

## FORECASTS AT A GLANCE: MAJORS

G3	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
Fed Funds	4.50-4.75	↓	December 17-18	85% cut 25bp 15% steady	4.25--4.75	4.00-4.25	3.50-3.75
T-Note (10 Yr)	4.25				4.40	4.50	4.30
ECB depo	3.25	↓	December 12	80% cut 25bp 20% cut 50bp	2.75	2.25	2.00
Euro 10 Yr	2.08				2.20	2.10	1.90
Japan o/night Call	0.25	↑	December 19	60% steady 40% hike 25bp	0.50	0.50	0.75
JGB b/mark 10 Yr	1.05				1.10	1.20	1.10
...EUROPE							
BoE Repo	4.75	↓	December 19	90% steady 10% cut 25bp	4.50	4.25	3.75
Gilts 10 Yr	4.27				4.50	4.50	4.30
Swiss 3 mth Policy Rate	1.00	↓	December 12	90% cut 50bp 10% cut 25bp	0.50	0.25	0.00
Conf 10 Yr	0.15				0.25	0.10	0.00
Swedish Repo	2.75	↓	December 19	50% cut 50bp 50% cut 25bp	2.25	1.75	1.50
SGB 10 Yr	2.00				2.20	2.10	1.90
Norges Bank depo	4.50	↓	December 19	100% steady	4.50	4.25	3.50
NGB 10 Yr	3.50				3.80	3.60	3.30
DOLLAR BLOC							
BoC o/n Target	3.75	↓	December 11	60% cut 25bp 40% cut 50bp	3.50	2.75	2.50
Canada 10 Yr	3.12				3.20	3.10	2.90
RBA OCR	4.35	↓	December 10	90% steady 10% cut 25bp	4.35	3.85	3.60
Australia 10 Yr	4.26				4.25	4.10	4.10
RBNZ	4.25	↓	February 19	50% cut 50bp 50% cut 75bp	3.75	3.50	3.25
NZ 10 Yr	4.31				4.20	4.10	4.00

## FORECASTS AT A GLANCE: EMERGING MARKETS

Emerging Markets	CURRENT (%)	DIRECTION OF NEXT POLICY MOVE*	UPCOMING CB MEETINGS	RISK OF MOVE AT NEXT MEETING	THREE-MONTH F/C (%)	SIX-MONTH F/C (%)	TWELVE-MONTH F/C (%)
NBH base rate	6.50	↓	December 17	90% steady 10% cut 25bp	6.25	6.00	5.00
CNB 2 wk repo	4.00	↓	December 19	60% cut 25bp 40% steady	3.75	3.50	3.00
NBP reference rate	5.75	↓	December 4	100% steady	5.75	5.00	4.50
CBRT	50.00	↓	December 26	50% steady 50% cut 100bp	50.00	45.00	40.00
SARB repo	7.75	↓	January 30	100% cut 25bp	7.00	5.50	4.00
Bank of Russia key policy rate	21.00	↑	December 20	60% hike 100bp 40% hike 300bp	23.00	22.00	18.00
BC do Brasil selic	11.25	↑	December 11	50% hike 50bp 50% hike 50bp	12.00	12.00	10.00
BC de Chile o/n	5.25	↓	December 17	80% cut 25bp 20% steady	5.00	4.50	4.00
Banco de Mexico o/n	10.50	↓	December 19	90% cut 25bp 10% steady	10.00	9.25	8.50
PBoC 1 year MLF	2.00	↓	December 19	100% steady	2.00	1.80	1.80
RBI repo	6.50	↓	December 6	95% steady 5% cut 25bp	6.25	6.00	5.25
BoK Base Rate	3.00	↓	January 16	85% steady 15% cut 25bp	3.00	2.75	2.25

Current yields as of 4<sup>th</sup> December 2024. n/a = not applicable.

\* Note: The IGM view of the next monetary policy move (conventional or unconventional), whenever it occurs.

Tightening = ↑ Easing = ↓

Boxes in red denote significant changes to our outlook.

## THEMES

Geopolitics continues rub against domestic economic data for central banks. How the Dollar plays out will be crucial for many CBs as will tariffs. These are not mutually exclusive. Uncertainty has become elevated once more, which reduces confidence in central bank models. The zero lower bound has re-entered the lexicon via the SNB outlook.

## G3

### ➤ US - FED

- Our baseline remains for a 25bp cut at the December FOMC, with a marginal risk of slippage into January. After this, the outlook become murky given the vocalising around the incoming President's policy
- There are too many imponderables regarding *potential* government policy and the impact. A strong Dollar, for instance, could completely offset the impact of tariffs on local prices, which will be rate cut supportive. A fiscal splurge might fuel domestic inflation, but the markets could respond with tighter financial conditions, offsetting some the inflation impulse.
- The Fed can't make policy based on imponderables. March is lining up as the pivotal meeting.

### ➤ EUROZONE - ECB

- The ECB, in data-dependence mood, is favoured to cut 25bp. Is there a risk of 50bp? Yes, but we view this as a relatively minor probability. There is a clear split on the GC between those wanting to get to (and under) neutral quickly versus the gradualists.
- What is effectively a bump in the disinflation road, still elevated services CPI and pay related numbers plus an upside Q3 GDP surprise provide the more hawkish with enough ammunition to argue for 25bp over 50bp despite evident downside economic growth risks.
- New forecasts in December will be very interesting. Lane has said the inflation forecast will probably be driven up by Trump policies ... but if that is the case, and part of the rationale for recent rate cuts has been the consistency of the end 2025 CPI forecast, what does this mean?

### ➤ JAPAN – BoJ

- December's decision is expected to be "live". BOJ comments on the balance of data are seen continuing to signal a desire to normalise despite the post-decision turmoil in August.
- Governor Ueda also said a Nikkei interview that more rate hikes are "nearing" although only if "economic data are on track".
- Ueda also said any further Yen weakness when inflation starts to rise above 2% may raise "great risks to us" and may see the BOJ "have to resort to countermeasures".
- The "stabilisation" in wider worry regarding geopolitics – with the elections in the US and Japan having concluded has also added to confidence to further raise rates.
- A December hike is far from a done deal. Ueda said in the same interview that there is still "a big question mark left on the outlook" regarding economic policies of the new US administration.
- Furthermore, given that Board members see rates hitting 1% only around H2 of FY25, we judge that a rate hike in January is a little more likely, while proximity to more certainty due to progress in annual wage negotiations may also encourage policymakers to hold off.

## EUROPE

### ➤ UK - BoE

- In a recent interview, the Governor was interpreted as suggesting four quarter point cuts over the next 12 months if the economy evolved as expected. This has been our belief for a while.
- Hence, no easing in December and the next chop in February. There are currently too many variables which are too elevated to warrant speeding up the easing process and the Bank hasn't changed its language around what little guidance it is providing.
- The risk lies with a speedier cutting campaign arising if inflation falls quicker which might happen late Q1 onto Q2. The problems with the ONS LFS suggest we will all be paying far greater attention to 'alternative' measures of pay and relative labour market tightness.

### ➤ SWITZERLAND – SNB

- Core-CPI has edged below the 2% level in the last two readings and worries about disinflation are causing the market to factor in a large possibility that the SNB will accelerate the pace of easing with a 50bp rate cut to 0.5% at the final policy meeting of the year on December 12th.
- Recently, SNB Chairman Schlegel emphasized that the CB is ready to intervene in FX markets as necessary and stated that "nobody loves negative interest rates, including the SNB, but we are ready to implement them again if needed."
- Schlegel also admitted a few days ago that Switzerland is feeling economic weakness spilling over from its key trading partner Germany. Markets are now looking at SNB rates being brought down to zero by June 2025.

### ➤ SWEDEN - Riksbank

- Cut by 50bp in November as widely expected, taking the policy rate down to 2.75%.
- Repeated the message that the rate may also be cut in December and during H1 2025.
- Explained that the cuts are aimed at further supporting economic activity and that rates need to be cut at a somewhat faster pace than assessed in September.
- Inflation has declined and that economic activity has remained weak, with still few clear signs of a recovery.
- Next decision is on December 19th, with a 25bp or 50bp cut expected

### ➤ NORWAY – Norges Bank

- Left its benchmark interest rate on hold at 4.50% in November as had been widely expected.
- The policy rate will most likely be kept at 4.5% until the end of 2024 given that restrictive policy is needed to bring inflation down to target within a reasonable time frame.
- Still sees a gradual reduction in policy rate from Q1 2025.
- The interest rate path has contributed to cooling of the Norwegian economy and dampening inflation, it says, adding that Krone depreciation and a rapid rise in business costs are likely to restrain further disinflation.

## DOLLAR BLOC

### ➤ CANADA - BoC

- Cut rates 50bp to 3.75% in October (the largest reduction since March 2020!) and repeated that more chops are likely if the economy evolves as forecast.
- The large-scale cut is intended to boost growth and keep inflation close to 2%. The economy has excess supply, and the labour market is soft, while consumer spending and business investment is weak.
- Next decision is on December 11th. Markets are split on a 25bp or 50bp move, but weak GDP updates have put more emphasis on fears around a weakening economy and boosted the case for another aggressive cut at the final meeting of 2024 - particularly after Macklem has indicated the possibility of another such move.

### ➤ AUSTRALIA - RBA

- Expected to leave the cash rate target as is at the December meet, with prevailing worry over still-elevated underlying inflation and labour market tightness expected to remain at the fore.
- Latest CPI showed a re-acceleration of the trimmed mean in October, to +3.5% y/y (September was +3.2%), pointing to a resurgence of underlying price pressures – ultimately putting to rest the already scant hopes of a December rate cut.
- October's labour market report showed the unemployment rate unchanged at 4.1%, notably below its pre-pandemic level (was 5.2% in March 2020). The employment-to-population ratio stayed at a record high, while employment growth (+0.3%) remains above the 20-year pre-COVID growth rate (+0.2%) in trend terms. In short, the overall report suggests that the job market continues to be "relatively tight".

### ➤ NEW ZEALAND - RBNZ

- Expected to see a 25bp or 50bp rate cut in February following two consecutive 50bp chops.
- Focus will be on the quicker-than-expected deterioration of domestic economic conditions. The RBNZ is probably keen to avoid letting the OCR linger at elevated levels.
- However, expectations for a third consecutive 50bp rate cut may be a little exuberant at present, with such a move expected to take the OCR to 3.75% versus the RBNZ's current neutral rate belief around 3.9%.
- There is still three months of data to digest ahead of the next decision. Notably Q3 GDP (19 December), Q4 CPI/non-tradables (22 January) and Q4 labour market statistics (4 February)



## EMERGING MARKETS

### EUROPE, RUSSIA & SOUTH AFRICA

#### CZECH REPUBLIC - CNB

- Cut 25bp to 4.00% for an eighth consecutive meeting as weak economic growth eclipsed concerns about inflationary risks and weighed up a sluggish recovery from the pandemic with the energy crisis against accelerating price growth – stemming from services and a housing market rebound.
- Domestic inflation met the forecast by rising to 2.8% y/y in October prior supporting the CB's arguments of possibly putting a pause to easing policy as inflationary risks remain.
- Minutes revealed that most policymakers expressed concern about upside inflationary risks simmering in the economy that warranted a tight monetary stance.
- Among the main anti-inflationary risks is the worsening outlook for Czech economic growth despite Q3 GDP expanding by 0.4% q/q and by 1.3% y/y.
- We can expect the CNB to adopt a more hawkish stance in the remaining quarter of 2024, possibly keeping rates on hold until for a decent chunk of H1 2025.

#### HUNGARY - NBH

- Held steady at 6.50% for a third straight meeting, to support the Forint following Trump's election win that triggered one of the steepest currency declines.
- Deputy Governor Virag mentioned that the NBH is ready to maintain a "strict" policy and keep rates steady for a "sustained period" and that a "careful and patient approach is still warranted" as inflationary risks are still present – stemming from a 40% minimum wage hike.
- Inflation accelerated less-than-expected in October. The NBH continues to expect CPI to climb towards 4% by year-end as base effects of the 2023 price spike fades, keeping rates steady until year-end, possibly until H1 2025.

#### POLAND - NBP

- Has left interest rates steady at 5.75% for over a year amid higher CB inflation projections due to rising upside inflation pressures and a loose budget stance.
- Poland's inflation decelerated for the first time in eight months to 4.6% y/y in November from 5% y/y prior. The government have also approved a draft law freezing household power prices for another nine months of next year. The bill will still need to be approved by parliament and signed into law by President Duda and comes ahead of a crucial presidential election year
- CB Deputy Governor Knightley has said that the electricity price freeze should reduce average annual inflation to 4.3% in 2025 from 5.6% seen prior. The extended priced cap should see interest-rate cuts come quicker in 2025, with most policymakers flagging concerns over energy pricing as one of the key upside inflationary pressures. The majority of the MPC currently see rate-cut discussions beginning in Q1 2025.

#### TURKEY - CBT

- Left the policy rate steady at 50% for an eighth straight meeting but expressed that slowing inflation could soon allow the Bank to cut interest rates, seeing an improvement in services inflation as well as their inflation expectations. The MPC expressed that the underlying trend of inflation registered a decline in October and Q4 indicators suggest domestic demand continues to slow, reaching disinflationary levels. CPI eased again in November.
- Also, Turkey entered a recession in the Q3 as industrial production plunged, providing more evidence to the CB as it ponders whether to start cutting interest rates next month.
- With persistent inflation risks and global uncertainties - our base case remains for borrowing costs to remain unchanged this year, but considering the improved outlook

from the CBRT, rate cuts could occur as soon as December.

#### SOUTH AFRICA – SARB

- The economy unexpectedly contracted by 0.3% in Q3, missing the 0.5% growth forecast, due to drought-hit agricultural output and a weak transport sector, raising investor concerns amid global tariff threats and challenging President Ramaphosa's growth-focused agenda.
- With headline inflation slowing under the SARB's 3%-6% target in October (2.8%), combined with a weak economy, we can expect the CB to continue lowering interest rates, with the next policy meeting due next year (January 30).
- At the last meet (where the MPC lowered rates by 25bp to 7.75%), policymakers struck a cautious tone going forward, saying that its model showed further cuts were in the offing but that the outlook remains highly uncertain. Thus, we expect the CB to maintain the current 25bp pace to policy easing.

#### RUSSIA – CBR

- Hiked the Key Rate by 200bp to 21% at its October meet - a record high as policymakers combat stubborn inflation. Policymakers said in a statement after the decision that "the balance of inflation risks is still significantly tilted to the upside." The CBR "holds open the prospect of increasing the key rate at its upcoming meeting."
- Note, whilst headline inflation slowed in October, the m/m prints continued to accelerate. Adding to inflationary pressures is a weaker RUB (down 7.50%/USD since November) after the US sanctioned top Russian banks including Gazprombank, which served international payments for key Russian gas exports.
- Thus, traders are ramping bets the CBR will be forced to hike its key rate further from an all-time high currently of 21%, in order to ease price growth to its 4% target for 2025.

## ASIA

#### SOUTH KOREA - BoK

- Now expected to follow up the surprise November cut with a pause January 16<sup>th</sup>. Recall, the November reduction had been made with an eye on economic weakness and an uncertain outlook – and less so on inflation, with the Bank seen downwardly revising GDP/CPI forecasts for 2024/2025.
- As such, the December 3<sup>rd</sup>/31st CPI releases for the months of November/December are not expected to factor heavily into the Bank's considerations, barring very large upside surprises in one or both readings.
- It is also worth noting that markets largely did not place as much weight on a cut in November given that the CB is seen as typically opting for back-to-back cuts only in times of economic duress, particularly as such a rapid pace of cuts would not allow for any time to monitor the impact of monetary policy tweaks.
- Looking ahead, the late February is seen as the most likely meeting for the next cut.
- However, it is possible that developments overseas – particularly China's economic recovery and economic/trade in the US – may impact the BoK's view of the South Korean economy, spurring consideration for yet another cut mid-January.
- However, the balance of risks is likely tilted towards policymakers seeking some time to monitor the impact of rate cuts in October and November, while also noting that incoming US President will start his new term January 20 – after the CB's meeting.

#### INDIA - RBI

- Expected to make no change to its policy at the December 6<sup>th</sup> meeting, with worries over still-high inflation expected to make that decision relatively straightforward.
- On the latter point, note Governor Das has said that the RBI will consider its job finished only when inflation trends around its 4% target on a more durable basis, stating that "price stability is just as crucial as growth".

- His remarks came ahead of the late November Q3 GDP release, which showed the economy growing much slower than expected, falling far short of the RBI's own forecasts (Q3 GDP +5.4% y/y, RBI had forecast +7.0%), with the report pointing to signs of economic strain amidst higher rates, as well as tighter fiscal policy and regulation.
- Weak growth in Q3 is not expected to shift the CB's course, with bringing down food inflation a continued focus.
- Growth is also expected to rebound in Q4 – as suggested by some economic activity indicators, while heavier rains in Q3 are still expected to result in an upward revision to agriculture's growth contribution.
- Further out, the CB is expected to consider a rate cut come the February meet, when the November/December will be on hand.

## CHINA - PBoC

- Recently released Chinese official November PMI suggested the manufacturing sector expanded at the same modest pace in October. Official Manufacturing PMI came in at 50.3 above October's 50.1 reading and above consensus at 50.2. However, this could be attributed to a seasonal tendency to rise following October's lull in activity due to the week-long National Holidays. Non-manufacturing PMI came in at 50, down from October's 50.2 and below consensus at 50.3. More worrying is that the employment sub-index further declined, suggesting that the factories are still not sold on the Government's economic push and remain reluctant to hire additional labour.
- Some silver linings seen though, as the PMI for medium sized firms at 50, broke its streak of contractionary readings from May-October. The readings for small businesses, though still in contractionary levels, rose to 49.1 from 47.5 prior
- The latest set of data suggests that the stepped-up stimulus rolled out in September is still filtering its way through or it remains insufficient. Strong sustained support is still needed from the Government to prevent a deflationary spiral from taking hold. With

the winter months coming, the Government's efforts to implement the fiscal spending may be hampered as outdoor activities like construction may be difficult to carry out.

- With added anxiety over the size/scope of President Trump's tariff measures, we anticipate stronger policy support to come in early 2025. Analysts are seeing the possibility of a 100bp cut to the RRR in 2025 and a reduction in the policy rate by 30bp.

## LATAM

### BRAZIL - BCB

- Continued to increase rates and CPI estimates for 2025 after the government's spending cut plan announced in November failed to ease investor concerns over fiscal policy.
- Monetary policy began to tighten back in September. Rates have now risen by 75bp since to tame inflation which accelerated to 4.77% y/y due to factors including bad weather and growing government outlays.
- The BRL has now depreciated over 16%/USD YTD as investors concerns build on the government's widening budget deficit. This, combined with the strong pace of economic growth, will likely to see the BCB continue hiking borrowing costs to haul inflation back to the 3% target.

### CHILE – BCCh

- Has now lowered borrowing costs 600bp since mid-2024 as economic growth struggles to gain traction. Whilst GDP increased to 0.7% q/q in Q3, Finance Minister Marcel has said the government will lower its 2024 economic growth forecast from 2.6%.
- Still, annual inflation (4.70% y/y in October) remains over the CB's 3% target following an energy price hike and as rising geopolitical tensions give reason for policymakers to remain cautious.
- Chile's October data showed inconsistent economic activity and underlying fragility,



despite a modest headline improvement. GDP appears to have fallen below its potential and central bank expectations early in Q4. Weak labour market dynamics and restrictive monetary conditions further support the need for additional interest rate cuts.

## MEXICO - Banxico

- Lowered interest rates 25bp for a third straight meeting to 10.25% as a key measure of underlying inflation eases and as concerns mount over an economic slowdown.

Policymakers said in a statement following the decision that "the board expects that the inflationary environment will allow further reference rate adjustments."

- Minutes from the last rate meeting signalled willingness to consider larger rate cuts but didn't specify a time-frame to do so while they watch core inflation ease further. Still, other members question the urgency to accelerate the pace of easing.

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