Article | 8 December 2022

Our 3 calls for central banks

Global central banks are facing unprecedented challenges. Here's our focus on the main ones

Source: Shutterstock

Developed markets: Our calls at a glance

Developed Markets

Federal Reserve
50bp hikes in December and February before slowing inflation and recession prompt rate cuts from 2H 2023

European Central Bank
50bp rate hikes in December and another 50bp in Q1. Balance sheet reduction will replace rate hikes.

Bank of England
50bp rate hikes in December and February. Rate cuts likely to start in 2024, after the Fed

Bank of Japan
No policy change expected throughout 2024

Swiss National Bank
50bp rate hikes in December and another 50bp in March 2023, then a long pause

Bank of Canada
Low conviction call for a final 25bp hike in 1Q 2023. Lower peak than the Fed and a later rate cut story, starting 4Q23

Reserve Bank of Australia
RBA to keep to its 25bp per meeting until rates peak out at 3.6%. No longer a data dependent policy

Riksbank
50bp in February, possibly a final 25bp hike in April. Rate cuts to start already in 4Q23

Norges Bank
Another 50bp of total hikes, reaching a peak rate of 3.0%. But risks skewed to more aggressive tightening

Source: ING

Central and Eastern Europe/EMEA: Our calls at a glance

EMEA

National Bank of Hungary
A reversal of the "whatever it takes" hawkish stance might start only in 1Q23, cutting the 18% effective marginal rate

Czech National Bank
Hiking cycle closed, first rate cut likely in 2Q23 including end of FX interventions

National Bank of Romania
Tightening cycle is essentially over, more accommodative liquidity conditions could be the next policy choice

Central Bank of Turkey
Policy rate to remain flat until elections but maintain focus on selective credit policy and 'Liraisation' strategy

National Bank of Poland
NBP effectively ended hikes. De facto target is slow disinflation, GDP soft landing. Policy mix should tighten in 24 to bring CPI to de jure target

Source: ING

Asia (ex Japan): Our calls at a glance

Asia

People's Bank of China
Stay put in 2023 and keeping re-lending program for SMEs and uncompleted home construction

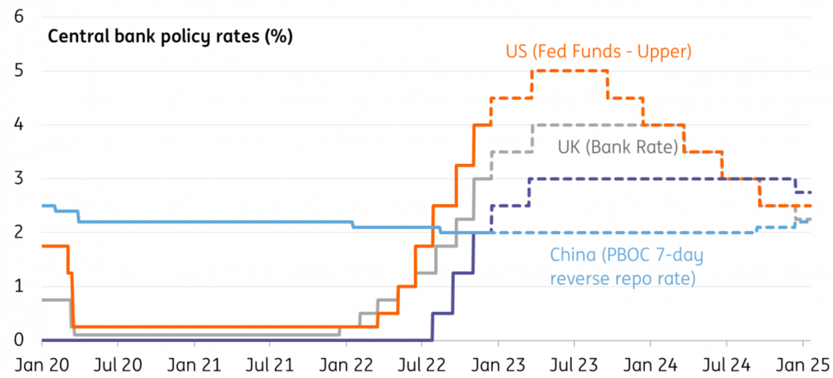
Reserve Bank of India
Another 25bp hike at the 7 Dec meeting, and also at the 8 Feb meeting, but RBI getting close to peak policy rates

Bank Indonesia
Rate hikes at 22 Dec meeting through to 1Q but with inflation likely past peak we could see a pause by 2Q 2023

Bank of Korea
End its hiking cycle with a 25bp hike in February, then rate cuts likely to begin in 2H23

Source: ING

Central banks: Our forecasts



Source: Macrobond, ING

Federal Reserve

After 375bp of rate hikes since March, including four consecutive 75bp moves, the Federal Reserve has concluded that it is now time to move in smaller increments. Nonetheless, the market doubts the Fed's intent and the recent falls in Treasury yields and the dollar are undermining the central bank's efforts to defeat inflation. Officials have been trying to convince the market that the ultimate/terminal interest rate will be above where they had signalled in September, but this is falling on deaf ears. The market is focused on soft inflation readings, coupled with a sense that recession is around the corner. While we agree that the second half of 2023 will be about rate cuts, we think there is the risk of a more aggressive response to inflation in the near term, with upside potential to our call for 50bp rate hikes in December and February. We could even see the Fed consider a faster run down of its balance sheet in an effort to re-steepen the Treasury yield curve at a higher level.

European Central Bank

Eurozone inflation is close to its peak, unless energy prices surge again next year, but the road towards the ECB's 2% target will be long and bumpy. The pass-through of wholesale gas prices, as well as still high selling price expectations, suggest that there is still inflationary pressure in the pipeline. It could take until 2024 before inflation has returned to 2%. For the ECB, this means that its job is not done, yet. At the same time, the looming recession, the risk of a subdued recovery and increasing government debt bring the ECB closer to the point at which rate hikes become overly restrictive. As a consequence, we expect the ECB to bring the deposit rate to a maximum of 2.5% in the first quarter of 2023. The reduction of the balance sheet, a.k.a reducing the ECB's bond portfolio, could become the ECB's main policy instrument to fight inflation.

Bank of England

The Bank of England may have hiked by 75bp in November but it made it abundantly clear that this was likely to be a one-off, and that investors were overestimating future tightening. Admittedly, recent data has been slightly hawkish, and the committee is alive to the risk that services/wage inflation may only fall gradually despite the forthcoming recession. But the Chancellor's Autumn Budget probably did just about enough to assuage the BoE's concerns about fiscal and monetary policy working at cross purposes. While much of the fiscal pain was delayed to future years, the government still scaled back energy support for households next year. We expect 50bp rate hikes in both December and February, marking a peak Bank Rate of 4%. With labour shortages unlikely to disappear next year, and wage growth therefore likely to stay more elevated than in past recessions, we suspect the BoE's first rate cut may not come until 2024, and after the Federal Reserve.

People's Bank of China

The PBoC cut the reserve requirement ratio (RRR) by 0.25 percentage points, effective in December, following a cut in April. There were also two 10bp cuts in the 7D reverse repo policy rate and 1Y Medium Lending Facility (MLF) rate back in January and August this year. The loosening of monetary policy has been mild relative to the slow rate of growth, which averaged 3.0% over the first three quarters of 2022. We believe that Covid measures are more likely to ease in 2023. But external demand could be weaker compared to 2022. Overall, growth in the domestic market should outpace the potential contraction of exports. Still, inflation should be absent in China. As such, the PBoC may choose to stay on hold next year as the central bank has hesitated to lower the 7D interest rate to near the 1% level to avoid falling into a liquidity trap. We do not expect the PBoC to cut the RRR or interest rates in 2023. That said, the re-lending programme for specific targets, e.g. SMEs and unfinished home projects, should continue at least in the first half of 2023.

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