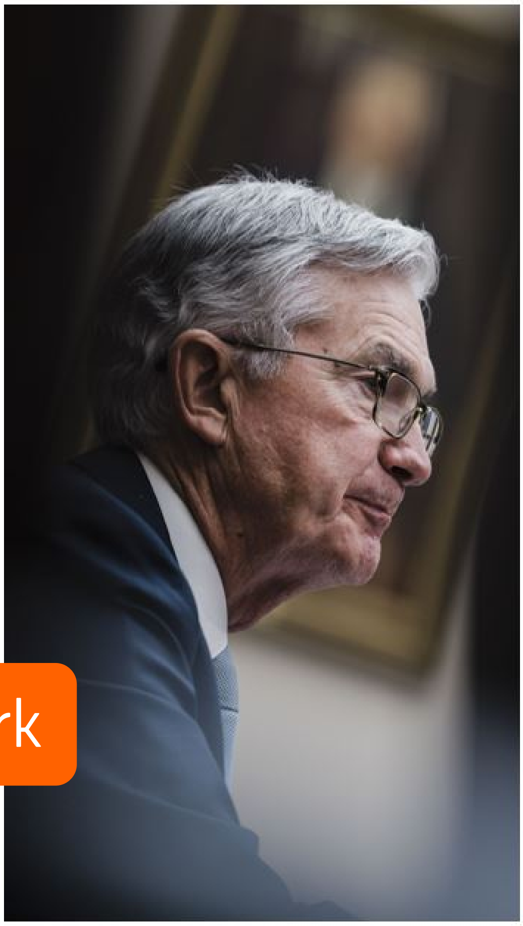
THINK Economic and Financial Analysis

ING Monthly

May 2022



Hiking in the dark

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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.

Islands, be they in the sun or in the sea, have often been the subject of pop and rock songs. Think of Harry Belafonte's 'Island in the sun', Willie Nelson's 'Island in the sea' or my personal favourite, 'Island in the sun' by Weezer. What all these songs have in common is a longing for relaxation; a private Idaho. However, they also share the theme that isolation is a good thing and island life has no implications for others. The latter is exactly where the current macro-economic developments come in: as individual countries focus on their own problems and challenges, sometimes to the exclusion of the bigger picture.

It starts with the zero-Covid strategy in China. While Western countries took a more nuanced approach in their fight against the Omicron variant, the Chinese government continues with the approach applied during the first waves of the pandemic. As a result, the 'old' supply chain frictions are back in full swing. The scenario of gradual relief for global supply chains in the course of 2022 belongs to the past. Instead, the European and US economy will very quickly feel the negative impact from empty vessels waiting in the sea outside of Shanghai. Add to this the ongoing adverse effects on global supply chains from the war in Ukraine, both in the short term but also structurally, and the year 2022 will be another year to forget for global trade.

In Europe, governments have made enormous efforts to reduce their dependence on Russian energy, particularly Russian oil. It is simply easier to switch oil suppliers and contracts than to substitute Russian gas. These efforts have made it possible to agree on an import ban for Russian oil which will be gradually phased in. While these sanctions are a strong signal, the reduced dependence on Russian oil masks the fact that prices could still rise and add to already high inflationary pressures. The risk of energy supply disruptions remains and could increase going into the next winter season. At the same time, the first hard economic impact of the war in Ukraine on the eurozone economy is starting to surface. And it confirms the view of a clear hit to consumer spending and exports. Stagflation remains the most likely prospect for the eurozone in the coming months.

The European Central Bank has joined the island of central bank normalisers. While stagflation gets worse, the ECB seems to be focusing on inflation rather than growth and has become increasingly concerned about a de-anchoring of inflationary expectations. The consensus at the ECB has evolved since the April meeting and being hawkish has become the new mainstream. This is why we changed our ECB call and now expect a rate hike of 25bp in July and another one in September. ECB hawks want to use the window of opportunity to normalise monetary policy before the growth outlook deteriorates further. The risk of normalisation is that it could still come at a time of more economic weakness and a further escalation of the war in Ukraine. I hope the ECB is not under the illusion that it can actually bring down inflation and that its sole motivation is to end crisis-fighting instruments. If I am right, the ECB might deliver a third rate hike but that should be it. Lower growth, falling inflation forecasts on the back of negative base effects, a strong need for investment and high government debt all argue against a series of rate hikes.

This series of hikes, however, is still expected in the US. The sky currently seems to be the limit for estimates of when and where the Fed will stop hiking rates. Some observers are already talking about a terminal rate of between 5% and 6%. I am sceptical that the Fed will really be in a position to go that far. Global supply chain frictions, weaker growth in China, and Europe flirting with stagnation do not sound like the ingredients of fully self-sustained stellar growth in the US. This is not even taking the very imminent impact of higher rates on mortgages and consumer loans into account.

As much as I would love to join these economic islands in the sun on which zero-Covid has no impact on global trade, Europe substantially reduces its energy dependence in short order and without any adverse economic effects, the war in Ukraine ends and everything returns to normal, and the US economy is completely shielded from the rest of the world, I can't help being reminded of an all-time classic by the above-mentioned Weezer: Only in dreams.

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, Bank of England 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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ING global forecasts

			2022					2023					2024		
	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q2	2Q24	3Q24	4Q24	FY
United States															
GDP (% QoQ, ann)	-1.4	2.9	2.8	2.1	2.6	1.6	1.5	1.7	1.6	1.9	2.1	1.9	1.9	1.9	1.9
CPI headline (% YoY)	8.0	8.1	7.4	6.0	7.4	4.1	2.5	2.1	2.0	2.7	1.9	1.6	1.5	1.8	1.7
Federal funds (%, eop)	0.50	1.50	2.50	3.00	3.00	3.25	3.25	3.25	2.75	2.75	2.25	2.00	2.00	2.00	2.00
3-month SOFR rate (%, eop)	0.65	1.45	2.45	2.95	2.85	3.15	3.15	3.10	2.80	2.80	2.30	1.90	1.90	1.90	1.90
10-year interest rate (%, eop)	2.50	3.00	3.25	3.00	3.00	2.75	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Fiscal balance (% of GDP)					-4.9					-4					-3.5
Gross public debt / GDP					100.7					100.3					100.4
Eurozone															
GDP (% QoQ, ann)	0.8	-0.7	1.1	2.0	2.2	2.1	2.5	2.3	1.9	1.9	1.6	1.5	1.5	1.2	1.7
CPI headline (% YoY)	6.0	7.7	6.5	5.2	6.4	3.6	1.9	1.7	1.8	2.3	2.2	2.2	2.3	2.3	2.2
Refi minimum bid rate (%, eop)	0.00	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month interest rate (%, eop)	-0.45	-0.35	0.10	0.15	0.10	0.35	0.40	0.40	0.50	0.70	0.50	0.60	0.60	0.70	0.75
10-year interest rate (%, eop)	0.60	1.00	1.20	1.20	1.20	1.15	1.10	1.00	0.90	0.90	0.90	0.90	0.80	0.80	0.80
Fiscal balance (% of GDP)					-5.4					-4					-3
Gross public debt/GDP					102					99.4					97.8
Japan															
GDP (% QoQ, ann)	-2.4	4.4	2.0	2.0	1.2	1.6	1.2	1.2	1.2	1.8	0.8	0.8	0.8	0.8	0.9
CPI headline (% YoY)	0.9	2.5	2.8	2.9	2.3	2.5	1.7	1.2	1.0	1.5	0.8	0.7	0.6	0.6	0.7
Interest Rate on Excess Reserves (%)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
3-month interest rate (%, eop)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10-year interest rate (%, eop)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Fiscal balance (% of GDP)					-9					-8					-6
Gross public debt/GDP					280					275					250
China															
GDP (% YoY)	4.8	-1.0	4.3	6.3	3.6	7.0	8.5	5.5	5.0	6.5	5.0	6.0	6.1	5.8	5.8
CPI headline (% YoY)	1.1	1.2	2.2	2.5	1.8	2.8	2.6	2.0	1.8	2.3	2.2	2.2	2.3	2.5	2.3
PBOC 7-day reverse repo rate (% eop)	2.1	1.9	1.7	1.7	1.7	1.7	1.7	1.85	2.05	2.05	2.05	2.05	2.05	2.05	2.05
3M SHIBOR (% eop)	2.38	2.20	2.10	2.20	2.20	2.30	2.30	2.30	2.60	2.60	2.60	2.65	2.70	2.75	2.75
10-year T-bond yield (%, eop)	2.80	2.75	2.75	2.75	2.75	2.80	2.90	3.00	3.10	3.10	3.10	3.15	3.20	3.20	3.20
Fiscal balance (% of GDP)					-3.5					-3.0					-2.8
Public debt (% of GDP), incl. local govt.					124.0					122.0					123.0
UK															
GDP (% QoQ, ann)	3.8	-1.1	1.7	0.6	3.8	1.3	1.6	2.0	2.0	1.3	1.8	1.6	1.6	1.6	1.8
CPI headline (% YoY)	6.2	8.4	7.9	7.5	7.5	6.3	3.3	3.1	1.7	3.6	1.7	1.4	1.5	1.7	1.6
BoE official bank rate (%, eop)	0.75	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3-month interest rate (%, eop)	0.91	1.35	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45	1.45
10-year interest rate (%, eop)	1.70	1.90	1.90	1.80	1.80	1.80	1.70	1.50	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Fiscal balance (% of GDP)					-3.4					-2.3					-2.0
Gross public debt/GDP					95.4					94.2					92.3
EUR/USD (eop)	1.11	1.05	1.05	1.08	1.08	1.1	1.12	1.13	1.15	1.15	1.16	1.17	1.18	1.2	1.2
USD/JPY (eop)	122	130	130	128	128	127	126	125	125	125	124	123	122	120	120
USD/CNY (eop)	6.34	6.55	6.50	6.40	6.40	6.50	6.45	6.40	6.20	6.20	6.00	6.05	6.00	5.80	5.80
EUR/GBP (eop)	0.84	0.85	0.85	0.86	0.86	0.86	0.87	0.87	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ICE Brent -US$/bbl (average)	97	103	108	110	105	95	92	94	90	93	85	81	83	80	82

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

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Central banks turn more hawkish as inflation concerns build

We now expect the first ECB rate hike in July, alongside successive 50 basis-point moves from the Fed, as policymakers become more nervous about inflation

The Bank of England was earlier to the rate hiking game than other central banks

Federal Reserve

The Fed shrugged off the surprise 1Q GDP contraction and hiked rates 50bp on 4 May as it looks to get a grip on inflation. Chair Powell stated that additional 50bp hikes are "on the table" for the next couple of meetings, but more aggressive 75bp moves, which the market had been contemplating, are "not something that the committee is actively considering".

We wouldn't rule 75bp out in June given inflation is 8.5% and a tight labour market and surging employment costs risk making inflation much stickier than in previous cycles, but the Fed needs quite a lot of convincing. Either way we still see the Fed funds rate peaking above 3%.

With the Fed signaling a willingness to move interest rates quickly into restrictive territory to control inflation there is the corresponding risk of a more pronounced weakening in activity. If geopolitical tensions and supply chain strains then ease and inflation starts to fall more rapidly we could see the Fed moving back to a more neutral position in 2023.

Between 1970 and 2000 the average length of time between the last rate hike in a cycle and the first rate cut was only three months. Over the past 20 years, it has been three quarters. We are currently looking for a 1Q 2023 peak in the Fed funds rate with policy starting to be eased again from 4Q 2023.

European Central Bank

There are several reasons why we now think that the ECB will hike earlier:

1) Comments since the last official ECB meeting have been more hawkish than the tone at the meeting
2) There has been radio silence by the doves
3) The hawks seem to be afraid that the window to actually normalise is closing fast
4) The weaker euro should lead to higher inflation forecasts for 2023
5) The July ECB meeting will be late in the month (21 July) which gives the ECB ample room between an end to net asset purchases (QE) and the first rate hike

Consequently, we now expect the ECB to hike rates in July and September to bring the era of negative deposit rates to an end. Potentially, there could be a third rate hike in December, though this runs the risk of becoming an ex-post policy mistake.

Obviously, all of this is highly contingent on further developments with the Ukraine war and potential bans or embargos of Russian oil and gas delivery. A severe slowdown of the economy until the 9 June meeting could still change the ECB's mind.

While there seems to be broad consensus within the ECB to end net QE and negative rates, there is no consensus at all on what to do beyond this policy normalisation. We don't think that ECB members from Southern European countries will favour additional hikes in 2023 as government debt is on the rise, bond yields have already increased, and the recovery will be fragile. Also, while headline inflation is expected to come down, higher energy and commodity prices are increasingly disinflationary, wage growth will not exceed 3% year-on-year, and the Fed is expected to start easing again. So, after this year's rate hikes, we stick to the call of no further hikes in 2023.

Bank of England

The Bank of England has now hiked four times, but the latest policy announcement contained various hints that a pause in the tightening cycle is drawing nearer. The Bank's new forecasts – while pointing to double-digit inflation later this year – show CPI below target at the three-year horizon. These projections, which are based on market rate hike expectations, can be read as a sign that the committee thinks investors are pricing in too much tightening over the next year. Before the meeting, investors were expecting a rate rise at every meeting this year, though this has since been pared back.

That's not to say the Bank is quite done with its rate hike cycle. Policymakers are clearly divided, and three voters opted for a 50bp move this time. It's clear that the committee is divided on just how concerned it should be about the tight jobs market, faster wage growth and elevated consumer inflation expectations. We'd already penciled in another rate rise for June and we suspect on the basis of May's split decision, another one could follow in August, but that's probably it.

US: How far can the Fed go?

With inflation above 8% and the unemployment rate below 4% the Federal Reserve is finally in policy tightening mode, just when the growth story is showing signs of wobbling and recession fears are on the rise

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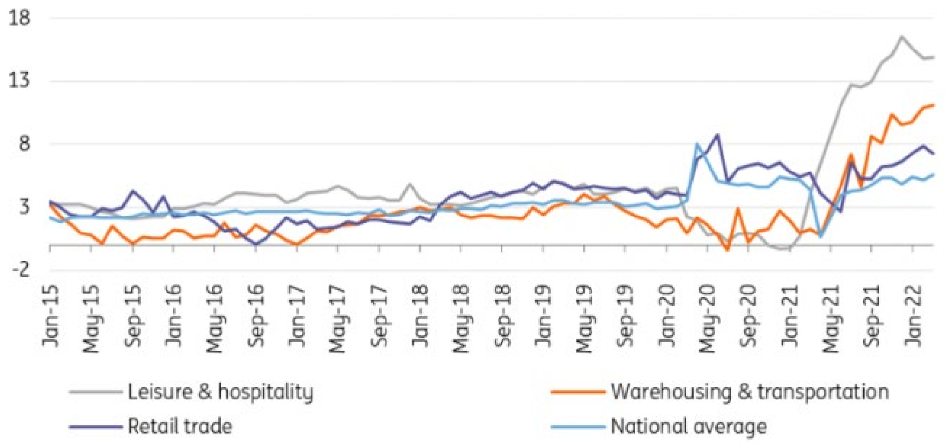
Growth fears mount as the Fed hits the brakes

With the Federal Reserve acknowledging that it needs to make monetary policy restrictive to get inflation under control, the surprise 1Q GDP contraction wasn't helpful going into the May FOMC meeting. The 1.4% annualised decline in output was primarily due to a big drag from net trade (weak external demand while the US continued to suck in imports) and an inventory run down. The underlying story on business and consumer spending wasn't nearly as bad. Yet a negative GDP reading inevitably adds to a sense of nervousness about the economic outlook. It also creates doubts over how far and how fast the Fed will end up raising interest rates.

But wage growth and employment remain strong

However, it didn't deter the Fed from hiking 50bp on 4 May with Chair Jay Powell signalling that additional 50bp hikes are "on the table" for June and July. Business investment indicators look healthy and employment is rising strongly while wages continue to be bid higher. Significantly, low wage sectors are seeing most of the gains, with pay in the leisure and hospitality industry rising 15% year-on-year while retail, warehousing and transportation workers are also seeing strong, inflation-busting increases.

Low wage workers getting the biggest pay rises



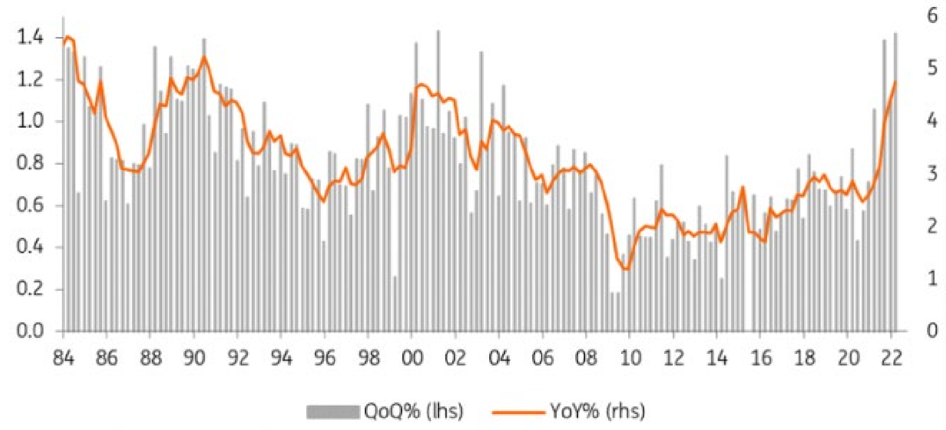
Source: Macrobond, ING

While white collar workers are, by and large, not seeing the same sorts of pay increases, they are more likely to have built up savings balances through the pandemic that can be utilised to maintain spending patterns. This all points to continued solid domestic demand growth. The trade and inventory drag should unwind over coming quarters and we look for 2.5%+ GDP growth in 2Q and 3Q 2022.

Fed focused on inflation

Meanwhile, inflation may be close to a peak at 8.5% but there is little to suggest it will drop back to the 2% target anytime soon. Surging employment costs in an environment where businesses continue to feel they have enough pricing power to pass higher costs onto customers will keep inflation sticky. At the same time, ongoing supply chain strains and geopolitical tensions will limit the downside for commodity, energy and freight/component costs.

Employment costs are rising at a rapid rate



Source: Macrobond, ING

Before the May FOMC meeting, we had seriously contemplated putting a 75bp hike for June as our base case forecast. However, the bar to achieving such an outcome has certainly been raised by Chair Powell's comments where he suggested that 50bp steps are the favoured option while 75bp is “not something that the committee is actively considering”. Of course, this doesn't rule it out, but it makes it more likely that based on our growth and inflation views the Fed will hike by 50bp at June, July and September rather than 75bp, 50bp and 25bp, respectively. We expect the Bank to switch to 25bp increments in the final meetings of 2022 when quantitative tightening is fully up to speed and contributes to the tighter monetary conditions.

Rate hikes means a slowdown is inevitable

By front loading interest rate increases, the Federal Reserve may be hoping to quickly get a grip on domestically generated inflation pressures and inflation expectations. But faster, sharper interest rate increases obviously come with a greater risk of an adverse reaction than would slower, more gradual moves. There are early signs of this already happening in the housing market where mortgage rates have jumped by more than 200bp in the space of four months and mortgage applications are clearly on the slide.

We are not formally forecasting a recession, but it could be a close-run thing in 2023. Already we are in an environment where consumer confidence is being hit by inflation fears, geopolitical worries and equity market volatility. Upcoming mid-term elections are unlikely to be helpful either as political animosity increases. The strong dollar is also set to weigh on the economy.

Fed to follow with rate cuts in late 2023

The best outcome would be an easing of geopolitical tensions, supply chains and a return of the missing workers from the labour force, which would dampen inflation pressures while expanding the productive potential for the US. This does not seem likely anytime soon.

Consequently, we expect the Fed to move interest rates into restrictive territory, growth will slow markedly and inflation heads towards target after which we will see the Fed reverse course and move policy to a more neutral footing. Between 1970 and 2000 the average length of time between the last rate hike in a cycle and the first rate cut was only three months. Over the past 20 years, it has been three quarters. History would suggest a 1Q 2023 peak in the Fed funds rate would be followed by a rate cut in 4Q 2023 and this is indeed what we forecast.

Eurozone: ECB hawks are coming to the fore

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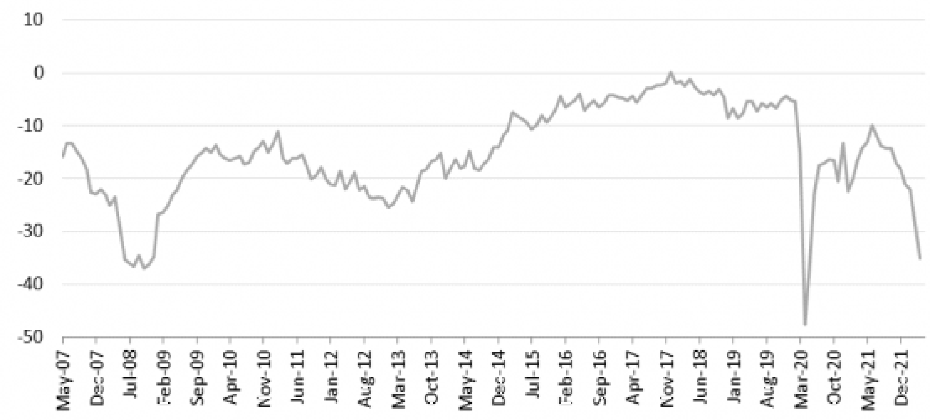
The eurozone still managed to grow in the first quarter of 2022, but a significant slowdown looks likely on the back of the war in Ukraine. While inflation is likely to peak over the summer months, the European Central Bank seems prepared to normalise policy more rapidly to prevent a 'de-anchoring' of inflation expectations

We think eurozone GDP will contract in the second quarter

Surprise growth in the first quarter...

While the US saw a contraction in the first quarter, eurozone GDP still grew by 0.2% quarter-on-quarter. However, we doubt that the second quarter will show positive growth again. Demand is clearly weakening. On the back of the war in Ukraine and dwindling purchasing power, consumer confidence crashed in March and remained around the same low level in April. The component regarding major consumption purchases fell back in April to the lowest level since the lockdowns in 2020. Business confidence held up better, but also seems to have peaked. With the Omicron lockdowns in China intensifying in April, supply-side issues are likely to hamper eurozone industrial production in the coming months. A recent Ifo survey actually showed that 46% of German companies receive significant inputs from China.

Survey on 'major purchases at present' shows that consumption is tanking

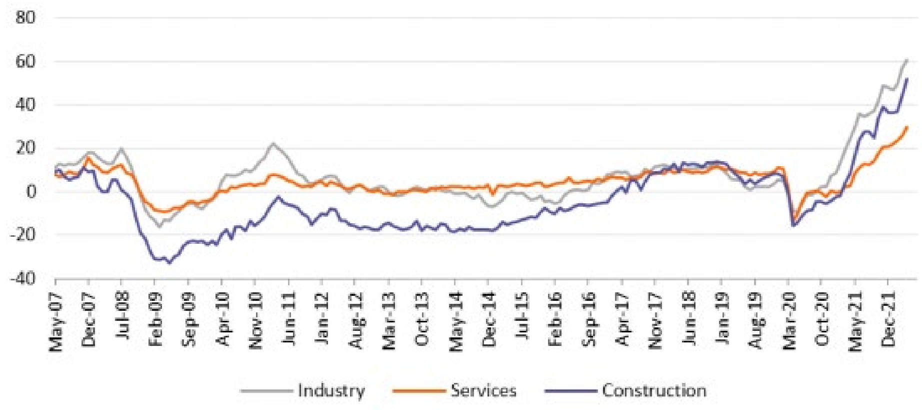


Source: Refinitiv Datastream

...but the second quarter might see a contraction

We, therefore, think that eurozone GDP will contract in the second quarter. A recovery thereafter is likely to remain subdued as some of the headwinds remain. We don't expect a significant decrease in energy prices and that will continue to exert downward pressure on purchasing power as natural gas and electricity contracts for European consumers are only gradually adapted to this higher price regime. Things might even get worse. Europe could decide on an energy embargo against Russia, or Vladimir Putin might turn off the gas taps himself if he feels Europe is getting too involved in the war in Ukraine. That of course would be a very adverse shock to the eurozone economy. While simulations are all over the place, it is safe to assume that this would cost the eurozone a few percentage points of GDP, thereby provoking a recession. This is not our base case, however. For the time being, we are looking at 2.2% GDP growth in 2022 and 1.9% in 2023.

Selling price expectations reach unprecedented levels



Source: Refinitiv Datastream

Selling prices to increase further

We realise that this is starting to resemble Groundhog Day, but we are forced to revise our inflation forecast up again for the eighth month in a row. Barring an embargo on Russian energy, energy inflation seems to be close to a peak. But food inflation is likely to hover around 6% in the second half of the year and there is still a lot of inflationary pressure in the pipeline, as recently indicated by another record high in businesses' selling price expectations. On top of that, underlying inflation is now also picking up more rapidly than expected (at 3.5% in April), with services benefiting from the full reopening of the economy to raise prices. Consequently, any decline in inflation is going to be very gradual and it could take until the late summer before headline inflation numbers actually come down. Fourth quarter inflation is still likely to be above 5%, with the average for the year now forecast at 6.4%.

No brainer

Notwithstanding the more uncertain growth outlook, the ECB has turned a lot more hawkish, particularly since the long-term inflation forecast in the Survey of Professional Forecasters is now also (slightly) above 2%. Pierre Wunsch, a member of the Governor Council, called a deposit rate at 0% this year a "no brainer". We agree and now expect the ECB to hike rates in July, September and at the turn of the year, even if weaker-than-expected data alters the timing. After that, we might be in for a long pause as a strengthening euro and a slowing US economy are likely to take away some of the upward inflation pressures.

UK: Deteriorating growth backdrop points to steadier rate hikes

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UK consumer confidence has plunged close to record lows, and a negative second-quarter growth figure looks likely. We expect another Bank of England rate hike in June and August before the committee pauses its tightening cycle

Governor of the Bank of England Andrew Bailey

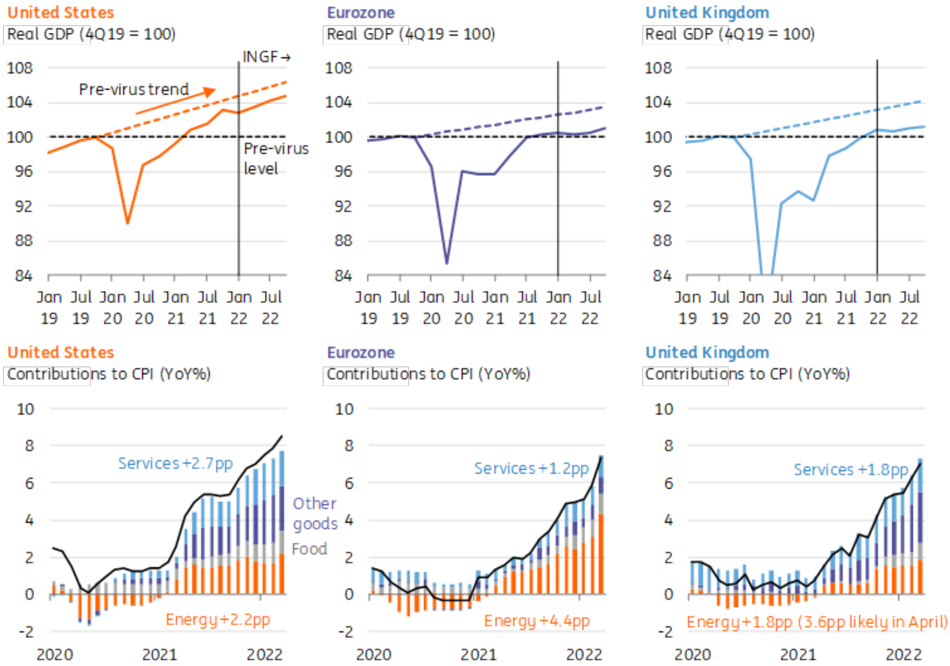
UK growth story is similar to that of Europe...

The UK and the Bank of England (BoE) sit somewhere between the US Federal Reserve and the European Central Bank when it comes to tightening policy. As BoE Governor Andrew Bailey emphasised recently, the UK growth story is much closer to that of Europe, not least because of Britain's reliance on natural gas as a source of electricity – even if very little of it comes from Russia directly.

> *"The outlook for personal finances is perceived to be worse than at any point during the 2008 crisis."*

Consumer confidence has plunged, so much so that the headline index is only one point from its all-time lows. The outlook for personal finances is perceived to be worse than at any point during the 2008 crisis. That's not surprising given the average electricity/gas bill looks set to have increased from £1,200 a year ago to around £2,600 in October (net of a government rebate). Ominously, retail sales have fallen for two consecutive months. That's likely to help drive a fall in second-quarter GDP, albeit much of the weakness is also owed to an extra bank holiday in June to celebrate the Queen's jubilee, as well as a decline in health output now that free Covid testing has ended.

How the UK growth and inflation backdrop compares to the US and eurozone



GDP forecasts are from ING's April monthly update
Source: Macrobond, ING

… but Britain's jobs market more closely resembles the US's

But while the growth story looks remarkably similar to the eurozone, the jobs market story bears more resemblance to the US. Wage growth is running ahead of where it was before the pandemic, owing to a fall in participation and unusually high labour shortages. For the first time in recent history, there is now one vacancy per unemployed person. Admittedly, we think nervousness about a wage-price spiral seems overdone, and it's worth remembering that pay is unlikely to keep pace with prices for most workers over the next couple of quarters.

Indeed, we've revised up our inflation forecasts again, and now expect a peak in headline CPI of close to 9% when April's data comes through. We'd still expect a very gradual downtrend thereafter given that at the same time last year, durable goods prices began to increase at speed (most notably for used cars). Even with those downward-pushing base effects, inflation is unlikely to dip below 7% this year – and indeed will probably stay above 8% for several consecutive months. Clearly it could come in higher still.

Markets are assuming that this inflation pressure means the UK's tightening cycle won't look too dissimilar to the Fed's this year. The BoE has hiked four times now and before the May meeting investors were pricing further rate hikes at every meeting this year. But the meeting's cautious tone and a dovish set of new forecasts suggest the Bank's tightening cycle will be much less aggressive. We expect another rate hike in June and probably one more in August, before the committee presses the pause button.

China: Longer-than-expected lockdown needs government intervention

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Lockdowns in China, especially in Shanghai, have gone on much longer than expected. This is hurting the economy and disrupting supply chains. The government has pledged to come to the rescue

Shanghai has been in lockdown for more than a month

Lockdowns are hurting the economy, mainly by disrupting logistics

The lockdown in Shanghai has lasted more than a month, and we believe that it will continue for another month (throughout May). Beijing is now starting mass Covid-19 testing and is therefore in partial lockdown.

The main source of economic damage from these lockdowns comes from the disruption to logistics. Delivery people are unable to deliver important documents for business operations as they are too busy delivering daily necessities and medicines. Delivery across the city is very difficult. Factories and ports are in closed-loop operations, so entering and leaving these sites is very difficult.

This all damages economic activity: clearly retail is being hit hard, financial services are also taking a hit, as are manufacturing and ports.

Beijing could experience similar issues if large numbers of Covid cases are found after the testing is concluded. Though so far, only 12 cases have been found following the first batch of mass tests.

Government comes to the rescue, but how successful will it be?

The government, including the People's Bank of China, has said it will execute policy actions to support economic growth.

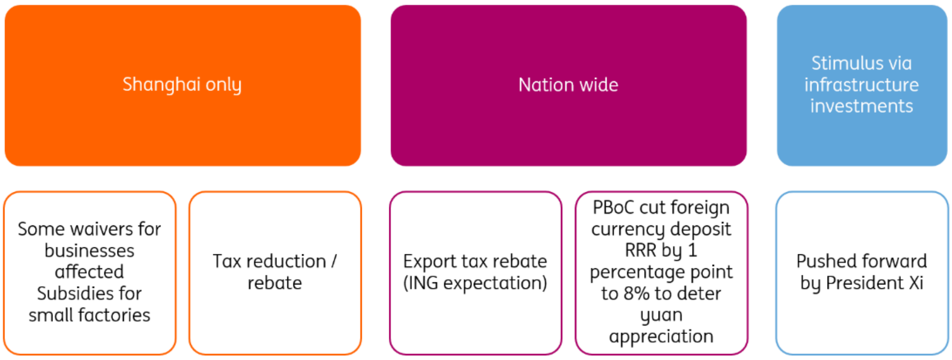
The main thing we have seen so far is that the PBoC has cut the Reserve Requirement Ratio on foreign currency deposits to release dollars for financial institutions to buy yuan in financial markets. This has prevented a further depreciation of the USD/CNY and USD/CNH beyond 6.60.

The PBoC has also said that it will speed up regulation on the platform economy (i.e. companies including Alibaba and Tencent) that have provided fintech services to society. This also helped lift the Chinese equity market, but only for a short while.

The third thing – again so far just a pledge rather than action – the government (from President Xi Jinping to Vice Premier Liu He), has pledged to push forward the construction of infrastructure projects. If this is put into action, it means an increase in bond issuance by local governments to fund those projects as well as to kick off construction. This is likely to be done. Airport infrastructure is already under construction, and some highways are, too. Green energy projects should also have been planned from 4Q21 when local government special bond quotas for 2022 were released.

The question here is whether these policies can keep GDP growth at the 4.8% year-on-year level seen in the first quarter.

Policy pledge and actions



Source: ING

Forecast revision, again

When Shanghai started its lockdown, we revised our GDP forecast for full-year 2022 down from 4.8% to 4.6% year-on-year. Considering the net effect of negative factors from lockdowns and positive factors from potential government action, we are downgrading our China GDP growth forecast further to 3.6% for this year, with the 2Q22 GDP growth rate revised to -1% year-on-year.

Our calculation is based on GDP per capita in the city and assumes some multiplying damage from the lockdowns, for example, import and export activity at ports that are used for other locations in China.

The risk to this forecast is that the government is unable to push infrastructure projects forward as quickly as it would like and as quickly as would be needed to totally offset the negative factors. And so, even though President Xi and Vice Premier Liu He are taking steps to make this happen, there are still limits as to what can be done during the two months left in 2Q22.

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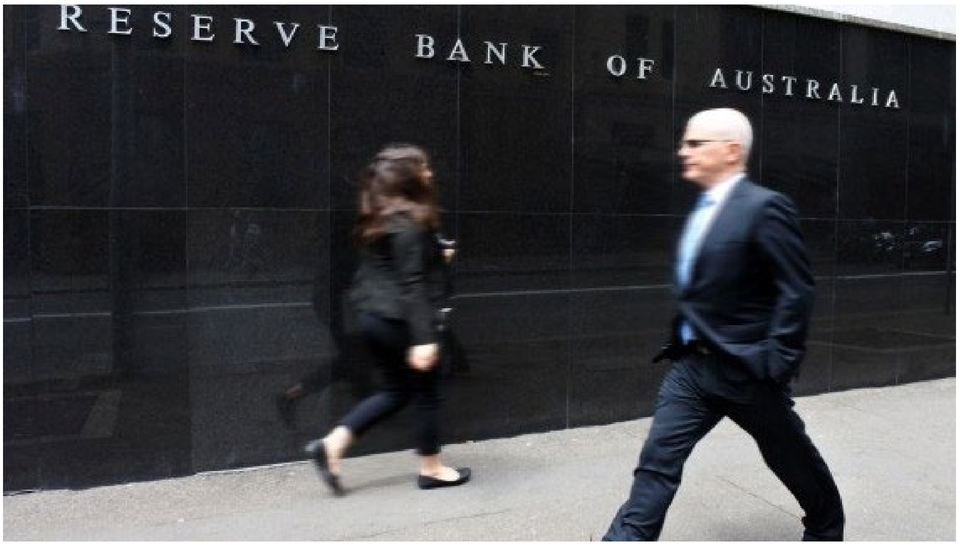
Asia: Accommodation to decline as inflation rises

Asian central bank policy remains accommodative, but inflation is beginning to rise, and that accommodation is on borrowed time



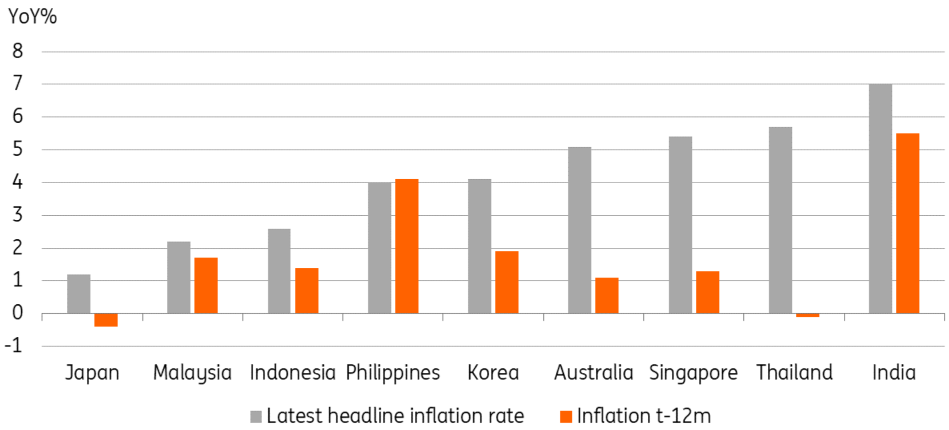
Reserve Bank of Australia now looking likely to raise rates not only sooner, but also faster than previously expected

Asia: less affected by reopening and Ukraine war than Europe or the US

It is always difficult to generalise about non-China Asia. But in recent months, the basic message has been that the region has not suffered as much as Europe or the US from inflation driven by economic reopening and is also less exposed to the inflation consequences of the Russia-Ukraine war.

While that generalisation is still supportable, the last month has seen it taking a hit, with Asian inflation pushing higher, and pressure growing on central banks in the region to lean against this with higher rates.

Asian inflation vs a year ago



Source: CEIC, ING

Australia - rates to rise sooner and probably faster

Nowhere is this more apparent than in Australia, where a 5.1% 1Q22 inflation reading has dramatically changed the outlook for rates. We have just seen the Reserve Bank of Australia (RBA) hiking rates by a larger than expected 25bp taking the cash rate target to 0.4%. One feature of the Australian example which generalises to the rest of the region is that the RBA had until fairly recently suggested that policy was likely to remain extremely accommodative for a protracted period.

India trying to have its cake and eat it?

The same basic accommodative and patient stance was true for many central banks in the region. Another good example is the Reserve Bank of India (RBI), which left rates unchanged at its scheduled April meeting, even though headline inflation had risen to within a whisker of 7%. The April RBI statement stated that the central bank wanted policy “to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth”. That’s quite a mouthful, and equally hard to interpret. In the end, it looks like the RBI decided that trying to have it both ways was not a credible position, and they hiked rates by 40bp at an unscheduled meeting on 4 May.

Rest of Asia and some exceptions to the trend

Bangko sentral ng Pilipinas (BSP) governor, Benjamin Diokno, has suggested that the Philippines will join this tightening group next month too, though the exact timing will be determined by inflation, with the April inflation figures likely to show a strong pick up from the March rate of 4.0%.

Korea and Singapore started their policy normalisation earlier than other Asian economies and remain on this path. New Bank of Korea governor Rhee Chang-yong recently said that he was more worried about inflation than about growth and that the BoK should stay on the path toward policy normalisation. The Monetary Authority of Singapore (MAS) is more tight-lipped about its intentions, but the continued rise in 3m SIBOR (up more than 60bp since February) indicates the efforts having to be made to keep the Singapore dollar on the announced path of modest nominal appreciation – harder of course in an environment of generalised US dollar strength.

There are, of course, some deviations from this general trend away from policy normalisation. The Bank of Japan, for example, has a rather different inflation backdrop to most other economies in the region. And rather than dilute its accommodation, the BoJ has just launched unlimited daily fixed-rate buying of longer-dated government bonds to support their ongoing yield curve control policy. Likewise, Bank Indonesia Governor, Perry Warjiyo, has commented that rate increases are the last option and that required reserve rate (RRR) increases were likely to do the brunt of the adjustment while liquidity remained ample. But these two are the exceptions that prove the general rule.

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Central and Eastern Europe: One step further, but still not there

The general story in the region remains unchanged – more inflation means more interest rate hikes even though GDP growth is at risk. We expect the Czech Republic to reach peak rate hikes in the coming months, but other central banks are catching up fast. FX offers the potential for appreciation, but first we will need to see risk aversion subside in the market

Inflation remains the main macroeconomic challenge for Poland in the near term

Poland: Double-digit central bank rate is no longer just a theoretical level

Inflation remains the main macroeconomic challenge for Poland in the near term. In April, CPI rose by 12.3% year-on-year on the back of soaring food prices and core inflation. External price shocks will continue propagating throughout the Polish economy as the current economic and policy environment facilitate it. Rising costs of energy and inputs are forcing businesses to increase their prices. Cost pressures are amplified by rising wages. Swelling household income and expansionary fiscal policy make it easy for businesses to pass on higher costs to consumers. According to the PMI survey, prices of finished goods rose for the twentieth consecutive month, reaching a new record. We currently predict local peaks of inflation around 13-15% year-on-year in mid-2022 and at the beginning of 2023, but recent months show that the economic reality keeps surprising and we should be prepared for more negative scenarios with respect to price developments.

At the same time, companies are reporting weaker orders, both domestic and external. Companies surveyed in the PMI reported a decline in demand particularly from other EU countries, suggesting secondary effects of the war in Ukraine. Western companies are exporting less to the East and, in turn, are limiting their orders for components from Poland. This suggests that the impact of the war on exporters will be significant. In tandem with higher pieces of imported resources, this suggests a high risk of further deterioration in net trade. Thankfully, Poland started 2022 on a high note (1Q22 GDP growth around 8% YoY), benefiting from domestic demand, as well as less severe supply chain disruptions. Also, in the coming months, domestic activity will be supported by spending from refugees.

The overall picture continues to point towards further monetary tightening, as confirmed by recent Monetary Policy Council comments. We may see the main policy rate at 7.5% this year. The terminal rate moves to 7.5-10%. A double-digit National Bank of Poland rate is no longer just a theoretical level. This should offer substantial support to the zloty, and we see EUR/PLN around 4.50 by year-end.

Czech Republic: Interest rates peak within reach

The recently-released 1Q GDP result positively surprised with 4.6% year-on-year growth, reducing the risk of stagflation for the following quarter. However, we still don't have much information on the impact of the Ukrainian war on the economy and thus the risks are to the downside given that leading indicators are sending mixed signals. Early inflation numbers from the region suggest that inflation will continue to surprise on the upside. In the Czech Republic, we expect a rise from 12.7% YoY to 13.5% YoY for April and a peak in May/June at just below 15%, but inflation should remain in double-digits for at least the rest of this year.

April's state budget result showed a deficit of CZK100bn (vs our year-end forecast of CZK280bn), which is not a bad result given the additional expenditures, and we remain confident that the additional revenues caused by record-high inflation will keep the state budget close to the government's current plan, and the overall public finances will show a deficit of just above 4% this year. However, the government has promised to present a mid-year review of the state budget, which could bring additional expenditures and therefore higher Czech government bond issuance than our forecast.

On the monetary policy side, the Czech National Bank is clearly closest to the peak of interest rate hikes in the region and we expect the next central bank meetings to determine the peak in this cycle. At the same time, we do not expect the first interest rate cut before the end of the first half of next year. Thus, the base rate is expected to stall at 5.75%, but we believe that the theme of rate cuts will dominate the second half of this year. The koruna remains slightly above the upper end of our expected 25.30-25.50 band due to persistent risk aversion. We see the discussions on possible interest rate cuts as a negative factor for the koruna, although we see the reversal in EUR/USD as a positive factor. Overall, we do not expect significant moves in either direction from the koruna in the coming months.

Hungary: Some good news in hard times

Incoming hard data suggest an unexpected acceleration in GDP growth in the first quarter. The driver is consumption fuelled by one-off transfers from the government in February and by the strong labour market. Hungary is close to full employment again and companies are facing labour shortages. This supports real wage growth, which is expected to be around 5% in 2022, despite our 10% inflation forecast. However, risks are clearly tilted to the upside when it comes to inflation, so we now see the peak at 11.5% year-on-year in September.

High inflation and ongoing upside pressure via the more positive output gap mean the central bank doesn’t have time to relax. As we see the government eventually adjusting the budget by 1.5% of GDP to be able to meet the 4.9% deficit target, this could allow the National Bank of Hungary to stop the tightening cycle late in the third quarter. We expect the terminal rate at 8.25%. Hungary probably will gain more time to meet the EU’s ban on Russian oil imports, reducing the pressure on the external balance in the short run. This is crucial for the forint, as it eases the systematic pressure on it and should help keep EUR/HUF around 380 in the coming weeks.

Romania: Catching up with the regional hawks

The National Bank of Romania will hold its monetary policy meeting on 10 May and we expect another 50bp increase in the key rate to 3.50%. We see a considerable chance (say 30%) of a 100 basis point hike. More importantly, a new inflation report will be released which should show the NBR's inflation forecast revised higher compared to the February report. The latest inflation developments have been rather disturbing as prices for food items marked monthly increases which – until recently – could be seen only in a couple of years combined.

We maintain our view for a stable EUR/RON rate close to 4.95. As anticipated, the liquidity context is providing a helping hand, as the entire FX swap yield curve (and Romanian government bond curve) moved above 6.00% again. Liquidity shortages reached approximately RON10bn in March and we estimate that the system will be short liquidity for the rest of the year. Our 7% peak estimation for 10Y ROMGBs has already materialised. Reaching 8% by mid-year does not look like a risk scenario anymore but rather the next logical milestone.

Just after the Ukraine war started, we revised our 2022 GDP growth lower to 2.3% and pointed to further downside risks. Data for the first quarter points to quasi-stagnation, which is consistent with our expectations. 1Q GDP will be released on 17 May and we expect a 0.2% quarterly expansion.

France: Against Macron, the left gathers for the legislative elections

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In France, the left-wing parties are trying to come together to present themselves as a bloc in the legislative elections. Their goal is to obtain a majority in order to form an alliance between Emmanuel Macron and Jean-Luc Mélenchon as prime minister. A possible outcome, but unlikely

Left-wing leader Jean-Luc Mélenchon is trying to gather all the parties behind him

Forming alliances

After Emmanuel Macron's victory in the presidential election, attention is now focused on the legislative elections on 12 and 19 June. The challenge for Macron is to obtain a majority in the National Assembly to have a free hand to implement his programme.

Predicting the outcome of these elections is difficult because of the electoral rules, which encourage playing strategically by forming alliances. Candidates can win a mandate in one of the 577 constituencies, either directly in the first round if they obtain a majority of the votes and at least 25% of the eligible voters, or in the second round, in which candidates who obtained at least 12.5% of the eligible voters in the first round participate. The risks for the candidates are low turnout and many politically close candidates who could take votes away from them. The different parties have therefore started negotiations to form party coalitions and present only one candidate from the coalition in each constituency.

On the far right, there is a willingness for Eric Zemmour to form an alliance with Marine Le Pen's party, without any result at the moment. In the centre, there are discussions between the different parties belonging to the presidential majority. Although some tensions have appeared, this should not prevent them from forming a united group in the National Assembly.

The action is predominantly on the left. Coming in third place in the presidential election with 22% of the votes obtained, Mélenchon (extreme left) is trying to rally all the parties around him. Under the slogan "Jean-Luc Mélenchon, prime minister", he hopes to obtain a parliamentary majority, which would force Macron to appoint a prime minister from his group. He has concluded an agreement with the Green Party and the Communists. Unimaginable only a few weeks ago, an agreement was also reached with the Socialist Party (PS), a heavy loser in the presidential elections but formerly one of the two big parties in France with still many local elected officials. But this agreement still needs to be validated by the members. And the internal rebellion within the PS is intense, which will probably lead to a break-up of the party. Some of the more extreme aspects of Mélenchon's programme, notably his willingness to disobey some EU rules, including on budgets and competition issues, are not acceptable to a part of the PS, particularly former ministers.

An alliance on the left will benefit Mélenchon and his party, but also Macron, who could benefit from a split within the Socialists and a flight of more moderate voters to the president's majority.

The most likely outcome is still a presidential majority

Is a victory for the left and a period of "cohabitation" between Macron and a left-wing government likely? As long as all alliances have not been formed, it is difficult to say. As in the presidential election, a significant proportion of voters are likely to vote against a candidate rather than for him. As a result, a left-wing parliamentary majority is possible but less likely than a majority for the president.

In any case, political developments on the left are likely to influence the beginning of Macron's mandate, notably with the question of pension reform. Macron's proposal for a retirement age of 65 unites the opposition on the left. In an attempt to limit the opposition of moderate left-wing voters, Macron is considering appointing a prime minister with left-wing affinities (for example, a former member of the Socialist Party) to lead his government in the final weeks before the election. Moreover, he has already promised adjustments to his pension reform project. However, in order to keep his right-wing electorate, he cannot drop the project, particularly as he will need it to finance his electoral programme. Even with a parliamentary majority, Macron will have to navigate carefully to put in place his reform agenda, as the economic backdrop remains complicated with growth stagnating and record-high inflation weighing on the purchasing power of households.

Should Macron fail to gain a majority and be forced to form an alliance with a prime minister from another political family, the chances of seeing structural reform in France are clearly much smaller.

FX: EUR/USD parity comes into focus

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April proved a perfect bullish storm for the dollar. Expectations of Fed tightening remained solid even as growth expectations were cut in Europe and China. Looking ahead, it would be foolhardy to try to pick a top in the dollar. And EUR/USD hitting parity should no longer be a shock

Perfect bullish storm for the dollar

There are not many months in which the dollar broadly appreciates 5% – but April was one of them. Fed tightening expectations have held up well, but events in both Europe and China have damaged the prospects for pro-cyclical currencies. Even the commodity currency bloc was hit as lower global growth prospects started to outweigh the impact of higher commodity prices. And close to US$50bn of portfolio capital has left emerging markets since Russia invaded Ukraine – again a dollar supportive story.

Given that the Fed tightening story has been a key driver of dollar strength since June 2021, it seems too early to call time on the dollar rally. It's true that financial markets are already pricing in our baseline scenario of Fed funds being taken to 3.25% into early 2023. But expectations can easily overshoot and there look plenty of opportunities for investors to briefly price an even more aggressive tightening cycle over the next six months. The Fed funds rate being priced close to 4.00% in 2023 would probably take EUR/USD close to parity.

At the same time, the uncertainty of the war in Europe and continued lockdowns in China suggest that the attractiveness of the dollar is unlikely to wane anytime soon. In fact, we are more sympathetic to the kind of boom-bust dollar trajectory seen during the 1980s.

EUR/USD parity no longer a shock

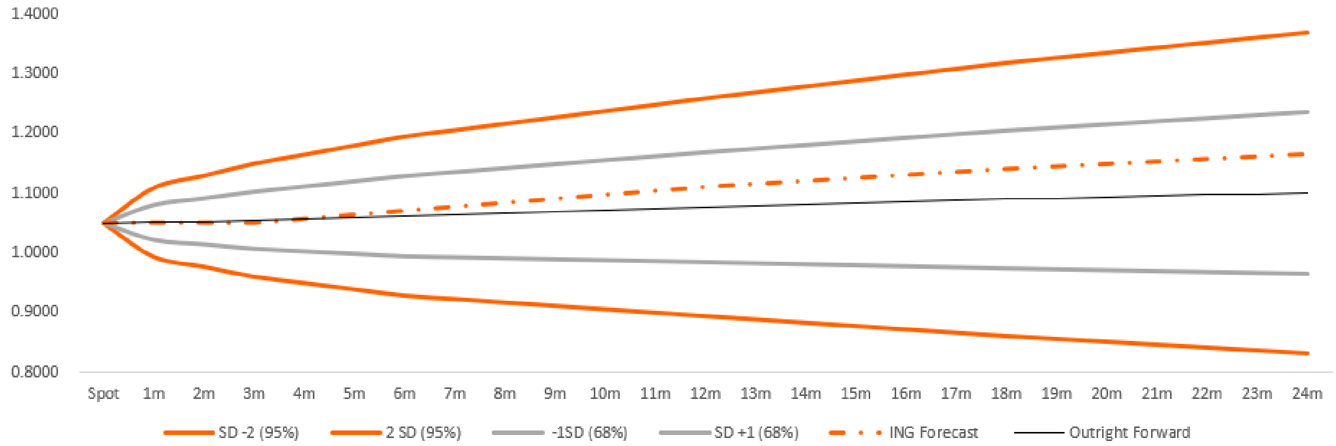
April's outsize move in FX markets has brought the EUR/USD parity scenario firmly into play. Our chart below shows a 'volatility cone' derived from the FX options market. This uses the market's pricing of expected EUR/USD volatility to portray a possible set of EUR/USD outcomes over the next two years.

Now that expected volatility is higher after recent developments, we can say that the FX options market reasonably expects EUR/USD to trade in a 1.00-1.12 range over the next six months. In other words, EUR/USD is now a one standard deviation proposition and should not be a shock.

What seems clear to us is that 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. Elsewhere, Japanese official concern with yen weakness suggests that FX intervention is closer at hand. Again, do not try to pick a top in USD/JPY, but the bull trend may become harder work and we do favour yen outperformance on the crosses in what should become an increasingly difficult risk environment.

And this month we are cutting our GBP profile into year-end. With regard to the expected Bank of England tightening path, there is a gulf between the expectations of the market and our UK research team. A rude awakening to a pause in the BoE tightening cycle – perhaps at the June meeting – warns that recent GBP underperformance could accelerate. EUR/GBP could hit 0.86 or higher later in the year.

EUR/USD: Range of possible outcomes expected by the FX options market



Source: ING

Rates: Real rates begin to diverge

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Inflation expectations have converged between the US and the eurozone. So, the 10yr rate differential is driven by real rates. As the US 10yr real rate broke above zero this week, the German 10yr real rate remains at -2%. That 2% gap is what you see on the Treasury / Bund spread. Consequences? The rate hike door is far more open for the Fed than for the ECB

US market rates are close to their highs, even though the Fed is at the early stages of its tightening cycle

The US 10yr real rate is back in positive territory

Something important happened this week. The US 10yr real yield finally broke decisively into positive territory. The move looks and feels like a confident one, one that is signalling an end to negative real rates, and a move to sustained positive real (10yr) rates.

But higher real rates also represent a tightening in financial conditions. This is the classic conundrum of the economic cycle where big swings in positive momentum are often precursors to more troubling times ahead where real rates are forced lower as excess consumption morphs into higher savings. But that's for later.

For now, the firming path is correlating with tighter financial conditions. The bulk of this so far has come from higher market rates feeding into wider retail and wholesale rates. As the Federal Reserve hikes rates, they are simply ratifying a path already being mapped out by the marketplace, bolstering the tighter circumstances.

Eurozone real rate remains deeply negative, even as inflation expectations are at US levels

And in the eurozone, although the ECB has not even touched its rate hike trigger, financial conditions here have been perceptibly tightened too. Wider credit spreads, the likes of Italian yields under extra rising pressure, and large implied rate hikes discounted in market levels area are all contributing.

Real rates have diverged even as inflation expectations have converged (%)

Source: Macrobond, ING estimates

The 10yr real rate in, say, Germany is -1.8%. Deeply negative still. At the same time, 10yr eurozone inflation expectations are quite similar to US ones, in the 3% area. Long term inflation is elevated in both centres, but real rates remain down in the dumps in the eurozone. In contrast, real US rates have spiked.

So, what does all this mean? The biggest bond bear market in modern times has clearly tightened financial conditions. That is showing up in higher US real rates. But far less so for eurozone real rates. So, while eurozone inflation expectations are elevated, the real growth story is more nuanced.

It leaves the Fed behind the curve in terms of tightening. But it also appears to us that US market rates are close to their highs, even though the Fed is at the early stages of its tightening cycle. In contrast, the ECB has a path to hiking rates, but deep negative real rates point to a more careful delivery process.

GDP forecasts

%YoY	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
World (USD)	3.7	3.9	3.2	2.8	3.4	3.7	3.7
US	3.6	2.6	2.8	1.6	2.6	1.9	1.9
Japan	0.4	0.9	2.1	1.5	1.2	1.7	0.9
Germany	3.4	1.4	-1.7	0.5	1.2	2.4	2.2
France	5.3	3.8	1.1	0.8	2.7	1.6	1.4
UK	8.9	2.9	2.4	1.2	3.8	1.3	1.8
Italy	5.6	2.5	0.7	0.6	2.3	2.0	1.8
Canada	3.0	5.0	4.5	3.5	4.0	2.7	1.9
Australia	3.5	3.7	6.7	4.1	4.5	3.3	3.0
Eurozone	5.0	2.5	0.6	0.8	2.2	1.9	1.7
Austria	8.7	3.6	0.6	2.6	3.9	2.4	2.1
Netherlands	7.3	3.2	0.7	-0.1	2.7	1.4	2.1
Belgium	4.6	2.5	0.6	0.4	2.0	1.5	1.6
Ireland	2.9	-1.0	-1.8	4.4	1.0	2.2	1.9
Greece	4.0	2.7	2.3	2.5	2.9	2.4	1.9
Switzerland	4.2	2.9	1.5	1.6	2.5	1.4	1.4
Sweden	3.5	3.5	2.0	1.2	2.5	1.5	1.5
Norway	4.5	5.2	2.9	1.9	3.2	2.3	2.0
Bulgaria	3.1	2.5	2.2	1.8	2.3	3.0	3.0
Croatia	2.8	3.3	2.9	3.6	2.7	3.0	2.5
Hungary	6.8	4.7	4.3	2.4	4.5	4.0	5.1
Poland	8.5	3.5	2.0	1.4	3.2	4.2	3.2
Romania	2.1	1.4	2.0	3.4	2.3	4.5	3.5
Turkey	2.9	1.4	2.9	3.3	2.7	4.0	4.0
Serbia	5.7	4.6	4.0	3.7	4.5	4.2	3.5
Russia	4.0	-15.0	-18.0	-20.0	-12.0	1.0	2.0
Kazakhstan	3.5	3.0	3.7	3.9	3.5	3.8	3.8
Azerbaijan	6.8	3.4	3.5	3.7	3.4	2.5	2.8
China	4.8	-1.0	4.3	6.3	3.6	6.5	5.7
India	4.0	15.2	5.9	5.0	7.2	7.5	8.0
Indonesia	5.1	3.9	4.3	4.4	4.4	4.9	4.7
Korea	3.1	2.8	3.1	2.5	2.8	2.4	2.2
Philippines	6.1	7.8	5.1	4.0	5.8	4.5	4.8
Singapore	3.4	3.3	3.9	3.3	3.5	3.4	4.1
Taiwan	3.0	3.0	5.0	5.5	4.1	5.3	5.5

Source: ING estimates

CPI forecasts (pa)

%YoY	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
World	6.5	7.5	7.4	5.3	5.4	3.8	2.9
US	8.0	8.1	7.4	6.0	7.4	2.7	1.7
Japan	0.9	2.5	2.8	2.9	2.3	1.5	0.7
Germany	5.8	8.1	9.3	8.5	8.0	2.8	1.9
France	4.2	5.4	5.2	4.4	4.8	2.0	1.9
UK	6.2	8.4	7.9	7.5	7.5	3.6	1.6
Italy	6.0	6.6	6.0	4.9	5.9	2.0	1.9
Canada	5.8	6.5	6.0	5.5	5.9	2.5	1.8
Australia	5.1	5.5	5.8	5.3	5.4	3.4	2.6
Eurozone	6.0	7.7	6.5	5.2	6.4	2.3	2.2
Austria	5.6	7.5	5.9	5.0	6.0	2.0	2.0
Netherlands	8.8	9.1	7.3	5.6	7.7	3.2	1.9
Belgium	8.0	7.3	6.8	4.9	6.7	2.5	1.9
Ireland	5.9	7.4	6.2	5.1	6.2	2.4	2.1
Greece	6.6	8.1	7.4	6.1	7.1	2.3	1.7
Switzerland	2.1	2.4	2.2	1.7	2.1	1.0	0.7
Sweden	4.8	6.0	5.8	4.6	5.4	2.5	1.6
Norway	3.8	5.3	4.9	4.3	4.6	2.9	2.5
Bulgaria	10.5	13.5	14.0	12.0	12.5	7.0	4.0
Croatia	6.4	8.8	8.4	7.1	7.8	3.7	3.0
Hungary	8.2	9.6	11.4	10.3	9.9	5.6	3.0
Poland	9.6	12.9	13.4	13.5	12.4	9.9	4.6
Romania	9.0	11.9	11.3	10.5	10.7	6.1	5.0
Turkey	61.1	67.2	69.7	53.0	63.6	30.5	20.6
Serbia	8.7	8.7	8.2	6.3	8.0	4.5	4.5
Russia	16.7	19.0	20.4	20.0	17.5	12.2	7.3
Kazakhstan	12.1	15.8	15.2	14.6	13.2	8.0	5.0
Azerbaijan	12.1	13.2	11.9	10.6	11.9	7.8	5.0
China	1.1	1.2	2.2	2.5	1.8	2.3	2.3
India	6.1	6.3	7.0	7.3	6.9	5.2	4.7
Indonesia	2.3	4.2	4.0	3.8	3.6	3.3	3.4
Korea	3.8	5.1	5.1	4.7	4.6	3.0	2.0
Philippines	3.3	5.2	4.7	4.0	4.3	4.1	3.5
Singapore	4.6	4.9	4.2	3.6	4.3	3.4	3.5
Taiwan	2.8	2.6	2.7	2.5	2.7	2	2.2

Source: ING estimates

Oil forecasts (avg)

($/bbl)	1Q22F	2Q22F	3Q22F	4Q22F	2022F	2023F	2024F
Brent	97	103	108	110	105	94	82

Source: ING estimates

ING's forecasts under three different scenarios

	2022					2023					2024				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Lower Energy Price Scenario															
Real GDP growth (QoQ% annualised)															
United States	-1.40	3.20	3.80	3.40	2.90	3.30	3.00	2.80	2.90	3.20	2.40	2.10	2.00	2.00	2.40
Eurozone	0.80	1.80	3.70	3.30	3.10	2.60	2.50	2.30	2.10	2.70	2.00	1.80	1.60	1.40	2.00
China (YoY%)	6.00	5.00	8.00	8.50	6.90	9.00	9.50	7.00	6.50	8.00	6.50	7.00	8.30	8.50	7.60
Japan	0.00	6.10	4.00	2.80	2.50	2.00	2.00	2.00	2.00	2.70	1.20	1.20	1.20	1.20	1.50
United Kingdom	4.50	2.10	1.90	2.20	4.70	0.70	1.30	1.70	2.00	1.50	1.80	1.50	1.50	1.50	1.70
Real GDP level (Indexed at 4Q19=100)															
United States	102.80	103.60	104.60	105.50	-	106.30	107.10	107.80	108.60	-	109.30	109.80	110.40	110.90	-
Eurozone	99.70	100.10	101.10	101.90	-	102.50	103.20	103.80	104.30	-	104.80	105.30	105.70	106.10	-
Japan	99.60	101.10	102.10	102.80	-	103.30	103.80	104.30	104.90	-	105.20	105.50	105.80	106.10	-
United Kingdom	101.00	101.60	102.00	102.60	-	102.80	103.10	103.50	104.10	-	104.50	104.90	105.30	105.70	-
Base Case Scenario															
Real GDP growth (QoQ% annualised)															
United States	-1.40	2.60	2.80	2.40	2.50	1.20	1.40	1.60	1.70	1.80	2.00	1.90	1.90	1.90	1.90
Eurozone	0.80	-0.70	1.10	2.00	2.20	2.10	2.50	2.30	1.90	1.90	1.60	1.50	1.50	1.20	1.70
China (YoY%)	4.80	-1.00	4.30	6.30	3.60	7.00	8.50	5.50	5.00	6.50	5.00	6.00	6.10	5.80	5.70
Japan	-2.40	4.40	2.00	2.00	1.20	1.60	1.20	1.20	1.20	1.80	0.80	0.80	0.80	0.80	0.90
United Kingdom	3.80	-1.10	1.70	0.60	3.80	1.30	1.60	2.00	2.00	1.30	1.80	1.60	1.60	1.60	1.80
Real GDP level (Indexed at 4Q19=100)															
United States	102.80	103.50	104.20	104.80	-	105.10	105.50	105.90	106.30	-	106.90	107.40	107.90	108.40	-
Eurozone	99.70	99.50	99.80	100.30	-	100.80	101.40	102.00	102.50	-	102.90	103.30	103.70	104.00	-
Japan	99.00	100.10	100.60	101.10	-	101.50	101.80	102.10	102.40	-	102.60	102.80	103.00	103.20	-
United Kingdom	100.90	100.60	101.00	101.20	-	101.50	101.90	102.40	102.90	-	103.40	103.80	104.20	104.60	-
Higher Energy Price Scenario															
Real GDP growth (QoQ% annualised)															
United States	-1.40	0.50	1.10	1.40	1.90	-0.20	-0.70	1.40	1.90	0.50	1.90	2.20	2.10	2.10	1.80
Eurozone	0.80	-2.40	-3.70	-0.90	1.10	1.30	1.90	1.70	1.60	0.20	2.00	2.40	2.80	2.00	2.00
China (YoY%)	1.50	-3.00	3.00	5.00	1.60	6.00	4.80	5.00	4.50	5.10	4.50	5.00	5.00	4.70	4.80
Japan	-6.00	2.00	0.80	0.40	-0.40	0.40	0.40	0.40	0.40	0.60	0.40	0.40	0.40	0.40	0.40
United Kingdom	4.50	-1.70	-3.80	-0.40	3.00	0.40	1.50	2.20	1.90	0.10	1.50	1.50	1.50	1.50	1.70
Real GDP level (Indexed at 4Q19=100)															
United States	102.80	102.90	103.20	103.60	-	103.50	103.30	103.70	104.20	-	104.70	105.20	105.80	106.30	-
Eurozone	99.70	99.10	98.20	97.90	-	98.30	98.70	99.10	99.50	-	100.00	100.60	101.30	101.80	-
Japan	98.10	98.60	98.80	98.90	-	99.00	99.10	99.20	99.30	-	99.40	99.50	99.60	99.70	-
United Kingdom	101.00	100.60	99.60	99.50	-	99.60	100.00	100.50	101.00	-	101.40	101.80	102.20	102.50	-

Source: ING

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