upside surprises to the Riksbank's core inflation profile we now expect the first rate cut in June. With the economy under clear strain, in part because of a more rapid rate hike pass-through than elsewhere, we think that will be followed with a rate cut per quarter for the rest of 2024.

**Risk to our call:** Fresh SEK depreciation and/or upside inflation surprises delay the first rate cut.

**James Smith**

### Norges Bank

**Our call:** First rate cut in September, with 75bp of easing in 2024

**Rationale:** Formally, Norges Bank has signalled that its first rate cut is unlikely before the fourth quarter, and the pick-up in oil prices since the December meeting will probably have helped crystallise that view for now. Then again, we think there will be a lot of cross-dependency on other central banks, especially the Fed. We're sticking to our call for the first Norges Bank cut to come in September, though there's a risk that comes forward, not least given our Fed call detailed above.



**Risk to our call:** Lower oil prices, a stronger currency or a further dovish shift at other central banks brings the first rate cut forward.

James Smith

### Swiss National Bank

**Our call:** More FX intervention and rate cuts to come

**Rationale:** Switzerland has the lowest inflation rate in the G10 space at 1.3% for headline CPI in January and 1.2% for the core rate. This is clearly in line with the SNB's target, which has now been the case for eight months. Forward-looking measures of inflation point to further downside potential. Despite a recent small depreciation, Swiss exporters are currently feeling the full negative impact of the strong franc. After several months of buying Swiss francs, the SNB changed its FX intervention policy in December and seems to be once again selling Swiss francs to weaken the currency. We believe that these FX interventions will accelerate and remain the main tool of monetary policy in the coming months. Given the already-low level of policy rates (1.75%), the SNB would probably prefer to wait until June to start cutting rates – although a first rate cut in March remains an option. That said, the potential for rate cuts is limited and should not exceed 75bp to 1% over the next two years.

**Risk to our call:** If the Swiss franc were to appreciate too much despite the SNB's interventions – for example, because of geopolitics – the SNB could be more aggressive and quicker to cut rates.

Charlotte de Montpellier

### Our CEE central bank forecasts

#### National Bank of Poland

**Our call:** The MPC is likely to keep interest rates unchanged in 2024

**Rationale:** Despite a positive short-term CPI outlook and a delayed economic recovery, the MPC turned more hawkish and started paying more attention to medium-term risks to price developments. Policymakers no longer pay attention to growth prospects and stress the tight labour market, wage growth and expansionary fiscal policy.

**Risk to our call:** Should the major central banks start cutting rates and depending on 2025 prospects for regulated energy prices, some room for monetary easing may emerge in Poland in the second half of this year.

Rafal Benecki

#### National Bank of Hungary

**Our call:** Mid-cycle pause of monetary easing from July

**Rationale:** Our view on the pace of disinflation has not changed, and we still expect disinflation to continue in the first quarter – or, at worst, to stabilise. However, we then expect two rounds of reflation over the remainder of the year. For this reason, we believe that the NBH is only frontloading its rate cuts, as was the case with the 100bp easing decision in February. This front-loading means that the total amount of easing won't change with the change in pace, only the distribution within the year. The thinking behind this is that our year-end inflation forecast for December is around 5.7% YoY. This leads us to believe that if the NBH sticks to the need for market-stabilising positive real interest rates, the terminal rate cannot go lower than that. In this respect, we expect the key rate to be lowered to 6.5% by June, after which we expect a sustained pause by the NBH. In turn, this would still maintain a positive real interest rate environment supporting HUF assets.

**Risk to our call:** In the event of significant FX market turmoil and HUF depreciation, we see the central bank slowing the pace of rate cuts or, in the worst case, even stopping easing. The risk is that the cumulative size of the rate cuts will be smaller than in the base case.

Peter Virovacz

### Czech National Bank

**Our call:** CNB accelerates the cutting pace again to 75bp in March, reaching 3.50% at year-end

**Rationale:** Inflation surprised to the downside in January, falling from 6.9% to 2.3% YoY. This essentially makes it one of the few central banks globally with inflation close to target. We believe the Czech National Bank has won from this perspective because, due to seasonality, most of the inflation takes place in January and the momentum in the rest of the year is only moderate. There is still a risk of a later new year repricing but so we see it very difficult for inflation to return above 3%. Conversely, inflation could fall below the central bank's 2% target by mid-year. At the same time, core inflation surprised to the downside and we expect it to fall further. Looking ahead, we expect the central bank to have a free hand to cut rates, and March will see a further acceleration in the pace to 75bp. Given the surprise in inflation, we have also revised our rate path to 3.50% at the end of this year from 4.00% earlier. However, the main driver now seems to be FX, which has weakened noticeably after the central bank sent its decision above its forecast.

**Risk to our call:** A weaker CZK and a later new year repricing is the main risk for the CNB, but we believe that inflation on target and a weak economy will prevail in the board's decision-making.

Frantisek Taborsky

### National Bank of Romania

**Our call:** Easing cycle to start in May, with 100bp of cuts in 2024, taking the key rate from 7.0% to 6.0%. No change in the corridor

**Rationale:** Despite recently surprising to the upside, inflation should moderate enough in the near term to allow the NBR to start its easing cycle at the May meeting and tilt its attention slightly more towards growth headwinds. Our recently-revised key rate forecast for year-end (from 5.50% to 6.00%) is based on the slightly higher inflation profile in the near term due to the recent upside surprise, as well as the record-breaking liquidity in the interbank market (+60.7bn RON in January, with EU funds inflows as a key driver). We expect this to continue to diminish the need for rate cuts.

**Risk to our call:** The main higher for longer risk is related to potentially stronger-than-expected income growth, which could continue to keep services inflation high. Moreover, electoral year spending remains a key upside risk for rates through its negative effect on the already problematic fiscal deficit.

Valentin Tataru, Stefan Posea

### Central Bank of Turkey

**Our call:** Policy rate at 40% at the end of 2024, with the start of the cutting cycle taking place in the last quarter

**Rationale:** The central bank has signalled that the current policy rate (45%) is tight enough to trigger disinflation, though it has signalled that a further deterioration in inflation could unlock further rate hikes. It has adopted a "higher for longer" stance, until

there's a sustained decline in the underlying trend in monthly inflation and inflation expectations converge to the projected forecast range. The bank expected seasonally-adjusted monthly inflation to hover below 4% on average in the first half of this year, reaching 1.5% in the fourth quarter, implying strong disinflation. Any diversion could see a possibility of higher rates, and market participants are projecting higher inflation than the central bank. Finally, the CBT has pledged further macro-prudential moves, potentially targeting credit expansion, likely credit card growth, and downward pressure on deposit rates in the coming period. Against this backdrop, the CBT expects real TRY appreciation – an explicit reference to ease any concerns about the currency.

**Risk to our call:** A stronger inflation path will lead to upside risks on our rate trajectory, while pronounced weakness in growth given the current level of policy tightness would create downside risks to our call.

Muhammet Mercan

## Our Asia ex-Japan central bank forecasts

### People's Bank of China

**Our call:** The PBoC will remain on a dovish path with one more 10bp rate cut to the benchmark 1-year Loan Prime Rate (LPR), and one more Reserve Requirement Ratio (RRR) cut in the next few months. Further easing is expected after the global central banks start rate cuts

**Rationale:** Low inflation and tepid growth momentum offer a strong case for more monetary policy easing. Policymakers continue to signal a supportive stance. However, rates are already lower than many global peers, and room for policy easing is therefore limited before other central banks start to cut. Potential RMB depreciation, concern over capital outflows, and the impact on bank profitability help deter aggressive easing.

**Risks to our call:** Dovish risks include a further deterioration of growth momentum, a failure to move out of deflation, or a new top-level policy consensus to accept a weaker RMB. Hawkish risks include delays in global rate cuts, upside surprises in economic growth, or shocks causing higher inflation.

Lynn Song

### Reserve Bank of India

**Our call:** We expect the first cut from the RBI in August 2024, with a further 25bp of easing by the end of the year and an additional 50bp of easing in 2025

**Rationale:** Like most of the central banks in the Asia Pacific region, we don't expect any easing from the RBI until after the first Fed rate cut which, given the RBI's calendar, makes an August cut the most likely timing if the Fed begins cutting in June. India's policy rate at 6.5% is quite a long way above the admittedly volatile inflation rate, which argues for a reasonably swift response once the Fed has started to ease, and perhaps provides more scope for easing than some other central banks where the "real policy rate" (derived from actual inflation) is lower.

**Risk to our call:** The RBI has been pursuing a policy of very tight currency management, with indications that it is more sympathetic to currency strength than currency weakness. Despite what might be a softer fourth quarter GDP number in 2023, India's growth has remained very resilient and it may be that the RBI will favour more nuanced easing to help support the INR.

Rob Carnell

### Bank of Korea

**Our call:** The BoK's next move will be a rate cut in July

**Rationale:** Inflation has recently come down to the 2% level, but uncertainty ahead is quite high and inflation expectations are still anchored at 3%. The BoK would like to see these come down to the mid-2% range for a few months before making its first move. Private debt has also picked up again, which weighs on the BoK's ability to cut rates.

**Risk to our call:** If project financing problems worsen and market credit tightens rapidly, the BoK could bring forward the timing of the first cut to the second quarter of 2024.

**Min Joo Kang**

### Bank of Indonesia

**Our call:** BI is likely done with hikes. Rates should remain on hold in the near term before a pair of rate cuts in the second half of 2024

**Rationale:** Inflation remains relatively subdued in 2024. However, with BI recently lowering its inflation target to 1.5-3.5% (down from 2-4%) this year, the central bank could remain cautious of cutting rates ahead of the Fed.

**Risk to our call:** BI Governor Perry Warjiyo recently ruled out the prospect of cutting rates in the near term, although he remains open to cutting policy rates sometime in the second half of the year. We believe BI's decision to shift to easing hinges on the timing of the Fed rate cut and also on IDR stability. A delay in the timing of the Fed pivot or sustained pressure on the IDR could mean that BI will need to push back the timing of their projected easing.

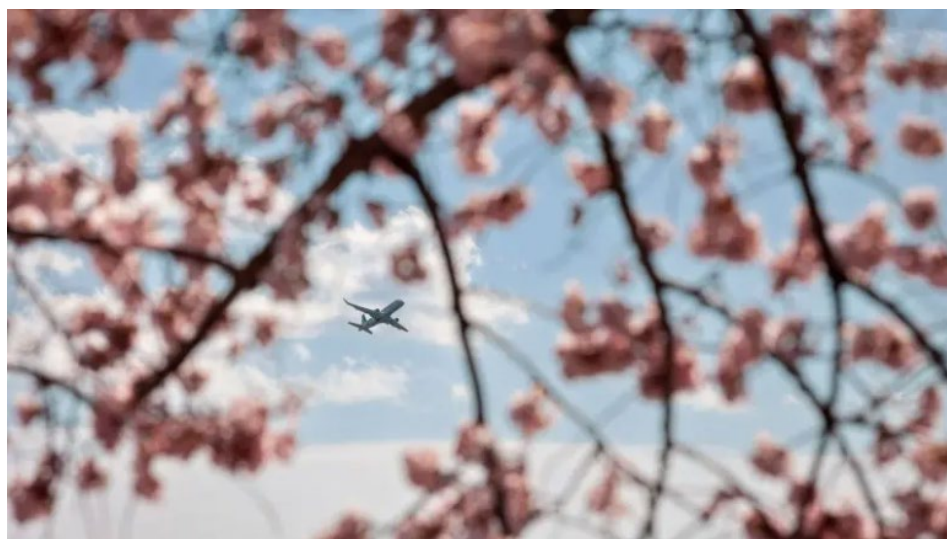
**Nicholas Mapa**

## James Knightley

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# US soft landing still threatened by turbulence

**With GDP growth and jobs numbers beating all expectations and core inflation running too hot for comfort, 2024 market interest rate cut expectations have been pared back by 100bp since mid-January. The "soft landing" is now the widely held view, but we believe sizeable interest rate cuts are part of the package needed to deliver such an outcome**



Belief in a soft landing for the US economy appears to be solidifying, but risks still remain for it being a bumpier ride than many expect

## Strong data dampens the prospect of near-term rate cuts

Fourth-quarter GDP growth and the January jobs report beat all expectations in the market while the 0.4% month-on-month core CPI was predicted by only 3 banks out of 68 surveyed by Bloomberg. Having priced 175bp of rate cuts for the year starting in March, hot data has led the market to swing back the other way and is now looking for merely 75p of cuts this year, in line with the Federal Reserve's December in-house projections.

While this strong performance has not been seen in other business surveys – and anecdotally, there have been increasing job lay-off announcements from the likes of Xerox, Snapchat, PayPal, UPS and Cisco – these official data prints command the Fed's attention, and it will want to see clear cooling trends before cutting rates. We had expected the first interest rate cut to come in May, but we are now thinking June is a more likely starting point. Nonetheless, monetary policy is in restrictive territory, with the Fed funds ceiling at 5.5% versus the 2.5% "neutral" rate suggested by the Federal Reserve. This suggests significant scope for policy easing once the central bank becomes more relaxed with the economic environment.

## But a soft landing is the favoured outcome

The combination of tight credit conditions and the most aggressive period of monetary policy tightening for 40 years will eventually slow the economy. Pandemic-era accrued household savings are close to being exhausted and will provide less support to growth, while high consumer borrowing costs are intensifying the pressure on household finances, with delinquency rates on credit cards and car loans rising quickly.



The number of job loss announcements is on the rise and is likely to mean payrolls growth slows markedly from January's 353,000 increase in the coming months. Labour market costs are also looking far less troubling, with declining quit rates amongst the workforce indicating that while there are large numbers of jobs being advertised, they are not particularly attractive either financially or in terms of role. This also means that businesses are seeing lower turnover rates of staff, so there isn't as much pressure to pay as much to retain employees. This relationship suggests the Employment Cost Index is slowing towards pre-pandemic norms and implies cooling supply-side pressure on service sector inflation.

**Slowing quit rates suggests inflation pressures are cooling in the labour market**



Source: Macrobond, ING

In this regard, inflation is expected to revert to more benign 0.2% MoM prints in the coming months, with moderating housing rents and vehicle prices set to become more apparent in the data and reduced corporate pricing power also acting as a brake. This, we believe, will give the Federal Reserve the scope to cut interest rates from June onwards in 25bp increments. The Fed funds ceiling is predicted to end 2024 at 4.25% with a further 100bp of rate cuts in the first half of 2025. This will hopefully allow the economy to avoid a painful recession and instead achieve the fabled "soft landing".

**The risks of a bumpier landing remain**

The most probable risk to this relatively gentle narrative is that the Federal Reserve errs on the side of caution and keeps interest rates higher for longer. After all, the economy is still growing, the labour market is tight and inflation is still well above 2%. As markets continue to price out rate cuts, 10Y Treasury yields rise back towards 4.75% or even 5%, pushing up borrowing costs for households and businesses. Under this scenario, the pain for the household sector likely intensifies, while commercial real estate (CRE) loan losses mount and this reignites concerns about small bank solvency in the US economy. Credit conditions tighten significantly and the US potentially falls into recession, dampening inflation and forcing the Fed to cut interest rates aggressively.

So, while the market increasingly believes in a soft landing, it risks being a bumpier ride than many expect.

**Peter Vanden Houte**

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## Eurozone economy helped by another mild winter

**Another mild winter pushing down natural gas prices is helping the eurozone economy to come out of the doldrums, though 2024 growth is likely to remain subdued. With sticky services inflation and strong wage growth, the European Central Bank is in no hurry to cut interest rates – a fact that financial markets are now also acknowledging**



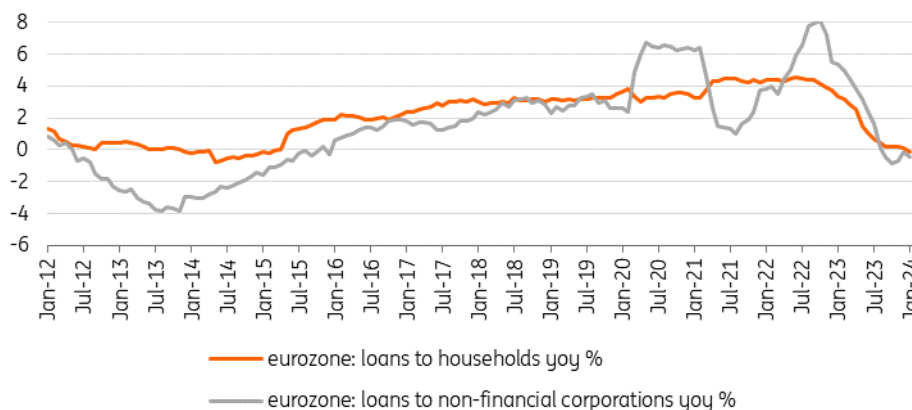
Rome, Italy: mild winter in the historical Villa Pamphili urban park

### Lower natural gas prices

Another mild winter and well-filled gas inventories have pushed down natural gas prices in Europe to the lowest level since the second quarter of 2021. That is not only helping to bring inflation further down, but also constitutes a tailwind for the eurozone economy. Sentiment indicators continue to climb higher, albeit from depressed levels. As such, the PMI composite indicator rose to an eight-month high in February, though remaining below the 50 boom-or-bust level. The German Ifo indicator also made minor progress in February. That said, weakness in the Germany economy continues to weigh on overall eurozone growth.

The divergence between manufacturing and services remains in place, with manufacturing still digesting the inventory overhang while services activity accelerates on the back of decent consumer demand. According to the PMI survey, eurozone employment increased for the second month in a row in February, though this is entirely due to stronger hiring in the services sector. That said, the inventory correction should be over by the summer – heralding a recovery in manufacturing – while the negative impact of higher interest rates on construction should gradually peter out. Indeed, January's lending figures for the eurozone show that loan growth is still weak, but the downturn seems to be behind us, with month-on-month even showing some modest growth.

### Impact of higher interest rates on loan growth is petering out

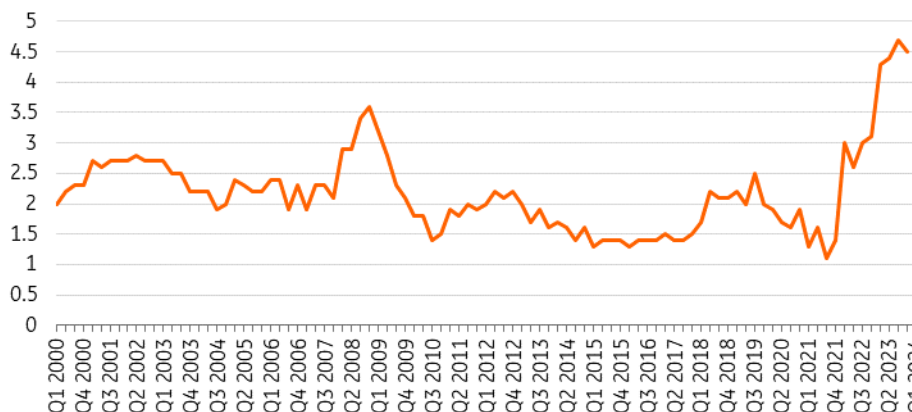


Source: LSEG Datastream

### Revamped Stability and Growth Pact could bring tighter fiscal policy in 2025

While first quarter growth is still likely to hover around 0%, we anticipate a gradual improvement from the second quarter onwards. That said, a temporary downturn in the US later this year might jeopardise the strength of the eurozone's recovery. We're therefore sticking to our 0.4% growth forecast for 2024. We anticipate growth to pick up in 2025, but we don't expect above potential growth. The revamped Stability and Growth Pact for 2025 actually implies that, after a year without much budget consolidation (except for Germany), a number of member states will be forced to conduct a more restrictive budgetary policy next year. This will limit the growth acceleration to 1.4% GDP in 2025.

### Wage growth is decelerating too slowly



Source: Source: LSEG Datastream

### Wage growth remains too high for the ECB

Low natural gas prices and their impact on electricity prices are definitely good news for headline inflation. However, price developments in the services sector remain worrying. According to the PMI survey, services prices rose at the sharpest rate for nine months in February, with the rate of inflation having accelerated for four months in a row. Negotiated wage increases in the eurozone decelerated in the fourth quarter to 4.5% year-on-year from 4.7% in the third quarter.

That deceleration likely remains too timid for the European Central Bank, also taking into account that productivity growth has been negative in the second half of 2023. The bottom line is that the ECB – being confronted with a bottoming out of the economy and inflation remaining too high – can afford to remain in wait-and-see mode. New wage

figures will be only available by May, and we therefore don't expect any rate cut before June. At the same time, we believe the ECB will ease very slowly at a pace of 25bp each quarter, bringing the repo rate to 2.5% by the middle of next year. Interestingly, the market has gradually moved in our direction and is now also pencilling in less aggressive rate cuts than seen previously.

## James Smith

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# UK rate cut timing hinges on spring inflation data

**The Bank of England will want to see the impact of annual price indexation and the National Living Wage hike in April before cutting rates. We're sticking to our call for an August rate cut**



The Bank of England in the City of London, UK

## **After last year's drama, the BoE will want to see April's inflation data**

Financial markets began the year expecting the first Bank of England rate cut in May. That's since been pushed back to August. Admittedly that says more about the shift in Federal Reserve expectations, but we think investors are right that the second quarter is too early for the first UK rate cut.

That's partly because of the prospect of tax cuts at the 6 March Spring Budget. All else equal, that would require slightly tighter monetary policy, though in practice the room available for sizeable tax cuts appears pretty limited, barring some [major fiscal gymnastics](#).

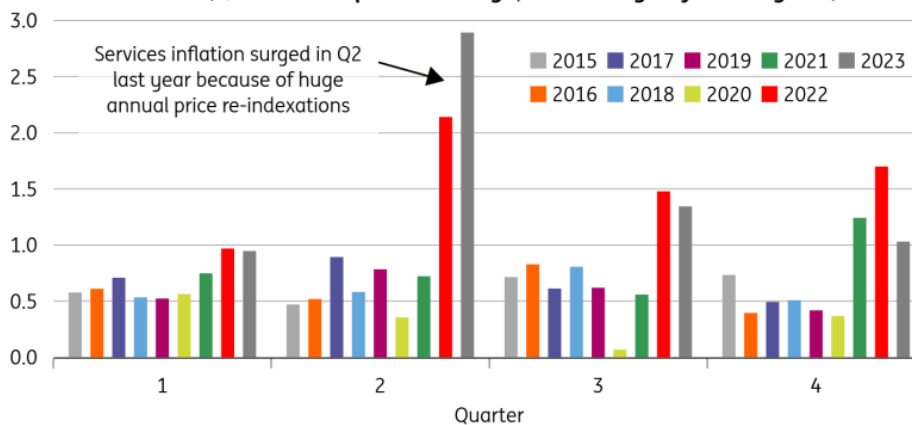
Remember too that the Bank of England is watching services inflation and wage growth above all else, and the second quarter will be hugely consequential for both. April is the peak month for annual indexation of prices and roughly speaking, 40% of the services inflation basket is affected. You'd think this should be fairly predictable, given that many of these price rises are contractually linked to prior rates of overall inflation. But in practice, last year saw services inflation come in well in excess of forecasts in both April and May. We saw large price rises across a range of categories, including rents, where we saw a highly unusual spike in social rents.

The chart below shows that even after seasonal adjustment, the quarterly change in services CPI during the second quarter was huge last year. This year's indexation should be less severe given the progress made on headline CPI over recent months. But we suspect the Bank won't want to second guess this and will want hard data before cutting interest rates.



### The second quarter of 2023 was massive for services inflation

Services inflation (Quarter-on-quarter change, seasonally-adjusted by ING)



Source: Macrobond, ING analysis

### A rate cut is possible in June, but more likely August

April is also when the National Living Wage (NLW) is increased, and this year the percentage increase of 9.8% is fractionally larger than in 2023 (9.7%), so is therefore more significant in real terms. Big picture, the impact on average wages shouldn't be enormous. Only [5% of workers were paid at the NLW](#) in 2023, and even then, firms seem to be rapidly increasing pay for lower-wage workers anyway. The three-month annualised rate of monthly pay growth for those in the 25% percentile – a reasonable proxy for earners around the national living wage – is already running at 10%.

All in all, the Bank of England reckons this NLW hike could add 0.3ppts to headline weekly earnings growth. That's not huge, but we imagine policymakers will want to see some hard data on this before they can be sure.

At the minimum, we think the Bank will want to see the April and May inflation figures, the latter of which is released the day before the June policy meeting. Likewise, the wage data released in mid-June will be the first opportunity to gauge the impact of that NLW hike. If these come in well below the Bank's projections, then that could conceivably unlock a June rate cut. But more likely, we think the BoE will prefer to wait until August when it has new forecasts available, as well as another month of data.

# China gets set for a pivotal month of data and policy announcements

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**February was a quiet month in terms of economic data releases as the main activity data was not released due to the Lunar New Year, but policy support continued to be rolled out. March will feature the Two Sessions and the key economic data releases for the first two months of the year**



The People's Bank of China in Beijing

## **Limited data in February showed a continuation of recent trends**

The limited data released in February showed low inflation, moderate credit growth, and some silver linings for consumption in China.

January CPI inflation data sparked discussion of deflation again, as headline CPI fell to the lowest level since 2009 at -0.8% year-on-year, dragged down by a record low in food inflation. Considering the more favourable base effects for February's data as well as the high-frequency data already available, we see a high likelihood that January's data could mark the low point for year-on-year inflation in the current cycle.

January's credit data slightly beat market expectations, with both aggregate financing (RMB 6.5tn) and new RMB loans (RMB 4.84tn) experiencing the typical start-of-year seasonal spike. Despite this, M2 growth fell to a 26-month low of 8.7% YoY. It is worth noting that January's data did not reflect the 50bp RRR cut, which came into effect on 5 February. Efforts to increase credit supply have been somewhat hampered by limited high-quality borrowers.

Reports on Lunar New Year travel activity showed encouraging signs in the travel and tourism categories. Tourism recovered to beat pre-pandemic levels, with domestic trips and spending over the holiday period up 19% and 8%, respectively, from 2019. Rail travel was also up 36% from 2019. Data illustrated that although volume rose sharply, per-trip spending was down as travellers tightened their purse strings.

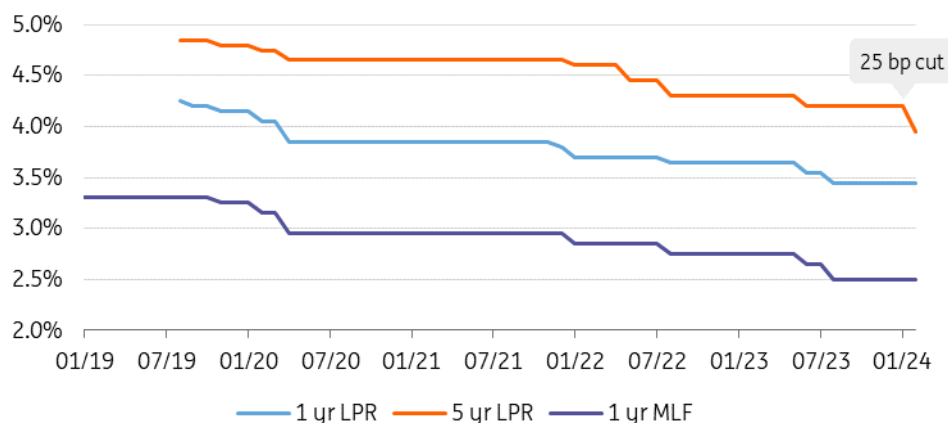
The upcoming combined January-February activity data will be more useful in gauging the overall economic momentum at the start of the year.

### PBoC surprised markets with a 25bp cut to five-year LPR, further easing ahead

The People's Bank of China (PBoC) kept the benchmark one-year LPR unchanged in February as expected, but surprised markets with a 25bp cut to the five-year LPR. This cut was the first time the PBoC has ever cut the five-year rate without moving the one-year rate, and it was also the largest cut to the five-year rate since switching to the new mechanism in 2019. The five-year rate is tied to the mortgage rate, and could be aimed at facilitating a housing market recovery.

While inflation certainly gives the PBoC plenty of room to consider more policy easing, if resistance to depreciation in the renminbi remains in place (early signs coming out of the Lunar New Year indicate this is the case), this will limit the PBoC's room for policy easing before there is a broader global environment of rate cuts. As a result, we expect PBoC easing to be limited to one 10bp rate cut and possibly another RRR cut in the first half of this year.

#### PBOC key interest rates



Source: POBC, ING

### March to set the tone for 2024

Restoring confidence is the key imperative in the near term, as emphasised by Premier Li Qiang in a State Council meeting on 18 February. Market stabilisation measures remained an important focus.

The Two Sessions will start on 4-5 March when we expect the 2024 growth target to be set at “around 5%” again, and the fiscal deficit target to be raised to 3.5% or higher to reflect a more proactive fiscal policy stance. The meetings will likely provide an update on top-level policy priorities.

We will also get the first look at the combined January-February economic activity data (FAI, retail sales, industrial production, and trade), and we expect this to show that momentum was soft at the start of the year.

# The way is down (or up) for Australia

Australia's central bank is still signalling that further rate hikes may be needed, while the market is only pricing in cuts. Where do we stand?

## Rob Carnell

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The Reserve Bank of Australia in Sydney

## The inflation news has been helpful, but could be about to turn up again

At its last meeting in February, the Reserve Bank of Australia (RBA) statement noted that "a further increase in interest rates cannot be ruled out". This is a position we have taken for some months while favouring a base case that rates have peaked. However, many in the market have put the RBA's comments down to "bluster" – an attempt by the central bank to try to dampen markets' expectations for easing in 2024.

In support of the "bluster" camp, the news on Australian inflation has been extremely helpful. Monthly data on inflation dropped to just 3.4% in December 2023, only 0.4pp higher than the top of the RBA's inflation target range of 2-3%. Moreover, the latest release for January, which we and others expected to start rising again, remained unchanged at 3.4%. The RBA has been telling us that inflation is not likely to drop into its target range until 2025. Does this seem like another episode of misleading forward guidance like others in recent RBA history?

The answer is, probably not. Inflation has been helped lower over recent months due to some really big supply-side-driven price spikes in 2022. These have not been repeated to nearly the same extent in 2023, and the net result is that the year-on-year comparison of the price level has dropped sharply. Despite the surprisingly low January numbers, that comparison is likely to reverse again, and we are expecting inflation to start pushing higher – at least for a few months.

That will keep inflation from dropping into the RBA's target range in the near term. For this to happen further out, it will need month-on-month inflation to average 0.25% each month or lower, considerably below the average achieved in the last six months.

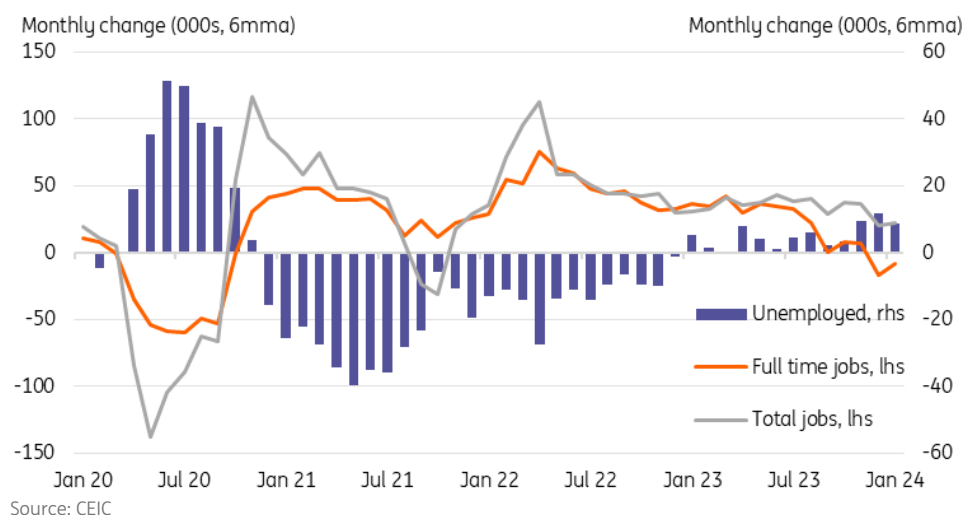
## The macro story is beginning to slowly soften

Optimistically, factors that could get the run rate of inflation down do seem to be emerging. For one thing, the labour market now appears to be cooling. Australian labour

data is horribly volatile, but the trend in both full-time jobs and total employment has slowed, with full-time job creation now trending negatively. The number of those unemployed has been rising since early 2023, and the only reason the unemployment rate hasn't risen more is that the labour force has been lifted by rising rates of inward migration. We expect these post-re-opening migration flows to slow. However, until they do, they are also keeping property prices and rents supported. This flips the argument back away from the "bluster" camp as household balance sheet gains have supported consumer confidence and spending.

Even here though, signs of cracks may be beginning to emerge. Monthly retail sales are also very volatile, but looking at smoothed trends, there also seems to be some softening underway.

**Trends in Australia's labour market**



**There is a window for one more hike, but this will close by mid-year**

When you put it all together, we think the RBA has a valid point. The inflation story has far from being put to bed yet and could still deteriorate, though the macro story does look as if it is slowly going to start to weigh on inflation and will hopefully bring some more downward pressure to bear by the middle of the year.

As a result, we believe that there is still a window for one further rate hike from the RBA. But if this does not happen before June when the May inflation data could have risen to a short-term peak of around 4-4.5%, then the market's view that rates have already peaked will probably be vindicated. What happens will crucially depend on the run of inflation and other data between now and then - but it is a much closer call than market pricing suggests.



# CEE: Different inflation profile, different central bank approach

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Inflation is diverging more and more within the region, calling for a different approach by central banks. In addition, growth prospects and fiscal policy look different, making a unified picture of the region even more complicated



Clockwise from top left: National Bank of Hungary, The National Bank of Romania, Czech National Bank, The Bank of Poland

## Poland: Soft patch in early 2024, but outlook still solid

Poland's economy started this year on a weaker footing as January figures from industry and construction surprised to the downside. At the same time, retail sales continued to improve, albeit at a slow pace as consumers remained cautious and precautionary savings surged. The outlook for 2024 remains solid and we still see GDP growth of 3% on the back of household consumption. Against this background, the MPC policy bias has shifted even more into hawkish territory. Policymakers no longer seem to be paying attention to the risks to economic growth and are currently solely focused on the inflation target and mid-term inflation risks, stressing the threats from a tight labour market, robust wage growth and expansionary monetary policy. Our baseline scenario assumes that National Bank of Poland rates will remain unchanged by the end of 2024. However, some room for rate cuts may emerge in the final months of this year.

## Czech Republic: Central bank on target, opening the door to further rate cuts

The economy is still rather disappointing, with neither the hard data for the fourth quarter nor the leading indicators for January suggesting much of a recovery. However, the Czech Republic is showing strength elsewhere. Inflation surprised to the downside in January, falling from 6.9% to 2.3% year-on-year. This means that the Czech National Bank is one of the few central banks globally to see inflation close to target. We believe the CNB has won from this perspective because, due to seasonality, most of the inflation takes place in January and the momentum in the rest of the year is only moderate. There is still a risk of a later new year repricing but we think it unlikely that inflation will move back above 3%. In fact, inflation could fall below the central bank's 2% target by mid-year. At the same time, core inflation has surprised to the downside and we expect it to fall further. Looking ahead, we thus expect the central bank to have a free hand to

cut rates now, and March will see a further acceleration in the pace to 75bp. Given the surprise in inflation, we have also revised our rate path to 3.50% at the end of this year from 4.00% earlier. However, the main driver now seems to be FX, with EUR/CZK moving above the central bank's forecast after the last rate cut. The Czech Republic's other strength is fiscal policy, which has entered a consolidation process this year and we expect the deficit to fall to 2.5% of GDP, by far the lowest in the CEE region.

### **Hungary: Dancing on thin ice**

Since our last monthly update, we've had some good, some bad, and some ugly news from a macroeconomic and market perspective. Let's start with the good news: disinflation continued in Hungary, as headline inflation fell into the National Bank of Hungary's tolerance band of 2-4% for the first time since March 2021. However, it would be very premature to declare victory, as the favourable base effects have essentially run their course. As a result, we expect inflation to stabilise (or ease slightly) in the coming months and to pick up again, especially in the second half of the year. By the end of 2024, we see inflation in the range of 5.5-6.0% year-on-year. The bad news is threefold: the economic recovery came to an abrupt halt in the fourth quarter of 2023, which doesn't bode well for the outlook for 2024 due to the much weaker-than-expected positive carry-over and the loss of positive momentum. As a result, we lower our GDP forecast for this year from 3.1% to 2.1%.

We also need to revise our outlook for the labour market, in particular, unemployment expectations. While the latest data on wage growth has been very strong, partly due to a one-off element, the unemployment rate has risen again, continuing its slow erosion. We expect this trend to continue in the coming months, reducing the wage bargaining power of the labour force as the rationalisation of labour demand continues. While this reduces the risk of reflation, it clearly limits hopes of any strong economic activity in the short term. Continuing with the bad news, details of January's fiscal performance showed that the inflow of EU funds boosted the monthly surplus, while underlying developments remain shaky, especially given the further contraction in the VAT line. The ugly news relates to market developments, as the forint has weakened by around 2% since the beginning of February, as the market is building rate cut expectations, which have been strengthened by the recent temporary acceleration of the easing cycle by the Hungarian central bank. However, we believe that these rate cut expectations are exaggerated and we call for a mid-cycle terminal rate of 6.5% in the summer, followed by a long pause.

### **Romania: Growth set to accelerate this year**

While the economy lost speed in 2023, growing 2.0% overall, we think that data due on 8 March will show that private consumption has started to re-emerge as a key growth driver, on the back of last year's sharp real wage gains. We expect this trend to continue this year and, coupled with still-strong fixed investments, to lead to an acceleration of GDP growth to 2.8% in 2024. Growth should also find some support from lower interest rates from the National Bank of Romania but be weighed down by a rather lacklustre performance from European trading partners.

On the monetary policy front, while we continue to expect the first key rate cut in May, we have recently revised higher our year-end forecast, from 5.50% to 6.00%. The key reasons behind this are the recent upside surprise in inflation (due to broad-based price pressures) and the record-breaking liquidity in the interbank market (+60.7bn RON in January), which we expect to continue to diminish the need for rate cuts. What's more, higher-than-expected inflation means that EUR/RON is unlikely to meaningfully depart from current levels in the short term.

On the fiscal front, the recent decision to hold parliamentary elections in December complicates the possibility of a swift adoption of a fiscal package to offset the scheduled

pension hikes (+22% starting September 2024). It could still be done very swiftly in January 2025 and applied starting February-March, but there is some time and revenue lost there. In 2024, we now expect a minimal deficit reduction from -5.7% to -5.5%, followed by another mild improvement to -5.0% in 2025. Getting to -3.0% of GDP looks out of sight now and given that around 12 countries will be under the excessive deficit procedure starting this year, we don't expect the European Commission to suddenly become very strict in its approach.

# Gold awaits clarity on Fed easing path

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Gold has been trading in a narrow range so far this year amid a lack of clarity surrounding the timing of the US Federal Reserve's monetary policy easing cycle. Higher borrowing costs are typically negative for gold, which doesn't offer any interest



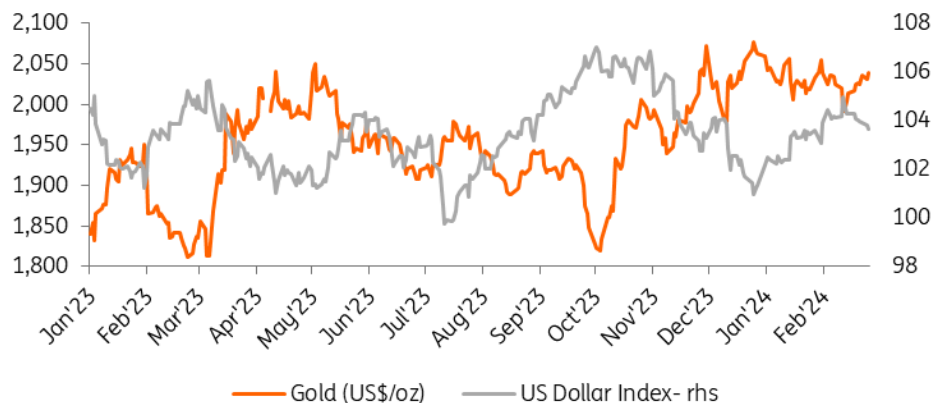
We expect gold prices to trade higher this year as safe haven demand continues to provide support

## Fed policy remains key for gold

Federal Reserve policy will remain key for the outlook of gold prices in the months ahead. US dollar strength and central bank tightening weighed on the gold market for most of last year.

Swaps markets suggest investors don't see much chance of a reduction in interest rates until June. As does our US economist. This will support the dollar and weigh on the gold price in the short-term. We expect gold prices to remain volatile in the coming months as the market reacts to macro drivers, tracking geopolitical events and Fed rate policy.

## Safe haven demand supports gold



Source: Refinitiv, ING Research

## Gold still shines on safe haven demand

Gold prices have held above the key \$2,000/oz level since December, with the precious metal being supported by safe-haven demand amid geopolitical tensions. Ongoing

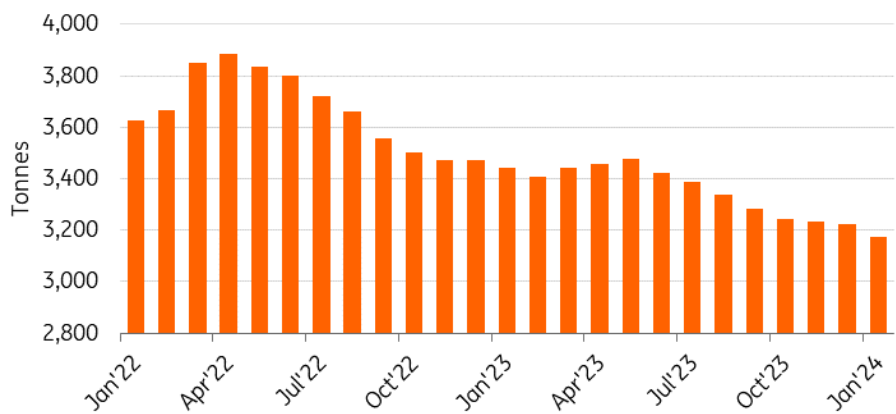
geopolitical risk in Ukraine and the Middle East continue to provide support to gold. Prices hit an all-time high of \$2,077.49/oz on 27 December 2023. Still, we believe the Federal Reserve's wait-and-see approach will keep the rally in check. We expect prices to average \$2,025/oz over the first quarter.

**ETF holdings continue to fall**

However, investment demand for gold is yet to rebound. Total holdings in bullion-backed ETFs have continued to decline. January saw eight monthly outflows in global gold ETFs, led by North American funds. This was equivalent to a 51-tonne reduction in global holdings to 3,175 tonnes by the end of January, as shown by data from the World Gold Council. This trend has continued in February.

With the bets on early rate cuts from major central banks being pushed back, investors' interest in gold ETFs faded with investors seeking returns in other assets.

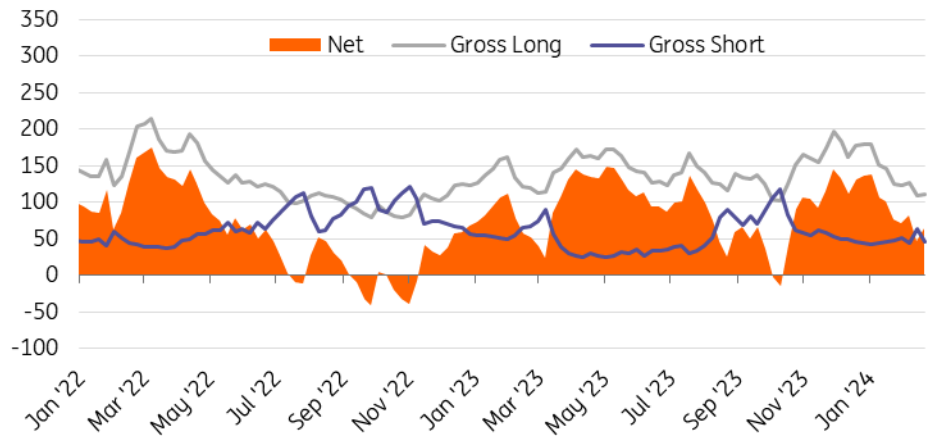
**Investors' interest in gold ETFs fades**



Source: WGC, ING Research

Meanwhile, net long positions on the COMEX declined in January, with further declines seen in February as hopes for an early rate cut faded and the dollar strengthened. Looking further ahead, however, we believe we will see a resurgence of investor interest in the precious metal and a return to net inflows given higher gold prices as US interest rates fall.

**Investors shun gold**



Source: CFTC, WGC, ING Research

**China leads central bank buying**

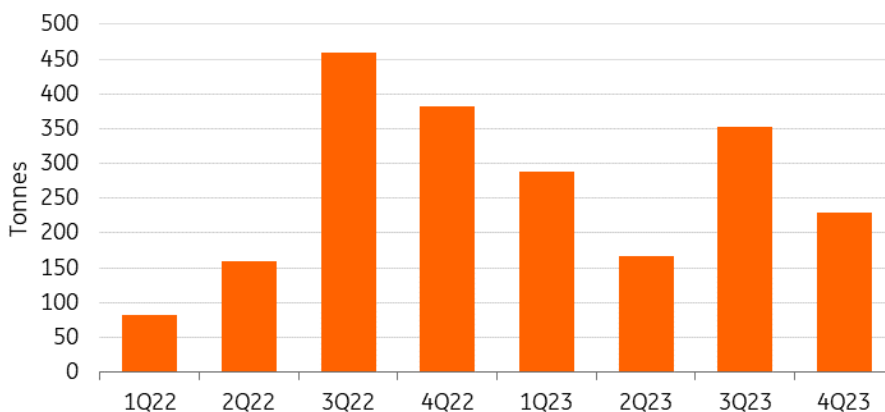
However, strong central bank buying has helped to offset ETF outflows. Central bank demand maintained its momentum in the fourth quarter with a further 229 tonnes added to global official gold reserves, as shown by data from the World Gold Council.



This lifted annual net demand to 1,037 tonnes – just short of the record set in 2022 of 1,082 tonnes – as reserve diversification and geopolitical concerns pushed central banks to increase their allocation towards safe assets. The People’s Bank of China and the National Bank of Poland were the driving forces.

Gold tends to become more attractive in times of instability and demand has been surging over the past two years. We believe this is likely to continue this year amid geopolitical tensions and the current economic climate.

**Central banks increase allocations towards safe haven assets**



Source: WGC, ING Research

**Gold to trade higher in 2024**

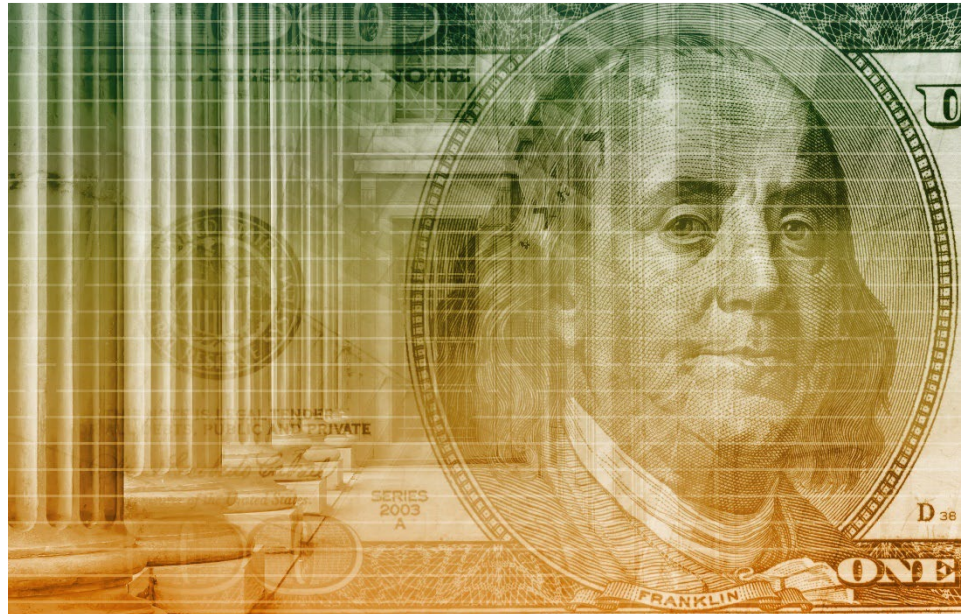
We expect gold prices to trade higher this year as safe haven demand continues to support amid geopolitical uncertainty with ongoing wars and the upcoming US election. We forecast prices to average \$2,150/oz in the fourth quarter and \$2,081/oz in 2024 on the assumption that the Fed starts cutting rates in the second quarter of the year and the dollar weakens. Downside risks revolve around US monetary policy and dollar strength. The higher-for-longer narrative could see a stronger dollar for longer and weaker gold prices.

## FX: A dollar decline is delayed, not deterred

**Francesco Pesole**

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**The dollar is an expensive sell, especially after the recent rise in US treasury yields. In the near term, we could see it hold on to February's gains, but our call for larger Fed rate cuts than market pricing means we still favour a bearish USD profile for the remainder of the year. We target 1.14 in EUR/USD and remain positive on commodity currencies**



We think that sticky inflation on both sides of the Atlantic is likely to keep upward pressure on market yields over the coming month

The FX market continues to be an extension of market expectations on Fed policy. The latest data on US jobs and inflation led investors to price out cuts before June and to reduce the anticipated easing package to 75-80bp. The month of February has seen a 50bp bump in the 2-year USD swap rate, which is trading around 4.55%, the highest since November.

So, the dollar has become even more expensive to sell, and dollar bears are now on the hunt for more conclusive evidence on US disinflation/hard landing. That evidence is currently pointing in the opposite direction, at least when it comes to hard data, and this looks unlikely to change abruptly in the near term. This means the dollar can hang around these strong levels for a bit longer, leaving the broader FX market without a clear sense of direction.

Our medium-term FX views remain, however, broadly unchanged, and centred around a dollar depreciation. We think markets are now underestimating the size of 2024 Fed cuts by around 50bp (our economists forecast 125bp). The pace of the US dollar decline may be only gradual in the next couple of months but should accelerate into the first Fed cut in June and beyond.

We expect to see EUR/USD move to 1.14 by year-end, as a moderately-sized European Central Bank easing package (75bp versus 100bp priced in) should also favour a largely Fed-led EUR:USD front-end rate convergence. In the G10 space, we continue to see good upside potential for commodity currencies, in particular, the undervalued Norwegian krone, Aussie dollar and New Zealand dollar.

In emerging markets, the Chinese yuan should continue to be driven by China-specific factors until US rates move decisively lower and allow USD/CNY to decline sustainably. The upcoming Two Sessions is a key risk event for the yuan and China-sensitive currencies. In Latam, the Mexican peso and Brazilian real may well prove resilient despite ongoing rate-cutting cycles; while in the CEE region, we expect the paths of the Polish zloty (strong) and Hungarian forint (weak) to keep diverging.

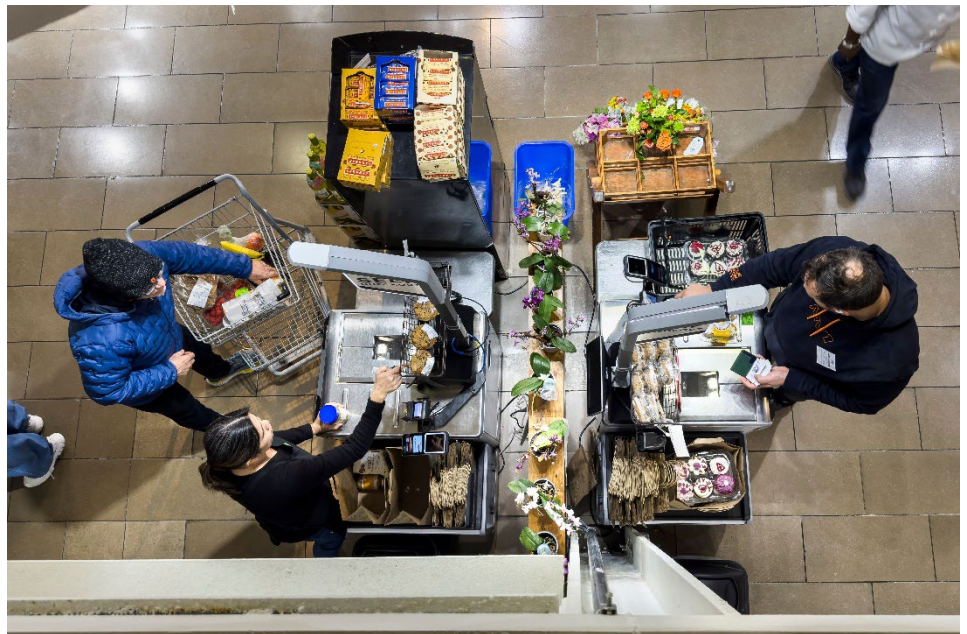
The key risks to our bearish dollar view are a potential USD positive/EM negative re-election of Donald Trump, or – from a purely macro perspective – prolonged resilience in US inflation and consequent further delay in Fed easing.

# Rates: Worried about stubborn inflation

## Padhraic Garvey

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Delivered inflation with a handle of 3% presents a problem for both US and eurozone bonds. The market is discounting a return to 2% inflation on both sides of the Atlantic, but that needs to be confirmed by realised inflation. We think that will happen, but progress has slowed. That's why market rates can remain under upward pressure for the coming month



## Market rates are on the rise, mostly as delivered inflation is still too high

So far in 2024, the rate cut narrative has been battered by a selection of events. These include a 353k non-farm payrolls outcome, a core inflation reading of 0.4% month-on-month, and even a nudge up in some eurozone confidence indicators. They have been interlaced by survey evidence pointing to pockets of weakness, and we do believe there is a material slowdown brewing, but the big hitting data is still not where it needs to be to make an imminent rate cut a no-brainer.

As a result, market rates are under rising pressure as the carrot of imminent rate cuts remains frustratingly out of immediate reach. The Euribor 10yr almost touched 4% last week, while the US 10yr Treasury yield briefly topped 4.3%. These levels are up from where they were, but in fact, don't look particularly high when we consider US core consumer price inflation (CPI) running at 3.9% and core eurozone CPI at 3.3%. These are still well above the desired 2% area, and proving a tad stubborn.

## Actual inflation needs to fall towards market implied inflation, or else rates don't fall

Based off market yields versus delivered inflation, real rates are, in consequence, very low. Just 40bp in the US (10yr) and 70bp for the eurozone. Based on this stand-alone metric, there is room for US yields to rise relative to eurozone rates. A theoretical fair value 10yr real rate for the US would be in the 1.5% to 2% area. Adding a 2% to 2.5%

inflation expectation on to that would deliver a fair value 10yr yield of 3.5% to 4.5%. Adding a 50bp term premium would see approximately 4% as a neutral 10yr yield.

However, that's based off an inflation expectation of around 2%, whereas actual inflation (core CPI) is closer to 4%. If core inflation were to remain at around 4%, it must then place upward pressure on Treasury yields. That's the issue that markets are dealing with currently. The 10yr breakeven inflation rate as backed out from the difference between real yields and nominal yields is 2.3%, based off a market real yield of around 2%. That needs to be justified by falls in delivered inflation, and we're still waiting.

### **The eurozone shares the same themes, but the issue is bigger in the US**

There is a similar dynamic ongoing in the eurozone. The 10yr market breakeven inflation rate is around 2.2%, yet core CPI inflation is running at over 3%. Therein lies pressure for nominal market rates to rise. To prevent that from happening, realised inflation needs to start to move much closer to the implied market rates. We think that will happen, which ultimately results in a resumed rate cut alert mode, and drives market yields back down.

For now, the market is troubled by the stickiness of inflation at around (or above) 3% on both sides of the Atlantic. That will maintain upward pressure on market yields in the coming month.

**GDP forecasts**

Developed Markets (QoQ% annualised growth)								
	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
US	3.3	2.1	1.4	-0.7	0.5	2.5	2.1	1.2
Japan	-0.4	2.8	2.8	2.0	1.2	1.9	1.3	1.3
Germany	-1.1	-0.6	0.3	1.1	0.9	-0.3	-0.2	1.0
France	-0.1	0.0	0.8	1.4	1.2	0.9	0.5	1.3
UK	-1.4	1.2	0.8	1.2	1.2	0.1	0.4	1.2
Italy	0.6	0.3	0.8	1.3	1.2	0.7	0.5	1.0
Canada	1.1	0.4	0.0	4.0	1.2	1.1	0.4	1.5
Australia	1.2	1.6	1.2	2.0	2.4	2.0	1.5	2.5
Eurozone	0.1	0.3	0.9	1.2	1.1	0.5	0.4	1.4
Austria	0.8	0.6	0.8	1.4	1.6	-0.7	0.0	1.5
Spain	2.5	1.4	1.6	1.8	2.2	2.5	1.8	2.2
Netherlands	1.3	1.4	1.3	1.3	1.7	0.1	0.7	1.4
Belgium	0.8	0.0	0.8	1.2	1.2	1.4	0.8	1.4
Greece	0.8	0.7	1.9	2.5	2.3	2.0	1.4	2.0
Portugal	3.4	1.2	1.8	2.0	2.2	2.3	1.6	2.2
Switzerland	0.0	0.8	0.8	1.2	1.2	0.7	0.7	1.4
Sweden	0.3	-0.8	0.7	1.3	1.6	-0.3	-0.1	1.5
Norway	1.7	0.0	1.5	1.9	1.9	1.1	0.9	1.9
Emerging Markets (YoY% growth)								
	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Bulgaria	1.6	2.2	2.6	2.9	3.4	1.9	2.9	3.3
Croatia	3.2	2.9	2.2	2.6	2.7	2.7	2.6	2.7
Czech Republic	-0.2	0.4	1.0	1.8	2.4	-0.4	1.4	2.2
Hungary	0.0	1.0	2.1	2.1	3.0	-0.9	2.1	3.8
Poland	1.0	2.1	3.2	3.3	3.3	0.2	3.0	3.5
Romania	2.9	2.7	2.3	2.5	3.5	2.0	2.8	3.0
Turkey	3.9	4.6	2.4	1.6	1.9	4.5	2.5	3.5
Serbia	3.8	4.2	3.4	2.8	2.7	2.5	3.3	3.5
Azerbaijan	1.3	4.0	2.5	2.0	1.5	1.1	2.5	2.7
Kazakhstan	5.4	4.5	3.8	5.0	4.5	5.1	4.5	5.0
Russia	5.1	3.0	1.5	-0.5	-	3.6	1.0	0.5
Ukraine	4.0	3.5	3.5	3.2	3.7	4.5	3.5	5.0
China	5.2	4.0	5.5	4.8	4.9	5.2	4.8	4.3
India	7.2	3.3	8.2	7.8	7.5	7.2	6.8	7.5
Indonesia	5.0	5.4	5.0	5.2	5.2	5.0	5.2	5.1
Korea	2.2	2.3	2.0	1.6	1.5	1.4	1.8	1.8
Philippines	5.6	6.0	6.3	4.7	4.5	5.0	5.4	5.1
Singapore	2.2	2.0	2.1	2.2	2.0	1.1	2.1	2.5
Taiwan	5.1	5.4	2.5	2.3	2.3	1.4	3.1	2.3

<sup>1</sup>Norway: Forecasts are mainland GDP  
Source: ING estimates



**CPI Forecasts (pa)**

%YoY	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
US	3.2	3.1	2.9	2.4	2.1	4.1	2.6	2.0
Japan	2.9	2.3	2.2	1.8	1.4	3.3	2.0	1.5
Germany	3.0	3.0	2.8	2.6	2.8	6.0	2.8	2.1
France	4.2	3.5	3.1	2.9	2.8	5.7	3.0	2.0
UK	4.2	3.5	1.6	1.5	1.8	4.2	1.8	2.1
Italy	1.0	1.3	1.8	1.9	2.4	6.0	1.9	2.0
Canada	3.2	3.0	2.1	1.6	2.0	3.8	2.2	2.1
Australia	4.1	3.8	3.8	3.4	3.5	5.6	3.6	2.9
Eurozone	2.7	3.0	2.8	2.4	2.2	5.5	2.6	2.1
Austria	5.2	3.5	3.0	2.9	2.3	7.8	2.9	2.1
Spain	3.3	3.0	3.1	2.9	3.0	3.6	3.0	2.3
Netherlands	0.5	2.6	1.2	0.8	1.3	4.1	1.5	2.6
Belgium	0.8	3.6	3.4	3.3	2.6	4.0	3.2	2.1
Greece	3.5	3.0	2.2	1.8	1.9	4.2	2.2	2.0
Portugal	1.7	2.1	2.4	2.6	2.5	4.4	2.4	2.1
Switzerland	1.6	1.3	1.4	1.6	1.5	2.1	1.5	1.3
Sweden	3.0	2.4	2.5	2.6	2.8	6.1	2.6	2.9
Norway	4.5	4.3	3.2	3.8	2.9	5.5	3.5	2.5
Bulgaria	5.3	3.5	3.3	3.1	3.9	9.6	3.4	4.1
Croatia	5.0	4.0	2.9	1.6	2.2	8.0	2.7	2.6
Czech Republic	7.2	2.6	2.6	2.4	2.6	10.8	2.6	2.0
Hungary	7.8	3.5	4.0	4.3	5.3	17.6	4.2	4.2
Poland	6.5	3.3	3.9	4.8	5.1	11.4	4.3	4.0
Romania	7.2	7.2	6.0	5.3	4.8	10.5	5.8	4.1
Turkey	64.8	66.8	70.3	45.1	41.6	53.9	55.9	25.8
Serbia	8.0	5.8	4.7	4.3	4.1	12.5	4.7	4.5
Azerbaijan	2.8	5.8	1.8	4.2	5.8	8.9	4.4	5.5
Kazakhstan	10.4	9.5	8.9	8.4	7.8	14.8	8.6	7.0
Russia	7.2	7.6	7.6	6.7	5.4	5.9	6.8	4.4
Ukraine	5.5	6.0	8.0	9.5	9.0	11.7	8.1	7.3
China	-0.3	0.0	0.3	0.9	1.9	0.2	0.8	2.0
India	5.4	5.1	5.0	4.2	4.5	5.7	4.7	4.8
Indonesia	2.7	3.2	3.1	3.0	3.2	3.9	3.1	3.5
Korea	3.4	2.7	2.5	2.2	2.1	3.6	2.4	2.0
Philippines	4.3	2.9	3.6	3.4	3.1	6.1	3.3	3.6
Singapore	4.0	3.6	3.3	3.2	3.0	4.0	3.3	3.0
Taiwan	2.9	2.2	2.4	2.2	2.3	2.5	2.1	1.4

\*Quarterly forecasts are quarterly average; yearly forecasts are average over the year. HICP for European Union economies

Source: ING estimates

**Oil and natural gas price forecasts (avg)**

	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
<b>\$/bbl</b>							
Brent	82.00	80.00	82.00	84.00	82.00	82.00	80.00
<b>EUR/MWh</b>							
Dutch TTF	27.00	25.00	25.00	35.00	41.00	28.00	29.00

Source: ING estimates

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