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What a second Trump term means for you

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Carsten: What a second Trump term means for you

Trump's victory means there are more 'known unknowns' than even that other Donald, Mr Rumsfeld, could ever get his head around. But I'm going to try to cut through the bluster and the electioneering promises to sketch where we're headed next. One thing's for sure: an emboldened Donald Trump is not good news for Europe

Now's not the time to be naive

At least it's over. An election full of superlatives, over-analysis and bombast that would embarrass even the most committed World Cup football commentator.

And we have a winner...Donald Trump. Inflation and immigration seem to have been the deciding issues, so we'd expect him to do everything he can to deliver on his promises. My dear colleague James Knightley has done a great job in following the US elections and we sent out this instant reaction note on Wednesday. Our November Monthly is now a first attempt to put the implications of the US vote into numbers for the global economy. These forecasts will surely change in the coming months once we know more about actual policy announcements by the new Trump administration and the potential policy responses by other countries.

Don't be too naive, though. We shouldn't take Trump's election promises as a starting point for his policy agenda. And let's not forget he's much better prepared for his second term in office than he was for his first. Leaving the nitty-gritty number forecasts aside for a moment, I do see a couple of economic themes in the US and Europe, which will shape both economies over the coming years.

Something of a nightmare for Europe

In America, we will see another episode of 'trying trickle-down economics in real life'. An economic policy experiment, also known as Reagonomics or Trumponomics, uses the infamous Laffer curve to back up the theory that lower taxes will eventually lead to higher government revenues as they disproportionally stimulate the economy. So far, the score between theory and successful practice is, unfortunately, 2 to nil. The idea that tariffs can help reduce US government debt misses the point because they're not surcharges that foreign governments pay the US government but are higher costs that eventually have to be paid by consumers.

It will also be interesting to see how tax cuts and deregulation can simultaneously lead to higher growth and lower inflation. I wish the Fed good luck in cutting rates in what could soon become another supply-side shock combined with a potential battle for its own independence.

In Europe, the Trump win means that the worst economic nightmare comes true. His second term in office hits the European economy at a much less convenient moment than the first. Back in 2017, the European economy was relatively strong. This time around, it is experiencing anaemic growth and is struggling with lost competitiveness. A looming new trade war with tariffs of 10 to 20% on European goods could push the eurozone economy from sluggish growth into recession. Germany, which heavily relies on trade with America, would be particularly hard hit by tariffs on European automotives.

Additionally, uncertainty about Trump's stance on Ukraine and NATO could undermine the recently stabilised economic confidence indicators across the eurozone; deregulation in the US of both the tech and financial sectors will make an already

unlevel playing field even more undulating. Trump's economic policies could further cannibalise European competitiveness.

Interesting policy experiments to come

European politicians claim to be prepared for a second Trump presidency. However, even with talks about an existing list of potential trade retaliation measures, it would be the very first time in Brussels that such a list has not leaked to the media. And that's an indication it might not even exist. Trump hits Europe not only at a time of economic weakness but also one of political instability.

During the first Trump term, Emmanuel Macron and Angela Merkel were a strong political axis. Today, France is struggling, and the German government has just collapsed. There's not exactly a strong bulwark. It really casts doubts about Europe's ability to find adequate responses to Trump. Actually, finding these answers is not the problem. They're already at hand in September's Draghi report, calling for reforms, deregulation, cross-border activities, and large-scale investments to improve growth, productivity, and competitiveness. Sure, it's easier said than done, but 'if not now, then when?' is, once again, the question for Europe.

Trump 2.0 will bring interesting policy experiments to the US and Europe. I always knew it: *May he live in interesting times*, is not just a simple Chinese proverb; for this economist, it's becoming a curse.

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Our key calls following the US election

- US growth is likely to be higher in the first half of next year than previously expected. Donald Trump's decisive victory and the prospect of a smooth political transition should unlock delayed investment spending.
- The Trump administration's initial focus is likely to be on domestic policy, including immigration and extending/expanding tax cuts. We think the earliest timing for tariffs to be implemented is the third quarter of 2025. China would likely be impacted first, with a gradual series of tariffs introduced on different products from other countries coming in later.
- A stronger near-term growth outlook and the prospect of tariffs and labour supply constraints may make the Federal Reserve more cautious on rate cuts than we previously anticipated. We still expect another cut in December, but we think it may choose to pause in January and go more slowly. We expect rates to peak slightly higher than we previously thought, at 3.75%.
- Risks to the eurozone growth outlook have clearly shifted to the downside and a 50bp rate cut at the December meeting has again become more likely. We now expect the European Central Bank to cut interest rates to around 1.75% by next summer, below neutral levels.
- We are revising our EUR/USD forecast lower following the Republican clean sweep. That translates into a 1.00-1.05 EUR/USD range over the next quarters, with peak downside risks around the start of 2026.
- US 10-year yields are set to end the year at 4.25% but rise significantly through 2025 to end next year at 5.50%.

ING global forecasts

	2024					2025F					2026F				
	1Q24	2Q24	3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	2.8	2.7	2.8	1.5	1.2	1.6	1.7	1.9	1.8	1.8	1.5	1.4	1.7
CPI headline (% YoY, aop)	3.2	3.2	2.6	2.5	2.9	2.1	1.9	2.1	2.0	2.0	2.3	2.9	2.9	2.9	2.8
Federal funds (%, eop)	5.50	5.50	5.00	4.50	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
3-month SOFR rate (%, eop)	5.40	5.40	5.00	4.40	4.40	4.20	3.90	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
10-year interest rate (%, eop)	4.25	4.40	3.80	4.25	4.25	4.25	4.75	5.00	5.50	5.50	5.00	5.00	5.00	5.00	5.00
Fiscal balance (% of GDP)					-7					-6.7					-6.4
Gross public debt / GDP					98.7					101.6					103.6
Eurozone															
GDP (% QoQ, ann)	1.2	0.7	1.5	-0.1	0.7	0.0	0.8	1.2	1.3	0.6	1.0	1.1	1.1	1.3	1.1
CPI headline (% YoY, aop)	2.6	2.5	2.2	2.2	2.4	2.0	1.9	2.0	1.9	2.0	2.1	2.2	2.2	2.2	2.2
ECB Deposit Rate (%, eop)	4.00	3.75	3.50	2.75	2.75	2.25	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month interest rate (%, eop)	3.90	3.70	3.25	2.60	2.60	2.10	1.70	1.75	1.80	1.80	1.80	1.80	1.90	1.90	1.90
10-year interest rate (%, eop)	2.30	2.60	2.10	2.25	2.25	2.30	2.40	2.50	2.70	2.70	2.70	2.70	2.80	2.80	2.80
Fiscal balance (% of GDP)					-3.1					-2.8					-2.7
Gross public debt/GDP					89.1					89.7					90
Japan															
GDP (% QoQ, ann)	-2.4	2.9	1.2	2.4	-0.1	0.8	0.8	0.8	1.2	1.3	1.2	1.2	1.2	1.2	1.1
CPI headline (% YoY, aop)	2.5	2.7	2.8	2.5	2.6	2.8	2.4	2.0	1.7	2.2	1.8	1.7	1.8	1.8	1.7
Target rate	0.10	0.10	0.25	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month interest rate (%, eop)	0.26	0.30	0.43	0.65	0.65	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25
10-year interest rate (%, eop)	0.73	1.06	0.86	1.00	1.00	1.25	1.25	1.50	1.75	1.75	2.00	2.00	2.00	2.00	2.00
Fiscal balance (% of GDP)					-7					-7					-7
Gross public debt/GDP					245					250					250
China															
GDP (% YoY)	5.3	4.7	4.6	4.8	4.8	4.3	5.0	4.8	5.0	4.8	4.7	4.8	4.4	4.5	4.6
CPI headline (% YoY, aop)	0.0	0.3	0.5	0.8	0.4	0.9	0.9	1.1	1.6	1.1	1.8	1.4	1.6	1.6	1.6
7-day Reverse Repo Rate (% eop)	1.80	1.80	1.50	1.40	1.40	1.40	1.40	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
3M SHIBOR (% eop)	2.16	1.92	1.84	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.65	1.65	1.65
10-year T-bond yield (%, eop)	2.30	2.21	2.20	2.10	2.10	2.10	2.15	2.20	2.25	2.25	2.30	2.30	2.35	2.35	2.35
Fiscal balance (% of GDP)					-5.0					-5.10					-5.2
Public debt (% of GDP), incl. local govt					121					130					140
United Kingdom															
GDP (% QoQ, ann)	2.8	1.8	0.7	0.8	0.9	1.0	1.2	1.5	1.5	1.1	1.3	1.3	1.3	1.3	1.4
CPI headline (% YoY, aop)	3.5	2.1	2.0	2.5	2.6	2.5	2.0	2.3	2.1	2.2	2.1	2.1	2.1	2.2	2.1
BoE official bank rate (%, eop)	5.25	5.25	5.00	4.75	4.75	4.25	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-month interest rate (%, eop)	5.25	5.05	4.80	4.55	4.55	4.05	3.55	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20
10-year interest rate (%, eop)	3.95	4.20	4.00	4.25	4.25	4.10	4.00	4.10	4.25	4.25	4.00	4.00	4.00	4.00	4.00
Fiscal balance (% of GDP)					3.0					2.7					2.5
Public sector net debt (FY, %)					100.1					100					99.8
EUR/USD (eop)	**1.08**	**1.08**	**1.12**	**1.05**	1.05	**1.04**	**1.04**	**1.04**	**1.02**	1.02	**1.01**	**1.02**	**1.03**	**1.05**	1.05
USD/JPY (eop)	**151**	**160**	**143**	**140**	155	**155**	**157**	**158**	**160**	160	**158**	**155**	**153**	**150**	150
USD/CNY (eop)	**7.22**	**7.26**	**7.00**	**7.10**	7.10	**7.05**	**7.05**	**7.00**	**7.00**	7.00	**6.95**	**6.95**	**6.90**	**6.90**	6.90
EUR/GBP (eop)	**0.86**	**0.87**	**0.84**	**0.83**	0.83	**0.83**	**0.83**	**0.82**	**0.82**	0.82	**0.82**	**0.83**	**0.83**	**0.84**	0.84
ICE Brent - US$/bbl (average)	**82**	**85**	**79**	**74**	80	**74**	**72**	**73**	**69**	72	**67**	**69**	**73**	**70**	70
Dutch TTF - EUR/MWh (average)	**28**	**32**	**36**	**37**	33	**33**	**27**	**24**	**30**	29	**32**	**25**	**23**	**30**	28

Source: ING forecasts

US: Trump emboldened by strong mandate

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Election clarity and a low tax, business friendly environment supports near-term growth, but higher long-term borrowing costs, trade tariff disruption and immigration constraints present headwinds for 2026 with inflation likely to remain more elevated than previously thought

View of the US Capitol, Washington DC

Clarity and low taxes boosts near term sentiment and spending

President-elect Donald Trump's decisive victory has already boosted risk sentiment as markets anticipate a lower tax, business friendly environment. The prospect of a smooth political transition to the new president also means that companies that delayed investment spending and hiring on election/regulatory uncertainty may now be prepared to start putting money to work. This improved clarity has led us to modestly revise higher our growth forecasts for the first half of 2025.

What happens thereafter will be determined more by what Trump delivers, and we suspect the scale of his victory will embolden him to push hard on his three main policies:

1) Extend and modify the Tax Cuts & Jobs Act which is currently scheduled to expire at the end of 2025, accompanied by lower corporate taxes and exempting tips from taxation.

2) Restrict immigration, particularly from the Southern Border, and,

3) Implement tariffs that he believes will raise revenue, promote re-shoring of production and boost economic growth and jobs.

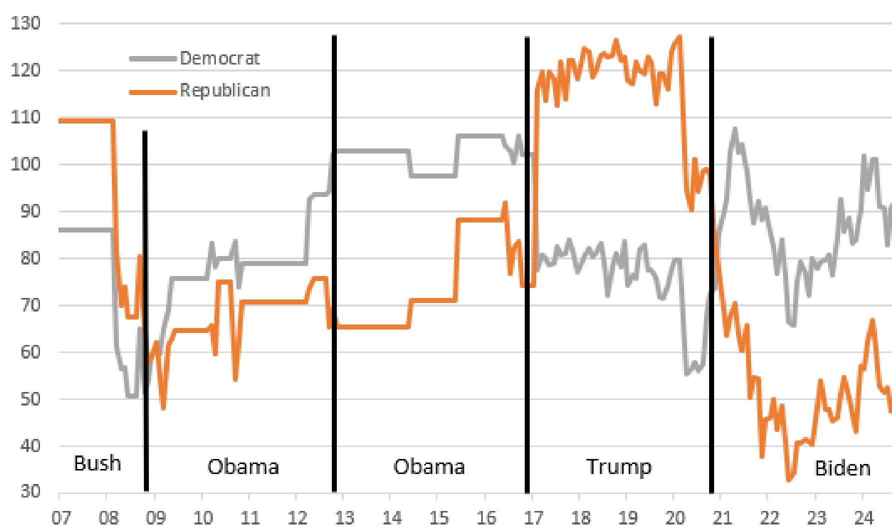
Tariffs are a clear threat to longer term growth

In terms of timing, he is likely to repeat his playbook of 2017 and focus on the domestic issues first. We strongly suspect the initial emphasis will be on immigration policy. He is also likely to set in motion his plans for reshaping government early on. He believes there is significant waste, abuse and fraud that needs to be tackled and he will be seeking to reduce regulation tied to energy and environmental policy.

The second phase will be on taxation, which should be the easiest to deliver on given Republican control of Congress. The third will most likely be trade tariffs, where he has proposed 60% tariffs on Chinese imports and 10-20% tariffs on products from elsewhere in the world.

We anticipate that the earliest time for tariffs to be implemented will be the third quarter of 2025, with a more likely time frame of the fourth quarter of 2025/first quarter of 2026. We also believe there will be a phased introduction given the potential for significant economic disruption. China would likely be impacted first, with a gradual series of tariffs introduced on different products from other countries coming in later.

Voter discontent lingers on long after an election: Conference Board consumer confidence by party affiliation



Source: Macrobond, ING

The Fed may cut more slowly and less aggressively than previously thought

In terms of the implications for Federal Reserve policy, the stronger near-term growth outlook and the prospect of tariffs and labour supply constraints pushing up prices over the medium to longer term may make the Federal Reserve more cautious on rate cuts than we previously anticipated. We still expect another cut in December, but it may be that after 100bp of cumulative easing, it chooses to pause in January and go more slowly – at, say, a 25bp per quarter pace and stopping earlier than we previously thought at 3.75%.

2026 risks skewed to downside on tariffs, immigration policy and higher long-term borrowing costs

Looking to 2026, while the income and corporation tax changes are a positive for economic growth, reduced immigration and forced repatriation could become a major constraint, particularly in industries such as agriculture. The number of American-born workers is already falling, and if the number of foreign-born workers slows sharply, this could act a brake on growth and pushes up labour costs. To counteract this, productivity would need to increase substantially.

Tariffs are another supply-side constraint on the economy. These are taxes that will be paid by US importers (typically wholesalers and retailers) when the products enter the US. They then decide whether to absorb the extra costs or pass them on either partially or in whole to the customer.

In an environment of sweeping tariffs it is difficult to immediately substitute foreign made for domestically-made products, due to capacity constraints. Consequently, the hit to retailers' profit margins and the erosion of household spending power from higher

inflation could be significant in an economy where consumer spending accounts for 70% of all activity. Retaliation from foreign countries also has to be expected, which will create challenges for US exporters and manufacturers. If we see weaker global demand from escalating tit-for-tat trade tariffs, it could mean less investment and fewer jobs, not more as Trump expects.

The more significant headwind to growth could be come from higher US government borrowing costs. Fiscal sustainability concerns, where the US is already running a fiscal deficit of 7% of GDP, may lead to investors demanding a higher term premium for lending to the US government over the longer term. This could then be intensified by tariff induced inflation worries. 10Y Treasury yields have already risen from 3.6% to 4.5% and we are now forecasting the potential for 10Y US Treasury yields rising above 5%, which will push up borrowing costs broadly through the economy. The biggest impact would be felt around higher mortgage rates and corporate borrowing costs.

This is very much an early sense of the direction of travel; what Trump proposed during his election campaign and what he eventually delivers as president may be very different. Nonetheless, our view is that while the growth trajectory in the near term looks encouraging, the more aggressive he goes on trade and immigration policies the more challenges this may present for the US economy over time.

The upside and downside risks to our global outlook

Everything we think could go right or wrong for the global economy over the coming months

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As the dust settles on the US election result, we think the focus is going to quickly recentre on the macro story

The upside risks: Higher growth, higher rates

Expectations for US growth in 2025 are already pretty high following Donald Trump's victory in the presidential election. Extended and expanded tax cuts, combined with the certainty of a clean and clear election result, have bolstered our 2025 GDP numbers. Profit margins and corporate balance sheets look healthy, too.

But the outlook for 2026 is more uncertain and clouded by the threat of tariffs. If those tariffs are watered down – either because they're applied more narrowly across sectors, or because they're used as a bargaining chip to achieve other foreign policy objectives – then that would boost growth in the longer term.

US growth would benefit from the reduced hit to consumers. But softer tariff rises would be a much bigger boon for Europe. Investors ramped up European Central Bank rate cut bets after Trump's victory on the basis that the continent would be hit hard by American trade policy.

Europe also stands to benefit if China manages to restore private sector and household sentiment with a large-scale, effective stimulus package which leads to a recovery in asset prices. This would see the housing turn a corner with prices stabilising and inventories falling at a faster pace after fiscal measures accelerate SOE purchases of unsold homes. Consumption might also receive a kick-start from fiscal policy support, triggering a virtuous cycle.

Finally, our global outlook receives a boost if tensions in the Middle East subside and/or if the war in Ukraine peacefully ends earlier than many expect.

All of this would see less divergence between the Federal Reserve and European Central Bank over the coming years, driven mainly by the latter. The Federal Reserve, in the absence of tariffs and the resulting inflation hit, might end up taking rates a little lower

than it otherwise might. The ECB, faced with a stronger growth outlook, would keep rates closer to 2.5% in the medium term. Depending on how far rates fall initially, that could even entail some very modest rate hikes in the first half of 2026.

The downside risks: Recession fears reignited, regardless of the election

As the dust settles on the US election result, the focus is going to quickly recentre on the macro story. Until we get further progress on tax cuts, and at least over the next couple of meetings, the Fed's focus is going to stay resolutely on the jobs market, where the downside risks have certainly not gone away. October's jobs report was distorted by hurricanes, but sizeable backward revisions were a reminder that the hiring trend is slowing. Further surprise weakness in the next few payrolls reports could revive fears that the Fed is behind the curve on rate cuts.

Fiscal sustainability concerns and the threat of tariff-induced inflation have already led to US government bond yields rising sharply. They could rise much further and pull mortgage rates and corporate borrowing costs higher too. Combined with dollar strength, this tightening of monetary conditions could weigh heavily on US growth.

The second risk is that China's stimulus falls short in scale or is directed to ineffective areas, and confidence once again collapses. Property prices continue to decline at a concerning pace and the latest round of measures remains insufficient, continuing to suppress sentiment through a negative wealth effect. Consumption and private investment remain weak as a result, and public-led investment is insufficient to offset this drag. External demand falls off sharply due to tariffs and/or slowing global economic growth, which causes China's current primary growth driver of industrial production to sputter.

Oil remains a clear "known unknown". As Warren discusses separately, the risk is that OPEC+ decides to continue rolling over additional voluntary supply cuts into 2025. A revival in Iran-Israel tensions, which for the first time prompted a direct hit to oil supply, could also take prices materially higher. The tail risk, as always, is that we see a blockade in the Strait of Hormuz. That could take prices above $150 USD/bbl.

Central banks face a dilemma – look through the rise in oil prices and support demand, or keep rates elevated in order to balance second-round effects.

Experience from the past couple of years suggests policymakers might opt for the latter. Rates fall back to neutral more quickly but don't go materially "accommodative". But weaker global growth could easily see a rethink at the major central banks as unemployment rises.

The US election aftermath for central banks

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Why Donald Trump's victory in the US presidential election means fewer Fed rate cuts and more from the ECB than we'd previously expected

A likely Republican clean sweep in the US has sent our previous expectations for the timing and pace of future Fed easing slightly off-kilter

Federal Reserve

We had previously looked for the Federal Reserve to cut its policy rate down to 3.5% by next summer on the view that the central bank felt it had scope to loosen policy closer to neutral, in an environment where the jobs market is cooling and inflation is less of a threat. However, the likely Republican clean sweep of the presidency, the House and the Senate gives Donald Trump the power to push ahead forcibly with his plans for immigration controls, tax cuts and higher tariffs on goods. This may generate a stronger growth story in the near term, but with more inflation pressures over the medium to longer term – which may make the Fed more reluctant to cut interest rates as far and as quickly as we had previously expected.

A 50bp cut in September and a 25bp move in November are still expected to be followed by a 25bp interest rate cut in December, but there is now a greater chance of a pause at the January FOMC meeting. Indeed, rather than cutting rates 50bp per quarter, we are now favouring 25bp per quarter from the first quarter of 2025 with rates perhaps bottoming higher than we previously thought at 3.75% in the third quarter of 2025.

This would still be above what we would term the "neutral" rate, which is itself likely to shift higher since the Fed may take the view that if fiscal policy is going to be kept looser by president-elect Trump relative to its previous baseline forecast, then it needs to run monetary policy tighter to keep inflation at its 2% target.

There may be some speculation that given Trump's sweeping mandate he may choose to exert more influence or control over the Federal Reserve. Chair Jerome Powell would undoubtedly push back against this, thereby asserting the Fed's independence. However, Powell's term expires in February 2026 and Trump could nominate a candidate that is more willing to accommodate his views on interest rate policy.

That all said, the likelihood of rising term premium (resulting from inflation fears and large fiscal deficits) implies the prospect of a higher and steeper Treasury yield curve. This will push up both household and corporate borrowing costs and with the dollar likely to strengthen further, monetary conditions will become tighter. This may mean the Fed feels it doesn't need to hike short-term rates in 2026 despite tariffs likely pushing inflation above target.

European Central Bank

October was the month of an important turnaround at the ECB. Instead of inflation concerns related to still-high and sticky domestic inflation, it seems that growth concerns have become the predominant factor driving monetary policy. As a result, the ECB has stepped up the pace at which it is reducing interest rates, and a further stepping up with larger sized rate cuts can no longer be excluded.

However, with eurozone GDP growth in the third quarter being higher than the ECB's September projections (0.4% quarter-on-quarter vs 0.2%) and inflation rebounding in October, some ECB members might start doubting the chosen U-turn. Everything seemed as if the ECB's December meeting would be affected by two main questions: were the disinflationary trends just halted at the end of October, or are they for real? And will the ECB acknowledge structural weakness in the eurozone economy, or continue believing in a return to potential growth from early 2025 onwards?

That was before the US elections. With the outcome now clear, risks to the eurozone growth outlook have clearly shifted to the downside and a 50bp rate cut at the December meeting has again become more likely. Even if the ECB normally doesn't speculate about possible policy changes elsewhere, it would be almost irresponsible not to take the US elections into account. At least if the central bank wants to get ahead of the curve.

And getting ahead of the curve seems to be an important motive for the ECB currently. Having been slow to address rising inflation and arguably late in stopping rate hikes last year, it now appears determined to get ahead of the curve and return interest rates to neutral as quickly as possible. For the doves, this is a no-brainer, and for the hawks, the argument might be that getting rates back to neutral quickly could be enough to avoid another episode of unconventional monetary policy with quantitative easing and negative interest rates further down the line.

With the incoming Trump administration posing new economic risks for the eurozone, we now expect the ECB to cut interest rates to around 1.75% by next summer, below neutral levels. While this will be an attempt to support growth in the eurozone, the longer term inflation picture has not changed. 'Greenflation', demographics and changes to globalisation are still likely to push up price pressures over the longer term.

It clearly looks as if the ECB will be caught for a long while between disinflationary risks in the short term and inflationary risks in the long term.

Bank of England

The latest UK government budget, which saw big tax rises but even bigger spending increases projected for 2025-26, has forced markets to rethink Bank of England expectations. Rates are expected to stay above 4% for the next two years, which would mean considerably fewer rate cuts overall in this cycle than the ECB or the Federal Reserve.

Investors also seem to have concluded in the immediate aftermath of Donald Trump's election that the assumed hit to European growth (which the UK isn't immune to), will have a more marginal impact on the Bank of England's rate-cutting cycle, relative to the ECB.

We think this is misplaced. Services inflation, the key guiding light for the BoE, has been undershooting central bank projections. If that continues in the new year – and we think it will – then that is likely to be a catalyst for faster rate cuts through the spring.

Admittedly, we agree with markets that a December rate cut now looks less likely, though it remains possible should the two intervening inflation reports prove more benign than anticipated. Our base case is that the Bank will cut rates again in February, and at at every meeting thereafter until rates reach 3.25%.

OPEC+ adds to uncertainty in the oil market

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We expect oil and European gas prices to fall throughout 2025, with both balances looking more comfortable. The macro and geopolitical backdrop suggests there is more upside for gold

The Mittelplate oil drilling platform in the North Sea

OPEC+ delayed supply increase leaves uncertainty

A combination of Chinese stimulus hopes and elevated geopolitical risks following Iran's missile attack on Israel boosted oil prices in early October, pushing Brent above $80/bbl. However, Israel's limited retaliation raised hopes of a de-escalation in tensions, which saw oil prices fall back into the low $70s by the end of October. However, recent comments from Iran suggest that this view may be a bit presumptuous.

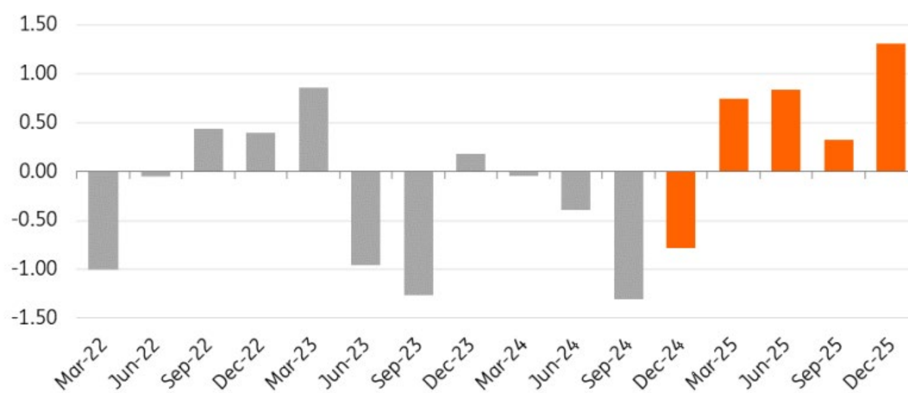
Putting aside geopolitical risks and focusing on fundamentals, the outlook for the oil market remains bearish in 2025, with an oil surplus through the year. However, the key assumption behind this is that OPEC+ will go ahead with the gradual unwinding of 2.2m b/d of additional voluntary supply cuts. This leaves a big risk in our view because if OPEC+ decides to continue rolling over these cuts through 2025, the global oil balance will likely look very different to how we currently see it.

The risk of this has also increased, with OPEC+ recently deciding to delay the return of these barrels by one month. We had previously held a view that the lack of compliance amongst some members and the loss of market share that members were facing would push the group to increase supply. However, it seems that the Saudis and the broader group may be more committed to supporting the market than originally thought.

Geopolitical risks continue to be countered somewhat by demand concerns. Global oil demand is estimated to grow by less than 1m b/d in 2024 and 2025. China has been a key driver in the revisions lower of demand in recent months, where cumulative crude oil imports this year are down around 3% year-on-year.

While we have lowered our fourth quarter 2024 Brent forecast from $79/bbl to $74/bbl, our 2025 forecast remains unchanged at $72/bbl.

Global oil market to return to surplus if OPEC+ unwinds cuts as planned in 2025 (m b/d)



Source: ING Research, IEA, EIA and OPEC

European natural gas storage peaks

European natural gas prices have continued to strengthen over the last month. TTF traded to a year-to-date high and prices remain around EUR40/MWh. Supply risks have supported prices. In addition, while European gas storage is very comfortable at a little more than 95% full, storage levels are below last year's levels and also below where we expected them to start the heating season, which will only provide further support to prices.

Speculators continue to hold a sizeable net long in TTF, which does leave some positioning risk in the market. If supply risks or a tighter-than-expected market do not materialise as we move through the winter, there is the potential for an aggressive sell-off as speculators liquidate their longs.

One of the big concerns for the market is the loss of Russian pipeline gas flows through Ukraine at the end of this year when the transit deal expires. This would equate to Europe losing around 15bcm of gas per year. While Ukraine has made it clear for more than a year that they do not plan to extend this transit deal, the loss of this supply could still provide some support to the market, particularly if we see a colder winter. Involved parties are looking for a solution to the potential loss of this supply, which includes possibly a deal with Azerbaijan, which would see gas continuing to transit Ukraine. Failing that, Europe would have to rely on further LNG imports, something that should be manageable as we see a ramp-up in new US LNG export capacity.

The ramping up of this capacity and the expectation that European storage will end the 2024/25 winter at around 40% full suggests that prices will fall through 2025. We continue to assume that TTF will average a little under EUR30/MWh.

Key risks to this view include any significant delays in LNG start-ups and a colder-than-usual Northern Hemisphere winter. Forecasters currently see a 60% probability for a La Nina weather event over the winter months (which can bring cooler weather). However, if it occurs, it is expected to be a weak event.

Gold hits another record high

Gold set another all-time high last month, peaking at $2,790.10/oz, driven by the uncertain geopolitical landscape. Gold has been one of the best performers among major commodities this year. It has surged more than 30% year-to-date, hitting a series of records on the way. It's been supported by safe-haven demand amid heightened geopolitical risks and uncertainty ahead of the US election. Rate cut optimism, strong central bank buying, and robust Asian purchases have also supported gold's record-breaking rally this year.

We believe gold's positive momentum will continue in the short to medium term. The macro backdrop will likely remain favourable for the precious metal as interest rates decline and foreign reserve diversification continues amid geopolitical tensions, creating a perfect storm for gold. Safe-haven demand combined with bullish bets from hedge funds – hovering around four-year highs, with gold-backed ETF holdings posting a fifth consecutive month of gains in October – could mean the rally in gold prices is not over just yet.

China stimulus rally runs out of steam

Copper and other industrial metals fell last month after initial optimism over a recovery in demand, following a series of stimulus announcements from China, had slowly run out steam. China has been a drag on metals' demand for more than two years. A broad economic slowdown and the crisis in the property sector have weighed on demand for industrial metals. We have seen plenty of property support measures this year, but so far, they have failed to have a meaningful impact on metals demand.

Beijing is expected to unveil more support measures in November at the National People's Congress Standing Committee meeting. More fiscal stimulus measures are likely to revive investor sentiment and boost metals prices.

We believe demand prospects for industrial metals in late 2024 and early 2025 are now looking brighter. Improving manufacturing sentiment following US Fed rate cuts and more certainty on US-China policy are likely to create upside to metals prices.

Chinese policy provides an upside risk to our outlook, depending on the strength and the speed of the rollout of measures, which we will monitor closely. On the downside, we believe rising protectionism and trade barriers are the major risks to our price outlook.

Eurozone's third-quarter growth surge could prove to be an illusion

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Eurozone growth in the third quarter was unexpectedly strong, but this pace appears unsustainable. Winter is expected to be weak, which will likely lower the average growth for 2025. With falling inflation and a potential negative sentiment shock in the wake of Trump's victory, the ECB is likely to cut interest rates more rapidly

A new Limited Traffic Zone in Paris, and limited growth ahead for the eurozone, too

Growth surprises in the third quarter

The eurozone grew by a more-than-expected at 0.4% quarter-on-quarter in the third quarter. That was the strongest quarterly growth in two years. However, underlying growth dynamics are weaker than the headline figure suggests.

For starters, there is the extremely volatile Irish contribution caused by the accounting practices of multinationals based in Ireland, which added 0.1 percentage point to eurozone growth. And French GDP received a significant boost from the Olympics, something that will not be repeated in the fourth quarter.

The unexpected 0.2% growth in Germany was mainly driven by government expenditure and household consumption, as well as the downward revision of second-quarter growth. But worsening job perspectives, highlighted by the announced closure of three German Volkswagen factories, and ongoing policy uncertainty, might dampen German household consumption growth in the coming quarters.

The winter months will be more challenging

The fourth quarter started with rather muted sentiment data. The PMI composite increased marginally but remained in contraction territory, while the European Commission's sentiment indicator fell in October. The inventory correction in manufacturing is still ongoing, with orders declining.

At the same time, the growth pace in services is softening. On the positive side, there is improving confidence in the retail sector, a sign that, for the time being, households are spending some of the increased real income.

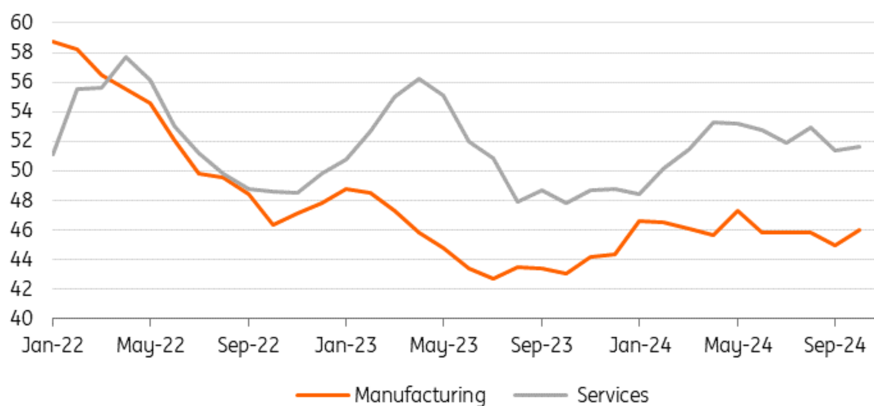
And though it might still take a few months before registering growth, confidence data in the construction sector has been creeping higher for four consecutive months. Nevertheless, we remain convinced that the winter quarter will see little growth, if at all.

Uncertainty stemming from a second Trump presidency regarding upcoming tariffs, deregulation in the US and American support for Ukraine might weigh on eurozone economic sentiment. A winter recession can no longer be excluded.

From the second quarter of 2025 onward, growth might start to pick up gradually. With a likely increase of US import tariffs, net exports are expected to be less of a growth driver in 2026.

On the back of the stronger-than-expected third-quarter growth in 2024, we have had to adjust our growth forecast for this year marginally to 0.7%. For 2025, we keep our 0.6% growth forecast, while we have downgraded our outlook for 2026 from 1.3% to 1.1%.

PMI sentiment figures remain weak



Source: LSEG Datastream

Inflation temporarily higher

After the better-than-expected September inflation, October data was a bit disappointing. Headline inflation rose to 2% year-on-year, while core inflation stabilised at 2.7% YoY. Month-on-month service price growth accelerated again.

Of course, we shouldn't read too much into one month's data. The trend still seems to be down, though on the back of less supportive base effects headline inflation is expected to increase further over the next two months.

Not that this will come as a surprise for the ECB, as President Christine Lagarde mentioned during the press conference at the last policy meeting that they expected inflation to rise in the short run.

Growth concern is likely to push the ECB to a 50bp rate cut in December

The ECB's rate cut in October came after the better-than-expected September inflation data and a very weak PMI reading.

The ECB's focus is now shifting towards sustaining growth. In that regard, it is no surprise that some members of the Governing Council have been pleading for a 50bp rate cut in December.

In normal times, the solid growth figure and eurozone unemployment falling to a record low in September would have discarded this proposal. But on the back of the Trump election, the fear of a negative confidence shock might be sufficient to tilt the balance towards a 50bp cut. Thereafter the ECB is likely to continue with a 25bp rate cut every meeting until the deposit rate reaches 1.75%.

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The UK's bond yield spike is reaching its limits

British 10-year government bond yields have risen almost as far as in the US since the start of October, following a surprisingly bold budget. But we think that the rise in borrowing costs, particularly in shorter-dated bond yields, could struggle to go much further

Downing Street, London

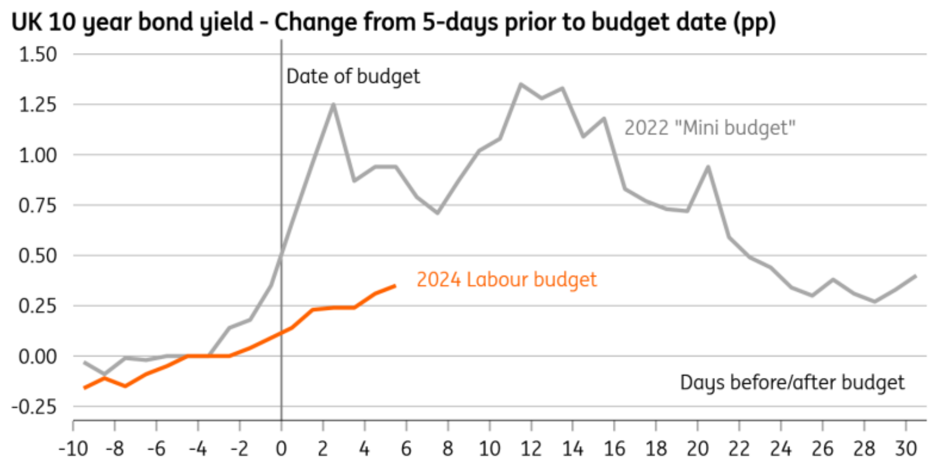
The UK's budget has sent bond yields higher

The dust has settled on the first UK budget under the Labour government, and the financial market verdict is clear. Borrowing is going to be higher, and the perceived impact on growth and inflation means that the Bank of England will be forced to cut rates more slowly.

That might sound surprising, given the tax hikes in this budget will generate £40bn/year in additional revenue after five years. But only £25bn of that will materialise in the next fiscal year, and that's set against roughly £60bn extra in additional spending over the same period.

Bond yields had settled some 25bp higher than before the budget and ahead of the US election. That's a big reaction, though considerably less so than the aftermath of the so-called "mini budget" in September 2022. Interestingly, financial markets have been much more reticent to price additional rate cuts in the UK following Donald Trump's victory than they have in the eurozone.

UK bond yields have risen post-budget, though not nearly as much as after the 2022 "mini budget"



Source: Macrobond, ING calculations

Why UK yields could struggle to rise further

We think this upward repricing in UK rate expectations is looking stretched. After this month, there are fewer than three rate cuts priced for the next two years. By any reasonable estimation, that would leave Bank Rate well above neutral across the medium term, at a time when markets think the European Central Bank will take rates below 2%.

There are three reasons to treat the financial market reaction to the budget with caution. Firstly, the last budget in March baked in big real-terms cuts across government departments. Those were never going to be realised, so spending plans were always going to get revised higher – even if the scale was still a bit of a surprise. The budget deficit is expected to be almost a percentage point smaller as a share of GDP in the next fiscal year than the current one.

Secondly, we're sceptical that government investment will rise as quickly as the projections suggest. Capital spending is expected to be £18bn higher next year, which could be difficult to mobilise in such a short period of time.

Thirdly, some investors are assuming that the additional tax employers must now pay on worker salaries will just get passed on in the form of higher prices. But firms' ability to pass on higher costs has waned over the past year or so. And the tax rise could amplify the existing weakness that is emerging in the jobs market. Excluding government-related hiring, employment has fallen by 0.8% since the turn of the year, according to payroll data.

The bottom line is that the spread between US and UK yields is likely to gradually fall over the coming months, particularly for shorter-dated bonds. We think the Bank of England's outlook looks more similar to the Fed or ECB than markets currently assume.

Admittedly, we're sympathetic to the view that the budget has reduced the chances of a December rate cut. We've removed that from our latest forecasts.

But the inflation story is looking brighter. Services inflation data has been undershooting Bank of England forecasts and surveys suggest further declines are coming in 2025. That should enable the BoE to move faster on rate cuts from the first quarter of next year.

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China's economy stabilises but November's uncertainties loom large

A strong end to the third quarter leaves China within striking distance of this year's growth target, but uncertainty remains as markets await China's stimulus plans and as Trump 2.0 looms

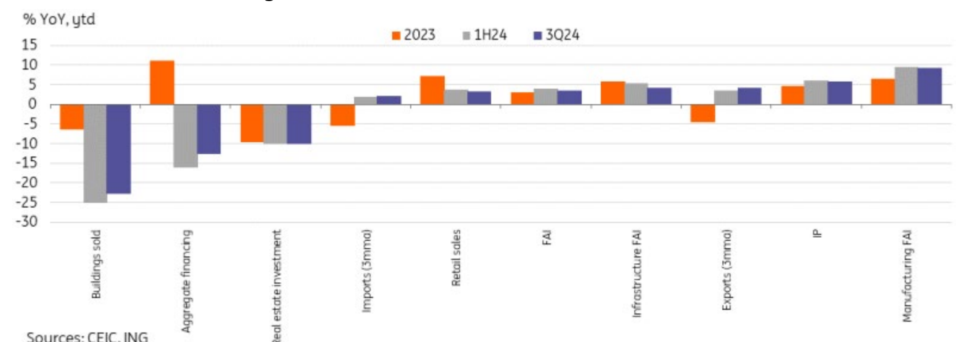
China's President, Xi Jinping, at a celebration of the National People's Congress in September

2024 growth target is still within striking distance

September's economic data generally outperformed expectations, with a stronger-than-expected third-quarter GDP growth rate of 4.6% YoY, bringing year-to-date growth to 4.8% YoY. September saw a rebound of both industrial production (4.5% to 5.4%) and retail sales (2.1% to 3.2%), which both were a little stronger than forecasts and helped the third quarter number beat expectations. That said, the real number continues to benefit from a negative GDP deflator, which actually means that real growth outpaced nominal growth for the sixth consecutive quarter.

Even if September's slight improvement continues, it may still be challenging to reach the 5% growth target for the full year. However, it will not take too much to keep growth 'around' 5%, which would just about be good enough for policymakers.

China economic activity monitor



Source: x

Property sector still awaiting more tangible support

The major exception to last month's slight improvement in the data was China's property market. September's new home prices fell by 0.71% MoM and used home prices declined by 0.93% MoM, little changed from the rate of decline in August.

Policymakers recently highlighted "halting the real estate decline and spurring a stable recovery" as a priority, but numerous support measures this year have not yet arrested the decline.

From 2021's peak, new home prices have declined 9.0%, and secondary market prices have dropped 15.5%.

Focus remains on fiscal stimulus follow-up

The strong rally of Chinese equities cooled off in October as it soon became apparent that no fiscal policy package was ready to go hot on the heels of the PBOC's monetary policy easing in September and as markets began to see higher odds of a Trump victory in the US elections.

This week's National People's Congress meeting will be watched closely for any possible adjustments to budget deficit targets or specifics relating to new special bond issuance or other quantitative targets for fiscal stimulus.

We expect to see some form of sizeable fiscal stimulus follow-up, as it would be odd for bold moves from the PBoC not to be accompanied by substantive fiscal measures. However, it will take some time as fiscal policy is more complex, even in the best of times, and cash-strapped local governments will make implementation more challenging this time around. Media reports have signalled that the policy package remains flexible and that some RMB10tn over three to five years is being considered. This would fall into our expected range of RMB 2-4tr per year. The bulk of this is expected to be concentrated on addressing local government debt issues and supporting the property market by acquiring unsold homes and idle land. After Trump's election victory in the US, there is also a possibility we could see a larger stimulus push from China in anticipation of incoming tariffs.

We expect a lower multiplier effect of fiscal stimulus this time around, as rather than focusing on infrastructure investment, a lot of money will be used to address current debt and inventory issues. Eventually, we expect to see a growing focus on boosting demand, but this too will take time as there remains a lot of conflicting opinions on 'if' and 'how' to stimulate consumption, making it less obvious how to deploy fiscal resources. We expect fiscal stimulus measures will likely be reflected more in 2025's data rather than in the remaining months of 2024.

Stable inflation supports Bank of Japan's policy normalisation

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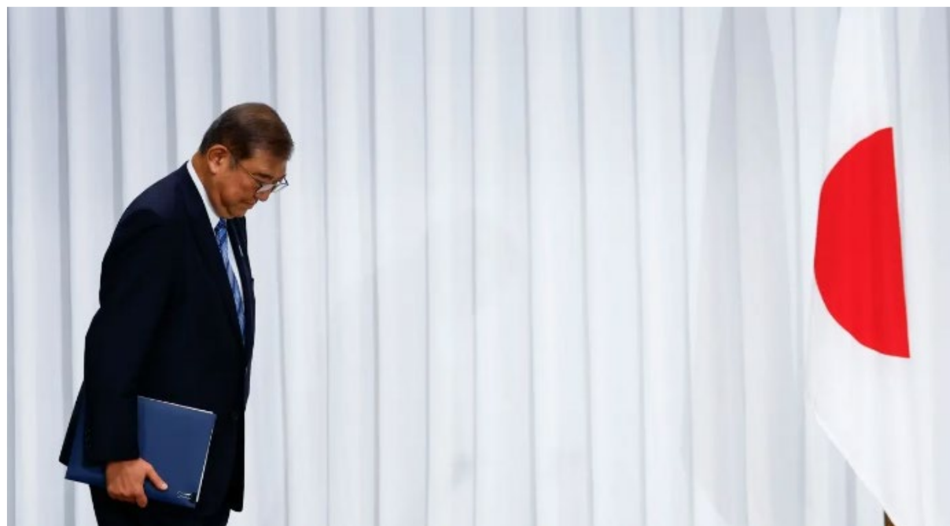
The Bank of Japan will continue on its path of policy normalisation, supported by sustained inflationary pressures and a recovery in economic activity



Japan is experiencing a period of political uncertainty and new prime minister Shigeru Ishiba's approval ratings have fallen sharply recently

GDP is expected to moderate in the third quarter

Japan's automobile production disruptions in July and August started to normalise in September, but the mega-earthquake warning and typhoon in early September may have hindered a full recovery in economic activity. We foresee a solid recovery in manufacturing output from October onwards.

In the services sector, which makes up more than 60% of GDP, retail sales, tourism, and dining out have shown the most improvement. Consequently, services will continue to drive overall growth, bolstered by strong wage increases.

Meanwhile, the trade deficit is expected to narrow, contributing positively to growth, driven by weaker commodity prices and a gradual increase in exports. We expect GDP to decelerate from 2.9% (quarter-on-quarter seasonally adjusted annualised rate in the second quarter of 2024) to 1.2% in the third quarter, and then to grow at a faster pace of 2.4% in the fourth.

Inflation will remain above 2% until mid-2025

The latest headline inflation logged 2.5% year-on-year in September and is expected to stay above 2% until mid-2025. Early Tokyo inflation in October confirmed that services prices rose firmly. This indicates that Japanese firms are passing on input cost increases to output prices more than before as households, supported by higher wage growth, can better afford these price hikes.

With the end of the summer energy subsidy programme in October, headline inflation is expected to reaccelerate in the near term, and service-led price increases are likely to continue.

Japan is going through an unusual period of political uncertainty

The ruling Liberal Democratic Party coalition failed to secure a majority in the lower house for the first time since 2009, and new Prime Minister Shigeru Ishiba's approval ratings have fallen sharply recently. A special Parliament session is expected on 11 November, when parliaments convene to elect a prime minister seat. We believe Shigeru is likely to receive the most votes. His party has the largest presence, and the opposition parties' wide political spectrum makes it difficult for them to collaborate effectively.

Given that the LDP still lacks a majority in parliament, the new government will likely need to collaborate with minority parties in policymaking. We believe this local political uncertainty will not significantly impact the BoJ's policy decisions in the near future.

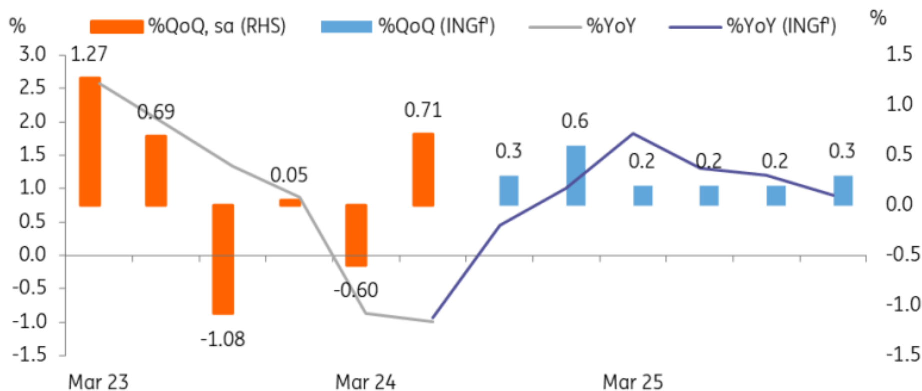
BoJ: rate hikes will come in 2025

Looking back at the October BoJ meeting, we believe Governor Ueda's comments were hawkish. He didn't indicate when the next rate hike would be, but he also didn't completely rule out a hike in December, instead stating that every policy meeting from now on will be a live event.

Ueda reiterated that the economy is following the BoJ's projected path, and if this continues, the central bank will implement another rate hike. His overall tone on growth and inflation was more positive compared to the previous meeting.

Between now and the BoJ's December meeting, US data, Tokyo's November inflation, and labour cash earnings will be closely watched. But, the most dominant factor in the BoJ's December move is likely to be FX. Even if the BoJ decides to extend its pause in December, we continue to believe that the BoJ will hike rates by 25bp each quarter until it reaches 1.0%.

The market is quite dovish about the BoJ's rate path



Source: CEIC, ING estimates

CEE: Fiscal risk amid global turbulence

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The region's economy continues to disappoint, although the recovery from last year is still underway. Figures for the third quarter once again show a mixed picture. The monetary easing cycle has essentially stopped and switched to a wait-and-see or fine-tuning mode

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

Poland: Higher fiscal deficit and start of monetary easing only next year

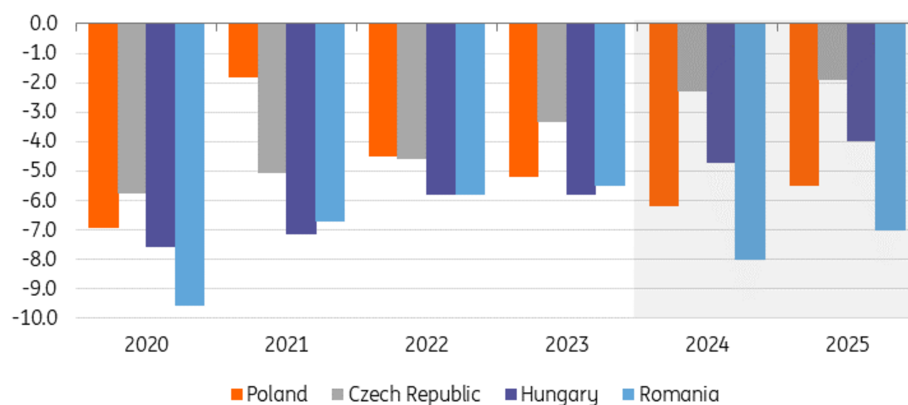
In the last days of October, market attention was focused on fiscal policy (the 2024 budget amendment) and the soft patch in GDP in the third quarter. Despite a volatile domestic backdrop, the general outlook didn't change much at November's policy meeting. Softer macro activity data for 3Q24 might suggest a less hawkish stance, but a more expansionary fiscal outlook and rising headline inflation still call for restrictive monetary policy. Most of the Council seems ready to discuss rate cuts in the first half of next year. We anticipate the first 25bp rate cut in the second quarter of next year, with a total reduction of 100bp in 2025.

September's data has confirmed that 3Q24 was softer than 2Q24, with annual GDP growth likely below 3%. We revised our 3Q24 GDP growth forecast to 2.5% year-on-year from 2.8% YoY due to weaker consumer spending. Hopefully, the sharp deterioration in consumption in September was not caused just by slower real disposable income growth (when headline CPI rebounded following energy price controls expired) but also by one-off effects like flooding in Western Poland. With easing consumption growth, declining fixed investment, and a worsening foreign trade balance, the downside risks to economic growth are increasing. But we hope this is a rather temporary soft patch, given that retail sales may recover and also that the PMI signalled a recovery for the fourth month in a row, recently matching some improvement in the structurally weak German automotive sector. Poland has other drivers of domestic demand, too, which may start in 2025, ie gradually increasing public investment due to the delayed start of the Recovery and Resilience Facility and cohesion funds. There is also significant potential for private investments, given that Poland's private debt is the second lowest in the EU. We forecast economic growth in 2024 may be close to, but below, 3%.

Headline inflation continues to rise due to less favourable base effects, energy price normalisation, and upward pressure on services prices, keeping core inflation high. High wage growth continues to drive services prices up. Headline inflation hit 5.0% YoY in September and is projected to peak around 5-6% YoY in early 2025 before moderating in the second half of the year. Our models still suggest that slower wage growth should bring inflation down in the second half of next year and 2026.

Authorities have finally embraced the fact that the 2024 revenues in the budget act were overly optimistic and in the draft budget amendment bill revised them down by PLN56bn. With spending plans unchanged, this boosted the state budget deficit and borrowing needs accordingly. The intention is to cover most of the new needs in 4Q24 from the liquidity cushion (around PLN130bn at the end of October), but it may reduce 2025 pre-financing needs. We also think the government may have shifted some of the 2025 spending to the 2024 budget. The general government deficit in 2024 may slightly exceed 6% of GDP vs the 5.7% of GDP planned a few weeks ago, making the 2025 fiscal adjustment effort even bigger than initially planned if the 5.5% of GDP target for 2025 remains unchanged.

Public finance balance (% of GDP)



Source: Macrobond, ING forecast

Czech Republic: Upper range inflation in a sub-potential economy

The Czech economy is expected to further operate below its potential, expanding by 0.9% this year and by 2% next. Private spending will remain the key driver of the economic rebound as household budgets continue to benefit from solid real wage growth. Consumption expenditure remains well below pre-pandemic levels but this gap is narrowing. Meanwhile, the industrial base is likely coming out of a protracted malaise, which would be reflected in next year's fixed investment contribution to economic performance. Indeed, the very hesitant investment approach is not good news for future growth, and Czech firms have started to realise that this will leave them at the mercy of fierce global competition, regardless of what Brussels does in terms of trade policy.

Inflation will likely increase to above 3% by the end of this year, yet announced reductions in electricity prices by large distributors are assumed to bring it back to the target early next year. In contrast, core inflation should remain elevated as price growth in the service sector remains sticky. The rebound in property demand and revival of the construction sector implies some price acceleration in the residential segment, which carries the potential to push rents higher. Despite recent job losses in the industry, the continued tightness in the labour market is set to contribute to solid nominal wage increases which should foster the appetite for spending and potentially drive price dynamics in the services and food segment.

Monetary policy conditions remain tight, as the recovery is only gradual, and the economy will likely remain below its potential over the next year or so. However, we expect rates to be reduced only gradually due to elevated core inflation, with a target level of 4% this year and 3.25% next. Such a cautious approach should support the domestic currency over the coming months and quarters, along with the foreseen economic pickup.

Hungary: Bracing for impact

Third-quarter GDP data surprised sharply to the downside, even relative to our already pessimistic view. The Hungarian economy slipped into a technical recession for the second time in three years. After a contraction of 0.2% in the second quarter, economic activity contracted by 0.7% on a quarterly basis in 3Q24. Based on the incoming data, we have lowered our GDP growth forecasts to just 0.6% in 2024 and 2.9% in 2025. The labour market deteriorated surprisingly in the third quarter, with employment falling and unemployment rising. It is too early to overreact, but it may be that companies have started to rationalise their workforce as the economic outlook deteriorates. The country's external balances have remained in positive territory, although here, too, there has been some kind of reversal as export activity has weakened. Nevertheless, we expect the current account to remain above 2% of GDP in the coming years.

After 44 months, headline inflation reached the central bank's 3% target in September. But this will be a short-lived visit as inflation will pick up in the fourth quarter due to base effects and rising fuel and food prices. We see inflation averaging around 4% next year. The National Bank of Hungary's room for manoeuvre has been severely constrained by the significant weakening of the Hungarian forint, first triggered by the market's excessive expectations of a rate cut, then by geopolitical risks and by the EM FX sell-off related to the rising chances of a Trump win and the potential for tariffs, which hit the forint hard. While the central bank kept the key rate unchanged in October and sent hawkish signals (prolonged period of unchanged rates), risk aversion continued, pushing EUR/HUF above 408.

Given the weak economic activity, the risk of significant fiscal easing is clearly increasing. This could heighten market concerns and place the forint under pressure due to potential downgrade risks from rating agencies if both GDP growth and the fiscal outlook worsen. Consequently, the market is now anticipating a rate hike from the National Bank of Hungary, instead of a rate cut. The outcome will hinge on the initial reaction following the US election.

Romania: Strong internal demand and fiscal looseness to keep upside pressures on rates

We expect domestic demand to remain robust in the third and fourth quarters. Higher pension income and public sector wages will provide a boost to disposable incomes while private sector wages will likely still grow at a robust pace. Meanwhile, net exports are set to continue to contribute negatively to growth in the coming quarters.

In other news, upward data revisions by the National Statistics Institute for the 2023 GDP growth have put additional downward pressure on our already optimistic 1.3% GDP growth projection for 2024. That said, an even larger fiscal deficit projection for this year is set to add further near-term stimulus, countering the statistical base effect to an extent.

On the monetary policy front, the National Bank of Romania left rates on hold at its October meeting, in line with our expectations. We think that the current environment will convince policymakers to hold fire once again in November, while they continue to monitor both internal and external risks. The visible fiscal slippage, vigorous wage

growth and geopolitical uncertainties are key considerations favouring prudence. For 2025, we foresee a total of 100bp of rate cuts, taking the key rate to 5.50%.

On the fiscal front, the budget deficit slipped visibly to 5.5% of GDP in January-September. We continue to expect a fiscal deficit of 8.0% in 2024 and 7.0% in 2025. Meanwhile, in October, the government published its medium-term fiscal adjustment plans, which are in line with our long-held view that the deficit will only see small adjustments in the near-to-medium, as the investment cycle is in full swing. While projected adjustments do not increase significantly even after 2026-2027, they will also coincide with the next election cycle, which is so far the key source of uncertainty and upside risk to the government's target of a 2.5% deficit by 2031.

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FX: Some clarity returns

A Trump win is clearly bullish for the dollar – but the challenge will be in timing it

We're revising our EUR/USD profile forecasts lower, and we see the pair approaching parity in late 2025/early 2026

Timing the dollar rally will be key

Ahead of the US election, FX market volatility had been rising in expectation of a very uncertain outcome. In the event, a clear result emerged very quickly and volatility, at least short-term volatility, has fallen. We and the market see the result as dollar bullish – but the timing the forthcoming rally will be the main challenge.

President-elect Trump's overwhelming mandate for looser fiscal policy plus universal protectionism should drag the dollar higher over a multi-year period. Yet the dollar fell in the first year of Trump's last presidency as his administration took time to build a consensus around tax cuts and to build the case for tariffs. This time around, we think aggressive overseas easing cycles, especially in Europe, mean that the dollar can stay strong throughout. And we pencil in peak dollar strength for something like late 2025/early 2026, when Trump's new administration is firing up tariffs at a time of high US bond yields.

One topic not discussed too much in the run-up to the election was Trump's dollar policy. An interview in July had floated the idea that he wanted a weaker dollar. Invariably there will be periods of volatility and temporary dollar weakness over the coming years when the new administration opines about the need for the currencies of trading partners to strengthen. But you can't always get what you want, and the dominant mix of the new agenda will be a dollar bullish one.

In terms of a EUR/USD profile, we have revised our forecasts lower and see it approaching parity in late 2025/early 2026. Elsewhere, the prospect of a global trade war is a negative one for emerging market currencies, which are also going to struggle with higher US Treasury yields.

A more 'agile' style (shall we say) of US policymaking from 2025 also suggests traded levels of FX volatility should stay higher. This is not the kind of environment in which carry trade strategies prosper, and also supported by Bank of Japan rate hikes, the Japanese yen might offer a little more resistance than usual to a dollar rally.

How Trump's victory is changing market sentiment

The dollar's up, US rates are up, equities are up - Donald Trump's emphatic win in America's presidential election has sent markets in a fresh direction. But after the noise of the victory dies down, where will they head next? ING's Chris Turner has some answers

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Rates: Expect the unexpected

With so many crosswinds to deal with, market rates have made a decision to rise, especially in the US. We find there is more room for this trade. In the eurozone there is resistance to this, and the combination results in wider spreads versus the US. This, too, can continue

US market rates have seen some dramatic moves in recent days

Confronting the US curve to neutral levels results in upward pressure on long rates

The movement in US market rates in recent weeks has been dramatic. Notably, the 80bp increase in the 10-year Treasury yield began just as the Federal Reserve implemented a significant 50bp cut. Historically, rate cut cycles have led to a rise in the 10-year Treasury yield, but typically only by 10-30bp, with 50bp being the previous high. This latest 80bp surge is more than just a reaction to the rate cut; it reflects a substantial reassessment of current macroeconomic conditions. Additionally, it coincided with growing confidence in financial markets for a Donald Trump presidency, which emerged well ahead of the election. It's practically been a one-way trade for higher market rates since that 50bp cut from the Fed.

The picture ahead is interlaced with conflicting issues. At times like this, it's always good to set out key neutral rates against which we can reference current market levels. Starting with the Fed funds rate, our neutral valuation is 3-3.25%. Given that, there is room for the Fed cutting to continue. Our neutral 10yr SOFR rate is 4%, a 100bp curve. The actuals sit below both of these estimates. As does the 10yr Treasury yield, where we identify neutrality as 4.5%. Then we've got to ask whether we should converge on neutrality or not. For the Fed funds rate we think not; we should settle some 50bp above neutrality. That alone should pressure the 10-year market rate above neutrality, too. And the supply aspect should independently pressure the 10yr Treasury yield above neutrality.

Given that backdrop, we can see the 50bp spread between 10yr SOFR and the 10yr Treasury yield continuing to widen, reflecting supply pressure on Treasuries. And the end game for 10yr SOFR is in the 4% to 4.5% area, with the 10yr Treasury yield concluding in the 4.5% to 5% range. That has also been our end-game hypothesis for this cycle, the caveat being an expectation for a hiccup along the way as the economy slows. And as that coincides with the Fed cutting in the background, there is an impulse for lower rates

right along the curve. Latest price action seems to suggest this phase has been skipped. It probably hasn't. We still think there is a decent probability we get such a move lower in market rates, but not until or unless we get a valid excuse to do so. Until then, we stay the course.

Eurozone rates are pulling back as best they can, widening spreads versus US ones

In the eurozone, there are quite different dynamics in play. But let's go through the elements first. Our neutral estimate for the European Central Bank's deposit rate is 2%. We likely need to hit this given the hurt being taken by the growth dynamo that is Germany. That continues to pull the front end lower. In the 10yr, if we talk Ester, we'd have 2.5% to 2.75% as a neutral area. Currently, 10yr Ester is 2.3%. On that measure, there is an upward pressure in play, or at the very least, we'd have to rationalise why 10yr Ester should remain below its neutral valuation. In contrast to the US, we can get there in part on account of the weakness of the economy. We can add to that an ongoing rate-cutting agenda from the ECB. Until that results in some positive macro results, longer tenor rates can be below neutrality.

That said, some sizeable spreads have now opened up between US and eurozone rates, to the tune of 175bp in the 2yr and 150bp in the 10yr. The fair valuation area is around 100bp. Of course, spreads can widen further to the extent that the US rate cut ambitions diverge further from eurozone ones. But if they do, it's likely to come from upward pressure on US market rates. This classic directional trade would place upward pressure on eurozone rates, just as we've seen in recent weeks. A compression tendency is more likely to coincide with a fall in market rates coming from the US, and that requires material macro angst in the US that we are not currently seeing but could well see in due course.

These are testing times

One thing is clear – these are testing times. There are considerable political pushes and pulls that have capacity to whip markets around. Any sense of a lack of political stewardship can quickly expose elevated deficits to bond market angst. Things can unravel quickly. At the other extreme, the evolution of macro vulnerabilities ahead can work to quicken central bank responses through rate cuts. That can act as a material comfort blanket for bonds. Either way, expect the unexpected.

GDP forecasts

Developed Markets (QoQ% annualised growth)									
	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
US	2.8	2.7	1.5	1.2	1.6	1.7	2.8	1.9	1.7
Japan	1.2	2.4	0.8	0.8	0.8	1.2	-0.1	1.3	1.1
Germany	0.8	0.4	-0.7	0.4	1.2	1.2	-0.1	-0.1	1.5
France	1.4	-0.4	0.4	0.8	1.2	1.6	1.1	0.7	1.4
UK	0.7	0.8	1.0	1.2	1.5	1.5	0.9	1.1	1.4
Italy	0.0	1.0	0.5	0.8	1.7	1.0	0.5	0.8	1.0
Canada	0.8	0.8	1.0	1.5	2.2	2.2	0.9	1.3	2.2
Australia	0.8	0.8	1.6	2.0	2.4	2.8	1.0	1.6	2.6
Eurozone	1.5	-0.1	0.0	0.8	1.2	1.3	0.7	0.6	1.1
Austria	1.2	1.2	1.0	1.2	1.2	1.2	-0.4	1.1	1.3
Spain	3.4	1.8	2.0	2.0	2.4	2.4	2.9	2.1	2.2
Netherlands	1.8	-0.1	0.6	1.3	1.6	1.8	0.4	1.3	1.4
Belgium	0.6	0.4	0.0	0.8	1.2	1.2	0.9	0.6	1.1
Greece	0.6	-0.3	1.4	3.2	3.2	2.2	2.2	1.8	2.0
Portugal	0.8	2.2	2.2	2.4	2.4	2.4	1.9	2.2	2.2
Switzerland	1.2	1.2	1.2	1.6	1.6	1.2	1.5	1.4	1.5
Sweden	-0.6	1.6	1.3	1.3	1.3	1.4	0.5	0.9	1.3
Norway	1.8	1.9	1.6	1.6	1.6	1.6	0.8	1.6	1.6
Emerging Markets (YoY% growth)									
	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
Bulgaria	2.3	2.6	2.9	3.1	3.2	3.2	2.3	3.1	3.2
Croatia	4.5	2.9	2.9	2.9	2.8	2.9	3.8	2.8	2.4
Czech Republic	1.3	1.4	1.6	1.8	2.2	2.4	0.9	2.0	2.5
Hungary	-0.8	0.5	1.0	1.9	4.1	4.9	0.6	2.9	4.5
Poland	2.5	3.1	3.2	3.1	3.3	4.1	2.7	3.5	3.8
Romania	1.7	1.8	2.8	3.4	2.7	3.1	1.3	3.0	3.0
Turkey	2.3	1.7	0.4	2.4	3.2	4.0	2.8	2.6	4.0
Serbia	3.1	3.2	3.6	3.8	4.1	4.2	3.7	4.0	4.2
Azerbaijan	5.5	3.0	2.0	2.5	3.0	3.0	4.3	2.6	2.8
Kazakhstan	4.6	3.6	5.4	5.5	5.3	5.7	3.7	5.5	4.5
Russia	3.0	2.5	2.0	2.5	1.5	1.0	3.8	1.8	0.5
Ukraine	1.5	3.7	2.5	4.0	5.0	5.5	3.5	4.3	4.5
China	4.6	4.8	4.3	5.0	4.8	5.0	4.8	4.8	4.6
India	6.8	6.6	6.3	8.1	8.9	7.3	6.9	7.6	7.3
Indonesia	5.0	5.0	5.1	5.1	4.9	5.0	5.0	5.0	5.1
Korea	1.5	1.7	1.0	1.7	2.0	1.8	2.2	1.6	1.4
Philippines	5.3	5.2	5.5	6.6	6.3	6.0	5.6	6.1	6.0
Singapore	2.7	2.1	2.4	2.5	2.6	2.7	2.7	2.6	2.7
Taiwan	4.0	3.4	3.5	1.9	2.9	3.4	4.7	3.0	3.4

Norway: Forecasts are mainland GDP
Source: ING estimates

CPI Forecasts (pa)

(%YoY)	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
US	2.6	2.5	2.1	1.9	2.1	2.0	2.9	2.0	2.8
Japan	2.8	2.5	2.8	2.4	2.0	1.7	2.6	2.2	1.7
Germany	2.1	2.6	2.4	2.1	2.3	2.4	2.5	2.3	2.2
France	2.1	1.7	1.8	1.8	1.8	0.9	2.3	1.6	2.0
UK	2.0	2.5	2.5	2.0	2.3	2.1	2.6	2.2	2.1
Italy	1.2	1.2	1.5	1.4	1.8	2.2	1.1	1.7	2.0
Canada	2.2	2.6	2.6	1.7	1.8	1.8	2.6	2.0	1.9
Australia	2.9	2.5	2.2	1.9	2.3	2.8	3.2	2.3	2.6
Eurozone	2.2	2.2	2.0	1.9	2.0	1.9	2.4	2.0	2.2
Austria	2.4	2.2	2.2	2.2	2.1	2.1	3.0	2.2	2.1
Spain	2.3	2.3	2.5	2.1	2.0	2.0	2.9	2.2	2.1
Netherlands	3.4	4.0	3.5	3.3	2.4	1.8	3.3	2.7	2.6
Belgium	3.2	2.7	2.1	1.9	2.0	2.1	3.1	2.1	2.0
Greece	3.1	3.1	2.9	2.6	1.8	1.8	3.0	2.3	2.0
Portugal	2.4	2.7	2.4	2.1	2.0	2.0	2.5	2.1	2.2
Switzerland	1.1	0.9	0.9	0.8	0.9	0.8	1.1	0.8	0.9
Sweden	2.1	0.8	1.1	1.7	1.8	1.8	1.7	1.7	2.0
Norway	2.8	1.8	1.9	1.9	1.5	2.1	3.0	2.1	2.2
Bulgaria	1.9	1.8	2.1	2.9	3.0	3.4	2.4	2.8	2.9
Croatia	1.9	2.4	2.6	2.6	2.6	2.5	2.9	2.6	3.3
Czech Republic	2.3	3.0	2.4	2.3	2.2	2.4	2.5	2.3	2.4
Hungary	3.5	4.0	4.0	3.9	3.9	3.8	3.7	3.9	3.2
Poland	4.5	4.8	6.0	5.5	4.0	3.5	3.7	4.8	3.0
Romania	5.0	4.4	3.7	4.2	3.8	4.1	5.5	3.9	4.0
Turkey	49.4	43.6	33.5	29.6	24.8	24.5	58.3	28.9	19.9
Serbia	4.3	4.0	4.2	4.1	3.6	3.4	4.6	3.8	3.4
Azerbaijan	3.2	4.1	5.0	5.3	3.5	3.6	2.2	4.3	4.5
Kazakhstan	8.4	8.5	8.2	8.1	7.4	6.7	8.7	7.6	6.3
Russia	8.9	8.4	7.8	7.3	6.7	6.1	8.3	7.0	5.1
Ukraine	8.0	8.0	9.5	7.0	6.5	6.0	6.8	7.3	5.0
China	0.5	0.8	0.9	0.9	1.1	1.6	0.4	1.1	1.6
India	4.1	4.3	5.2	5.1	3.6	4.6	4.6	4.6	4.7
Indonesia	2.0	2.2	2.1	2.0	2.1	2.2	2.1	2.1	2.2
Korea	2.1	1.9	1.5	1.7	1.7	1.7	2.4	1.6	2.0
Philippines	3.3	2.7	2.4	3.0	3.0	3.5	3.4	3.3	3.5
Singapore	2.7	2.4	2.7	2.5	2.3	2.3	2.7	2.5	2.4
Taiwan	2.2	1.7	1.6	1.5	1.4	1.5	2.1	1.5	1.5

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
Brent **($/bbl)**	74	74	72	73	69	80	72	70
Dutch TTF **(EUR/MWh)**	37	33	27	24	30	33	29	28

Source: ING estimates

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