

Central banks: Our latest calls

What to expect from central banks as inflation concerns persist and recession risks rise



Source: Shutterstock

In full

[Click here to read the full list of our central bank calls](#)

Federal Reserve

Our call: 75bp in July, 50bp in September and November before switching to 25bp in December. Rate cuts from summer 2023. Quantitative tightening (QT) to continue until rate cuts begin.

Rationale: To get inflation down quickly we would ideally like to see the supply-side capacity improve to meet strong demand in the US economy. However, supply chain strains, geopolitics/energy prices, and a lack of suitable workers mean this isn't likely in the near term. Consequently, the onus is on the Fed to respond aggressively to dampen demand, but moving into restrictive territory means a rising chance of recession. Inflation could fall quickly from early next year, opening the door to rate cuts from summer 2023.

Risk to our call: Two-way. On the one hand, the tight labour market continues with rising wages making inflation stickier at high levels. Conversely, the economy reacts badly to rate hikes (the

housing market is vulnerable) and recession prompts a lower peak and a more rapid reversal in Fed policy.

European Central Bank (ECB)

Our call: Rate hikes totalling 100bp before the end of the year.

Rationale: Stubbornly high inflation and longer-term inflation projections above the 2% target have made a first rate hike overdue. Still, the very gradual (read: slow) approach to normalising when other central banks have acted more aggressively suggests a still-divided ECB. Support within the ECB to end net asset purchases and the era of negative interest rates is strong but views on the timing and pace still differ. With a high risk of the eurozone and US economy falling into technical recession towards the end of the year and inflation coming down in 2023, there will be hardly any room for the ECB to deliver additional hikes in 2023.

Risk to our call: A faster and more severe recession could push the ECB to stop normalising after 75bp and could even trigger cuts in early 2023. On the other hand, positive growth surprises and few signs of inflation weakening could motivate the ECB to hike more aggressively this year and bring the refi rate to 2% in 2023.

Bank of England

Our call: 50bp rate hike in August, 25bp in September before a pause.

Rationale: It's a very close call on August's meeting, and in isolation, there's not much in the latest data to suggest the Bank needs to move more aggressively. Core inflation looks like it is at, or close to, a peak (even if the headline will go to 11% in October), while unemployment has stopped falling. But the hawks are clearly worried about recent weakness in sterling, and the prospect of another 75bp Fed hike coupled with the fact that a 50bp rate hike is virtually priced in for August, means we narrowly think that's the most likely outcome. Still, a 50bp hike – if it happens – is likely to be a one-off. We're not far from what's arguably neutral interest rate territory now (probably around 2%), and the Bank loses one of its biggest hawks after August, who will be replaced by a more dovish official. We still doubt the Bank rate will go as high as 3% or above, as markets are still pricing.

Risk to our call: If the Fed hikes even more aggressively, or if core inflation moves unexpectedly higher in the coming months, then we could see more than one 50bp hike and a higher terminal rate.

Bank of Japan

Our call: Bank of Japan will maintain an accommodative policy stance.

Rationale: CPI will stay above 2% until the end of 2022, but the BoJ will downplay it as cost-push-driven inflation that will prove temporary. Market expectations of possible policy changes (at least broadening the long-end yield target) are still alive but are not going to materialise easily for a while.

Risk to our call: If signs of wage growth are detected and the sharp yen weakening continues over 135, then the bank could reconsider its policy stance, but that will become more likely when Governor Haruhiko Kuroda retires next April.

Author

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

James Knightley

Chief International Economist, US
james.knightley@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Min Joo Kang

Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.