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ING Monthly: Hiking in the dark

There's a growing sense of urgency among global central banks. Inflation remains too high and interest rates are too low to contain it. But just how far will policymakers go and can they engineer a soft landing? In our May update, we present our latest forecasts for monetary policy and the implications for the economy and markets around the world



Executive summary

Our key calls this month:

- A surprise US 1Q economic contraction should be reversed in 2Q, but stagflation fears are intensifying with the Federal Reserve set to tighten monetary policy significantly this year.
- We now expect the ECB to hike rates in July and September to bring the era of negative deposit rates to an end, despite a likely second quarter contraction in GDP.
- Having hiked rates four times, the Bank of England is set to pause – or at least slow down – rate hikes over the summer, despite another upgrade to our near-term UK inflation forecasts.
- We've revised our Chinese GDP forecasts given the likelihood of an extended lockdown in Shanghai (possible for another month) and potentially also Beijing.
- Monetary accommodation in Asia is coming to an end. Higher than expected inflation means central banks walking back from their previous growth supportive policies – a few notable exceptions.

- FX volatility will still stay high this summer and the 1.05-1.10 EUR/USD range we had foreseen perhaps now becomes a 1.00-1.10 range.
- US market rates are close to their highs, even though the Fed is at the early stages of its tightening cycle. We expect the US 10 year to peak at 3.25 over the summer.

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