

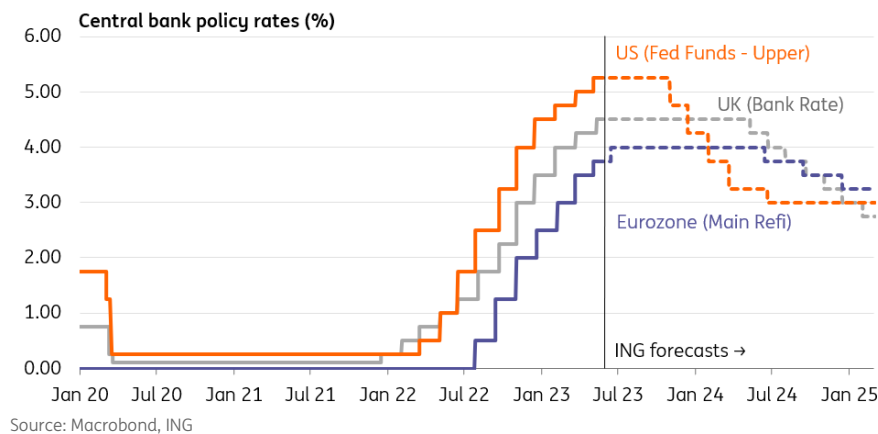
Our view on the major central banks

With the US Fed set to end rate hikes, the European Central Bank slowing but not stopping, and the Bank of England expected to go its own way, here's our look at how the main central banks are approaching the next few months



The Fed's Jerome Powell and Andrew Bailey, Governor of the Bank of England, at an IMF meeting last year

Our major central bank forecasts



□ Federal Reserve

After 500bp of interest rate increases, the Federal Reserve has signalled it feels monetary policy is now in restrictive territory and that further rate rises may not be required. The rapid tightening in lending conditions experienced over the past few quarters has only been intensified by recent bank failures. Consequently, the economy is facing dual headwinds of higher borrowing costs and less credit availability in an environment of already very weak business and consumer confidence.

The jobs market is holding up well for now, but we caution that this is the most lagging of indicators, and the risks are that we see a deterioration over the next couple of quarters. Inflation is still well above target, and the Fed continues to signal that rate cuts are unlikely before 2024. However, if the US does enter a recession, then inflation is likely to fall more quickly than officials expect, potentially opening the door to rate cuts this year.

The market is pricing the first move coming as soon as September, but we think that is too early. The fourth quarter is a more likely starting point, but the process could be more aggressive with 50bp moves in November and December our call.

□ European Central Bank

Slowing but not stopping. This was at least the message the ECB tried to send after its last meeting. Banking turbulence has aggravated the tightening impact of the ECB's rate hikes so far; a clear motivation to slow down the pace and size of rate hikes. However, for the time being, the fact that there are still no signs of any disinflationary process, discounting energy and commodity prices, as well as the fact that inflation has increasingly become demand-driven, will keep the ECB in tightening mode.

The main question for the ECB in the coming months will be when it should stop and wait for the rate hikes so far to do their work. Continuing with rate hikes until actual inflation has returned to 2% is hardly an option. Still, as the ECB seems to have lost full trust in its own macro forecasts, actual inflation developments are playing a more important role than in the past. It's a complicated situation as the risk that something in the economy 'breaks' increases every time rates rise. Consequently, the ECB will follow a 'hybrid strategy' bringing longer-term inflation developments under control, while waiting for actual (core) inflation to structurally come down.

To achieve this goal, we expect the ECB to hike one more time before entering a longer 'high for longer' period.

□ Bank of England

The Bank of England's May meeting contained no bombshells and saw the committee raise rates by 25bp and keep options open for June. But while the Bank still retains a tightening bias, it is conditional on inflation showing greater signs of persistence. Whether or not we get a June hike – which is not currently our base case – will hinge almost exclusively on the next two sets of CPI and wage data. But in general, the news on inflation is improving, and the fact that the BoE's own CPI forecasts are materially below target in two years' time is a clear hint that the tightening cycle is at its limit. Rate cuts may be less forthcoming than in the US, but we do expect core inflation to ease back over the next year and think the easing cycle will have begun by this time next year.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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 www.ing.com.