

More central banks getting ready to cut rates

- ◆ Despite inflation no longer surprising on the downside, we expect major central banks to start cutting rates from June
- ◆ Sticky services inflation, a better growth picture and tight labour markets may affect the pace of cuts...
- ◆ ...and there are still risks out there for both growth and inflation

After seeing markets' expectations for the timing of the first rate cuts from major central banks fluctuate in Q1, the latest set of policy meetings suggests that we're back on track for June. Inflation may no longer be surprising on the downside, including in the US where inflation surprised on the upside again in March, but policymakers are satisfied that it has **moved to a lower gear in most economies**. While the last leg of inflation is proving to be stickier, and it is service inflation fuelling that momentum, policymakers appear to feel that they can move policy rates to be less restrictive soon.

Balancing act

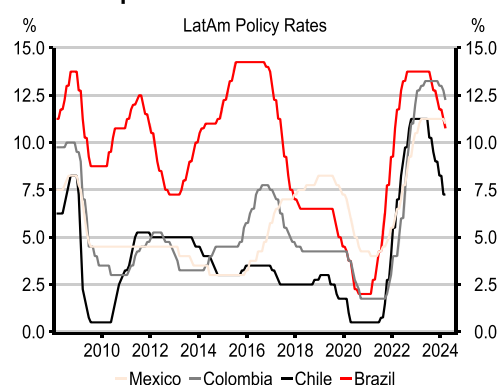
For central bankers, **balancing the two-sided risks of inflation and growth remains the key challenge**, as cutting too soon may stoke inflationary pressures given tight labour markets and result in a policy reversal, while holding rates for a longer period may result in a harder landing. We expect the first rate cuts from the Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of England (BoE) in June.

The inflation-growth balance remains key

Meanwhile, many central banks in emerging economies, particularly in LatAm and Central and Eastern Europe, have been cutting rates for quite some time. Asia remains an exception, with policy rates mostly on hold, apart from cuts in mainland China and hikes in Taiwan (surprisingly) and Japan, where negative rate policy ended in March. Many central banks in Asia **are waiting for the Fed to embark on its easing cycle** before taking their first steps.

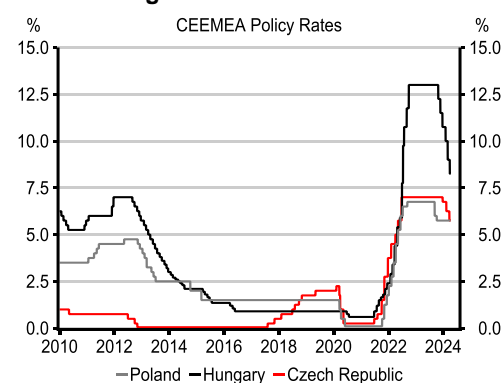
Many central banks in Asia are waiting for the Fed to cut

1. LatAm central banks have been cutting rates for quite some time now...



Source: Macrobond

2. ...followed by a few economies in the CEEMEA region



Source: Macrobond

Global PMIs and industrial production have picked up

Robust data

There has been broadly good news on the growth front. The **PMIs remain robust in both the manufacturing and service sectors**, with industrial and trade data showing early signs of recovery, supported by resilient consumer demand. Mainland China is also seeing some signs of bottoming out in its data. We could also be seeing turning points in housing markets – with rising prices leading to an upturn in transactions and eventually construction in 2024.

Labour market remains tight

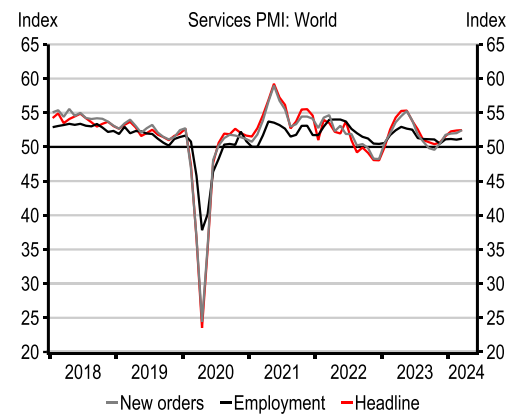
The other key area to keep an eye on is the labour market. Overall, **labour markets remain tight with firms still hiring and wage growth elevated**. That said, there are some signs of softness: quit rates have fallen and the pace of wage growth has also slowed in some markets. Nonetheless, layoffs are low and confidence over job availability is high.

3. Manufacturing PMIs are on a clear upward trajectory...



Source: Macrobond

4. ...while services data remain robust



Source: Macrobond

Risks in play

Policy makers need to be mindful of inflationary risks

That said, policymakers should remain cautious of the risks. Higher interest rates are still feeding into increased consumer delinquencies and business bankruptcies, and the longer that rates stay high, the more strain we might see. Geopolitical risk, be that over supply chains or elections, is likely to keep markets on their toes – **with risks of higher inflation from any disruptions to the global economy**. Things may be getting brighter, but there are plenty of risks out there.

Our GDP growth forecasts

We recently lifted our annual average global GDP growth forecast for 2024 from 2.4% to 2.6%, which is also our GDP growth forecast for 2025. The main drivers of the positive revision are the US, where an increase in the supply of workers may continue to support economic momentum in 2024, and India, where PMI manufacturing and services have risen and corporate margins remain higher than the long-term average.

Key GDP growth forecasts

% Year	2023 forecast		2024 forecast		2025 forecast	
World	2.7	(2.7)	2.6	(2.4)	2.6	(2.6)
US	2.5	(2.4)	2.3	(1.7)	1.5	(1.5)
Mainland China	5.2	(5.2)	4.9	(4.9)	4.5	(4.5)
Japan	1.9	(1.9)	0.6	(0.8)	1.1	(1.1)
India*	7.7	(7.0)	6.3	(6.0)	6.6	(6.3)
Eurozone	0.5	(0.5)	0.5	(0.5)	1.3	(1.3)
UK	0.1	(0.5)	0.4	(0.7)	1.1	(1.0)
Brazil	2.9	(2.9)	2.0	(2.0)	2.3	(2.3)
Mexico	3.2	(3.4)	2.7	(2.7)	2.5	(2.5)

Note: *India data is calendar year forecast here for comparability. Previous forecasts are shown in parenthesis, and are from the Macro Monthly dated 11 January 2024. Green indicates an upward revision, red indicates a downward revision.
 Source: Bloomberg, HSBC Economics

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
1 Apr	Mainland China	Caixin manufacturing PMI (index)	Mar	51.1	51.0	50.9	↑
1 Apr	US	ISM manufacturing (index)	Mar	50.3	48.3	47.8	↑
3 Apr	Eurozone	HICP (year)	Mar, flash	2.4%	2.5%	2.6%	↓
3 Apr	US	ISM services (index)	Mar	51.4	52.8	52.6	↓
5 Apr	US	Nonfarm payrolls (thousands)	Mar	303	214	270	↑
10 Apr	US	CPI (year)	Mar	3.5%	3.4%	3.2%	↑
11 Apr	Mainland China	CPI (year)	Mar	0.1%	0.4%	0.7%	↓
12 Apr	UK	Monthly GDP (month)	Feb	0.1%	0.1%	0.3%	→

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
17 Apr	UK	CPI	Mar
19 Apr	UK	Retail Sales	Mar
21 Apr	Mainland China	People's Bank of China interest rate announcement	-
23 Apr	EU / UK / US	PMIs	Apr
25 Apr	US	GDP	Q1
26 Apr	US	PCE Price Index	Mar
29 Apr	Mainland China	NBS Manufacturing PMI	Mar
30 Apr	Eurozone	HICP	Apr
30 Apr	Eurozone	GDP	Q1
3 May	US	Non-Farm Payrolls	Apr

Source: Refinitiv Eikon, HSBC

Disclosure appendix

Additional disclosures

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- 2 All market data included in this report are dated as at close 12 April 2024, unless a different date and/or a specific time of day is indicated in the report.
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