Monthly Economic Update
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THINK Economic and Financial Analysis

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Bigger things than the Suez ship are still firmly stuck in the mud

- *One of the main themes in the global economy is the growing divergence between the US and the eurozone. Or as Eurosceptics would say, the growing divergence between the eurozone and the rest of the developed world.*

Ever Given leaves supply chain disruption in its wake

- *With the Suez Canal open again, a stretched world trade system can't catch up overnight, increasing the disruption to supply chains*

US: All systems go in the US

- *Consumer spending is supported by stimulus, investment is buoyed by strong order books, and jobs growth is set to soar as the economy reopens in the second quarter. Inflation remains a nagging concern and is likely to prompt earlier policy tightening than the Federal Reserve is publicly admitting*

Eurozone: Flip-flopping towards recovery

- *Economic sentiment in the eurozone is clearly improving, though new lockdown measures still point to a weak start to the second quarter. Pipeline inflationary pressures are increasing, but it is probably too soon to talk of a lasting trend*

UK: A mixed recovery story

- *The news on the UK's vaccine rollout and Covid-19 strategy is, for now at least, still fairly promising. That bodes well for a second-quarter growth bounce, but thereafter we suspect the recovery may be a little more muted than in the US. Price pressures are likely to be less of an issue for the Bank of England, suggesting no tightening before 2023*

China: Revising our USD/CNY forecast

- *Exchange rate reform has shown that USD/CNY can be quite volatile, which is why we are revising our USD/CNY forecasts. In this note, we discuss the progress in liberalisation efforts and the prospects for interest rate reform in 2021*

Asia: The reflation trade

- *A lot has been written about the possible impact of rising US Treasury yields on equities and other risk assets, but what about bond markets in Asia? How have they fared?*

CEE: Some Like It Hot

- *Covid cases are rising, lockdowns are extended yet the growth outlook still points to a rebound from late in the second quarter and beyond. With CPI above target everywhere in the region, the reflation theme remains but the central banks'*

preferences vary. Some won't tighten (NBP), some will be forced to (NBH) and some will hike willingly (CNB)

FX: It seems like the euro is always stuck in second gear

- *Recovery trades in the FX market have been slowed by the pincer movement of a delayed European recovery on the one hand and by early Fed tightening expectations on the other. We still think there is scope for EUR/USD to recover later this year, but the window of opportunity is closing*

Rates: Some inflation with your recovery, sir?

- *The context could not be more stark; a 10% increase in US nominal GDP versus a sub-2% 10yr yield. The first bit is virtually nailed on, and comes with 3-4% of inflation on the side, keeping real yields deeply in negative territory. The only way to partially square this circle is for US market yields to rise, and eurozone ones too, on post-Covid positivity*

The greening of monetary policy

- *Central banks around the globe are currently investigating how to join the fight against climate change. Here's what they're already doing and what they still could and perhaps should do*

Covid-19 hits European cohesion

- *Covid-19 has not only had an unequal impact on public health, it also threatens to spread future economic inequality and put European cohesion at risk. One year after the first lockdown measures were taken, we find that the risk of higher inequality is present in various forms within the European labour market*

Container and shipping shortage piles pressure on prices

- *The container and shipping shortages, a surge in commodities demand, and protectionist measures add to inflationary pressures worldwide as the pandemic recovery unfolds. This is unlikely to unwind before the second half of the year*

Brexit: Taking stock after a turbulent start to 2021

- *Some of the initial trade disruptions from the new UK-EU relationship has undoubtedly cleared since January, though the effect of new paperwork is clearly still rippling through the economy. While there are quick fixes that could help reduce some of the burden on firms, a fractious political relationship makes finding compromise tricky*

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Bigger things than the Suez ship are still firmly stuck in the mud

One of the main themes in the global economy is the growing divergence between the US and the eurozone. Or as Eurosceptics would say, the growing divergence between the eurozone and the rest of the developed world.

While the US economy is powering ahead, boosted by the Biden stimulus and a much faster vaccination campaign, the eurozone economy once again sees almost everything that could go wrong go wrong. In this regard, the sight of tugboats trying to unstick the containership Ever Given in the Suez Canal is to some extent a metaphor for the difficulty in getting the eurozone recovery on a sustainable course.

A third wave of the pandemic has pushed several eurozone countries to tighten lockdown measures again or to extend them, jeopardising a reopening of the economy in April. Exponential growth of the vaccination pace is still possible after Easter but currently looks too good to be true. And as if things couldn't get any worse, the fact that the temporary blockage of the Suez Canal will mainly hit Asia and Europe but not the US, adds to the eurozone's problems. Not to mention the fact that the German Constitutional Court is once again leaving its mark on European crisis tools, having asked German President Frank-Walter Steinmeier to stop the ratification of the flagship symbol of last year's European solidarity, the European Recovery Fund. The balance of economic recovery is currently clearly tilted to the US, with all potential effects on bond yields and currencies.

However, there is at least another global theme which will hit the entire developed world and not only Europe: the increase in production costs on the back of rising container and shipping costs, shortages in the delivery of semiconductors and raw materials. These higher production costs will no doubt also find their way into consumer price inflation in the coming months. Therefore, even if central banks manage to convince financial markets that they will be looking through higher inflation numbers and will not react with any premature monetary policy tightening, this conviction might be put to the test in the coming months.

Even if the short-term economic outlook is still highly determined by lockdowns, relief and vaccinations, we try to look ahead with some articles in this Monthly Economic Update, investigating the potential consequences of the pandemic for cohesion in the eurozone and the greening of monetary policy across the world. The latter is at least one area in which the eurozone is currently leading.

All in all, growing divergence will remain a significant theme in the short run. It will take until the summer and will require the absence of any fourth and fifth wave of the virus for the eurozone to bounce back, allowing developed economies globally to stage a synchronised recovery.

ING's three scenarios for the global economy and markets

2021: Virus, vaccines and the reopening

ING base case

Assumptions

- **Vaccines have a strong impact on transmission**, reducing need for medium-term restrictions
- **New Covid-19 variants emerge** but are mitigated by winter booster shots in developed world
- **Global travel** increases but remains constrained this year
- **EM vs DM split emerges** in reopening ability given differing vaccine rollout pace

	United States	Eurozone	Asia
Herd immunity & restrictions	Most adults will be vaccinated by end-May, allowing a broad re-opening of the US economy in Q2	Vaccine roll-out will gain momentum through Q2, accompanied by gradual reopenings.	Rollout will speed up over 2H21 but will not complete for many until 2022
2021 growth ING forecast	**6.9%**	**3.6%**	**China: 7.0%** **Japan: 3.5%**

Optimistic scenario

- Vaccines overwhelmingly reduce transmission
- Full 2Q reopening in US/Europe. Social distancing gone by end of 2021

2021 growth
US: 8.10% Eurozone: 2.80% China 10.25%

Pessimistic scenario

- Vaccines only partially reduce transmission
- Restrictions return in 3Q/4Q. Social distancing continues into 2022. Borders tightened

2021 growth
US: 4.80% Eurozone: 2.30% China 5.38%

2022: The full recovery and long-term 'scarring'

ING base case

Assumptions

- **Unemployment** rises in Europe as wage support ends, but globally jobs market is faster to recover than after the GFC
- US **infrastructure** package comes online in chunks. EU **recovery fund** kicks-in in H2 2021/2022 but no additional stimulus
- **Global travel** begins to return to normality
- **Fed** tapers and signals 2023 rate hikes. **ECB** starts to unwind PEPP but increases APP

	United States	Eurozone	Asia
Recovery strength (Growth, jobs, inflation)	A re-opened economy offers more opportunities to spend stimulus cash with employment rising rapidly. Supply constraints mean inflation is likely to be more of a theme than in Europe.	Later reopening delays recovery and muted fiscal stimulus leads to solid but not impressive growth in 2022 and 2023. Inflation falls back to around 1.5% in 2022.	Low daily cases, but political intolerance for Covid means restrictions are slow to disappear until vaccine rollout makes progress, weighing on pace of recovery
2022 growth ING forecast	**4.6%**	**3.5%**	**China: 4.6%** **Japan: 1.7%**

Optimistic scenario

- Strong fiscal support (US infrastructure, EZ recovery fund)
- Buoyant economies triggers faster jobs rebound than past crises. Hardly any increase in unemployment

2022 growth
US: 4.70% Eurozone: 4.60% China 3.50%

Pessimistic scenario

- Cashflow/wage support extended but recovery/ infrastructure plans on hold
- Lengthier crisis sees bankruptcies rise, triggering longer-lasting rise in unemployment

2022 growth
US: 4.10% Eurozone: 2.10% China 4.88%

Note: GDP forecasts have been rounded to nearest whole or half number. Source: ING

Ever Given leaves supply chain disruption in its wake

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With the Suez Canal open again, a stretched world trade system can't catch up overnight, increasing the disruption to supply chains

The Ever Given, a Panama-flagged cargo ship is pulled by tugboats, in the Suez Canal, Egypt. 29 March, 2021.

The blockage is over, but the damage is done

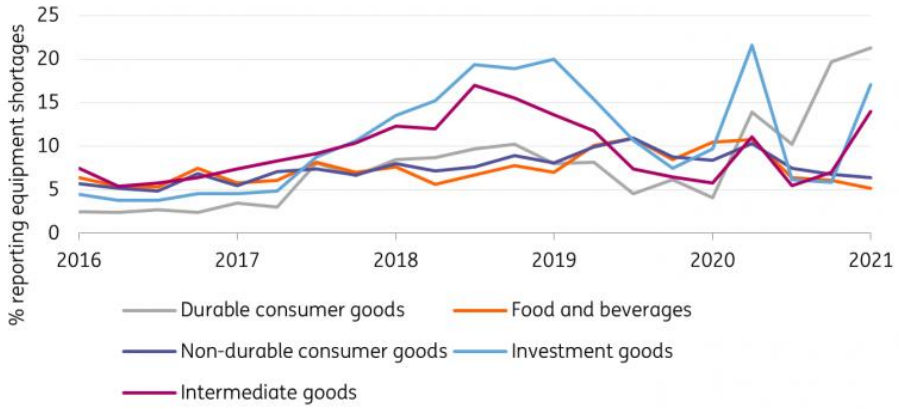
The six-day-long period of traffic being completely stopped in both directions along the Suez Canal has delayed some 16 million tons of cargo freight on hundreds of container ships. Getting back on track will put an already stretched system under more strain. Estimates suggest that the queue of ships which has built up will be able to move through the canal within two weeks.

Ships arriving at the Suez Canal will be delayed while the backlog is cleared, but opting for the Cape of Good Hope route to avoid the Suez Canal will add at least a week on to journey times. Taking into account the likely bottlenecks when ships arrive at their destinations via either route, the effects of Ever Given's time in the Suez Canal will be felt in vessel waiting times and port congestion in European and Asian ports for weeks to come, and in global supply chains for much longer.

What the Suez blockage really means for trade

While the impact of the canal disruption may not register on world trade volumes already straining against capacity constraints, it illustrates the risks of the system operating at such tight capacity. This results in any disruption having large ripple effects, with delays quickly causing problems along supply chains that take a long time to resolve.

Running short of equipment is an increasing problem for EU businesses



Source: DG ECFIN, ING calculations

Shipping capacities between Europe and Asia have been under pressure since the beginning of the pandemic, suffering four out of five cancelled sailings of ships while Pacific Routes have seen capacity little changed. Problems have mounted, including continuing shortages of containers and equipment affecting the ability of European countries to export their goods.

Inbound trade has also been a problem, with equipment shortages in the sectors most associated with ocean freight – investment goods (such as machines and computers used by industry), intermediate goods (inputs to manufacturing) and consumer durables (furniture and electronics) increasingly being reported as limiting production within the EU.

Deliveries delayed by the Ever Given will add to these disruptions, in some cases bringing production to a stop. The average delay for late vessel arrivals at ports has risen above six days in 2021, the highest on record, having steadily increased during 2020, as world trade has struggled to keep up with fast-recovering demand around the world.

Another alarm bell ringing, but don't expect a big rethink of global supply chains yet

The faster than feared re-floating of the Ever Given will help to limit the damage, and allow trade between Europe and Asia to continue to normalise. But this is a setback in what has already been a sustained period of difficult conditions for trade between the two regions. Nonetheless, a major re-shoring effort is unlikely to follow. Relief is round the corner for some of ocean freight's worst difficulties, as air freight capacity begins to recover and the most time-sensitive goods can once again be transported by air. Port handling speeds will also increase once safety measures for staff can be relaxed.

US: All systems go in the US

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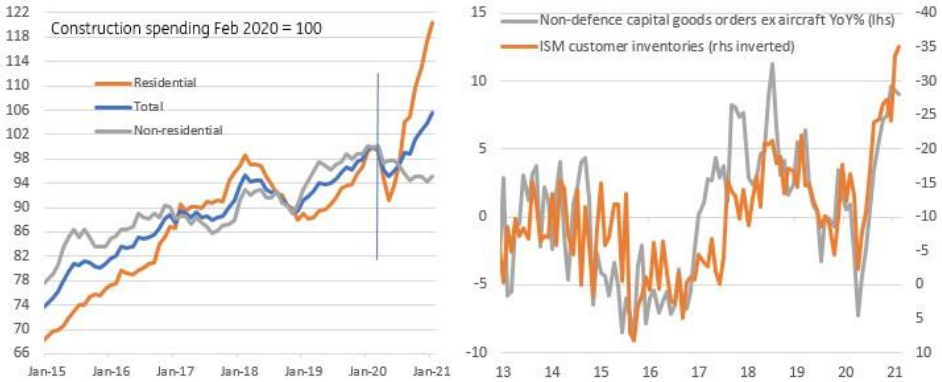
Consumer spending is supported by stimulus, investment is buoyed by strong order books, and jobs growth is set to soar as the economy reopens in the second quarter. Inflation remains a nagging concern and is likely to prompt earlier policy tightening than the Federal Reserve is publicly admitting

Spending set to surge

It has been an up-and-down start to the year as the $600 stimulus payment and successful vaccine rollout lifted sentiment and spending in January, only for a harsh winter storm and generally cold conditions to impact supply chains and keep people tucked-up inside in February. However, the numbers for March are set to bounce sharply with the latest $1,400 stimulus payment being put to use in an economy that is opening up more fully.

As vaccination numbers rise and hospitalisations fall, individual states will relax rules further. This will create more job opportunities while increasing the range of venues for people to spend money. At the same time, household balance sheets are in a strong position with only around a quarter of the stimulus spent with the rest used to pay down debts and increase savings. This will create a strong platform for growth this year.

Companies are having to pay more for workers and are passing on the costs



Source: Macrobond, ING

We revise up our 2021 GDP forecast to 6.9%.

Corporate investment spending is likely to fuel the recovery further as strong order books and record low customer inventory levels boost the outlook for demand and corporate profits. In the construction sector, robust housing demand amid a dearth of supply will keep house prices elevated and the outlook for residential investment rosy. Given this situation, we have revised our 2021 GDP forecast to 6.9%.

"Building Biden's legacy"

A successful recovery from the pandemic is obviously the near-term target, but the Build Back Better infrastructure and green energy investment plan is what President Joe Biden wants as his legacy.

His election manifesto centred on a $3tn+ spending plan that will decarbonise electricity production by 2050. There will be incentives and legislation surrounding energy-efficient buildings and vehicles with additional investment in rail and road infrastructure. Money will also be provided to boost 5G and broadband internet access.

These measures will be packaged up with higher taxes for corporates and top earners together with increased property and capital gains tax rates in order to "reward work, not wealth".

"President Biden is seeking bipartisan support for his infrastructure and green energy investment plan."

President Biden is seeking bipartisan support. However, the proximity to the November 2022 mid-term elections adds to the complexity of discussions and is a key reason why the package is being marketed as a way of competing with China both economically and on technology. After all, there will be temptation among many Republicans legislators to stand resolute and block it and then blame the Democrats for not compromising. The calculation is that an eventual smaller package fails to live up to voter expectations and hurts the President.

All 435 House seats and a third of the Senate will be up for re-election and failure to get a deal through could risk being a factor that leads to the Democrats wafer-thin majority in both the House (222 seats to 213) and Senate (a 50-50 tie with VP Kamala Harris breaking the deadlock) being wiped out.

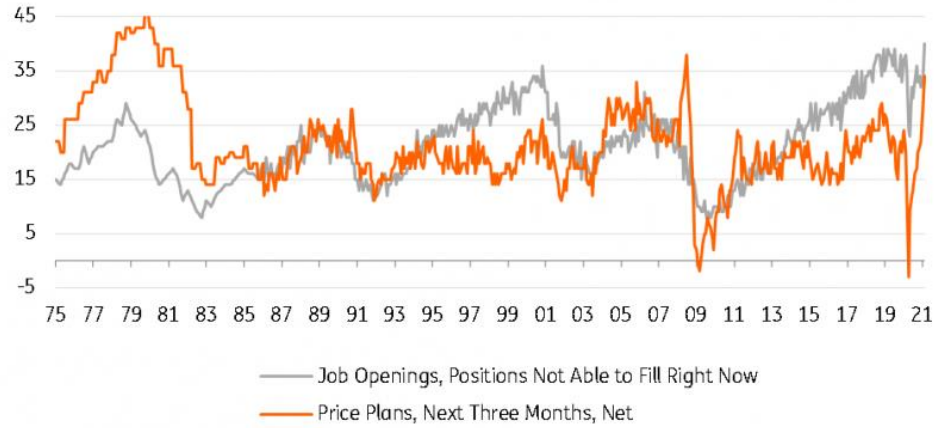
Such an outcome would leave Biden's legislative agenda for the second half of his term in tatters. As such, this piece of legislation is critical and if it does look as though it is going to be blocked we are likely to see the package broken up into smaller prices with

other routes, such as the budget reconciliation process, used to make sure key planks are passed. While this would involve some watering down of proposals it can still result in substantial investment and job creation that can help maintain strong economic momentum in coming years.

Inflation to pose challenges

Turning to inflation, we continue to see upside risks. In the near term, we could get close to 4% year-on-year as price levels in a vibrant reopened, supply-constrained economy contrast starkly with those of one in lockdown last year. These "base" effects will gradually ease, but we see additional upside threats from commodity prices and shipping costs, but mainly it is from the labour and the housing markets.

Companies are having to pay more for workers and are passing on the costs

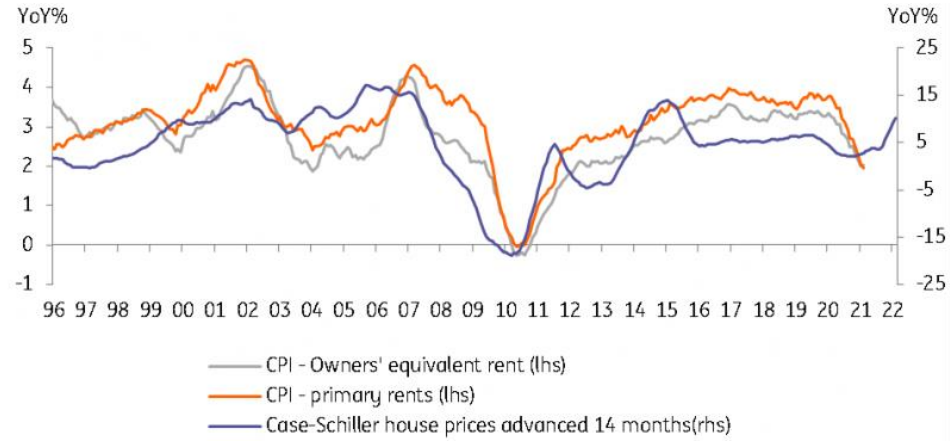


Source: Macrobond, ING

While the US has 9.5 million fewer people in work than it did 12 months ago, companies are struggling to fill vacancies (see chart above, which shows a record proportion of small businesses that cannot fill roles). Part of it is people having to stay at home looking after children given numerous school districts remain on remote learning. However, uprated and expanded unemployment benefits (average of $350 per week state unemployment benefits and a $300 per week Federal payment) means it is difficult to compete with that and get people back to work in many industries.

As such, if you want your restaurant, bar, hotel, gym, etc to reopen you are going to have to raise your rates of pay substantially. Much of this is likely to be passed onto consumers.

House prices to push inflation higher over the longer term



Source: Macrobond, ING

The potentially bigger medium-term issue is the fact house prices are rising 15% year-on-year (20% in the northeast of the US). Primary rents and owners' equivalent rent is

32% of the inflation basket and it lags turning points in house prices by around 14 months. This is going to be a key factor that keeps US inflation more elevated relative to Europe.

The Federal Reserve to raise rates before 2024

Consequently, while the Fed continues to tell us that it won't raise interest rates until 2024, we think this is going to be an increasingly tough sell given our outlook for growth, jobs and inflation. We look for two rate hikes in 2023 with the Fed funds target rate up at 2% in 2025.

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Eurozone: Flip-flopping towards recovery

Economic sentiment in the eurozone is clearly improving, though new lockdown measures still point to a weak start to the second quarter. Pipeline inflationary pressures are increasing, but it is probably too soon to talk of a lasting trend

The German Chancellor, Angela Merkel, has got her back to the wall politically

Third wave

The sight of tugboats trying to unstick the containership Ever Given in the Suez Canal is to some extent a metaphor for the difficulty in getting the eurozone recovery on a sustainable course. The issues are now well-known: a third wave of the pandemic has pushed several countries to tighten lockdown measures again or to extend them, jeopardising a reopening of the economy in April. Without a miraculous acceleration of the vaccination pace, not only will the skiing season and Easter holidays be lost, but a big part of summer tourism will be at risk, too.

> *"The temporary blockage of the Suez Canal adds to ongoing supply disruptions"*

While the shipping delays prompted by the temporary blockage of the Suez Canal are not a game-changer, this certainly adds to the supply chain disruptions hurting some eurozone sectors. Fortunately, the large US fiscal stimulus will also have a positive impact on the eurozone economy (around 0.5ppt according to the OECD), but the domestic fiscal impulse is likely to soften over the coming year. Moreover, the German Constitutional Court ordered German President Frank-Walter Steinmeier to stop the ratification of the European Recovery Fund on the back of a complaint that the set-up of the fund conflicts with the German constitution. While we believe that the fund will still go ahead, chances are slim that Karlsruhe court will allow the fund to become permanent.

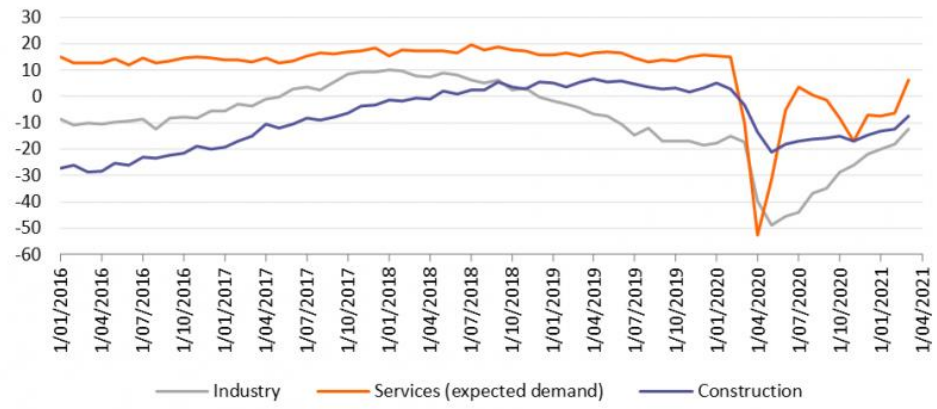
Second quarter recovery still likely

To be sure, the latest sentiment data is quite strong, though the surveys were taken before the announcement of new lockdown measures and might therefore paint too rosy a picture. However, the fact that order books are filling up definitely points to a

recovery in the second quarter. We still think that some of the excess savings households accumulated will gradually be reinjected into the economy, boosting the recovery in the second half of the year.

That said, with the second quarter still negatively impacted by the pandemic and the slow vaccination pace, we have reduced our GDP growth forecast for 2021 from 3.8% to 3.6%, maintaining 3.5% for 2022.

Order books filling up



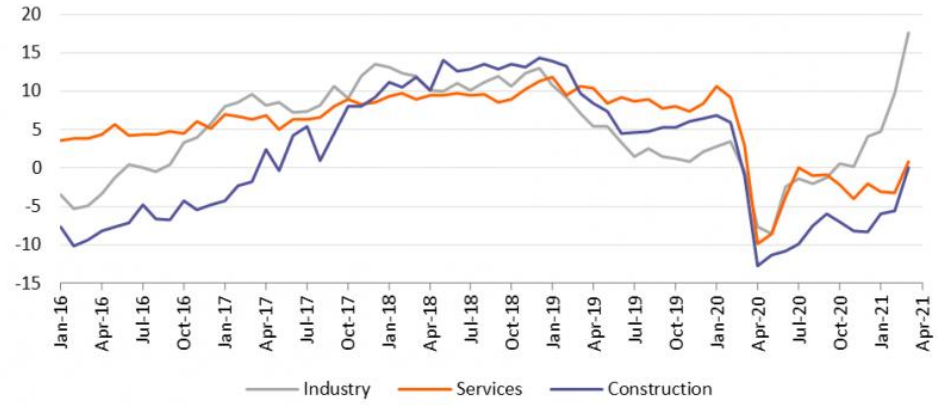
Source: Refinitiv Datastream

Pipeline price pressures

With strong international demand for goods and strained supply chains leading to increased prices for commodities, intermediate goods and transport, it doesn't come as a surprise that selling price expectations in industry jumped in March to the highest level since 2011. But in construction, retail and even in the services sector, selling price expectations have also increased. So pipeline price pressures are becoming more important, especially in manufacturing.

At the same time, we believe that supply chains will normalise in the course of the year, once inventories have been replenished. Energy prices are also not expected to rise significantly further from today's levels, given the important spare capacity. And it still seems too early to expect that a spike in inflation will immediately set in motion a price-wage spiral. The most recent wage agreement in Germany, one of the leading countries in terms of the recovery, actually remained rather subdued.

Expected selling prices survey



Source: Refinitiv Datastream

ECB remains supportive

The European Central Bank has already stated that it will look through the price increases this year and that the economy still needs support. For the time being, this support is focused on preventing a preliminary steepening of the yield curve. However, as the recovery takes hold, the ECB will reassess financial conditions. Board member Isabel Schnabel stated that as the economy recovers, real and nominal long-term rates will gradually rise in tandem with the real equilibrium rate, though this could not be considered monetary tightening. We stand by our conviction that some increase in bond yields is likely, with the German 10-year bund yield leaving negative territory within 12 months.

UK: A mixed recovery story

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The news on the UK's vaccine rollout and Covid-19 strategy is, for now at least, still fairly promising. That bodes well for a second-quarter growth bounce, but thereafter we suspect the recovery may be a little more muted than in the US. Price pressures are likely to be less of an issue for the Bank of England, suggesting no tightening before 2023

The vaccine rollout continues to go well

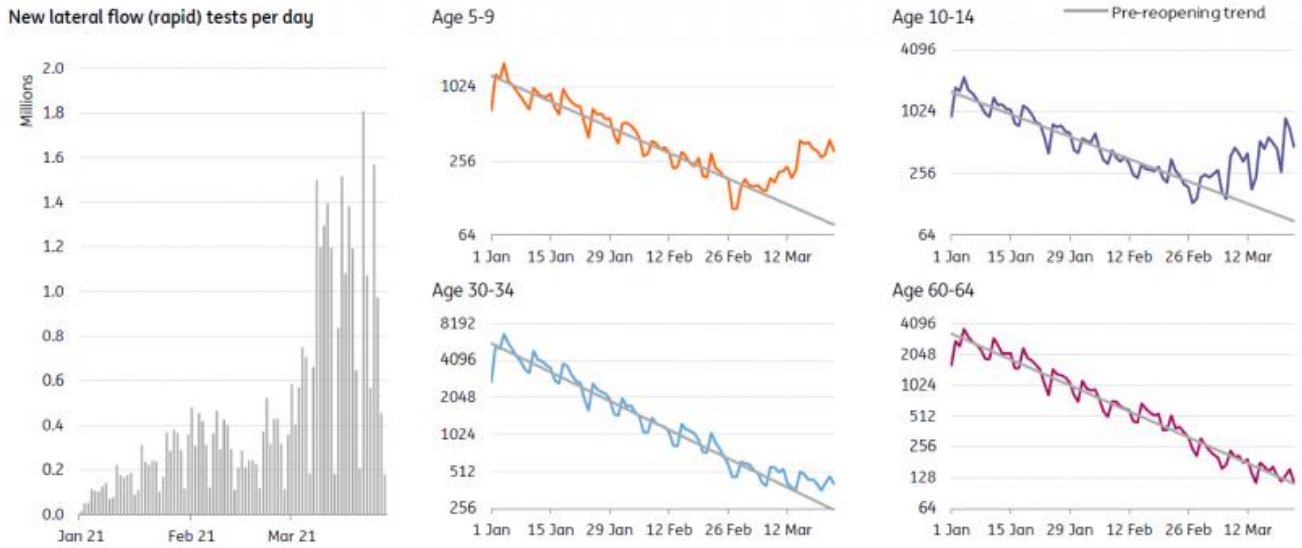
Having endured a long and strict lockdown for all of the first quarter, the UK economy is now gradually reopening. And at face value things still look fairly promising.

The vaccine rollout has now offered all over-50s, or roughly half the population, a first dose. Unfortunately supply is expected to decrease through April, owing to a delayed shipment of AstraZeneca vaccines from India. However, reports of stockpiled doses suggest the NHS will still manage to administer a significant number of second doses.

Meanwhile, despite all the noise emanating from the EU over export bans, the improving supply picture for governments on both sides of the channel should hopefully mean the rate of first doses picks up again from May. At this stage, it still seems likely that most adults will have received at least a first dose by the end of the second quarter.

On Covid-19 cases, the picture is also still generally good, and means the April and May parts of the reopening plan appear on track. We have seen cases rise among school children since the reopening of classrooms earlier in March, though so far this has not been meteoric and the number of tests has skyrocketed. At the time of writing, we reckon there have been roughly 10 million extra rapid tests conducted in England on top of what was already being done (most of which presumably linked to schools. Despite that, there have been 'only' around 10,000 extra cases among school-age children across the UK.

Cases are rising among children, but mainly because of greater testing



Note: Lateral flow test data is from England only, while cases are UK-wide Source: Gov.uk Coronavirus Dashboard, ING calculations

The risk, unsurprisingly, is that case growth picks up considerably in the intervening period between reopening and wide-scale vaccination. Until larger chunks of the under-50 population is partially vaccinated, there's still clearly a risk of transmission (and ultimately, mutations), even if the mortality/hospitalisation risk has been considerably reduced.

However, if we assume the next couple of reopening stages remain on track, then we should see a decent second-quarter bounce, probably in the region of 4-5%. This is a little lower than we'd forecast before, though only because the fall in output in the first quarter appears to have been quite a lot less bad than first feared.

UK inflation set to be more muted than the US

Thereafter, there are reasons to think the recovery may be less exciting than that of the US. It's a consensus view now that unemployment will rise as furlough support is removed, though the hope is that the rise in the jobless rate may be limited to 6-6.5% (from 5% now).

Admittedly, we also hope that the recovery from the peak may be a little faster than we've seen in previous recessions. The fact that most of the prior - and anticipated - job losses are so concentrated in consumer services is unusual. These sectors tend to have above-average rates of employee turnover and have historically led other sectors out of unemployment spikes. Hopefully the same should be true this time once the likes of hospitality and other consumer service business are back on their feet.

But there will still inevitably be a 'scarring effect', amplified by the higher cost burdens many firms are encountering due to Brexit. That suggests that the outlook for wage growth is relatively benign.

That said, headline inflation is likely to rise to around 2% later this year, predominantly driven by energy, but not helped by recent supply chain disruptions both globally and locally due to Brexit. Durable goods inflation already spiked in the second half of 2022.

However there are reasons to think this inflation spike may not persist into 2022. While we expect some supply/demand imbalances in the service sector to trigger price rises, they may not be wide-scale enough to have a large and long-lasting impact on core inflation.

For the Bank of England, this means that there is no rush to remove the current level of stimulus, and tightening is likely to be a 2023 story. That said, we also think the chances of negative interest rates materialising this year have continued to fall.

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China: Revising our USD/CNY forecast

Exchange rate reform has shown that USD/CNY can be quite volatile, which is why we are revising our USD/CNY forecasts. In this note, we discuss the progress in liberalisation efforts and the prospects for interest rate reform in 2021

China Fujian Xi Jinping Inspection - 24 Mar 202

Exchange rate liberalisation is in charge

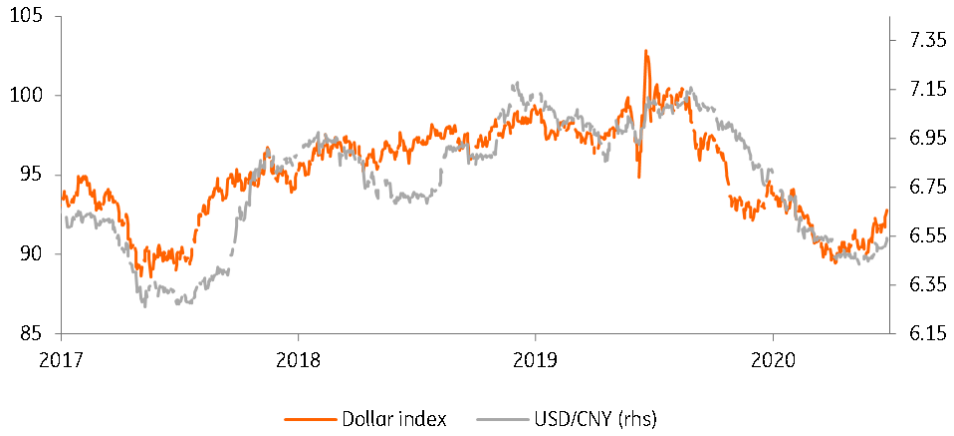
Since October 2020, China's central bank, PBoC, has liberalised the exchange rate by fading out the counter-cyclical factor in the daily fixing mechanism. Though the daily fixing exchange rate is still announced in the morning of every trading day in Mainland China, the transparency of the fixing has increased. The market has since got used to the USD/CNY fixing following the direction and momentum of the dollar index, which reflects changes in market information.

In making this change, the PBoC and the market face higher yuan volatility. This risk is not only taken by the market but by the central bank as well. When there is unexpected news or data that hints at either much bigger capital inflows or outflows, moves in USD/CNY will be particularly unpredictable.

If the central bank has a contingent plan for this lack of predictability and/or believes that cross border capital flows are fairly stable in China, it is unlikely to be too concerned about this risk.

For now, the latter is true. The capital account in China is still not fully open, although it has opened a lot within the past few years. One example is to allow foreign investors to invest in China's bond market, which indeed attracts capital outflows, and these are fairly stable investments.

USD/CNY is increasingly correlated with the dollar index



Source: CEIC, ING

Interest rate reform is coming

What we are looking for in 2021 is interest rate reform. Though banks have now adopted the Loan Prime Rate as the benchmark interest rate for longer-term loans, the market is not yet sensitive enough to reflect all of the risk, including credit, interest and liquidity, in the interest rates that link to the benchmark interest rate. Short-term loans face a similar situation.

We, therefore, expect the PBoC to guide banks further in quoting interest rates to clients. These clients not only include big corporate clients but also small retail borrowers. In fact, regulators are clamping down on online platforms similar to “peer-helping” lending platforms that target small retail borrowers. We believe that regulators will put more emphasis on both the legality of lending and the sensitivity of interest rates to the risks incurred in such lending.

The main domestic factor which could affect the yuan

The government has deepened deleveraging reform in the real estate sector. This is, in fact, good news because those 'too big to fail' real estate developers are now being closely monitored by the central government for how they use their borrowings under the category of "working capital". Real estate developers should no longer be able to use the loophole of "working capital" to bid for land. This will speed up the deleveraging process.

To be sure, there is a risk of deleveraging too fast, which could squeeze some weak developers into bond and loan defaults. But the number of such cases should be small, and they shouldn't be the biggest developers.

This domestic factor could affect USD/CNY if there is bad news from the sector.

Revising USD/CNY forecast

As USD/CNY is now increasingly reactive to the dollar index, and Covid is yet to be under control in the US and Europe, we are revising our forecast of USD/CNY to 6.30 from 6.20 by the end of 2021. We may further revise the forecast if the dollar strengthens.

Asia: The reflation trade

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A lot has been written about the possible impact of rising US Treasury yields on equities and other risk assets, but what about bond markets in Asia? How have they fared?

A woman buys fruits at a supermarket in Manila, the Philippines

ASEAN bond markets hardest hit, but with one exception, not excessive

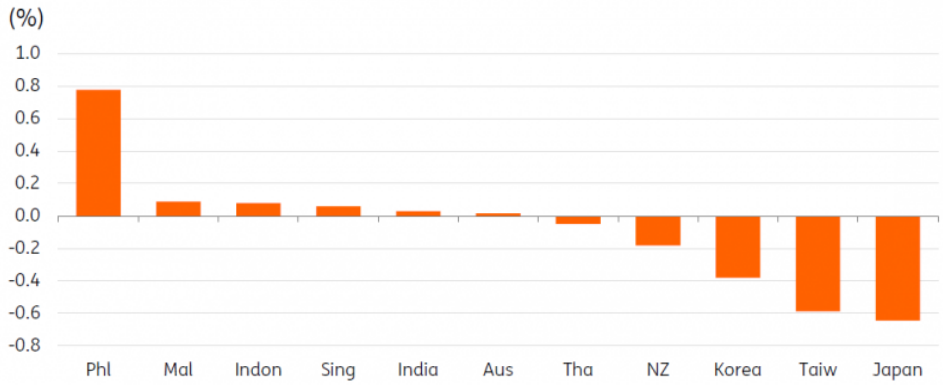
The first point to note is that so far, outside Asia-Pacific, the US Treasury yields move has been received in a fairly orderly fashion. This has not been a one-way move and has still left most risk assets close to all-time highs. There is no sense, for example, that central banks anywhere need to step in to protect investors, many of whom are still up massively over the last 15 months or so. Analysts' forecasts continue to suggest that regional monetary authorities (with the odd exception) will ride out the current bond rout and keep policy rates unchanged.

That said, there has been a significant impact on local currency bond yields in the APAC region which will inevitably exert some downward pressure on recovery prospects as it feeds through into higher borrowing rates. This has been most notable in ASEAN markets, where 10-year yields have broadly tracked those of US Treasuries, with a slight tendency for local currency government bond yields to rise more than respective USTs. This is the case for Malaysia, Indonesia, and Singapore.

But even in developed markets, such as Australia, the same tendency is shown. This does not appear to be an emerging market vs developed market story. At least not yet. New Zealand has seen a smaller increase in its benchmark 10-year government bond yields. But that mainly stems from new government measures to dampen their booming housing market, reflected in a failed quantitative easing operation recently which suggests that local bond investors already believe the sell-off has gone far enough. In contrast, there has been a proportionately much smaller rise in bond yields in North Asian economies - Korea, Taiwan, and Japan.

Standing out from all the others, Philippine bonds have been extremely hard-hit, with the 10-year bond yield charging higher by 147 basis points since the beginning of the year. Both Bangko Sentral ng Pilipinas (BSP) and Bank Indonesia (BI) have active bond purchase mechanisms that have been deployed to limit the increase in yields. But in the case of the Philippines, this does not seem to have made much difference.

10Y APAC bond yields since 1 Jan (relative to UST10s)



APAC bond yields relative to USTs
Source: CEIC, APAC central banks, High charts, ING

Wrong place / wrong time for Philippine inflation?

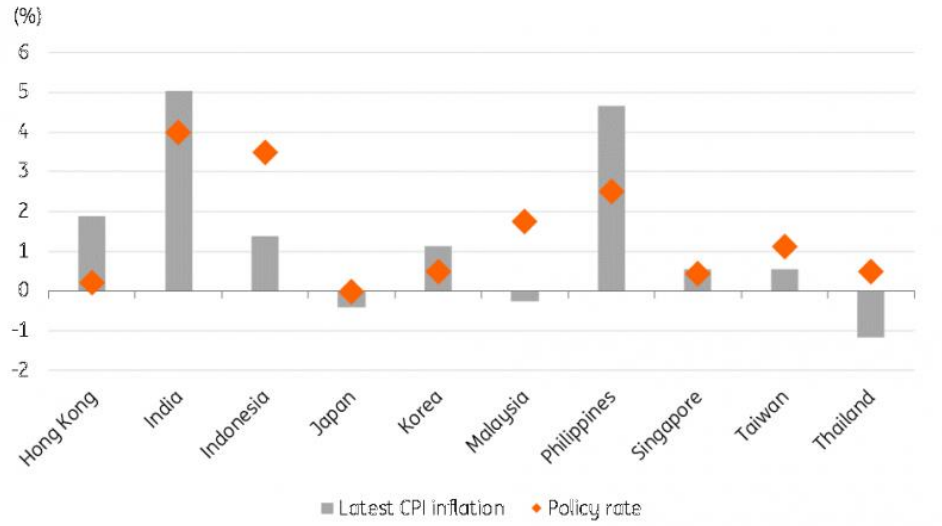
The Philippines continues to suffer one of the longest lockdowns anywhere globally, and was recently extended as new variants have pushed up daily case numbers, blotting the prospects for an imminent economic reopening. But Indonesia and Malaysia have also experienced difficulties with the pandemic in recent months. This is probably not what is causing the Philippine bond market's problems.

The one indicator that sticks out above all others among ASEAN markets is the Philippines' above-target inflation rate. Within the ASEAN group, the Philippines is the only economy facing surging inflation while also suffering from the worst recession (-9.5% year-on-year in 2020). Outside the ASEAN, India too has seen inflation push up again to 5% in February, towards the upper end of its 2-6% target range. But the RBI was the first central bank in the region to tighten policy with its 50bps cash reserve ratio increase in February. Bond markets may be rewarding the RBI for its proactive approach.

Supply-side factors together with some slightly higher energy (oil-related) prices are almost entirely to blame for the inflation surge in the Philippines (an African swine fever outbreak has pushed up pork and other meat prices). And the most recent reading for Philippine headline inflation of 4.7%, has resulted in a negative real policy rate of 2.7%.

In contrast, both Thailand and Malaysia are experiencing disinflation due to weak domestic demand while Indonesia's inflation has slipped below the 2-4% target of Bank Indonesia (BI).

APAC inflation and policy rates



Source: CEIC, ING

How the future looks

But while the Philippines has bucked the trend in terms of bond markets so far, the outlook might not be so bleak. Many countries in the region saw inflation dip sharply in 2Q 2020 as the pandemic struck home. And as a result, will be facing spiking inflation rates in the coming months. Not only did the Philippines not echo this experience, it saw supply chain interruptions push inflation up at that time and will benefit from the unwinding of that during 2Q/3Q21. Moreover, the supply shock from African swine fever will also eventually cease to be a factor and falling pork prices will also help moderate headline inflation even as other countries see their inflation rates pick up.

None of which alters the fact that higher bond yields will hit Philippine and more broadly ASEAN growth prospects harder than those of North Asian economies in 2021. But the Philippines' status as a bond market outlier may cease to be as stark as we move into the second and third quarters

CEE: Some Like It Hot

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Covid cases are rising, lockdowns are extended yet the growth outlook still points to a rebound from late in the second quarter and beyond. With CPI above target everywhere in the region, the reflation theme remains but the central banks' preferences vary. Some won't tighten (NBP), some will be forced to (NBH) and some will hike willingly (CNB)

Playing with fire: Inflation is above target in CEE countries

Price pressure evident in the region

Despite the ongoing extensions of lockdowns across Europe, the CEE reflation theme remains intact. We expect politicians to have largely overcome vaccine challenges this summer and, as we're seeing in the Czech Republic, the stricter lockdowns now underway in most of the region will eventually lead to the decline in cases.

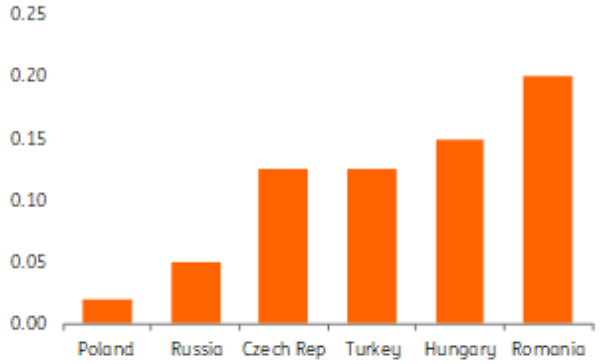
CPI everywhere in the region remains above the respective targets and headline numbers are set to, in most of the cases, rise further. The general drivers are similar; already high core prices, the expected 're-opening' inflation in the service sector and base effects coming from high oil prices.

However, the scale and persistency of those CPI overshoots, as well as CPI trends, will differ. And some countries will be more tolerant of higher inflation than others. Hungary will see the largest overshoot, with CPI likely hitting 5% in April or May. Poland will also see CPI above the upper tolerance band, but the peak will come much later. In contrast, Romanian and Czech CPIs will be more well behaved, albeit still above target. In Russia, CPI has probably already reached its peak and should start gradually decelerating while the Turkish CPI outlook looks more challenging.

With price pressures building across the region, we look at two possible pro-inflationary risk factors to the already elevated CPI readings: currency depreciation and a higher oil price. Here, Hungary and Turkey stand out. Turkey suffers the highest oil passthrough in the region, while Hungary, among free-floating currency regimes, exhibits the highest FX passthrough as you can see in the two charts below.

Hungary FX passthrough one of the highest

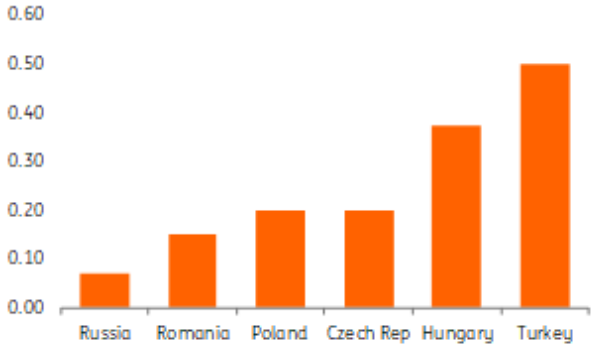
Passthrough from the exchange rate into inflation. The effect of 1% move in the FX on the CPI inflation



Source: ING, various central banks estimates

Turkey and Hungary having high oil passthrough

Pass-through from oil into inflation. The effect of 10% move in the oil price on the CPI inflation



Source: ING

Central bank responses will vary

Despite high inflation, the central banks' preferences vary. In the low yielding CEE space, the two central banks with the most worrying inflation profiles, the NBP in Poland and the NBH in Hungary are, and will continue to be, heavily reluctant to tighten. While the NBP is likely to get away with loose monetary policy, we expect the NBH to be forced into hikes in the second quarter due to FX consideration.

We expect the Czech National Bank to raise rates later this year, despite less pressing price pressure compared to Poland and Hungary. Similar to the Central Bank of Russia (which has already started tightening), the CNB will hike due to its strong inflation targeting framework. But in contrast to frontloaded CBR tightening, we believe CNB hikes will be backloaded into late-2021.

Our call for CBT rate cuts in Turkey in the second half of the year remains unchanged, but the easing should come earlier and be more aggressive. As is likely going to be the case in Hungary in 2Q21, we do not rule out CBT tightening next quarter should the TRY need stabilising.

CEE FX: Shifting risk factors

The risk factors for EMEA FX have moved away from global to regional specifics. The third wave of coronavirus across Europe is of concern for CEE FX while possible sanction risk and monetary policy are concerns for RUB in Russia and TRY in Turkey, respectively. A fair share of bad news seems already priced in, mainly for CZK in the Czech Republic and PLN in Poland. We like CZK the most and expect Hungary's HUF to come under pressure in the second quarter. Among high yielders, we favour the ruble over the Turkish lira due to CBR tightening and what we still see as a low probability of sectoral sanctions

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FX: It seems like the euro is always stuck in second gear

Recovery trades in the FX market have been slowed by the pincer movement of a delayed European recovery on the one hand and by early Fed tightening expectations on the other. We still think there is scope for EUR/USD to recover later this year, but the window of opportunity is closing

Europe's slow roll-out weighs on the EUR

While the ECB may be delighted that the trade-weighted euro is now down 2.5% from its highs at the start of the year, it will be less happy about the reason for that decline. Undoubtedly the soft euro has been driven by a re-assessment of eurozone growth prospects as leaders struggle to control the Covid-19 crisis.

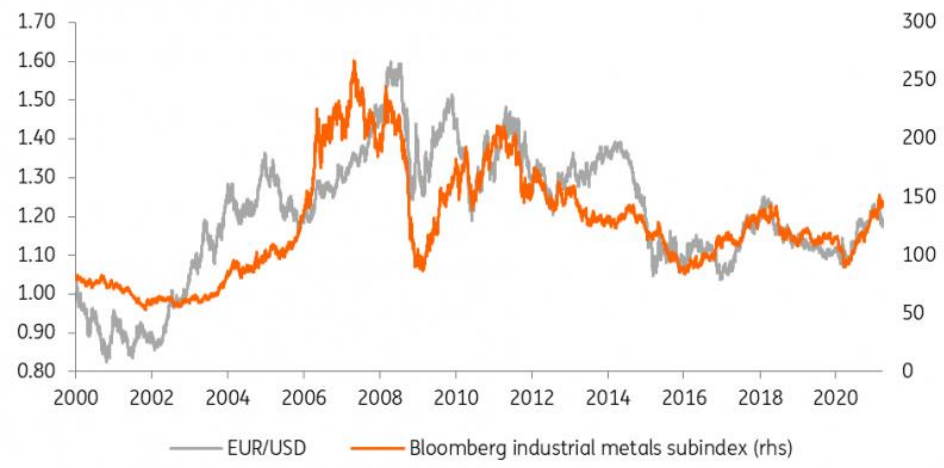
The fact that Europe will be contributing less to the global recovery in 2021 has also taken its toll on commodity prices, where reflationary trends have stalled in March. Industrial metal and oil prices are roughly 5-8% off their February highs. Yet the global demand story is expected to hold up – the eurozone recovery is delayed, not derailed after all – and should keep commodities bid and the dollar offered as we move through 2Q.

> *"We are cutting our EUR/USD forecast"*

While the first quarter of this year was never going to be the break-out quarter for the euro-dollar rally, events in Europe suggest EUR/USD gains will be harder to come by this year. Accordingly, we are cutting our 2Q21 EUR/USD forecast to 1.22 from 1.25 and now doubt that the 1.30 level will be seen later this year.

Let's not forget, however, that the Fed's experiment with deeply negative real rates and what aggressive US fiscal policy means for the nation's twin deficits will continue to be the dollar's Achilles heel. Also, FX positioning is now much better balanced than the heavily short dollar positions witnessed at the start of the year.

EUR/USD versus Industrial Metals: The rally is not over



Source: Refinitiv, ING

Commodity currencies continue to be favoured

Commodity currencies have held up quite well this year despite the recent correction in commodity prices. Driving some of that out-performance is the understanding that the positive income shock of the terms of trade gains enjoyed by these countries over recent quarters bring local central banks closer to exiting emergency measures of support.

In the G10 space, the Bank of Canada is already one of the first central banks to slow asset purchases and may even announce plans to shrink its balance sheet in late April. And Norges Bank may be raising interest rates as early as 4Q21. These central banks should therefore be most tolerant of currency strength. The Canadian Dollar should also benefit from the strong pick-up in US domestic demand as the year progresses.

What would trigger a u-turn on our bearish dollar view?

Doubts are certainly emerging in the minds of investors about the underlying path for the dollar. We would change our bearish dollar view if the Fed decides that policy is just too loose and allowed expectations to build that Fed tightening would be a matter for 2022, not 2023 as currently priced.

A flip to bearish flattening from bearish steepening of the US yield curve as the Fed moved to withdraw the punchbowl of cheap liquidity would likely see the dollar rally. Neither of these is our forecast for 2021.

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Rates: Some inflation with your recovery, sir?

The context could not be more stark; a 10% increase in US nominal GDP versus a sub-2% 10yr yield. The first bit is virtually nailed on, and comes with 3-4% of inflation on the side, keeping real yields deeply in negative territory. The only way to partially square this circle is for US market yields to rise, and eurozone ones too, on post-Covid positivity

These burgers in New Jersey might cost a little bit more in the coming months

Why US yields remain under considerable upward pressure; we'll hit 2%, and sail above

It does not really matter how fast yields have risen. What matters is where we are now relative to fair value. And while fair value is a tricky concept, it is far less complicated when there is such a significant deviation between where things are versus where things could or should be.

We have struggled in recent years with this in the sense that market yields have tended to trade below nominal GDP growth rates, when in fact they should trend together. In fact, market yields have even struggled to keep up with inflation resulting in low to negative real yields. But here and now, the differential is so stark that the only way is up for US yields in the months ahead.

> *"What matters is where we are now relative to fair value"*

Using rounded numbers, 2021 will see growth of some 6-7%. That does not include inflation. And while the GDP deflator is the truest measure here, headline consumer price inflation (CPI) presents a cleaner measure of the negative impact on the real spending power of fixed coupons to be received on bond holdings.

CPI inflation will hit 3-4% this year. Add growth and inflation together and we get a nominal expansion approaching 10%. US yields are also a nominal concept, in the sense that they comprise a real yield and an inflation expectation.

Whichever way you swing this breakout, today's US 10yr yield of sub-2% looks well short of nominal economy expansion of closer to 10%.

Our prognosis which eyes the approach of 3% in the US 10yr should bring the 1% level into play for the eurozone

Of course, that 10% spurt is transitory so we should not expect the 10yr yield to match it. But what we should expect is for the 10yr yield to remain under considerable rising pressure.

> *"Not only should the US 10yr achieve a 2 handle, but that 2-point-something can well morph towards 3"*

Not only should it achieve a 2 handle, but that 2-point-something can well morph towards 3 should the macro recovery remain secure enough to continue with above-trend growth beyond the anticipated Q3 spurt as the economy really re-opens. In fact, we have massaged up our forecasts to reflect this. They show the 2.5% to 3% range featuring in the US 10yr yield by the second half of 2022. Now that is some time away from now, and stuff can happen along the way. But it makes clear that a nearer-term break above 2% is coming.

For the eurozone, the numbers are not quite as stark but the theme is similar. The US also tends to act as a lead indicator for the eurozone. A wider re-opening in the third quarter for the US will likely be matched by the same for the eurozone by the fourth.

> *"The dream of describing the Eurozone 10yr swap rate in percentage terms rather than in basis points is on"*

The Eurozone 10yr swap rate broke above zero about a month ago from -30bp in December. It is now approaching 10bp. Realistically it should not even think about going negative again for the foreseeable future. Rather it should have a focus on 1%. That sounds dramatic, and well above where we are right now, but the journey should be 25bp and then 50bp in the next 6-12 months. Once there, the dream of describing the 10yr in percentage terms ahead is on.

Policy stimulus is pushing firmly in the same direction

As a final point, let's not forget the remarkable underpinning to recovery coming from governments and central banks; this has been absolutely crucial.

On both sides of the Atlantic, the official sector has chosen recovery over worries about the build of debt to finance it. Bond markets too have played a good game by happily digesting supply and coming back for more. The Federal Reserve and the European Central Bank have been important buyers too.

A growth-plus inflation-spurt in fact helps to ease debt worries when looked at as a percentage of nominal GDP. At the same time, a ceiling of tolerability for ever-higher yields is also there, as sustainable debt dynamics demand that bond yields remain low relative to medium-term nominal expansion and not just versus 2021 growth.

The greening of monetary policy

Central banks around the globe are currently investigating how to join the fight against climate change. Here's what they're already doing and what they still could and perhaps should do

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While most central banks are still fighting the economic impact of the pandemic, another more structural topic is in view: climate change. The discussion on how central banks could and should join the broader fight against climate change already started before the pandemic and has recently gained momentum.

Why should central banks care about climate change at all?

Climate change affects the entire globe, countries and societies. Automatically, central banks have to care about it significantly. More specifically, climate change affects central banks and monetary policy in two ways: through the impact of growth and inflation and through financial stability.

As for the economic impact, climate change and climate policies will also have an impact on inflation and financial markets. It starts with more volatile and severe weather conditions and their effect on agriculture products. It continues with potential natural disasters and their impact on the economy and inflation; it ends with the need for investment and the structural change of the entire economy in the transformation towards carbon neutrality.

As far as financial stability is concerned, climate risks are those which can impact or disrupt business activities and the institutions financing them. For financial institutions, these mainly relate to credit risk (collateral depreciation, defaults by businesses or households), market risk (repricing of commodity prices or equity prices following climate-related events), underwriting risk (insurance losses) and liquidity risk.

What could be meant by greener monetary policy?

On the financial stability side of monetary policy, multiple initiatives have seen the light.

The best example of a joint initiative is the recent Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board (Bank of International Settlements). By giving guidelines to companies around the world on how to disclose climate-related financial risks and opportunities, it allows financial markets to price them correctly. It helps companies that face a rocky transition to a low-carbon economy, with sudden value shifts or cost surges, should they rapidly have to adjust to the new landscape.

Funded in 2018 and currently chaired by a European Central Bank Board member, the Central Banks and Supervisors Network for Greening the Financial System (NGFS) will continue to "define and promote best practices to be implemented within and outside" its members, it is currently the largest group tackling the issue.

> *"Banks will have to disclose to what extent their activities are environmentally sustainable"*

An influential example could be green differentiated bank capital or reserve requirements: in the eurozone, our last study shows that starting next year, banks will have to disclose to what extent their activities are environmentally sustainable according to the definitions set out in the EU taxonomy regulation. Once it has enhanced the transparency and comparability of Environmental, Social and Governance (ESG) performance metrics of credit institutions, climate risk-weighting methods could be applied to banks' balance sheets to adjust their capital needs. In the eurozone, the ECB is preparing a climate stress test. There's more detail on that here.

As for monetary policy instruments, the scope of central bank action is probably limited to asset purchases, requirements for collateral but also green targeted longer-term refinancing operations options. This would have signalling effects but also discriminatory effects through interest rates. However, for corporate bond purchases, this would mean that central banks would have to leave the principle of market neutrality.

What are central banks actually doing?

While the discussion on how to integrate the fight against climate change into central banks' monetary policy strategies is still ongoing, central banks around the world already started to implement green strategies into their own investment portfolios. Central banks manage several of those: their policy portfolio, their own portfolio, and then the funds they manage for their employees (typically their own pension funds) or for third parties. In theory, Socially Responsible Investing (SRI) strategies could be applied to any of them, but currently, the focus is on central banks' own investment portfolio or pension funds, not (yet) the policy portfolio.

Taking climate change into account in central banks' investment strategies can potentially follow several principles. It starts with the exclusion and disinvestment of sectors posing significant ESG risks. Exclusion strategies are not new, they date back to slavery and gaming boycotts by Quaker investors in the early 19th century. They reappeared in the 1970s with weapons (in the context of the Vietnam war), tobacco and South African businesses (in the context of the fight against apartheid), only to reach fossil fuel businesses later in the century. A next step would be to follow ESG integration strategies before going to more marginal practices like "best-in-class" strategies or impact investing. Currently, most central banks apply negative screening and ESG integration.

> *"The trend towards greener monetary policy is there, but still has a long way to go"*

For example, The Banca d'Italia has included ESG criteria in two equity portfolios of its own funds (140 securities with a total market value of around EUR 8 billion, which represents 6% of its financial investments in euros). The Banque de France published its first Responsible Investment Report in 2019, showing that assets worth EUR19bn in its own portfolio and pension fund were managed with ESG integration, with some funds even directed towards impact investing. In February, the ECB announced a common

stance for climate change-related sustainable investments in the non-monetary policy portfolio.

In December 2020, the NGFS conducted a survey among its principal members, which are mainly central banks, to gauge who was doing what. The results show that the trend towards greener monetary policy is there, but still has a long way to go: if one excludes green bond inclusions (which is used by less than half of surveyed institutions), less than 25% of central banks are applying negative screening in their policy portfolio

Number of central banks applying SRI strategies to at least one type of assets in the following portfolios

SRI intensity

	Policy Portofolio	Pension Portofolio	Own Portofolio	Third Party Portofolio
Negative Screening	9	4	7	3
Green Bonds	16	2	13	3
ESG integration	4	4	6	1
Best in Class	2	4	4	0
Engagement	1	3	6	1
Impact Inv.	1	0	1	0

More than 20%

No. of CB (/40) applying the strategy to at least on type of assets (SSA, corp or covered bonds and equities)

SSA, corporate or covered bonds and equities
Source: NGFS survey (Dec 2020)

From this, we can see that few central banks use SRI strategies even in their smallest portfolios (pension funds) but that their own portfolios are more likely to be managed by SRI strategies. In terms of policy portfolios, the potentially more impactful portfolios by size, it seems that green bonds are the main tool considered, together with negative screening. However, let's remember that until governments start to issue green bonds on a larger scale these principles can only apply to the small share of the policy portfolio that is not allocated to sovereign bonds.

What's the state of the debate in Frankfurt?

In the eurozone, the discussion has changed from whether to what the ECB should do to support the EU's fight against climate change. The ECB's secondary mandate allows the ECB to support the EU's economic policies, as long as the goal of reaching and maintaining price stability is fulfilled. These economic policies of the Union actually explicitly include "a high level of protection and improvement of the quality of the environment". This offers sufficient legal room for the ECB to actively engage in the fight against climate change.

> *"debate at the ECB seems to focus on those principles we mention above. Using the ECB's own investment portfolio to support the transformation towards a carbon-ne"*

The current debate at the ECB seems to focus on those principles we mention above. Using the ECB's own investment portfolio to support the transformation towards a carbon-neutral economy is a no-brainer. However, there are two other possible ways forward that are more controversial.

One way forward could be 'green QE'. The ECB's current holdings under its corporate sector purchase programme (CSPP) show a clear underrepresentation of the services sector compared with manufacturing, utility, automobile and transportations sectors. The latter tend to be those with particularly high emission shares. Hence, ECB purchases taking the emission of a company into account could make sense; not necessarily at sector level but differentiating between companies.

> *"Such a strategy could conflict with the ECB's principle of market neutrality"*

Even given the very different sizes of the market volumes, such a strategy could conflict with the ECB's principle of market neutrality. Also, penalising 'carbon-intensive' sectors could undermine these sectors' transformation towards carbon-neutrality as it increases costs of potentially required investments. Another disadvantage of 'green QE' is that QE is clearly intended to bring inflation back to target. It is supposed to be definite.

In our view, the ECB's inflation target will be reached earlier than the EU's climate targets. So how to conduct 'green QE' if there is no need for QE anymore? Maybe green asset purchases related to liquidity provisions?

Another way forward could be through the ECB's role as bank supervisor and its collateral framework. A climate-aligned framework would operate through similar channels as 'green QE', mainly via penalising non-green bond holdings and consequently the interest rate channel for corporate financing. However, contrary to 'green QE', a 'green collateral framework' would be permanent. Depending on a climate rating, climate footprint or ESG scores, different haircuts could be applied to corporate bonds used as collateral.

In any case, the ECB will in our view try to align its next steps with the EU taxonomy regulation and disclosure requirements for companies and banks.

Obstacles to central banks' activism

In practice, one risk of greening monetary policy is an overburdening of central banks. The main part in the fight against climate change has to be taken by governments. Monetary policy should not be in the driver's seat but play a supporting role. Also, the question is how effective steering the fight against climate change through (discriminatory) interest rates can be, particularly when rates are low. For central bank purists, another risk is that they could become too politicised. The discussion on what central banks can do will continue. In our view, the most likely outcome will be a combination of green QE and changes to the collateral requirements.

Covid-19 hits European cohesion

Covid-19 has not only had an unequal impact on public health, it also threatens to spread future economic inequality and put European cohesion at risk. One year after the first lockdown measures were taken, we find that the risk of higher inequality is present in various forms within the European labour market

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People in the arts have been particularly hard hit by the pandemic. Here, an actor protests in Toulouse, France

Rising inequality

When the Covid pandemic hit the world in 2020, it seemed for a time that we were all in the same boat. However, job market realities served as a swift reminder that not everyone would be hit equally in Western economies. With specific sectors and some worker categories hit more than others, a number of inequality measures have been at risk of rising ever since. These measures are multidimensional: the Covid crisis and its accompanying episodes of lockdowns have had heterogeneous macroeconomic effects between countries, age and education categories and even between genders. The risk of seeing inequality rise because of the pandemic is real, both in the short and in the longer run.

> *"The risk of seeing inequality rise because of the pandemic is real"*

Measuring inequality is a long and difficult process: most data is annual (the last Gini indicators date back to 2018 in most cases) or delayed, or lacking the granularity required to make macroeconomic observations between income or age groups in a timely manner. Given the nature of the Covid crisis, we concentrate on country divergences and labour market developments. Eurostat's labour force surveys, which are available for 2020, allow us to understand what actually happened in the job market and where the largest inequality risks lie, both for the short-term and for the post-pandemic recovery.

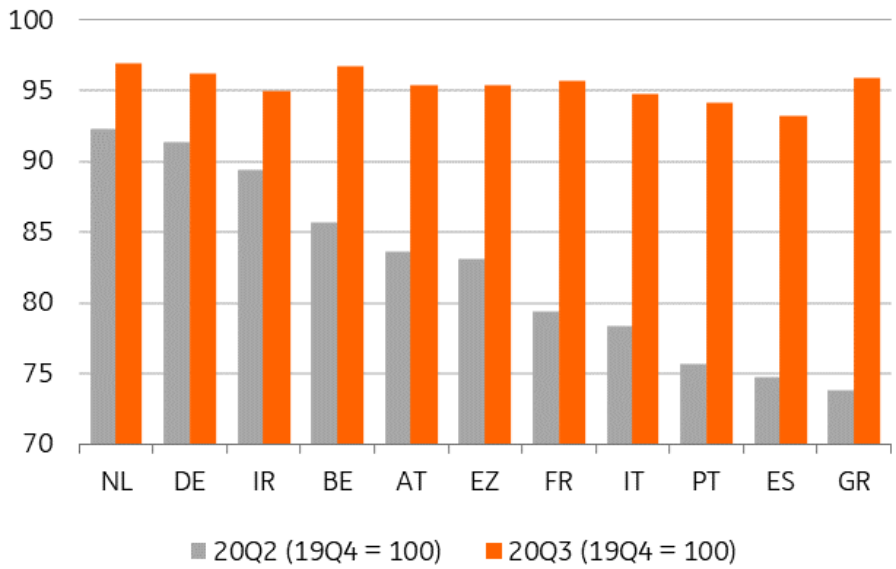
Furlough employment schemes heavily impacted labour statistics

During the first months of the Covid crisis, government support measures kept unemployment and employment relatively stable. The eurozone's contraction in employment in the second quarter (-2.1%) was relatively mild compared to the economic shock (GDP was down 15% compared to 4Q19) or what was observed in the US (-12.8% of total employment). This is because workers on temporary unemployment

schemes ("furloughed" workers) were actually not counted as unemployed: they were unable to go to work, sometimes losing a sizeable share of their incomes (as benefits didn't always cover all of their revenue losses), but at the same time they were not looking for a job, as they still had one. This large population - representing 32 million workers at the peak or three times the number of unemployed at the same time – was not counted in the unemployment statistic.

To get a grasp of what happened in the labour market, we look at Eurostat's labour force surveys. They show that hours worked actually diverged significantly across eurozone countries. In the eurozone as a whole, hours worked dropped by 17% in 2Q20 (compared to 4Q19), but the decline ranged from 7.5% in the Netherlands to 26% in Greece. Figure 1 also shows that while the shock had a very different impact between countries, the third quarter put countries back on a similar footing. However, if divergences are less obvious in 3Q20, they nevertheless remain relatively high: hours worked in 3Q20 ranged from 97% of pre-crisis level in Belgium and the Netherlands to only 93.2% in Spain, for example.

Fig 1 Hours worked per country in the eurozone (4Q19 = 100)



Source: Eurostat, ECB, own computation

This data shows that the effort needed to catch up to pre-crisis levels is still very high: during the financial crisis, it took 10 quarters (from mid-2013 to the end of 2015) to return from 95% to 100% of pre-crisis hours worked in the eurozone. To be sure, part of this slack is directly linked to lockdown measures and once these measures have disappeared with the vaccination campaign, some catch-up will occur. However, we believe that it's very likely that the labour market slack, measured in hours worked, is concentrated in parts of the labour market (see below), which – given the lengthening of the lockdown situation in 2021 – could end up having a long-term impact on inequality.

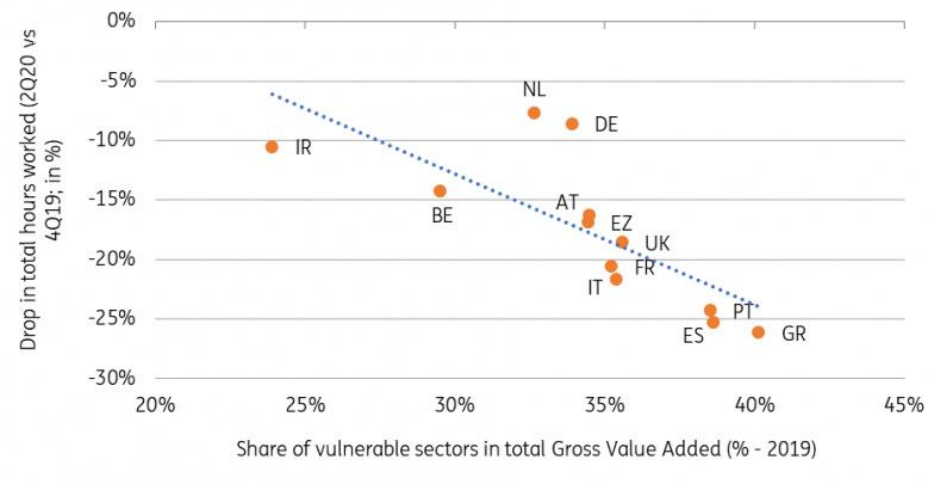
Lockdown measures had concentrated effects on parts of the labour market

The Covid-related lockdowns had an economic impact that was heavily concentrated in sectors where demand relies on mobility or human contacts (manufacturing of vehicles and transport material; wholesale and retail trade; hotels, restaurants and air travel; professional and real estate services; arts and entertainment). These activities represent up to 40% of the national gross value added in Greece, and less than 25% in Ireland.

We find that the divergence in the hours worked contraction is strongly related to countries' specialisation in these vulnerable sectors: for example, they make up to 40%

of economic activity in Greece, Spain and Portugal, partly explaining why these countries saw hours worked plummet by 25% in the first weeks of lockdown. We also note that the relationship holds for 3Q20.

Fig 2 Hours worked contracted most in countries specialised in vulnerable activities



Source: f

Inequality risks among vulnerable sectors

It appears that these present hard-hit sectors share characteristics across countries which make them vulnerable to a rise in inequality: these sectors are indeed intensive users of non-standard contracts (where low-educated and young workers are concentrated) and low-paid jobs. The former represents 30.5% of employment in Covid-vulnerable sectors in the eurozone, the latter 23%, compared to 26.8% and 15%, respectively, in total employment (all sectors aggregated).

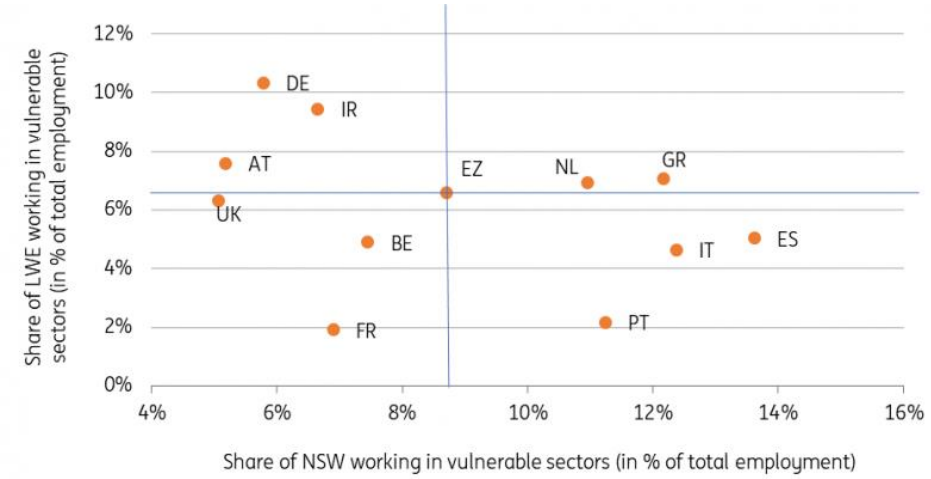
We find, for example, that the gaps are larger in Italy, the Netherlands, Portugal and Belgium where the vulnerable sectors make much larger use of NSW contracts than the average, with proportions reaching 40% in the Netherlands and Spain and 43% in Italy. When it comes to low-paid jobs, other countries stand out: the share of low-paying jobs in vulnerable sectors is disproportionately high (compared to the national average) in Austria, Germany and Ireland, with 36% of employment in vulnerable sectors being low-paid jobs in Germany, against a eurozone average of 23%.

> *"Vulnerabilities can be distributed differently from one country to another"*

Given that countries have different degrees of specialisation in vulnerable activities, the asymmetric shock on worker groups also implies divergence in inequality risk among countries. We show the risks of seeing a surge in inequality due to Covid in two dimensions along which we can map countries: the share of employment covered by either non-standard or low-wage contracts in vulnerable sectors.

This shows that vulnerabilities can be distributed differently from one country to another: low-wage workers in Germany and Ireland, non-standard contract workers in Portugal and Spain, and both in Greece and the Netherlands.

Fig 3 Mapping inequality risks



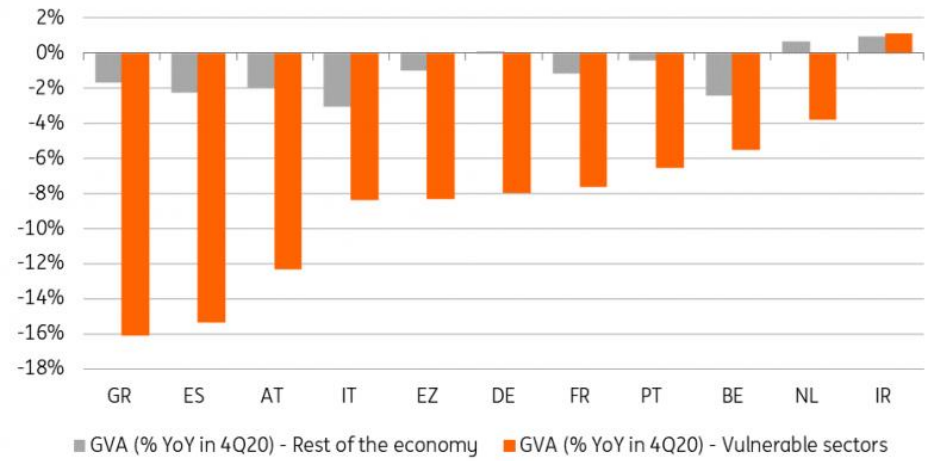
Source: Eurostat, ECB, own computation

Recovery prospects and long-term inequality risks

The growth patterns observed in the eurozone economy in the second half of 2020 show that the recovery, so far, has been as imbalanced as the shock itself. Some sectors have seen their gross value added (GVA) catch up to and even sometimes surpass their pre-crisis level, while the output gap remains concentrated in the most vulnerable sectors. Figure 4 confirms that in most countries, vulnerable sectors are lagging the rebound that occurred in the rest of the economy: in Spain, vulnerable sectors still have a GVA that is 15% below pre-pandemic levels while the rest of the economy is only 2% below that level. In Germany, Portugal, the Netherlands and Ireland, the rest of the economy has even fully recovered.

This is important because it means that the "90% economy" highlighted by The Economist one year ago does not exist: most sectors have (almost) recovered fully, while some of them are living in an "85% economy". In terms of inequality, it heightens the risk as these sectors are heavy users of more vulnerable forms of employment. What is more, we know that given the slowness of the vaccination campaign in Europe, lockdown measures will take time to disappear so the crisis will last longer for these sectors. While government measures taken in the first few months of the pandemic may have worked for all sectors in a time-limited shock, it is likely that the 18-month shock faced by vulnerable sectors will require more specific measures, if the risk of rising inequality is to be contained.

Fig 4 Vulnerable sectors make most of the current growth drag



Source: Eurostat, ECB, own computation

Tightening safety nets

There are several reasons why we think a greater part of the working population is at risk of falling into poverty as long-term inequalities persist.

- First, lockdown measures have been renewed throughout the continent recently, hitting the same sectors again in the first half of 2021.
- Second, there is no prospect of getting back to levels of human contact that allow these sectors to work at capacity before the end of 2021 when most of the population will be vaccinated.
- Third, post-pandemic times could potentially bring a toxic "new normal" for workers in vulnerable sectors as the number of employers will have shrunk through bankruptcies, probably capping wages and contract durations for longer. Low-wage and NSW workers in vulnerable sectors represent 5% to 15% of employment in European countries, which is far from negligible.

To counter these risks, some countries have taken measures to ensure that vulnerable workers who have fallen through the safety net do not fall into poverty. But some countries could do more. What our findings show is that after the broad-based measures, which were justified at the beginning of the pandemic, more targeted measures aimed at specific groups of workers now need to be planned until year-end. As it is much easier to fall into poverty than to get out of it, forthcoming recovery plans will have to focus on vulnerable employment, which has not been addressed by other measures.

Container and shipping shortage piles pressure on prices

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The container and shipping shortages, a surge in commodities demand, and protectionist measures add to inflationary pressures worldwide as the pandemic recovery unfolds. This is unlikely to unwind before the second half of the year

The stranding of the Ever Given cargo ship in the Suez Canal will not have a meaningful impact on supply chains

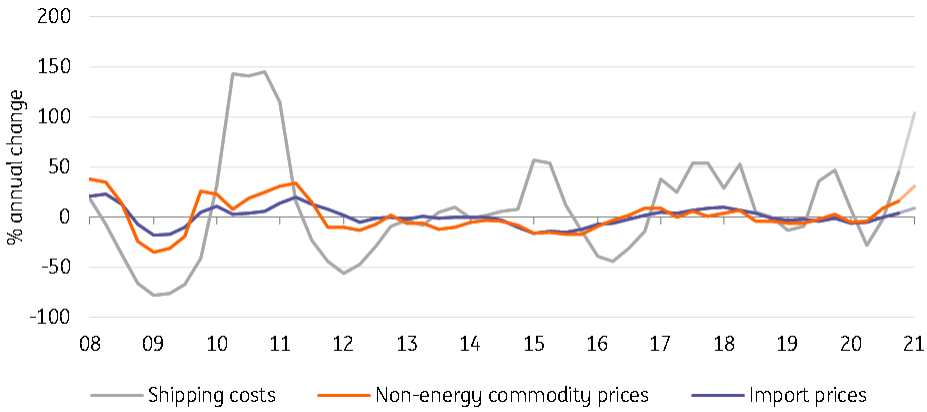
The rapid recovery of the global economy that started at the end of the first wave has come with a much faster rebound in global trade than initially expected. This has come with significant supply chain disruptions causing many different types of shortages that have plagued the manufacturing sector over the winter months. Longer supply lead times have been the result and input prices have jumped. So how long will the different disruptions last and what impact will they have on consumer prices?

Impact of shipping disruption on inflation will be sizeable this year

The rapid comeback of world trade has caused demand for shipping and containers to unexpectedly surge after the first wave of the coronavirus ended. With blank sailings - the cancelled sailings of freight ships - still elevated and with containers in high demand, input supply lead times have increased, inventories have fallen dramatically and freight rates soared towards the end of 2020. The Harpex shipping costs index suggests an increase of 200% since the start of the pandemic, around a quarter of which has taken place this year.

While we don't expect the complete increase in freight rates to be passed through to the consumer, the supply chain disruptions are expected to have an upward effect on consumer prices, which will of course mainly be concentrated on the cost of imported goods. The impact thus far has been modest, as producer prices globally have only risen slightly and remain very weak by historical standards.

Trade cost measures have been trending up over the course of the pandemic



Source:

Looking at the import intensity of consumption and the pass-through of previous rises in transport costs to inflation in the US, UK and eurozone, we estimate that the impact of the shipping disruption and container shortages on inflation will be sizeable in these advanced economies, at roughly 0.3 to 0.4 percentage points.

We don't think that the rise in shipping costs will be particularly short-lived but we do think the largest increase is behind us. As such, the impact on inflation will mainly be felt this year as rises are passed on along supply chains and eventually onto the consumer.

Supply chain inflation

Shipping costs	2021 impact on inflation (pp)
US	0.3
Eurozone	0.4
UK	0.4

Semiconductor shortages start to have more consumer effects

One of the key disruptions impacting consumer electronics and car manufacturing at the moment is the shortage of computer chips. In part due to the same issue that causes container demand to spike - the rapid recovery of demand for (semi-)durable goods – semiconductor demand increased rapidly over recent months. But demand is being supported by other longer-term factors, such as the rollout of 5G which is boosting demand for new mobile phones, and the electrification of vehicles increasing demand for computer chips.

> *"Chip shortages have started to cause production disruptions, notably in the auto industry"*

Chip shortages have started to cause production disruptions, most notably in the auto industry. Due to just-in-time production, the auto industry had cancelled orders for chips during the first wave, resulting in chip production capacity shifting away from auto. The resulting production hiccups led to a decline in automotive output in January in the euro area. It is not just the car industry that has started to notice the impact though. Big console and mobile phone makers have experienced production cuts due to the shortages as well.

Given that there is a more structural component to the strong demand behind the semiconductor shortage, and that it takes time for new production capacity to be added, this supply problem is unlikely to be resolved anytime soon. We don't expect significant relief before the second half of the year and even then it is unlikely to be the end of demand outpacing supply in this industry. The impact on inflation is hard to

predict at the moment as semiconductor prices themselves have not spiked. Still, delayed supply could start to impact prices while demand continues to be high for consumer electronics and automobiles.

Raw material shortages are visible in commodity price rises

It's not just semiconductors that are problematic in terms of availability. The surge in demand for goods during the pandemic, coupled with supply disruptions, has also caused shortages of other inputs. Think of raw materials like copper which have seen prices surge on the back of Covid-19 related supply disruptions over 2020 along with robust demand from China. Similarly, prices of agricultural commodities have been boosted by strong Chinese buying over much of the last year.

This is visible in non-energy commodity prices that have surged over the course of the pandemic towards annual increases that are the highest seen since 2011This is starting to cause input prices to increase further for goods producers, and the prices of imported goods in the CPI will eventually reflect the steep rises on international markets.

Pass-through from import prices to consumer prices is typically gradual, as importers, wholesalers and retailers are insulated to an extent by contracts and hedging. There will also be an effort to absorb the rises within margins to retain competitiveness, though the scope to do so may be limited by other rising costs.

> *"The rise in raw materials prices which we've seen up to now imply sustained pressure on consumer prices"*

While the effects may show up gradually, the rise in raw materials prices which we've seen up to now imply sustained pressure on consumer prices. Given the different shares of imports within household consumption in the different countries, we expect the impact on inflation to be particularly strong in the eurozone and UK, with a slightly smaller impact in the US.

However, we think that further upside in non-energy commodity prices will likely be limited given that Covid-19 supply disruptions are easing, along with the expectation that the impressive post-Covid-19 commodities' demand growth seen from China will likely slow.

(Non-energy) commodity prices	2021 impact on inflation (pp)
US	0.7
Eurozone	1.1
UK	1.1

Suez Canal blockage expected to have limited effects

The Suez Canal blockage has ended sooner than expected and traffic can now slowly restart again. This will have ripple effects on world trade as it will increase delays in an already stretched global supply chain and perhaps cause new bottlenecks at ports that do not have the capacity to host all incoming ships at once. Nevertheless, the impact should not be overdrawn and the impact on inflation will likely be negligible.

The pandemic shortages will push up inflation temporarily

The inflation impact of the supply chain ripples is definitely sizeable. In the US we're estimating an impact of around 1 percentage point and in the eurozone and UK, it will be higher at around 1.5%. Most shortages and supply chain problems are still directly relatable to a halt in production during the first wave of the virus and the quick return of demand for goods.

The impact is therefore likely temporary but for a sustained period, partially lasting into 2022. Once supply and demand are more in sync again, elevated price pressures are set to fade. Still, the longer that upward pressure on imported goods prices persists, the greater the risk of second-round effects which could lead central banks to take action. For now, our base case remains that trade disruptions will not be acted upon by central banks.

Brexit: Taking stock after a turbulent start to 2021

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Some of the initial trade disruptions from the new UK-EU relationship has undoubtedly cleared since January, though the effect of new paperwork is clearly still rippling through the economy. While there are quick fixes that could help reduce some of the burden on firms, a fractious political relationship makes finding compromise tricky

UK Prime Minister, Boris Johnson, leaving Downing Street

What has the data said so far about UK-EU trade?

Three months on from the end of the post-Brexit transition period and the initial impact of the switch to new trade terms doesn't look great. We now have trade figures for January, and there was a 40% drop in exports to the EU and a 30% drop in imports from the continent. EU trade flows with other countries were not affected, so there's little doubt this is a UK-specific phenomenon.

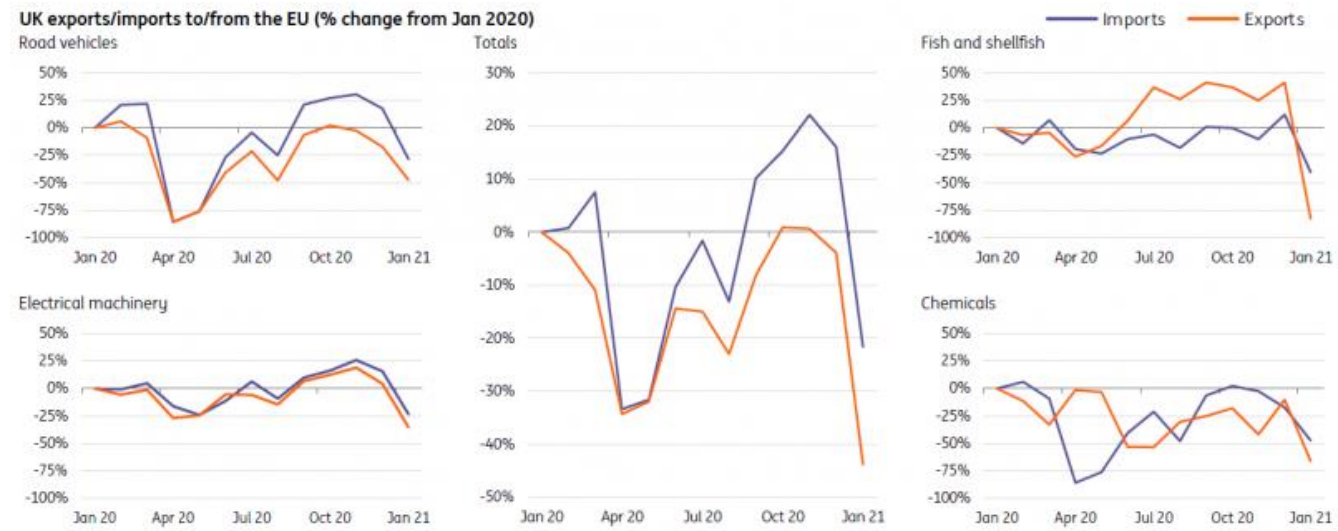
This tallies with data that showed a reduced number of cargo ship visits to UK ports early in the year and lower traffic flows across the important Dover-Calais crossing.

That said, the data also shows a powerful stockpiling effect in the last few months of 2020. The risk of border queues was long-telegraphed, and many businesses appeared to stock-up so they could avoid trading in the first few weeks of the year. That's reflected in manufacturing output - the sector that's arguably most reliant on 'just-in-time' trade flows - which showed 'only' a 2% drop in January.

Covid-19 disruption in December, linked to the brief closure of the French border when the new UK coronavirus variant emerged, also appears to have had ripple effects into 2021.

None of this means there was no disruption; the reams of press reports detailing the difficulties of various sectors tell us this was still a major factor in January's decline in trade. The fact that fish and seafood exports to the EU fell by 83% came as firms grappled with new veterinary rules.

UK-EU trade suffered badly in January



Source: Macrobond, ING

Has the situation got better since January?

Yes and no.

Since early January, some of the early sticking points appear to have been worked through. For instance, major hauliers have resumed UK-EU deliveries, having in some cases paused services in response to a significant percentage of consignments arriving without the correct paperwork.

Firms were also undoubtedly less prepared than they'd have wanted to be, not helped, of course, by the pandemic. According to the ONS bi-weekly business survey, only around 1 in 10 manufacturers thought they were fully prepared back in mid-December.

> *"There are signs that firms are still struggling"*

However, there are signs that firms are still struggling. Recent ONS business surveys show that there is still a small chunk of manufacturers who haven't been able to export recently, while many are reporting fewer shipments than usual. A small - but clearly rising - number of firms in affected sectors are saying they are making changes to their supply chains.

So while some of the initial disruptions has since cleared, it's likely that the effect of the new UK-EU relationship will take time to ripple through the economy.

Will the UK and EU work through some of the practical issues?

Most of the changes that have come about as a part of the new trade deal stem from the UK's decision to leave the EU's single market and customs union. That means the 'big picture' of the economic relationship is unlikely to change.

However, some things could be done to ease the burden on firms. Faced with the thorny issue of firms (mainly supermarkets) having to file export health documentation for every shipment from Great Britain to Northern Ireland, many have suggested a Swiss-style sanitary and phytosanitary (SPS) deal would help remove the need altogether - and indeed reduce the burden for food-related UK-EU trade in general.

That would lessen the chance of a UK-US trade deal, but many are agreed the chances of this are currently very low anyway.

The challenge is that UK-EU relations are strained, more so than most had expected this early into the new relationship. The UK's decision to unilaterally extend a grace period

on those export health forms for Northern Ireland has prompted signals of legal actions from Brussels.

Instead of moving towards a more constructive place, the concern is that this is taking us slowly closer to an environment where we get retaliation in tariffs or other forms of corrective barriers.

Uncertainty related to Brexit will, it seems, remain with us for some time.

ING global forecasts

	1Q20	2Q20	2021 3Q20	4Q20	FY	1Q21	2Q21	2022 3Q21	4Q21	FY	1Q22	2Q22	2023 3Q22	4Q22	FY
United States															
GDP (% QoQ, ann)	6.40	11.10	6.50	5.50	6.90	3.60	3.10	3.10	3.00	4.60	2.90	2.90	2.90	2.90	3.00
CPI headline (% YoY)	1.80	3.60	3.30	3.40	3.00	3.20	3.00	2.80	2.80	3.00	2.70	2.60	2.50	2.50	2.60
Federal funds (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3-month interest rate (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.60	0.60	0.90	0.90
10-year interest rate (%, eop)	1.70	2.00	2.00	2.25	2.25	2.25	2.50	2.50	2.75	2.75	2.75	3.00	3.00	3.00	3.00
Fiscal balance (% of GDP)					-13.40					-8.40					-5.10
Gross public debt / GDP					103.20					104.30					103.80
Eurozone															
GDP (% QoQ, ann)	-2.60	4.30	7.40	5.00	3.60	2.80	2.00	1.90	1.60	3.50	1.90	1.60	1.30	1.40	1.70
CPI headline (% YoY)	1.00	1.90	2.30	2.20	1.80	1.60	1.50	1.40	1.50	1.50	1.60	1.60	1.60	1.60	1.60
Refi minimum bid rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (%, eop)	-0.55	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.40	-0.40	-0.40	-0.40	-0.30	-0.30	-0.20	-0.20
10-year interest rate (%, eop)	-0.35	-0.20	-0.10	0.00	0.00	0.00	0.10	0.10	0.15	0.15	0.25	0.40	0.50	0.50	0.50
Fiscal balance (% of GDP)					-6.10					-4.00					-2.70
Gross public debt/GDP					103.90					101.70					100.50
Japan															
GDP (% QoQ, ann)	0.20	2.40	2.60	2.40	3.50	1.20	0.90	1.10	1.80	1.70	1.20	1.20	1.20	1.20	1.30
CPI headline (% YoY)	-0.40	0.10	0.30	1.00	0.30	0.90	0.80	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60
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
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
10-year interest rate (%, eop)	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-9.60					-8.70					-7.50
Gross public debt/GDP					228.70					232.50					237.50
China															
GDP (% YoY)	12.00	5.50	5.00	5.50	7.00	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
CPI headline (% YoY)	0.30	2.00	3.00	3.50	2.50	3.50	2.60	2.40	2.30	2.70	1.80	2.60	1.90	1.80	2.00
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	2.80	3.00	3.20	3.30	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	3.90	3.90	3.90
10-year T-bond yield (%, eop)	3.35	3.40	3.45	3.50	3.50	3.55	3.60	3.70	3.80	3.80	3.55	3.60	3.80	4.00	4.00
Fiscal balance (% of GDP)					-6.00					-4.00					-4.00
Public debt (% of GDP), incl. local govt.					115.00					118.00					121.00
UK															
GDP (% QoQ, ann)	-7.5	20.3	9.7	3	5.7	2.2	2.6	1.8	1.5	4.3	0.9	-0.1	0.4	0.9	1.0
CPI headline (% YoY)	0.6	1.6	1.6	2.1	1.5	2.1	1.7	1.7	1.6	1.8	1.6	1.6	1.7	1.6	1.6
BoE official bank rate (%, eop)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.25	0.25	0.5	0.5
3-month interest rate (%, eop)	0.00	0.00	0.10	0.15	0.15	0.20	0.20	0.25	0.30	0.30	0.40	0.40	0.60	0.70	0.70
10-year interest rate (%, eop)	0.80	0.90	1.00	1.10	1.10	1.10	1.20	1.20	1.30	1.30	1.30	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-12.9					-8.2					-4.0
Gross public debt/GDP					112.00					115.00					117.00
EUR/USD (eop)	1.18	1.22	1.25	1.28	1.3	1.28	1.25	1.23	1.22	1.22	1.22	1.21	1.20	1.20	1.20
USD/JPY (eop)	108	108	108	108	108	108	109	110	110	110	111	112	113	115	115
USD/CNY (eop)	6.54	6.48	6.40	6.30	6.30	6.25	6.20	6.15	6.10	6.1	6.05	6.00	5.95	5.90	5.9
EUR/GBP (eop)	0.85	0.85	0.85	0.85	0.85	0.84	0.83	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
ICE Brent -US$/bbl (average)	62	67	70	70	67	68	70	73	70	70	70	75	78	75	75

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

Source: ING forecasts

ING's forecasts under three different scenarios

	2021					2022					2023				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Scenario 1: Optimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	7.70	16.40	6.20	5.20	8.10	3.60	3.60	3.20	2.90	4.70	3.10	3.00	3.00	3.00	3.00
Eurozone	-0.10	6.40	8.30	6.20	4.80	3.90	3.50	2.50	2.20	4.60	1.80	1.80	1.80	1.60	2.10
China (YoY%)	12.00	5.50	5.00	5.50	10.25	3.00	5.00	5.50	5.00	3.50	4.80	4.60	4.40	4.20	4.50
Japan	0.20	2.20	3.50	3.90	3.70	2.80	1.40	1.00	1.50	2.50	1.20	1.20	1.20	1.20	1.20
United Kingdom	-7.10	23.70	12.30	3.30	6.70	0.90	1.00	0.80	1.50	4.00	0.90	-0.10	0.40	0.90	0.70
Real GDP level (Indexed at 4Q19=100)															
United States	0.00	103.26	104.82	106.16	-	107.10	108.05	108.91	109.69	-	110.53	111.35	112.17	113.00	-
Eurozone	0.00	96.49	98.44	99.93	-	100.89	101.76	102.39	102.95	-	103.41	103.87	104.33	104.75	-
China (YoY%)	0.00	105.90	107.20	108.64	-	109.45	110.79	112.29	113.66	-	115.00	116.31	117.56	118.78	-
Japan	0.00	99.56	100.42	101.39	-	102.09	102.45	102.70	103.08	-	103.39	103.70	104.01	104.32	-
United Kingdom	0.00	95.51	98.32	99.12	-	99.34	99.59	99.79	100.16	-	100.38	100.36	100.46	100.68	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.25	1.30	1.30	1.28	-	1.25	1.22	1.20	1.15	-
US 10-year yield (%)	1.75	2.50	2.50	2.75	-	2.75	3.00	3.00	3.25	-	3.25	3.50	3.50	3.50	-
Scenario 2 – ING base case															
Real GDP growth (QoQ% annualised)															
United States	6.40	11.10	6.50	5.50	6.90	3.60	3.10	3.10	3.00	4.60	2.90	2.90	2.90	2.90	3.00
Eurozone	-2.60	4.30	7.40	5.00	3.60	2.80	2.00	1.90	1.60	3.50	1.80	1.60	1.30	1.40	1.70
China (YoY%)	7.00	5.00	4.50	5.00	7.00	3.00	5.00	5.50	5.00	4.63	4.80	4.60	4.40	4.20	4.50
Japan	0.20	2.40	2.60	2.40	3.50	1.20	0.90	1.10	1.80	1.70	1.20	1.20	1.20	1.20	1.30
United Kingdom	-7.50	20.30	9.70	3.00	5.70	2.20	2.60	1.80	1.50	4.30	0.90	-0.10	0.40	0.90	1.00
Real GDP level (Indexed at 4Q19=100)															
United States	0.00	101.75	103.36	104.76	-	105.69	106.50	107.31	108.11	-	108.89	109.67	110.45	111.24	-
Eurozone	0.00	95.41	97.12	98.32	-	99.00	99.49	99.96	100.36	-	100.80	101.20	101.53	101.89	-
China (YoY%)	0.00	105.90	107.20	108.64	-	109.45	110.79	112.29	113.66	-	115.00	116.31	117.56	118.78	-
Japan	0.00	99.61	100.25	100.85	-	101.15	101.38	101.65	102.11	-	102.41	102.72	103.03	103.33	-
United Kingdom	0.00	94.74	96.96	97.68	-	98.21	98.84	99.28	99.65	-	99.88	99.85	99.95	100.18	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.22	1.25	1.28	1.30	-	1.30	1.30	1.28	1.25	-
US 10-year yield (%)	1.70	2.00	2.00	2.25	-	2.25	2.50	2.50	2.75	-	2.75	3.00	3.00	3.00	-
Scenario 3: Pessimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	4.20	4.20	7.80	-1.20	4.80	2.90	6.90	6.70	4.50	4.10	3.60	3.20	3.10	3.10	4.20
Eurozone	-4.00	2.10	5.60	0.80	2.30	1.10	2.70	2.10	1.40	2.10	2.00	2.20	1.80	1.40	1.90
China (YoY%)	2.00	4.00	3.00	1.00	5.38	3.00	5.00	6.00	6.00	4.88	6.00	5.80	5.50	5.80	5.78
Japan	0.20	2.40	2.40	-0.70	3.30	0.80	1.20	0.70	0.90	0.90	0.80	1.20	1.20	1.20	1.00
United Kingdom	-7.10	18.20	7.00	-1.90	4.80	1.90	1.60	2.10	2.30	2.70	1.40	0.50	0.70	1.10	1.40
Real GDP level (Indexed at 4Q19=100)															
United States	0.00	99.61	101.50	101.19	-	101.92	103.63	105.33	106.49	-	107.44	108.29	109.12	109.95	-
Eurozone	0.00	94.56	95.85	96.04	-	96.31	96.95	97.46	97.80	-	98.28	98.82	99.26	99.60	-
China (YoY%)	0.00	101.71	102.47	102.72	-	103.48	104.75	106.29	107.85	-	109.43	110.99	112.48	114.08	-
Japan	0.00	99.61	100.20	100.03	-	100.23	100.53	100.70	100.93	-	101.13	101.43	101.73	102.04	-
United Kingdom	0.00	94.43	96.04	95.58	-	96.03	96.41	96.91	97.46	-	97.80	97.93	98.10	98.37	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.10	1.10	1.12	1.13	-	1.15	1.17	1.18	1.20	-
US 10-year yield (%)	1.50	1.50	1.75	0.75	-	1.00	1.00	1.25	1.25	-	1.25	1.25	1.25	1.25	-

Source: ING. Note most growth forecasts rounded to nearest whole or half number)
*Scenario two is our current base case for China

GDP forecasts

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World (USD)	-1.1	10.7	4.3	4.3	4.3	3.9	3.3
US	0.4	13.3	7.1	7.4	6.9	4.6	3.0
Japan	-0.7	9.2	4.2	1.9	3.5	1.7	1.3
Germany	-3.2	11.5	2.2	4.4	4.0	4.3	1.7
France	1.0	17.1	0.8	3.1	5.1	3.0	1.6
UK	-6.9	20.4	6.1	5.9	5.7	4.3	1.0
Italy	-1.9	13.7	-0.2	3.2	3.3	3.4	2.1
Canada	-2.4	11.7	4.6		4.3	4.6	2.7
Australia	0.3	8.6	5.6	3.3	4.4	2.6	2.6
New Zealand	2.6	13.7	0.2	2.3	4.4	2.6	2.6
Eurozone	-1.9	12.2	1.5	3.5	3.6	3.5	1.7
Austria	-3.1	10.4	-0.6	2.7	2.4	3.5	2.5
Spain	-4.5	17.4	3.3	6.0	5.0	6.0	1.9
Netherlands	-2.7	7.7	2.4	3.5	2.7	3.5	1.6
Belgium	-1.6	12.3	1.6	2.4	3.4	3.0	1.5
Ireland	2.9	7.3	-2.1	3.9	2.9	3.7	2.3
Greece	-9.0	6.7	7.8	7.9	3.0	4.2	1.5
Portugal	-3.2	13.8	2.4	4.4	4.0	4.5	1.7
Switzerland	-0.3	8.3	1.9	2.3	3.0	2.5	1.3
Sweden	-1.7	7.3	1.6	2.2	2.3	2.4	1.2
Norway	0.3	8.0	3.6	2.4	3.5	2.5	1.5
Bulgaria	-3.3	8.6	5.6	4.6	4.1	3.9	3.2
Croatia	-5.5	13.5	6.4	4.2	4.6	4.1	3.0
Czech Republic	-2.10	8.30	2.90	3.30	3.10	4.10	3.0
Hungary	-5.0	15.6	5.5	5.6	5.4	6.0	4.5
Poland	-2.3	9.6	4.4	6.1	4.5	5.0	5.2
Romania	-1.8	12.4	7.5	3.9	5.5	5.0	3.7
Turkey	2.6	10.6	3.5	3.9	5.0	4.5	4.0
Serbia	0.4	12.0	5.4	4.7	5.5	5.0	5.0
Russia	-0.5	6.0	3.0	1.5	2.5	2.2	3.0
Kazakhstan	0.8	3.1	3.1	2.4	3.2	3.7	4.0
Ukraine							
Azerbaijan	1.0	2.2	1.9	2.5	2.7	2.1	2.5
China	12.0	5.5	5.0	5.5	7.0	4.6	4.5
Hong Kong	5.0	5.0	2.5	3.0	4.0	2.3	3.0
India	2.7	30.5	8.1	2.3	9.2	6.4	6.1
Indonesia	-1.0	7.6	5.0	4.0	3.9	4.3	5.0
Korea	0.7	4.4	3.2	3.1	2.7	3.0	3.2
Malaysia	-6.2	15.1	1.3	3.9	3.1	4.2	4.5
Philippines	-3.6	13.0	5.9	5.0	5.0	4.2	4.5
Singapore	0.2	14.2	4.8	1.5	4.9	3.2	3.4
Taiwan	5.5	6.1	2.8	2.7	4.3	2.3	3.5
Thailand	-3.5	8.1	3.5	4.0	2.8	3.3	3.1

Source: ING estimates

CPI forecasts (pa)

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World	1.7	2.6	2.6	2.7	2.0	2.5	2.5
US	1.8	3.6	3.3	3.4	3.0	3.0	2.6
Japan	-0.4	0.1	0.3	1.0	0.3	0.7	0.6
Germany	1.8	2.1	3.0	3.5	2.7	1.3	1.7
France	0.8	1.7	1.9	1.5	1.5	1.4	1.3
UK	0.6	1.6	1.6	2.1	1.5	1.8	1.6
Italy	0.8	1.2	1.5	1.2	1.2	1.1	1.3
Canada	1.6	3.0	3.1		2.7	2.7	2.3
Australia	0.9	3.4	2.5	2.3	2.3	2.3	2.5
New Zealand	1.3	2.3	2.1	2.0	1.9	2.0	2.2
Eurozone	1.0	1.9	2.3	2.2	1.8	1.5	1.6
Austria	1.3	2.1	1.9	1.7	1.8	1.7	1.7
Spain	0.7	1.3	1.6	1.7	1.3	1.7	1.8
Netherlands	1.9	2.0	1.8	1.9	1.9	1.5	1.5
Belgium	1.1	2.5	1.8	1.9	1.8	1.7	1.8
Ireland	-0.1	1.1	2.1	2.1	1.3	1.5	1.7
Greece	-2.0	-0.5	1.0	1.1	-0.1	0.9	1.0
Portugal	0.4	1.2	1.6	1.7	1.2	1.7	1.8
Switzerland	-0.2	0.8	1.0	0.5	0.5	0.6	0.6
Sweden	1.8	2.4	2.0	1.9	2.0	1.5	1.4
Norway	2.2	2.5	2.2	1.3	2.2	2.0	2.0
Bulgaria	0.2	1.5	2.3	2.6	1.6	2.2	2.5
Croatia	0.1	1.3	1.0	1.5	1.0	1.3	2.0
Czech Republic	2.4	2.4	2.5	2.9	2.2	1.9	2.4
Hungary	3.4	4.6	4.2	4.0	4.0	2.8	3.2
Poland	2.7	3.6	3.5	3.8	3.4	3.4	3.2
Romania	3.0	2.9	2.9	3.3	3.3	2.8	2.5
Turkey	15.8	14.6	14.0	11.5	14.3	10.5	9.0
Serbia	1.3	2.0	1.9	2.3	1.9	2.3	3.0
Russia	5.7	5.3	5.3	4.2	5.2	4.1	5.2
Kazakhstan	7.0	6.5	6.5	6.1	6.7	6.1	5.5
Ukraine[1]							
Azerbaijan	3.3	3.6	4.5	4.2	3.7	3.0	3.5
China	0.0	1.0	1.4	2.5	1.2	2.4	2.0
Hong Kong	1.3	1.0	2.4	3.5	2.1	2.4	2.5
India	5.3	5.8	5.5	5.7	5.8	5.3	5.1
Indonesia	1.7	2.5	2.6	2.9	2.4	3.3	3.2
Korea	1.1	2.6	2.4	2.8	2.2	1.7	1.7
Malaysia	-0.3	1.6	1.2	1.5	1.0	1.4	1.7
Philippines	4.5	4.6	3.8	3.7	4.2	3.0	3.4
Singapore	0.3	0.9	0.5	0.5	0.5	1.1	1.3
Taiwan	1.0	1.6	1.7	1.4	1.4	1.5	2.00
Thailand	-0.3	1.0	0.6	0.5	0.5	1.2	1.50

Source: ING estimates

Oil Forecasts (avg)

($/bbl)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
Brent	62	67	70	70	67	70	75

Source: ING estimates

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