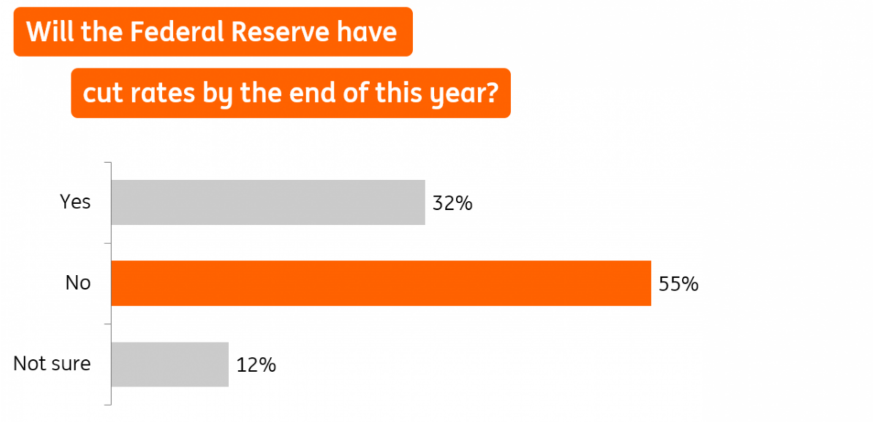
Central banks: How your views compare to ours

We ran a series of live polls at our recent Economics Live webinar earlier this week, and this is how the views of our listeners compare to our own. You can listen back to our event via our THINK Aloud podcast

On Monday 12 June, we hosted more than 400 ING customers and colleagues in a live webinar which looked at the June central bank meetings and our longer-term expectations. We asked participants for their own views on a range of topics, and we've included the results below, and how these compare to our own house view.

You can listen back to the event via our THINK Aloud podcast, available on our website and via Apple/Spotify podcasts.

Question one



Source: ING
Poll conducted at our recent Economics Live webinar. 204 responses from ING customers/colleagues

Our verdict: Federal Reserve

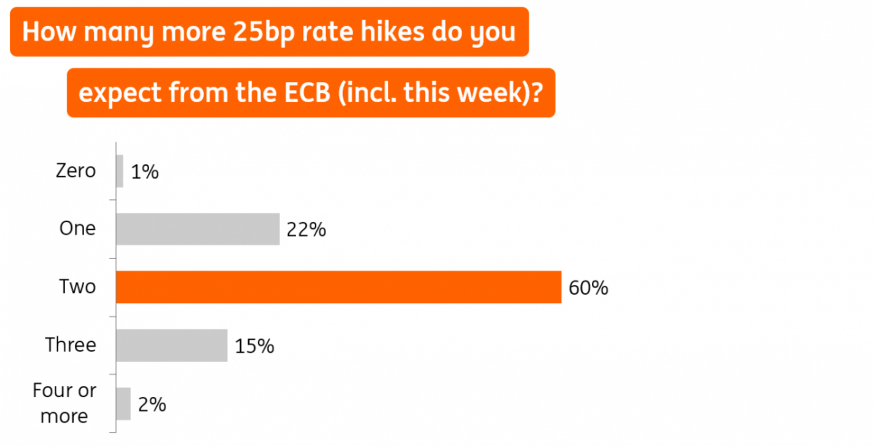
While not a majority view, we think there is a strong chance that the Federal Reserve lowers interest rates before year-end. The US economy has experienced the most rapid increase in policy rates for 40 years and the central bank is also shrinking its balance sheet via quantitative tightening, while recent banking stresses have led to a significant tightening of lending conditions.

Coming at a time when business confidence is already at depressed levels and with the housing market stagnating, recessionary forces are building. Inflation is slowing, admittedly not as rapidly as the Fed would like, but heavy weightings for shelter and vehicles offer hope that the disinflation process will accelerate in the second half of 2023. Rents are topping out in most major cities and vehicle prices are also coming under downward pressure with survey evidence pointing to weakening corporate pricing power more broadly.

The Fed has a dual mandate of targeting 2% inflation and maximising employment. If, as we fear, unemployment starts to rise later in the year, optimising for the two goals means we could start to see monetary policy move from restrictive territory to a more neutral footing.

James Knightley, Chief International Economist

Question 2



Source: ING

Poll conducted at our recent Economics Live webinar. 217 responses from ING customers/colleagues

Our verdict: European Central Bank

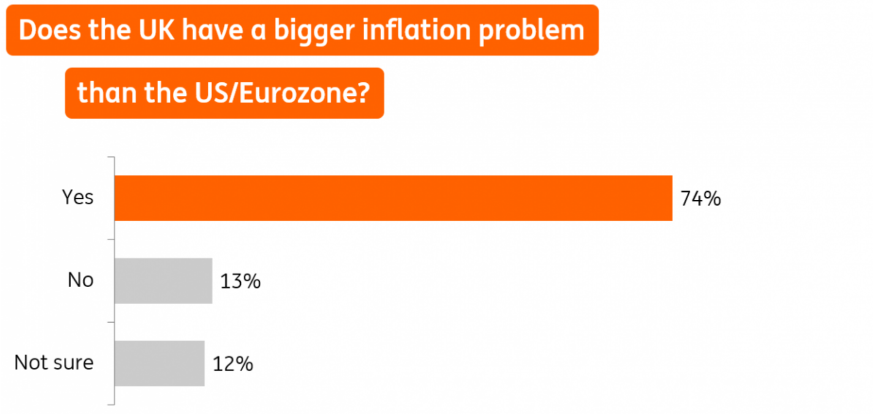
Upward revisions to the ECB's staff projections for both headline and core inflation at the June meeting suggest that interest rates are set to rise a little further than our webinar participants expect. In addition to the rate hike at Thursday's meeting, we now expect further moves in both July and September.

Still, and even if ECB President Christine Lagarde tried to paint a different picture, with the Federal Reserve's hawkish pause and a eurozone economy not only turning out to be less resilient than anticipated but also facing a very subdued growth outlook, the ECB is increasingly taking the risk of worsening the economic outlook. Also, historical evidence suggests that core inflation normally lags headline inflation while services inflation lags that of goods. These are two strong arguments for a further slowing of core inflation in the second half of the year.

However, as much as arguments against further rate hikes are getting stronger, the ECB simply cannot afford to be wrong about inflation. The Bank wants and has to be sure that it has slayed the inflation dragon before considering a policy change. We won't be seeing that at the July meeting, and probably not in the September one, either. In fact, we think it would require an economic earthquake for the European Central Bank not to hike in September as well.

Carsten Brzeski, Global Head of Macro

Question 3



Source: ING

Poll conducted at our recent Economics Live webinar. 203 responses from ING customers/colleagues

Our verdict: UK inflation

It's not difficult to see why the result of our poll was so one-way. The most recent CPI data came in well above expectations, and financial markets have increasingly concluded that the Bank of England faces a tougher task in bringing down inflation than the Federal Reserve. Rate expectations are as elevated, and as divergent from the US, as they were last autumn during the 'mini budget' crisis.

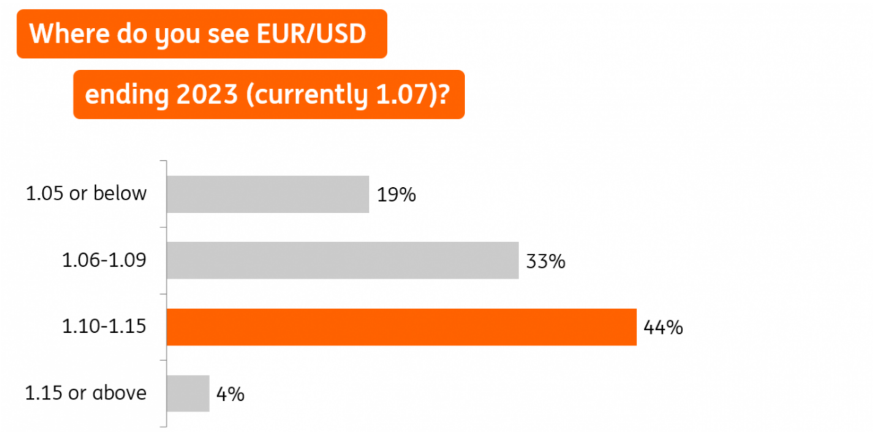
To some extent we're sympathetic. Worker shortages appear to have been more acute than in other advanced economies, owing to a large fall in worker participation and lack of migration during the pandemic – though both trends have somewhat reversed over recent months. Wage growth is likely to be very slow to fall back to pre-Covid averages, and we think headline regular pay growth will be above 5% throughout 2023 (vs 7% currently).

Then again, the disinflationary pressures we're starting to see overseas are also applicable to the UK. Goods price inflation should continue to slow on weaker global demand/manufacturing, while we think pressures in the service sector should begin to ease in line with much lower natural gas prices. Survey measures of inflationary pressures among corporates have also eased during the first half of this year.

Markets are therefore probably overestimating the Bank of England's inflation challenge, and policymakers can probably pause once rates hit 5% (most likely in August).

James Smith, Developed Markets Economist

Question 4



Source: ING

Poll conducted at our recent Economics Live webinar. 209 responses from ING customers/colleagues

Our verdict: EUR/USD outlook

Given EUR/USD was trading near 1.07 at the time of the poll, participants have clearly taken a bullish directional view on EUR/USD. The central expectation is for a modest move higher, with only a very few envisaging gains above 1.15 by year-end. Combining the responses of both the EUR/USD and the Fed polls, the preference for a modest EUR/USD upside looks to be based on the view that the Fed will not be rushed into easing.

Where we differ from the poll result is that we expect the Fed to turn more dovish than most expect – which will lead EUR/USD above 1.15 by year-end. This week's events have provided some support to the magnitude of our call, where EUR/USD is trading not far from 1.10 at a time when the Fed is still talking hawkishly and the US yield curve remains heavily inverted. How high will EUR/USD trade if the Fed does actually cut rates – as we believe – this year?

Chris Turner, Global Head of Markets and Regional Head of Research for UK & CEE

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