

## THINK Ahead: Central banks' two-button oil dilemma

Hike or cut? That's the dilemma central banks face if oil prices spike higher from here. And the answer is far from obvious, argues James Smith. Could inflation really surprise us this year? Plus, your full guide to the week ahead



So what can a sweaty superhero teach us about central banking, eh?

Source: Imgflip

### The two button dilemma

It's the classic internet meme: a sweaty superhero hesitating between two buttons. Should central banks cut rates because higher oil prices dent growth? Or hike because inflation goes up?

A decade ago, the choice was easier. With inflation supposedly dead, oil shocks were viewed as temporary and best “looked through”. Today it's the opposite. After the post Ukraine surge in oil, gas, food and eventually services prices, central bankers are far more wary. The Bank for International Settlements even [urged](#) them last year to act “quickly and forcefully” when faced with renewed price pressures.

Does Brent Crude above USD 70/bbl meet that bar? Back in December, the European Central Bank estimated that a 14% oil price hike would add 0.5pp to eurozone inflation – and not just this year. Growth would be lower by a mere 0.1ppt/year. And that's before you consider that EUR/USD may well go down on higher energy prices, given Europe's reliance on imported energy (check out

our [FX team's scenario analysis](#) on this).

Sooo... How much has oil risen since those ECB scenarios? Yep, you guessed it: 14%.

Across the Atlantic, the Fed was already sounding uneasy about inflation prior to the latest geopolitical drama. January's meeting minutes revealed officials see a "meaningful" risk that inflation won't return to target. It even floated the possibility that the next move could be a rate hike. The Fed does not drop that into conversation by accident...

Markets aren't really listening, though. Investors seem comfortable with pricing two rate cuts over the remainder of this year. That's still our view too. And after all, gasoline prices are close to multi-year lows. That context matters.

Still, higher energy prices aren't the only way US inflation could go higher this year.

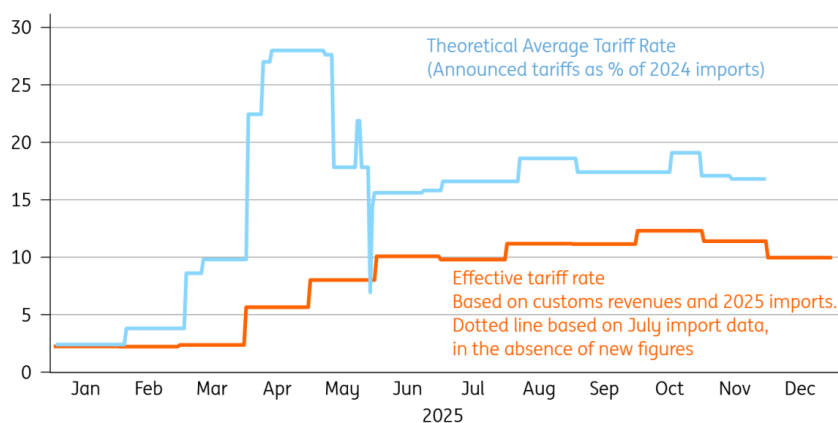
I was going to suggest tariffs, but is that still true now that [the Supreme Court has ruled the President's use of emergency tariffs illegal?](#)

What happens next is going to be key. How does the administration rebuild its tariff wall? The widespread assumption is that the White House uses alternative powers to impose 15% tariffs for 150 days, to buy time to create a more permanent basis for country-level tariffs.

What happens to deals done with the likes of the EU and Japan when the 15% tariffs underpinning them have been deemed illegal by the Court? And what happens to refunds on tariffs already paid? As far as we can tell, the Supreme Court hasn't weighed in here.

All of this will help determine what happens to the average tariff rate charged across everything America imports. That currently stands at 10%, considerably below the 16-17% figure you'd expect based on announced tariffs and 2024 export data.

## "Effective" tariff rates have been lower than expected



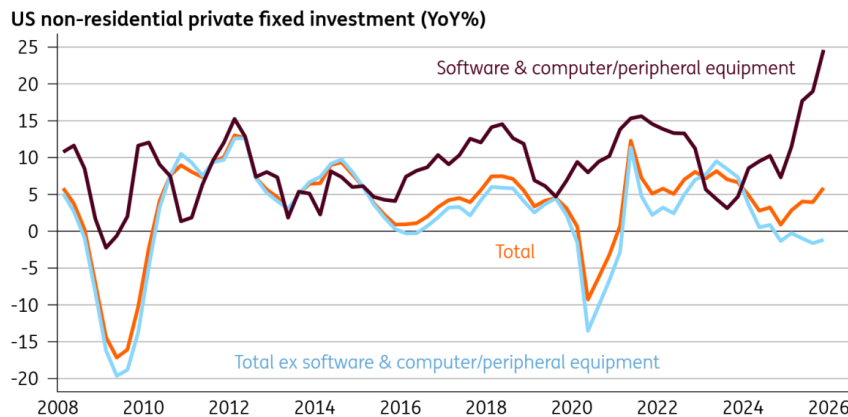
Source: Macrobond, ING

Then there's fiscal policy. The prospect of Congress approving fresh stimulus has likely diminished following the Supreme Court ruling, to the extent that tariff revenues are more uncertain. But there's still the impact of last year's tax bill. And the next two weeks mark the peak of the tax refund season, where backdated tax cuts will be a boost. These days, consumers are more likely to

pay down debt than spend windfalls, but we know fiscal policy can have a powerful impact on growth and inflation. The pandemic taught us that.

The AI investment boom is another wild card. While tech related investment is soaring, non residential investment across all other sectors is collectively falling year on year, according to the latest GDP data. The chart below is stark.

## American investment is concentrated solely in AI-related sectors

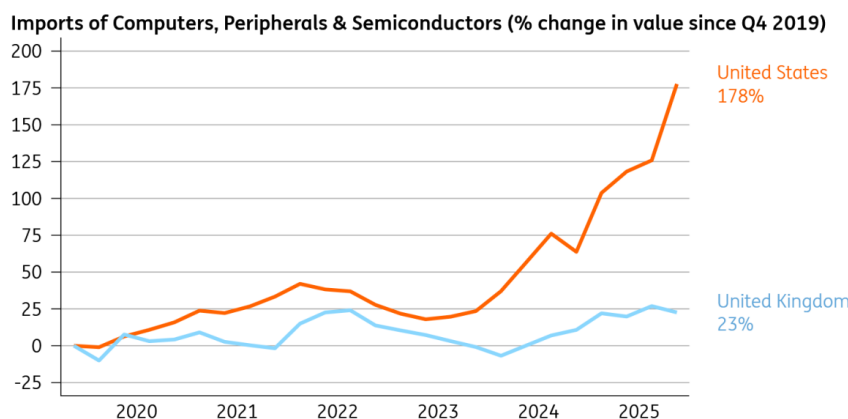


Source: Macrobond, ING

Incoming Fed Chair Kevin Warsh argues a productivity wave will make AI disinflationary. But even if that's true, the sheer scale of AI investment could create supply bottlenecks – be it labour, materials or even electricity – which end up adding to overall inflation.

And what if that investment boom spreads to Europe? So far, there's little sign of that. US imports of computers, semiconductors and peripherals – a rough proxy for AI investment demand – have risen 178% since late 2019. In the UK, despite [leading the way](#) in European data centres, the rise is a mere 23%. But if AI really does “lift all boats”, you'd imagine Europe should benefit both from some extra investment, but more importantly, the much vaunted productivity wave.

## Signs of AI investment are much less obvious in Europe



Source: Macrobond, ING

In short, plenty of potential triggers for higher inflation, even if not all of them are in our base case. Yet the post-Covid supply shock experience taught us the wider economic environment is key if inflation is to really gain a foothold.

In 2022, jobs markets were extremely tight. When energy prices rose, workers were in a strong position to demand higher pay. That dynamic looks very different today. Across the US, the eurozone – and most notably, [the UK](#) – labour markets have cooled and wage growth has slowed significantly.

Whether they stay cool depends partly on immigration. Policymakers on both sides of the Atlantic are talking more about “net zero migration,” reflecting the sharp slowdown in immigration.

Over time, fewer workers could tighten labour markets and re accelerate wages, a concern voiced by hawks at the Bank of England. But with UK unemployment at multi-year highs and hiring demand still subdued, this doesn't look like a risk for 2026.

And so we return to the cartoon dilemma. Central banks are far more inclined than a decade ago to reach for the “hike” button – or at least move further away from “cut” – when faced with inflation risks, whatever they may be.

But given how much cooler labour markets are today, is it really the button they should press? Right now, I'm not so certain it is.

*James Smith*

## THINK Ahead in developed markets

### United States (James Knightley)

- **PPI (Fri)**: While the minutes to the January FOMC meeting sounded relatively hawkish, financial markets continue to price two rate cuts for 2025, with the risks skewed to them potentially doing more. There is little scheduled in the calendar this week to shift that view in a meaningful way, with consumer confidence and producer price inflation of most interest.
- **Consumer confidence (Tues)**: Consumer confidence remains under pressure due to worries that tariffs will feed through into higher prices, while the cool-down in the jobs market is also sapping sentiment amongst middle and lower-income households. Nonetheless, the K-shaped narrative, whereby high-income households continue to drive consumer spending, remains firmly in place.

## THINK Ahead in Central and Eastern Europe

### Poland (Adam Antoniak)

- **Jan retail sales (Mon)**: Industrial production and construction output data showed that the calendar effect – and, even more so, the harsh weather conditions – had a negative impact on the economy in January. We expect retail sales to have been affected by these factors as well, albeit to a lesser extent. Although households were likely limiting the number of trips for essential purchases, the volume of goods bought in this category probably changed little. At the same time, potential shoppers reduced their visits to shopping centres due to the cold weather and icy pavements, which likely translated into lower levels of emotional

or unplanned spending on clothing and similar items. Slower retail sales growth than in December should confirm that GDP growth in the first quarter of 2026 is unlikely to match the 4.0% year-on-year rate recorded in the fourth quarter of 2025; nevertheless, we remain confident in our forecast of 3.7% growth for this year.

- **Unemployment rate (Tue):** The beginning of each year brings a seasonal increase in the number of registered unemployed. We estimate that the local gauge of unemployment increased to 6.0% from 5.7% in December, in line with the seasonal pattern. The data released by government authorities confirms our estimate.

### Hungary (Peter Virovacz)

- **Base rate (Tue):** While the National Bank of Hungary tends to err on the side of caution, we believe that all the boxes have now been ticked and that we are heading into a rate-setting meeting that will see the first rate cut delivered since September 2024. The February 25bp rate cut won't be a one-off move, and we anticipate further easing during this year with a total of three or four rate cuts in 2026.

### Czech Republic (David Havrlant)

- **Confidence & PPI (Tue, Wed):** Consumer confidence likely worsened marginally in February. We see two contradictory forces affecting household mood: the rising registered unemployment rate on the one hand, and the relaxed budgetary constraints due to lower energy prices on the other. Business confidence likely improved slightly in February, reflecting a rebound in new orders and lower energy costs, also due to subsidised electricity prices. Producer prices remained in annual decline in January, despite a stabilisation of the Czech industry throughout the second half of the previous year, as the overall demand is just about to bottom out.

## Key events in developed markets next week

Country	Time Data/event	ING	Prev.
<b>Monday 23 February</b>			
US	1500 Dec Factory Orders (MoM%)	-0.5	2.7
Germany	0900 Feb Ifo Business Climate	88.4	87.6
	0900 Feb Ifo Current Conditions	86	85.7
	0900 Feb Ifo Expectations	90.5	89.5
<b>Tuesday 24 February</b>			
US	1315 Feb 7 ADP Weekly employment changes (000s)	10	10.25
	1400 Dec Case-Shiller 20 (MoM%/YoY%)	0.3/1.3	0.5/1.4
	1500 Feb Consumer Confidence	88	84.5
<b>Wednesday 25 February</b>			
Germany	0700 Mar GfK Consumer Sentiment	-23.8	-24.1
<b>Thursday 26 February</b>			
US	1330 Initial Jobless Claims (000s)	-	-
Eurozone	0900 Jan Money - M3 Annual Growth	-	2.8
	1000 Feb Business Climate	-	-0.4
Italy	1000 Feb Economic Sentiment	-	99.4
	0900 Feb Consumer Confidence	97.5	96.8
<b>Friday 27 February</b>			
US	1330 Jan PPI (MoM%)	0.3	0.5
	1330 Jan Core PPI (MoM%)	0.3	0.7
	1445 Feb Chicago PMI	54	54
	1500 Dec Construction Spending (MoM%)	0.2	0.5
Germany	0855 Feb Unemployment Rate SA	6.3	6.3
	1300 Feb CPI (MoM%/YoY%)	0.6/2.3	0.1/2.1
France	0745 Feb CPI Prelim (MoM%/YoY%)	-/-	-0.3/0.3
Spain	0800 Feb CPI Flash NSA (MoM%/YoY%)	-	-0.4/2.3
Canada	1330 Q4 GDP Annualized	0.2	2.6
	1330 Dec GDP (MoM%)	0.1	0
Switzerland	0800 Q4 GDP (QoQ%/YoY%)	-/-	-0.5/0.5
Portugal	1100 Feb CPI Flash (MoM%/YoY%)	-/-	-0.7/1.9

## Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
<b>Monday 23 February</b>				
Poland	0900	Jan Retail Sales (YoY%)	3.1	5.3
	1300	Jan M3 Money Supply (YoY%)	10.2	10.4
<b>Tuesday 24 February</b>				
Czech Rep.	800	Feb Consumer Confidence	108.0	108.2
	800	Feb Business Confidence	98.8	98.6
	800	Feb Composite Confidence	100.3	100.2
Poland	0900	Jan Unemployment Rate	6	5.7
Hungary	1300	Feb Hungary Base Rate	6.25	6.50
Croatia	1000	Jan CPI (YoY%)	3.5	3.3
<b>Wednesday 25 February</b>				
Czech Rep.	0800	Jan PPI (MoM%/YoY%)	-0.1/-2.4	-0.2/-2.1
Russia	1200	Jan Industrial Output	1.1	3.7
<b>Thursday 26 February</b>				
Turkey	0700	Jan Trade Balance Final (USD bn)	-	-9.3
<b>Friday 27 February</b>				
Hungary	0730	Jan Unemployment Rate	4.4	4.4
Croatia	1000	Q4 GDP (YoY%)	1.9	2.3

Source: Refinitiv, ING

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