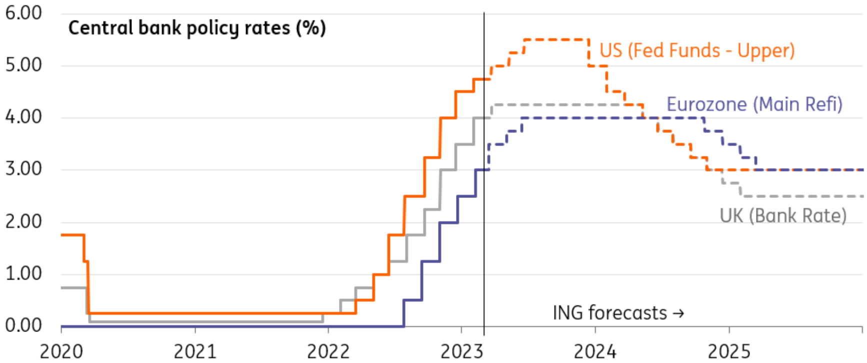
Our latest major central bank calls

We now expect the Fed funds rate to peak at a higher level, but still think rate cuts are likely by year-end. The European Central Bank is likely to slow the pace of hikes beyond March, while the Bank of England looks very close to the end of its tightening cycle

Governor of the Bank of England Andrew Bailey, ECB President Christine Lagarde, US Federal Reserve Board Chairman Jerome Powell

Source: Shutterstock

Our major central bank forecasts



Source: Macrobond, ING forecasts

Federal Reserve

Having implemented four consecutive 75bp rate hikes, the Federal Reserve switched to 50bp in December and then 25bp in February. The data since then has been strong with the economy adding 517,000 jobs in January, retail sales jumping 3% month-on-month and inflation re-accelerating at the core level. Several Fed officials have since commented that they would have considered a 50bp move in February had they known. But those giving this message are all non-voters this year and with borrowing costs rising broadly throughout the economy and banks tightening lending standards, we think the Fed will stick with 25bp increments. Nonetheless, given the current situation, we think the Fed will now hike in March, May and June. Inflation is still slowing and this process will likely accelerate over the summer months, and with job loss announcements on the rise we still anticipate rate cuts before year end – we look for a 50bp cut in December.

European Central Bank

As long as core inflation remains stubbornly high in the eurozone, the ECB will continue hiking rates and will not consider future rate cuts. A 50bp rate hike at the March meeting has been pre-announced and looks like a done deal. Beyond the March meeting, the ECB seems to be entering a new game in which further rate hikes will not necessarily get the same support within the governing council, as hiking deep into restrictive territory increases the risk of adverse effects on the economy. The main question beyond the March meeting will be whether the ECB will wait to see the impact of its tightening on the economy or whether it will continue hiking until core inflation starts to substantially come down. We currently expect a compromise: two additional rate hikes of 25bp each in May and June, before pausing the hiking cycle and entering a longer wait-and-see period.

Bank of England

The Bank of England's February meeting saw a stark change in communication, with policymakers signalling that the end of the tightening cycle is near. It said further hikes were contingent on signs of additional “inflation persistence”, which suggests policymakers are less beholden to month-to-month swings in data and are more focused on longer-term term trends. In truth, the news here is mixed. The Bank’s own survey has hinted both that recruitment difficulties are easing and price/wage expectations might have peaked. That can’t yet be said for the official wage data, though core services inflation did take a surprise nose-dive in the most recent numbers. Officials have hinted strongly that any future hikes will be in 25bp increments, and they have stressed that much of the impact of past hikes is yet to feed through. Barring inflation/wage data becoming more worrisome, we think a 25bp March hike is likely to be the last.

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