The following are excerpts from three online articles which focus on key monetary policy events taking place globally this week, with particular emphasis on three of the world's most significant economies- US, Europe and the UK, and the potential implications for markets. All content is referenced in detail below.

This week's news feature covers the ECB's most recent interest rate decision and examines how the Federal Reserve is contemplating the upcoming FOMC meeting in view of the latest US core inflation figures. Additionally, we highlight the UK, which, despite being the fastest-growing economy in the G7 for the first half of the year, reported stagnant GDP figures for July, however modest growth is expected to continue due to a robust beginning to 2024.

ECB cuts euro zone interest rates again.

RTE (2024) reports that the European Central Bank (ECB) on Thursday delivered a quarter-point interest rate cut, marking its second reduction to the deposit rate this year. The widely anticipated move comes after a period of sluggish economic growth across the euro zone and cooling inflation, which fell back toward the central bank's 2% target in August.

The ECB lowered its deposit rate by 25 basis points to 3.5% in a widely expected move, following up on a similar cut in June as inflation is now within striking distance of its 2% target and the domestic economy is skirting a recession. With the cut widely expected, investor attention has already shifted to what will come next and how ECB decisions will be shaped by the US Federal Reserve's widely expected start to its own rate-cutting next week. But the ECB, the central bank for the 20 countries that share the euro, gave nothing away.

"We are not pre-committing to a particular rate path," ECB President Christine Lagarde told a press conference, using the bank's standard formula for what it calls its "data-dependent", meeting-by-meeting approach to policy.

"We are looking at a whole battery of indicators," she said, noting that September was likely to deliver a low reading of inflation simply because of statistical base effects. Euro assets were little changed by the move and by the absence of clues on the future rate path, which analysts interpreted as evidence of the ECB's caution. "Given that the ECB's track record of predicting inflation on its way up is rather weak, the ECB will want to be entirely sure before engaging in more aggressive rate cuts," said Carsten Brzeski, Global Head of Macro at ING.

RTE (2024)

Investors are divided over the pace of further rate cuts this year, as are ECB policy-makers, a point highlighted by RTE (2024). Future decisions on rate cuts will continue to be data dependent, given the mixed inflation data from around the eurozone, and the uncertain outlook for economic growth in Europe. October may come to soon for another rate cut.

Christine Lagarde painted a mixed picture of inflation in the euro area continuing to be sustained by rising wages even as overall labour cost pressures moderated and were absorbed by companies. More dovish ECB policymakers, mainly from the euro zone's south, have been arguing that recession risks are rising and high ECB rates are now restricting growth far more than needed, raising the risk that inflation could undershoot the target.

But inflation-wary hawks, who are still in a majority, say the labour market remains too hot for the ECB to sit back, and that underlying price pressures, as evidenced in stubborn services costs, raise the risk inflation could surge again. New economic forecasts did little to settle the debate. Quarterly projections from the ECB's staff showed that growth this year will be slightly lower than forecast in June while inflation is still only seen back at target in the second half of next year.

That means few if any policymakers are likely to argue against further easing, with the key divide being how quickly the ECB should move. Hawkish policymakers have made clear that they see quarterly rate cuts as appropriate, since key growth and wage indicators - which inform the ECB's own projections - are compiled every three months. Investors are also divided, with another cut by December fully priced into financial markets but the chance of an interim move in October wavering between 30% and 50%.

Technical rate cut

With the latest cut, the ECB's deposit rate will fall by 25 basis points to 3.5%. The refinancing rate, however, was cut by a much bigger 60 basis points to 3.65% in a long-flagged technical adjustment. The gap between the two interest rates had been set at 50 basis points since September 2019, when the ECB was pumping stimulus into the economy to avert the threat of deflation. It announced plans in March to narrow the corridor to 15 basis points from today's meeting, to encourage the eventual rekindling of lending between banks.

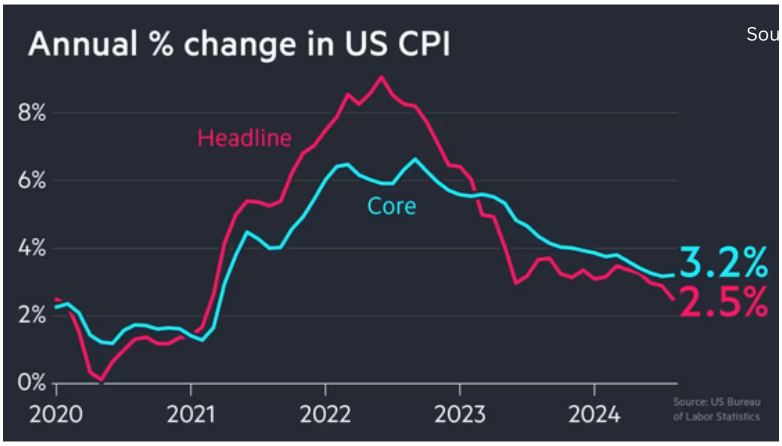
Such a revival is still years away, so the ECB's move is a pre-emptive adjustment of its operating framework. For now, banks are sitting on €3 trillion of excess liquidity which they deposit with the ECB overnight, making the deposit rate in effect its main policy instrument. Over time this liquidity should dwindle, pushing banks to borrow again from the ECB at the refinancing rate, traditionally the central bank's benchmark interest rate. Once that happens, the main rate will regain its headline status, while the narrower rate corridor should help the ECB better manage market rates.

The marginal lending rate, a rarely used instrument, was also cut by 60 basis points to 3.9%.

RTE (2024)

US inflation falls to 2.5% in August.

Against the backdrop of the US presidential election, FT.com(2024) reports on the ongoing decrease in headline inflation in the United States, which is expected to lead to a reduction in interest rates by the Federal Reserve next week, with the extent of the cut being the only question. However, the cooling labour market remains a significant concern.



US inflation fell to 2.5 per cent in August, setting the stage for the Federal Reserve to start cutting interest rates at its meeting next week. The latest annual consumer price index compared with July's 2.9 per cent pace, and was marginally below the estimate of 2.6 per cent from economists polled by Reuters. Core CPI, which excludes volatile food and energy prices, held steady at 3.2 per cent, according to data published by the Bureau of Labor Statistics on Wednesday. The inflation data marks one of the last major economic releases ahead of the Fed's next meeting on September 18, when it is expected to lower rates from their current range of 5.25 to 5.5 per cent, a 23-year high. After the data release, the yield on two-year Treasury bonds, which tracks interest rate expectations and moves inversely to price, rose 0.08 percentage points to 3.69 per cent. Contracts tracking the S&P 500 share index were down 0.5 per cent in the immediate aftermath of the publication of the inflation figures, while those tracking the technology-heavy Nasdaq 100 also lost 0.5 per cent. Last month, a weak payrolls report for July had sparked fears of an economic downturn in the US. The data for August, released last Friday, showed that US employers had added 142,000 new jobs that month, up sharply from a downwardly revised figure of just 89,000 for July, but still below consensus forecasts.

The Fed has been seeking assurance that inflation is cooling sustainably before lowering interest rates. But evidence of sharper deterioration in the jobs market could push the central bank to cut rates more aggressively. Evidence that inflation is continuing to fall towards its 2 per cent target is welcome news for the White House and Democratic vice-president Kamala Harris's election campaign. Her Republican rival Donald Trump has attacked her and President Joe Biden for presiding over a cost-of-living crisis in recent years.

FT.com (2024)

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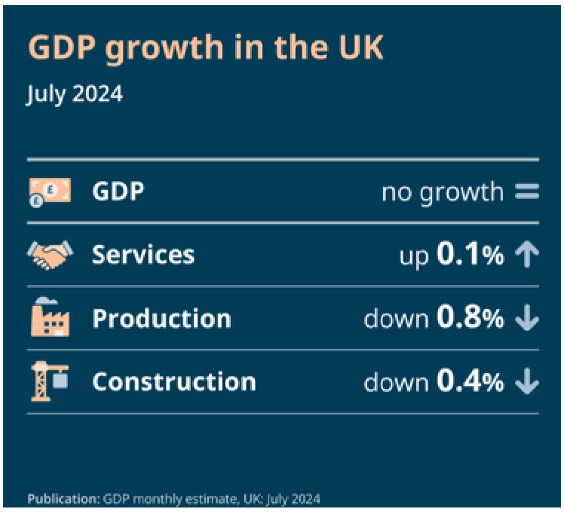
UK economy flatlines for a second month in a row.

According to Yahoo Finance (2024), economic growth flat-lined in the United Kingdom in July with only the UK services sector showing an increase in activity. Despite weaker economic data, a relative downturn in activity was to be expected on the back of the rapid rise in GDP for the first six months of the year. This after a technical recession in the second half of 2023.

Growth stalled in July despite expectations of a recovery on the previous month. UK economic growth flatlined once again in July, with data from the Office for National Statistics (ONS) showing gross domestic product (GDP) did not see any month-on-month growth, having also flatlined in June. This came in below expectations of 0.3% month-on-month growth, according to a research note from Deutsche Bank released on Monday.
The services sector grew 0.1% in July but both production and construction fell by 0.8% and 0.4% respectively.



Yahoo Finance (2024)

Figures released last month showed the economy expanded by 0.6% in the second quarter, after having grown 0.7% in the first three months of the year. GDP is the measure of everything produced in the UK.

Liz McKeown, the ONS director of economic statistics, said: "July's monthly services growth was led by computer programmers and health, which recovered from strike action in June."

"These gains were partially offset by falls for advertising companies, architects and engineers."

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At the end of last year, the UK economy fell into a shallow and short-lived recession. A recession is defined as economic activity shrinking for two three-month periods — or quarters — in a row. The data comes ahead of the Bank of England's (BoE) meeting next Thursday, when it will share its latest interest rate decision. Markets have been pricing in that the central bank will keep rates on hold in September, but will continue on a gradual path of easing, with two cuts anticipated before the end of the year.

Meanwhile, the rate of unemployment fell to 4.1%, the ONS data showed, down from 4.2% in the three months to June. Sanjay Raja, UK chief economist at Deutsche Bank Research, said: "Growth is normalising from the rapid pace set in the first half of 2024— this much should be expected."

"The pace of the slowdown, however, is a little faster than we anticipated — especially in light of the still stellar survey data we've seen over the summer," he added. As a result, Raja said Deutsche Bank Research's economic growth forecast for the third quarter had "slipped meaningfully."

Meanwhile, Hailey Low, associate economist for the National Institute of Economic and Social Research (NIESR) said that despite this weaker economic growth data, the "strong start to 2024 will likely extend into the second half of the year." "However, high-frequency indicators are signalling a relative slowdown in momentum for the remainder of the year," she said.

Lindsay James, investment strategist at Quilter Investors, said: "The UK economy was expected to continue to show modest momentum, but signs suggest that the growth from the first half of the year is now stuttering."

"Given the mood music emanating from the government and the economic inheritance it has received from the Conservatives, the government needs to be careful not to overcorrect with its narrative around tax rises and the potential this has to put off investment," she said.

Yahoo Finance (2024)

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