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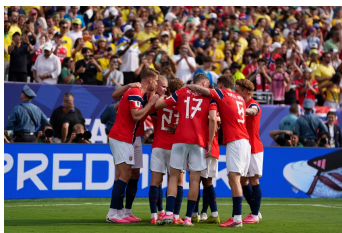
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ING Monthly: The world economy at half-time

After a challenging first half of the year, the global economy is regrouping ahead of a crucial second-half push

By Carsten Brzeski

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Carsten: The global economy at half time

One lesson from both football and economics is that momentum can change quickly. After a bruising first half, the global economy still has time to put in a decent second-half performance



Half-time huddle: after a challenging first half, the global economy regroups ahead of a crucial second-half push

As the World Cup enters its decisive stage, it is once again reminding us that, for all the talk of shifting geopolitical and economic power, football remains largely dominated by Europe. Six of the eight quarter-finalists are European, alongside one African and one South American team. A closer look at the remaining contenders reveals another curiosity: three of the six European teams are members of neither the eurozone nor the European Union. Could this be a reason to call for a Draghi football plan? Or a European Football Recovery fund, backed by eurofootbonds? Or does this performance bring back the discussion about optimal government debt ratios, as the highly indebted eurozone countries, Italy and Greece, didn't even qualify for the World Cup, while the low-debt countries, Germany, the Netherlands and Austria, are already back home. Enough, I promise. At this point, I suspect European policymakers will be keen to stress that there is absolutely no relationship between footballing success and the

economy.

Even if parallels between football and the economy are far-fetched, the World Cup has offered a timely reminder that the White House can influence not only financial markets and the global economy, but also one of the world's favourite pastimes. President Trump asked FIFA President Gianni Infantino to review the red card shown to US striker Folarin Balogun, saying he believed the dismissal was unfair, leading to FIFA declaring that Balogun could play in his team's next match.

That brings us to the most striking market development of recent weeks: the sharp fall in oil prices, but also the recent increase again as President Trump shifted his attention away from the World Cup and back to the Middle East. We had already feared that the oil market was too good to be true, and now feel certain of our more conservative oil price forecasts, even when prices dropped below their pre-conflict levels. It turns out that the negotiations between the US and Iran are anything but straightforward, and that continued fragility around shipping through the Strait of Hormuz should remain the base case, rather than the benign scenario many market participants had been pricing until recently.

With the drop in oil prices in recent weeks, some central bank officials, particularly at the ECB, will have doubted the need for further rate hikes and might dig out the term 'transitory' from the central bankers' dictionary of forbidden words. In any case, unless we see a further escalation and a resurgence of energy prices, even with the latest rebound, the drop in energy prices since May should bring some relief for the global economy. However, it is still too early to call this a kind of back-to-the-future moment, taking the global economy back to where it stood at the start of the year: the prospect of a gradual recovery, driven by large investment needs, and the chance of monetary easing on the back of possible inflation undershooting.

As we are still licking the wounds of an unexpected first half of the year, it would be presumptuous to call for an entirely benign macro environment in the second half. In fact, developments of the last 24 hours just demonstrated exactly that. Instead, let's do it like the football pundits and simply carve out the themes that will probably shape the next few months. Our three things to watch in the second half of 2026:

1. Central bankers vs the textbook supply shock. The ongoing struggle of central bankers with what increasingly looks like a pure textbook supply shock will dominate headlines. Delivering more rate hikes could quickly turn into a policy mistake, while doing nothing could become a reputational issue. We still fear that the ECB feels inclined to deliver on yet another insurance rate hike, while most other central banks will keep their powder dry.
2. The race for the strongest rebound. The recovery in economic activity as energy prices retreat could differ significantly across countries and regions. While Asian economies have been hit massively by the closure of the Strait of Hormuz, relief and reopening could boost activity. In Europe and the US, lower energy prices should bring relief for

consumers. While this reprieve is traditionally more likely to end in additional savings in Europe, it could bring a boost to consumption in the US.

3. Politics, again. Whether it's the US mid-term elections, with potential implications for economic and foreign policy, or European leaders having to deliver on their February promises to structurally strengthen the single market, energy policies and capital markets union. Politics will once again have the potential to move markets and the global economy.

One lesson from both football and economics is that momentum can change quickly. After a bruising first half, the global economy still has time to put in a decent second-half performance.

ING 



Carsten: Looking ahead to the rest of 2026

[Watch video](#)

Our key calls

- **Oil prices:** The quicker ramp-up in flows through the Strait of Hormuz has led us to revise our ICE Brent forecast lower for the remainder of the year. We're now expecting Brent to average \$80/bbl in 3Q26 and \$74/bbl in 4Q26. That assumes no meaningful disruptions to flows, which risks proving optimistic after the latest re-escalation in US-Iran tensions.
- **United States:** Lower motor fuel prices are bringing relief for consumers, but it also means that inflation has likely peaked, barring a severe escalation in the Middle East. Slowing housing rents, weak wage growth and a waning influence from tariffs should

more than offset concerns tied to tech-related inflation pressures. We expect the Fed to stay on hold until summer 2027.

- **Eurozone:** We expect the ECB to sit out the July meeting to see how the situation in the Middle East evolves. But with higher core inflation, the central bank could hike once more in September if inflation risks still provide reason for concern.
- **China:** We expect first-half 2026 growth to be around 4.8% YoY, though a further deterioration in data could increase pressure for greater policy support this year. We now expect the PBoC to cut rates in the third quarter on lower energy prices and potentially softer inflation.
- **United Kingdom:** We think the Bank of England will keep rates on hold until next spring/early summer, when we're likely to see the resumption of gradual rate cuts. Inflation is unlikely to peak much above 3% this year on our revised energy price forecast.
- **Asia ex-China:** Falling oil prices should ease inflation and external pressures across Asia, but second-order inflation effects and FX vulnerabilities remain key constraints. Central banks are likely to maintain a tightening bias until price pressures and external balances improve.
- **FX:** We're mildly dollar negative into year-end and into 2027, largely driven by our Fed view. EUR/USD and USD/JPY can end this year near 1.18 and 158, respectively.
- **Market rates:** We expect the US yield curve to steepen from both ends. Front-end yields should get back below 4%, while the 10yr yield will have a tendency to hug the 4.5% area (and quite potentially test higher). The eurozone curve sees a similar tendency, as the front end calms on reduced rate hike pressure, and the back end holds steady, we think, with the 10yr holding broadly in the 3% area (Germany and Euribor).

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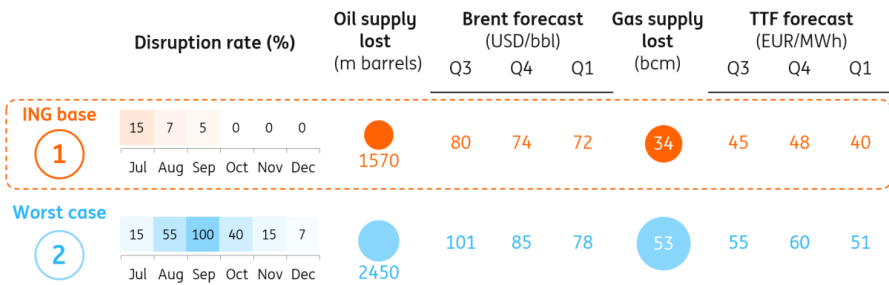
How a Middle East re-escalation could reshape the outlook for interest rates and markets

Here are our scenarios for oil, central banks and financial markets if Strait of Hormuz flows become fully disrupted again through the summer



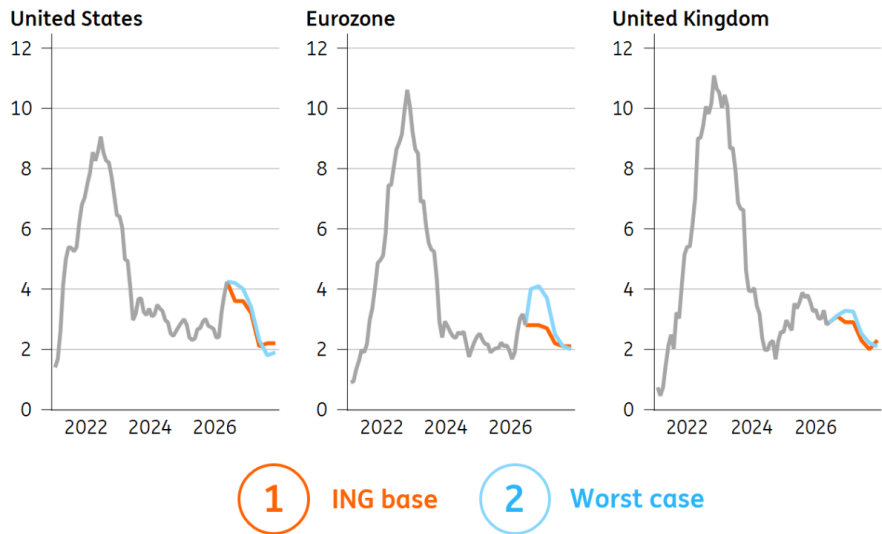
Our scenarios for oil, central banks and financial markets if Strait of Hormuz flows become fully disrupted

Two scenarios for energy markets



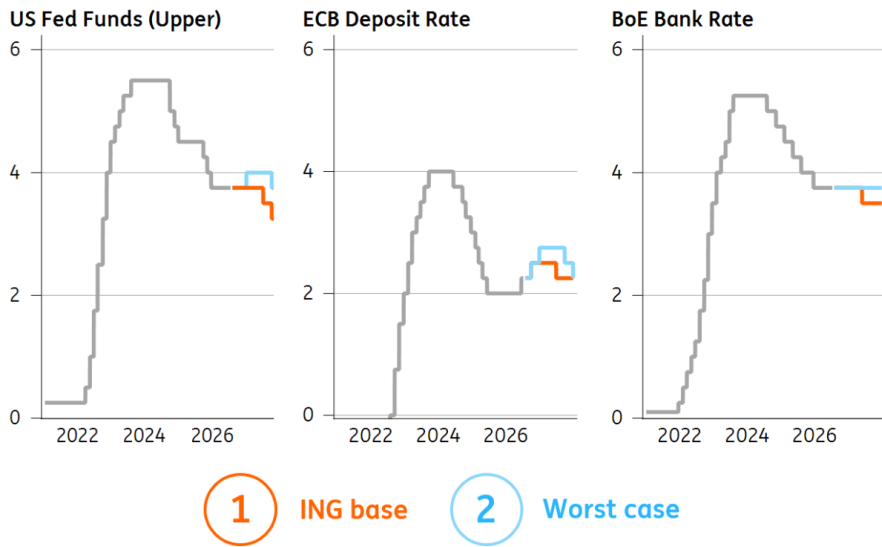
Source: ING

Two scenarios for inflation



Source: ING

Two scenarios for central banks



Source: ING

Two scenarios for markets

		① ING Base						② Worst case					
Disruption rate (%)		15	7	5	0	0	0	15	55	100	40	15	7
		May	Jun	Jul	Aug	Sep	Oct	May	Jun	Jul	Aug	Sep	Oct
		2026			2027			2026			2027		
		Q3	Q4	Q1	Q2	Q3	Q4	Q3	Q4	Q1	Q2	Q3	Q4
8 July													
Brent Crude (USD/bbl)	79	80	74	72	68	70	70	101	85	78	70	70	70
Dutch TTF gas (EUR/MWh)	49	45	48	40	32	31	32	55	60	51	43	35	35
US Inflation (YoY%)	4.2%	3.6	3.6	3.2	2.1	2.2	2.2	4.2	4.0	3.4	2.3	1.8	1.9
Eurozone Inflation (YoY%)	2.8%	2.8	2.8	2.7	2.2	2.1	2.1	4.0	4.1	3.7	2.5	2.1	2.0
ECB Deposit Rate (%)	2.25	2.50	2.50	2.50	2.25	2.25	2.25	2.50	2.75	2.75	2.75	2.50	2.25
Fed Funds Rate (%)	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.75	4.00	4.00	4.00	3.75	3.25
2Y EUR swap rate (%)	2.87	2.90	2.75	2.65	2.55	2.55	2.55	3.05	3.10	3.00	2.90	2.60	2.50
10Y EUR swap rate (%)	3.13	3.05	3.00	2.90	2.85	2.95	3.05	3.20	3.20	3.00	2.90	2.90	2.90
2Y USD swap rate (%)	4.07	4.00	3.85	3.55	3.35	3.25	3.25	4.10	4.05	3.90	3.60	3.40	3.20
10Y USD swap rate (%)	4.16	4.10	4.10	3.85	3.85	3.85	3.95	4.20	4.15	4.05	3.70	3.70	3.70
EUR/USD	1.1400	1.17	1.18	1.18	1.20	1.21	1.22	1.12	1.14	1.15	1.17	1.18	1.20

Source: ING

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COMMODITIES, FOOD & AGRI ENERGY

Oil off its highs but risks return

Oil prices came under significant pressure following the temporary deal between the US and Iran. But the recent flare-up in hostilities poses risks. The key factors for the outlook remain the sustainability of the Persian Gulf supply recovery and how soon Chinese buying returns to the market



We're now expecting Brent to average \$80/bbl in 3Q26 and \$74/bbl in 4Q26

Oil supply recovery clashes with weak Chinese buying

The oil market came under significant pressure following the Memorandum of Understanding between the US and Iran on 17 June. The deal allowed oil flows to recover at a much quicker pace than expected, which led to a weakening in the physical oil market. The return of Persian Gulf supply coincided with the continued release of oil from strategic reserves, along with demand recovering at a relatively slower pace than supply.

However, it is important to note that flows have not fully normalised. And, the latest escalation in US–Iran military tensions this week raises new risks. Vessels transiting the Strait of Hormuz remain well below pre-war levels. And recent developments show that safe passage of vessels is still an issue facing the market. When volumes bypassing the Strait are taken into account, oil flows have been in the region of 14m b/d – still far below the pre-war levels of 20m b/d, but up significantly from the levels seen during the peak of the war.

We had originally anticipated that the normalisation of oil flows from the Persian Gulf would take much of the third quarter; it is possible that this normalisation could be achieved by the end of July. However, this is a very fluid situation, and this can certainly change depending on how recent events unfold.

The quicker ramp-up has led us to revise our ICE Brent forecast lower for the remainder of the year. We're now expecting Brent to average \$80/bbl in 3Q26 and \$74/bbl in 4Q26. Meanwhile, for 2027, we forecast Brent to average \$70/bbl. The key assumption behind these forecasts has been that there would be no further meaningful disruptions to flows through the Strait of Hormuz. This may be too optimistic, given the recent re-escalation. And in reality, we could see the market trading between our base case and our more aggressive scenario, where Brent tests \$100/bbl in the third quarter.

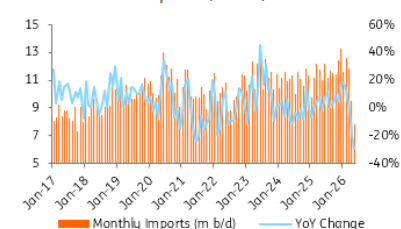
Our balance sheet still shows the market in a slight deficit in the third quarter of this year, before returning to a surplus in the fourth quarter and then a meaningful surplus in 2027. As a result, we do expect the market to find some support in the near term, once we have cleared the overhang of tankers that have been stranded in the Persian Gulf. Clearly, risks around the broader ceasefire should also offer some support.

Apart from Persian Gulf oil flows, the other key factor for the outlook is Chinese demand. China has been crucial in helping balance the market through the Iran war, cutting imports significantly. Crude oil imports were down 30% year-on-year in May, and vessel tracking data suggests imports fell even further in June.

The biggest uncertainty for the market is when China returns to buying. A prolonged absence could keep pressure on prices. With the government relaxing export restrictions on refined products, we could start to see refiners increasing run rates, supporting crude demand. But that won't be enough. We also need to see a recovery in domestic demand, which is estimated to have been down 1.4m b/d year-on-year in 2Q26.

China has helped rebalance the market through Persian Gulf supply disruptions

China crude oil imports (m b/d)



China apparent oil demand (m b/d)



Source: NBS, China Customs, ING Research

European natural gas remains vulnerable

European natural gas prices held up better than oil prices following the MoU, with the LNG supply recovery more modest. Also, the ramp-up of LNG plants in Qatar will also take time. QatarEnergy has extended the force majeure on some supply until early September.

LNG imports into Europe have come under pressure as Asia competes more aggressively for spot cargoes, with flows from the Middle East still heavily disrupted.

These lower import volumes have coincided with heatwaves across Europe, which would have boosted gas demand for power generation needs to meet cooling demand.

As a result, EU gas storage remains tight, having only recently passed the 50% level, well below the five-year average of 66% full at this point in the year. It's looking as though it will be difficult for the region to hit even the lowest target of 75% under EU rules. El Niño conditions may mean a milder start to the 26/27 heating season, which would offer some relief to the market, but this isn't guaranteed.

We expect European natural gas prices to remain well-supported until the end of the 2026/27 winter.

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Article | 9 July 2026

UNITED KINGDOM

Our latest views on the major central banks

Our take on what could be next for the Federal Reserve, the European Central Bank and the Bank of England over the coming months



We expect the US Federal Reserve (Wednesday) and Bank of England (Thursday) to remain on hold after the European Central Bank maintained its policy rate last week

Federal Reserve

A more hawkish-than-anticipated June FOMC meeting fuelled market expectations for a Federal Reserve rate hike this year. But oil prices are down sharply from their peaks (despite this week's uptick) and if renewed tensions in the Middle East do not escalate further, the inflation backdrop should improve markedly over the coming months. Slowing shelter inflation, which has a 35% weighting within the consumer price index, should also help lower the headline rate given stagnant home prices and private sector surveys reporting outright rent falls in a growing number of areas.

The lacklustre jobs market means wage pressures are subdued, while the one-off step increase in costs caused by tariffs will start to drop out of the annual inflation calculation through the second half of this year. Refunds of the "Liberation Day" IEEPA tariffs will further help lower corporate costs.

While in June, nine FOMC members felt they would need to raise interest rates this year, it is important to remember that nine others did not. We agree with that second group. A lack of vigour in the jobs market and the prospect of lower inflation means a lengthy pause is our call before eventual rate cuts in mid to late 2027 bring the policy rate down to a neutral level of around 3.25%.

European Central Bank

The drop in oil prices in June may have led some ECB officials to question whether the June rate hike was really necessary. Historically, it is rare for the ECB to embark on a new tightening cycle ahead of other major central banks. It would be a bittersweet irony if this display of global leadership were eventually judged to have been a mistake. However, the recent rebound in oil prices amid renewed Middle East tensions serves as a reminder that the inflation outlook remains far from settled.

At the ECB conference in Sintra, President Christine Lagarde reiterated that the June hike was not an insurance move. Rather, it reflected an outlook of persistently elevated headline and core inflation, with ECB forecasts showing headline inflation above 2% in both 2027 and 2028 and core inflation at 2.7% in early 2027.

The decline in energy prices seen in June increased the likelihood that future forecasts could show headline inflation falling below 2% in 2027. Would such a scenario prevent the ECB from delivering a second rate hike this summer? Judging from Lagarde's recent remarks, as well as those of other policymakers, the answer appears to be no.

In fact, the ECB still looks set to hike again. As long as core inflation forecasts are not revised materially lower, there appears to be little standing in the way of another rate hike. Whether a second increase is really what the eurozone economy needs remains a different story.

Bank of England

With oil prices down from earlier peaks, a Bank of England rate hike now looks highly unlikely. Financial markets are still pricing a single rate rise over the next 12 months. But inflation is now unlikely to go much above 3% this summer and is likely to be much closer to 2% by next summer. That's helped by ever-lower wage growth – now at 2.9% in the private sector, down from over 6% 18 months ago, and biased even lower in the short-term. That goes hand in hand with further weakness in the jobs market.

That all points to rate cuts in 2027 – something markets aren't currently pricing. But a lot depends on the politics and what Makerfield MP Andy Burnham – who is highly likely to become prime minister this month – opts for at the Autumn Budget.

For now, we expect two cuts in 2027, in 2Q and 4Q.

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Article | 9 July 2026

UNITED STATES

Slowing US inflation to keep the Fed on hold

Lower motor fuel prices are bringing relief for consumers and suggest that inflation may have peaked. Slowing housing rents, weak wage growth and a waning influence from tariffs should more than offset concerns tied to tech-related inflation pressures. With the jobs market offering little, we expect the Fed to stay on hold until summer 2027



Falling fuel costs are providing relief for consumers

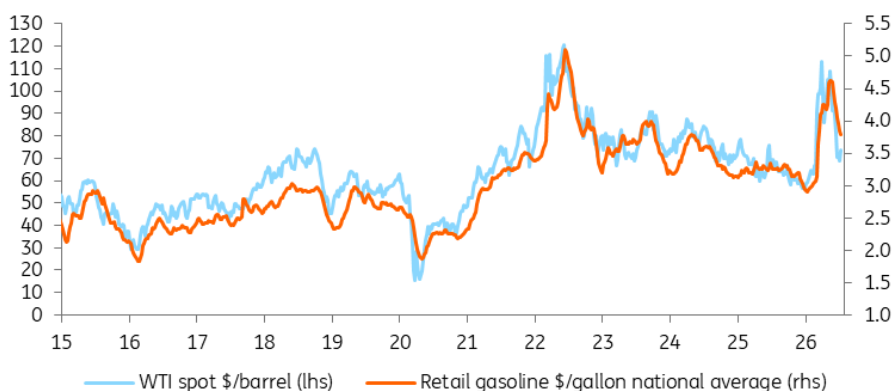
Oil remains below its peaks, easing inflation and supporting consumers

While we had argued that the United States' energy independence meant it was more insulated than most from the economic pain caused by the closure of the Strait of Hormuz, the fact that oil has been flowing has provided clear relief via lower global fuel prices. If the trend continues – although the risks to that outlook have clearly increased following the recent

resurgence in hostilities – it should help to ease fuel costs, moderate freight transportation expenses and gradually lower airline fares, suggesting that headline inflation has peaked.

If oil prices remain below their peaks, lower energy costs should provide relief for consumers and help real household disposable incomes, which have fallen in recent months. The jobs market has also shown some improvement. Even though the June employment report was not as firm as hoped, job creation has averaged 137,000 over the past four months, much better than the 8,751 per month averaged in the January 2025 to February 2026 period. As such, we have modestly revised our consumer spending forecasts higher, which lifts our 2026 GDP forecast to 2.3%. Nonetheless, we remain wary of the growth concentration risks with strength in activity dominated by higher-income household spending and tech-related investment projects.

Lower oil prices suggest further falls in gasoline are on the cards



Source: Macrobond, ING

Eventual rate cuts more likely than rate hikes

In terms of the second half of 2026, there are three key hot topics. First, inflation and the Federal Reserve. Financial markets continue to price around a one-and-a-half 25bp interest rate increase over the next 12 months, but we are sticking to the view that the Fed will instead choose to wait. While nine members of the FOMC think that they are likely to raise rates at some point, a further nine don't (Chair Kevin Warsh didn't give an opinion). We are aligned with that latter group of nine.

Lower energy prices, cooling housing rents, weak wage growth and a diminishing influence from tariffs should allow inflation to cool gradually throughout the second half of 2026, before year-on-year changes in gasoline costs lead to a hefty plunge in the second quarter of 2027. This should open the door to eventual rate cuts. Higher prices for tech products tied to chip shortages will attract attention, but it is important to remember that they carry a tiny

weight in the CPI basket – 0.3pp for computer equipment and 0.4pp for telephone hardware and calculators.

Disappointing jobs numbers pose political challenges

Second, will the jobs market shake off the low-hire, low-fire tag – which would boost the chances of a Fed rate hike – and will we see more of an AI impact? Well, business surveys continue to point to weak hiring, and private sector data on job vacancies suggests it is a very tough market right now. Similar sentiment about the strength of the jobs market can be seen in consumer surveys, while the sizeable drop in the labour participation rates suggests a growing disillusionment amongst jobseekers. We still think weak jobs growth largely reflects a hangover from overly aggressive hiring in the post-pandemic reopening frenzy. Lower energy costs and improved geopolitical sentiment may help to support hiring, but the potential opportunities of AI appear to be making firms reluctant to take the initiative. Consequently, we expect the jobs market to remain tepid.

The disappointment surrounding jobs and a general sense that, despite strong growth and robust stock markets, much of the US population is not feeling the benefits, feeds through into the third topic – politics. The 3 November mid-term elections in the US will see all 435 House of Representatives seats up for election and 35 of the 100 Senate seats.

Current polling suggests a high probability that Democrats will win control of the House, but are likely to fall short of flipping four of the 22 Republican seats up for election needed to win control in the Senate. The net result will be that President Trump will have any legislation blocked by the House Democrats, but the Republican-controlled Senate will not ratify the Democrats' efforts to initiate impeachment proceedings against President Trump. As such, the final two years of President Trump's term are likely to see him having to focus on trade and foreign policy.

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Article | 9 July 2026

A fragile reprieve for the eurozone

As a net energy importer, lower oil prices are clearly favourable for the eurozone. A Goldilocks scenario – where inflation moderates and growth picks up again – remains the baseline, although renewed Middle East tensions have increased the risks around that outlook



Nice, France: Falling oil prices have given the eurozone a welcome economic boost

Lower oil prices have offered a reprieve

The Memorandum of Understanding between the US and Iran gave the eurozone a reprieve from soaring energy prices, as flows through the Strait of Hormuz resumed. However, recent tensions have again highlighted how fragile the situation remains. There is still no deal between the parties, any negotiations continue to be clouded in uncertainty and new escalations can happen almost any time.

Economic growth in the second quarter was likely sluggish as geopolitical tensions and a surge in war-related costs weighed on output, even though some industries may have benefited from Asian competitors being hit harder by the disruption to trade through the Persian Gulf. Sentiment indicators started to improve cautiously ahead of the MoU, and growth could pick up over the second half of the year if energy prices remain contained and the Middle East

situation does not escalate further. Lower energy prices have improved household finances, reduced geopolitical uncertainty has supported business confidence, and longer-term fiscal stimulus – particularly through German defence and infrastructure spending – is finally beginning to feed through to the economy.

Inflation concerns eased as oil prices returned to pre-war levels

Declining oil prices in June had a direct effect on inflation expectations. Inflation fell as energy and services inflation both ticked down. Most relevant to the inflation outlook is whether businesses will now become more reluctant to push higher input costs through to customers. Initial surveys have suggested that this is the case, although we do still expect elevated core inflation for the quarters ahead.

Less action potentially needed from the ECB

If headline inflation moderates further from here, the reasons for the European Central Bank to hike rates forcefully will fade. The central bank should therefore be wary of repeating the mistakes of previous commodity shocks and having to quickly reverse an overly aggressive tightening cycle. We think it will sit out the July meeting to see how the situation in the Middle East evolves. But with higher core inflation, the central bank could hike once more in September if inflation risks still provide reason for concern.

3 things to watch in the second half of the year

1. With energy prices down from their recent highs – despite this week's uptick – a second rate hike from the European Central Bank might no longer be necessary. Yet the Bank could still feel inclined to deliver it. Balancing what the eurozone economy really needs against the preservation of its own credibility may prove to be the ECB's main challenge in the second half of the year.
2. The labour market will also remain firmly in focus. Having been remarkably resilient across much of the eurozone, it now faces new challenges. The growing adoption of AI could weigh on labour demand in some sectors, reducing wage pressures and adding to the broader disinflationary forces already at work.
3. The second half of the year should also provide more clarity on whether Europe is actually able to deliver on its promises and pick up where it left off when the war in the Middle East started. The February informal leaders' summit presented big plans to improve the single market, energy policies and capital markets union. Making real progress on these issues could be the real 'global euro' moment.

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CHINA

3 key questions for China's second half of 2026

China's economy has seen a growing divergence this year, with two distinct K-shaped trends moving in opposite directions. Here, we look at three questions for the second half of 2026: does the divergence persist, does the central bank rethink its policy framework, and do policymakers deploy additional support?



The question is whether policymakers can stabilise domestic demand and find a bottom for the property market

Will China's economy continue to diverge in 2H?

The divergence of China's economy continues to widen. This trend is exemplified by two overlapping K-shape dynamics that are only strengthening.

The first is the gap between external and domestic demand. This has been the case for the past few years, as China's exports found solid global demand while domestic demand lagged. Explanations for this latter challenge include continued wealth destruction from the property

downturn and wage growth slowing due to involution-type competition in a near-deflationary environment.

The second is the variance between China's 'new' and 'old' economies. The tech-focused new economy continues to perform solidly this year. Hi-tech manufacturing has grown 13.1% year-on-year, year-to-date, while hi-tech fixed asset investment has grown 4.5% YoY YTD. Yet the old economy looks quite soft. Overall, FAI is -4.1% YoY YTD, real estate investment is down -16.2%, and infrastructure investment is up just 0.6%.

The trend is quite clear. The question is, could we see this divergence narrow in the second half of the year? The answer likely depends on whether policymakers can stabilise domestic demand and find a bottom for the property market. Measures to this end should be underway.

Is the PBoC set to revamp its monetary policy framework again?

The People's Bank of China unveiled a new policy tool at the end of June, conducting RMB 900bn of overnight reverse repo operations over two days. Markets have been speculating that the PBoC might eventually shift its policy rate from the current 7-day reverse repo rate to the overnight rate. These operations appear to be setting the groundwork for this pivot. The interest rate wasn't published, and the PBoC didn't announce further use of the overnight facility in early July. This suggests the 7-day rate remains the primary benchmark for now and that the shift will likely take some time.

Since the overnight rate remains the most liquid and important rate, the PBoC will likely seek to improve monetary policy transmission by eventually targeting it.

Will we see more support after this month's Politburo meeting?

China's Politburo will hold a meeting this month, likely toward the end of July. There are rising expectations that it might signal a more proactive policy stance after several months of decelerating economic data.

We're likely to see growth remain comfortably within the target range of 4.5-5% for the first half of 2026. We expect first-half 2026 growth to be around 4.8% YoY. Further deterioration in data could increase pressure for greater policy support this year.

In terms of fiscal policy, this year's Two Sessions in March left targets unchanged from those in 2025. As such, the market is generally not hopeful about any major surge in spending. Using the budget already announced, we expect further measures to support consumption, with the most likely target to be the services sector. Also, we could see measures to boost household spending power by supporting income growth and strengthening the social safety net. There could be increased urgency to deploy the funds already approved for this year, but we aren't

expecting new approvals yet.

For monetary policy, assuming we don't see too serious re-escalation in the Middle East, the drop in energy prices and potentially softer inflation [after June's inflation cooled slightly](#) could prompt the PBoC to ease in the third quarter rather than wait until the fourth. We've moved our 10bp rate-cut forecast to 3Q26.

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Article | 9 July 2026

UNITED KINGDOM

Lower oil prices a boon for Britain, Burnham and the Bank of England

UK inflation is unlikely to peak much above 3% this year, taking some of the pressure off the public finances and the Bank of England to hike interest rates



Andy Burnham is highly likely to succeed Keir Starmer later this month

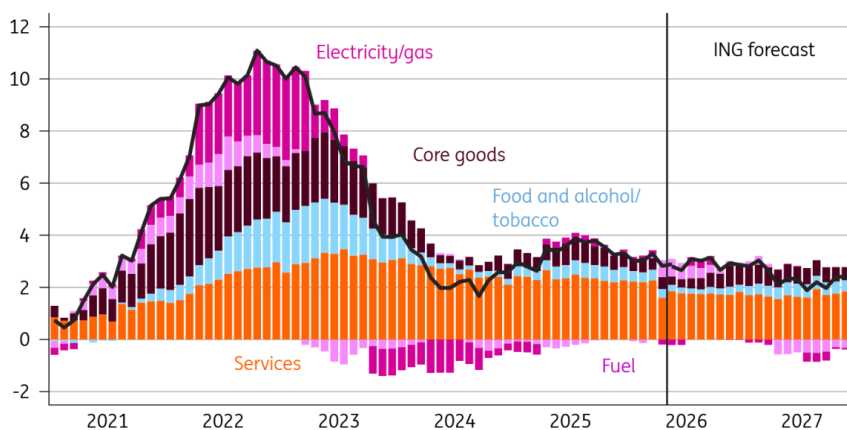
Lower oil prices are good for Burnham and the Bank of England

Britain is on the verge of its seventh prime minister in 10 years. Andy Burnham, former Mayor of Greater Manchester and newly elected MP for Makerfield, is highly likely to take over from Keir Starmer later this month. And whisper it, but his economic inheritance doesn't look too bad - or at least, not as bad as it could have been just a few weeks ago.

First, lower oil prices mean inflation is unlikely to rise much above 3% this year. July's 13% increase in household energy bills now looks set to be largely reversed by a 9% fall in October, assuming current gas prices hold. Not only would that leave CPI below last year's 3.8% peak, when the Bank of England was still cutting rates, but also below the 4% level that BoE research suggests is more likely to trigger longer-lasting second-round effects.

That eases pressure on the Burnham government to cushion households from living-cost pressures, though some support remains possible in the Autumn Budget. Bank of England tightening expectations have come down from their peak on lower oil prices, meaning debt-interest projections shouldn't rise as much as feared a month or two ago. Together with slower net migration and other forecast downgrades, as things stand, the OBR is likely to knock around £10bn off Treasury headroom under its current budget rule. Even so, that should leave enough room to avoid a fresh round of fiscal tightening simply to keep the numbers adding up – something that current Chancellor Rachel Reeves has previously had to contend with.

Contributions to UK headline inflation (YoY%)



Source: Macrobond, ING

Second, Britain's public finances are improving, in contrast to the rest of the G7. Notwithstanding uncertainty surrounding the Iran war, the UK is the only such economy set to deliver a materially smaller structural deficit this year, helped by the continued freeze in tax thresholds.

Third, Burnham will benefit from a little-known change to the fiscal framework expected to take effect this autumn. In short, the Treasury will allow itself to run a current budget deficit of up to 0.5% of GDP three years ahead, potentially freeing up £17-18bn for day-to-day spending and/or tax cuts.

That isn't to say there won't be challenges. Burnham is pledging substantially higher investment, on top of the latest defence spending commitments. Headroom under the debt rule is much tighter, and bond markets remain sensitive to large increases in borrowing.

3 calls for the second half of the year

As for the rest of 2026, these are our key calls:

1. The Bank of England won't raise rates and will return to two cuts in 2027.

2. Inflation will peak below 3.5%, so long as oil prices don't go much above 80 USD/bbl, while the labour market remains under pressure.
3. The Autumn Budget is likely to combine higher departmental spending with tax rises in areas such as corporation tax – all while remaining within the existing fiscal rules. Bolder decisions will likely be pushed back into 2027.

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Article | 9 July 2026

Oil prices still offer relief for Asia, but no policy pivot

With oil prices still below their recent peaks, inflationary and external pressures across Asia have eased somewhat. But second-order inflation effects and FX vulnerabilities remain key constraints. Central banks are likely to maintain a tightening bias until price pressures and external balances improve



While lower oil prices have supported net importers such as India, the Philippines and Indonesia, they are unlikely to drive a sustained recovery on their own

Inflationary pressures continue to build, limiting scope for policy pivot

We are broadly maintaining our rates and FX views even though oil prices are off their earlier peaks. While Asia stands to benefit significantly from lower fuel costs, central banks are unlikely to take further tightening off the table until there is clearer evidence that both food and core inflation are moderating. In our view, policymakers in the Philippines, Indonesia, South Korea and Japan remain on course to continue tightening as expected. India and

Thailand may have some scope to delay rate hikes at the margin, though not to abandon them altogether.

We now expect Brent crude oil to average around US\$80/bbl in 3Q. Lower energy prices should provide some relief for economies such as the Philippines, where fuel subsidies have been relatively limited and domestic pump prices have adjusted more directly to movements in global oil markets. However, inflation is likely to remain well above the Bangko Sentral ng Pilipinas' (BSP's) 2-4% target range for the remainder of the year, as spillover effects from previous increases in oil prices keep food and core inflation higher-for-longer. As a result, a more sustained and meaningful moderation in CPI inflation would be required for the BSP to reconsider the additional 50bp of rate hikes that we currently have pencilled in for the rest of 2026.

Indonesia's central bank continues to face challenges in stabilising the rupiah despite its recent rate increases. Limited visibility on the policy mix – including the fiscal strategy, the sovereign rating trajectory, and the broader growth agenda – continues to weigh on sentiment. Hence, currency pressures remain elevated, suggesting that monetary policy will need to stay focused on external stability as well as inflation containment.

Meanwhile, there are growing signs that inflationary pressures are broadening in both Japan and Korea. In Japan, the Tankan survey pointed to rising input costs and strengthening pricing power among firms, suggesting that the pass-through of higher costs to final prices is becoming more entrenched, especially with the Japanese yen at multi-year lows. In Korea, both food and core inflation moved higher in June, reinforcing the view that underlying price pressures remain firm despite some easing in global commodity prices. Together, these developments support our expectation that both the Bank of Japan and the Bank of Korea will continue normalising policy.

Asian currencies need more than oil-led support

Asian currencies have come under pressure again after a brief relief rally. While lower oil prices have supported net importers such as India, the Philippines and Indonesia, they are unlikely to drive a sustained recovery on their own, particularly amid a strong US dollar environment. A more durable rebound will require stronger domestic fundamentals and steadier capital inflows.

The Indian rupee (INR) and Indonesian rupiah (IDR) have both recovered modestly, helped by improved foreign demand for local bonds. India boosted investor attractiveness by removing capital gains tax and withholding tax on interest from government securities, while Indonesia has benefited from higher local yields.

However, lasting currency gains will depend on lower energy import costs being complemented by stronger capital-account buffers and more persistent foreign inflows. We

remain relatively constructive on INR, which is supported by recent Reserve Bank of India measures aimed at narrowing the balance-of-payments gap. By contrast, concerns over Indonesia's policy direction could continue to weigh on sentiment, leaving IDR vulnerable to underperforming regional peers.

Overall, until there is clearer evidence of stronger capital-account dynamics, FX fragility is likely to remain a constraint. This, in turn, could limit how quickly regional central banks are able to shift away from a tight policy stance.

3 things to watch in the second half of the year

1. The evolution and intensity of El Niño, alongside lingering spillover effects from higher oil prices into services inflation, will be key to watch. A severe weather shock could disrupt agricultural output, lift food prices, and reignite inflationary pressures across Southeast Asia. Combined with sticky services inflation, this could complicate the disinflation process from potentially lower oil prices.
2. A key question is whether the tech-led growth outperformance in Korea, Malaysia, Singapore and Taiwan can broaden into a recovery in domestic consumption. A more balanced growth mix would make Asia's growth trajectory more sustainable.
3. How the rapid expansion of AI-driven investment is reshaping FDI patterns across Asia. Economies positioned to attract AI-related manufacturing, data infrastructure, and technology investments are likely to see stronger capital inflows and create conditions that are more conducive to local currency appreciation.

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CZECH REPUBLIC HUNGARY

CEE: Inflation relief reshapes the rates outlook

Central and Eastern Europe starts the second half of the year with softer inflation and a more dovish rates outlook. Poland has shifted from rate hike fears to speculation about cuts; Czech rates are likely to stay on hold, while Hungary offers the clearest recovery story as inflation eases, allowing the central bank to cut further



Lower inflation is giving Central and Eastern European central banks greater room to support growth through easier monetary policy

Poland: From hikes to cuts?

Inflation prospects have improved markedly in recent weeks, while the growth outlook remains solid. Looking ahead into the second half of the year, we see three key issues to watch:

1. A potential dovish twist in the National Bank of Poland's (NBP) monetary policy (a rate cut in 2026 is not our baseline scenario).
2. The 2027 budget project before next year's general elections.
3. The cumulation of projects financed from Recovery and Resilience Funds (RRF) and its impact on fixed investment.

The surprisingly low inflation reading in May, together with the US-Iran peace deal and the resulting fall in oil prices, shifted market expectations dramatically. At the start of June, markets were pricing in three further rate hikes; they're now pricing in rate cuts. Throughout the entire US-Iran war, we held the view that the NBP would keep rates unchanged. Our baseline scenario still assumes that rates will remain on hold until the end of 2026 as we see CPI slightly above the target of 2.5% year-on-year. But we expect mounting speculation about rate cuts after the summer. In our view, the next move in monetary policy might be a cut, but this is more likely to come in 2027, when we see inflation dropping slightly below target.

At the end of August and beginning of September, investors are likely to focus on the draft bill of the 2027 budget. With general elections scheduled for next year and several fiscal promises from the previous election campaign still undelivered, we do not expect any meaningful fiscal consolidation. At the same time, the sizeable fiscal deficit leaves little room for significant new spending or rate cuts.

The completion of the RRF programme is drawing closer, and the final wave of EU funding should provide a further boost to investment activity. Poland is due to receive a further €8bn from the RRF in September, followed by the final, and largest, payment of €12.6bn in December.

Czech Republic: Modest inflation amid a still sub-potential output

Czech Inflation surprised to the downside in June, mainly due to a sharp drop in food prices, and is set to land below the target this year on average. We do not expect either headline or core inflation to rise significantly over the forecast horizon, despite an anticipated rebound in food prices. Agricultural producer prices are likely to post steady annual growth by year-end and could peak at around 8% in mid-2027. This reflects below-average forecasts for the Czech grain harvest following the exceptional spring drought. After a year of providing little inflationary pressure, food prices are set to become a key driver of inflation over the coming year, pushing headline inflation to an average of 2.5%.

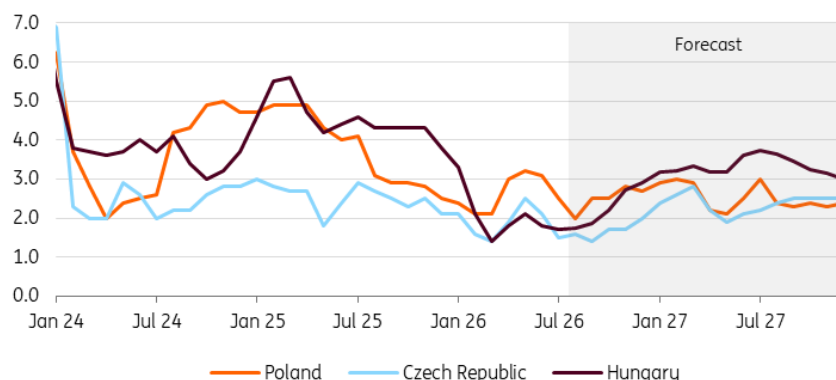
Still, we expect the Czech National Bank to keep policy rates unchanged for quite some time, as the economy is still running below its potential, according to our estimates. In the second half of the year, we believe that the following three things could shape the Czech story:

1. The onset of a robust expansion in Czech industry.
2. Persistent re-tightening in the labour market.
3. A bottoming out of food prices.

All are possible to some extent, but if all three occur, it could herald a structural shift or have implications for monetary policy. Should the economy enter an overheating phase

as manufacturing gets into full swing, tighter monetary policy could be warranted to dampen broad inflationary pressures. We are not there yet, but we are travelling in that direction. In any case, real interest rates are set to remain above 1% over the forecast horizon, supporting the koruna. The currency should also benefit from the Czech economy continuing to outperform the eurozone.

Headline inflation forecast (%)



Source: Macrobond, ING estimates

Hungary: Is it time to be optimistic again?

After several challenging years of stagnating GDP, high inflation, and elevated interest rates, it seems that Hungary has finally found a way out of the woods. Negative economic surprises had undermined our faith in the country's future, but perhaps it is time to become outright optimistic again. The economic activity data for April and May suggest an upside surprise in second-quarter GDP growth. Therefore, we generally acknowledge that there are positive risks surrounding our 1.5% economic activity forecast for 2026.

Despite the energy price shock caused by the blockade of the Strait of Hormuz, Hungarian inflation has proved resilient and defied expectations by declining for the past two months. Against this backdrop, we have revised our inflation forecast for 2026 down to an average of 2.1% and now expect inflation to reach 3% by the end of this year. With our inflation forecast for 2027 cut to 3.3%, our monetary policy outlook has become more dovish.

We expect the National Bank of Hungary to cut the base rate from 6.00% to 5.00% during its upgraded 'midi-cycle'. With lower interest rates and bond yields reducing the attractiveness of carry trades, the forint is unlikely to benefit from significant capital inflows. As a result, exchange rate stability will be crucial in keeping inflation close to 3%, and is likely to limit further rate cuts until late 2027. We then expect a gradual easing cycle to resume, with the policy rate reaching a terminal level of 4.00% by the end of 2028.

Lower inflation, fiscal consolidation and progress towards euro adoption should keep

government bond yields on a downward trajectory, which will greatly help to reduce debt servicing costs in the coming years. With this in mind, we do not envisage the fiscal trajectory being an obstacle to euro adoption. The more significant challenge lies with inflation, which will need to fall to 2% despite a buoyant economy and a positive output gap that is likely to generate demand-driven inflationary pressures in the years ahead.

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ARMENIA AZERBAIJAN

CIS-4 resilience to face tests in the second half of 2026

Amid volatility in global commodity markets, the CIS-4 is starting the second half of the year with stronger financial buffers, stable FX and resilient demand, but inflation risks remain sticky. Foreign-policy spillovers, rate path uncertainty and market access will decide how much support the regional markets can retain



Astana, Kazakhstan. Strong buffers are helping CIS-4 weather volatility, though external risks remain firmly in focus

Stronger financial buffers, stickier inflation risks

Since our [previous monthly update](#), the CIS-4 has demonstrated continued strengthening in its financial position, resilient domestic demand and exchange rates, as well as central banks being more cautious amid elevated inflation risks. Foreign policy challenges remain in focus for most of the countries in the region.

In **Armenia**, the ruling party's re-election was followed by renewed Russian pressure in the form of agricultural import restrictions, while the EU offered a counterweight with proposed

tariff-free access for up to 80% of Armenian exports. The Central Bank of Armenia [kept rates at 6.50%](#) on 16 June and gave a neutral signal, but since then, inflation has risen from 4.2% in May to 5.1% year-on-year in June, as imported food inflation pushes the overall CPI further away from the long-term target of 3%. The next decision is likely to be a choice between a hold and a hike, despite the continued strength of the dram.

In **Azerbaijan**, the macro story remains focused on strong finances and weak economic growth. The news regarding the prospects of trade and financial flows remains positive, with BP considering further gas investment in the ACG field and a long-term Absheron gas supply deal to Turkey from 2029. Fitch's BBB- affirmation highlighted low public debt and large sovereign assets. However, a 0.3% YoY GDP contraction in the first quarter amid subdued output in the fuel sector has led to a downgrade in full-year expectations. The Central Bank of Azerbaijan [kept rates unchanged at 6.50%](#) on 24 June, and the guidance suggests that an extended period of unchanged rates is likely, as CPI is gravitating around the upper bound of the 4±2% target range.

Kazakhstan's main surprise was the [National Bank's 100bp cut to 17% in June](#), although the Governor warned against assuming a full easing cycle. Oil-sector disruption at Karachaganak, linked to the Orenburg gas plant shutdown, underlined exposure to Russia-Ukraine spillovers – even as output partially resumed – and the oil target was maintained. The tenge strengthened towards the end of June despite flat oil prices, suggesting support is coming from capital inflows, mostly likely of a portfolio nature amid expectations of connection to Euroclear and planned bond placements.

Uzbekistan has received positive credit-rating news, with Fitch moving the outlook to positive and Moody's upgrading the sovereign to Ba2, citing reform progress, fiscal discipline and energy subsidy adjustments. Fiscal consolidation was confirmed by the first-quarter data, which showed a reduction in the consolidated deficit to 1.2% of GDP (4Q trailing sum) from 2.1% in 2025 and 3.1% in 2024. The Central Bank of Uzbekistan [kept rates at 14.00% on 17 June](#), disregarding a material CPI slowdown and noting demand-side and external price risks. In June, CPI re-accelerated to 6.4% after May's 5.5% YoY as some base effects wore off, but the overall level still suggests some scope for easing in the second half of the year. The soum was stable, as weaker gold prices and the renewed pause in gold exports in May were likely offset by continued foreign portfolio inflows in the local financial market.

2H26 hinges on foreign policy spillovers, inflation persistence and market access

For the second half of 2026, the first watch factor is foreign policy orientation. The Armenia-Russia-EU trade triangle, Azerbaijan-Russia tensions and Kazakhstan's energy disruptions all show that Russia-Ukraine spillovers are a valid macro variable.

Secondly, the scale of global inflation spillovers will determine if the medium-term rate

trajectory continues its downward trend. Armenia's food inflation, Kazakhstan's high producer prices and Uzbekistan's CPI re-acceleration argue for caution, even where nominal rates remain elevated.

Thirdly, market access and portfolio flows can outweigh trade in terms of importance for the FX market. Kazakhstan's planned Eurobond and Samurai placements, Uzbekistan's improving rating trajectory and growing local bond market, and Azerbaijan's large sovereign assets will test whether investors continue to reward the region's buffers and reform stories despite fiscal, trade and geopolitical risks.

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Article | 9 July 2026

FX

FX: Dollar dances in the dark

The dollar has been enjoying the hawkish reassessment of Fed policy over the last couple of months. In practice, however, there hasn't been much communication from the Fed at all now that Kevin Warsh is stepping back from forward guidance. If we're right with our Fed call of unchanged policy, the dollar can hand back recent gains over the coming months



We're mildly dollar negative into year-end and into 2027

Fed story returns as dominant theme in FX

A stronger dollar was the obvious trade on the back of the attack on Iran. US energy independence and the terms-of-trade shock to Europe and Asia made the dollar the go-to currency in March.

Yet the resilience of risk assets and the stop-go nature of the conflict saw geopolitics take a lesser role in FX pricing over subsequent months. Now the path of Fed policy is firmly back in

the driving seat. Here, better US data and a [hawkish FOMC last month](#) have the market pricing over 30bp of Fed hikes this year.

However, our house call is that the Fed will ride out the summer without touching rates and if that is the case, the dollar will need to come lower.

DXY dollar index versus short-dated US rate expectations



Source: Refinitiv, ING

3 interacting themes for the second half

1. Lower US rates and lower dollar hedging costs

As above, the house call of an unchanged Fed policy rate into next year is at odds with market pricing of hikes. If the Fed does indeed continue to look through temporarily higher inflation without hiking, short-dated US interest rates will be falling come September. That will bring dollar hedging costs lower and encourage foreign investors to raise FX hedge ratios on US assets. The cost for eurozone investors to hedge US assets, using three-month forwards, has already dropped to 1.5% p.a. from 2.5% over the last year. Those costs could well be narrowing further to 1.00% into next year based on our Fed profile.

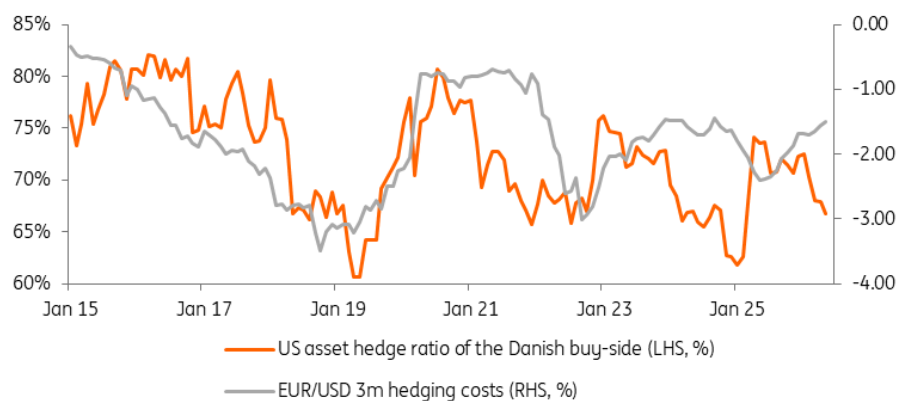
2. Dollar hedge ratios are relatively low

The hot topic in FX markets last year was foreign investors running low FX hedge ratios on their US assets at the start of the year and then aggressively raising them, selling dollars, after Liberation Day. One might say that lightning doesn't strike twice, but once again it looks like investors are running low hedge ratios again. Indications from the Danish buy-side suggest Europeans might be running dollar hedge ratios down at 67% on the view that the dollar is a good store of wealth given relatively high rates and its performance as a safe haven again during this year's Middle East crisis. That 67% hedge ratio is much lower than current hedging costs would normally suggest – which would be more like 73%. Thus, any loss of confidence in the dollar could see a similar adjustment in hedge ratios to that seen last April.

3. Mid-Term US election risk

If hedging costs are to come lower at a time when foreign investors are running low US hedge ratios again, what could be the trigger for an adjustment? Last year it was the erratic policy around tariffs on Liberation Day. This year we have US midterm elections in early November. The Republicans are widely expected to lose the House and withdraw President Trump's options to stimulate the economy with tax and spend policies. This could see a swing back to foreign policy and trade at the White House, which, given current long dollar positioning, could prove a threat to the dollar.

European FX hedge ratios on US assets are dropping



Source: Danish Central Bank, Refinitiv

Altogether, but largely driven by the Fed view, we're mildly dollar negative into year-end and into 2027. EUR/USD and USD/JPY can end this year near 1.18 and 158, respectively. Clearly, a Fed hike is not in our calculations, and if seen would merit firmer dollar forecasts across the board.

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RATES

Rates: Curve pivots and steady spreads

Our three calls for the second half of the year centre on the maintenance of high long-tenor real rates, a curve-steepening tendency on many core curves, and the stability of spreads between the US and the eurozone. And that includes US and eurozone swap spreads



It's a close call whether the Fed will hike rates this year. We think the central bank will hold rates steady for an extended period

Look for elevated real rates, steeper curves and Treasury/Bund/Swap stability

Over the past few weeks, we've been opining on long-dated *real* rates as a factor of significance for bond markets. Primarily, [here](#). There is a link, even if seemingly tenuous, with the ongoing technical and productivity revolution being discounted in the risk asset space. It's not easy to glean this from the ups and downs in bond yields through business cycles, but it's certainly there. They should be higher than normal, and certainly well above the ultra-low real rates seen post the global financial crisis / pandemic periods.

Meanwhile, inflation expectations have dampened dramatically and completely discount a reversal lower in the higher headline prints seen of late. The juxtaposition between the calming

of inflation expectations versus the resilience to the rate hike narrative is tough to square, but we think the rate hike discount is mispriced. It is a very close call whether the Fed will hike rates this year, but on balance, we think it will instead choose to look through the near-term energy spike and hold rates steady for an extended period.

We stick to the view that the long end remains heavy (yields holding up), while the front end should richen (yields fall). The richness of the 5yr area of the curve suggests the same (the 5yr rate is below an interpolated line between the 2yr and 10yr rates). This can be seen on the eurozone curve, but it's especially pronounced on the US curve. When the 5yr is rich like this, rate hikes are typically not a dominant force. In fact, cuts are more probable.

Essentially, we have the US yield curve steepening from both ends. Front-end yields should get back below 4%, while the 10yr yield will have a tendency to hug the 4.5% area (and quite potentially test higher). The eurozone curve sees a similar tendency, as the front end calms on reduced rate hike pressure, and the back end holds steady, we think, with the 10yr holding broadly in the 3% area (Germany and Euribor).

Consequently, we don't anticipate much variation in Treasury/Bund spreads. We'd extend that to swap spreads, which appear quite comfortable at around zero for 10yr German Bunds and at or about 40bp for 10yr US Treasuries. There are deficit stories to be told, but they are not proving impactful, and we don't anticipate much change to this in the coming months.

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Report | 9 July 2026

ING Monthly: The world economy at half-time

After a volatile first half of the year, will the remainder of 2026 be any calmer?



Half-time huddle: after a challenging first half, the global economy regroups ahead of a crucial second-half push

Executive summary

Our key calls at half-time:

Oil prices: The quicker ramp-up in flows through the Strait of Hormuz has led us to revise our ICE Brent forecast lower for the remainder of the year. We're now expecting Brent to average \$80/bbl in 3Q26 and \$74/bbl in 4Q26. That assumes no meaningful disruptions to flows, which risks proving optimistic after the latest re-escalation in US-Iran tensions.

United States: Lower motor fuel prices are bringing relief for consumers, but it also means that inflation has likely peaked, barring a severe escalation in the Middle East. Slowing housing rents, weak wage growth and a waning influence from tariffs should more than offset concerns tied to tech-related inflation pressures. We expect the Fed to

stay on hold until summer 2027.

Eurozone: We expect the ECB to sit out the July meeting to see how the situation in the Middle East evolves. But with higher core inflation, the central bank could hike once more in September if inflation risks still provide reason for concern.

China: We expect first-half 2026 growth to be around 4.8% YoY, though a further deterioration in data could increase pressure for greater policy support this year. We now expect the PBoC to cut rates in the third quarter on lower energy prices and potentially softer inflation.

United Kingdom: We think the Bank of England will keep rates on hold until next spring/early summer, when we're likely to see the resumption of gradual rate cuts. Inflation is unlikely to peak much above 3% this year on our revised energy price forecast.

Asia ex-China: Falling oil prices should ease inflation and external pressures across Asia, but second order inflation effects and FX vulnerabilities remain key constraints. Central banks are likely to maintain a tightening bias until price pressures and external balances improve.

FX: We're mildly dollar negative into year-end and into 2027, largely driven by our Fed view. EUR/USD and USD/JPY can end this year near 1.18 and 158, respectively.

Market rates: We expect the US yield curve to steepen from both ends. Front-end yields should get back below 4%, while the 10yr yield will have a tendency to hug the 4.5% area (and quite potentially test higher). The eurozone curve sees a similar tendency, as the front end calms on reduced rate hike pressure, and the back end holds steady, we think, with the 10yr holding broadly in the 3% area (Germany and Euribor).

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