

ING Monthly: Prepare to be stress-tested to the max

Just when it seemed the world and markets might catch a breath, Donald Trump made a move in Venezuela. Buckle up – 2026 is shaping up to be anything but calm

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Prepare to be stress-tested to the max

Wild geopolitics is already setting the global scene

By Carsten Brzeski



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Prepare to be stress-tested to the max

Remember the Leonard Cohen classic, 'First We Take Manhattan'? We're only a week into the new year, and the US President has already 'taken' Venezuela; he's got Greenland in his sights, Cuba's been mentioned, as has Colombia. Wild geopolitics is going to stress-test us to the max this year



No gradual transition into the new year

Just when you were hoping for a bit of calm around the world and in the markets, in goes Donald Trump to Venezuela. So much for a gradual transition from the Christmas break. This is yet another signal of how deep we're into seismic geopolitical change. The next few weeks and months will show whether Venezuela will really be better off, as many think.

All students of international law, however, will continue to ask whether the end really justifies the means. In my personal view, the US military action was a demonstration of military and intelligence power, or as 'might' as the US President and others said during the press conference last weekend. It is therefore also far from certain that the US action will encourage countries such as Russia or China to follow the American example. The latest US military action not only sends a signal of military might to other Latin American countries but also to the rest of the world.

On top of that, what other 'mighty' adventures might upend the world order in 2026? Would the US really take Greenland? The very thought of it is making European leaders shudder. The bitter irony is that since 2022, the discussion has always centred on NATO's Article 5, which states that

an armed attack against one member state shall be considered an attack on all members, triggering obligations to come to their aid. No one ever considered it might be one member attacking another. How our geopolitical times have changed.

Europe can no longer be complacent

If anyone in Europe had thought that 2026 would bring some normality, this year's first few days have shown them just how wrong they are. This is no moment, no year, for European complacency. This is yet another wake-up call to the continent's leaders to take European strategic autonomy, security, and economic resilience seriously and to have them at the top of every single policy agenda for the rest of the year, probably for the next decade.

This week also shows that European resilience still has a long way to go, notably in the EU's largest economy, Germany. An attack on a power plant in Berlin left some 100,000 people in the dark. And while the power outage in Portugal and Spain last spring was resolved in less than 24 hours, it's taking more than five days and counting in Berlin. The two events are not linked. But they illustrate what can happen to a country, a region, a continent if basic functions and requirements of an economy and society are neglected for too long.

A wild ride

One of the key calls in our [Global Economic Outlook](#) for 2026 was that the disconnect between geopolitics and the real economy will persist. It's not based on the assumption that geopolitical shifts will stop, but rather on the assumption that markets have grown numb, companies will adjust, and governments will offset any adverse geopolitical effects with fiscal stimulus.

And the call still holds, but in recent days, I'm getting that eerie feeling that the disconnect won't last forever and that at some point, something will have to give. So, brace yourself. This combination of wild geopolitics and benign macroeconomics is going to be stress-tested to the max once again this year.

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Recent developments in the global economy

2026 has started with a bang, with the US arrest of Venezuelan President Nicolás Maduro, which sparked short-term supply risks for oil markets, while the expansion of the eurozone and central bank shifts add to the mix. Our economists unpack the latest developments in the US, Asia and Europe, as well as in FX, commodities and rates



US forces captured Venezuelan President Nicolás Maduro on 3 January 2026

Commodities

The new year has started with further supply risks facing the oil market following the [US arrest of Venezuelan President Nicolás Maduro](#). This action adds some supply risk to the market in the short term. However, longer term, a smooth transition means the potential for stronger Venezuelan supply. Admittedly, this will take several years and will also require foreign companies to invest in the domestic oil industry, which is easier said than done.

The oil market has not reacted strongly to developments in Venezuela, with the market likely having already priced in some supply risk following the US blockade on sanctioned tankers entering and leaving Venezuela. Meanwhile, a well-supplied global market will also offer comfort. OPEC+ supply increases have seen the Middle East physical oil market weaken significantly.

We continue to [hold onto our bearish outlook](#) for the oil market in 2026, forecasting Brent to average US\$57/bbl this year.

United States

A resumption of official economic data in December indicated ongoing robust growth, slowing inflation and a cooling jobs market in the US. However, the details suggest the story is more nuanced.

4.3% annualised GDP growth in the third quarter of 2025 reflected a stellar performance from net trade and government demand. Both are set to reverse course in the fourth quarter, while consumer spending and investment illustrate the K-shaped narrative.

High-income households spend aggressively, boosted by soaring wealth, while middle and lower-income households remain worried about job security and the impact of tariffs on their spending power. Meanwhile, tech-related business investment is soaring, tied to AI mania, while residential investment and non-tech business capex contracts. We believe the underlying rate of growth will be close to 2% in 2026.

The slowing in core inflation to 2.6% in November from 3% in September likely overstates the degree of cooling price pressures, due in part to questionable assumptions on housing costs. Nonetheless, the Fed believes the tariff impact on inflation has nearly passed, and we argue that slowing wage growth, cooling housing rents and lower energy costs mean inflation remains on the path to 2%. This gives the Fed room to cut policy rates twice more in 2026.

Eurozone

The eurozone, with the addition of Bulgaria at the beginning of 2026, now includes 21 member states. The bloc ended 2025 on a softer note: the composite PMI fell back, though it remained above the 50 boom-or-bust level. Renewed weakness was seen in manufacturing, but growth expectations were the strongest since Russia's invasion of Ukraine, probably banking on the impact of the German budgetary stimulus in 2026.

While growth in the fourth quarter of 2025 is likely to be weaker than in the third, we still expect a gradually accelerating growth pace this year, resulting in 1.2% average GDP growth. On the back of lower energy prices, inflation is still set to decline. Even the stickier services price inflation should moderate, as the ECB's wage tracker is pointing to a clear deceleration in wage increases.

We maintain our inflation forecast of 1.9% for 2026. As the ECB's staff upgraded both the growth and inflation outlook, the conviction that rates will be held at the current 2% level this year has only strengthened.

China

China's economy continued to see a broad-based slowdown in November, though a stronger-than-expected December PMI suggests hope for a rebound to close out the year. Our focus remains on domestic policy and how policymakers aim to boost consumption, namely through the renewal of the trade-in policy, property market stabilisation measures, and potential steps to boost incomes and improve social safety nets.

External uncertainties remain as Mexico hiked tariffs on China, while China raised tariffs on EU dairy. It was not all negative – China also cut import tariffs on 935 products, including key components and advanced materials, which could support imports and also China's tech development.

On the currency front, USDCNY strengthened quite rapidly toward the end of 2025, falling from 7.07 at the start of December to just below the 7.00 level in the last two days of the year, the biggest 1-month appreciation for the CNY since August 2024.

Japan

Japan is facing increased geopolitical risks after China placed restrictions on exports to Japan that could have military applications. This ban covers not only metals but also chemicals, electronics, and equipment – essentially any dual-use items that might strengthen Japan's military capabilities.

As details of the ban remain unclear, measuring its direct impact is difficult. But the implications for manufacturing are clearly negative. Japan's reliance on China for rare earths is around 70%. During the 2010 territorial dispute, China tightened export controls, which caused meaningful disruption to manufacturing, especially in the auto and transportation, electronic appliances, and machinery sectors.

The effects of the current ban may not be felt right away because Japan typically maintains three to six months' worth of reserves. While the immediate economic impact may be contained, there are bigger concerns that escalating retaliatory measures could lead to a broader economic conflict, potentially affecting both countries and disrupting essential supply chains across Asia. We keep our current forecasts at this time, but note that downside risks have increased considerably.

Rest of Asia

Regional growth remained resilient at the end of 2025, though PMI data signalled divergence between tech and non-tech-driven economies, with Korea, Taiwan, and Singapore showing strong manufacturing activity. Singapore delivered the biggest upside surprise in 2025, posting 4.8% GDP growth versus the sub-2% consensus at the start of the year, supported by a diversified export base and robust trade performance. A lower 10% base tariff continues to boost electronics and precision engineering, creating positive spillovers for the domestic economy and reinforcing growth momentum.

The other regional outlier was India, where the rupee depreciated sharply late in the year amid a widening trade deficit driven by elevated tariffs and higher gold imports. Portfolio outflows from both debt and equity accelerated in December on muted earnings, stretched valuations, and weaker currency-adjusted returns. We expect tariff reductions to help narrow the trade deficit and support INR over the next three to six months, while the sharp fall in INR's REER should limit further downside.

United Kingdom

The Bank of England cut rates in December and all the data suggests it has more work to do. Food inflation – a key focus of the hawks – is cooling off in line with other European economies. The jobs market remains under pressure; vacancies are below pre-Covid levels in most sectors, and

redundancies have shown tentative signs of increasing. Unemployment is rising and wage growth is cooling rapidly. Economic data also points to a weak fourth quarter, though we remain wary that the GDP figures have had a tendency of being stronger in the first half of the year than the second, ever since 2022, hinting at problems in the data.

Still, the Bank itself remains cautious. Hawks and doves alike point to the Bank's own survey data, suggesting the fall in wage growth expectations among corporates has stalled. With limited data available between now and early February, we think a rate cut now looks unlikely. But given the pressure in the jobs market – and the Bank saying further cuts are likely – [a move in March is our base case](#), with another cut in June.

Central and Eastern Europe

Late 2025 marked several notable shifts in central bank policy across the CEE region, with the spotlight firmly on the National Bank of Hungary's dovish pivot. The NBH presented a new forecast at its December meeting with a significantly lower inflation and GDP growth forecast and announced that rate cuts were coming. We now expect a restart to the cutting cycle in February and another 25bp cut in September to 6.00% and more next year.

The Czech National Bank also indicated a dovish shift at its last meeting by changing the balance of risks from pro-inflationary to balanced. After the new government approved subsidies for household energy prices, pushing headline inflation below the central bank's target, we now expect an additional rate cut of 25bp to 3.25% in August this year.

In Poland, December inflation surprised slightly lower again, but here we made adjustments to our previous rate profile and expect rate cuts to continue in March, May and September, ending the year at 3.25%. In Romania, inflation confirmed its peak in November, and the expected decline this year – driven by base effects from last year's tax hike – should allow the National Bank of Romania to begin easing in May.

FX

The dollar ended 2025 towards the lows of the year as the Fed continued to cut its policy rate and overseas economies were increasingly described as resilient. However, a large part of the dollar's 10% decline was attributed to currency hedging rather than an outright sale of US assets. We think this move could extend a little further in 2026, given our house call for another 50bp of Fed rate cuts and the acceleration of the eurozone economy on the back of German fiscal stimulus. We're still happy with our call that EUR/USD ends 2026 somewhere around 1.22 – a little higher than consensus.

USD/JPY continues to trade stronger than we had expected. Seasonal dollar strength in the first quarter and lower Japanese inflation, meaning less chance of a Bank of Japan rate hike, warns that USD/JPY could push up and into the 158/160 intervention zone. We would again expect Tokyo authorities to defend the yen at these levels and perhaps consider borrowing from the Korean playbook in offering tax incentives for the repatriation of assets back into Japan, or altering hedging policies for state-influenced pension funds as a means to cap USD/JPY.

Rates

The potential for more chaos is here. We see that. But we're still biased towards an evolution

towards normal rates for 2026.

In the US, that means the curve stretching from around 3% on the front end, plus a 100bp curve out to the 10yr. In addition, we add a 50bp Treasury credit spread to give us a Treasury yield target in the 4.25-4.5% area (vs 4.15% now). Consumer price pressures (tariffs) get us to higher yields to begin with, before drifting lower later in 2026.

In the eurozone, the curve is already sitting at broadly normal levels. The front end remains anchored as the ECB stays on hold at 2%. However, longer rates should still drift higher through 2026. German spending ambitions, at the very least, will reduce the risk of a return to secular stagnation, helping the 10Y swap rate to the 3% area (vs 2.8% now).

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