



R&R Weekly Column
By Brunello Rosa



The World's Major Central Banks Are At A Turning Point

In the last couple of weeks, the world's major central banks have met and taken important decisions or made crucial announcements regarding their future decisions. Going in chronological order, the European Central Bank (ECB) in mid-July decided to [keep its key policy rates unchanged](#), after the [25-bps cut it deliberated in June](#). This was due to the fact that macroeconomic conditions did not warrant a back-to-back reduction in policy rates, considering that economic activity has actually picked up recently, while inflation has remained above the ECB's target. Nonetheless, during the press conference, President Christine Lagarde said that the possibility of an additional measure of monetary easing (another 25bps cut) in September is "wide open", and we expect the Eurozone's central bank to cut rates on that occasion.

Last week, the US Federal Reserve, the UK's Bank of England, and the Bank of Japan met for their last meetings before the summer break, all making important decisions and announcements.

The [Federal Reserve left its policy stance unchanged](#), as inflation remains above the central bank's target, and economic activity, including job creation, remains solid. However, during the press conference, Chair Jay Powell said that the FOMC has increased in confidence that inflation will durably return to target after a series of positive readings in Q2, which offset the negative readings (i.e. rises) recorded in Q1. On the back of that, Powell said that if the economy continues to perform in line with current developments, the Fed would be prepared to finally cut its benchmark Fed funds rate by a quarter of a point in September, thus marking the end of one of the steepest tightening cycles in recent history.

The Bank of England left the market to wonder until the very last minutes about its intention, with market participants split in half between those ([including us](#)) who expected the BoE to cut rates in August and those who thought the Bank would wait until September. Eventually, the Bank decided, with a razor-thin majority of 5-4, to cut rates in August, with Chief Economist Huw Pill joining the "usual" dissenters, recording a dissent compared to Governor Andrew Bailey, and his boss Claire Lombardelli, the newly-appointed Deputy Governor for Monetary Affairs. In September, the Bank of England will release its plan for its Quantitative Tightening (QT) program for the September 2024-August 2025 period.

Finally, the Bank of Japan held its meeting at the end of July, [after announcing in June](#) that it would reduce the pace of its asset purchases, without specifying the parameters for such a move. So, [at its July meeting the BoJ announced](#) that it would reduce the purchase of JGBs by about a half over time, from JPY 6tn yen a month to around JPY 3tn yen. Alongside this announced decision, the BoJ decided to increase its policy rate by about 15bps to "around 25%", a second increase after [that decided in March](#). This signals increased confidence on the part of the BoJ that inflation will remain durably above the 2% target, after years of dis-inflation or deflation.

Overall, this set of decisions or announcements signals the will by the world's major central banks to put their respective houses in order before the summer break, to be ready to resume their activities in the autumn with a bang.

Our Recent Publications

🌀 [Review: Bank of England Cuts Rates, With a Razor-Thin Majority](#), by Brunello Rosa and Nato Balavadze, 1 August 2024

🌀 [Review: The Fed Remains on Hold in July, But Signals a Likely Cut in September](#), by Brunello Rosa and Nato Balavadze, 31 July 2024

🌀 [Review: BOJ Raises Rates And Announces the Parameters of QT](#), by Brunello Rosa and Nato Balavadze, 31 July 2024

🌀 [BoE Preview: A Narrow Majority for a Rate Cut, With a High Risk Of a Delay Till September](#), by Brunello Rosa, Nouriel Roubini And Nato Balavadze, 30 July 2024

🌀 [Preview: BOJ Likely to Increase Rates in July, But It Is a Close Call](#), by Nouriel Roubini, Brunello Rosa And Nato Balavadze, 30 July 2024

🌀 [Navigating Inflation in Developed Markets: A Comparative Analysis of the US, Eurozone, UK, and Japan](#), by Klitos Philippides, 30 July 2024

🌀 [Preview: Fed To Keep Rates on Hold in July, While Signaling Readiness For A September Cut](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 29 July 2024

🌀 [A Month of Political Shocks in U.S. Elections: Trump's Nomination, Biden's Withdrawal And Harris' Endorsement](#), by Fernando Prats, 26 July 2024

Looking Ahead

The Week Ahead: Composite PMI To Increase In US And UK And Decrease In EZ; Inflation To Rise In Germany And Italy

In the US, in July, S&P Global Services and Composite PMIs are likely to increase to 56 (p: 55.3) and 55 (p: 54.8).

In the EZ, in July, HCOB Global Services and Composite PMIs are expected to decrease to 51.9 (p: 52.8) and 50.1 (p: 50.9). In June, retail sales are seen decelerating to 0.2% q-o-q (p: 0.3%).

Among the largest EZ economies, in July, headline inflation rate is seen: i) rising by 2.3% y-o-y (p: 2.2%) in Germany; ii) increasing by 1.3% y-o-y (p: 0.8%) in Italy.

In the UK, in July, S&P Global Services and Composite PMIs are expected to increase to 52.4 (p: 52.1) and 52.7 (p: 52.3).

The Quarter Ahead: Use of F-16 in Ukraine and Escalation in Lebanon

Zelenskiy Announces F-16 Use in Ukraine. President Zelenskiy announced that Ukrainian pilots are now flying F-16s, marking the arrival of the long-awaited U.S.-made fighter jets after over 29 months of lobbying since Russia's invasion. Ukraine has mandated the evacuation from Donetsk due to Russian advances. Russia claimed to have seized a nearby village and several others in recent weeks.

Situation escalates in Lebanon. Several governments, including the US, UK, and France, have urged their citizens to leave Lebanon immediately due to rising Middle East tensions following the assassination of Hamas's political chief, Ismail Haniyeh, which Iran blames on Israel and the US. This event, along with the killing of Hezbollah's military chief Fuad Shukur in Beirut, has led to threats of retaliation from Iran and its allies.

Last Week's Review

Real Economy: EZ QoQ GDP Rose; US Unemployment Rate Edged Up; Fed Stayed On Hold; BoE Delivered a 25bps Cut

In the US, the Fed maintained the target Fed funds range at 5.25% - 5.50%. In July, unemployment rate edged up to 4.3% (c: 4.1%; p: 4.1%). NFPs increased by 114K (c: 175K; p: 179K). In July, S&P Global Manufacturing PMI fell to 49.6 (c: 49.5; p: 51.6).

In the EZ, in Q2, according to the preliminary estimates, the GDP growth rate advanced by 0.3% q-o-q (c: 0.2%; p: 0.3%) and 0.6% y-o-y (c: 0.5%; p: 0.5%). In July, the headline inflation eased off to 2.6% y-o-y (c: 2.4%; p: 2.5%), while core inflation stood at 2.9% y-o-y (c: 2.8%; p: 2.9%). In June, unemployment rate increased to 6.5% (c: 6.4%; p: 6.4%). In July, consumer confidence increased to -13.0 (p: -14.0) as expected. In July, HCOB Manufacturing PMI remained at 45.8 (p: 45.8).

Among the largest EZ economies, in Q2, GDP growth rate: i) increased by 0.3% q-o-q (c: 0.2%; p: 0.3%) while decelerated to 1.1% y-o-y (p: 1.5%) in France; ii) decelerated by 0.2% q-o-q (c: 0.2%; p: 0.3%) and advanced by 0.9% y-o-y (c: 0.9%; p: 0.6%) in Italy. In July, inflation rate: i) rose by 2.3% y-o-y (c: 2.2%; p: 2.2%) in Germany; ii) edged up by 2.3% y-o-y (c: 2.4%; p: 2.2%) in France; and iii) increased by 1.3% y-o-y (c: 1.2%; p: 0.8%).

In the UK, the BoE cut its Bank Rate by 25 bps to 5.0%. In July, S&P Global Manufacturing PMI edged up to 52.1 (c: 51.8; p: 50.9).

Financial Markets: Stock Prices Decreased; Yields Edged Down; Dollar And Oil Prices Decreased, While Gold Prices Rose

Market Drivers: In the US, the weak labor market data and uneven earnings pressured stocks. Long-term interest rates dropped sharply after the ISM manufacturing report and jobs data, pushing long-term yields down. In Europe, stocks fell to as global markets were shaken by weak U.S. economic data, raising concerns about growth.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.0%, to 787.21). The US S&P 500 index edged down (-2.1% w-o-w, to 5,346.56). In the EZ, share prices decreased (Eurostoxx 50, -4.6% w-o-w, to 4,636.75). In EMs, equity prices decreased (MSCI EMs, -1.0%, to 1,061.23). Volatility rose to 22.50 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: w-o-w, the 10-year US Treasury yields edged down (-40 bps to 3.79%). The 2-year US Treasury yields decreased (-52 bps to 3.87%). The German 10-year bund yields decreased (-24 bps to 2.16%).

FX: w-o-w, the US Dollar Index decreased (DXY, -1.1%, to 103.22; EUR/USD +0.5%, to 1.09). In EMs, currencies fell (MSCI EM Currency Index, +0.3% w-o-w, to 1,729.64).

Commodities: w-o-w, oil prices decreased (Brent, -5.3% to 76.81 USD/b). Gold prices increased w-o-w (+3.4% to 2,486.10 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DIJA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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