



R&R Weekly Column
By Brunello Rosa



Major Central Banks Adjust Their Policy Stances At Year's End

In December 2024, the world's major central banks, the Federal Reserve (Fed), the European Central Bank (ECB), the Bank of England (BoE), and the Bank of Japan (BoJ) held their policy meetings and responded to evolving economic, financial, and geopolitical conditions.

On December 12th, [the ECB reduced its key interest rates by 25 basis points](#), bringing the deposit facility rate to 3.00%. This decision was influenced by an updated assessment indicating that the disinflation process is progressing well, with headline inflation projected to average 2.4% in 2024 and 2.1% in 2025. The ECB also noted that domestic inflation remains elevated, primarily as a result of delayed adjustments in wages and prices following previous inflation surges. With the Eurozone economy weakening, the ECB will likely cut rates further into 2025; a 50bps cut as early as January cannot be ruled out. We expect the ECB to at least take its deposit rate to the neutral level (2%) and most likely below it.

The Federal Reserve [concluded its policy meeting on December 18](#), opting to lower its Federal funds rate by 25 basis points to a target range of 4.25% to 4.5%, marking the lowest level since February 2023. This move is the Fed's third rate cut of the year, motivated by the weakening of inflationary pressures. Despite the reduction, the rate remains above pre-pandemic levels, with updated projections indicating it will stay steady in the coming months. The Fed's updated SEP dots anticipate two additional cuts in 2025, down from the four that had been expected in September. Fed Chair Jerome Powell emphasized a cautious approach to balancing employment and inflation risks, the latter deriving from the fact that inflation remains sticky and more inflationary pressure may be due as a result of expected policies from the incoming second Trump administration.

On December 19, 2024, the Bank of England's Monetary Policy Committee (MPC) [voted to maintain the base interest rate at 4.75%](#). This decision reflects a cautious stance amid a sluggish UK economy and rising inflation, which reached 2.6% in November, above the Bank's 2% target. The MPC was divided, with three MPC members (Swati Dhingra, Dave Ramsden and Alan Taylor) out of nine advocating for a 25-basis point cut to 4.5%, highlighting concerns over the balance between controlling inflation and supporting economic growth. The BoE acknowledged the challenges posed by rapid wage growth juxtaposed with economic contraction, as the UK economy shrank for two consecutive months and is expected to stagnate in the near term. The Bank reiterated its intention to maintain a "gradual approach" to future rate cuts, with investors anticipating two to three reductions in 2025.

Finally, also on December 19th, the Bank of Japan concluded its monetary policy meeting, [deciding to keep its key interest rate unchanged at 0.25%](#). This decision aligns with the BoJ's ongoing commitment to its still-loose monetary policy stance, aiming to achieve its 2% inflation target sustainably, in spite of its previous rate increases in 2024 and its meaningful reduction in asset purchases. The BoJ continues to monitor economic indicators closely, maintaining its accommodative policy to support economic activity, but is expected to increase its policy rates again in January, in conjunction with the release of its new economic outlook.

In summary, December 2024 saw an adjustment of the policy stances of the world's major central banks, reflecting their individual economic landscapes and inflationary challenges. The ECB and Fed proceeded with rate cuts to reflect the meaningful fall in inflation that has occurred over the last few months. But while the ECB is likely to accelerate its easing cycle, the Fed will follow a more cautious approach, and will likely pause for a few months. The BoE reiterated its "gradual approach" to further cuts, amidst economic sluggishness and persistent inflation. The BoJ maintained its steady course, keeping rates unchanged in order to support economic recovery, while keeping the door open to further hikes starting from January.

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Looking Ahead

The Week Ahead: QoQ GDP Growth Rate To Decelerate In UK; Tokyo core CPI Is Seen Rising

In the UK, in Q3, according to the final estimates, GDP growth rate is expected to decelerate to 0.1% q-o-q (*p*: 0.5%) and advance by 1.0% y-o-y (*p*: 0.7%). Business investment is likely to increase by 4.5% y-o-y (*p*: 0.2%) in Q3.

In Japan, in November, unemployment rate is expected to stay unchanged at 2.5%. In December, Tokyo core CPI is seen rising by 2.5% y-o-y (*p*: 2.2%).

The Quarter Ahead: Immigration Tensions and AfD Surge Amid Attack; Trump Pushes NATO to Boost Defense Spending

Magdeburg Christmas market attack. Saudi Arabia warned Germany about a suspect in the Magdeburg attack that killed five and injured over 200. The incident fueled immigration debates and boosted the far-right AfD, whose support from Musk sparked outrage ahead of a key election.

Trump Urges NATO Defense Hike. Trump plans to push NATO allies to spend 5% of GDP, more than double the current target. Despite concerns over U.S. support for Ukraine, Trump plans to continue military aid to stall Russia's invasion of the country.

Last Week's Review

Real Economy: US QoQ GDP Advanced; Headline Inflation Increased In UK And EZ; Fed Cut Rates, While BoE Stayed On Hold

In the US, in Q3, according to final estimate, GDP growth rate advanced by 3.1% y-o-y (*c*: 2.8%; *p*: 3.0%). In December, S&P Global Manufacturing fell to 48.3 (*c*: 49.8; *p*: 49.7), while Services PMI increased to 58.5 (*c*: 55.7; *p*: 56.1). In Composite PMI also rose to 56.6 (*p*: 54.9). In December, Michigan Consumer Sentiment edged up to 74.0 (*p*: 71.8) as expected. In November, retail sales increased by 3.8% y-o-y (*p*: 2.9%).

In the EZ, in November, headline inflation increased to 2.2% y-o-y (*c*: 2.3%; *p*: 2.0%), while core inflation rate remained unchanged at 2.7% y-o-y as expected. In December, ZEW economic sentiment index increased to 17.0 (*c*: 12.2; *p*: 12.5). In December, HCOB Manufacturing PMI stood at 45.2 (*c*: 45.3), whereas Services PMI rose to 51.4 (*c*: 49.5; *p*: 49.5). Composite PMI increased to 49.5 (*c*: 48.2; *p*: 48.3).

Among the largest EZ economies, in November, headline inflation rate increased to 1.3% y-o-y (*c*: 1.4%; *p*: 0.9%) in Italy.

In the UK, in November, headline and core inflation rates rose by 2.6% y-o-y (*c*: 2.6%; *p*: 2.3%) and 3.5% y-o-y (*c*: 3.6%; *p*: 3.3%). In October, unemployment rate stayed unchanged at 4.3%. In December, S&P Global Manufacturing PMI edged down to 47.3 (*c*: 48.2; *p*: 48.0), while Services PMI rose to 51.4 (*c*: 51.0; *p*: 50.8). Composite PMI was unchanged at 50.5 (*c*: 50.7).

CBs are mixed. In the US, the Fed cut its target Fed funds range by 25bps to 4.24% - 4.50%, while signalling fewer cuts in 2025 than previously expected. In the UK, the BoE held its Bank Rate at 4.75%. In Japan, the BoJ kept rates unchanged.

Financial Markets: Stock Prices Decreased; Yields Increased; Dollar Increased; Oil And Gold Prices Fell

Market Drivers: In the US, stocks fell broadly with a hawkish tone from Fed Chair Powell and cautious commentary on future rate cuts and higher inflation forecasts. US Treasuries fell as yields rose on reduced Fed rate cut expectations. In Europe, Eurostoxx 600 posted its worst week in three months, amid Trump's tariff warning and interest rate concerns.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.5%, to 866.14). The US S&P 500 index decreased (-2.0% w-o-w, to 5,930.85). In the EZ, share prices decreased (Eurostoxx 50, -2.2% w-o-w, to 4,860.45). In EMs, equity edged down (MSCI EMs, -3.1%, to 1,072.25). Volatility rose to 18.26 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+14 bps to 4.163). The 2-year US Treasury yields increased (+8 bps to 4.32%). The German 10-year bund yields edged up (+4 bp to 2.29%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.6%, to 107.6; EUR/USD -0.7%, to 1.04). In EMs, currencies decreased (MSCI EM Currency Index, -0.4% w-o-w, to 1,734.55).

Commodities: w-o-w, oil prices decreased (Brent, -2.1% to 72.94 USD/b). Gold prices decreased w-o-w (-1.1% to 2,645.10 USD/Oz).



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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
DJIA	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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