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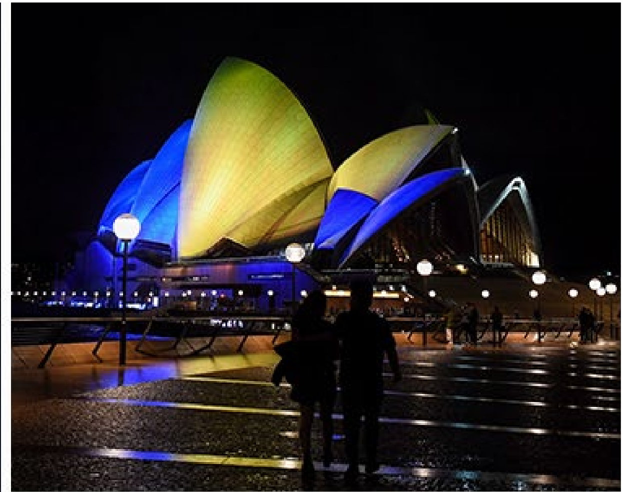

The global implications of Ukraine's tragedy

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The global implications of Ukraine's tragedy

Given the horrendous human tragedy in Ukraine, it seems almost crass to talk about global economic implications right now. But that's our job. The international sanctions against Russia will impact people across the globe. Giving a preliminary assessment of that is what we're focusing on in March's ING Monthly

***'It's unthinkable that I would ever experience war on my doorstep':* Carsten Brzeski on the economic impact of Russia's invasion of Ukraine**

My parents were born during the second world war. My mother-in-law was a Hungarian refugee. I grew up next to the Berlin Wall. It was unthinkable that I would experience war on my doorstep. And that's why it's difficult to talk just about economics as we witness the tragedy unfolding in Ukraine. But it's my and my colleagues' job to assess the potential impact of this bitter conflict amid some of the harshest sanctions ever seen against Russia; we're not going to be affected just emotionally by the unfolding images on our screens.

The sanctions are unlikely to stop the war as long as Russia can continue selling oil and gas to Europe and other countries. And the revenues from the extraordinarily high energy prices actually partly offset the negative effects of the sanctions. We'll look at those direct effects. And we'll consider the indirect consequences on countries and markets around the world as governments and central banks continue to fight inflationary and many other pressures.

A closer look at the sanctions

So far, the sanction response to the military escalation has been aggressive and generally coordinated, but careful not to disrupt Russia's key commodity exports to the main partners. That is probably explained by Russia's importance to the commodity and financial markets and also by the necessity to leave room for additional pressure should things get still worse. The measures announced in the headlines are bold, including full blocking sanctions against banks, a cut-off from the SWIFT messaging system which allows financial institutions to authorise payments, the sanctioning of private assets of individual Russians (the Specially Designated Nationals list), export bans on high tech goods and sanctions on the Central Bank of Russia. These are all elements from the most severe Iranian playbook.

"The details are more nuanced"

When you zoom into the details, the approach is more nuanced. So far, financial sanctions on Russian banks range from full blocking, including a freeze of foreign assets, to the prohibition of companies' new equity and foreign debt. The cut off from SWIFT has been preliminarily approved, but apparently, this will be decided on an individual basis for banks and not all names will be accompanied by full blocking sanctions; it will still be possible to make payments via other channels. It also looks as if transactions for oil and gas payments are excluded. Apparently, credit card payments already started to be rejected in Russia over the weekend. Almost half of the Central Bank of Russia's FX reserves were frozen as were those held with Western central banks. Special Drawing Rights and gold still seem to be available.

There could be several ways to counter or offset the current sanctions on the Russian side. Russia's central bank hiked policy interest rates to 20% and introduced capital controls earlier this week. Other options could include freezing inward foreign direct investment in response to EU/US sanctions against non-financials, and the suspension of business activity. Think of a moratorium on banks' foreign liability repayments to the US and EU, in response to the freezing of bank assets or a complete moratorium on corporate debt repayments in response to the freezing of CBR assets.

On the trade side, there should definitely be a ban on imports from the EU as well as a ban on air transit over Russia (the Siberian channel), making trans-Eurasia flights more difficult and expensive. An embargo on exports of titanium and other rare metals (redirection to the East), cutting off gas or oil to the EU would be other options. The oil and gas sector accounts for half of Russia's exports of goods, but only 15-20% of GDP, and up to 5% of employment.

A more general assessment of economic implications

Without the slightest doubt, this war will be devastating for Ukraine. As for Russia, the short and longer-term implications will definitely hurt the economy. But EU countries will also be among those which will be hit the most by these sanctions. We don't want to speculate about how this war will evolve but it seems fair to say that these measures will be in place for a long time and energy prices will stay high, or go even higher, as time goes on. In this scenario, there are both long and short-term implications not just for energy and commodities but also for fiscal policy.

Europe gets nearly 40% of its natural gas and 25% of its oil from Russia; of course, this differs across countries. Heating and gas bills, that were already soaring are likely to go higher still. Both Ukraine and Russia are also called the global breadbasket, and food prices are also likely to surge. Both countries account for roughly a quarter of total global wheat exports. We also need to mention the supply issue. For Europe, the effects of that could be severe, undermining the industrial and private consumption rebound we were expecting as Omicron restrictions ease. We'll probably have to wait until next winter's heating season to see the biggest impact. Globally, a surge in commodity prices will aggravate already existing inflationary pressures, and Turkey is particularly at risk here.

"The risks of stagflation have increased"

Also fuelling inflation fears are possible shortages of essential metals such as palladium, aluminium and nickel, creating further disruption to global supply chains already suffering from the pandemic and shortages of semiconductors. Palladium, for example, is used in automotive production, mobile phones and even dental fillings. Nickel is used to make steel and electric car batteries. In the shorter run, disruptions to the energy and commodity supply will weigh

on growth and push up inflation for longer. The risks of stagflation have increased, particularly for Europe.

The new reality is likely to slow down or delay policy normalisation, not least for the European Central Bank. At next week's ECB meeting, any hints of rate hikes are out of the question. We expect the bank to avoid tying its hands in any direction, still announcing a taper while not ruling out new easing of monetary policy if needed.

At the same time, there is also hope. The united European reaction illustrates the continent can work together effectively and swiftly if it wants. Also, the German government's announcement to increase defence spending by €100bn this year and annual defence spending to 2% of GDP indicates that more fiscal stimulus is in the offing. The government's plan to build two LNG terminals as soon as possible goes in the same direction. More generally, energy supply disruptions and purchasing power losses could also still trigger government support schemes similar to those we saw during the lockdowns.

These examples illustrate that the Ukraine war and its economic implications will put more pressure on the green transition and efforts to speed it up. It's not much, but we need to find any silver lining where we can.

At a glance: The world right now

How the war in Ukraine has changed our core views and forecasts

United States

The US economy shrugged off the effects of Omicron and should be relatively resilient to the headwinds caused by Russia's military aggression in Ukraine by virtue of being an energy producer and having limited direct economic linkages. We expect six Federal Reserve rate hikes this year.

Eurozone

The war in Ukraine could dampen the pace of the recovery in the eurozone, while inflation is likely to be close to 4% for the year. The European Central Bank will have more trouble navigating through the storm, though we still expect an end to quantitative easing in the third quarter and a first rate hike towards the end of the year.

United Kingdom

Inflation is set to stay above 6% for most of 2022, and that means consumer spending will struggle to avoid a downturn later this year. The Bank of England is still squarely focused on curtailing higher inflation, though we think policymakers will hold off on further hikes once the Bank Rate reaches 1% in May and growth risks build.

China

China's Two Sessions will be held between 4-5 March. This is a great opportunity for the government to announce supportive economic policies as consumption has weakened. It is also a good chance for the government to emphasise stability at a time when geopolitical tensions are high.

Asia ex-China

The Asia region has limited direct trade linkages with Russia and Ukraine, mostly linked to imports of oil and gas. But it will not be immune to the indirect consequences of this conflict. With food and energy prices capturing a large proportion of the CPI weights, we would expect to see further upward pressure on inflation and erosion of household purchasing power, nudging some central banks in the region away from their currently growth supportive stances in the direction of tighter policy.

Central and Eastern Europe

As elsewhere in Europe, Putin's war in Ukraine will hit GDP across Central and Eastern European economies. Yet the unity showed by the region and the warm welcome offered to Ukrainian refugees could provide a short-term boost to consumption.

Commodities

Whilst current sanctions are not targeting Russian energy exports, the risk of further escalation means the potential for large supply disruptions. For 2Q22 we now expect that ICE Brent will average US$102/bbl, whilst for the full-year 2022, we expect Brent to average US$96/bbl.

FX

War in Europe has understandably taken its toll on currencies in the region and the implementation of Russian sanctions now questions the rouble's deliverability. Pressure is building for a sizeable break in EUR/USD below 1.10 this spring.

Rates

Reactions to the Ukraine crisis have been quite stark. Russia is effectively in default territory, in part anticipating a forced exodus. Central Europe has seen selling pressure, pushing down currencies and forcing market rates higher. The US and western Europe are the relative safe-havens. Market rates have fallen here, and are liable to fall further.

Special focus: French presidential campaign shaken by war in Ukraine

Emmanuel Macron's presidential mandate has been disrupted in its last few weeks by the return of war in Europe. After coronavirus and the social 'yellow vest' crisis, this could benefit Macron who remains this race's favourite, even though his programme for the next five years is unclear.

Central banks to continue tightening despite rising uncertainty

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We expect six rate hikes from the Federal Reserve this year amid rising inflation and a solid domestic backdrop. The European Central Bank is set to keep its options wide open at the March meeting when it comes to end-dates for QE and the timing of the first rate hike. Expect two more front-loaded hikes from the Bank of England, but that could be more-or-less it

ECB President, Christine Lagarde, at a summit of EU finance ministers last week in Paris

Fed to hike six times in 2022; quantitative tightening to begin next quarter

After Jerome Powell's hawkish shift at the January FOMC meeting, markets went as far as to price a 90% chance of a 50bp Federal Reserve hike on 16 March and up to 160bp of interest rate hikes for the year. However, expectations have been scaled back sharply in response to Russia's invasion of Ukraine. At the time of writing, this has shifted lower to a mere 25bp hike in March and 140bp by the December FOMC meeting.

Russia's actions undoubtedly make the outlook far more uncertain and pose clear challenges for the global economy through higher commodity prices, more strained supply chains and heightened anxiety. Nonetheless, the US economy is growing strongly, has very low unemployment and has inflation at 40-year highs. The US is also more economically insulated from the crisis than Europe through less direct trade and banking linkages and by virtue of being an energy producer.

It is obviously difficult to call how the geopolitical backdrop will evolve, but our central case, for now, is the Fed responds with six hikes this year and announces a gradual, passive run-down of its $9tn balance sheet in late 2Q.

European Central Bank returns to full flexibility

For the ECB, the overall economic picture since the start of the war in Ukraine has once again complicated the road to normalisation. In fact, the risk of stagflation has clearly increased, complicating the ECB's dilemma: how to react to accelerating inflation which cannot be softened by monetary policy.

It is hard to see the ECB wanting to start normalising monetary policy at such a moment of high uncertainty. Therefore, we expect the central bank to stick to the already announced rotation of its asset purchase programmes. That means ending the Pandemic Emergency Purchase Programme (PEPP) in March, increasing the Asset Purchase Programme (APP) from €20-40bn, and then reducing asset purchases by €5-10bn per month, starting in May.

Contrary to the December meeting, the ECB will want to avoid hinting at end dates for QE or starting dates for rate hikes. Instead, the ECB will dust off Mario Draghi's and Jean-Claude Trichet's old promise to "never pre-commit".

Bank of England to plough on with rate hikes – but not for long

Bank of England officials are clearly nervous about the further rise in energy prices and what that means for inflation expectations at a time when wage growth is already rising quickly. However, some of this is a by-product of the extra churn in the jobs market after an unusually dormant period during the pandemic, and wage pressures may slowly reduce through this year. That – and the likelihood that the recovery will grind to a halt later this year – suggest limited need to tighten much further.

We still expect the Bank to hike in March, though recent developments suggest the chances of an outsized 50bp hike are even lower than they were before. That, plus another move in May, would demonstrate that the committee is keen to act pre-emptively against the backdrop of rising inflation.

But ultimately there's only so much monetary policy can do in this environment, and we expect hikes to stop once Bank rate reaches 1%. At that point, the BoE has also said it will 'consider' selling bonds to accelerate the reduction in its balance sheet size. That's a process fraught with risks, adding another reason for the Bank to tread more carefully on rate hikes after the spring.

Commodities: Russian supply risk upends the oil market

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Russia's invasion of Ukraine and the sanctions which followed have led to a significant change in the oil outlook. Whilst current sanctions are not targeting Russian energy exports, the risk of further escalation means the potential for large supply disruptions. We have made significant upward revisions to our oil price forecasts

Filling up a car at an icy petrol station in Russia

The impact so far

The reluctance of refiners to commit to Russian oil is already very clear. Differentials for Russian oil have fallen to record discounts in recent weeks. This continued weakness reflects the risk that sanctions will get progressively more restrictive. In addition, banks are becoming less willing to finance the trade of Russian commodities, whilst shipowners are also reluctant to load in some Black Sea ports.

Therefore, even though sanctions are not targeting Russian energy exports, the risk of sanctions, along with possibly public pressure is leaving buyers reluctant to purchase Russian oil.

So, it seems clear that reduced Russian flows will occur with or without sanctions targeting oil exports. As a result, we expect a disruption in the region of 2MMbbls/d in the coming months for Russian oil supply.

What does this mean for oil prices?

The continued uncertainty, along with expectations of lower supply have led us to revise up our oil forecasts significantly. For 2Q22 we now expect that ICE Brent will average US$102/bbl, whilst for the full-year 2022, we expect Brent to average US$96/bbl.

There are some potential developments that could help to limit further upside. The most obvious and preferred from a humanitarian point of view would be a quick de-escalation in the Russia-Ukraine conflict.

Secondly, Iranian nuclear talks are ongoing, and a quick deal could lead to a sizeable increase in Iranian supply. A lifting of US sanctions against Iran could see supply growing from around 2.5MMbbls/d now to around 3.8MMbbls/d.

OPEC+ could also help the market by increasing supply more aggressively. However, all comments from members up until now suggest that the group is keen to stick to their

current plan of increasing output by 400Mbbls/d in April. It is also important to remember that Russia is a part of the OPEC+ alliance and so would have some influence on what the group decides.

Finally, we could see further coordinated stock releases by governments around the world. The IEA in early March coordinated a 60MMbbls release. However, drawing down strategic reserves is a short-term solution and clearly, longer-term solutions are needed.

It could still get a lot worse

There is certainly the risk for further upside in prices. If we were to see a scenario where Russian energy exports are fully targeted this could lead to a situation where we see Brent trading up towards US$150/bbl this year. The market would not be able to offset the full amount of Russian export supply lost, and so under this scenario, the market would be in deficit for the foreseeable future.

However, it is unlikely that Russian energy exports would fall to zero under oil sanctions. As we have seen with Iran, there are buyers still willing to purchase oil from sanctioned countries. Potential oil sanctions against Russia would mean that Russian oil falls to even larger discounts than we are currently seeing, which will be just too tempting for some buyers. Under such a scenario, we would expect China to increase its share of Russian oil purchases (China imported 1.6MMbbls/d in 2021), as well as possibly India. Under such a scenario, we would likely see Brent spiking significantly higher in the immediate term on the back of an announcement, but then trading towards US$115-120/bbl as we move through the year.

There is obviously plenty of uncertainty in the oil market at the moment, and the only certainty is that forecasts will change as the Russia-Ukraine situation evolves.

US: Economy remains resilient, but there are risks ahead

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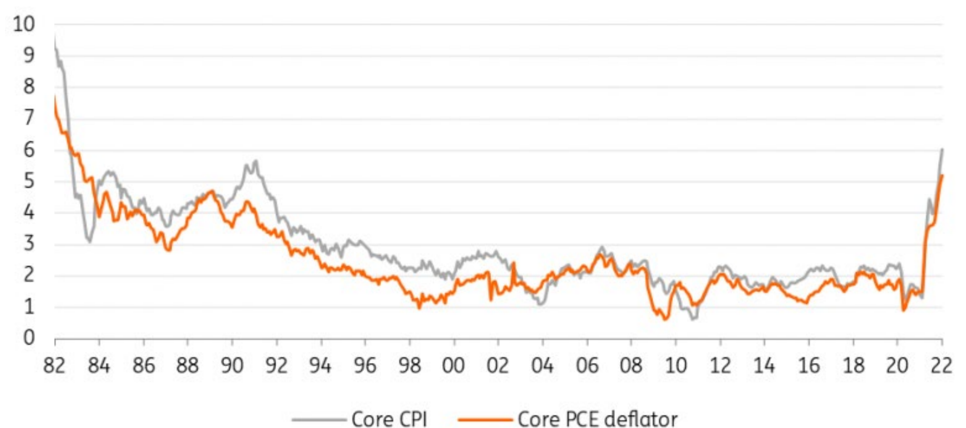
The US economy shrugged off the effects of Omicron and should be relatively resilient to the headwinds caused by Russia's military aggression in Ukraine by virtue of being an energy producer and having limited direct economic linkages. Higher interest rates are coming with 2% still targeted for 10Y Treasuries and eventually the Fed funds rate

Joe Biden gave his first State of the Union address earlier this week

Russia's actions create headwinds, but rate hikes are coming

The consequences of Russia's actions undoubtedly pose challenges for the US economy. Higher energy costs will erode household spending power and hurt confidence while pushing annual inflation up to 8%. There are more difficulties for global supply chains while freight routes are also being impacted, putting up costs and causing delays. The fact that the US is a major energy producer helps mitigate some of the economic pain though. Oil and gas rig counts are rising sharply and this will boost industrial output while also creating jobs. US military exports may also receive a boost as European governments re-evaluate defence spending.

US inflation at 40-year highs (ex food and energy measures YoY%)



Source: Macrobond, ING

Despite the uncertainty that the conflict creates, we expect the Federal Reserve funds target rate range to be increased to 2-2.25% by mid-2023. In fact, we think the Fed will

opt to front-load them with six 25bp hikes coming in 2022, with additional tightening likely in early 2023. The Fed is also set to announce a passive rundown of its balance sheet in 2Q22 from its current bloated state of US9tr.

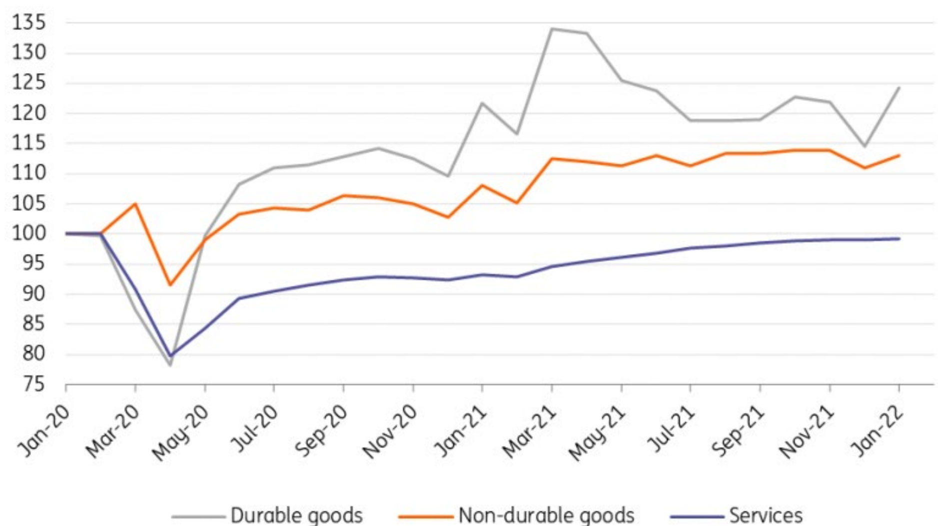
Geopolitics is also going to take up political bandwidth on Capitol Hill with President Joe Biden's Build Back Better investment plans in tatters. Polling currently offers little encouragement for the Democrat Party at the November mid-term elections, which risks severely constraining the president's ability to pass legislation in the second half of his term.

Omicron fails to dent the mood

We had been fearful that the Omicron Covid-19 variant would severely derail the economy in the first quarter given the steep drop in consumer mobility data. While it clearly prompted some caution, the recent data shows it failed to dent consumers' appetite to spend and didn't deter businesses from placing more orders.

The economy also saw much stronger job creation than anticipated with company payrolls expanding 467,000 in January with 709,000 of upward revisions for the previous two months. The numbers would have been even stronger were it not for a lack of applicants. The competition to find workers is intense with 1.7 vacancies for every unemployed person in America and this huge demand-supply imbalance in a strong growth environment is prompting companies to raise pay sharply.

Consumer spending starts the year strongly



Source: Macrobond, ING

Price pressures continue to build

Companies appear to have little problem passing these higher costs on to their customers. The National Federation of Independent Businesses reported a record proportion of companies (a net 61%) who have hiked their prices in the past three months – note that this survey goes all the way back to 1974!

With the US economy posting solid growth, unemployment down at 4%, and inflation running at the fastest rate for 40 years, interest rates look set to be increased in March. A 50bp move cannot be ruled out, but the probability of such aggressive action has declined sharply in the wake of Russia's invasion of Ukraine.

A benign outcome, but there are risks

We are forecasting a relatively benign outcome for the US over the next couple of years. Tighter monetary policy and a less expansive fiscal stance combined with improvements in supply chains, rising worker productivity, and a better geopolitical backdrop allow for

inflation to return to target. Higher interest rates will slow growth, but the strong jobs market can keep things ticking along nicely.

Aside from an escalation of Russia's military actions leading to a collapse in global confidence, the obvious risk to this narrative is if the Federal Reserve ends up moving more aggressively in response to a persistent inflationary environment. The housing market would be particularly vulnerable with mortgage rates having already risen sharply, which has prompted a steep drop off in mortgage applications for home purchases. At the same time, the US is seeing the highest number of building permits and housing starts since 2006.

While not our central scenario, a major swing from excess demand to excess supply in the housing market would depress prices, confidence, and construction activity, but it would also drag broader inflation rapidly lower given housing's heavyweight in the overall index. It is something we will be keeping a watchful eye on.

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Eurozone: Increasing stagflation risk

The war in Ukraine could dampen the pace of the recovery in the eurozone, while inflation is likely to be close to 4% for the year. The European Central Bank will have more trouble navigating through the storm, though we still expect an end to quantitative easing in the third quarter and a first rate hike towards the end of the year

Looking at the different negative impacts of the war, energy is clearly the Achilles' heel of the eurozone

Just when you thought things were improving

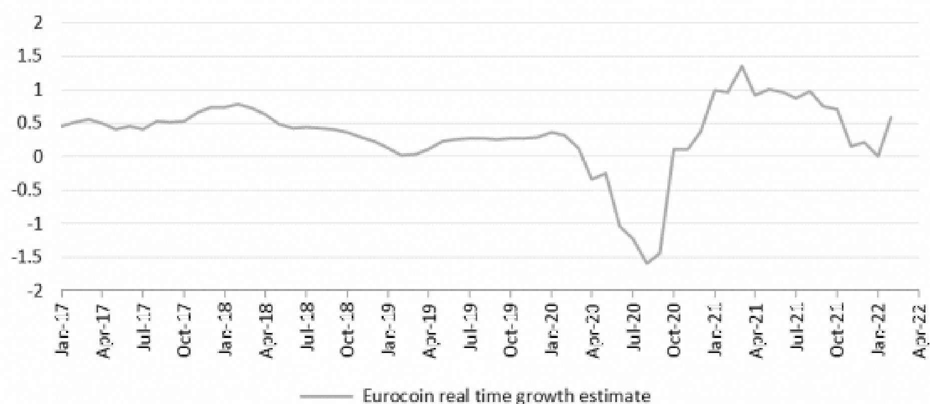
Just when everyone was hoping that the negative impact of the pandemic was nearing its end, the eurozone has been hit by another potentially "stagflationary" shock. While Russia and Ukraine are definitely not the biggest export destinations for the eurozone, a double-digit decline in exports to the region might still shave one or two-tenths of a percentage point off eurozone growth this year. Also, some negative confidence effects and of course a bigger headwind from even higher energy prices have to be taken into account. On top of that, it looks as if the war in Ukraine and the sanctions against Russia will worsen supply chain problems with an additional negative impact on growth.

Underlying growth momentum was picking up

With the future of the conflict very uncertain, forecasts are by definition preliminary. Taking into account a scenario that over the course of the things will stabilise, with sanctions remaining in place, we think that it is too early to already pencil in a recession. As a matter of fact, growth momentum started to pick up again in February with the withdrawal of most Covid-19 confinement measures. Both the Purchasing Managers' Index (PMI) and the European Commission's sentiment indicator rose more than expected in February on the back of stronger confidence in the services sector.

Even though the Bundesbank, Germany's central bank, was still fearing negative growth in the first quarter because of a high level of Omicron-induced absences in January, the Ifo Institute for Economic Research indicator increased in February for the second month in a row. However, all these surveys were done before the war in Ukraine erupted and can therefore not be extrapolated.

Growth has started to pick up again



Source: Refinitiv Datastream

Energy, the 'Achilles' heel' of Europe

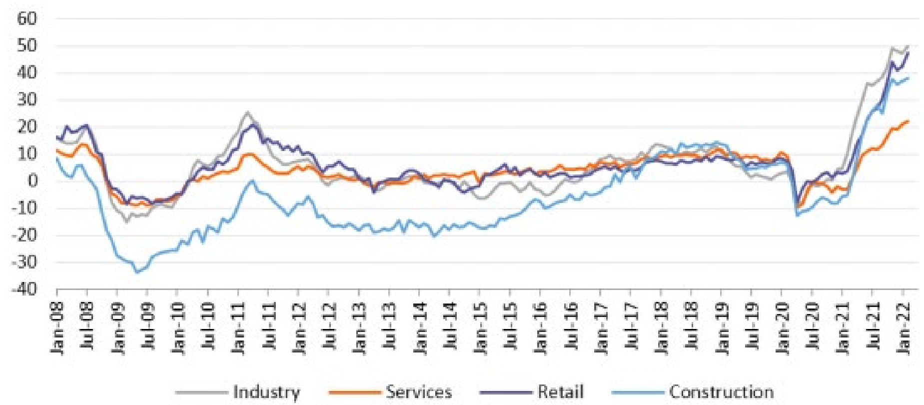
Looking at the different negative impacts of the war, energy is clearly the Achilles' heel of the eurozone. Based on gas and oil price forwards in December 2021, the European Central Bank (ECB) estimated a negative GDP growth impact of 0.2 percentage points in 2022. However, future prices have climbed higher since then, meaning that the negative impact could be slightly bigger. While it is still early days, there have already been mentions of production problems because of supply disruptions from Ukraine or Russia. As such Volkswagen had to halt production in two electric car factories in Germany because of a lack of deliveries of components. Air transport will also be hampered by blockages of key east-west flight corridors.

According to a Reuters report, the ECB quantified the negative impact of the conflict on eurozone GDP in a quick first assessment at 0.3% to 0.4%, with a severe scenario seeing GDP reduced by close to 1%. For the time being, we decided to go somewhere in between with a 0.7 percentage point growth reduction, downgrading our growth forecast to 3% for 2022 and 2.3% for 2023. While the 3% might still seem high, you should take into account that the carry-over effect from 2021 is already close to 2 percentage points. That said, we agree that the risk to our forecasts is still skewed to the downside.

Inflation continues to shoot higher

At the same time, the risk to inflation remains skewed to the upside, especially if energy prices continue to hover around current levels. The flash estimate for the Harmonised Index of Consumer Prices (HICP) inflation in February came out at 5.8%, significantly higher than expected. Core inflation rose to 2.7%. In the European Commission's survey, selling price expectations for the next three months were the highest on record in industry, services and retail trade, while in construction they are at the highest level since 1990. This suggests that inflationary pressures are clearly broadening. We now believe that headline inflation will remain firmly above 2% for the whole of 2022, closing the year at 2.5%. On average we expect 3.8% for 2022, but not much has to happen to see a 4 before the dot.

Price expectations are going through the roof



Source: Refinitiv Datastream

Rate hike still likely in the fourth quarter

Downward pressure on growth and upward pressure on inflation hasn't made the ECB's life any easier. Those who pleaded for an early rate hike have backtracked in the wake of the war in Ukraine, though the inflation overshoot remains worrying. The consensus seems to be building within the Governing Council for an end to quantitative easing (QE) in 3Q and a first rate hike in the fourth quarter, exactly our scenario.

UK: Consumer spending set to fall amid cost of living crunch

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Inflation is set to stay above 6% for most of 2022, and that means consumer spending will struggle to avoid a downturn later this year. The Bank of England is still squarely focused on curtailing higher inflation, though we think policymakers will hold off on further hikes once the bank rate reaches 1% in May and growth risks build

The Ukrainian national flag was flown with the Union Jack and Welsh flag at the UK Parliament this week

Household energy costs set to keep inflation above 6% for much of 2022

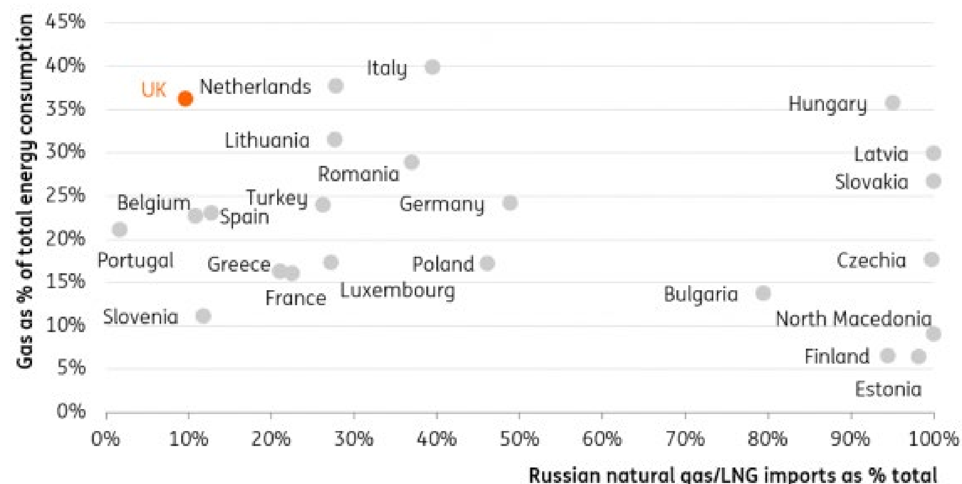
The war in Ukraine and the associated spike in energy cost means a growing risk that the UK will enter a consumer spending downturn. It's early days, but we've revised downwards our forecasts, and quarterly growth rates are likely to hit zero later this year.

Admittedly the UK economy is less directly exposed to Russian trade flows than much of Europe. While Britain is fairly reliant on Russian metal, coal/coke and fertiliser imports, the overall contribution of Russian value-added to UK domestic demand is around half a percent, compared to an EU average of 1%. And the UK sources relatively little gas from Russia directly, relying instead on domestic production and Norwegian flows.

But Britain is still one of the most dependent countries in Europe on natural gas as a source of energy, in part reflecting the UK's near-elimination of coal and the growing role of wind/solar. With wholesale prices surging, the energy regulator has announced that the cap on household bills will rise by an average of 54% in April. And based on the level of forward prices, a further 30%+ increase in October is possible when the cap is next updated, even accounting for a £200/household discount from the government.

That, and the parallel rise in petrol and food prices, will likely see inflation peak close to 8% in April and end the year near to 6%.

The UK is dependent on natural gas for energy use, though very little comes from Russia



Data is based on 2019 levels
Source: Our World in Data, Eurostat, ING

Consumer spending likely to fall, reducing need for substantial Bank of England tightening

Like the eurozone, it's perhaps too early to say that all of this will trigger an outright recession in the UK economy. Omicron appears to have done little, if any, lasting damage to the recovery, while investment looks set for a strong year. Wage growth is rising quickly by historical standards, while the stock of 'excess' savings built through the pandemic sits at 8% of GDP.

However these are more heavily concentrated in higher-income groups that are less likely to cut back spending dramatically in the face of higher inflation, and the government will be under increasing pressure to add further support for those on lower incomes. Consumer confidence is sliding, and our best guess is that household spending falls later this year.

All of this only magnifies the stark trade-off between weaker growth and higher inflation that the Bank of England faces this year. For now policymakers are squarely focused on price pressures, and we still expect another rate rise in both March and May. But that might be more or less it.

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China: Two Sessions to emphasise economic stability amid heightened geopolitical tensions

China's Two Sessions will be held between 4-5 March. This is a great opportunity for the government to announce supportive economic policies as consumption has weakened. It is also a good chance for the government to emphasise stability at a time when geopolitical tensions are high

China is still under a zero-Covid policy and consumption has been weak

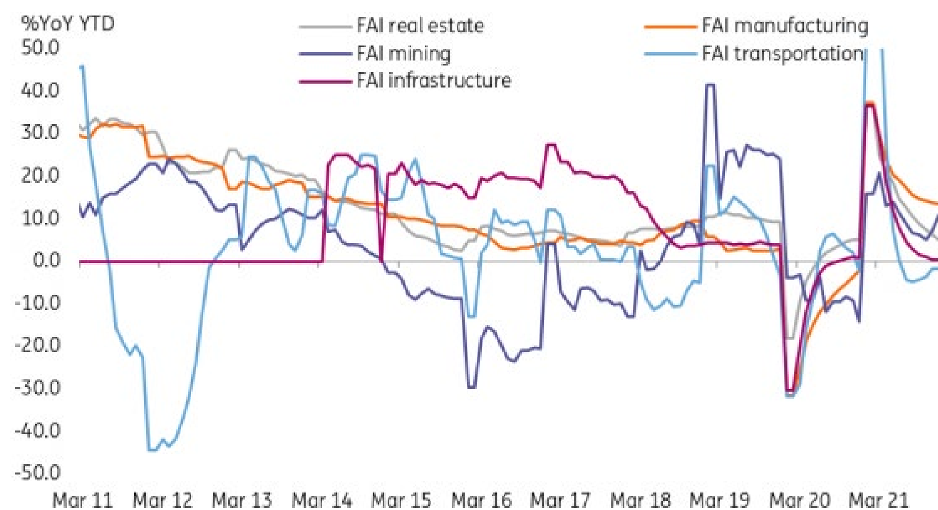
Two Sessions to set a pro growth tone

This Two Sessions will be a bit different from previous ones. China is still under a zero-Covid policy and consumption has been weak, while policy implications on the real estate and technology sectors linger on. Outside China, geopolitical tensions are high while supply chain disruption and semiconductor chip shortages continue. Against this challenging backdrop, the government should provide more supportive measures to keep up economic growth, job opportunities and wages.

We expect the biggest plan for this year to be a fiscal deficit of 3.2% of GDP, including CNY3.85 trillion of local government special bond issuance, which is an increase from the issuance of CNY3.47 trillion in 2021. These bonds should be used in infrastructure investments. These include new and old infrastructure projects, like full coverage of 5G for all factories, digitalisation of factory operations, and building more green energy. When these infrastructure projects are completed, they should increase the productivity of the economy.

Infrastructure projects usually start with mining activities and infrastructure, and are followed by, for example, transportation investments. We have already seen mining investments pick up, and in 2Q22 to 4Q22 we should see infrastructure investments follow.

Infrastructure investments have started with mining



Source: CEIC, ING

Yuan becomes a safe haven

The development of geopolitical tensions has made the Chinese yuan a safe haven currency. From 28 February to 1 March, both onshore CNY and offshore CNH appreciated to 6.30 per dollar coming from 6.32 about a week ago. This confirms our view that investors are comfortable holding CNY assets, and have confidence in the Chinese economy and financial system, which has resulted in the yuan becoming a safe haven currency.

But not all entities in the economy welcome a strong yuan. This is especially true for exporters, however they can take advantage of this moment to change the invoice currency to CNY to avoid exchange rate risk.

We also believe that more central banks will hold yuan-denominated assets, which in turn will give even stronger support for the yuan to keep its safe haven status.

Asia: The economies most exposed to the Russia-Ukraine conflict

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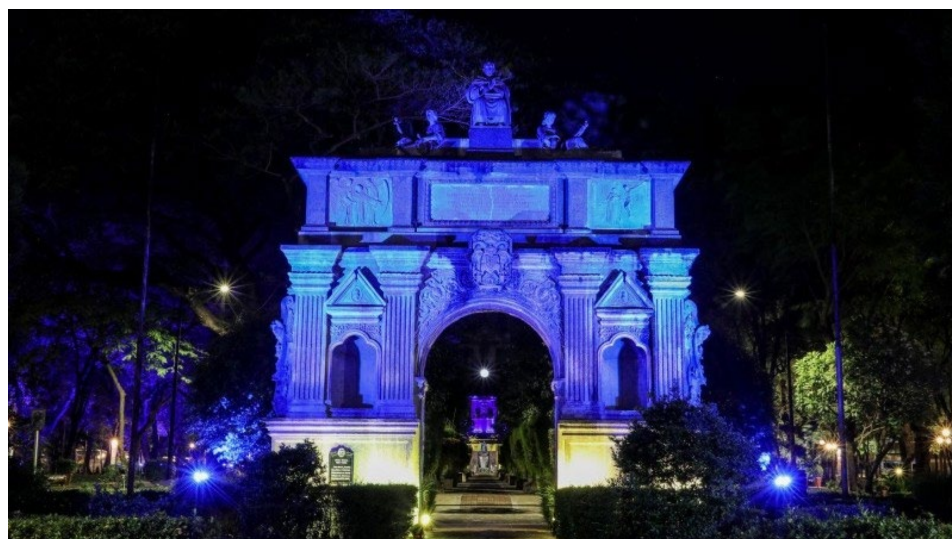
For a region that really does not need another headwind to economic growth, the relatively good news is that the Russia-Ukraine conflict should not have too severe economic consequences for Asia



The Ukrainian flag projected on the Arch of the Centuries in Manila, Philippines.

Direct trade channels are small

When considering how the Russia-Ukraine conflict could affect Asia, we look at three main channels:

Direct trade exposures: The conflict and ensuing sanctions on Russia will not just damage export markets to these two countries, but could disrupt import channels too, creating bottlenecks in supply and production shortfalls. We look at these exposures relative to nominal GDP.

The net energy dependence of an economy: The more an economy needs to import oil and gas, even if from other sources than Russia or Ukraine, the greater the likelihood that they face a sharply escalating energy import bill. The opposite would be true for net energy exporting economies, for whom the higher prices would represent a positive terms-of-trade shock.

The weight of energy (and food) in the Consumer Price Index (CPI) basket: Irrespective of the trading position of energy of an economy, the more that rising prices of energy (and food) push up inflation, the greater the weight of these items in the CPI basket, resulting in eroded consumer purchasing power. Energy and food prices are related through the energy inputs into fertiliser production, but there are also direct impacts on food prices as both Ukraine and Russia are substantial global producers of grains.

We don't ignore financial channels, but it is less straightforward to compare and contrast these. Suffice it to say that there will also likely be impacts through weaker stock prices, and consequently lower investment and future productivity. Though this is beyond the scope of this note, it is worth keeping in the back of your mind.

Below, we show how different Asian economies are exposed through these three different channels. Given the already difficult backdrop, it is some comfort that most Asian economies' direct exposures to the Russia-Ukraine conflict are relatively small.

Although some people will read across from the Russia-Ukraine conflict to ongoing territorial and sovereignty disputes in Asia, in what follows we will limit our analysis to direct and indirect macroeconomic and market impacts on the region.

Trade

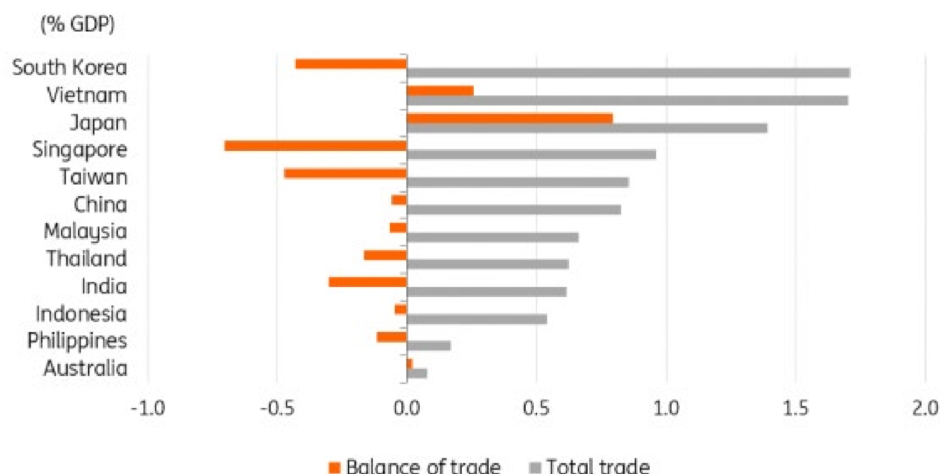
We have combined the sum of trade between Asian economies and both Russia and Ukraine in this analysis. Asian trade to both these nations is likely to be disrupted by the conflict.

In absolute terms, total trade with these two economies is greatest for South Korea, Vietnam, and Japan. For South Korea, imports outweigh exports (mostly energy). But both Vietnam and Japan run small bilateral trade surpluses with these two nations. In all cases, the extent of trade is small, with total trade less than 2% of GDP for both Vietnam and Korea.

Singapore and Taiwan run similar bilateral deficits with Russia and Ukraine, of about 0.5% GDP, though overall trade is equivalent to less than 1% of nominal GDP. For all other countries, including China, total trade amounts to less than 1% of nominal GDP and the bilateral trade positions are very small.

If we only consider the export channel, then Vietnam, South Korea and Japan top the table, though even in the case of Japan, total exports to Russia and Ukraine only just exceed 1% of 2021 GDP.

Asia trade with Russia and Ukraine (2021 values where available)



Source: CEIC, ING

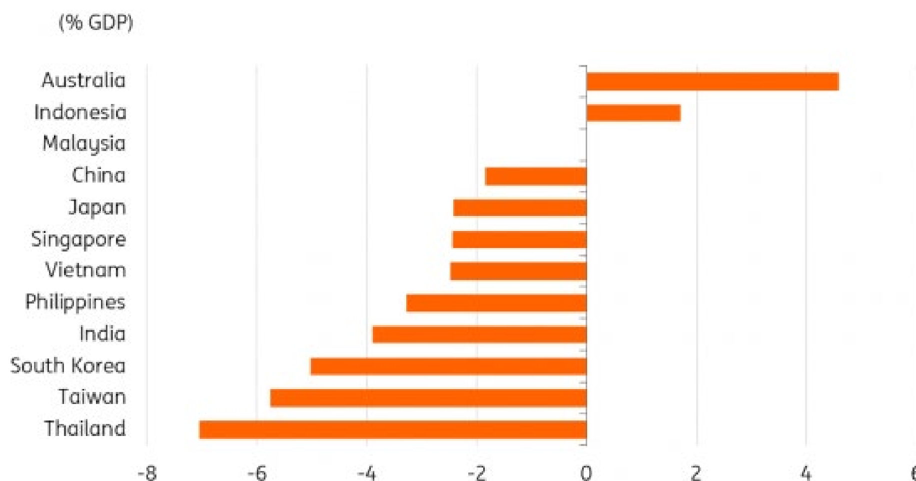
Energy dependence

Asian economies are often heavily reliant on imported energy, with only a few economies coming close to being net energy exporters. For the surplus countries, spiking energy prices will provide a windfall gain boosting revenues from this trade and possibly even boosting demand and sales as Russia-Ukraine sources are blocked off or avoided resulting in substitution for other suppliers.

In the following chart, we show the net trade balance for oil, natural gas, and related petroleum and gas products (where that is provided in the trade data). Australia comes out of this best, with a net surplus position of about 4% of nominal GDP in its energy exports, ahead of Indonesia and Malaysia. All other economies are net energy importers to a greater or lesser extent. In order of increasing dependence, India, South Korea,

Taiwan and Thailand prop up the bottom of the chart. China's net energy deficit is a little less than 2% of GDP at 2021 prices.

Asia balance of energy



Source: CEIC, ING

Price effects

The other major channel we consider for the impacts of this conflict on Asian economies is the extent to which it pushes up inflation and undermines purchasing power for households. This might end up being the most powerful channel for the Russia-Ukraine conflict to weigh on the region, with food and energy making up a substantial proportion of the entire CPI basket, especially for developing Asia, and potentially also eliciting a more hawkish policy response from central banks.

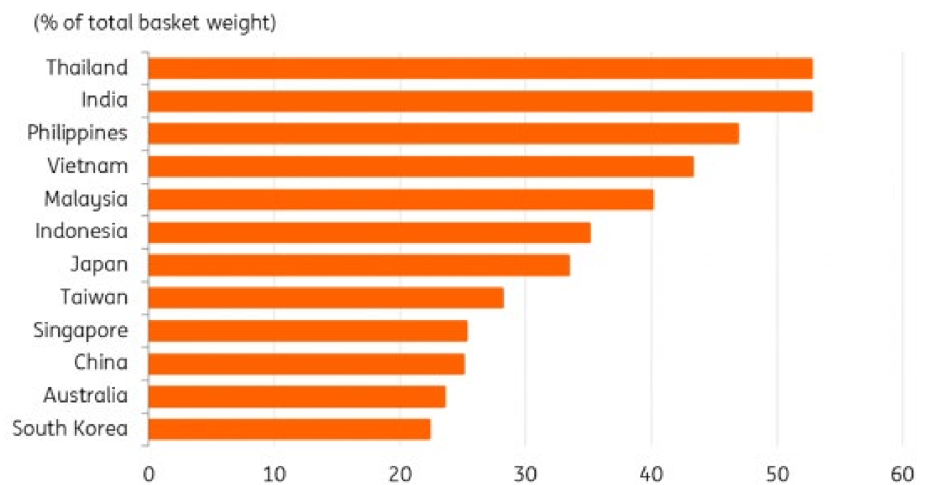
With the global inflation backdrop already precarious, this additional shock to price levels comes at a very unfortunate time, although Asia was already looking better placed compared to global peers thanks to its better positions in supply chains for hi-tech products and more favourable transport costs.

However, higher global wheat prices could also push up the price of grain substitutes such as rice, while corn price increases could push up the price of alternative animal feeds for hogs such as soybeans, which will then cause regional pork prices to surge. In the longer term, higher energy prices could also increase the price of fertilisers for which they are a feedstock, leading to reduced fertiliser usage, lower yields and higher prices. So the effects could be far-reaching as well as long-lasting.

To proxy for exposure to this channel, we compare the proportion of food and energy in the CPI baskets for Asian economies. The impact looks as if it will be concentrated in the less-developed economies of Asia, with Thailand, the Philippines, India and Vietnam all having a weight of food and energy of 40% or greater in their CPI baskets.

At the other end of the spectrum, Singapore, China, South Korea and Australia have the smallest food and energy weights in their CPI basket and so should see the least loss of household purchasing power.

Asia balance of energy



Source: CEIC, ING

Relative ranking

With only the sketchiest idea of how this conflict will develop, putting hard numbers onto its impact for Asian economies in terms of percentage points of GDP is not something we can contemplate at this point.

Instead, we can consider the relative rankings of the channels we have analysed as being the most likely to affect the economies of the region. When we do this, it looks like Vietnam will be the most-affected economy in the region, along with Thailand, Japan and South Korea. At the other end of the table, Australia, Indonesia, the Philippines and Singapore will be the least-affected economies.

Relative rankings table: most affected (top) to least affected (bottom)

	Trade	Exports	Oil and Gas balance	Food and energy weights	Total rank/4
Vietnam	2	2	6	4	3.50
Thailand	8	7	1	1	4.25
Japan	3	1	8	7	4.75
South Korea	1	3	3	12	4.75
Taiwan	5	8	2	8	5.75
India	9	9	4	2	6.00
Malaysia	7	5	10	5	6.75
China	6	4	9	10	7.25
Singapore	4	10	7	9	7.50
Philippines	11	12	5	3	7.75
Indonesia	10	6	11	6	8.25
Australia	12	11	12	11	11.5

Source: CEIC, ING

Central and Eastern Europe: Lifted by the kindness of strangers

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As elsewhere in Europe, Putin's war in Ukraine will hit GDP across Central and Eastern European economies. Yet the unity showed by the region and the warm welcome offered to Ukrainian refugees could provide a short-term boost to consumption

Ukrainian refugees arriving at a station in Poland

Poland: Government support for refugees helps consumption

The war in Ukraine could lower Poland's GDP by 1.3ppt in 2022 (versus our prior baseline growth forecast of 4.5%). The impact is largely felt through the trade channel with Ukraine, Russia and Belarus, although lower confidence will affect the domestic investment environment. Yet the lower propensity to spend on durable goods from Polish households should be more than offset from government spending on welcoming refugees. As a result, overall consumption should be stronger.

The government should also extend its anti-inflation measures until the end of 2022, offsetting the spike in oil prices and another 30% hike in regulated gas prices in the fourth quarter of this year. The wild card is food prices. Corn and oilseed are less important for Poland, but the risk is of contagion to other soft commodities. Short-term weakness in the Polish zloty, labour shortages (some Ukrainian workers have left Poland to join the army) should also add to CPI upside risks. But the government should provide a kind of inflation shield.

Given the slightly weaker GDP, but persistently high CPI, the upside risk to our rate forecast (at 4.5%) disappears and reaching the terminal rate may take longer. The National Bank of Poland (NBP) should use mildly hawkish language to support the FX intervention already taken.

The zloty will likely remain under pressure as the conflict continues. In our view, the risk is that this weakness becomes more persistent as the war drags on. A prolonged conflict increases the odds of harsher sanctions with a higher impact on commodities and on the CEE economies, including Poland. Should the fighting in Ukraine move to the west, close to the Polish border, this would clearly add to political/military risks. For the Polish central bank, the NBP, expect FX intervention to become more frequent, yet to remain focused on limiting volatility, rather than defending any particular EU/PLN levels.

As soon as market tensions fade, NBP tightening and resilient Polish GDP should contribute to a zloty recovery. Also, the current crisis makes a compromise on the EU's rule of law legal challenge and an unfreezing of EU Recovery funds for Poland more likely.

Hungary: Short term gains and continued NBH hawkishness

The impact on economic activity could be mildly positive in the very short term with Hungarian citizens and the government spending money to help refugees. The longer-term impact remains opaque, but further supply chain disruptions are posing downside risks. Thus we cut our previous 6.2% year-on-year GDP forecast to 5.2% in 2022. The escalation of supply-side and energy price shocks could possibly be limited by moderating GDP growth but in all, we move up our 6.9% headline inflation forecast to 7.4% in 2022, with upside risks.

Forint weakness is also adding to the inflation pressure, which is proving worrying for the monetary authority judging from recent verbal intervention from the National Bank of Hungary. In this regard, we see an elevated chance for weekly rate hikes in the one-week deposit rate again. Despite the rising rates complex, we still believe that the recent level of tensions is manageable from a debt financing and deficit target point of view. Politically, the recent situation is challenging both for Fidesz and the opposition with barely a month left until the election (3 April). However, our base case remains unchanged which sees the recent governing force winning by a simple majority.

Romania: Confidence and investment under pressure

For Romania, the impact of the conflict should be mainly through the confidence channel. Trade-wise, the links with both Russia and Ukraine are fairly limited, amounting to just over 3.0% of total trade volume. However, the uncertainty could put on hold some investment projects (private ones mainly) while consumers might turn more cautious. This will overlap an already weak economic context after the contraction from the previous quarter, hence the recession risk cannot be ignored. We are cutting our 2022 GDP forecast to 2.3% from 3.2%.

Otherwise, the National Bank seems very determined to maintain the EUR/RON rate close to 4.95. It will probably take some tectonic shift in the rest of CEE currencies (say EUR/PLN above 5.00 and EUR/HUF above 400) to see the leu lower. Providing a helping hand is the liquidity context which will likely turn into a shortage in March, if not February already. High carry will help maintain a more stable FX, hence we could see quite high short-term interest rates for a while.

In these circumstances, the key rate level itself will matter less, but we still expect hikes towards 4.00% this year. Inflationary pressures are now more balanced in our view given the prospects for the economy to slow beyond expectations.

FX: Moving to a war footing

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War in Europe has understandably taken its toll on currencies in the region and the implementation of Russian sanctions now questions the rouble's deliverability. Both the US dollar and the Chinese renminbi have proved beneficiaries

A currency exchange in Moscow showing just how far the rouble has fallen

European FX: In harm's way

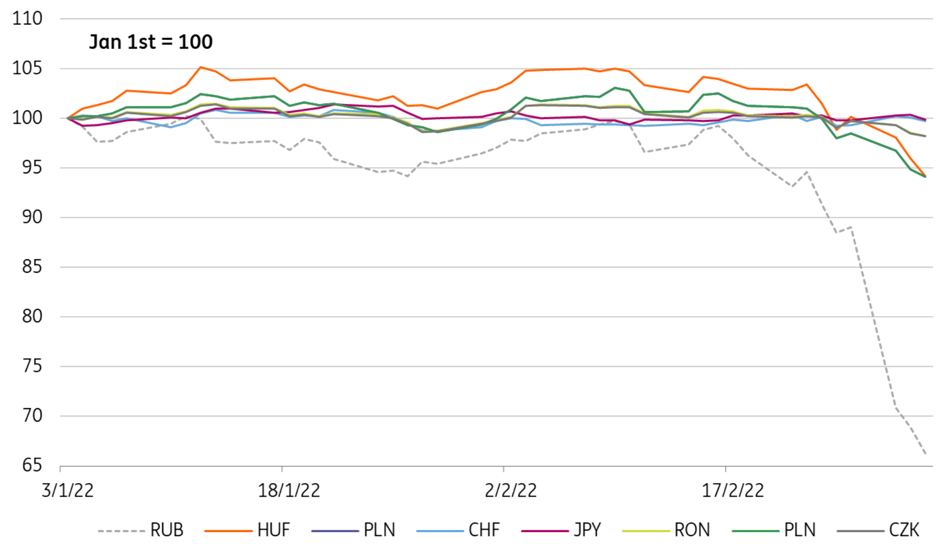
President Putin's surprise invasion of Ukraine has hit European FX hard. The Russian rouble, quoted offshore, has fallen around 35%. Most of that decline was driven by the announcement that the Central Bank of Russia (CBR) would face western sanctions, making a large part of its FX reserves unusable for a defence of the rouble. Instead, Russia has resorted to rate hikes and capital controls to protect its currency.

The path for the rouble looks very uncertain but likely lower. There is substantial foreign cash trapped in rouble assets that is looking for an exit. And what seems more clear is that full rouble deliverability (the ability to swap currency balances internationally) has been compromised. Based on sanctioned counterparty risk, we have seen the emergence of a two-tier rouble market: onshore trading with onshore names, offshore with offshore. The development of a Non-Deliverable Forward market seems just a matter of time.

Understandably, European currencies have been hit hard – especially those with borders on Ukraine. In the G10 space, liquidity, geography and the energy independence of the US all make the dollar a preferred safe haven – also backed by a strong economy and central bank justifiably ready to tighten. Expect the dollar to stay bid over the coming months.

In addition to the other traditional safe havens of the Japanese yen and the Swiss franc, the Chinese renminbi is also performing well. Local policymakers no doubt welcome the strong renminbi performance – worthy of a currency that is a privileged member of the IMF's Special Drawing Rights. But trade and portfolio flows – perhaps including some Russian activity as well - may also be helping here.

FX performance against the dollar since 1 Jan 2022



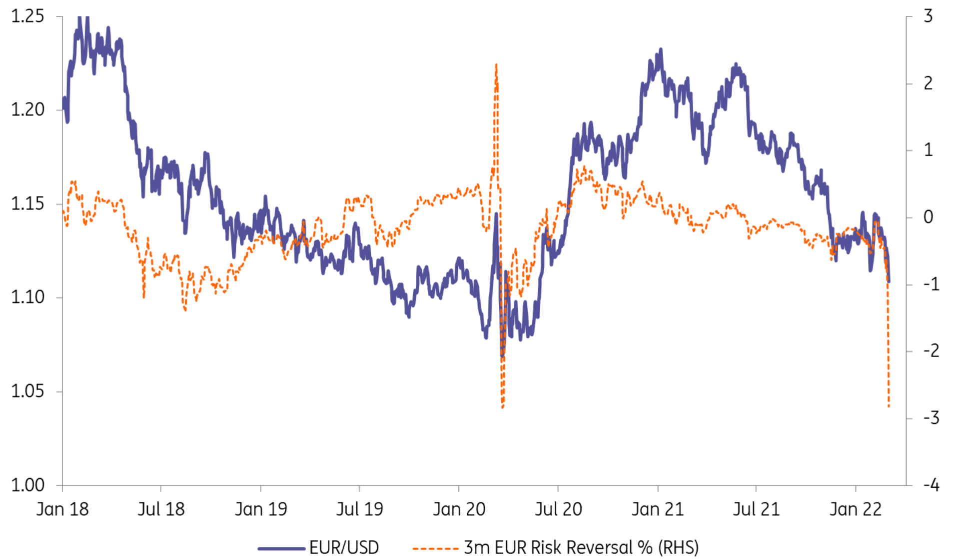
Source: Refinitiv, ING

EUR/USD: The hedge against a European war

The decline in EUR/USD has been relatively modest so far – just around 3% over the last month. The drop will have been restrained by lingering expectations of a hawkish European Central Bank on 10 March. Yet activity in the FX options market has been far more dramatic. The buying of downside protection in EUR/USD and the cost of a euro put option (right to sell) over an equivalent euro call option (right to buy) is the most one-sided since March 2020. That is when EUR/USD briefly traded down to 1.0650.

We cannot know how far this war will escalate, but what we can say is that pressure is building for a sizeable break in EUR/USD below 1.10 this spring.

EUR/USD: FX options market braces for a move sub 1.10



Source: Refinitiv, ING

Rates: Russia priced for default

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Reactions to the Ukraine crisis have been quite stark. Russia is effectively in default territory, in part anticipating a forced exodus. Central Europe has seen selling pressure, pushing down currencies and forcing market rates higher. The US and western Europe are the relative safe-havens. Market rates have fallen here, and are liable to fall further

Russia in 'default'

The Russian dollar bond curve is now priced as if in a state of default. Bonds that are supposed to pay US$100 at maturity are priced in the marketplace in the area of 30 to 50 cents, and the curve is heavily inverted with the ultra-front end yield technically in the area of 1000%. Being a low debt economy, Russia can afford to service these bonds, but its ability to pay has been compromised by the back and forth on sanctions.

To boot, investors are questioning Russia's willingness to pay. Hence there has been an exodus, especially as Russian debt is also on index-watch, where exclusion from emerging market indices would warrant forced selling in any case. Local currency rouble debt is under pressure too, and as the central bank has put a hold on coupon payments, is undergoing a technical default.

Central Europe feels the heat

These circumstances show that Russia is hurting from a financial markets perspective, and while defaults have negative reverberations outside of Russia for bondholders, the biggest pain is being felt by the Russian system. Financial market fallout is spread beyond Russia in different guises.

Central European economies have seen their currencies come under pressure, and bond yields have come under upwards pressure. They were under upward pressure before the Russia/Ukraine crisis kicked off, but this has been amplified by its elevated energy price impact, as most of these economies are energy importers. Market rates have come under further upward pressure, but nothing like that being felt by the Russian bond market.

Western Europe as a safe-haven

As we move further west, the overwhelming theme has been downward pressure on market rates. Not only has the German 10yr bund yield crashed back below zero to trade negative again, but the Italian spread over Germany has tightened quite

remarkably, back below 150bp. Two things from this. First, there is a flight to safety play. That explains the moves lower in German and core European yields. Second, there is a group safety effect by being part of the eurozone, one that benefits higher-yielding Italy. On top of that, the European Central Bank will tread far more carefully in terms of stepping away from its ultra-loose policies, ones that have been super supportive for the likes of Italy. Either way, there is a safe-haven flow to western Europe.

US Treasuries the ultimate safety vehicle

And a key element of this has been a flight into US Treasuries. The 10yr, which had successfully broken above 2% before the Ukraine crisis, has since fallen back down to the 1.7% area. There is every chance that it could drift down towards 1.5% as the safety flight theme persists alongside deteriorating circumstances, and sanctions bite further. Most likely a 1.5% to 1.75% range gets mapped out for as long as the Ukraine crisis persists. Front end yields should remain elevated (2yr now at 1.35%) as a string of rate hikes are still coming. The curve can directionally flatten from the back end when market rates test lower, bolstered by the approach of the first hike from the Federal Reserve from the 16 March meeting.

Even though the dominant core reaction has been towards lower market rates on a safety play - and we can see more ahead - a resolution can quickly see the focus shift back towards elevated inflation and robust growth dynamics. So even if we were to hit 1.5% on the US 10yr as an echo of the awful events occurring in Ukraine, we could also subsequently snap back up to 2% subsequently should events turn for the better.

It's important that a better outcome occurs sooner rather than later, as remaining in crisis mode for a prolonged period risks sustaining the 10yr rate at a deep discount to 2%.

Other market rates will correlate with this; western Europe positively and central Europe negatively. Russian debt though does not correlate, as it is down and out for now.

French presidential campaign shaken by war in Ukraine

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Emmanuel Macron's presidential mandate has been disrupted in its last few weeks by the return of war in Europe. After coronavirus and the social 'yellow vest' crisis, this could benefit Macron who remains this race's favourite, even though his programme for the next five uears is unclear

The French President, Emmanuel Macron, held talks with his Vladimir Putin in Moscow early in February

The campaign revived

The French presidential campaign was, before 24 February, regularly described as lacklustre, with debates struggling to take off. The war in Ukraine could have made it definitively inaudible, but the opposite has happened. The French have finally begun to scrutinise the electoral offer, which is now being redesigned around issues linked to the conflict: NATO, the European Union, energy independence, military strategy, immigration and nuclear weapons. For the first time, the differences between the candidates on these subjects are clearly visible, as well as their strategies. The far-right candidates Eric Zemmour (14% of voting intentions) and Marine Le Pen (17% of voting intentions), as well as the far-left candidate Jean-Luc Mélenchon (12% of voting intentions), have often appeared to have something of a casual attitude towards the Russian president Vladimir Putin, and this puts them in difficulty.

Valérie Pécresse, the candidate of Les Républicains (right-wing) with 12% of voting intentions, is trying to seize the opportunity by posturing herself in support of French and European decisions and by redirecting her criticism towards Zemmour and Le Pen. Anne Hidalgo, the candidate of the Socialist Party (left), who has fallen extremely low with only 1.5% of voting intentions, is trying to do the same by targeting Mélenchon, but remains hardly visible among the slew of left-wing candidates, including the ecologist Yannick Jadot (6.5% of voting intentions) and the communist Fabien Roussel (4% of voting intentions).

Macron likely to win, but with what programme?

In all likelihood, the conflict should benefit Emmanuel Macron who, according to surveys, tends to outperform his opponents in his perceived ability to manage the consequences of serious crises. He is leading in all polls, with 25% of the vote in the first round, and should therefore benefit from his image as a president who takes responsibility in times

of crisis. All the polls indicate that he should also win the second round, regardless of his opponent.

Nevertheless, the current situation forces Macron to review the posture he intended to adopt in his campaign, which he wanted to be "positive and empathetic". Macron intends to "govern until the last quarter of the hour" by devoting himself to crisis management, but also by appropriating the two themes that he has been suffering from until now and that are coming back in force: purchasing power and immigration.

Despite a likely victory for Macron, the disrupted campaign makes it very difficult at this stage to identify what economic policy will be in place in France over the next five years, beyond the immediate management of the crisis. Among the major issues is obviously the question of debt sustainability and public finances. Macron had been elected in 2017 on the promise of fiscal seriousness. Since then, the “yellow vests” crisis, the pandemic and its "whatever the cost" solution, the sharp rise in energy prices and the measures to combat their impact have turned things around and the budgetary floodgates have been opened wide. The public and the candidates seem to be completely uninterested in the subject for now, but the question of future fiscal policy is likely to arise very soon because public debt has risen sharply. In addition, the issue of pension reform, postponed due to the pandemic, will also be crucial over the next five years. Finally, some progress will have to be made on the issue of reindustrialisation, a topic which has been in the news for weeks.

In conclusion, the probability is high that Macron will be re-elected for a second term. However, the economic policy that will be implemented during the next five years remains very unclear for now.

ING global forecasts

	2021					2022					2023					2024				
	1Q21	2Q21	3Q21	4Q21	FY	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q2	2Q24	3Q24	4Q24	FY
United States																				
GDP (% QoQ, ann)	6.3	6.7	2.3	7.0	**5.7**	1.4	3.6	3.4	3.3	**3.7**	2.7	2.6	2.4	2.4	**2.9**	2.0	1.7	1.4	1.4	**2.0**
CPI headline (% YoY)	1.9	4.8	5.3	6.7	**4.7**	7.8	7.2	5.9	3.8	**6.2**	2.0	1.1	1.2	1.9	**1.5**	2.1	2.2	1.8	2.0	**2.0**
Federal funds (%, eop)	0.25	0.25	0.25	0.25	**0.25**	0.50	1.00	1.50	1.75	**1.75**	2.00	2.25	2.25	2.25	**2.25**	2.25	2.25	2.00	1.75	**1.75**
3-month SOFR rate (%, eop)	0.05	0.05	0.05	0.05	**0.05**	0.30	0.80	1.30	1.55	**1.55**	1.80	2.05	2.10	2.10	**2.10**	2.10	2.10	1.90	1.65	**1.65**
10-year interest rate (%, eop)	1.74	1.47	1.50	1.50	**1.50**	1.75	2.00	2.25	2.25	**2.25**	2.25	2.25	2.00	2.00	**2.00**	2.00	1.80	1.70	1.70	**1.70**
Fiscal balance (% of GDP)					**-13**					**-6.3**					**-4.4**					**-3**
Gross public debt / GDP					**109.4**					**105.6**					**105.4**					**104.5**
Eurozone																				
GDP (% QoQ, ann)	-1.2	8.7	9.1	1.8	**5.0**	0.8	2.3	2.7	2.2	**3.0**	2.7	2.1	1.7	1.6	**2.3**	1.5	1.5	1.4	1.2	**1.5**
CPI headline (% YoY)	1.0	1.8	2.8	4.7	**2.6**	5.2	4.2	3.4	2.5	**3.8**	2.1	1.9	2.0	1.9	**2.0**	2.0	2.1	2.2	2.1	**2.1**
Refi minimum bid rate (%, eop)	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.25	**0.25**	0.50	0.50	0.50	0.50	**0.50**	0.75	0.75	0.75	0.75	**0.75**
3-month interest rate (%, eop)	-0.55	-0.55	-0.55	-0.55	**-0.50**	-0.55	-0.55	-0.55	-0.20	**-0.20**	0.10	0.10	0.10	0.20	**0.20**	0.30	0.30	0.30	0.40	**0.40**
10-year interest rate (%, eop)	-0.35	-0.19	-0.20	-0.30	**-0.30**	0.00	0.20	0.40	0.60	**0.60**	0.70	0.70	0.70	0.70	**0.70**	0.80	0.80	0.80	0.70	**0.70**
Fiscal balance (% of GDP)					**-6.3**					**-5.1**					**-3.1**					**-2.2**
Gross public debt/GDP					**101.4**					**100.7**					**98.2**					**96**
Japan																				
GDP (% QoQ, ann)	-2.1	2.4	-2.7	5.4	**1.8**	3.7	2.4	1.9	1.8	**2.5**	1.3	1.2	1.2	1.2	**1.5**	1.2	1.2	1.2	1.2	**1.2**
CPI headline (% YoY)	-0.5	-0.7	-0.2	0.5	**-0.2**	0.7	1.5	1.1	1.1	**1.1**	0.8	0.6	0.6	0.6	**0.6**	0.6	0.6	0.6	0.6	**0.6**
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**
3-month interest rate (%, eop)	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**	-0.10	-0.10	-0.10	-0.10	**-0.10**
10-year interest rate (%, eop)	0.10	0.10	0.10	0.10	**0.10**	0.20	0.20	0.20	0.10	**0.10**	0.10	0.10	0.10	0.10	**0.10**	0.10	0.10	0.10	0.10	**0.10**
Fiscal balance (% of GDP)					**-9.6**					**-8.7**					**-7.5**					**-6.8**
Gross public debt/GDP					**265.0**					**269.0**					**274.0**					**279.0**
China																				
GDP (% YoY)	18.3	7.9	4.9	4.0	**8.8**	2.5	5.0	5.5	6.0	**4.8**	7.0	5.5	5.5	6.0	**6.0**	5.0	6.0	6.1	5.8	**5.8**
CPI headline (% YoY)	0.0	1.1	0.8	1.8	**0.9**	1.3	1.5	2.2	2.5	**1.9**	1.8	2.6	1.9	1.8	**2.0**	2.2	2.0	2.3	2.5	**2.3**
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	**2.20**	2.00	1.80	1.70	1.60	**1.60**	1.65	1.65	1.85	2.05	**2.05**	2.05	2.05	2.05	2.05	**2.05**
3M SHIBOR (% eop)	2.64	2.46	2.43	2.50	**2.50**	2.38	2.20	2.10	2.20	**2.20**	2.30	2.30	2.30	2.60	**2.60**	2.40	2.45	2.50	2.50	**2.50**
10-year T-bond yield (%, eop)	3.19	3.10	2.88	2.80	**2.80**	2.75	2.70	2.73	2.75	**2.75**	2.80	2.9	3.00	3.10	**3.1**	2.80	2.80	2.90	3.00	**3.00**
Fiscal balance (% of GDP)					**-3.2**					**-3.2**					**-3.0**					**-2.8**
Public debt (% of GDP), incl. local govt.					**121.0**					**122.0**					**122.0**					**123.0**
UK																				
GDP (% QoQ, ann)	-4.6	24.6	4.0	3.9	**7.5**	1.6	1.8	1.1	0.0	**3.5**	0.7	1.3	1.4	1.9	1.0	1.6	1.6	1.5	1.6	1.6
CPI headline (% YoY)	0.6	2.1	2.8	4.9	**2.6**	5.8	7.3	6.6	6.0	**6.4**	5.0	1.9	1.9	0.6	2.3	0.8	1.2	1.1	1.3	1.1
BoE official bank rate (%, eop)	0.10	0.10	0.10	0.25	**0.25**	0.75	1.00	1.00	1.00	**1.00**	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3-month interest rate (%, eop)	0.00	0.00	0.10	0.20	**0.20**	0.85	0.95	0.95	0.95	**0.95**	1.10	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
10-year interest rate (%, eop)	0.80	0.70	1.00	0.95	**0.95**	1.20	1.40	1.50	1.60	**1.60**	1.60	1.60	1.40	1.40	1.40	1.40	1.30	1.20	1.20	1.20
Fiscal balance (% of GDP)					**-7.8**					**-3.2**					-2.3					-2.2
Gross public debt/GDP					**102**					**98.0**					96.5					95.0
EUR/USD (eop)	1.18	1.19	1.16	1.14	1.14	1.13	1.12	1.12	1.13	1.13	1.14	1.15	1.16	1.18	1.18	1.20	1.22	1.23	1.25	1.25
USD/JPY (eop)	108	111	111	113	113	116	117	118	120	120	121	122	123	125	125	124	123	122	120	120
USD/CNY (eop)	6.55	6.46	6.44	6.37	6.37	6.35	6.35	6.40	6.50	6.50	6.55	6.50	6.40	6.20	6.20	-	-	-	-	
EUR/GBP (eop)	0.85	0.85	0.86	0.84	0.84	0.83	0.82	0.83	0.84	0.82	0.84	0.84	0.85	0.85	0.85	0.86	0.86	0.87	0.88	0.88
ICE Brent -US$/bbl (average)	61	67	73	80	71	96	102	94	92	96	80	77	79	75	78	70	72	75	75	73

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates
Source: ING forecasts

GDP forecasts

%YoY	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
World (USD)	3.7	5.2	4.4	4.0	4.4	4.2	3.7
US	4.3	3.6	3.9	3.0	3.7	3.0	2.0
Japan	2.1	2.1	3.3	2.4	2.5	1.5	1.2
Germany	3.2	2.2	-0.2	2.8	2.2	4.0	2.1
France	5.5	4.5	1.8	1.6	3.3	1.8	1.2
UK	8.1	2.8	2.1	1.1	3.5	1.0	1.6
Italy	6.1	3.5	1.6	1.7	3.2	2.4	1.8
Canada	2.3	4.5	4.1	3.3	3.6	3.0	2.3
Australia	3.5	3.7	6.7	4.1	4.5	3.1	3.0
Eurozone	5.0	3.4	1.7	2.0	3.0	2.3	1.5
Austria	9.6	2.5	-1.5	1.1	2.9	2.5	2.0
Spain	6.5	6.1	3.9	2.3	4.6	2.7	2.0
Netherlands	7.3	4.1	2.7	2.3	4.0	1.8	1.7
Belgium	4.6	3.0	1.4	1.3	2.6	1.8	1.6
Ireland	7.7	2.8	2.2	2.0	3.6	2.0	2.2
Greece	2.6	2.2	1.3	6.0	3.0	2.9	2.5
Portugal	9.2	5.3	3.0	1.9	5.3	2.5	2.0
Switzerland	4.2	2.9	1.5	1.6	2.5	1.4	1.4
Sweden	4.2	3.9	2.5	1.6	3.0	1.4	1.6
Norway	5.5	5.9	3.6	2.7	3.8	2.3	2.5
Bulgaria	2.8	3.0	3.3	3.4	3.0	3.2	3.0
Croatia	2.8	3.3	2.9	3.6	3.2	3.2	2.5
Hungary	6.8	5.4	5.2	3.4	5.2	3.8	3.5
Poland	6.9	3.5	2.0	1.4	3.2	4.2	3.2
Romania	1.7	1.4	2.0	3.9	2.3	4.5	4.0
Turkey	1.0	2.6	3.7	4.3	3.0	4.0	4.0
Serbia	5.9	5.2	4.6	4.4	5.0	4.2	3.0
Kazakhstan	3.5	3.7	3.7	3.9	4.0	3.8	3.8
Azerbaijan	3.0	3.4	3.5	3.7	3.4	2.5	2.8
China	2.5	5.0	5.5	6.0	4.8	6.0	5.7
India	3.0	18.6	10.9	8.4	9.8	8.5	8.0
Indonesia	4.5	3.9	4.3	4.4	4.3	5.0	4.7
Korea	2.6	2.8	3.6	2.6	2.8	2.5	2.2
Philippines	5.2	7.3	5.1	3.9	5.4	4.5	4.8
Singapore	3.9	3.7	4.3	3.5	3.9	3.5	3.9
Taiwan	3.0	4.0	5.0	5.5	4.4	5.3	5.5

Source: ING estimates

CPI forecasts (pa)

(%YoY)	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
World	5.9	5.8	5.5	3.5	4.1	3.1	2.8
US	7.8	7.2	5.9	3.8	6.2	1.5	2.0
Japan	0.7	1.5	1.1	1.1	1.1	0.6	0.6
Germany	5.1	5.1	4.3	3.3	4.5	1.8	2.1
France	3.8	3.6	3.0	2.5	3.2	1.8	1.5
UK	5.8	7.3	6.6	6.0	6.4	2.3	1.1
Italy	5.7	5.7	4.7	3.5	4.9	1.6	1.7
Canada	5.1	4.7	4.1	3.6	4.3	2.1	2.1
Australia	3.9	4.0	3.8	3.0	2.9	3.7	2.5
Eurozone	5.2	4.2	3.4	2.5	3.8	2.0	2.1
Austria	4.4	4.0	3.4	2.9	3.7	2.1	1.9
Spain	7.1	5.5	3.5	2.4	4.6	2.2	2.0
Netherlands	5.6	3.1	2.8	1.1	3.2	2.4	1.9
Belgium	7.8	6.2	5.0	3.4	5.6	2.0	2.2
Ireland	5.6	4.2	3.7	2.7	4.1	2.0	2.0
Greece	5.6	5.3	4.5	3.2	4.6	1.5	1.4
Portugal	3.7	3.3	2.6	2.2	2.9	2.0	1.8
Switzerland	1.9	1.9	1.6	1.4	1.7	1.0	0.7
Sweden	5.5	5.4	5.0	3.0	4.4	2.1	1.6
Norway	3.2	3.5	3.1	2.4	3.0	2.6	2.0
Bulgaria	8.9	8.0	7.7	5.8	7.5	5.0	3.5
Croatia	5.5	5.0	4.0	3.3	4.5	2.4	2.0
Hungary	7.83	7.88	7.90	6.44	7.40	4.50	3.00
Poland	8.4	8.6	8.2	7.7	8.2	8.4	6.2
Romania	8.4	9.7	9.0	7.8	8.8	5.5	4.5
Turkey	54.4	53.3	54.3	38.0	51.9	23.1	17.7
Serbia	8.2	7.2	5.9	4.0	6.3	3.3	3.5
Kazakhstan	9.4	10.0	9.5	9.7	9.4	7.1	5.0
Azerbaijan	12.3	12.9	10.6	6.9	11.0	4.5	3.5
China	1.3	1.5	2.2	2.5	1.9	2.0	2.3
India	6.1	5.8	5.8	5.3	5.7	4.6	4.7
Indonesia	2.5	3.5	3.8	3.6	3.4	3.3	3.4
Korea	3.7	3.8	3.7	3.1	3.6	2.5	2.1
Philippines	3.4	4.0	3.7	3.6	3.7	3.4	3.3
Singapore	3.7	3.7	3.8	3.6	3.7	3.3	3.5
Taiwan	1.1	1.3	1.5	2.1	1.5	2.0	2.2

Source: ING estimates

Oil forecasts (avg)

($/bbl)	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
Brent	96	102	94	92	96	78	73

Source: ING estimates

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