



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).



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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                                       |