

At a glance: The world right now

How the war in Ukraine has changed our core views and forecasts



→ United States

The US economy shrugged off the effects of Omicron and should be relatively resilient to the headwinds caused by Russia's military aggression in Ukraine by virtue of being an energy producer and having limited direct economic linkages. We expect six Federal Reserve rate hikes this year.

→ Eurozone

The war in Ukraine could dampen the pace of the recovery in the eurozone, while inflation is likely to be close to 4% for the year. The European Central Bank will have more trouble navigating through the storm, though we still expect an end to quantitative easing in the third quarter and a first rate hike towards the end of the year.

→ United Kingdom

Inflation is set to stay above 6% for most of 2022, and that means consumer spending will struggle to avoid a downturn later this year. The Bank of England is still squarely focused on curtailing higher inflation, though we think policymakers will hold off on further hikes once the Bank Rate reaches 1% in May and growth risks build.



China

China's Two Sessions will be held between 4-5 March. This is a great opportunity for the government to announce supportive economic policies as consumption has weakened. It is also a good chance for the government to emphasise stability at a time when geopolitical tensions are high.

➔ Asia ex-China

The Asia region has limited direct trade linkages with Russia and Ukraine, mostly linked to imports of oil and gas. But it will not be immune to the indirect consequences of this conflict. With food and energy prices capturing a large proportion of the CPI weights, we would expect to see further upward pressure on inflation and erosion of household purchasing power, nudging some central banks in the region away from their currently growth supportive stances in the direction of tighter policy.

➔ Central and Eastern Europe

As elsewhere in Europe, Putin's war in Ukraine will hit GDP across Central and Eastern European economies. Yet the unity showed by the region and the warm welcome offered to Ukrainian refugees could provide a short-term boost to consumption.

➔ Commodities

Whilst current sanctions are not targeting Russian energy exports, the risk of further escalation means the potential for large supply disruptions. For 2Q22 we now expect that ICE Brent will average US\$102/bbl, whilst for the full-year 2022, we expect Brent to average US\$96/bbl.

➔ FX

War in Europe has understandably taken its toll on currencies in the region and the implementation of Russian sanctions now questions the rouble's deliverability. Pressure is building for a sizeable break in EUR/USD below 1.10 this spring.

➔ Rates

Reactions to the Ukraine crisis have been quite stark. Russia is effectively in default territory, in part anticipating a forced exodus. Central Europe has seen selling pressure, pushing down currencies and forcing market rates higher. The US and western Europe are the relative safe-havens. Market rates have fallen here, and are liable to fall further.

➔ Special focus: French presidential campaign shaken by war in Ukraine

Emmanuel Macron's presidential mandate has been disrupted in its last few weeks by the return of war in Europe. After coronavirus and the social 'yellow vest' crisis, this could benefit Macron who remains this race's favourite, even though his programme for the next five years is unclear.

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