

FRIDAY, 29 NOVEMBER 2024

# The Week Ahead

## ECB easing: steady as she goes?

Traditionally, market activity begins to slow after the Thanksgiving holiday as year-end considerations cause banks to curtail balance sheet usage while thinner liquidity makes investors mindful of the increased cost of changing positions. This year, a number of important risk events seem likely to ensure that there is plenty for investors to chew over even if historical patterns repeat.

In the **euro area**, the latest news for economic activity has disappointed. The flash Purchasing Managers Index (PMI) for November suggested that growth momentum into the year-end may be fading, with the composite index level falling from 50 to 48.1, the first time the index has been materially below 50 since the start of the year. Business caution has likely been amplified by lackluster consumer spending, the shift towards fiscal tightening from many euro area governments and the expectation of a

round of tariff increases under incoming President Trump.

This raises a dilemma for the **ECB** (the European central bank). On the one hand, although euro area headline inflation has fallen back to the ECB's 2% target, the central bank has been reluctant to look too far ahead because the decline in core inflation has stalled since the spring (core inflation – which excludes food and energy – has been around 2.75% yoy since then). On the other hand, the ECB has acknowledged in recent quarters that growth has been weaker than it anticipated, responding to the release of disappointing PMI data at the beginning of September by cutting interest rates by 25bp even though inflation news that month had shown little signs of improving. It seems likely that the ECB will again lower its growth projection at the December meeting, hence it makes sense to review their options.

The first is the most cautious: the ECB could lower interest rates by 25bp in December and then continue to cut at a pace of 25bp each quarter. The result would be short-dated interest rates around 2.15% in the third quarter of 2025.

The second option sees the central bank cut at a pace of 25bp per meeting. With seven meetings between now and next September, the result would be interest rates around 1.40% if the ECB was to cut at each one.

The third option would be to accelerate the pace of cuts in the

## Publications

### → **Multi asset: The comeback**

The aim behind "multi asset" is to improve the risk/return profile of an investment by allocating capital across a multitude of assets. This approach to investment struggled during the phase of low and negative returns. Meanwhile, it may be poised for a comeback.

### → **Navigating market concentration as sustainable investors**

One of the defining features of equity markets over recent years has been extremely high levels of index concentration, with the so-called "Magnificent Seven" making up around a third of the total market capitalization of the S&P 500.

### → **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.

near term before slowing later which is what market participants collectively see as most likely. The market anticipates that interest rates will be 1.70% next September.

Why do the different options matter? The chart on the following page shows the trajectories for interest rates compared with a plausible zone for neutral interest rates (i.e. the



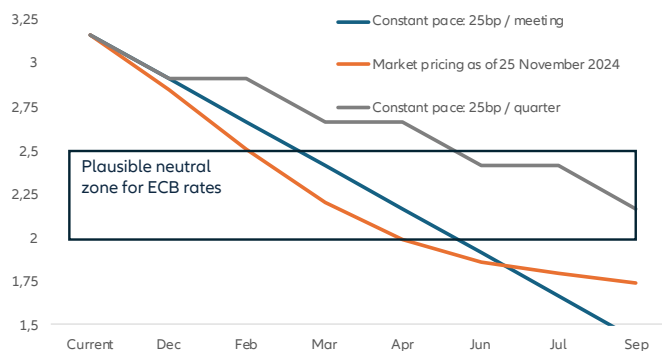
**Sean Shepley**  
Senior Economist

level of interest rates at which monetary policy is neither restrictive or stimulatory for the economy) which we judge to be between 2.0 – 2.5%.

Cutting interest rates by 25bp per quarter would mean monetary policy remains restrictive until next summer. That appears unnecessarily long considering how weak growth remains. Cutting rates by 25bp every meeting would mean interest rates reach 2.5% in March and 2.0% in June. By contrast, the market judges that a 50bp ECB rate cut might be seen in December and/or February, leaving interest rates at 2.15% in March and around 1.80% in June. This latter strategy has the merit of ensuring monetary policy becomes neutral as quickly as possible, then allowing the ECB to judge how much further to cut interest rates later in the year.

We do not expect the ECB to pre-commit to any of these strategies in December. However, we think the case for increasing the pace and perhaps the magnitude of rate cuts is increasingly strong, something investors should consider when evaluating the potentially lower return from holding cash next year.

### ECB rate cuts: is there a case to accelerate?



Source: Bloomberg, 25.11.2024

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

## The week ahead

The first week of the last month of the year sees the release of **PMIs** for all the major countries. Of them all, **China's** may be the most interesting. After a range of easing measures announced since September, there have been signs of improvement in domestic demand in China. Separately, widespread expectations of tariff increases during President Trump's second term in office may have influenced demand since the election. Which of these factors turns out to be most influential will impact the market's assessment of growth momentum into early 2025.

In the **US**, next week sees the release of **labour market data**. October was heavily influenced by storms and strikes, the effects of both of which should unwind in next week's data. The result should be a healthy bounce-back in private sector payrolls though recent data have suggested that those becoming unemployed are taking longer to find a new job, suggesting that the unemployment rate may also rise.

In the **euro area**, the final estimate of **Q3 GDP** should confirm a better quarter. However, some of the improvement now looks to have been temporary, given the recent decline in the PMI. Also in the euro area next week, retail sales will provide an indication of consumer demand at the start of Q4 while the unemployment rate is likely to remain close to historic lows despite the weakness of the economy.

Please join us in watching closely as the ECB's last interest rate decision for 2024 draws near.

Sean Shepley

### UPCOMING POLITICAL EVENTS 2024

11 Dec	CA	Bank of Canada meeting
12 Dec	EZ	ECB Governing Council meeting
17–18 Dec	US	Meeting of the US Federal Open Market Committee (FOMC)
19 Dec	JN	Bank of Japan meeting
19 Dec	GB	BoE announcement and minutes

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

## Calendar Week 49

Monday			Consensus	Previous
JN	JibunBK Mfg PMI Final SA	Nov	--	49,0
CN	Caixin Mfg PMI Final	Nov	--	50.3
GE	HCOB Mfg PMI	Nov	--	43.2
EC	HCOB Mfg Final PMI	Nov	--	45.2
UK	S&P GLOBAL MANUFACTURING PMI	Nov	--	48.6
EC	Unemployment Rate	Oct	--	6.3%
US	S&P Global Mfg PMI Final	Nov	--	48.8
US	ISM Manufacturing PMI	Nov	47.4	46.5
US	ISM Mfg Prices Paid	Nov	--	54.8
Tuesday				
US	JOLTS Job Openings	Oct	--	7.443M
Wednesday				
JN	JibunBK SVC PMI Final SA	Nov	--	50.2
CN	Caixin Services PMI	Nov	--	52.0
GE	HCOB Services PMI	Nov	--	49.4
GE	HCOB Composite Final PMI	Nov	--	47.3
EC	HCOB Services Final PMI	Nov	--	49.2
EC	HCOB - Composite Final PMI	Nov	--	48.1
UK	S&P GLOBAL SERVICE PMI	Nov	--	50.0
UK	S&P GLOBAL PMI: COMPOSITE - OUTPUT	Nov	--	49.9
EC	Producer Prices YY	Oct	--	-3.4%
US	ADP National Employment	Nov	--	233k
US	S&P Global Comp Final PMI	Nov	--	55.3
US	S&P Global Svcs PMI Final	Nov	--	57.0
US	ISM N-Mfg PMI	Nov	55.3	56.0
UK	Reserve Assets Total	Nov	--	189,227.88M
Thursday				
GE	Consumer Goods SA	Oct	--	102.5
EC	HCOB Construction PMI	Nov	--	43.0
GE	HCOB Construction PMI	Nov	--	40.2
UK	S&P GLOBAL PMI: MSC COMPOSITE - OUTPUT	Nov	--	52.0
UK	S&P Global CONSTRUCTION PMI	Nov	--	54.3
EC	Retail Sales YY	Oct	--	2.9%
US	International Trade \$	Oct	-79.0B	-84.4B
US	Initial Jobless Clm	25 Nov, w/e	--	--
US	Cont Jobless Clm	18 Nov, w/e	--	--
Friday				
GE	Industrial Production YY SA	Oct	--	-4.62%
GE	Trade Balance, EUR, SA	Oct	--	17.0B
UK	Halifax House Prices YY	Nov	--	3.90%
EC	Employment Overall Final	Q3	--	169,064.1k
EC	GDP Revised QQ	Q3	--	0.4%
EC	GDP Revised YY	Q3	--	0.9%
US	Non-Farm Payrolls	Nov	175k	12k
US	Private Payrolls	Nov	140k	-28k
US	Unemployment Rate	Nov	4.1%	4.1%
US	Average Earnings YY	Nov	--	4.0%
US	Average Workweek Hrs	Nov	34.3	34.3
US	U Mich Sentiment Prelim	Dec	--	71.8
US	Consumer Credit	Oct	10.00B	6.00B

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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