

FRIDAY, 20. SEPTEMBER 2024

The Week Ahead

Fed easing starts while the ECB proceeds cautiously

The start of the Federal Reserve's easing cycle (the Federal Reserve, also known as the Fed, is the US central bank) marks the first month since 2019 when both the Fed and the ECB (the European central bank) have reduced policy rates.

For both the major central banks to lower interest rates together signals an important turn in the global monetary policy cycle, one which has been long awaited by investors. Although the battle against inflation has not conclusively been won, the message from the central banks is that a phase of less restrictive monetary policy is now appropriate.

The common direction of monetary policy also puts into stark contrast the position of the US and euro area economies. Whereas the US is experiencing a friendly combination of close to trend growth (albeit with



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rising unemployment) and inflation that is converging steadily towards target, the euro area has suffered from weak growth (indeed domestic demand contracted in both Q1 and Q2), anemic productivity and persistently high core inflation, especially in the services sector.

One result of its disappointing economic performance is that the ECB (the European Central Bank) has started its pace of rate cuts at a slow pace. It lowered its policy rate by 25bp in June and again in September. If this were to continue, a pace of 25bp cuts once per quarter would leave ECB overnight rates at around 2.60% at the end of 2025, still above where many would consider neutral rates for the euro area economy to lie.

Of course, one question is, **"Why is the ECB cutting interest rates at all considering that core inflation has been annualizing above 3% since March?"** Indeed, a blinkered approach to inflation targeting might arrive at this conclusion.

Yet, it remains abundantly clear to us that euro area monetary policy is restrictive, is depressing economic activity such that nominal growth is decelerating back into its pre-pandemic range, while the GDP deflator (an economy-wide measure of inflation) is not far behind. Q2 of this year was the first time that the ECB's policy interest rate had been above both the annual rate of growth of the GDP deflator and nominal GDP as a whole since 2008-2009.

Publications

→ **Populism: would markets vote for it?**

Populists may excite many voters, but markets often aren't fans of the higher spending, inflation, and lower growth their policies tend to bring.

→ **Proxy voting 2024 – three major trends**

Incorporating environmental and social considerations into proxy voting is essential for driving corporate sustainability.

→ **Who's got the power?**

Despite great and ongoing leaps in energy efficiency, power demand is set to show steady growth over the coming years and decades.

Against this backdrop, the ECB's forecasts anticipate that wage growth and service sector inflation will both slow materially during the course of 2025, leaving headline and core inflation converging durably with target. Despite currently above-target inflation, this leaves the central bank willing and able to lower interest rates at a slow pace.

The counterpart to slow easing now at a time when the economy is struggling to grow is that the market expects euro area overnight rates to fall below neutral late in 2025.

Expectations for euro area overnight rates are around 1.80%, implying that the pace of rate cuts must accelerate at some point. When might this take place?

We see two main possibilities:

The first is that the slowdown in the US labour market extends further than currently expected with the result that many major central banks accelerate rate cuts in the latter months of this year.

The second is that the first months of next year bring confirmation that wages and services inflation are not repeating the surge seen in Q1 2024, with the result that annual inflation rates fall back to target relatively quickly. In either event, we could expect the ECB to move to lowering rates at every meeting or perhaps cutting rates by 50bp rather than 25bp at some of its meetings.

The Week Ahead

Against the backdrop of disappointing economic performance, **flash PMI releases for the euro area** in particular will be important in the coming week. A new slide in the euro area PMI might encourage thoughts that the ECB may accelerate its pace of easing sooner than expected. **Flash PMIs for the UK and the US** will also be released. These countries have seen stronger economic performance than the euro area, but nonetheless, with markets trying to gauge the pace of central bank rate cuts, these data releases will also carry heavy weight.

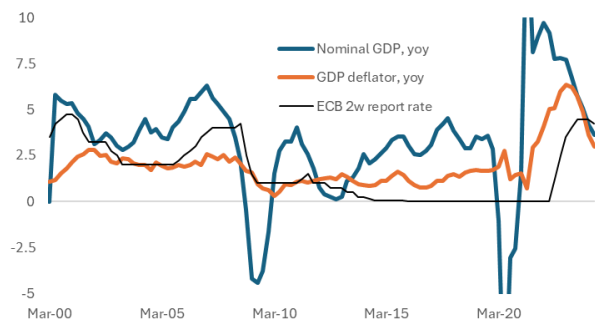
In Germany, the ifo survey remains the benchmark for setting economic expectations. It has told a sorry story of underperformance for much of the last two years, with latest data suggesting that there is no end in sight. **Also in Germany, labour market data** will reveal the latest news on unemployment. Unlike for the euro area as a whole, German unemployment has been rising, with recent corporate news warning that an extension of the upward trend should be expected.

In what is otherwise a relatively quiet week for **US data**, the end of the week's income and spending data should show that the Federal Reserve's preferred inflation gauge, **core PCE**, grew at a close to 0.15% pace in August, consistent with inflation annualising at a rate matching the Fed's target.

A falling return on cash acts as an important moment to re-evaluate portfolio exposures, hence join us in welcoming the new phase of US and euro area monetary policy.

Yours,
Sean Shepley

Euro area growth & inflation versus ECB policy rate



Source: Allianz Global Investors, Global Economics & Strategy, Bloomberg, 16.09.2024

Past performance, or any prediction, projection or forecast, is not indicative of future performance.

UPCOMING POLITICAL EVENTS 2024

20 Sep	JN	Bank of Japan meeting
17 Oct	EZ	ECB Governing Council meeting
21 – 27 Oct	IMF	IMF annual meetings
23 Oct	CA	Bank of Canada Meeting
25 27	IMF	IMF and World Bank annual meetings

→ [Overview political events 2024 \(click here\)](#)

Calendar Week 39

Monday			Consensus	Previous
GE	HCOB Mfg Flash PMI	Sep	--	42.4
GE	HCOB Services Flash PMI	Sep	--	51.2
GE	HCOB Composite Flash PMI	Sep	--	48.4
UK	Flash Composite PMI	Sep	--	53.8
UK	Flash Manufacturing PMI	Sep	--	52.5
UK	Flash Services PMI	Sep	--	53.7
UK	CBI Trends - Orders	Sep	--	-22
US	S&P Global Mfg PMI Flash	Sep	--	47.9
US	S&P Global Svcs PMI Flash	Sep	--	55.7
US	S&P Global Comp Flash PMI	Sep	--	54.6
Tuesday				
JN	JibunBK Mfg PMI Flash SA	Sep	--	49.8
JN	JibunBK Comp Op Flash SA	Sep	--	52.9
JN	JibunBK SVC PMI Flash SA	Sep	--	53.7
GE	Ifo Business Climate New	Sep	--	86.6
GE	Ifo Curr Conditions New	Sep	--	86.5
GE	Ifo Expectations New	Sep	--	86.8
US	CaseShiller 20 MM SA	Jul	--	0.4%
US	CaseShiller 20 YY NSA	Jul	--	6.5%
US	Consumer Confidence	Sep	102.5	103.3
Wednesday				
JN	Service PPI	Aug	--	2.80%
JN	Chain Store Sales YY	Aug	--	-1.0%
US	New Home Sales-Units	Aug	--	0.739M
Thursday				
GE	GfK Consumer Sentiment	Oct	--	-22.0
US	Durable Goods	Aug	--	9.8%
US	Durables Ex-Transport	Aug	--	-0.2%
US	GDP Final	Q2	3.0%	3.0%
US	GDP Deflator Final	Q2	--	2.5%
US	Core PCE Prices Fnal	Q2	--	2.8%
US	Initial Jobless Clm	16 Sep, w/e	--	--
US	Cont Jobless Clm	9 Sep, w/e	--	--
US	Pending Sales Change MM	Aug	--	-5.5%
Friday				
JN	CPI Tokyo Ex fresh food YY	Sep	--	2.4%
JN	CPI, Overall Tokyo	Sep	--	2.6%
JN	Leading Indicator Revised	Jul	--	0.4
GE	Unemployment Chg SA	Sep	--	2k
GE	Unemployment Rate SA	Sep	--	6.0%
UK	CBI Distributive Trades	Sep	--	-27
US	Personal Income MM	Aug	0.4%	0.3%
US	Personal Consump Real MM	Aug	--	0.4%
US	Consumption, Adjusted MM	Aug	--	0.5%
US	Core PCE Price Index MM	Aug	--	0.2%
US	Core PCE Price Index YY	Aug	--	2.6%
US	PCE Price Index MM	Aug	--	0.2%
US	PCE Price Index YY	Aug	--	2.5%
US	U Mich Sentiment Final	Sep	--	69.0
GE	Import Prices MM	Aug	--	-0.4%
GE	Import Prices YY	Aug	--	0.9%
UK	Nationwide house price mm	Sep	--	-0.2%
UK	Nationwide house price yy	Sep	--	2.4%

The calendar data for the current week comes directly from Bloomberg. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by Bloomberg through a survey of analysts and economists. It is the average of all estimates submitted.

If not mentioned otherwise data and information sources are from LSEG Datastream.

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