ING Monthly

April 2024

Hello, hello, hello,
how low?
NIRVANA
NEVERMIND

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Hello, hello, hello, how low?

We're giving a nod to Nirvana this month, one of the greatest rock bands of all time. And the chorus from Smells Like Teen Spirit could certainly be answered by central banks in the coming weeks. The global economy is definitely showing signs of recovery, although we're far from that 'perfect place of peace and happiness' suggested by the name

Indulge me! It's 30 years since my favourite singer, Kurt Cobain, left this world. And listening to Nirvana's Smells Like Teen Spirit did allow me, among other things, to reflect on where the world is right now. For central banks, the question of "hello, hello, hello, how low?" will be answered by the balance between cyclical upswing and resilience on the one hand and inflation developments on the other. The stronger the growth component, the more significant any disinflation will have to be in order to justify rate cuts.

And while Nirvana tracks were rarely upbeat and uplifting, we are finally becoming more optimistic again about the global economy after a long period of rather depressing forecasts and macro developments. One reason is the ongoing resilience of the US economy. So far, higher interest rates, banking sector turmoil, public debt tensions and student loans have been unable to derail the US economy. This strong resilience combined with signs of reflation is pushing out the timing of a first Fed rate cut even further into the future.

Admittedly, it sounds like the explanation of a sour loser, but we cannot stop pointing to the currently large disconnect between hard and soft macro data in the US. We still fear that the hard data will eventually budge, but until it happens, Fed rate cuts look unlikely in the short term.

In the eurozone, inflation has come down faster than the European Central Bank had expected, giving Team Transitory a late victory, just like an athlete who gets a medal years after the event after the original winner's been disqualified for doping. At the same time, similar to what we are seeing in the US, hard data has turned somewhat more promising than survey indicators. Even in Germany, green shoots came out earlier than expected, a bit like the summer temperatures in early April, reducing the risk of yet another lost quarter.

In the eyes of the ECB, the cyclical upswing should counterbalance the faster disinflationary process, keeping the room - and need - for rate cuts limited. In any case, we are about to witness the almost unique situation where Europe will start a new rate cycle before the US. And not only by one week but by a few months. This, however, is not the result of the ECB suddenly becoming the world's leading central bank but rather the result of diverging economic trends.

But there is more this month than just central banks. Over the past few decades, the US enjoyed the so-called 'exorbitant privilege', the benefits the United States has due to the US dollar being the international reserve currency. The term was introduced by former French President Valery Giscard d'Estaing. Next year, the world could see another form of an 'exorbitant privilege', and that's the fact that the American elections could have farther-reaching economic implications in the rest of the world, above all Europe, than at home.

Even though Biden and Trump have barely any official policy proposals, we are going to present a first assessment of what the US presidential elections could mean for the US but also for Europe. To keep it short, the November elections could be a game-changer for Europe as a new Trump presidency is likely to bring stagflationary forces to Europe.

For next year, the US elections will not only entertain us but could further deepen the current economic divergence between the US and Europe. Not preparing for every possible scenario could eventually make European leaders feel “stupid and contagious”—wise words from my favourite rockstar.

Watch: Smells like green shoots and exorbitant privilege

ING's Carsten Brzeski on the global recovery and America's special place in the world

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Our key calls this month:

- We expect the Federal Reserve to cut rates in September and by 75bp in total. Sticky US inflation is further scuppering the prospect of near-term rate cuts, so our previous call for 125bp of cuts this year looks like too much of a stretch.
- The ECB is on-track for its first rate cut in June, with three cuts in total this year. Green shoots in eurozone activity point to stronger growth rates later this year, while inflation continues to show progress.
- We are sticking to our long-held view that the Bank of England’s first rate cut will come in August, despite some dovish comments from Governor Bailey.
- Recent China economic data has been mixed but mostly stronger than expected. However, we think the road to achieving the 5% growth target looks challenging.
- We have cut back our end 2024 EUR/USD forecast to 1.10 on the basis of our new house view of a later/shallower Fed easing cycle.
- The US 10-year yield has reached 4.5% and sticky inflation data could potentially mean the 5% level is retested. We’re likely to continue to see spread widening between the US and eurozone.

ING global forecasts

	2023					2024					2025				
	1Q23	2Q23F	3Q23F	4Q23F	2023F	1Q24F	2Q24F	3Q24F	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F
United States															
GDP (% QoQ, ann)	2.2	2.1	4.9	3.4	2.5	2.5	1.9	0.0	0.6	2.4	1.5	1.8	2.2	2.5	1.3
CPI headline (% YoY)	5.8	4.0	3.6	3.2	4.1	3.2	3.4	2.9	2.6	3.0	2.2	1.8	1.9	2.1	2.0
Federal funds (%, eop)	5.00	5.25	5.50	5.50	5.50	5.50	5.50	5.25	4.75	4.75	4.25	3.75	3.50	3.50	3.50
3-month interest rate (%, eop)	4.90	5.20	5.40	5.40	5.40	5.40	5.40	5.20	4.70	4.10	4.20	3.70	3.40	3.40	3.40
10-year interest rate (%, eop)	3.50	3.80	4.25	3.90	3.90	4.25	4.75	4.00	3.50	3.50	3.75	4.00	4.00	4.25	4.25
Fiscal balance (% of GDP)					-6.1					-6.0					-5.8
Gross public debt / GDP					98.5					99.5					102.1
Eurozone															
GDP (% QoQ, ann)	0.2	0.5	-0.3	-0.2	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	2.6	2.5	2.2	2.2	2.4	1.9	2.1	2.1	2.2	2.1
ECB Deposit Rate (%, eop)	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.00	2.75	2.50	2.50	2.50
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	2.00	2.30	2.30	2.10	2.10	2.10	2.25	2.40	2.50	2.50	2.50
Fiscal balance (% of GDP)					-3.4					-2.7					-2.5
Gross public debt/GDP					90.9					89.1					88.9
Japan															
GDP (% QoQ, ann)	4	4.2	-3.2	0.4	1.9	0.8	4.0	3.2	0.8	1.3	0.4	0.4	0.4	0.4	1.1
CPI headline (% YoY)	3.6	3.4	3.1	2.9	3.3	2.5	2.6	2.4	1.9	2.3	2.0	1.8	1.6	1.5	1.7
Target rate (Upper Bound)	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.25	0.50	0.50	0.75	1.00	1.00	1.00	1.00
3-month interest rate (%, eop)	0.00	0.05	0.08	0.08	0.08	0.25	0.40	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25
10-year interest rate (%, eop)	0.35	0.40	0.70	0.60	0.60	0.74	0.90	1.00	1.25	1.25	1.50	1.75	1.75	1.75	1.75
Fiscal balance (% of GDP)					-10.0					-12.0					-12.0
Gross public debt/GDP					265.0					280.0					290.0
China															
GDP (% YoY)	4.5	6.3	4.9	5.2	5.2	4.7	5.4	4.6	4.7	4.8	4.2	4.5	4.4	4.40	4.4
CPI headline (% YoY)	1.3	0.1	-0.1	-0.3	0.2	0.1	0.5	1.1	2.1	0.9	1.3	1.9	2.1	2.3	1.9
1 Year Loan Prime Rate (% eop)	3.65	3.55	3.45	3.45	3.45	3.45	3.45	3.35	3.25	3.25	3.15	3.15	3.05	3.05	3.05
3M SHIBOR (% eop)	2.45	2.17	2.30	2.60	2.53	2.16	2.12	2.10	2.00	2.00	1.95	1.95	1.90	1.90	1.90
10-year T-bond yield (%, eop)	2.86	2.65	2.50	2.60	2.56	2.30	2.35	2.40	2.40	2.40	2.45	2.50	2.45	2.45	2.45
Fiscal balance (% of GDP)					-4.6					-5.0					-5.0
Public debt (% of GDP), incl. local govt.					112					121					131
UK															
GDP (% QoQ, ann)	0.7	0.0	-0.5	-1.2	0.1	1.3	0.8	1.2	1.2	0.4	1.3	1.3	1.3	1.3	1.3
CPI headline (% YoY)	10.2	8.4	6.7	4.2	7.4	3.5	1.7	1.6	1.8	2.1	1.8	1.7	2.1	2.1	1.9
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	3.95	4.10	3.60	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Fiscal balance (% of GDP)					4.1					2.9					2.4
Gross public debt/GDP					96.3					96.3					95.6
EUR/USD (eop)	1.08	1.08	1.06	1.10	1.10	1.08	1.08	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
USD/JPY (eop)	133	145	149	141	141	148	150	143	138	138	140	140	140	142	142
USD/CNY (eop)	6.87	7.24	7.30	7.15	7.10	7.22	7.25	7.18	7.12	7.12	7.05	7.00	6.95	6.90	6.90
EUR/GBP (eop)	0.88	0.87	0.87	0.87	0.87	0.86	0.87	0.88	0.88	.88	.88	.88	.88	.88	.88
ICE Brent -US$/bbl (average)	82	78	86	83	82	82	87	88	85	86	84	80	80	77	80
Dutch TTF - EUR/MWh (average)	53	35	34	43	41	28	25	25	35	28	35	27	24	30	29

Source: ING forecasts

Our first thoughts on the US election and the potential impact on Europe and markets

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The US election is fast approaching and while we know Joe Biden and Donald Trump will surely be slugging it out once again, we're lacking clear manifestos. So what are the broad policy intentions, and what will they mean for the world? Not forgetting, of course, how far and fast they go will be determined by the outcome of the Congressional elections

Here we go again: it's a Biden-Trump rematch

Biden promises more of the same with social spending funded by tax hikes

President Biden has repeatedly stated that his intention for a second term is to "finish the job". The social policy thrust will likely centre on **abortion rights** and improving access to **education and childcare** accompanied by renewed efforts on substantial student debt relief. ESG will also remain a key theme for his administration, with support for clean energy, environmental protection, and continuing climate change mitigation. **Improved relations** with allies and trade partners will be maintained despite somewhat more protectionism, as illustrated by the US Steel takeover intervention and the failed negotiations to include European carmakers in the Inflation Reduction Act's support for electric vehicles**. China and Russia** will continue to be viewed with distrust, while support for **Ukraine** and **Taiwan** will continue.

"Bidenomics" has focused on the creation of middle-class jobs and de-risking supply chains through incentivising investment in the US economy (Chips and Science Act, Inflation Reduction Act, Infrastructure Investment and Jobs Act). These measures will receive continued support. Biden is likely to launch another attempt at **raising taxes** on the wealthiest Americans and large corporates to fund social services and cut the deficit. As a minimum, we would expect him to allow the Trump tax cuts (2017 Tax Cuts and Jobs Act) on wealthy individuals and corporations to expire as planned in 2025.

We expect he will also seek more funding for the **Internal Revenue Service** (IRS) to ensure tax payment compliance and also potentially watch for an expansion of the Supreme Court with more judges added to nullify the effect of President Trump's appointments.

Trump opts for tariffs and domestic tax cuts

Should Donald Trump win the election, he too has promised to finish the job he started during his first term while also vowing “**retribution**” for political enemies, which risks stoking political division and could lead to a potentially turbulent initial transition period.

His main policy thrust will see a return to the **America First** transactional approach to diplomacy that involves a general disregard for the concerns of allied partners, international law and the green agenda. Geopolitically, **support for Ukraine** could falter and the US’ willingness to stand up in support for **Taiwan’s** independence could wane. Hardline rhetoric against **undocumented immigrants** will see further restrictions at borders with the prospect of forced removals.

Trump has repeatedly spoken of his belief in using **tariffs** to raise tax revenue while incentivising the reshoring of economic activity back to the US. He has mentioned 60% tariffs on imports from China while clamping down on the ability of China to export via third-party countries. He has proposed introducing 10% tariffs on all other countries with money used to fund modest tax cuts for higher income households and corporates and helping to shrink the deficit. He will certainly look to extend and potentially make the **tax cuts** from the 2017 Tax Cuts and Jobs Act permanent. However, this policy mix is vulnerable to the risk of retaliatory tariffs, heightened geopolitical tensions and higher inflation.

Meaningful improvements in fiscal deficit are unlikely

From a financial market perspective, it is encouraging that both candidates acknowledge the need to rein in **fiscal deficits**, but implementation will be challenging. **Mandatory spending** accounts for two-thirds of government expenditure and there appears to be little desire from President Biden to tackle the ongoing upward pressure from demographic shifts on social security, Medicare and Medicaid expenditure. President Trump has spoken of curbing access, but this would merely slow, not reverse, the increase in spending.

Discretionary spending, half of which is defence, accounts for just over a quarter of government expenditure. It is already close to historical lows at 6.4% of GDP, and it is hard to imagine that there will be meaningful enough real-term cuts to spending on the judiciary, transport, education and social services that will move the needle on the deficit. We imagine President Trump would be more willing to make large cuts to discretionary spending than President Biden. However, any savings made here will likely be swallowed up by rising interest expense on the national debt, which accounts for the remaining 10% of government expenditure.

This means that for the deficit to shrink significantly, we need to see taxes take a larger share of GDP and for GDP to continue growing strongly. While deficits could improve under both scenarios, this improvement will only be marginal. Remember that in 2023, the US recorded a fiscal deficit of 6% of GDP despite the economy growing 2.5% and unemployment averaging 3.6%. The economy posted a similarly robust performance in 2000-01, yet the US recorded a fiscal surplus of 2% of GDP. There has been a clear structural deterioration in the nation’s fiscal position and should activity disappoint, deficits could widen markedly.

Under either scenario, we may only see the deficit trend down towards 5% of GDP through the Presidential term while government debt levels rise above 105% of GDP. Under Trump, there may be slower government spending growth relative to Biden, but a Biden presidency would probably see more domestic taxation on income and corporate profits. There is uncertainty over how much revenue Trump tariffs would generate. A 10% tariff on $3tn of trade raises $300bn – equivalent to just under 1% of GDP, but retaliation and trade barriers are a hindrance to growth, and revenues could be weaker from other taxes.

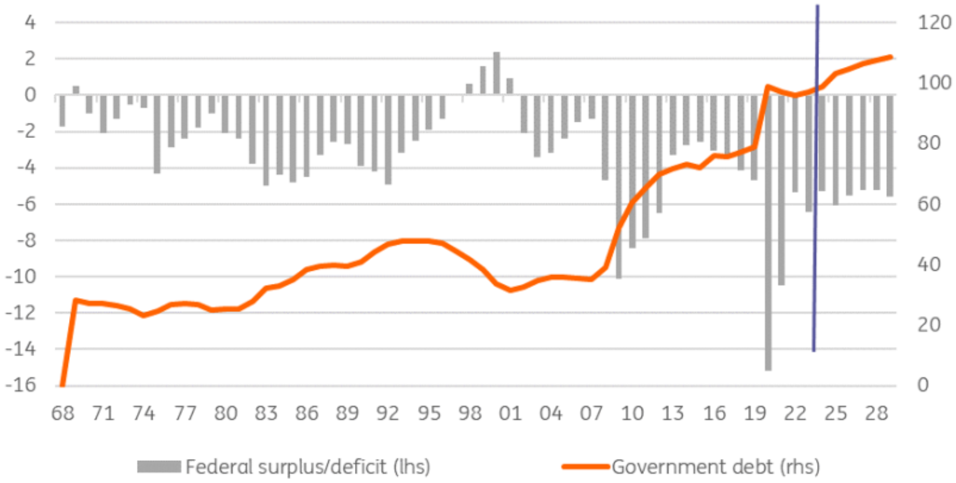
Fed policy rates may need to be tighter given the policy mixes

The implication for the Federal Reserve is that if loose government fiscal policy continues, whereby the government pumps more money into the economy than it is taking out via taxes to the tune of 5% of GDP, then there is perhaps the case for monetary policy to be somewhat more restrictive. We are already seeing this translate into expectations of the neutral rate for Fed funds creeping upwards. The Fed says that it is 2.6%, but we believe that high deficits and structural changes in the economy, such as making supply chains more resilient as well as higher fiscal deficits, argue in favour of the neutral rate ending up closer to 3%.

At the margin, the neutral rate may end up being slightly higher in a Trump Presidency due to lower domestic taxes supporting consumer activity and tariffs being inflationary. If Trump is successful in implementing stricter border controls, lower immigration and a smaller potential workforce could add to medium-term inflation pressures.

In terms of the structure of the Federal Reserve, Donald Trump has suggested that he would seek to replace Jerome Powell when his term ends as Fed Chair in 2026. This runs the risk of a politicisation of the Fed that could cause some concern in financial markets.

Government deficits & debt with Congressional Budget office projections 2024-2029 (% of GDP)



Source: Macrobond, Congressional Budget Office

Implications for Europe

Arguably, while politically and socially, the elections are of high importance for the US, the economic implications could be more important for Europe than for America. It's not only economic implications stemming from trade or fiscal policies but also security policies that could severely affect the contenent.

Biden wins: The recently failed negotiations to open the Inflation Reduction Act for European carmakers show that a second Biden administration will continue an America First, Europe second approach. As a result, the gradual relocation of European investments to the US could continue, further weakening European industry. At the same time, there wouldn't be any doubts about US-NATO membership and support. Still, with fading electorate support for Ukraine, the US could push for negotiations and a truce, increasing chances the country could be split and the security risk for Europe would remain.

Trump wins: Judging from comments so far, the risk is high that a President Trump would initially cast doubts about US NATO membership. We don't think that eventually

Trump would leave NATO as it would require a majority in Congress and the US would not risk creating global turmoil or a split Europe. However, the pure speculation about such a scenario brings new (economic) uncertainty to Europe. Trump also said that he would end the war in Ukraine within 24 hours. We doubt it, but any deal with Putin without considering European interests would likely bring political turmoil to Europe. In any of these scenarios, Europe will have to step up military expenditures far above the current target of 2% of GDP.

As for **economic and trade policies**, Trump could change the nature of the IRA, which could actually help Europe as it would end the current subsidy competition for green investments. At the same time, the global fight against climate change would take a hit, and Europe would be forced to rethink the balance between economic interests and climate even more. It could be an investment opportunity for Europe, at least in the case of more accommodative fiscal policies.

Any expected increase in tariffs would hurt the European export sector at a time when the US had again become the most important trading partner. Expected retaliation measures from the EU would add to inflationary pressures in Europe.

In short, with the increased security risks combined with new tariffs, a new term in office for Donald Trump would bring stagflationary risks to Europe.

Implications for the ECB

Biden wins: As this would be mainly more of the same, and the eurozone would see a gradual cyclical recovery with only slow structural improvement and continued supply-side constraints, the ECB will only cautiously continue cutting rates in 2025.

Trump wins: The stagflationary impact of a Trump victory would be more challenging for the ECB to deal with. So far, the ECB's reaction function has put more emphasis on inflation than during the Mario Draghi era. However, the severe security and economic risks of a second Trump term could force the ECB ultimately to rebalance growth and inflation again and cut rates more significantly than in our base case, especially if a lasting stagnation would lead to new tensions within the monetary union.

Only one way to go for Treasury yields if the deficit isn't prioritised

So far, the market has not baulked at the massive issuance requirements being thrown at it to help finance the fiscal deficit. While the long-anticipated Fed rate cut cycle is likely to drive yields lower when it finally comes to fruition, we don't believe it will be long before there is a more bearish impulse for bonds. Given the lack of material difference between a Trump and Biden administration in terms of effect on the cash deficit, the bond market won't really care who is at the tiller when it decides it has had enough. In that narrow pure-ability-to-slash sense, the bond market might be more comfortable with a Trump administration, but not by much, as we're still left with huge issuance requirements and a rating downgrade risk from poor debt dynamics.

Is there a Trump versus Biden difference? Not much. Maybe a back-of-the-envelope 50bp difference based on what we know on 10Y yields (Trump below Biden). But the bond market won't mind which one of them does the chopping job. It just needs to get done.

Implications for FX markets

The working assumption in FX markets is that a Trump administration would be worse for global trade and negative for currencies such as the renminbi and the euro. Trump's trade war, particularly in the 2018-19 period, saw EUR/USD drop by more than 10%. However, It must be remembered that Trump's aggressive protectionism was enabled by the fiscal stimulus of the TCJA tax cut, passed in late 2017. The make-up of Congress and the ability to pass fiscal stimulus will have a big say in whether the dollar can rally.

Biden		Trump
Incentives to encourage reshoring, job creation & ESG. More on student debt forgiveness, abortion rights, education & health.	Domestic Policy	Reshoring & job creation, using tariffs. Stricter controls on immigration. More selective on education & health access. More police powers and ESG dilution
No additional tariffs, but no rollback for China. Trump-era tax cuts to end with potential additional hikes on wealthy & corporates.	Taxes & tariffs	Proposals of 60% tariffs on Chinese goods and 10% elsewhere. Make permanent 2017 tax cuts. Potential for more tax cuts using tariff revenue.
Maintain a positive relationship with allies, but China and Russia still viewed with distrust. Support for Ukraine and Taiwan to continue.	Geopolitics	Return of "America First" transactional approach to diplomacy. Support for Ukraine and Taiwan will likely falter. More inclined to offer ongoing support for Israeli military action in Gaza.
More government spending and student debt forgiveness, but higher corporation & income taxes to mitigate and lead to a modest improvement	Fiscal deficit	Govt. spending may be curbed, but tax cuts may offset. Tariff/tax revenue uncertainty is high given retaliation threat. Deficit mildly improves.
Neutral Fed funds rate likely to be higher than over past decade due to large fiscal deficits & costs of reshoring of production. Chair Powell to remain.	Federal Reserve	Neutral rate may be higher under Trump given tariff impact on prices with tax cuts supporting domestic demand. Immigration controls could limit workforce size & push up wages
Gradual relocation of European investments to the US to continue, further weakening European industry. Gradual cyclical recovery with only slow structural improvements and continued supply side constraints in 2024 and 2025.	Impact on Europe	Doubts about US support for Ukraine and US membership in NATO may lead to new economic and geopolitical uncertainty. Expected tariffs on European products to hit export-oriented growth model further.
Large deficits with a continuation of structurally higher spending as a proportion of GDP may prompt a steeper yield curve	Market rates	Inflation may be higher, but a desire to trim spending and more emphasis on growth generation could lead to a less steep yield curve than under Biden
Seen as more friendly to global trade and more supportive for EUR/USD. Lower market volatility is normally a dollar negative.	EUR/USD	Tough trade policy (2018/19) had a big say in pushing EUR/USD lower. Strong economy required to back trade wars, otherwise protectionism could backfire on the dollar. Higher volatility.

Tighter fundamentals and geopolitics are pushing commodities higher

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Commodities, in general, have been performing strongly since early March. While high oil and gold prices have been extensively covered, they've been dwarfed by cocoa and silver. Here's why

Oil and gold have been particularly strong performers this year

Oil market tightens as geopolitical risks grow

Oil prices have seen significant strength through March and early April. ICE Brent broke above US$90/bbl, trading at its highest level since October. Growing tension in the Middle East is obviously one reason for the boost. However, that increased geopolitical risk comes at a time when the oil market was already set to tighten.

The oil market has been pushed into deficit after a handful of OPEC+ members announced they would roll over their additional voluntary cuts, amounting to 2.2 million barrels a day (b/d) from the first to the second quarter of 2024. Our numbers suggest this will leave the market in a deficit of around 1 million b/d this quarter.

The scale of the deficit suggests that oil prices remain well supported over the coming months and as we enter the summer driving season through the third quarter. As a result, we expect ICE Brent to average $88/bbl over the second and third quarters.

OPEC+ will be key to the outlook for the second half of the year. Additional voluntary cuts are set to expire towards the end of June. As a result, the market is set to be in a small surplus over the second half of 2024. However, the key upside risk is if OPEC+ decides on a further rollover, which would tighten the market still further. If that happens, we'll be looking to revise our forecasts higher still.

Europe exits winter with record gas storage

Europe has exited the 2023/24 heating season with record natural gas storage. It was 58% full at the end of March, above the 56% we saw last year and well above the 5-year average of 41%. Comfortable storage has kept the market from moving significantly higher. Gas flows into Europe have been stable through most of the winter, while we have had some milder weather through February and much of March.

We expect prices to remain under pressure through the injection season. With storage likely to be full once again ahead of next winter, we could see prices coming under further pressure later in the third quarter. We expect TTF to average EUR25/MWh over 2Q24 and 3Q24.

There are some further signs of gas demand recovering in Europe, with some Year-on-Year increases in gas consumption in recent months. However, demand remains well below pre-Ukraine war levels. Our gas balance suggests that European gas demand in 2024 could increase 9% YoY, and Europe would still manage to hit the European Commission's target of having storage 90% full by 1 November.

As we approach the end of this year, a concern for the market is what happens to Russian pipeline flows to Europe via Ukraine. Ukraine has made it clear that it has no plans to extend the transit deal with Gazprom, which expires at the end of December. This puts roughly 40mcm/day of Russian pipeline flows at risk. We believe that Europe will be able to find an alternative supply if this volume is lost. However, the market is still likely to react to such a development.

Precious metals defy higher rates

Spot gold prices have hit record highs, trading above $2,350/oz, and the market is up around 13% since the beginning of the year. The precious metal has had a record-breaking run since mid-February, boosted by expectations for US rate cuts, geopolitical tensions, and China's economic woes.

US Federal Reserve policy is gold's main driver. There's optimism it'll soon cut rates, but it wants to see more evidence that inflation is a tamed beast. We're expecting interest rate cuts this year, but if it continues its cautious approach, gold prices risk pulling back.

The key driver for the outlook of gold prices for the past year has been the Federal Reserve policy with optimism that the Fed is getting closer to the much-anticipated pivot fuelling the precious metal's rally. The Federal Reserve is expected to cut this year but still needs to see more evidence that inflation is easing first. If the US Fed continues its cautious approach to easing, gold prices risk a pullback.

The prospect of the Fed's monetary easing has also benefited silver, which has surged along with gold, up 16% since January to its highest levels since 2021. Silver's advance has come with an increase in ETF holdings. That contrasts gold, which is yet to see a rebound in ETF demand. Investor holdings in gold and silver ETFs generally rise when prices gain, and vice versa. There is plenty of room for investors to buy the gold market, but maybe we need to wait for the Fed to start cutting rates before investors jump fully into the market.

We expect gold prices to trade higher this year as safe-haven demand continues to be supportive amid geopolitical uncertainty with the ongoing wars and the upcoming US election. We have revised our 2024 gold forecast higher, and we now expect prices to peak in the fourth quarter, averaging $2,300/oz. We expect an average of $2,206/oz in 2024, assuming that the Fed starts cutting rates in the second half of the year, along with weakness in the dollar and treasury yields, while geopolitical risks continue to linger.

Tight concentrate market drives copper prices higher

Copper is trading at its highest since the middle of 2022, up 10% so far this year, fuelled by supply risks and improving demand prospects for metals used in the green energy transition. The main catalyst for copper's rally is the unexpected tightening in the global mine supply, most notably First Quantum's mine in Panama, which has removed around 4000,000 tonnes of the metal from the world's annual supply.

Copper smelters in China have pledged to curb output in response to a tightening copper ore market and following a collapse in spot treatment and refining charges to record lows. The global refined copper market was expected to be fairly balanced this year, but the shortfall in mine supply now means that the market is likely to be in a deficit.

At the same time, demand uncertainties remain. China’s property market has been a major headwind for copper demand, and a continued slowdown in the sector is the main downside risk.

In the short term, the upside to copper prices might be capped by macro drivers, including ongoing demand concerns in China and lingering uncertainty over US monetary policy. However, micro dynamics are starting to look more constructive for the metal amid a tightening supply outlook. We see copper prices rising in the second quarter, traditionally its strongest season for demand, to $9,050/t on average from an average of $8,539/t in the first.

We see prices peaking in the fourth quarter at $9,100/t. They will, however, remain volatile as the market continues to respond to macro drivers, including the path of US interest rates and Chinese policies.

Cocoa deficit concerns intensify

The cocoa market continues to defy gravity, with London cocoa surging through GPB8,000/t to a record high of GBP8,690/t in early April. Prices have rallied in the region of 140% this year after rising 70% in 2023.

The key growing region of West Africa is the cocoa market's biggest concern. Disease-plagued crops have been met with dry weather, which has weighed heavily on supply. Ivory Coast, the largest producer, has seen farmers deliver around 1.3mt of cocoa to ports so far in the 2023/24 season, down from around 1.8mt over the same period last year.

Crop shortfalls not only mean that the global market will see its third consecutive deficit. But at around 400kt, the 2023/24 season will see the largest deficit in more than half a century.

Given there's no quick supply response for cocoa, demand will have to do the work to try to balance the market. We will need to see prices stay higher for longer to ensure adequate demand destruction. In 2023, demand was weaker, with grindings in Europe, Asia and North America down around 4% YoY. Many chocolate producers would have had hedges in place, helping to shield consumers from higher prices. Eventually, however, chocolate producers will need to pass on higher costs, which should hit demand more aggressively. Grinding data for the first quarter of this year for key regions will only be available over the second half of April, and that will shed some light on whether we are seeing more aggressive demand destruction due to the high-price environment.

Our view on the major central banks

We've made changes to our Federal Reserve call and now expect fewer rate cuts this year. That suggests the US will start cutting rates later than the European Central Bank

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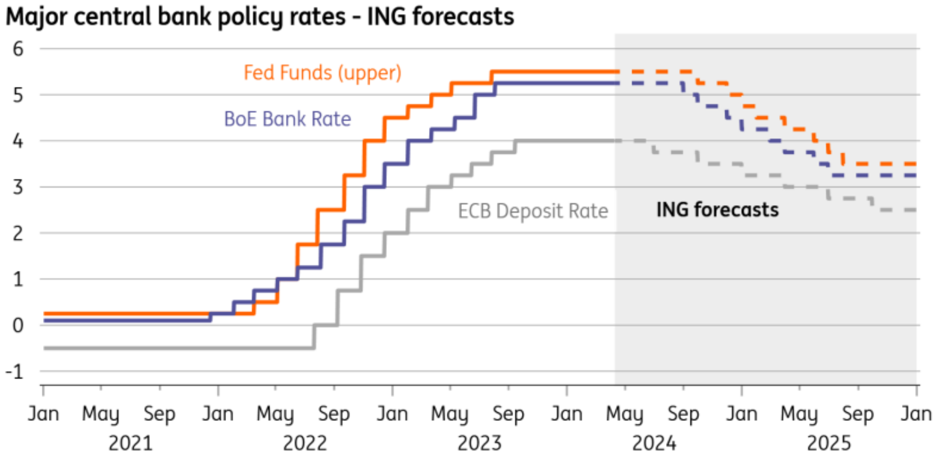
Go! The ECB is likely to cut interest rates before the Fed

ING's central bank forecasts (%)



Source: Macrobond, ING

Federal Reserve

We have changed our view from the Federal Reserve implementing five 25bp rate cuts in 2024 to only three. There is a large discrepancy between official data that suggests the economy is performing strongly and is adding significant numbers of jobs, whereas survey data is painting a much bleaker picture for the economy. While the Fed is inclined to cut rates towards a more neutral level if it can, it needs the official data to turn softer to back such action.

Taking a dispassionate look at the situation, will we get enough 0.2% month-on-month core CPI prints and payrolls slowing towards 100k per month to trigger action in the next couple of months? We can't say that with certainty, so acknowledge that the most likely path right now is a third-quarter starting point rather than June. The Fed is still signalling that in their view 2.6% is the likely long-term settling point for the Fed funds rate, but the ongoing prospect of loose fiscal policy means we think it is higher. We target 3.5% for the fed funds for summer 2025.

James Knightley

European Central Bank

For the first time in a long while, the ECB seems to be leading the way for major central banks. The faster-than-expected drop in inflation and the ECB's expectation that inflation will be at target in the second half of next year is reason enough for a first rate cut in June. Increasing evidence that the effects of monetary policy tightening over the last two years are longer-lasting, as illustrated by still lacklustre bank lending, adds to rate cut arguments.

Looking beyond the timing of the first rate cut, there are two opposing factors determining the magnitude of easing monetary policy tightening. While any strengthening of a cyclical recovery will fuel reflation fears and limit the room for rate cuts, any faster disinflation and target undershooting could trigger more significant rate cuts before year-end. We expect the ECB to remain cautious and to only gradually reduce the degree of restrictiveness by cutting rates by a total of 75bp this year.

Carsten Brzeski

Bank of England

Recent comments from Governor Andrew Bailey have opened the door to a rate cut by the summer. Bailey said that market pricing of between two and three cuts for this year was reasonable and struck an optimistic tone on the inflation outlook. We think it's unlikely that a rate cut happens at the May meeting, but June could be in play if services inflation and wage growth falls in line with Bank of England forecasts.

We think the former could be a little stickier, particularly when we get the CPI data for April in late May. Given the fact that we think the Federal Reserve will now cut a little later, this suggests an August rate cut is still more likely than June. But we're splitting hairs to some extent, and once the cutting cycle begins, we think it could prove a little more aggressive than markets are currently pricing.

James Smith

Bank of Japan

We expect the Bank of Japan to pause at its April meeting after a major policy change in March. However, the market will be watching closely to see how the Quarterly Outlook Report hints at future policy actions by looking at the updated inflation and growth forecasts. We expect the inflation outlook to be revised upwards, confirming the BoJ's confidence in the virtuous cycle between wages and inflation.

In addition, data development and wage negotiations since the March meeting have been supportive of a recovery in consumption and sustainable inflation. We believe the BoJ will take further steps towards normalisation once the hard monthly data (cash earnings and private consumption) turns positive. We think July is the right time for the BoJ to raise the target range to 0.15-0.25%.

Min Joo Kang

US resilience scuppers the case for early rate cuts

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The US is growing strongly; it's adding jobs in significant numbers while inflation continues to run too hot for comfort. So, we will need to see a rapid change of fortune to trigger a rate cut in the next month or two. We still think a slowdown is coming, and the Fed will respond, but not until the third quarter

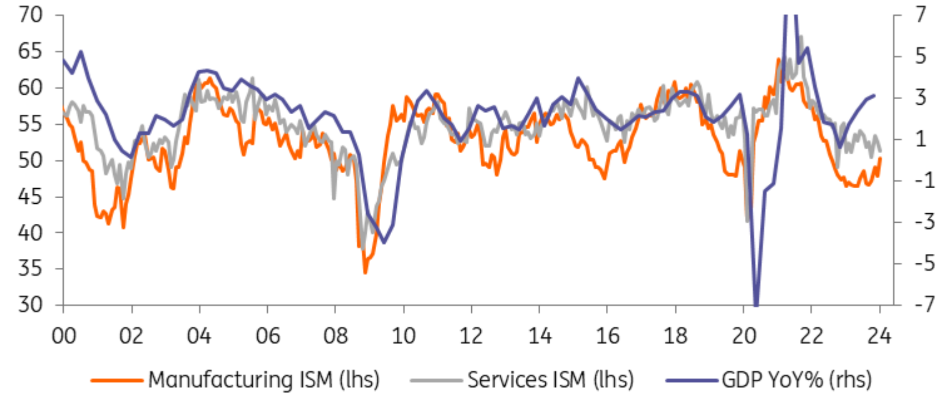
Timing the next US rate cut may be tricky for Fed Chair, Jay Powell

Ongoing strength means a June rate cut looks less likely

The US economy continues to show remarkable resilience in the face of high borrowing costs, tight credit conditions and a weak external backdrop. It appears on course to grow at a 2.5% annualised rate in the first quarter. We already know it added 829,000 jobs in the first three months of the year. With inflation still closer to 4% than the 2% target – and the latest numbers were a surprise – we have to admit that the likelihood of imminent policy easing from the Federal Reserve appears more remote than previously thought.

Financial markets are now merely pricing 5bp of easing for the June FOMC meeting, implying around a 20% chance of a 25bp rate cut. For the Fed to deliver, we suspect we are going to need to see the next two core inflation prints coming in at 0.2% MoM or below rather than 0.4% and a clear slowdown in payrolls growth from around 250,000 per month to well below 150,000. This is possible, but we are not confident. We now think a third quarter start point for Fed easing, either in July or, more likely, September, looks like a more credible call than June.

Business surveys suggest the economy is weaker than reported by official data



Source: Macrobond, ING

But surveys still suggests a marked slowdown is coming

That said, the divergence between strong official activity data and much weaker survey evidence is stark. The ISM indices are at levels historically consistent with the economy expanding at a 0.5% YoY rate - significantly weaker than the 3%YoY GDP rate recorded in the last quarter of 2023. The employment components of these indices have been in contraction territory for several months.

Arguably the most reliable labour market indicator in recent times, the National Federation of Independent Business hiring intentions series, suggests payrolls growth will slow meaningfully over the next three to four months to perhaps below 50,000 per month.

Meaningful interest rate cuts remain our call

At the same time, manufacturing orders are doing nothing, small business optimism is at the lowest level for 12 years, real household disposable incomes are flatlining and pandemic-era accrued savings are largely exhausted, according to San Francisco Fed calculations. We strongly suspect a slowdown is coming, but that may not be evident in official data until later in the year. Sticky inflation is further scuppering the prospect of near-term rate cuts, so our previous call for 125bp cuts this year looks like too much of a stretch. We are now forecasting 75bp of policy easing in 2024.

We do expect inflation to converge on 2% as cooler economic activity and subdued labour cost growth help dampen price pressures. This should allow the Fed to cut rates further in the first half of next year, which would allow the target rate to settle at 3.5%. For the Fed to cut further, it would likely require a systemic shock, most likely through a reignition of small bank financial fears triggered by commercial real estate or consumer loan losses.

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Hope springs eternal for the eurozone

More signs of a bottoming out of the economy are showing up: even German industry is now growing again. The recovery should very gradually gain pace, while inflation is likely to continue its slow downtrend. The ECB is expected to start cutting rates in June, though the neutral rate has increased

The Eurozone economy is coming out of the doldrums with slowly declining inflation opening the door for gradual monetary easing

Signs of life in German industry

With spring arriving, more economic indicators in the eurozone are turning from red to green. As such, the composite PMI rose in March above the 50 points boom-or-bust level for the first time since May 2023. Admittedly, the improvement is still essentially due to the services sector. And while confidence figures in the manufacturing sector are still weak, at least they're significantly above the low point of July 2023.

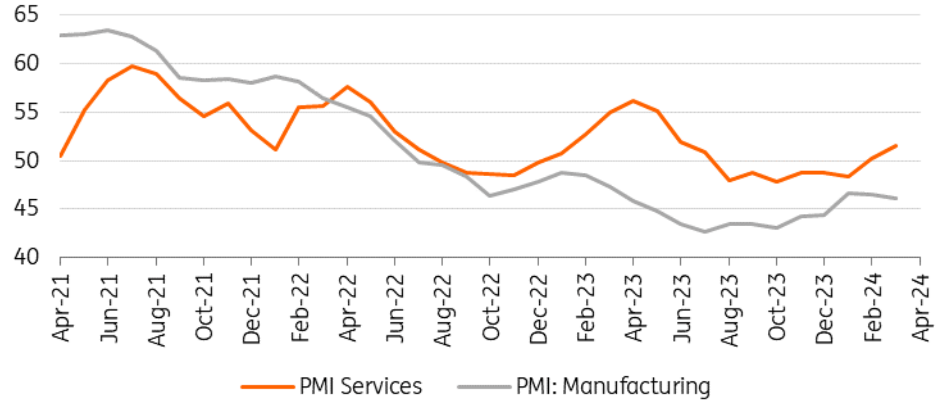
It is telling that in industrial powerhouse Germany, industrial production increased in the first two months of the year. The hope is that after two quarters of negative growth in the eurozone, the first quarter of this year might show some positive growth, even if it is somewhat subdued. Interestingly, confidence indicators in Spain, Italy, Portugal and Greece signal a more robust expansion than the eurozone average for the first quarter.

Things are improving, albeit slowly

The reasons for pencilling in a gradual recovery have not changed: cheaper natural gas and rising real household income will alleviate some of the pressure on energy-intensive industries and support household consumption. At the same time, the inventory correction in manufacturing should peter out in the coming quarters. The ECB's survey on access to finance shows that fewer firms are reporting a reduction in the availability of bank loans, a signal that the strongest impact of the monetary tightening is now probably behind us.

But we shouldn't get overexcited either. The current geopolitical climate remains a headwind for a very open economy such as the eurozone. And according to the PMI numbers, the construction sector remained firmly in contraction territory in March with weak order books not heralding an upturn in the short run. The bank lending survey also didn't show a significant improvement in credit demand yet. So, we expect rather modest growth figures in the first half of the year, leading to 0.4% average growth for 2024. 2025 should see the expansion returning towards potential, as we are pencilling in 1.4% GDP growth.

Economic temperature slowly rising



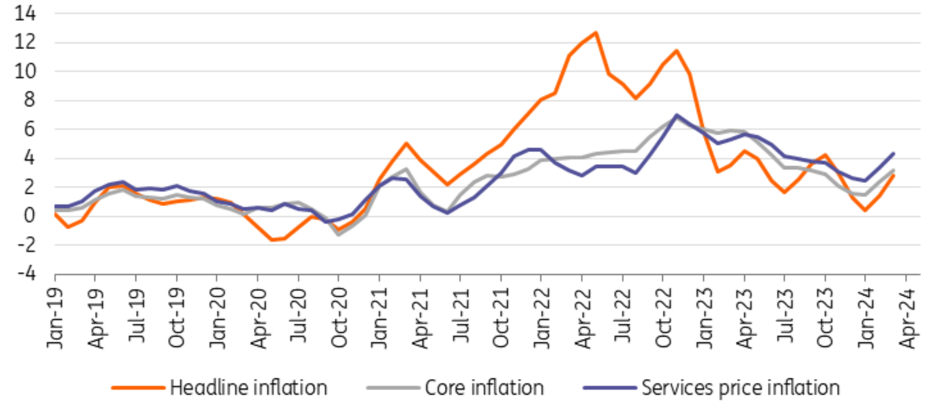
Source: LSEG Datastream

The Easter inflation effect is likely to be reversed

At 2.4%, headline Inflation came out better than expected in March, but if we compare the most recent three months with the previous three, the pace is still picking up for both the headline and core figures. This could be due to the early Easter, which typically affects hospitality and package holiday prices, which might not be captured in this year's seasonal adjustments.

So, this impact might be reversed again in April. We assume that natural gas prices will probably continue to hover around current levels, so we are reducing our estimate for average headline inflation for this year to 2.4%. For 2025, we anticipate 2.1% inflation.

Inflation deceleration temporarily interrupted 3m-on-3m annualised change in %



Source: LSEG Datastream

The door is opening for a rate cut, but higher terminal rate

With wage increases probably also over the top, the door is opening for the ECB to start cutting interest rates. We stick to our expectation of a first 25 bp rate cut in June, followed by two additional 25 bp rate cuts this year. Reading between the lines of a recent speech by Isabel Schnabel, the thinking within the ECB seems to have evolved to believe that the neutral interest rate has probably shifted upwards since the pandemic and is likely to stay higher for a while. An estimate of a nominal neutral rate between 2.25% and 2.50% now seems to be the consensus, something we subscribe to. Therefore, we continue to forecast that the deposit rate will be further reduced in 2025 to 2.5%, and subsequently remain at that level for some time to come.

Warning signs for Europe’s north

Labour cost competitiveness has been shifting within the eurozone as the south has gained and the north has lost competitiveness. A strong feat for southern economies, but this does raise questions about the north’s export-led growth model

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We seem to be seeing a two-speed Europe emerging. Pictured: trams and cars in Lisbon, Portugal

Labour cost competitiveness continues to converge within the eurozone

As the euro celebrates its 25-year anniversary, labour cost competitiveness has gone through significant swings. In the first ten years, southern European economies in particular lost competitiveness, while northern European economies led by Germany saw a sharp improvement. This divergence in (cost and price) competitiveness saw its sad climax with the European sovereign debt crisis – a crisis that Europe tried to cure with austerity measures and reforms to improve competitiveness. While the former led to questionable results, the latter has started to bear fruit, and the overall result has been one of regained internal competitiveness.

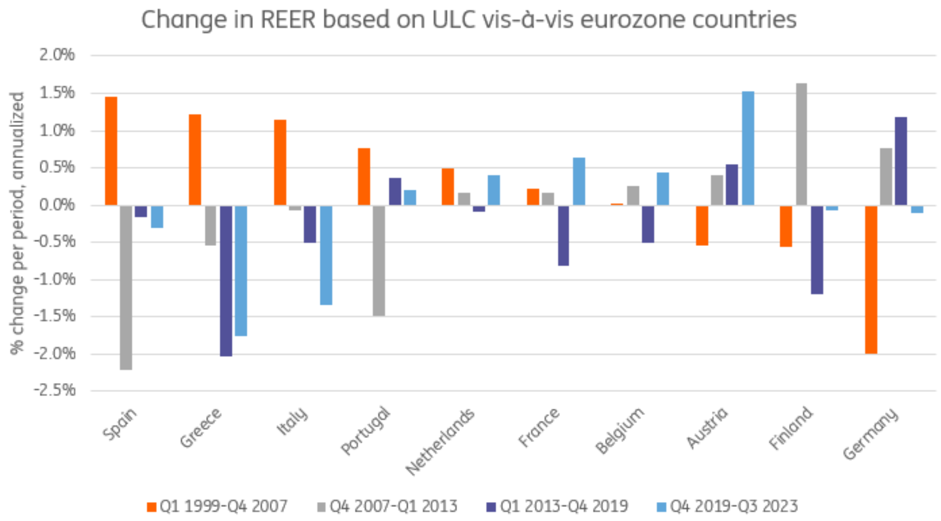
To assess labour cost competitiveness, we look at the European Commission’s real effective exchange rates (REER) based on unit labour costs vis-à-vis other eurozone economies. This shows relative competitiveness within the eurozone. In the past four years, Austria, France, Belgium and the Netherlands have seen labour competitiveness deteriorate on average, while Germany’s performance was almost stable. The countries that have seen improvements were Italy, Spain, Greece and Ireland[1].

This is no surprise, and is the continuation of a longer trend that started with – or slightly after – the euro crisis. In the years leading up to the euro crisis, unit labour costs had worsened quickly in the ‘periphery’, which resulted in a structurally weak competitive position. During the euro crisis, southern eurozone countries embarked on a forced, painful process of internal devaluation. For most countries, this resulted in prolonged recessions and long-standing high unemployment. While we wouldn’t argue that this is a preferable remedy for structurally problematic countries, the result was there in the end. The big gaps that had opened up in relative unit labour costs before the euro crisis have been closed.

[1] For Ireland, the strong performance since 2015 also has to do with multinational accounting activity, which distorts productivity figures. In this note, we therefore do not focus too much on the Irish performance

Northern economies also experienced faster wage growth, while productivity growth weakened materially. The faster wage growth helped domestic demand – but thanks to the drop in productivity growth, this also had a material impact on unit labour costs which started to rise. Sure enough, this helped foster a rebalancing within the eurozone when it came to labour competitiveness, as northern eurozone economies allowed southern eurozone markets to catch up.

Relative competitiveness has shown a longer trend of rebalancing



Source: European Commission DG ECFIN, ING Research calculations

Healthy for the eurozone, but worries about northern growth models emerge

From the perspective of imbalances in the eurozone, most of this is good news. The export powerhouses of the north have been outpaced in recent years by other countries playing catch up. Not in absolute terms, but the pace of export growth in Germany and Netherlands has bee are more upbeat about their competitive position and have seen export growth improve.

Some of the macro imbalances that the European Commission worries about are addressed by these developments, likely leading to a more even performance between countries. At the same time, it would have been better had productivity performance in the north held up – the adjustment would have come mostly from faster wage growth in the north, as well as faster productivity growth in the south. At this point, it feels more like a race to the bottom in terms of structural performance, which doesn't help European competitiveness at a global scale.

Germany is already dubbed the sick man of Europe again. Worries about labour cost competitiveness add to a list of concerns about its growth model. For other northern countries, lost labour cost competitiveness serves more as a wakeup call: some rebalancing towards a more domestic demand driven economy is probably healthy, but watch your productivity performance while wage growth increases.

To read the longer original report, click here

The UK’s summer rate cut hinges on April’s inflation data

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Delays to the first Federal Reserve rate cut, coupled with potential strength in April’s inflation data as service-sector prices are subjected to annual increases, suggest an August rate cut is still slightly more likely than June for the Bank of England

For now, we’re sticking with our long-held base case that the first rate cut from the Bank of England will come in August

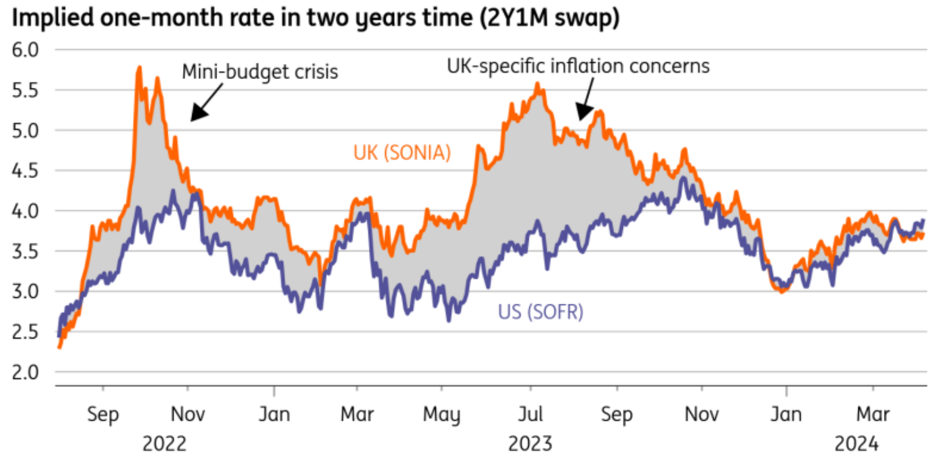
Markets have taken notice of recent BoE comments

Ever since the mini-budget crisis of summer 2022, investors have generally felt that the Bank of England would be more hawkish than the Federal Reserve and that rates would need to stay higher for longer relative to the US.

But after some surprisingly candid comments from Governor Andrew Bailey which appeared to open the door to an imminent rate cut, markets are taking notice. Markets are now pricing US rates higher than the UK equivalent in two years’ time, which hasn’t been true for the majority of the last two years. And while the latest strong US payrolls and inflation data pushed back the date of the first expected US rate cut, the same hasn't happened to the same extent in the UK. Markets think there’s a 40% chance of a June rate cut from the Bank of England and 80% for August.

We think that's fair and we’re sticking with our long-held base case that the first rate cut will come in August. That’s true not just because the Fed is now less likely to cut in June, but also because we think the near-term data on services inflation – a critical ingredient for the BoE – may not fall as quickly as hoped.

Markets now expect lower UK rates in two years' time than in the US



Source: Macrobond

August is our base case for the first BoE rate cut

Much hinges on the April CPI data due later in May, which is when we'll see the results of the annual contract-linked price rises that typically take place at the start of the year. Our rough estimates suggest 40% of the services inflation basket is affected by these annual price hikes to some degree, and last year's data release was much stronger than expected, prompting the single biggest daily increase in two-year swap rates in 2023 as a whole. There's a risk that something similar – albeit less dramatic – happens this year, and recent US inflation data is a cautionary tale. Wage data will be crucial here too.

Until we've seen that data – and unless the BoE comes out strongly in favour of a June rate cut at its early-May meeting – we're narrowly favouring an August start. But to some extent, we're splitting hairs, and the more important point is that the totality of the rate cutting cycle is likely to be a little larger than markets are currently pricing. We think 3% or slightly above is a sensible estimate of the terminal rate, on the assumption that underlying inflation remains higher over this decade than the last. Markets are pricing rates at 3.55% in two year's time, so there's some limited scope for further repricing of the Bank's rate cycle.

Reasons for cautious optimism about China

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March was a busy month for China, featuring the Two Sessions setting the policy direction for 2024 and key data releases for the first two months of the year

Chinese President Xi Jinping helps children plant trees near Beijing

Steady growth target at Two Sessions indicates policy support will continue

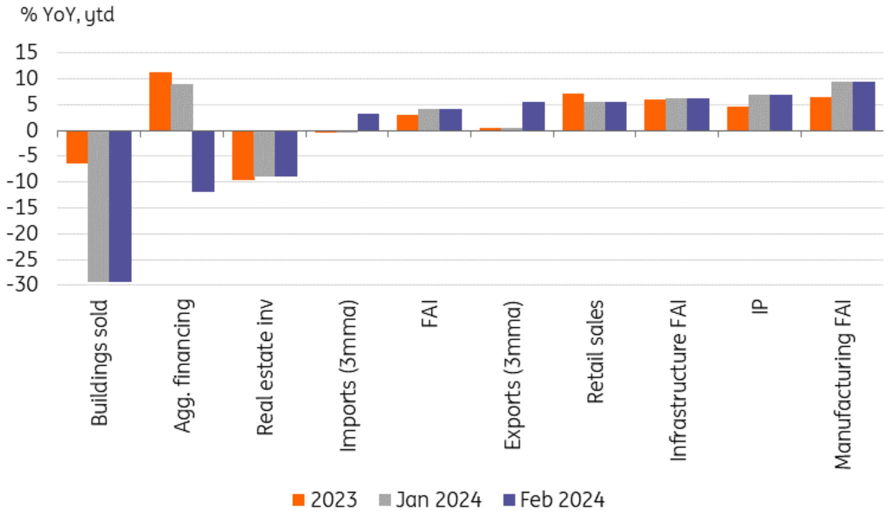
Policymakers set the key economic goals and strategic directions at the Two Sessions meetings. The GDP growth target was maintained at 5%, indicating a commitment toward growth stabilisation.

The fiscal deficit target was left unchanged at 3%, but there was a higher special government bond issuance target and an additional RMB1tn ultra-long duration bond issuance, which indicates that fiscal policy will remain supportive this year.

The language on monetary policy and the RMB was left largely unchanged, indicating monetary policy would remain prudent and hinting at further Reserve Requirement Ratio cuts to come and an intention to maintain the basic stability of the RMB exchange rate at a “reasonable and balanced level.” The RMB has come under increased attention over the past month; after a small move to relax the fixing spurred speculation on depreciation, the PBOC pushed back against rapid depreciation. The top-level policy tone suggests that this resistance will continue, and last year’s 7.34 level is not likely to be broached in the baseline scenario.

In the near term, efforts will likely be focused on infrastructure investment, bolstering consumption via a 'trade-in' programme, and continued support of the property sector. In the longer term, much attention was placed on unlocking 'new productive forces' for the economic transition toward higher-quality growth.

China activity showed changing growth drivers in early 2024



Source: CEIC, ING

Key activity data mostly came in stronger than expected

Data published over the past month has been mixed but mostly came in stronger than expected, given downbeat forecasts. Most of the data supports our thesis for 2024, which is that we will see growth drivers shifting and a more challenging road to achieving the 5% growth target.

Consumption was the main driver of growth in 2023, with over 80% share of GDP growth. However, retail sales growth slowed from 7.3% YoY in 2023 to 5.4% YoY through the first two months of the year. Weak consumer confidence and a negative wealth effect are headwinds for consumption, and a relatively strong base effect will limit growth.

However, most other data beat expectations to start the year, raising hopes for other growth drivers to pick up the slack. Fixed asset investment beat forecasts to start the year, up 4.2% YoY year-to-date, largely due to strong infrastructure (6.3% YoY YTD) and government & SOE (7.3% YoY YTD) investment. This was in spite of real estate causing an even larger-than-expected drag, with property investment down -9.0% YoY YTD.

Industrials also picked up in a positive sign that things may be bottoming out for the sector. We saw upside surprises to the value-added of industry (7.0% YoY YTD) and industrial profits (10.2% YoY YTD). March manufacturing PMI data also returned to expansion for the first time in six months, indicating that the first quarter of this year could finish strongly.

Trade was also off to a stronger-than-expected start to the year. However, we remain cautious on this front, as the potential for additional trade barriers remains a notable risk for 2024 and because global trade growth is expected to remain below historical averages.

Forecast revisions

After upside surprises to early economic data but more cautious than expected policy guidance from the Two Sessions, we've adjusted China's first quarter 2024 GDP growth higher to 4.7% YoY and tweaked subsequent quarters' growth a little lower. The full-year growth forecast remains unchanged at 4.8% YoY.

Amid hawkish developments overseas leading to fewer expected rate cuts and an indication policymakers may prefer to use RRR cuts first amid Chinese bank struggles, we've pared back our expectations for Loan Prime Rate (LPR) cuts as well to two more 10bp reductions for 2024, both in the second half of the year. Recent data suggests odds are currently balanced toward fewer than expected rate cuts. We've also adjusted our FX forecasts accordingly to account for a stronger-than-expected US dollar backdrop.

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The Bank of Japan could be just months away from more policy normalisation

The Bank of Japan ended its negative interest rate and yield curve control in March, hoping strong wage growth would boost inflation and consumption. It won't hesitate to take further action if upcoming data confirms a recovery in real wages and consumption

Looking up! The Bank of Japan Governor, Kazuo Ueda, is mulling another rate hike

Expect front-loaded rate hikes in the second half of the year

We expect the Bank of Japan to raise its target rate to 1.0% by the end of 2025. But even if we slowly get there, overall monetary conditions will remain accommodative as real interest rates will remain in negative territory. Don't expect any sudden shock! A 25bp hike in most quarters should be sufficient for the economy to digest the rate increases.

In addition, should inflation fall below the 2% target range, the BoJ needs enough room to react. So we expect the Bank to raise its policy rate target to a range of 0.15-0.25% in July and 0.40-0.50% in October, followed by two more 25bp hikes in the first half of next year.

But what happens in the near term will depend on inflation's path, earnings, and consumption data between now and July. The BoJ's Quarterly Outlook Report will also be closely watched as it could give a hint as to the Bank's future policy decision. If we are right about inflation staying above 2% and cash earnings rising above 5% from May, the BoJ is likely to hike as early as July.

The surge in wages could be seen in payrolls as early as May

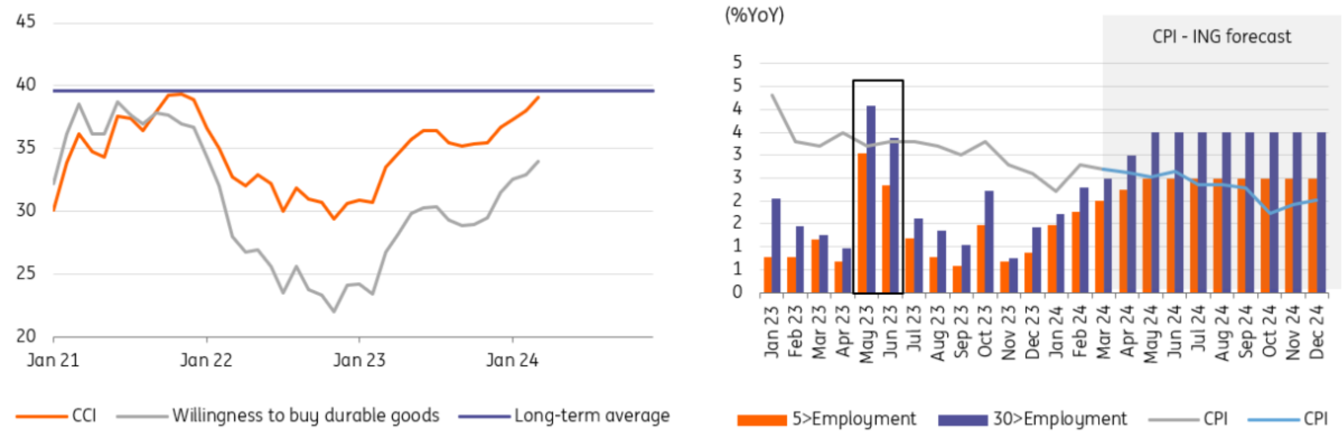
Last year's wage negotiations resulted in a relatively solid 3.6% YoY increase, but consumer prices rose by 3.3%, resulting in no real wage growth at all. However, in 2024, wage growth is expected to exceed 5%, while consumer prices are expected to slow to 2.3%, turning real wage growth positive. History tells us that newly agreed wage increases usually kick in from May onwards. Data on that will be released in early July, just a few weeks before the July Bank of Japan meeting. Also, given the strong corporate earnings this year, we expect larger-than-normal bonus payments to be made, so strong wage growth should pave the way for that BoJ rate hike.

Household consumption has been picking up despite some distractions

After a large dip in the fourth quarter of 2023, retail sales in Japan finally rose on a monthly basis in the first two months of this year despite car sales dropping for the past three months and the major earthquake at the beginning of January. We expect a technical payback in car sales from March as a distinctive factor related to a car safety scandal issue fades.

Given that's a major component of total household spending, it suggests retail sales are set to improve more meaningfully in the second quarter, supported by stronger wage growth and associated consumption. In addition, a leading indicator for household consumption, the consumer confidence index, has been rising for the past six months. Consumers' willingness to buy durable goods has advanced meaningfully as well, suggesting a consumption recovery is ahead of us.

Consumer confidence advanced for six months while real cash earnings is likely to turn positive from May



Source: CEIC, ING estimates

More divergence to come for the CEE region

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The story in the CEE region is entering another phase of divergence, both in the economy and inflation profile as well as in monetary and fiscal policy. Signs of economic recovery are a mixed bag for now, but the region is moving in the right direction. On the other hand, inflation will bounce up in some cases – and this will be a problem for monetary policy

Prague, Czech Republic

Poland: Gradual GDP recovery as central banks grow more hawkish

Monthly data and short-term forecasts show that the consumption revival is finally underway, with rapid disinflation and double-digit growth in nominal wages buoying real household income. We are of the view that the scale of improvement in the real disposable incomes of households gives room for both higher savings and spending. Polish – and global – manufacturing is gradually recovering. We have confidence in our forecast of 2024 GDP growth of 3% on the back of domestic demand, with some upside risk.

CPI fell to 1.9% year-on-year in February. Two-thirds of the decline from the February 2023 peak is due to the unwinding of supply shocks. Headline inflation temporarily fell below the National Bank of Poland's target, but is expected to bounce back in the coming months as the long-awaited economic rebound gains steam on the back of a consumption-led recovery, supported by a robust expansion of real disposable income. We don't think the NBP has room for complacency as the inflation target was not reached in a sustainable manner. Headline inflation is set to start mounting in the coming months amid a return of VAT on food, the upcoming expiration of the energy shield and some pickup in core inflation along with consumption growth acceleration in upward pressure on services prices from high wages growth.

The NBP remains cautious, stressing upside risks to inflation prospects and even showing rising concerns about elevated wage growth. The MPC saw a change in tone and became even more dovish in April. NBP Governor Adam Glapiński stated that rate cuts are not debated within MPC. We are of the view that policy rates will be kept on by the end of 2024. We see 75-100bp of cuts in 2025.

Czech Republic: Signs of recovery with inflation heading below target

Recent weeks have seen the first signals of a recovery in the Czech economy, especially in leading indicators such as PMI and consumer confidence. But we've also seen some positive signs in retail sales and a strong auto sector within industrial production. It's still a long way from turning us positive, but at least expectations have touched bottom and the trend of negative surprises may be over. Moreover, the latest GDP data delivered a significant fourth quarter improvement in 2023 over flash expectations, which even the pessimistic Czech National Bank did not ignore in its comments. Nevertheless, the Czech economy's flagship within the CEE region remains its inflation profile, which we estimate is heading below 2% since the central bank's target has been reached. Core inflation should also approach the target as service inflation pressures ease. The labour market also saw some signs of easing that haven't occurred in the Czech Republic for several years, while 2023's final quarter national accounts suggest that wage growth is slowing further but turning into positive territory in real terms.

Overall, the central bank may be quite happy about the current developments – but given the weaker CZK, it seems to continue to prefer a more cautious approach, i.e., cutting rates at the current pace of 50bp per meeting. An analysis of the new neutral rate estimate should be presented at the May meeting, which could move above the current 3.00%. However, for now we leave our forecast unchanged, implying 3.50% for the CNB rate at the end of this year mainly due to the undershooting of the inflation target in the coming months.

Hungary: Waiting for more clarity

Another month has passed in 2024, and yet the general economic outlook in Hungary is hardly any clearer. The incoming data was rather mixed. On the activity side, the sectoral divergence continued – but this time, industrial production surprised on the upside while retail sales were something of a cold shower. Despite strong real wage growth, households remain cautious. We may be in the first phase of recovery from the extreme inflation shock. Consumers may be upscaling as their financial situation slowly improves, but this only helps in terms of sales value and not volume. Labour market statistics are also deteriorating, while the savings rate remains near historic highs. A more optimistic explanation could be that demand for services is rising, but to be sure, we need to wait for the detailed first-quarter GDP data. However, if we add to the mix the exceptionally strong performance of the construction sector in February, we may be in for an upside surprise in terms of overall economic activity in the first quarter. On the other hand, inventory levels in Hungary – and virtually across all of Europe – are still near record highs, while industrial order books are deeply negative (-17% year-on-year), suggesting that a booming recovery is still a long way off.

With inflation less of a hot topic, investors are focusing more on monetary and fiscal policy. The main news is the spectacular (almost theatrical) improvement between policymakers in Hungary. With the hatchet at least seemingly buried, the country-specific risk premium on the forint has started to evaporate. On the other hand, the central bank’s hawkish communication has been well received. Perhaps too well, as the market is pricing in a really significant downscaling of rate cuts in the second quarter, which we tend to disagree with, especially if market stability remains high. As a result, with yet another supportive inflation print in March, the market may start to price in a stronger rate cut (current pricing is 50bp versus our call of 75bp), pushing EUR/HUF higher again. And with the delivery of 75bp of easing, rate cut expectations for May-June could also be raised. If we continue to get strong US data and/or some global risk-off (e.g., escalation in the Middle East), we could easily end up at around 400 in EUR/HUF in the second quarter.

Romania: Accelerating growth and a cautious easing cycle ahead

The Romanian economy lost speed in 2023, growing only 2.1% (compared to 4.7% in 2022). The breakdown for the fourth quarter of last year released on 8 March confirmed both persistently strong investment activity and strengthening momentum in private consumption, on the back of continued EU funds inflows and sharp real wage gains respectively. This year, we expect the stronger momentum in private consumption to continue and re-emerge as a key growth pillar, along with still-strong fixed investments. Overall, we expect growth to accelerate to 2.8%.

On the monetary policy front, we think that the National Bank of Romania is preparing the ground for a cautious easing cycle ahead. We continue to expect the first 25bp rate cut at the next meeting in May, as well as a total of 100bp rate cuts by year-end. There are mild upside risks to our year-end key rate forecast, driven by the fiscal slippage, high wage growth and a stronger-than-expected private consumption early in the year.

On the fiscal front, the budget deficit slipped visibly to 1.7% of GDP by February and it reportedly reached 2.5% in March (2024 official target: 5.0% of GDP). We keep our 5.5% forecast at this stage. The government could still cut some investments, should the European Commission (EC) want immediate progress. Moreover, the reorganisation of the tax collection authority and a potential increase in SMEs taxation are key factors to watch. Lastly, a new EC leadership team from summer onwards brings another layer of uncertainty. Getting to -3.0% of GDP looks out of sight until 2027-2028 at the earliest. We expect the EC to remain tolerant towards delays in the deficit reduction as long as public investments stay strong.

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FX: We’re paring back our dollar pessimism

We have been mildly bearish on the dollar for some time. Our forecast dollar decline was premised on a US soft landing and a more dovish Fed outlook than the consensus. However, our new house view of a later/shallower Fed easing cycle means we have to pare back our dollar pessimism. The case for EUR/USD being materially over 1.10 by year-end has faded

Our dollar house-view has changed

The case for a higher EUR/USD fades

Given the more substantial changes being made to our Fed profile this month, we feel that now is the right time to cut back our end 2024 EUR/USD forecast to 1.10, which is consensus. This has been a difficult call for us in that, in theory, an environment of lower US rates and marginally improving global growth prospects should be a promising one for EUR/USD. Yet the reality is that real interest rate spreads have been steadily widening in favour of the dollar over recent months, and it has only been the low volatility rally in global equity markets (a mild dollar negative) which has prevented EUR/USD from trading closer to the 1.05/1.06 area.

In our 2024 FX Outlook published last November, we made the case for EUR/USD to stay pretty range-bound through the first quarter of this year and then embark on a modest rally from the second quarter onwards as the Fed prepared to pull the trigger on a June rate hike. Over recent months, we have been salami-slicing our year-end EUR/USD forecast lower as US hard data has failed to slow.

We are also flat-lining our 2025 EUR/USD forecast at 1.10 for the time being, acknowledging that, at current levels, EUR/USD is not far from its medium-term fair value and that the US monetary/fiscal/trade mix for 2025 remains very uncertain.

For USD/JPY, we are particularly revising up our 2025 profile given the view of our US rate strategy team that a term premium will probably have returned to US Treasury markets by this time. Despite a slightly more hawkish Bank of Japan, we therefore suspect USD/JPY will not spend too much time sub 140 over the next eighteen months.

Some early thoughts on the US election and FX

Though the Presidential candidates have yet to put much flesh on the bones of their policy platforms, most FX participants are thinking that former President Donald Trump's agenda is going to be more positive for the dollar, largely through the trade side. Presumably opinion polls coming in after the summer break will start to weigh on FX markets.

However, the makeup of Congress and what the next Administration plans to do on the fiscal side will be key. A looser fiscal/tighter monetary policy mix under Donald Trump would likely be seen as more dollar-positive, although investors will be wary of debt sustainability. Additionally, US protectionism during a US slowdown has not always ended well for the dollar; just think back to the early 1990s!

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Pressure for higher rates and wider spreads

There is quite a contrast between the US and eurozone's rates narrative. The discount for a rate cut in the US has shifted to September, but in Europe, it's still June and/or July. That means upward pressure on market rates and wider spreads. And it also anticipates a steepening of the eurozone curve from both sides

Varying rate expectations: The ECB's Christine Lagarde and the Fed's Jay Powell

US Treasury yields remains under upward pressure

In previous cycles, the 10yr yield typically managed to fall appreciably once the Fed has peaked. In the current cycle, the 10yr yield has, in fact, risen post the peak. What is clear is market rates have not fallen by anything near what would have been typically expected from a "Fed peak moment". See more here.

Firm labour market data and pops in inflation data have muddied Fed rate cut ambitions. And the latest payrolls and consumer price inflation reports largely contain more of the same. Bottom line: the data since the Fed has peaked has not been consistent with an excuse to cut, which delays confirmation of July 2023 as the peak.

That, in turn, exposes an excuse for the 10-year yield to continue to retest higher for as long as the economy refuses to lie down. We've now hit 4.5%. The next big target is a potential re-visit of 5%. With another run of 0.3% or 0.4% month-on-month readings for March inflation, the pressure is building in that direction.

Eurozone market rates can't ignore the US

In contrast, the eurozone is moving in the opposite direction as the discount for a June and/or July cut remains hard, while it has virtually disappeared for the Fed (a first cut from September is now discounted). This is quite an unusual circumstance but reflective of a US economy that remains more inflation-prone than the eurozone and, indeed, more vulnerable from a growth perspective. This is being echoed on the curve through a widening in the Treasury versus Bund spread, which has now shot above 200bp and is likely to continue to widen.

Progress towards lower longer tenor market rates for the eurozone is being frustrated by upward pressure on Treasury yields. The US 10yr Treasury yield, now at 4.5%, contrasts with a 10yr Euribor rate of c.2.7%. Should the US 10yr head towards 5%, the Euribor 10yr could be dragged towards 3%, even as the ECB prepares to cut. This would allow for steepening as 2yr Euribor moves from 3.2% down to sub-3%, finding it easier to shift clear of the US 2yr.

Bottom line, we see upward pressure on Treasury yields in the months ahead, and eurozone market rates are being dragged a touch higher by the directional impulse coming from the US. Hence, there's a continued widening of the spread from eurozone market rates to US ones. We should also see some steepening from the front end on the eurozone curve for as long as the ECB sticks to its pre-Fed rate cut ambitions.

GDP forecasts

Developed Markets (QoQ% annualised growth)

	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
US	2.5	1.9	0.0	0.6	2.5	2.4	1.3
Japan	0.8	4.0	3.2	0.8	1.9	1.3	1.1
Germany	0.6	0.3	1.1	0.9	-0.1	0.1	0.9
France	0.0	0.8	1.4	1.2	0.9	0.5	1.3
UK	1.3	0.8	1.2	1.2	0.1	0.4	1.3
Italy	0.3	0.8	1.3	1.2	0.7	0.5	1.0
Canada	0.4	4.0	0.4	1.2	1.1	0.5	1.5
Australia	0.4	1.2	1.6	2.4	2.1	1.1	2.4
Eurozone	0.9	1.2	1.1	1.6	0.5	0.4	1.4
Austria	0.6	0.8	1.4	1.6	-1.0	0.1	1.5
Spain	1.4	1.6	1.8	2.2	2.5	1.8	2.2
Netherlands	1.7	0.8	1.3	1.7	0.1	0.7	1.3
Belgium	0.4	0.8	1.2	1.2	1.5	1.0	1.4
Greece	0.7	1.9	2.5	2.3	2.0	1.4	2.0
Portugal	1.2	1.8	2.0	2.2	2.3	1.6	2.2
Switzerland	0.8	0.8	1.2	1.2	0.8	0.9	1.3
Sweden	3.2	-0.7	1.2	1.4	0.0	0.6	1.3
Norway	1.3	1.5	1.9	1.9	1.1	1.2	1.9

Emerging Markets (YoY% growth)

	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
Bulgaria	2.3	2.7	3.0	3.5	1.8	2.9	3.3
Croatia	4.1	3.3	3.3	2.4	2.8	3.3	2.7
Czech Republic	0.4	0.8	1.6	2.0	-0.2	1.2	2.2
Hungary	1.1	2.1	2.1	3.0	-0.9	2.1	3.8
Poland	2.1	3.2	3.3	3.4	0.2	3.0	3.5
Romania	2.8	2.3	2.2	3.5	2.1	2.8	3.0
Turkey	4.8	3.2	2.5	1.8	4.5	3.0	3.5
Serbia	4.2	3.4	2.8	2.7	2.5	3.5	3.5
Azerbaijan	4.0	2.5	2.0	1.5	1.1	2.5	2.7
Kazakhstan	4.5	3.8	5.0	4.5	5.1	4.5	5.0
Russia	4.0	1.3	0.0	0.5	3.6	1.5	1.0
Ukraine	3.5	3.5	3.2	3.7	4.5	3.5	5.0
China	4.7	5.4	4.6	4.7	5.2	4.8	4.4
India	5.8	7.3	7.4	6.4	7.7	6.7	7.2
Indonesia	5.1	5.0	4.9	5.2	5.0	5.1	5.2
Korea	2.3	2.0	1.6	1.2	1.4	1.8	1.7
Philippines	5.9	6.3	5.0	5.4	5.5	5.4	5.1
Singapore	3.2	2.0	2.8	2.3	1.1	2.5	2.6
Taiwan	5.4	2.5	2.3	2.3	1.4	3.1	2.4

[1] Norway: Forecasts are mainland GDP

Source: ING estimates

CPI Forecasts (pa)

%YoY	1Q24F	2Q24F	3Q24F	4Q24F	2023F	2024F	2025F
US	3.2	3.4	2.9	2.6	4.1	3.0	2.0
Japan	2.5	2.6	2.4	1.9	3.3	2.3	1.7
Germany	2.7	2.2	1.9	2.3	6.0	2.3	2.2
France	3.0	3.1	2.7	2.4	5.7	2.8	2.0
UK	3.5	1.7	1.6	1.8	7.4	2.1	1.9
Italy	1.0	1.3	1.8	1.9	6.0	1.9	2.0
Canada	3.2	3.0	2.1	1.6	3.8	2.2	2.1
Australia	3.7	3.7	3.2	3.3	5.6	3.5	2.8
Eurozone	2.6	2.5	2.2	2.2	5.5	2.4	2.1
Austria	4.2	3.2	2.9	2.3	7.8	3.1	2.1
Spain	3.1	3.3	3.3	3.0	3.6	3.2	2.2
Netherlands	3.0	2.4	1.8	2.2	4.1	2.3	2.5
Belgium	2.7	2.6	3.1	2.4	4.0	2.7	2.1
Greece	3.5	3.0	2.2	1.8	4.2	2.2	2.0
Portugal	1.7	2.1	2.4	2.6	4.4	2.4	2.1
Switzerland	1.2	1.0	1.2	1.1	2.1	1.1	1.1
Sweden	2.9	2.4	2.5	2.4	6.1	2.2	2.2
Norway	4.4	2.9	3.2	2.8	5.5	3.3	2.5
Bulgaria	3.3	3.1	2.9	3.5	9.6	3.2	4.1
Croatia	4.0	3.0	1.8	2.4	8.0	2.7	2.6
Czech Republic	2.1	1.9	1.7	1.9	10.8	1.9	2.0
Hungary	3.7	4.3	4.5	5.5	17.6	4.5	4.2
Poland	2.8	3.1	4.2	4.5	11.4	3.7	3.6
Romania	7.2	6.0	5.3	4.8	10.5	5.8	4.1
Turkey	68.5	74.0	47.2	43.2	53.9	58.0	28.6
Serbia	5.7	4.5	4.1	4.0	12.5	4.6	4.3
Azerbaijan	4.2	1.2	2.7	4.2	8.9	3.1	3.8
Kazakhstan	9.6	9.0	8.6	8.1	14.8	8.8	7.4
Russia	7.6	7.6	6.7	5.4	5.9	6.8	4.4
Ukraine	5.5	6.0	8.0	9.5	11.7	8.1	7.3
China	0.1	0.5	1.1	2.1	0.2	0.9	1.9
India	5.1	5.0	4.2	4.5	5.7	4.7	4.7
Indonesia	3.2	3.4	3.0	3.2	3.9	3.2	3.5
Korea	3.4	3.0	2.8	2.4	3.6	2.5	1.5
Philippines	3.3	4.2	3.6	3.2	6.1	3.6	3.5
Singapore	3.3	3.5	3.2	3.1	4.0	3.3	2.8
Taiwan	2.5	2.6	2.4	1.9	2.5	2.4	1.5

*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
$/bbl							
Brent	82.00	87.00	88.00	85.00	82.00	86.00	80.00
EUR/MWh							
Dutch TTF	28.00	25.00	25.00	35.00	41.00	28.00	29.00

Source: ING estimates

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