ING

THINK Economic and Financial Analysis

ING Global Outlook 2024

30 November 2023

No magic spell

for a brighter world

Follow us
@ING_Economics

www.ing.com/THINK

No magic spell for a brighter world

2024 will hopefully bring some magic into the global economy, but we're going to have to wait until well into the second half. And even then, various conjuring tricks, whether they be from central banks, governments or something or someone unexpected, are unlikely to produce a grand, crowd-pleasing 'ta-da'

We won't be seeing a strong rebound

'Not again!'.

'Can't you be a bit more upbeat?'

I've heard this a lot this year, especially when talking about Europe. To some, 2023 has been better than feared as the US economy, in particular, has shown an almost magical resilience, and Europe has at least avoided a severe energy crisis. But maybe you're in the other camp that mostly sees a stuttering Chinese economy and stagnation in Europe amid a backdrop of a new war in the Middle East, an older one in Ukraine. High rates and higher-still inflation have marked another turbulent year with very few positive surprises.

Looking into next year, the global economy will do well to recall the wise words of Mary Poppins: a spoonful of sugar helps the medicine go down. So get your sugar cubes ready: 2024 will not be the year the global economy will see a strong rebound. In fact, it currently looks like we'll see a combination of this year's trends in China and Europe and a clear landing, be it soft or hard, for the US economy.

Trust me when I say this isn't because we need more imagination to magic up with something startling and fresh. It's instead because of the delayed impact of the monetary policy tightening and a lack of significant fiscal stimulus. And we're going to have to look harder for the positives.

From China to the US to Europe

So what does that mean in practice? Well, in China, the lack of new fiscal stimulus suggests we'll see a further loss of growth momentum; the correction of the real estate and construction sector looks likely to continue. Derisking in the US and Europe will also put more pressure on Chinese growth. Here, the monetary policy tightening of the last couple of years will increasingly leave its marks on the real economy, bringing relief to many authors of economics textbooks who now won't have to rewrite the chapters on the delayed impact of monetary policy on the real economy.

Consequently, the US economy will stage some kind of landing. We hope for a gentle one, but remember that the US economy has only once actually staged a soft landing. There should be a similar landing in Europe, but that's largely because the economy hasn't exactly been flying high and will glide down from a much lower altitude - it'll feel like an extension of the recent stagnation. As for inflation, that loss of growth momentum will add to what energy prices and base effects started this year and it should come down, at least for a while.

Europe looks at the fiscal woes in Germany with astonishment and amazement. It would be for the first time that a country with one of the lowest debt-to-GDP ratios in Europe puts itself in self-inflicted political and economic paralysis due to fiscal issues. It will be hard to find an easy way out. One thing is clear: the attempt to combine large fiscal support for a long list of transitions with balanced budgets has failed. The longer it fails to solve this conundrum, the higher the risk of Germany and, with it, Europe falling into recession. The last time Germany was called the 'sick man of Europe', the rest of the

continent managed to enjoy strong growth. That's very unlikely to happen this time around as back then, the rest of Europe benefitted from so-called convergence play as a result of entering the monetary union. And we're not now.

Hoping for a brighter world

There is hope, though. More disinflation and the loss of economic momentum will give many central banks enough room to start cutting rates next year. It might not be the typical panicky large cuts but a rather more gradual release of the monetary brakes. This turnaround in monetary policy by the summer should point to lights at the end of the tunnel, improving the outlook and our mood in the second half of the year.

And, of course, don't forget the Grey Ducks. They're the opposite of Black Swans, namely the external events that could change everything for the better. How about an end to the wars in Ukraine and Gaza? We can dream.

All in all, chances are small that the feedback I get from talking about the global economy to clients and journalists will change any time soon. It's clear no one has a magic wand to make the world brighter than it is. More's the pity.

carsten.brzeski@ing.de

Watch: Carsten on what to expect in 2024

Carsten Brzeski with his take on what to expect from the global economy next year

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	5.2	1.9	**2.5**	0.0	-2.1	-1.7	1.0	**0.5**	1.5	1.9	2.2	2.0	**1.0**
CPI headline (% YoY)	5.8	4.1	3.6	3.2	**4.1**	2.8	2.5	1.9	1.7	**2.2**	1.7	1.9	2.2	2.3	**2.0**
Federal funds (%, eop)	5.00	5.25	5.50	5.50	**5.50**	5.50	5.00	4.50	4.00	**4.00**	3.50	3.00	3.00	3.00	**3.00**
3-month interest rate (%, eop)	4.90	5.20	5.40	5.40	**5.40**	5.40	4.90	4.40	3.90	**3.90**	3.50	3.00	3.00	3.00	**3.00**
10-year interest rate (%, eop)	3.50	3.80	4.25	4.50	**4.50**	4.25	4.00	3.50	3.50	**3.50**	3.50	3.50	3.75	4.00	**4.00**
Fiscal balance (% of GDP)					**-6.1**					**-6.3**					**-6**
Gross public debt / GDP					**97.2**					**100.9**					**103.2**
Eurozone															
GDP (% QoQ, ann)	0.2	0.6	-0.3	-0.2	**0.5**	-0.1	0.6	1.2	1.1	**0.3**	1.6	1.6	1.4	1.4	**1.4**
CPI headline (% YoY)	8.0	6.9	5.0	3.7	**5.9**	3.1	3.0	2.8	2.2	**2.8**	1.9	2.0	2.1	2.1	**2.0**
Refi minimum bid rate (%, eop)	3.50	4.00	4.50	4.50	**4.50**	4.50	4.25	4.00	3.75	**3.75**	3.50	3.25	3.00	3.00	**3.00**
3-month interest rate (%, eop)	3.00	3.60	3.95	4.00	**4.00**	3.90	3.70	3.40	3.15	**3.15**	2.90	2.70	2.60	2.60	**2.60**
10-year interest rate (%, eop)	2.30	2.40	2.80	2.50	**2.50**	2.40	2.30	2.20	2.30	**2.30**	2.30	2.30	2.40	2.50	**2.50**
Fiscal balance (% of GDP)					**-3.2**					**-3**					**-2.8**
Gross public debt/GDP					**90.8**					**88.9**					**88.9**
Japan															
GDP (% QoQ, ann)	3.7	4.5	-2.1	1.6	**1.8**	1.2	2.0	1.2	0.8	**1.2**	1.2	1.2	0.8	0.8	**1.1**
CPI headline (% YoY)	3.6	3.4	3.1	3.2	**3.3**	3.3	3.5	3.2	2.4	**3.1**	2.1	1.5	1.3	1.2	**1.5**
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	0.00	0.00	0.00	**0.00**	0.00	0.25	0.25	0.25	**0.25**
3-month interest rate (%, eop)	0.00	0.05	0.08	0.10	**0.10**	0.20	0.20	0.20	0.20	**0.20**	0.30	0.30	0.40	0.40	**0.40**
10-year interest rate (%, eop)	0.35	0.40	0.70	0.80	**0.80**	1.00	1.00	1.20	1.20	**1.20**	1.20	1.20	1.25	1.25	**1.25**
Fiscal balance (% of GDP)					**-8.0**					**-10.0**					**-8.0**
Gross public debt/GDP					**260.0**					**277.0**					**280.0**
China															
GDP (% YoY)	4.6	6.3	4.9	5.8	**5.4**	4.2	4.2	5.1	6.1	**5.0**	5.8	5.0	4.1	5.20	**5.0**
CPI headline (% YoY)	1.3	0.1	-0.1	0.4	**0.4**	0.5	1.1	1.2	1.4	**1.1**	1.6	1.7	1.8	1.9	**1.8**
PBOC 7-day reverse repo rate (% eop)	2.00	1.90	1.80	1.80	**1.80**	1.70	1.70	1.60	1.60	**1.60**	1.70	1.70	1.80	1.80	**1.80**
3M SHIBOR (% eop)	2.45	2.17	2.30	2.45	**2.45**	2.35	2.35	2.25	2.25	**2.25**	2.35	2.35	2.45	2.45	**2.45**
10-year T-bond yield (%, eop)	2.86	2.65	2.50	2.70	**2.70**	2.50	2.40	2.40	2.60	**2.60**	2.70	2.70	2.80	3.00	**3.00**
Fiscal balance (% of GDP)					**-8.0**					**-6.0**					**-4.0**
Public debt (% of GDP), incl. local govt.					**131**					**132**					**129**
UK															
GDP (% QoQ, ann)	1.3	0.8	-0.1	0.5	**0.6**	0.2	0.4	1.0	1.0	**0.4**	1.3	1.3	1.3	1.3	**1.1**
CPI headline (% YoY)	10.2	8.4	6.7	4.5	**7.4**	4.1	2.3	2.5	2.3	**2.8**	2.0	1.8	1.8	2.0	**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	5.25	**5.25**	5.25	5.05	4.65	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	4.20	**4.20**	4.00	3.85	3.50	3.65	**3.65**	3.65	3.75	3.90	4.00	**4.00**
Fiscal balance (% of GDP)					**4.1**					**2.9**					**2.4**
Gross public debt/GDP					**96.3**					**96.3**					**95.6**
EUR/USD (eop)	1.08	1.08	1.06	1.07		1.08	1.10	1.12	1.15		1.15	1.14	1.13	1.12	
USD/JPY (eop)	133	145	149	148		140	135	130	130		125	125	125	125	
USD/CNY (eop)	6.87	7.24	7.30	7.05		6.95	6.85	6.75	6.70		6.70	6.70	6.60	6.50	
EUR/GBP (eop)	0.88	0.87	0.87	0.87		0.88	0.89	0.90	0.90		0.90	0.90	0.90	0.90	
ICE Brent -US$/bbl (average)	82	78	86	84	**82**	82	86	90	92	**88**	84	80	80	77	**80**
Dutch TTF - EUR/MWh (average)	53	35	34	45	**42**	45	40	40	45	**43**	50	40	30	40	**40**

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates
Source: ING forecasts

At a glance: The world right now

James Knightley
Chief International Economist, Americas
james.knightley@ing.com

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

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research, UK & CEE
chris.turner@ing.com

Rob Carnell
Regional Head of Research, Asia-Pacific
rob.carnell@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Padhraic Garvey
Head of Global Debt and Rates Strategy/ Regional Head of Research, Americas
padhraic.garvey@ing.com

2024 will not be the year the global economy sees a strong rebound, but we remain hopeful for a few positive surprises

United States – Remarkable resilience, but it is unlikely to last

Twelve months ago, recession was the solid call for the US in 2023. Instead, the economy has confounded expectations, with full-year growth set to come in around 2.5% while unemployment is still only 3.9%. The consensus opinion was that the most aggressive series of interest rate increases in 40 years would eventually take its toll while lingering concerns over the state of both the Chinese and European economies added to downside risks. The stress in the small banks sector in March and April only intensified the worries for the economy.

However, swift action from the Federal Reserve restored calm while consumers' willingness to spend was insatiable, fuelled by a glut of savings accrued during the pandemic. The Inflation Reduction Act has been more effective at driving investment than many thought likely, while the recovery in house prices stimulated construction spending. The fourth quarter looks set to post decent growth of around 2%, but with hiring slowing and inflation looking much better behaved, we think the Fed is finished hiking – and the next move will be rate cuts next year.

Eurozone – downturn stopped deepening, but recovery still some way off

Several sentiment indicators – like the PMI or the German Ifo indicator – bottomed out in November, albeit remaining at recession levels. With the inventory correction far from completed and weakening credit demand, the winter months are likely to see growth around 0% (after -0.1% in the third quarter), with a high probability of a technical recession. From the second quarter of 2024, a gradual recovery should unfold, driven by a turning of the inventory cycle and improvements in real wages. Still, the upturn is likely to be modest on the back of the delayed effects of monetary tightening, a rising household savings ratio and significant fiscal tightening in Germany, resulting in only 0.3% GDP growth for the year.

Even though some statistical effects could temporarily push up inflation at the start of 2024, the overall trend of disinflation should remain intact throughout the next year. With wage growth likely having peaked, both headline and core inflation should end 2024 at 2.2%. Even if European Central Bank (ECB) officials still try to keep the door open for further rate hikes, we think that the central bank is done hiking and instead will be

facing serious discussions about rate cuts, with a first rate cut likely to materialise in June 2024.

UK – Rate hike cycle is over, despite some modest fiscal stimulus

The news on UK inflation is getting decidedly better. Not only has headline CPI fallen below 5% on energy base effects, but services inflation is showing clearer signs of moving lower. The labour market is cooling, although issues with unemployment statistics make it hard to know just how rapidly. The days of 8%+ private sector wage growth are behind us, with inflation expectations coming lower and labour shortages having eased dramatically. Policymakers seem to be more confidently signalling that the rate hike cycle is over.

At the margin, the recent announcements from the Chancellor in his Autumn Statement may bolster the Bank of England's argument that rates need to stay at these levels for a long time. But the headline cut to personal taxes paid by employees has to be viewed in the broader context of fiscal drag (a result of freezing the income tax brackets at a time of high inflation). We still expect the first rate cut next summer.

China – Some good, some bad

China's economy continues to be weighed down by the weakness of the property market, where the news flow remains unremittingly negative, offset to some degree by slight gains in other sectors. Prices for both new and used homes are still falling and at a slightly faster pace. Construction activity is also worsening, which weighs on all the other parts of the economy that feed into or are related to the property sector (e.g., fixed asset investment and infrastructure spending). As a result, industrial production growth – while positive – is bogged down at about a 4.5% year-on-year pace.

Most of the support for the economy is coming from the household sector, where retail sales are showing some signs of resilience. Government measures are being slowly expanded to ease the drag from construction on the rest of the economy, including some slightly more helpful fiscal measures and encouragement for the banks to increase lending to property developers – although this has been tried unsuccessfully before. The general theme remains one of deleveraging and adjustment to an economy that is less reliant on property for its growth. The economy will manage to hit the government's 5% target this year but it may struggle to equal it next year.

Rest of Asia – Event risks and headwinds

Asia is staging a very modest pick-up, but it is being weighed down by a combination of a few key elements: lingering inflation keeping monetary policy tight, fiscal consolidation after the excesses of the pandemic, and a semiconductor cycle that is now turning higher but shows little signs of a strong bounce. The fact that China continues to struggle and that most of its growth is centred on low-leakage consumer spending isn't providing much of a lift to the rest of Asia either through the export channel. Ex-China export growth, and in consequence, industrial production across the region remains soft (even though it seems to have bottomed) and remains lower in many cases than a year ago. Political event risk picks up in the region in 2024, with elections in Taiwan, India, Indonesia and South Korea. The Taiwan elections on 13 January 2024 have the potential to generate the most market anxiety.

CEE – More divergence on the way

The region will continue the cutting cycle, but each country will do so in its own way. Hungary will continue with a swift cutting pace, while Poland has switched to a wait-and-see approach after two rate cuts. The Czech Republic and Romania prefer to stay on the safe side and have pushed back the start of the cutting cycle to the first and second quarters of next year. Inflation has successfully returned to single digits, but a return to central banks' targets will be complicated – and in most cases, will not happen in the

next year. In addition, persistent core inflation will be a major problem, supported by a still-tight labour market. The economy should recover after a very weak year, but a number of risks remain on the table and optimism may quickly fade.

FX – Dollar déjà vu

This time last year, everyone was wondering whether the dollar had topped. That same speculation is again with us this year – this after the dollar has fallen a little over 3% from its October highs. Driving the recent drop in the dollar has been a sense of relief that the Fed tightening cycle must be over and also some position adjustment ahead of the US Thanksgiving holiday. However, it seems a little too early for the dollar to embark on its big cyclical downswing because US short-dated rates are still near 5%, and overseas growth prospects still look quite bleak. Our preference is that the dollar decline is more of a slow-burn story through the first quarter of 2024 before gaining some momentum ahead of the first Fed cut in the summer. Before then, periods of low FX volatility will encourage more interest in (yen-negative) carry-trade strategies and place an increasing burden on a Bank of Japan policy shift to send USD/JPY markedly lower.

Rates – The lure of rate cuts

Bond markets tend to get very excited when central banks gear up for rate cuts. What happens to front end rates is obvious; the 2yr yield gap lowers. The big question is what happens to longer tenor rates. The answer is they usually fall, too, right out of the curve. There is a nagging fear that the US back end might struggle to perform due to fiscal pressures. But we are of the opinion that the bond market obsession with the rate cycle should dominate, causing a bullish steepening of the curve from the front end. This all sounds just a bit too normal, though – and what makes us uncomfortable is that it all seems too balmy an outcome. We still worry about liquidity risks, the fiscal deficit in the US, and geopolitics. But none of these is stark enough to change the baseline view for lower rates and steeper curves in the US, the eurozone and beyond.

Three scenarios for the major economies

Our economists and strategists lay out some alternative scenarios for the global economy and energy prices in 2024

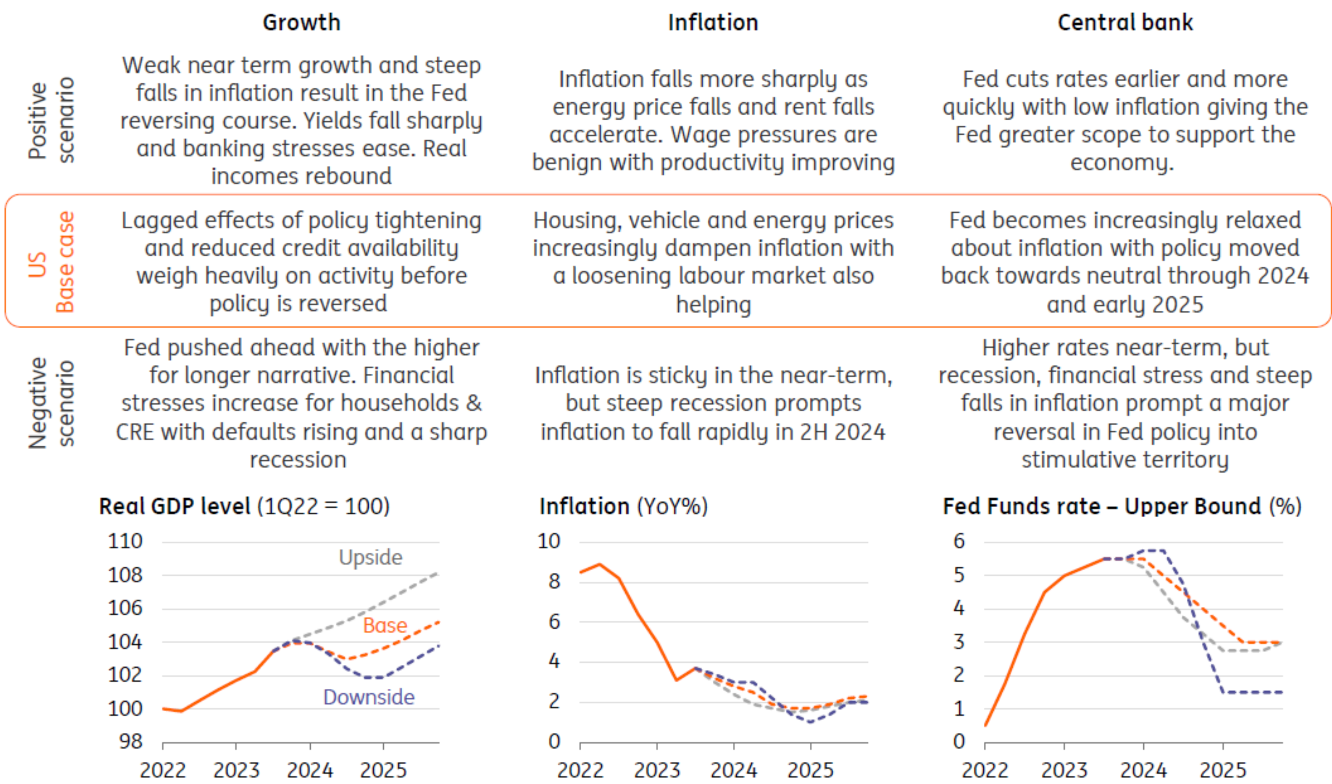
Our alternative scenarios for the global economy and energy prices in 2024

Three scenarios for the US

Our base case for the US economy sees a modest recession, a sharp fall in inflation and Federal Reserve rate cuts from the spring. But the risk is that the Fed errs on the side of caution to ensure inflation falls to 2%. In this scenario, it hikes one last time and keeps interest rates higher for longer. But if that happens, the pain for the household sector intensifies and loan defaults rise. Commercial Real Estate (CRE) pain spreads and the economy falls into a recession, dampening inflation and forcing the Fed to rapidly reverse course later on.

An upside scenario is largely the opposite, where the Fed becomes much more relaxed about inflation and moves back to a neutral interest rate setting more rapidly. That allows corporates and CRE to refinance at much lower levels, and that keeps loan losses contained. Strong productivity growth and rising labour supply from immigration keep inflation in check.

Our US scenarios



Source: Macrobond, ING

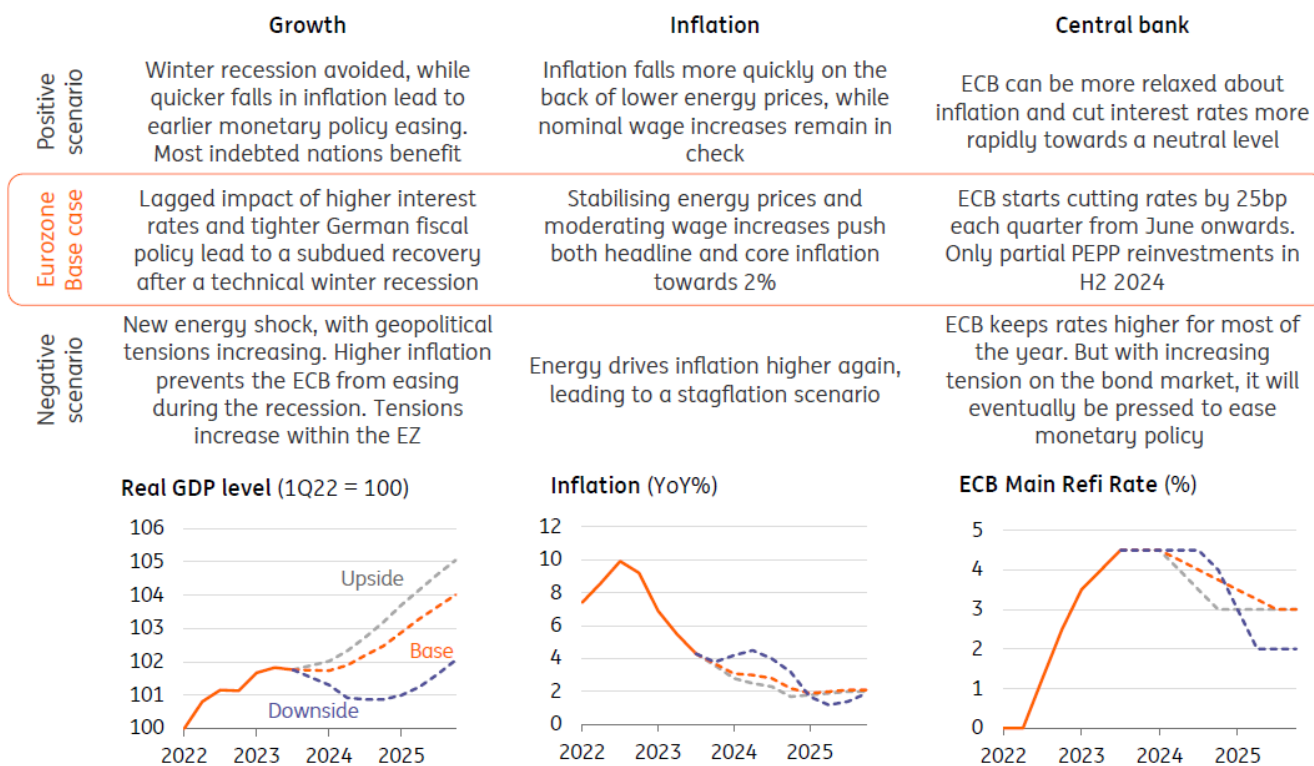
james.knightley@ing.com

Three scenarios for the eurozone

For the eurozone, our base case is that higher interest rates prompt a mild technical recession over the winter and that the European Central Bank (ECB) starts cutting rates around the same time as the Fed. The downside risks stem from higher energy prices, which would drive up inflation and push the economy into a deeper recession. In that scenario, the ECB would want to avoid the risk that higher inflation becomes entrenched and would keep rates high throughout the year. The combination of a recession with interest rates remaining high creates tension within the monetary union, driving up sovereign bond spreads.

An upside scenario sees the eurozone avoiding recession entirely and inflation falling faster than expected. This goldilocks scenario would allow the ECB to ease more quickly, with bond yields also coming down. The more indebted member states would benefit, leading to tighter bond yield spreads.

Our Eurozone Scenarios



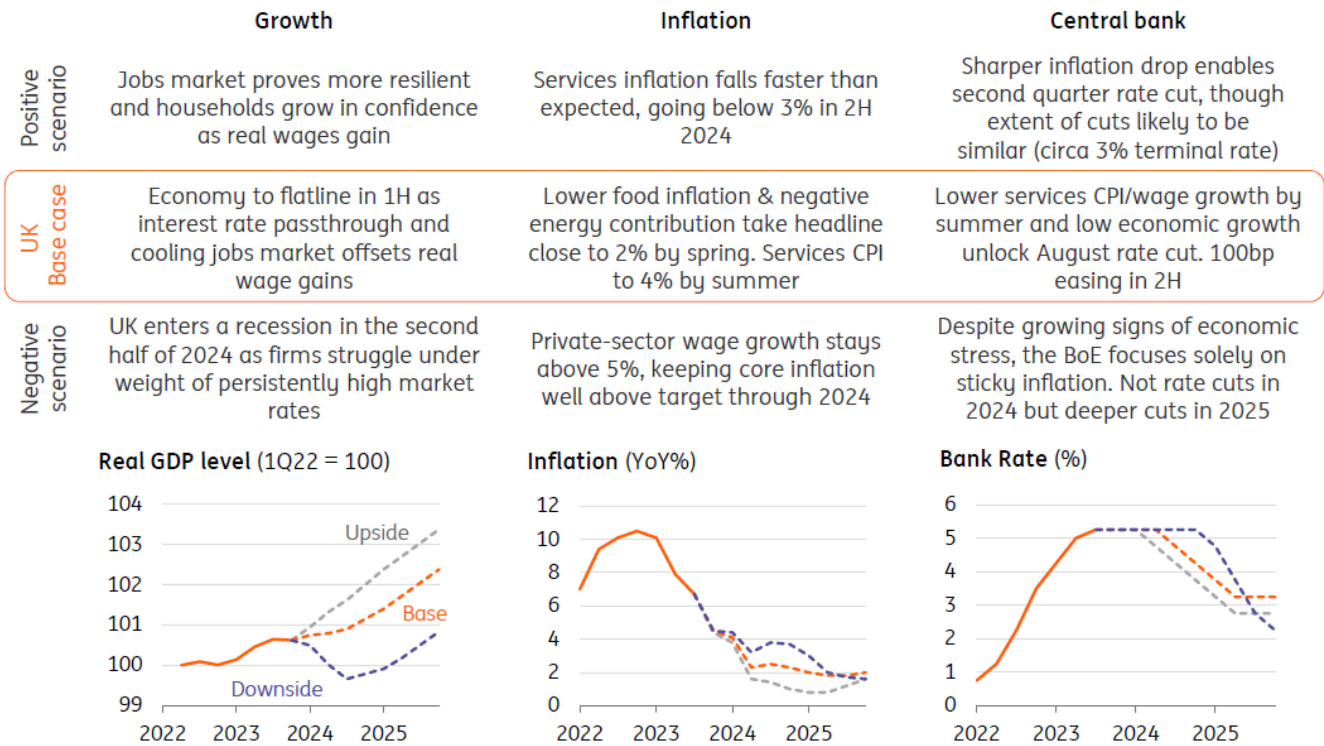
Source: Macrobond, ING

peter.vandenhoute@ing.com

Three scenarios for the UK

Our UK base case sees the economy narrowly avoiding recession but remaining stagnant for much of the next year. Services inflation should come much lower by the summer, enabling an autumn rate cut. Like the eurozone, the risk is that the impact of higher rates combined with a fresh rise in energy prices tips the economy into a downturn. The Bank of England would focus entirely on the inflation implications initially, keeping rates on hold for the whole year. But in that scenario, sharper cuts would inevitably follow.

Our UK scenarios



Source: Macrobond, ING

james.smith@ing.com

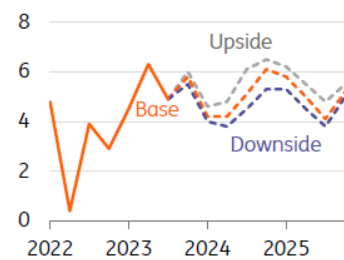
Three scenarios for China

The base case for China is a continuation of the ongoing deleveraging story that rules out substantial fiscal support and focuses more on returning property to its position in line with President Xi's "Common Prosperity" theme and not an investment. This means that sectors that typically fed into the property development/construction industry – steel, glass, cement, PVV etc., will continue to struggle. Local government finances are improved due to the restructuring of debt but substantial constraints remain, preventing a big pick up in infrastructure spending from filling the void. Weak global demand and ongoing US sanctions limit the external sector's ability to pick up the slack.

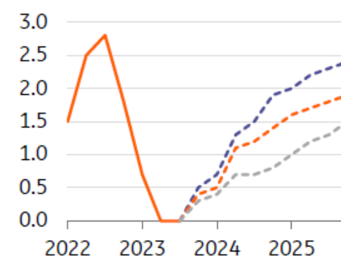
Our China Scenarios

	Growth	Inflation	Central bank
Positive scenario	Outstanding building projects slowly get completed bringing a gradual return of confidence to the market and to activity	Recovering demand helps lift domestic prices and inflation rises above 2%	Policy rates left unchanged until 2H24, when PBoC starts first of two 10bp hikes by the year-end
China Base case	Government persists with deleveraging adjustment for property developers, only partially offset with modest fiscal and monetary support	Inflation gradually drifts higher and levels out around 2% as lagged effects of earlier swine fever driven base comparisons drop out	PBoC takes advantage of strengthening CNY to make two cosmetic changes of 10bp each to policy rates
Negative scenario	Downwards drift in property prices accelerates. Government steps in to prevent downward spiral, but in the process, stops the market	Ongoing weak demand and currency rigidity result in monthly CPI change falling. Year on year inflation dips in and out of negative	CNY under severe weakening pressure and PBoC leaves policy rates unchanged and allows short term rates to rise to protect the CNY

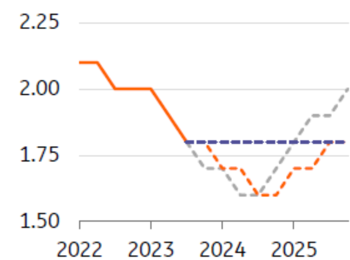
Real GDP growth (YoY%)



Inflation (YoY%)



7-day reverse repo rate (%)



Source: Macrobond, ING

rob.carnell@ing.com

Three scenarios for energy and the risks for inflation

After two major supply shocks, the most obvious risk to the global economy next year is that we get a third. Concerns about a second wave of inflation are front and centre in the minds of monetary policymakers, who are reticent to sound the all-clear after one of the most aggressive tightening cycles in recent memory. But, as we wrote in an article earlier this year, there's no inevitability to a second inflation wave – and comparisons to the 1970s are imperfect.

These comparisons have, in part, been bolstered by the tensions in the Middle East and the added uncertainty for oil prices. We've outlined some scenarios below. But we have to remember that the US is energy independent, making it far less exposed to 1970s-style shocks. That was evident in the very different make-up of the recent US and European inflation waves. Europe is more vulnerable, particularly if LNG supply tightens. But with eurozone consumer energy bills still more than 20% higher than they were pre-Covid, arithmetically, the scope for a similar inflation shock to 2022 is slightly more limited – even with a large and unexpected spike in wholesale gas costs.

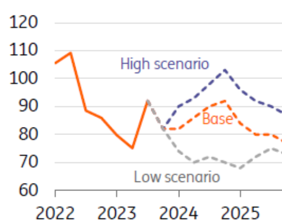
Instead, there are a number of other potential sources of upward inflationary pressure, though none in and of themselves are likely to prompt a 2022-style wave. Metals are an obvious vulnerability, and scarcity due to a lack of production capacity and/or geopolitics are important risks. Likewise, we saw last year the cross-dependency of food prices on energy costs and the ongoing risks associated with the Ukraine war and grain exports. Climate change is also creating increasingly volatile harvests, and the risk here is that this results in more protectionism as producing nations seek to protect domestic supply.

Whatever the catalyst, the lesson from the 1970s was that the economic environment also needs to be ripe for inflation to take off. And here, there are a few parallels. While labour markets are cooling, staff shortages are more prevalent than pre-Covid. Unionisation is less widespread, but worker power is arguably growing. The ability of workers to protect real wages in future inflation shocks is set to increase. Throw in concerns about US fiscal deficits, and there are reasons to think that inflation will stay higher in future years than during the 2010s.

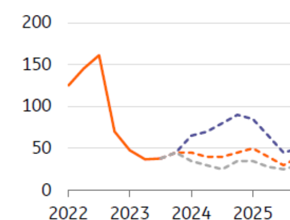
Our energy scenarios

	Oil (Brent Crude)	Natural Gas (Dutch TTF)
Low price scenario	Global oil demand disappoints in 2024, remaining largely flat. Weaker demand and less OPEC+ willingness to deepen cuts leaves the market in large surplus through 2024	European gas demand fails to respond to weaker prices, remaining 15% below 5-year average. European storge hits 100% before 24/25 heating season
Energy Base case	Demand grows by 1m b/d in 2024. OPEC+ sticks to output targets and Saudi Arabia rolls over voluntary cuts into 1Q24. Market is balanced in 1H24 but in deficit over 2H24	European storage ends winter above average. This makes the job of refilling storage in 2024 summer easier. Demand slowly recovers following 22/23 winter
High price scenario	Middle East tensions linger and the US enforces Iran sanctions more strictly. This combined with deeper OPEC+ cuts leaves the market in deep deficit in 2024	Remaining Russian flows stop, while increased competition for LNG leaves Europe tight. Higher prices needed to ensure LNG supplies and demand destruction

Brent Crude (USD/bbl)



Dutch TTF gas (EUR/MWh)



Source: Macrobond, ING

Warren.Patterson@asia.ing.com

Growing risks in the US financial system as excess liquidity withdrawn and fiscal/real estate concerns linger

The withdrawal of excess liquidity from the US money market is a key theme ahead. The genesis of this is ongoing quantitative tightening. The most significant manifestation is the fall in idle market cash going back to the Fed on the reverse repo facility. These will head to zero, signalling a virtual end to excess liquidity by the second half of 2024. Then, bank reserves will come under downward pressure. We think it'd be best for the Federal Reserve not to push too hard on this; there's plenty of possibilities for things to go wrong.

Fiscal deficit-originated supply pressure is also impactful here, making the market a tad skittish. Already, the Treasury market has been struggling with liquidity, mostly with getting size done. This is exacerbated by a repo market that has seen better days and banks that are less market impactful. The smaller banks also have commercial real estate exposures to be concerned about and are already suffering credit card delinquency rates that are higher than experienced during the GFC. It may well be tolerable – but could be an area to watch carefully.

padhraic.garvey@ing.com

Central banks in 2024

Why the major central banks are likely to start cutting from the second quarter of next year

Carsten Brzeski
Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

James Knightley
Chief International Economist, Americas
james.knightley@ing.com

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

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

Clockwise from top left: Bank of England Governor Andrew Bailey; US Federal Reserve Chair Jerome Powell; Bank of Japan Governor Kazuo Ueda and Christine Lagarde, President of the European Central Bank

Federal Reserve

The US economy continues to perform well and the jobs market remains tight, but there is growing evidence that the Federal Reserve's interest rate increases and the associated tightening of credit conditions are starting to have the desired effect. Recent inflation prints look much better behaved and leading economic indicators are weakening, while hiring and hiring intentions appear to be cooling. Significantly, Fed officials are broadly acknowledging that monetary policy is restrictive. We think rates have peaked, and the next move will be a cut.

The consumer is key, and with real household disposable incomes flatlining, credit demand falling, and pandemic-era accrued savings being exhausted for many, we now see a real risk of a recession. Collapsing housing transactions and plunging homebuilder sentiment suggest residential investment will weaken, while softer durable goods orders point to a downturn in capital expenditure. If low gasoline prices are maintained, inflation could be at the 2% target in the second quarter of next year, which could open the door to lower interest rates from the Federal Reserve from May onwards – especially if hiring slows as we expect. We look for 150bp of rate cuts in 2024, with a further 100bp in early 2025.

European Central Bank

As much as the European Central Bank (ECB) had underestimated the strength and pace of surging inflation in 2021 and 2022, it could now be underestimating the pace of disinflation. Headline inflation has already come down back to around 3%, wage growth should plateau in the first months of 2024 and the full impact of the ECB's monetary tightening this year will continue to unfold in 2024. Disinflation in 2023 was mainly the result of energy and fiscal policy base effects. The disinflation of 2024, on the other hand, is likely to be the result of ECB tightening over the last two years.

While the ECB still banks on a rebound of private consumption next year, we rather see precautionary savings. Disinflation and weaker-than-expected growth will be sufficient for the central bank to take its foot off the monetary policy brakes somewhat, cutting

rates by a total of 75bp every quarter starting in June. The first rate cut should coincide with the decision to gradually stop reinvestments of purchases assets under its Pandemic Emergency Purchase Programme (PEPP).

Bank of England

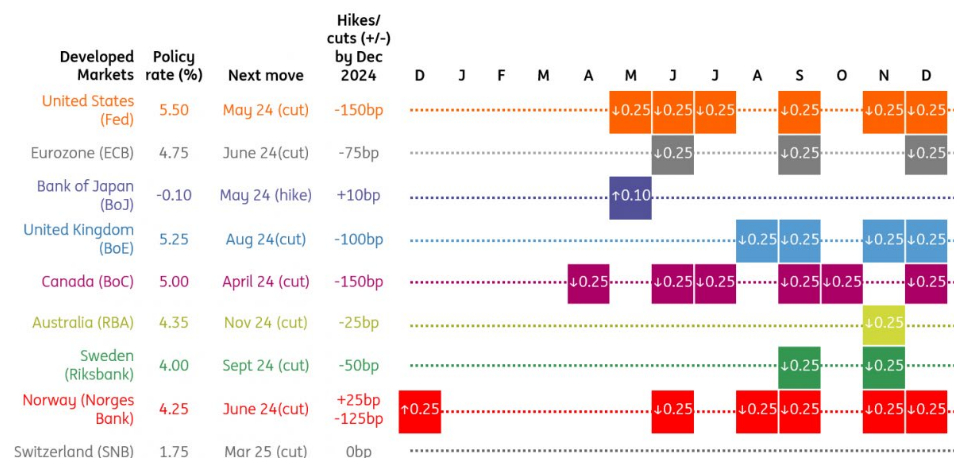
The Bank of England's tightening cycle has almost certainly finished, and policymakers are putting a lot of energy into convincing investors that rate cuts are some way off. That said, they haven't ruled out easing in 2024, and we think the door is wide open to rate cuts by summer. The impact of rate hikes will continue to build as 4-5% of mortgage holders refinance each quarter and in most cases, off five-year fixes that had much lower rates. Services inflation and private sector wage growth, which – by the Bank's own admission – are key next year, should both be back to the 4% area next summer (from 6.6% and 7.8% respectively now). Against that backdrop, we think we'll get 100bp of cuts in 2024 and the same amount of easing in 2025. Markets are increasingly thinking this way too.

Bank of Japan

2024 will be the first year of the Bank of Japan's policy normalisation, ending decades of ultra-easing policy. We expect solid wage growth to support the BoJ's long-awaited sustainable 2% inflation target and tight labour conditions to support private consumption. Investment in new technologies will also grow further, benefitting from government subsidies and the global supply chain reshuffling trend. Given the strong corporate earnings in 2023, we believe that next year's wage growth should hit more than 3%.

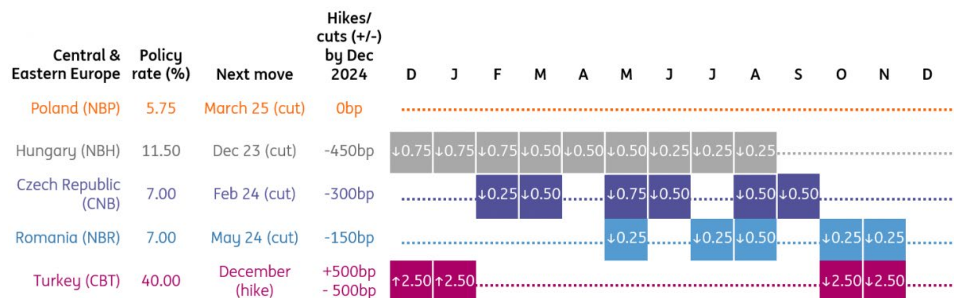
The BoJ's first step toward normalisation will be scrapping its yield curve control program, which is likely to happen in the first quarter of 2024 when JGBs trend down to a sub-1% level, following the UST market. Soon after the BoJ confirms the results of the spring salary negotiations, the central bank will likely take a 10bp hike in the second quarter but hold its short-term policy rate at 0.0% until the end of the year.

Developed market central banks in 2024



Source: ING

Central and Eastern Europe central banks in 2024



Central & Eastern Europe	Policy rate (%)	Next move	Hikes/ cuts (+/-) by Dec 2024	D	J	F	M	A	M	J	J	A	S	O	N	D
Poland (NBP)	5.75	March 25 (cut)	0bp													
Hungary (NBH)	11.50	Dec 23 (cut)	-450bp	↓0.75	↓0.75	↓0.75	↓0.50	↓0.50	↓0.50	↓0.25	↓0.25	↓0.25				
Czech Republic (CNB)	7.00	Feb 24 (cut)	-300bp			↓0.25	↓0.50		↓0.75	↓0.50		↓0.50	↓0.50			
Romania (NBR)	7.00	May 24 (cut)	-150bp						↓0.25		↓0.25	↓0.50		↓0.25	↓0.25	
Turkey (CBT)	40.00	December (hike)	+500bp - 500bp	↑2.50	↑2.50									↓2.50	↓2.50	

Source: ING

Asian central banks in 2024

Asia ex-Japan	Policy rate (%)	Next move	Hikes/ cuts (+/-) by Dec 2024	D	J	F	M	A	M	J	J	A	S	O	N	D
China (PBoC)	1.80	March 24 (cut)	-20bp				↓0.10			↓0.10						
Korea (BoK)	3.50	May 24 (cut)	-50bp						↓0.25			↓0.25				
Indonesia (BI)	6.00	Oct 24 (cut)	-25bp											↓0.25		

Source: ING

Three calls for the US

James Knightley
Chief International Economist, Americas
james.knightley@ing.com

Our big call for the US next year is that we see a sharp slowdown in US activity and the subsequent rebound is likely to be slower than hoped. Thankfully, our second call, that inflation will hit 2% by next summer and stay there offers the Federal Reserve scope to cut rates earlier and more aggressively than the market expects, which is our third call

The US economy is set to experience slower, albeit still solid, growth in the fourth quarter with legacy household savings helping to maintain consumer spending

1 US experiences a sharp slowdown and slow recovery

After stellar third-quarter GDP growth of 5%, the US economy is set to experience slower, albeit still solid, growth in the fourth quarter with legacy household savings helping to maintain consumer spending. However, we are concerned that 2024 will be much weaker as stagnant real household incomes and tighter credit conditions weigh down and pandemic-era accrued excess savings are exhausted for many. Credit card delinquencies are on the rise while student loan repayments are only adding to the financial pressure on millions of households. Meanwhile, collapsing housing transactions, a general lack of affordability and plunging homebuilder sentiment suggest residential construction could weaken while softer durable goods orders point to a significant slowing in capital expenditure. With banks remaining wary, tight monetary and credit conditions mean the risk of recession is very real, especially with activity looking weak elsewhere in the world. The commercial real estate sector is also an area of vulnerability with the scope for significant loan losses potentially leading to a reignition of the problems seen in the small bank sector in early 2023. Financial sector stress would intensify and prolong a downturn in the real economy.

2 Inflation to hit 2% by the summer and stay there

Inflation has been showing encouraging signs of moderation and we think it will get to the 2% target in the second quarter of next year assuming gasoline prices stay at their current levels. Goods price inflation is close to zero, indicating supply chain issues have disappeared, but the Federal Reserve has been emphasising the super-core measures of service sector inflation that strip out food, energy and also housing costs. This is to get a better gauge of areas where the tight jobs market may keep inflation higher for longer. Fortunately, this too is responding well to tighter monetary policy with decent productivity growth and cooling wage growth helping to keep inflation pressures in check. Housing remains the main issue, but the Fed has clarity on its path given that it

lags observed rents by 10-14 months. These rents are slowing sharply and mean that the housing components will help depress core inflation by around 1.5 percentage points over the next two to three quarters.

Fed to cut rates at every meeting from May onwards

The threat of recession, dampened inflation pressures and the prospect of a pronounced weakening of the labour market should open the door for the Federal Reserve to lower interest rates from May onwards towards more neutral levels. Even if inflation doesn't fall quite as quickly as we expect, the Fed's dual mandate of price stability and maximum employment should offer it the flexibility of responding swiftly to concerns about the path of the economy. We look for 150bp of rate cuts in 2024 with a further 100bp in early 2025, but the cuts could be more front loaded if financial stress returns amid likely increases in loan losses.

Three calls for the eurozone

We foresee another year of economic stagnation in the eurozone and rate cuts by the European Central Bank in mid-2024. Meanwhile, uneven fiscal policy across the bloc could lead to widening spreads in sovereign bond markets

Carsten Brzeski
Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Bert Colijn
Senior Economist, Eurozone
bert.colijn@ing.com

We expect the ECB to start cutting rates by the summer

1 Another year of stagnation as private consumption disappoints

The energy crisis caused a sharp contraction in private consumption in late 2022, from which it has so far not recovered. While real wage growth is turning positive again, we remain cautious on the outlook for spending, pencilling in just 0.8% growth for 2024 (compared to a forecast of 1.6% by the European Central Bank and 1.2% by the European Commission). Consumption growth is likely to be limited by the turn in the labour market, with a gradual increase in unemployment limiting aggregate income growth. This generally also increases precautionary savings. Meanwhile, higher interest rates will increase mortgage payments and make buying on credit harder. Even with a much more benign inflation backdrop, we expect eurozone consumption growth to remain subdued in 2024, keeping GDP growth below 0.5%.

2 Uneven fiscal policy as Germany moves towards austerity

Fiscal policy has always been a potential risk factor for the eurozone. The recent ruling by the German Constitutional Court will put new tensions on fiscal policy and the fiscal framework in the eurozone. It is hard to see how a German government, fighting for its political survival and implementing new austerity measures at home, will agree to a relaxation of the eurozone's fiscal rules, a.k.a the Stability and Growth Pact (SGP). The Dutch election outcome might also make a compromise on the SGP more difficult, keeping the old rules more or less in place. At the same time, due to the upcoming European Elections, the European Commission is unlikely to start any corrective action or measures against countries with fiscal deficits deemed too high before the summer. All of this means very uneven fiscal policy across the eurozone. While Germany will embark on self-inflicted austerity, the rest of the eurozone looks set to delay significant consolidation efforts. This is likely to lead to widening spreads in the sovereign bond markets in the course of 2024.

3 Disinflation to trigger ECB rate cut before the summer

Just as the ECB underestimated the strength and pace of surging inflation in 2021 and 2022, so it is now at risk of underestimating the pace of disinflation. Headline inflation has already come down to around 3%, wage growth should plateau in the first few

months of 2024, and the full impact of the ECB's monetary tightening this year will continue to unfold in 2024. The disinflation of 2023 was mainly the result of energy and fiscal policy base effects. The disinflation of 2024 is likely to be the result of ECB tightening. As a consequence, we expect headline inflation to hover around 3% in 2024 and core inflation to drop to 2.3% by the end of the year. With a weaker-than-expected eurozone economy, the 2024 disinflation will allow the ECB to take its foot off the monetary policy brake. We expect the ECB to start cutting rates by the summer, and to cut by a total of 75bp next year.

Three calls for the UK

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

We're cautious about predictions that the UK will underperform the eurozone in 2024, though don't expect buoyant growth either. Headline inflation should be nudging 2% by May and that should help unlock rate cuts next summer

The UK inflation story is finally heading in the right direction. The bulk of that fall is down to food – where producer prices point to prospective discounting

1 Headline inflation to close in on 2% from the second quarter

The UK inflation story is finally heading in the right direction and headline CPI should be very close to target by May. The bulk of that fall from the latest 4.6% figure is down to food – where producer prices point to prospective discounting – and core goods, aided by improved supply chains and higher inventory levels. We expect headline CPI to sit in the 2%-2.5% range for the latter half of next year, before dipping below target in 2025.

Core inflation will be stickier. But surveys of pricing intentions have consistently pointed to fewer firms raising prices, while we think the full impact of the fall in energy prices is yet to show through fully in areas like hospitality. We expect services inflation – the Bank of England's area of focus – to reach the 4% area next summer, much closer to the pre-Covid averages of 2.5-3%.

2 UK to narrowly avoid recession on positive real wage story

Expectations made at the start of this year that the UK would be towards the bottom of the growth pack proved unfounded, as (largely) have concerns over the summer that the UK had a much worse inflation problem than elsewhere. We're similarly cautious about consensus expectations for the UK to underperform the eurozone in 2024.

Admittedly, the jobs market is cooling and the level of unfilled vacancies is likely to be back to 2019 levels by the spring. And while we aren't expecting a pronounced spike in unemployment, Bank of England surveys suggest that worker shortages have become far less acute. Private sector wage growth is likely to halve by next summer (from 7.8% now). Even so, that suggests wage growth can continue to outpace inflation and that will prop up consumption.

At the margin, the economy may get a slight boost from the recent changes to personal taxation, and a further tax cut in the spring can't be ruled out with an autumn election looking likely. But the scope for further fiscal changes appears limited.

Overall, we expect stagnation through the first half of the year. Whether that turns into a recession will predominantly hinge on whether rate hikes begin to translate more noticeably into job cuts.

3 Rate cuts to start in August

Admittedly the UK is more of an outlier on interest rate pass-through. Unlike countries that have already seen a sharp hit (eg Sweden/Canada), 85-90% of mortgages are on fixed rates. But most home lending is fixed for less than five years. As more people refinance, we expect the average rate on existing mortgage lending to rise from just about 3% now to almost 4% by the end of next year. That will offset some of the improvement in real wages, though remember, only around a quarter of households have a mortgage – and perhaps only 20% of those will be refinancing next year. The macro impact therefore shouldn't be overstated, but it is a consideration for the BoE.

Ultimately the Bank has made it clear that rate cut timing will depend on services inflation, private-sector wage growth and the state of the jobs market. As we've explained, all three are likely to be in a more comfortable position from the BoE's perspective by next summer. While not all of those variables will be back to levels consistent with a 2% inflation target, we suspect the BoE will feel it can begin to take its foot off the brake. We expect 100bp of rate cuts in the second half of next year, starting in August.

Rob Carnell
Regional Head of Research, Asia-Pacific
rob.carnell@ing.com

Three calls for China

China will continue its deleveraging adjustment in 2024, which will keep growth subdued for a time, but may help it avoid potentially larger crises in the future

The property market sector is long overdue for deleveraging, and the government seems to be of the same mind

1 The property market decline will continue throughout 2024

Weak property sales, weak property prices, weak real estate investment, and by extension, weak fixed asset investment and weak infrastructure spending. This isn't a bold call. This sector of the economy is long overdue for deleveraging, and the government seems to be of the same mind. If the result of this is a slow decline in property prices that brings them more in line with household incomes, then this could be viewed as a necessary market correction and a step in the direction of President Xi's "common prosperity", which has noted that property is for living in, not for speculation. However, this does remove a huge source of demand for large chunks of heavy industry, steel, glass, cement etc, and will prevent GDP from a more rapid recovery.

2 GDP in 2024 will be weaker than 2023

We don't know what 2023 GDP will be yet, though it is looking a safe bet that it will exceed the "around 5%" target that was set at the Two Sessions this year. Our current forecast is 5.4% though this is still subject to change depending on the run of data in the final months of the year. That total, however, is helped a great deal by the very low base effects from 2022, when China was still operating its zero-Covid policy and implementing sporadic lockdowns, as well as some unsettling abrupt regulatory changes. Underlying this annual slowdown, the quarterly incremental growth of the economy could well start to show some signs of firming, but the arithmetic of the full-year total makes it look unlikely that this year's growth will be exceeded.

3 The PBoC will recommence interest rate cuts

Weak growth and limited options for fiscal expansion given the need to deleverage mean that monetary policy will likely be a source of assistance in 2024. In 2023, the policy repo rate was reduced twice by a mere 10bp. But this came to an abrupt halt when "higher for longer" US rate views resulted in a much stronger US dollar and much weaker Chinese yuan, along with capital outflows that required the People's Bank of China (PBoC) to keep short-term interest rates higher than they would have liked simply to support the CNY and deter CNY selling. With the prospect that the USD is finally softening, and the CNY showing some greater signs of life, we expect the PBoC to recommence rate cuts in 2024. With the policy repo rate already 1.8%, it probably doesn't have too much room to decline, but a further 20bp of easing at least seems a reasonable call.

Three calls for the eurozone's big three

Our main calls for Germany, France and Italy in 2024

Carsten Brzeski
Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

Charlotte de Montpellier
Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Concerns over the French labour market, Italian growth and Germany's reputation as the 'sick man of Europe' are set to take centre stage in the eurozone in 2024

1 Germany: Still bedridden

The narrative for Germany should be well-known by now. As a result of cyclical headwinds and a long list of structural challenges, its economy was stuck between recession and stagnation in 2023. Admittedly, due to enormous efforts and mild winter weather, the country managed to avoid an even worse energy crisis. However, avoiding the worst never automatically leads to a brighter economic outlook. In fact, the recent fiscal woes are set to bring new policy uncertainty – and more paralysis to the economy as a result.

The chances of two consecutive full years of recession for the first time since the early 2000s have never been higher. The list of challenges keeps on growing, and it will again be a growth laggard in 2024. Following a summer of debate over whether or not Germany is again the sick man of Europe, its economy will probably be bedridden in 2024.

2 France: Labour market taking a turn for the worse

As in many European economies, the labour market has been one of the strongholds of the French economy. This will change in 2024 – and signs of weakening are already beginning to emerge. The rise in unemployment is set to accelerate in 2024 on the back of job destruction, the economic slowdown and a sharp increase in the working population triggered by the recent pension reform delaying the retirement age. We expect the unemployment rate to reach 7.9% by the end of 2024, compared with 7.4% at present.

This weakening of the labour market is likely to limit the anticipated rebound in household consumption, despite an expected rise in real wages thanks to the fall in inflation. More generally speaking, lacklustre growth, higher interest rates and higher unemployment will weigh on tax revenues, leading to a further deterioration of public finances.

3 Italy: Rating agencies should help maintain debt sustainability

The quasi-promotion of the Italian draft budget by the European Commission does not mean that the Italian debt sustainability issue will disappear from the radar screen. In fact, the big challenge for Italy will be increasing its potential output to help stabilise the debt-to-GDP ratio. Incidentally, this is the target of the Recovery and Resilience Plan (RRP), a mix of reforms and investments to be completed by the end of 2026. To get there, pressure from rating agencies might help; in the recent round of rating updates, all involved agencies stressed that future ratings would be highly contingent on the thorough implementation of the RRP. This represents a powerful incentive for the Italian government to speed up its implementation and supports our view that – after the winter soft patch – the Italian GDP could well again expand at a 1% yearly rate by the end of 2024.

Three calls for Central and Eastern Europe

Frantisek Taborsky
EMEA FX&FI Strategist
frantisek.taborsky@ing.com

Central banks in the CEE region should continue the cutting cycle, but each in its own way. Inflation is back to single digits, but a return to the central banks' target will be complicated and in most cases, will not happen in the next year. In addition, persistent core inflation will be a major problem supported by an increasingly tight labour market

The extremely tight labour market remains a regional feature on which little will change in the coming year

1 Central banks set to cut rates but each in its own way

The National Bank of Poland stopped the cutting cycle in November and switched to a wait-and-see mode after the general election. The next steps will depend on the new government and fiscal policy, which may affect the inflation profile. So the question is whether the next cut will come next year or will we have to wait a bit longer; we prefer the second option. The National Bank of Hungary continues to cut at a rapid pace of 75bp, which we believe will stay with us at least until February next year. The cutting cycle is expected to continue, but perhaps at a slower pace later. On the other hand, the Czech National Bank prefers to stay on the safe side and the start of the cutting cycle has been delayed until the first quarter of 2024. However, given the best inflation profile in the region, we can expect some acceleration in the pace of cuts later. The National Bank of Romania should be the last to join the rate-cutting club in second quarter of 2024 given the weak will to consolidate fiscal policy and persistent inflation.

2 Inflation is heading to target but the last mile will be the hardest

This year was marked by a significant disinflationary trend, with the entire region going from levels of around 20% to single digits by the end of the year. However, as it is popular to say today "the last mile is the hardest". With the exception of the Czech Republic, we do not expect a sustained achievement of the inflation target this year in the CEE region. Moreover, the focus will shift to core inflation, which will be more persistent. Across the region, we expect a return to real wage growth supported by minimum wage increases and loose fiscal policy. The extremely tight labour market remains a regional feature on which little will change in the coming year, supporting a structural inflationary environment. Overall, this should warn central banks against cutting interest rates too quickly and push them to the hawkish side later next year.

3 Optimism about next year, but we expect the recovery to be fragile

The entire CEE region has seen essentially flat growth on average this year. The Czech Republic and Hungary are likely to show modest negative growth for this year, while Poland and Romania should show modest growth. Overall, however, this is a big downward slide for the region after a strong previous year. For next year, we expect a strong economic recovery across the region, in line with the consensus. However, downside risks remain due to developments abroad and external demand. And we can see that the market consensus for GDP growth in the region for next year has been gradually shifting lower of late. In any case, we expect the recovery will be fragile and may thwart initial optimism about the positive outlook for next year.

Three calls for Asia

Asia's trade-oriented economies are feeling the stress from high inflation and high domestic rates, a slowing global (including China) economy, and soft electronics demand. But a weaker US dollar and lower domestic rates could provide the seeds for a stronger recovery in 2024

Rob Carnell
Regional Head of Research, Asia-Pacific
rob.carnell@ing.com

We believe Japan's investment in new technology will continue

Japan: Slower growth but elevated inflation to continue

Japan's growth in 2023 was surprisingly resilient with a revival of tourism and positive net contribution from exports. With post-Covid reopening boosts fading and inflation running above 2%, we think economic growth will slow to 1.2% year-on-year in 2024, but it will still record greater than "potential" growth for the second year in a row. We believe investment in new technology will continue, helped by policy support, and consumption is also likely to remain positive as tight labour conditions continue. Based on the strong earnings of Japanese companies, we expect solid wage growth to support the Bank of Japan's sustainable 2% inflation target, enabling the central bank to move away from its ultra-easy policy stance. However, the BoJ's moves will be very gradual, and we only foresee its short-term policy rate reaching 0.00% by the end of 2024.

India: The Reserve Bank of India will be the first of the major APAC central banks to ease rates in 2024

At 6.5%, the RBI's repo rate is one of the highest in the APAC region and also has one of the largest policy rate spreads over the US federal funds rate of any other central bank in the region, with only the Philippines' BSP equaling it. What puts the RBI in a favourable position is that India is doing a more convincing job of squeezing out inflation from the economy, while also managing to support the currency, which has been managed in a very tight range since October last year. In the end, we don't believe the RBI will front-run the US Federal Reserve when it comes to cutting rates. But once the Fed start to move, the RBI will be the first to follow, in our view.

Philippines: Inflation to remain above target

Supply-side shocks have kept inflation above target for all of 2023, prompting an off-cycle hike by the Bangko Sentral ng Pilipinas last October. BSP Governor Eli Remolona cited an elevated 2024 inflation forecast (4.7%) for his "urgent action" while also expressing concern about inflation expectations. Inflation will remain susceptible to spikes in 2024 due to an extended El Nino episode and an ongoing dispute with China

regarding fishing rights in the West Philippine Sea. Shortages of important food items such as rice and fish could translate to inflation remaining above the BSP's 2-4% target again next year. Thus, we could see the BSP pulling the trigger on additional tightening if inflation remains above target and inflation expectations remain unanchored next year. Governor Remolona reiterated his commitment to bringing inflation "convincingly" back within target, even at the expense of growth, and we believe the BSP will continue hiking even if the Fed begins its easing cycle by mid-2024.

Three calls for trade and supply chains

Trade picks up after rough weather, but things won't be the same

Inga Fechner
Senior Economist, Germany, Austria
inga.fechner@ing.de

Rico Luman
Senior Sector Economist
rico.Luman@ing.com

Bert Colijn
Senior Economist, Eurozone
bert.colijn@ing.com

This year's weak trade growth has resulted in declining trade openness after years of stabilisation, which we expect to persist over the coming year

1 Modest rebound in trade volume despite sluggish global demand

We expect global merchandise trade to expand by 2.5% next year, lagging behind global GDP. However, this uptick in growth is largely due to a low comparative base rather than a robust recovery in global demand. In line with our economic assessment, we expect demand potential for goods in North America, South America, and Europe to be limited. Coupled with supply shocks – like delays in container traffic stemming from extreme weather events such as the ongoing drought in the Panama Canal, for instance – and the ongoing threat of worker strikes at US ports, no significant trade impetus can be expected.

Intra-Asian trade, however, is set to outperform the global average. It's likely to be driven by production shifts away from China and robust intermediate trade – in the event that there aren't any major upheavals on the geopolitical front in the region, that is.

2 Lower container rates will fully materialise in 2024, weighing on carriers but positive for shippers and trade

Unprecedented high freight rates increased consumer prices of containerised products, such as furniture, textiles, and electronics, by more than 10% at the start of 2022, according to UNCTAD data. After a gradual collapse, container spot rates on the world's largest trade routes slipped below pre-pandemic averages in 2023, and most of the high, locked-in tariffs of term contracts have also now expired. This has resulted in earlier shipping cost increases being wiped out though general inflation has seen a double-digit increase in the meantime.

Relative port-to-port transport costs have dropped below previous levels in many cases. Sunken freight rates weigh heavily on the performance of container liners amid higher operational costs. But it won't be easy to pass all of this on to clients in the current market. This means several container liners will face a challenging year with profitability already trending down. At the same time, this also makes trade more attractive to shippers compared to previous years and (CO2) surcharges won't change that.

3 Europe will join the US with import diversification in 2024

This year's weak trade growth has also resulted in declining trade openness after years of stabilisation. This could point to the beginning of deglobalisation – but we do note that these indicators are volatile and that global economic weakness generally results in lower openness. Still, we expect trade openness to continue to decline over the course of 2024.

We also note that the diversification of imports by advanced markets is a trend that is unlikely to reverse in 2024. Advanced markets have been gradually broadening their imports over recent years as geopolitical risks and supply chain problems have caused businesses to hedge their bets. This has mainly resulted in a lowering of the direct share of imports from China to the US but is not yet so prevalent in Europe. With geopolitical risks remaining significant in 2024, expectations remain for this trend to continue, with other Asian markets set to gain market share.

Warren Patterson
Head of Commodities Strategy
warren.patterson@asia.ing.com

Three calls for commodities

Despite more recent weakness in the oil market, a tight balance in the second half of next year should see prices trade higher. Meanwhile, we expect Europe to end the 2023/24 winter with comfortable gas storage. In the metals market, we see gold prices hitting record levels in 2024 as the Federal Reserve starts to cut rates

Gold to hit record levels in 2024

1 Oil back above $90 in second half of 2024

The oil market is expected to be largely balanced over the first half of 2024 if Saudi Arabia extends its additional voluntary supply cut through until the end of the year's first quarter. Doing so should ensure that Brent remains above US$80/bbl over the first half of the year. However, we do forecast a tighter market through the latter part of 2024 and, as a result, expect Brent to average a little over US$90/bbl in the second half of next year.

A key downside risk is if the Saudis decide against rolling over their voluntary cuts. This would be a strange move, given the effort they have put in this year to support the market –although there are signs of growing disagreement between some OPEC members.

While geopolitical tensions have eased somewhat – at least for the oil market – this can change quickly and so remains an upside risk. In addition, the potential for stricter and more effective enforcement of US sanctions against Iran would leave upside to our current forecasts.

2 European natural gas storage to remain comfortable through 23/24 winter

European gas storage started the 2023/24 heating season full, and up until now, storage is drawing at a slow pace. This means that it remains at record highs for this time of year. Our balance shows that European storage is likely to end the heating season somewhere between 45-50% full. While this would be lower than the levels we ended last winter, it would be comfortably above the five-year average. This would make the job of refilling storage next summer much more manageable again and suggests that there is limited upside in European gas prices through much of 2024. We assume that

European gas demand will remain at around 15% below the five-year average through until the end of March.

However, it is important to point out that the European gas market remains vulnerable to any supply disruptions or demand spikes, particularly over the winter months.

3 Gold to hit record levels in 2024

Gold prices have held up well this year, considering both the rates environment and the stronger US dollar. The market has seen significant ETF outflows, where higher real yields have made gold less attractive to the investment community. However, weak investment demand has been offset by strong central bank buying.

We are bullish on gold through 2024 with the expectation that the US Federal Reserve will start to ease monetary policy throughout the year. Our US economist expects the Fed to cut rates by 150bp between the second quarter and the end of 2024. Lower rates and expectations for a weaker USD should see investment demand picking up once again. We also believe that central bank buying will remain robust next year. This will propel spot gold to record levels. We expect spot gold to average US$2,100/oz in the fourth quarter of 2024.

The biggest risk to this view is rates staying higher for longer.

Three calls for FX

Chris Turner
Global Head of Markets and Regional Head of Research, UK & CEE
chris.turner@ing.com

Our most striking FX call for next year is that 2024 will be the year that the dollar finally turns lower. In our view, the best-performing currencies will be those which are most undervalued – step forward the Australian dollar and the Norwegian krone. And do not expect European currencies to lead the pack

Both the Australian dollar and Norwegian krone are packing undervaluation in their armoury

1 The dollar to turn lower

As we discussed in our 2024 FX Outlook, we think the dollar should be due a cyclical downturn next year. Barring huge and unexpected risk premia emerging in the currency space, the dominant trend should be US growth converging on the weak levels seen in Europe and Asia, the Federal Reserve embarking on an easing cycle, and the dollar falling 5-10%. That view really does hinge on the Fed being able to cut rates and a clean bullish steepening trend playing out in the US yield curve. Typically this coming stage of the economic cycle should see commodity currencies outperform – which fortunately is also one of our calls (see next section). The main threats to our dollar view are enduring US economic strength or another identity crisis in the eurozone – recall EUR/USD failed to rally in 2001, despite the Fed cutting nearly 500bp.

2 The currencies of Australia and Norway to outperform

Fighting the dollar bull trend has been an exercise in futility for most of this year. Currencies prepared to challenge the dollar are going to need some help. And both the Australian dollar and Norwegian krone are packing undervaluation in their armoury. These are the currencies most undervalued according to our medium-term fair value model, where divergence from better export prices is the core story. In effect, the higher US rate environment has prevented these currencies from aligning with the commodity price rally seen in the second half of this year.

3 European currencies set to lag

Unlike the commodity currencies, neither the euro nor the pound are particularly undervalued against the dollar. We do think the dollar story will be enough to drag EUR/USD higher through 2024 – 1.15 is our year-end target – but the moves should be relatively modest. EUR/USD will be trying to rally while the eurozone is in recession. It will also face the challenge of an increasingly dovish European Central Bank, if our call is correct for the first ECB rate cut in June. And weak eurozone growth typically spells trouble for some of the eurozone's peripheral government bond markets too. As to the pound, a 100bp Bank of England easing cycle will create headwinds for GBP/USD. We do not foresee the UK election demanding a big risk premium of the pound, but we doubt it will provide a tailwind either.

Three calls for rates

Padhraic Garvey
Head of Global Debt and Rates Strategy/ Regional Head of Research, Americas
padhraic.garvey@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Curve disinversion morphs to steepening in both the US and the eurozone through 2024. The bigger moves are on the US curve, and long-end rates in both the US and eurozone ease lower, too. But we identify steepening pressure from the long end closer to 2025, and we prepare for some re-widening in Italian spreads in the eurozone as we progress through 2024

Curve disinversion morphs to steepening in both the US and the eurozone through 2024

1 The US 2/10yr spread to target a move towards 100bp

US debt dynamics are troubling based on current policy. Both the size of the deficit and debt as a percent of GDP have a meaningful impact and pressure the curve steeper and long rates higher. We argue that the 2/10yr curve should be at least 100bp when the Federal Reserve gets to the bottom of the next cycle. Could the curve stretch to 200bp this time around? Possibly, eventually. But we don't anticipate this as the impact effect of the rate-cutting cycle. It's a 2025 risk but not a 2024 one. The reason for this is the bond market's obsession with the rate cycle, and the outright need to be long interest rate exposure for the Fed in the early days of cutting. That tends to drag the whole curve lower. Our baseline view is for this to co-exist with the 2/10yr getting to the 100bp area.

2 The US 10yr to target 4%, and likely overshoot to 3.5%

Assuming the Fed has peaked, the broad direction of travel for the 10yr yield is down. Not a dramatic gap fall, but likely a gradual one, as the elevated front end curbs the ability of long-end yields to fall by too much too soon. About three months before the Fed actually cuts, the 2yr yield gaps lower by 100bp. Now at around 5%, it heads for 4%. It eventually gets to 3%, but the second 100bp fall will be much slower than the first and needs actual Fed cuts. Assuming the 2/10yr curve needs a 100bp valuation when the Fed is done at 3%, that places fair value for the 10yr at around 4%. But the lure of the rate-cutting cycle likely sees the 10yr yield overshoot to the downside, potentially getting down to 3.5%. The 30yr likely tracks the 10yr to a point, but is unlikely to get much below 4%.

3 Italian sovereign spreads to come under some re-widening pressure

The key yield spread between 10yr Italian government bonds and their German counterparts has recently narrowed to 165bp after Moody's raised the outlook of Italy's rating to stable. Near-term, the yield spread can tighten even further as issuance slows into the end of the year. Italian issuance will pick up again in 2024, on higher gross and net bond supply compared to this year – especially when taking into account the

European Central Bank potentially also slowing Pandemic Emergency Purchase Programme (PEPP) reinvestments. A re-widening of spreads in the first part of next year looks possible when resuming issuance, a hawkish ECB and weak growth come together. Overall, we would look for the 10Y spread to remain in the 150-200bp area with tightening toward the latter part of next year amid policy easing and a more benign macro backdrop.

GDP Forecasts

Developed Markets (QoQ% annualised growth)							
	3Q23F	4Q23F	1Q24F	2Q24F	2023F	2024F	2025F
US	5.2	1.9	0.0	-2.1	2.5	0.5	1.0
Japan	-2.1	1.6	1.2	2.0	1.8	1.2	1.1
Germany	-0.5	-1.4	-1.9	0.7	-0.2	-0.4	1.2
France	0.4	0.0	0.2	0.8	0.9	0.6	1.3
UK	-0.1	0.5	0.2	0.4	0.6	0.4	1.1
Italy	0.2	0.1	0.5	0.8	0.7	0.5	1.0
Canada	-0.1	1.3	0.0	-0.5	1.2	0.1	1.6
Australia	1.2	0.8	0.8	2.4	1.9	1.6	2.9
Eurozone	-0.3	-0.2	-0.1	0.6	0.5	0.3	1.4
Austria	-2.4	0.0	0.6	0.8	-0.3	0.1	1.5
Spain	1.3	0.4	0.6	1.4	2.3	1.1	2.2
Netherlands	-0.8	0.3	1.7	0.7	0.2	0.7	1.6
Belgium	2.0	0.0	0.0	0.8	1.4	0.7	1.4
Greece	1.7	-0.4	1.1	1.8	2.3	1.5	1.9
Portugal	-0.8	-0.4	0.2	1.2	2.0	0.4	2.1
Switzerland	0.4	0.0	0.8	0.8	0.7	0.6	1.4
Sweden	-1.2	-1.0	-0.3	0.7	-0.4	-0.2	1.5
Norway[1]	0.2	0.8	1.4	1.4	1.1	1.1	1.8

Emerging Markets (YoY% growth)							
	3Q23F	4Q23F	1Q24F	2Q24F	2023F	2024F	2025F
Bulgaria	1.7	1.8	2.2	2.5	1.9	2.9	3.5
Croatia	3.5	3.5	2.8	2.4	3.1	2.6	2.7
Czech Republic	-0.6	-0.1	0.4	1.0	-0.4	1.4	2.2
Hungary	-0.4	1.5	2.4	3.5	-0.6	3.0	3.6
Poland	0.4	2.0	2.2	3.5	0.4	3.0	3.5
Romania	0.2	0.9	2.8	1.9	1.5	2.8	3.0
Turkey	5.5	3.6	4.4	3.1	4.2	2.5	3.5
Serbia	3.5	3.3	3.8	3.2	2.3	3.2	3.7
Azerbaijan	1.3	0.0	4.0	2.5	0.6	2.5	2.7
Kazakhstan	3.7	4.5	3.5	3.0	4.7	4.0	5.0
Russia	5.5	4.2	3.0	1.5	3.2	1.5	1.0
Ukraine	3.5	3.5	-	-	5.9	5.5	-
China	4.9	5.8	4.2	4.2	5.4	5.0	5.0
India	7.1	6.7	3.3	7.7	6.9	6.5	7.5
Indonesia	4.9	5.0	5.4	5.2	5.0	5.2	5.0
Korea	1.2	1.8	1.8	1.5	1.2	1.8	2.1
Philippines	5.9	4.5	4.2	4.9	5.3	4.5	5.0
Singapore	1.1	2.0	2.3	2.2	1.0	2.2	2.5
Taiwan	2.3	3.6	4.4	3.4	1.0	2.9	2.5

[1] Norway: Forecasts are mainland GDP
Source: ING estimates

CPI Forecasts (pa)

%YoY	3Q23F	4Q23F	1Q24F	2Q24F	2023F	2024F	2025F
World (USD)							
US	3.6	3.2	2.8	2.5	4.1	2.2	2.0
Japan	3.1	3.2	3.3	3.5	3.3	3.1	1.5
Germany	5.8	3.6	3.2	3.1	6.1	3.0	2.1
France	5.5	4.6	4.4	3.7	5.8	3.5	2.2
UK	6.7	4.5	4.1	2.3	7.4	2.8	1.9
Italy	5.8	1.9	2.4	2.4	6.3	2.3	2.0
Canada	3.7	3.4	3.3	2.2	3.9	2.2	2.0
Australia	5.3	4.4	4.1	3.9	5.7	3.7	2.8
Eurozone	5.0	3.7	3.1	3.0	5.9	2.8	2.0
Austria	6.7	4.1	3.0	2.6	7.5	2.5	2.1
Spain	2.8	3.3	3.4	3.0	3.6	3.0	2.3
Netherlands	2.8	0.8	1.9	1.8	4.2	1.7	2.2
Belgium	3.2	2.4	4.0	3.7	4.4	3.5	2.1
Greece	3.2	3.3	2.8	2.3	4.2	2.4	2.0
Portugal	3.5	3.5	2.9	2.5	4.8	2.4	2.2
Switzerland	1.6	1.8	2.0	2.0	2.2	2.0	1.8
Sweden	5.0	3.6	2.5	2.3	5.6	2.1	2.0
Norway	4.5	4.3	3.0	3.3	5.5	3.0	2.5
Bulgaria	6.3	5.1	3.8	4.2	9.7	4.0	4.2
Croatia	6.7	5.0	4.3	2.9	8.1	3.1	2.7
Czech Republic	8.1	7.9	2.6	2.4	10.9	2.4	2.0
Hungary	15.4	7.9	4.5	4.9	17.7	5.1	4.2
Poland	9.7	6.7	5.7	4.9	11.6	6.0	5.0
Romania	8.1	7.4	7.4	6.2	10.7	6.0	4.3
Turkey	61.5	66.9	67.1	71.4	54.1	56.7	26.6
Serbia	10.2	7.6	5.6	4.5	12.5	5.0	4.8
Azerbaijan	7.5	3.3	6.2	2.6	9.1	5.0	5.6
Kazakhstan	13.0	10.4	9.2	8.7	14.8	8.4	6.6
Russia	5.1	7.3	7.8	7.8	6.0	7.0	4.4
Ukraine	15.5	15.0	15.0	-	16.7	12.6	-
China	-0.1	0.4	0.5	1.1	0.4	1.1	1.8
India	5.2	5.4	5.3	4.5	5.6	5.1	4.8
Indonesia	3.5	3.4	3.7	3.6	4.0	3.5	3.6
Korea	3.1	3.8	3.0	2.7	3.7	2.4	1.8
Philippines	5.5	4.5	3.8	4.4	6.1	4.2	3.5
Singapore	3.3	4.3	4.0	3.5	4.8	3.2	2.8
Taiwan	2.5	2.2	1.7	1.6	2.3	1.6	1.8

*Singapore core inflation
Source: ING estimates

Oil Forecasts (avg)

($/bbl)	4Q23F	1Q24F	2Q24F	2023F	2024F	2025F
Brent ($/bbl)	84.00	82.00	86.00	82.00	88.00	80.00
Dutch TTF (EUR/MWh)	45.00	45.00	40.00	42.00	43.00	40.00

Source: ING estimates

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (**"ING"**) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit https://www.ing.com.