

The long wait for the pivot

There are tentative signs that central bankers on both sides of the Atlantic are considering a pivot to more modest interest rate hikes. But this could be months away



Central banks: A waiting game

[Watch video](#)

As we approach the end of the year, many of us are waiting. Waiting for the end of the war, waiting for inflation to finally peak, waiting for the Christmas holiday season to begin. For financial markets, the wait is on central banks and whether they will pivot.

“Pivot” is probably not the correct term to use as a pivot would imply a real turning point in central bank policies, while what markets - and we - are actually looking for are signs of a slowdown and an eventual end to the current rate hike cycles.

A difficult road ahead

Getting to this pivotal moment is easier said than done. Major central banks are still facing high and, in some cases, increasing inflation, while signs of economic slowdowns and recessions are growing. It will be too little too late for central banks to simply bet that weaker demand will break down inflation and inflation expectations, as long as inflation largely remains a supply-side issue.

Admittedly, given the importance housing costs play in the US inflation measure, the Federal Reserve is in a better position to bring down inflation (via higher mortgage rates depressing the costs of shelter) than, for example, the European Central Bank. What complicates central bankers' decisions is the fact that they have now rushed so much toward policy normalisation that they cannot see the full impact of their decisions yet. It typically takes at least six to nine months before monetary policy changes have found their full way into the real economy. This time lag increases the risk of overshooting. At the same time, however, the stickiness of inflation over the last two years has also increased the risk that a too-premature end to tighter monetary policy will be insufficient in returning the inflation genie to the bottle. It's not easy being a central banker these days.

Signs of a slowdown

Still, we have seen tentative signs by central bankers on both sides of the Atlantic Ocean suggesting that a slowdown, or even an end to rate hikes, is being considered an option. It will not necessarily be an explicit end to hikes but rather conveyed as a "taking stock pause". As the looming economic slowdowns and recessions will be more visible in December, we expect major central banks to slow down their tightening efforts and eventually end them in the first quarter of next year. Don't forget that balance sheet deleveraging can easily be a substitute to rate hikes in 2023.

In Europe, in particular, the inflation shock will dominate next year's headlines. While government price caps can limit inflationary pressure in the short run, they will push up headline inflation immediately when they are lifted again. Government subsidies which offset the negative effects of higher energy prices on households and consumers do actually extend inflationary pressures. Also, the energy crisis won't disappear after this winter but will last until the winter of 2023/24 as national gas reserves will start the next year at lower levels than in the spring of 2022, putting upward pressure on the demand for natural gas.

Whether they like it or not, the worsening economic backdrop has brought many central bankers closer to the moment of slowing tightening efforts, and eventually even pausing rate hikes. Financial markets waiting for the pivot might not be like waiting for Godot, but for a real pivot, headline and core inflation will first need to come down significantly. This is a scenario we definitely do not foresee before next summer.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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 <http://www.ing.com>.