Inflation: the word on all central bankers' lips

Inflation is on the lips of every central banker. What can they do to curb surging inflation and will it be enough?

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Record high inflation persists

Inflation remains one of the hottest economic topics of the moment, affecting households and companies and giving central bankers a very hard time. For a long while, central bankers had labelled accelerating inflation as 'transitory', attributing the rise to reopening effects after Covid lockdowns. With inflation surging for the second year in a row, inflation could still be labelled as 'transitory' in the sense that it is mainly driven by global factors like the reopening of economies, supply chain frictions, and the war in Ukraine and its impact on energy and commodity prices. However, it is definitely not 'transitory' in the sense of being temporary. In the Western world, in particular, high inflation has become an enormous concern. Headline inflation rates as seen in the 1970s will most likely be transitory, higher prices won't.

Carsten: Searching for a silver lining

The global economy has clearly seen better days. As attention shifts to the role of central banks, ING's Carsten Brzeski raises the question: how far can they actually go?

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Our key calls this month

- Oil prices should remain supported through the second half of the year as the market remains in deficit. Expect Brent to average $125/bbl in 4Q.
- Inflation will remain elevated for the remainder of 2022 but a gradual fall in energy prices should see headline CPI rates begin to ease back in 2023.
- Despite talk of a pause, we expect the US Federal Reserve to continue hiking with 50bp hikes in both June and July, followed by a series of 25bp moves that take the funds rate to 3% around the turn of the year. Second-quarter US GDP is set to rebound sharply.
- The European Central Bank has effectively pre-announced two, 25bp rate hikes in July and September. But concerns about rising inflation mean a faster, 50bp move remains on the table.
- We now expect three further Bank of England rate hikes, up from two, on the back of new government support targeted at low-income consumers.
- We've kept our China GDP forecast at 3.6% for 2022, despite further stimulus from the government.
- The dollar correction may have come far enough and we still think a 1.00-1.10 trading range for EUR/USD feels about right.
- We continue to expect US 10-year yields to peak in the 3.25% area in the third quarter.
- Despite pockets of lower goods demand, current backlogs mean that supply chain disruptions are unlikely to ease substantially this year.

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