

## THINK Ahead: ECB hikes, Fed cuts? Don't bet on it

In all the turmoil, investors now expect the European Central Bank to hike rates more than once this year at a time when the Federal Reserve is cutting. Does that really make sense? It's not unprecedented, but the bar for the ECB and BoE to hike rates this year is high, writes James Smith. It's a central bank bonanza next week and here's our guide to all the action



An extended energy shock will see the ECB more likely to hike than the Fed and EUR/USD starting to find some support

### ECB hikes, Fed cuts? Don't bet on it

Will the Federal Reserve really be cutting rates as the European Central Bank – and Bank of England for that matter – are raising them?

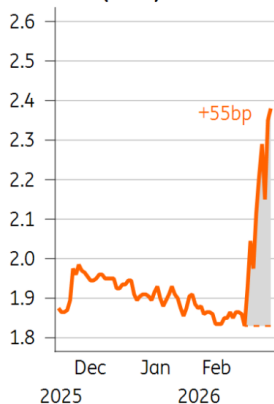
If it sounds unlikely, then this is exactly what markets are pricing. Things are bouncing around. But investors still roughly see one rate cut from the Fed this year while an ECB hike is priced in by July. Markets are flirting with a BoE rate hike, too. The chart below shows how the repricing since the start of the Iranian conflict has been particularly severe in Europe.

## Interest rate expectations have risen further in Europe

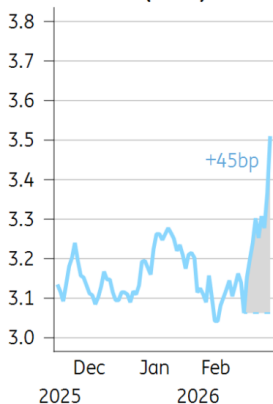
### Implied one-month rate in one year (1Y1M swap)

Change since 27 February

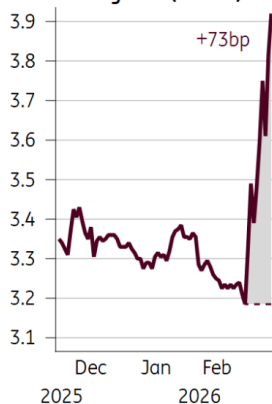
**Eurozone (ESTR)**



**United States (SOFR)**



**United Kingdom (SONIA)**



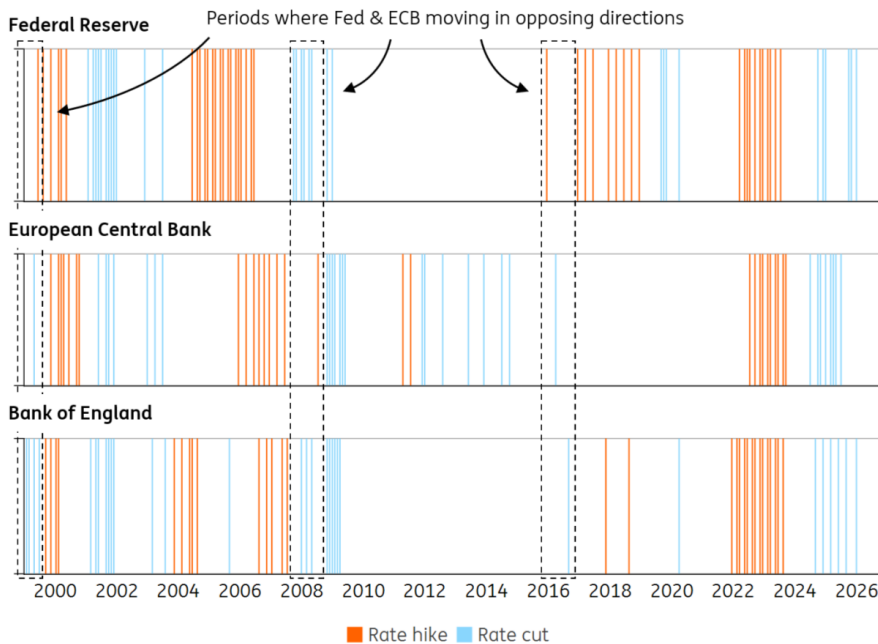
Source: Macrobond, ING

As of 12 March close

A peculiar proposition, though certainly not unprecedented. The ECB was cutting as the Fed was hiking in 1999 and again briefly in 2015/16. And let's not forget the infamous Trichet rate hike in July 2008, long after the Fed and BoE had started cutting. Of course, there have been plenty of times when one side of the Atlantic is changing policy and the other has kept things unchanged.

Still, it's unusual to have a situation where Frankfurt and Washington are pushing in opposite directions. And to be honest, we're sceptical.

## It's unusual for the Fed and ECB to go opposite ways



Source: Macrobond, ING

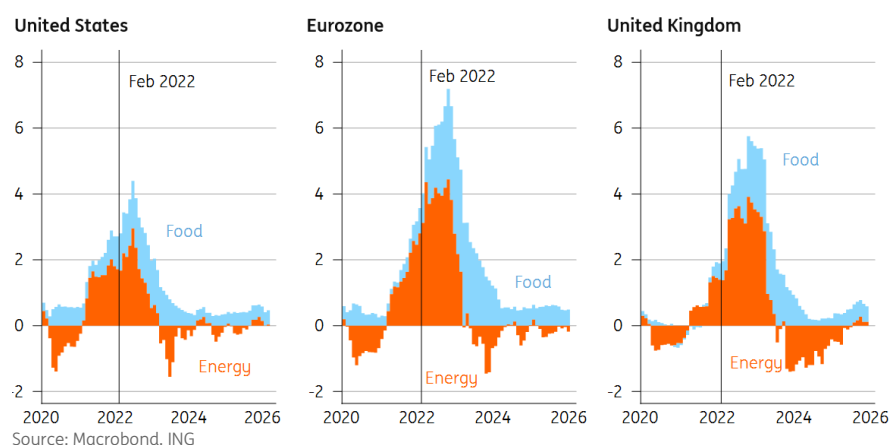
But it's worth thinking about how this situation could come to pass this year. The most obvious rationale would be the difference in objectives. The Federal Reserve explicitly has a dual mandate, one where it must balance price stability against full employment. In Europe, the focus is on the former – even if in practice the two are closely intertwined.

Then there's the fact that US interest rates are still widely considered to be above neutral, even if not by much, unlike the eurozone where 2% rates are seen as neither expansionary nor contractionary for the economy. The centre of gravity is lower for the Federal Reserve than it is for the ECB; it can, in theory, cut rates and still retain some restriction.

What's really happening here, though, is that investors seem to be applying the 2022 playbook to the current crisis. Back then, inflation on both sides of the Atlantic surged. But the drivers were very different. Where energy-independent America saw inflation spike on the legacy of domestic Covid-era stimulus and acute hiring challenges, in Europe energy prices played a much larger role.

Check out the contribution to headline inflation over that period from energy (petrol/gasoline and household electricity/heating costs) and food (which is heavily affected by the cost of energy).

## Contributions to headline CPI (YoY%)



But this is not 2022.

[I wrote last week](#) about how things have changed an awful lot in the global economy since then, leaving it less vulnerable to a re-run of the protracted inflation spike we saw at that time. This is true on both sides of the Atlantic. If anything, the fact that the US is running hot on AI spending – something Europe is clearly not – could make it a touch more exposed to inflationary pressures emanating from the domestic economy.

And Europe's relationship with energy has changed dramatically, too.

I urge you to read my colleague Warren's [full article](#) on this. But in short: Europe now consumes a lot less gas, uses plenty more renewables and is no longer exposed to the loss of a single dominant supplier in the way it was when Russian supplies were disrupted in 2022. Nor is Europe going to buy up gas as frantically as it did that year, either.

In short: we don't think the Fed is going to be cutting rates at the same time the ECB or BoE are

hiking. Not unless this energy shock gets really bad – by which I mean natural gas prices would probably have to shoot much higher than they have done. Then there is a conceivable scenario where European central banks feel compelled to hike rates to burnish their inflation-fighting credentials, even if all this achieves is amplifying the growth hit already coming down the track.

That's not the scenario we find ourselves in just yet. So which is wrong: the Fed cut or the ECB/BoE hike thesis? We'd argue it's the latter.

Admittedly, there's no historical precedent for the ECB cutting into an energy price shock. Carsten runs through the history of Frankfurt's thinking on supply shocks in [his preview](#) of next week's meeting. But it also feels like the bar for a hike is high in the current macro environment. I think the same is true here in Britain. As I say in [my preview](#), the reaction of the hospitality sector to big government policy changes in 2025 – where firms cut workers but didn't really raise prices – may well be mirrored in the fallout of the Iran conflict.

As for next week though, the central banks are likely going to keep all their options open. Like the rest of us, they have no idea when this disruption ends. The ECB can hide behind the fact its new forecasts, released with the decision, will be heavily outdated on arrival. And though the Fed might push back its one forecasted rate cut into 2027, it can also point to uncertainty – both globally, but also domestically, after that shocker jobs report last week.

Central banks don't always agree. And they don't always do the same thing. But to go in opposite directions is a rare step. And not one that feels likely right now.

*James Smith*

## THINK Ahead in developed markets

### United States (James Knightley)

- **Rate Decision (Wed):** After cutting rates 75bp over the final three policy meetings of 2025, the January FOMC meeting saw the Federal Reserve adopt a slightly more hawkish stance by removing the comment "downside risks to employment rose in recent months." The February jobs report suggested this may have been a little premature with payrolls falling 92,000 with 69,000 of downward revisions to December and January and the unemployment rate rising to 4.4%. Nonetheless, the Fed is widely expected to leave monetary policy unchanged for a second meeting given the decent growth backdrop and the prospect that inflation moves back above 3% on energy price developments. We will get new forecasts from officials as well. The December update had one rate cut pencilled in for 2026. There is a clear risk it gets pushed back to 2027.

### Eurozone (Carsten Brzeski)

- **Rate Decision (Thur):** The ECB is set to keep policy unchanged next week, but the recent surge in oil prices and the escalating conflict in the Middle East mean any discussion of rate cuts is off the table. The shock has revived painful memories of 2022, when the ECB underestimated the persistence of energy driven inflation. While today's backdrop is less alarming, the Governing Council will want to avoid repeating past mistakes. Expect a firmer, more hawkish tone, with strong emphasis on vigilance and a willingness to act if second round pressures re emerge. Lagarde's "good place" remains intact for now, but the panic

room is open.

#### United Kingdom (James Smith)

- **Rate Decision** (Thur): Higher energy prices have rendered a March rate cut highly unlikely. And the Bank is likely to keep its options open next week, awaiting clarity on how long the crisis is likely to last. The key question is the vote split; we expect 7-2 in favour of no change, but a greater number of officials voting for a cut would be a dovish surprise.

#### Canada (James Knightley)

- **Rate Decision** (Wed): The Bank of Canada will leave the policy rate unchanged this week given the inflationary impulse from higher energy costs. In any case, the press release accompanying the January decision suggested they felt the policy stance was appropriate, with excess supply in the economy offsetting any inflationary threat from US-Canada trade tensions.

## THINK Ahead in Central and Eastern Europe

#### Poland (Adam Antoniak)

- **Jan current account** (Mon): We forecast a slight improvement in current account deficit (12-month rolling) to 0.6% of GDP vs. 0.7% of GDP at the end of 2025 as the secondary income deficit and trade deficits narrowed. We estimate that exports, in euros, fell by 3.4% year-on-year and imports by 4.8% YoY. The external imbalance remains low.
- **Feb industry** (Thu): Following a decline in January, we project a bounce back in industrial output in February in annual terms as the negative calendar effect abates (same number of working days as last year) and weather conditions probably had a less severe impact on activity, especially towards the end of the month. Producers' prices continued to decline. We forecast a 2.4% YoY drop in PPI, but the current energy crisis may lift the index in the months ahead.
- **Feb construction** (Thu): The beginning of 2026 was difficult for construction and, given still-low temperatures and snow in many parts of the country, we expect construction activity to have fallen in annual terms, but not at a double-digit pace as was the case in January. The contribution from value added in construction to 1Q26 would be negative as businesses are unlikely to catch up after the poor first two months of the year.
- **Feb labour** (Thu): After upward surprises in late 2025, wage growth resumed its downward trend in January. We project the February reading at a similar pace, slightly above 6% YoY. The minimum wage went up by only 3% YoY from January 2026 and wage growth in the public sector was also low. The National Bank of Poland surveys indicate that businesses are more reluctant to hike wages. At the same time, we assess that the employment decline deepened to 0.9% YoY after falling by 0.8% YoY a month earlier.

#### Czech Republic (David Havrlant)

- **Rate Decision** (Thur): Industrial producer prices likely maintained their annual decline, while we may already see some impact of the increasing Brent crude price in February. The current account likely improved at the start of the year, as global demand was still in decent shape. The Czech National Bank will have to consider the recent turmoil in the Middle East and the elevated crude and natural gas prices. Given that the Czech economy finds

itself in a relatively favourable position, the CNB can afford to wait and see for quite some time. The right answer to an external negative supply shock is stability in interest rates for some time.

### Armenia (Dmitry Dolgin)

- **Rate Decision (Tue):** We expect the policy rate to remain unchanged at 6.50%. CPI rose by 0.5ppt to 4.3% YoY in February, moving further away from the long-term target of 3%. Recent activity indicators suggest momentum remains strong, fiscal policy is still supportive (3.7% of GDP deficit in 2025), and bank lending growth continues to outpace funding.
- The outbreak of war in the Middle East [adds new risks for Armenia](#), including imported inflation from energy and food (around 30% of imports, net of one off effects) and the possibility of capital outflows due to weaker regional risk appetite. These factors argue for maintaining a cautious monetary policy stance.

### Uzbekistan (Dmitry Dolgin)

- **Rate Decision (Wed):** We expect the policy rate to remain unchanged at 14.00%, despite the [dovish commentary](#) at the previous meeting. Since the end of January, domestic inflation has increased by 0.3ppt to 7.5% YoY. Key activity indicators point to acceleration, and money supply growth, one of the CPI precursors, has reached a multi year high of 40%.
- Uzbekistan remains largely insulated from the adverse consequences of the Middle East conflict thanks to strong gold exports and a resilient soum. However, risks from potential portfolio outflows and moderate imported inflation (food and energy account for around 20% of imports) should still be considered.

## Key events in developed markets next week

Country	Time Data/event	ING	Prev.
<b>Monday 16 March</b>			
US	1315 Feb Industrial Production (MoM%)	0.0	0.7
Canada	1230 Feb CPI (MoM%/YoY%)	0.5/1.7	0/2.3
	1230 Feb Core CPI (MoM%/YoY%)	-/-	0.2/2.6
Netherlands	0530 Jan Trade Balance	-	9.7
<b>Wednesday 18 March</b>			
US	1215 ADP weekly employment change (000s)	10	15.5
	1230 Feb PPI (MoM%)	0.3	0.5
	1400 Jan Factory Orders (MoM%)	-0.5	-0.7
	1800 Fed Funds Target Rate (Upper Bound)	3.75	3.75
Eurozone	1000 Feb CPI Final (YoY%)	-	2.4
Canada	1345 BoC Rate Decision	2.25	2.25
<b>Thursday 19 March</b>			
US	1230 Initial Jobless Claims (000s)	215	213
	1400 Jan New Home Sales (mn)	0.8	0.75
Eurozone	1315 Mar ECB Refinancing Rate	2.15	2.15
	1315 Mar ECB Deposit Rate	2.00	2.00
UK	0700 Jan Unemployment Rate	5.3	5.2
	0700 Jan Employment Change (000s)	-25	52
	0700 Jan Average Weekly Earnings (3M YoY%)	3.9	4.2
	0700 Jan Average Weekly Earnings ex Bonus (3M YoY%)	4.0	4.2
	1200 BoE Rate Decision	3.75	3.75
Sweden	0830 Riksbank Rate	1.75	1.75
Switzerland	0830 SNB Policy Rate	-	0.00
<b>Friday 20 March</b>			
Eurozone	0900 Jan Current Account SA (EUR bn)	-	14.6
	1000 Jan Total Trade Balance SA (EUR bn)	-	11.6
Italy	0900 Jan Global Trade Balance (EUR bn)	-	6.0
Canada	1230 Jan Retail Sales (MoM%)	0.3	-0.4

Source: Refinitiv, ING

## Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
<b>Monday 16 March</b>				
Turkey	0800	Feb Budget Balance (TRY bn)	-	-214.5
Poland	1300	Jan Current Account (EUR bn)	0.3	-1.7
	1300	Jan Core Inflation (YoY%)	2.6	2.7
	1300	Feb Core Inflation (YoY%)	2.5	2.6
Czech Rep	0800	Feb PPI (MoM%/YoY%)	0.1/-2.8	-0.7/-3.0
	0900	Jan Current Account Balance (CZK bn)	38.4	8.5
Kazakhstan	-	Feb Industrial Production (MoM%)	-	-6.6
<b>Tuesday 17 March</b>				
Croatia	1000	Feb CPI Final (YoY%)	3.4	3.4
Armenia	0800	Policy rate decision	6.50	6.50
<b>Wednesday 18 March</b>				
Russia	1600	Feb PPI (MoM%/YoY%)	-/-	-2.5/-5
Poland	0900	Mar Consumer Confidence	-	-9.1
Uzbekistan	0800	Rate Decision	14.00	14.00
<b>Thursday 19 March</b>				
Poland	0900	Feb Employment Growth (YoY%)	-0.9	-0.8
	0900	Feb Industrial Output (YoY%)	1.3	-1.5
	0900	Feb PPI (YoY%)	-2.4	-2.6
	0900	Feb Wages (YoY%)	6.4	6.1
Czech Rep	1330	CNB Rate Decision	3.50	3.50
Ukraine	1100	NBU Rate Decision	-	15.00
<b>Friday 20 March</b>				
Russia	1030	Rate Decision	15.00	15.50

Source: Refinitiv, ING

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