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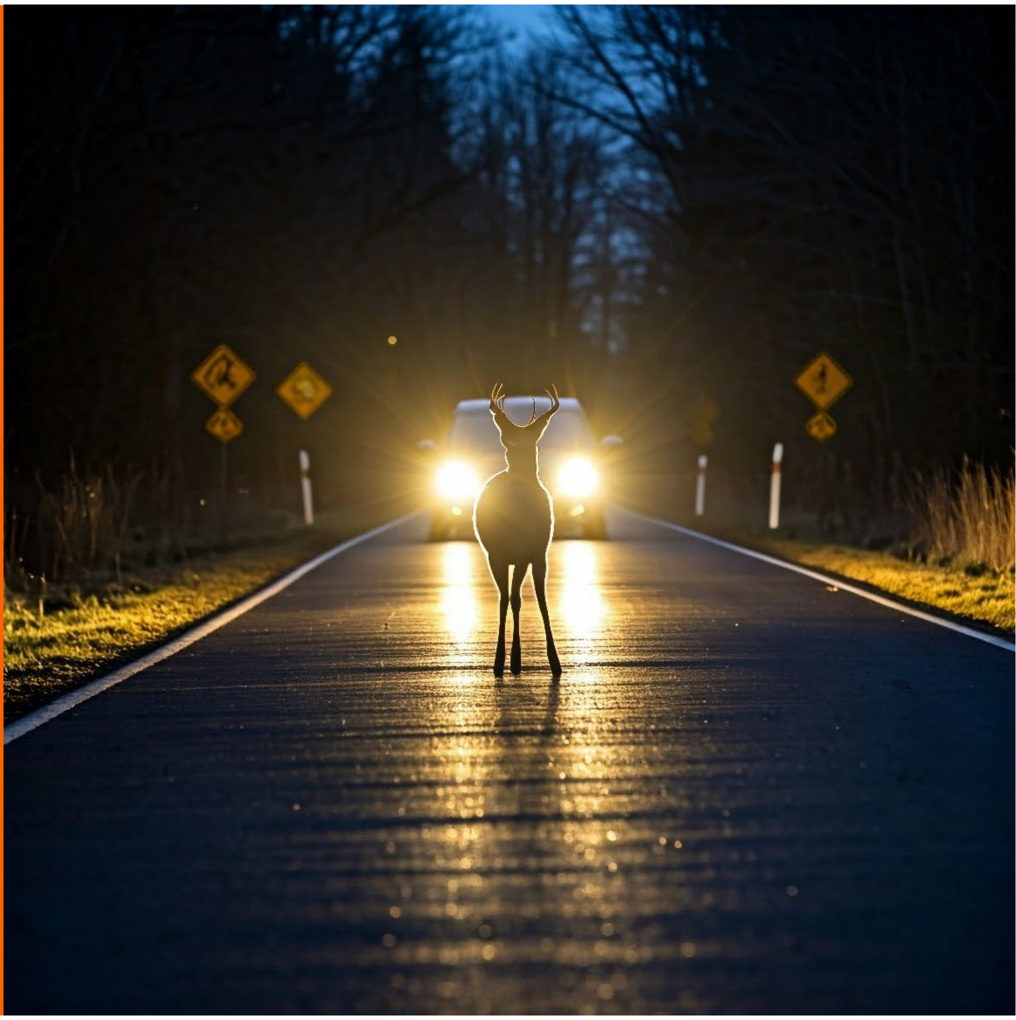
The world is caught like a deer in the headlights



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The world is caught like a deer in the headlights

Markets have calmed, but don't be mistaken; we are far from being back to normal. There's a sense that the world is caught like a deer in the headlights, not sure what to do and terrified of what might be about to hit it

Prepare for more economic shocks

After the tariff blast in April, followed by market turmoil and even doubts about the Fed's independence, the start of May has looked like the famous calm after the storm. Some might be tempted to think that the challenges to the global economy have mostly evaporated. I have my doubts.

Let's not forget that despite the back-and-forth on tariffs, the level of actually imposed tariffs is still significantly higher than at the start of the year. The war in Ukraine drags on, and uncertainty is still high, not least about the rule of law and stability of public institutions in the US.

The next few weeks might bring further relief, but I wouldn't count on it. Following the wish-for-the-best-but-expect-the-worst principle, we should prepare for more negative macro news when the direct impact of the April tariff blast shows up in the data. Our base case scenario remains that the current trade tensions will be a supply shock in the US and a demand shock in the eurozone.

Oil is a mitigating factor

Another global economic shock that should be a mitigating factor is the sharp drop in oil prices. Unless you export the stuff, cheaper oil should bring some tailwinds for the global economy. It probably won't be enough to fully offset the tariff-driven inflation surge in the US, but it could help compensate for the adverse effect on eurozone growth and will definitely add to the current disinflationary trend.

In the eurozone and eventually in the US, that may well give both the ECB and the Fed more room to cut interest rates. While lower energy prices and monetary policy could at least partially mitigate the expected negative impact and uncertainty tariffs bring, the longer-term course will still be determined by (geo-)politics.

I won't speculate here about the next steps of the US administration, but will focus on Europe. Recent developments have unfortunately dented previous optimism that the continent will finally seize the opportunity to live up to the new geopolitical challenges by strengthening the domestic economy, instead of waiting like a deer caught in the headlights.

The fact that there is talk that some European countries will try to reach the higher defence spending targets by simply reclassifying spending categories is more than worrisome.

The political drama staged in Berlin on Tuesday, with Friedrich Merz's more than clumsy start as the next German chancellor, was another illustration that the sense of urgency is still not high enough everywhere.

In a weak moment this week, I caught myself secretly hoping that the current calm after the storm is actually the calm before the storm. If this is the pressure needed for Europe to finally go bold and not only talk the talk, so be it.

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Our key calls at a glance

US 10% baseline tariffs set to remain in place throughout President Trump's term. Reciprocal tariffs – currently delayed for 90-days – are likely to be reduced/eliminated for some US trading partners, though in many cases not until after 9 July (when the pause ends).

US economic growth set to rebound in the second quarter, given signs that imports are falling rapidly. Noise aside, weaker confidence data suggests we're likely to see a sharp slowdown in the second half of the year. Tax cuts are unlikely to move the needle for US growth this year.

Federal Reserve to keep rates on hold until July at the earliest. Until activity data starts to weaken, the Fed will remain focussed on the risks to inflation. The Fed may wait until September before cutting rates further, though if it waits until then, the first cut could be a larger 50bp move.

Eurozone growth is set to stagnate from the second quarter, though a drop in energy prices should help offset the negative impact of the trade war. The German infrastructure package is also a strong tailwind, though it's impact probably won't be felt until 2026.

European Central Bank set to cut rates twice more, taking the deposit rate to 1.75%. Lower energy prices and a stronger euro add to disinflationary pressures in the eurozone, enabling the ECB to ease rates further.

Further monetary easing from the People's Bank of China is likely. We anticipate another 20bp of rate cuts and 50bp of RRR cuts this year, with the next move likely to come after the US Federal Reserve resumes its rate cuts.

We expect EUR/USD to trade in a 1.12-1.15 range in the near term. A dovish ECB and a soft eurozone growth story limit the upside.

We expect the US 10-year yield to fall to 3.90% by the end of the second quarter, as the economic data deteriorates; however, the 'Sell America Inc' risk could return in the second half of the year, bolstered by rising inflation and ongoing deficit elevation.

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ING global forecasts

	2024					2025F					2026F				
	1Q24	2Q24	3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	3.1	2.5	2.8	-0.3	1.9	-0.9	0.1	1.2	1.3	2.0	2.1	2.3	1.1
CPI headline (% YoY, avg)	3.2	3.2	2.7	2.7	3.0	2.7	2.7	3.9	4.1	3.4	3.8	3.6	2.4	1.9	2.9
Federal funds (%, eop)	5.50	5.50	5.00	4.50	4.50	4.50	4.50	4.00	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3-month SOFR rate (%, eop)	5.40	5.40	5.00	4.40	4.40	4.50	4.40	4.00	3.50	3.50	3.30	3.30	3.30	3.30	3.30
10-year interest rate (%, eop)	4.25	4.40	3.80	4.60	4.60	4.25	3.90	4.60	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Fiscal balance (% of GDP)					-6.9					-7					-6.9
Gross public debt / GDP					99.6					101.8					104.7
Eurozone															
GDP (% QoQ, ann)	1.2	0.7	1.5	0.2	0.7	1.5	0.0	0.1	0.8	0.7	1.2	1.4	1.8	2.1	1.1
CPI headline (% YoY, avg)	2.6	2.5	2.2	2.3	2.4	2.3	2.1	2.1	2.0	2.1	2.0	2.0	2.1	2.1	2.0
ECB Deposit Rate (%, eop)	4.00	3.75	3.50	3.00	3.00	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month interest rate (%, eop)	3.90	3.70	3.25	2.85	2.85	2.40	1.90	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90
10-year interest rate (%, eop)	2.30	2.60	2.10	2.36	2.36	2.80	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.80	2.80
Fiscal balance (% of GDP)					-3.2					-3.4					-3.5
Gross public debt/GDP					89.6					90.2					91.2
Japan															
GDP (% QoQ, ann)	-2.1	3.3	1.4	2.2	0.1	-0.4	0.0	1.2	0.8	0.9	0.8	0.8	0.8	1.2	0.8
CPI headline (% YoY, avg)	2.5	2.7	2.8	2.9	2.7	3.8	3.4	2.6	2.1	3.0	1.5	1.7	2.1	2.2	1.8
Target rate (%, eop)	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
3-month interest rate (%, eop)	0.26	0.30	0.43	0.62	0.62	0.82	0.75	1.00	1.00	1.00	1.10	1.25	1.25	1.25	1.25
10-year interest rate (%, eop)	0.73	1.06	0.86	1.10	1.10	1.50	1.30	1.50	1.50	1.50	1.75	1.75	1.75	1.75	1.75
Fiscal balance (% of GDP)					-7					-5					-5
Gross public debt/GDP					251					260					265
China															
GDP (% YoY)	5.3	4.7	4.6	5.4	5.0	5.3	4.5	4.3	4.1	4.5	4.1	4.4	4.3	3.9	4.2
CPI headline (% YoY, avg)	0.0	0.3	0.5	0.2	0.2	-0.1	0.0	0.0	0.2	0.0	1.1	0.8	0.8	1.8	1.1
7-day Reverse Repo Rate (% eop)	1.80	1.80	1.50	1.50	1.50	1.50	1.40	1.20	1.20	1.20	1.20	1.10	1.00	1.00	1.00
3M SHIBOR (% eop)	2.16	1.92	1.84	1.85	1.85	1.91	1.70	1.55	1.50	1.50	1.50	1.45	1.45	1.45	1.45
10-year T-bond yield (%, eop)	2.30	2.21	2.20	2.00	2.00	1.70	1.65	1.55	1.65	1.65	1.65	1.70	1.80	1.85	1.85
Fiscal balance (% of GDP)					-5.0					-5.50					-5.5
Public debt (% of GDP), incl, local govt					121					135					145
United Kingdom															
GDP (% QoQ, ann)	3.7	1.8	0.0	0.4	1.1	2.3	0.7	1.2	1.0	1.1	0.8	1.0	1.0	1.0	1.0
CPI headline (% YoY, avg)	3.5	2.1	2.0	2.5	2.5	2.8	3.3	3.5	3.2	3.2	2.8	2.0	2.3	2.4	2.4
BoE official bank rate (%, eop)	5.25	5.25	5.00	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.50	3.25	3.25	3.25	3.25
3-month interest rate (%, eop)	5.25	5.05	4.80	4.55	4.55	4.45	4.20	3.95	3.70	3.70	3.45	3.20	3.20	3.20	3.20
10-year interest rate (%, eop)	3.95	4.20	4.00	4.25	4.25	4.68	4.20	4.50	4.30	4.30	4.30	4.30	4.30	4.30	4.30
Fiscal balance (% of GDP)					4.5					3.6					3.4
Public sector net debt (FY, %)					100.1					99.7					100.1
EUR/USD (eop)	**1.08**	**1.08**	**1.12**	**1.05**	**1.05**	**1.08**	**1.13**	**1.13**	**1.13**	**1.13**	**1.12**	**1.14**	**1.14**	**1.15**	**1.15**
USD/JPY (eop)	**151**	**160**	**143**	**155**	**155**	**150**	**145**	**142**	**140**	**140**	**138**	**138**	**138**	**138**	**138**
USD/CNY (eop)	**7.22**	**7.26**	**7.01**	**7.25**	**7.25**	**7.28**	**7.25**	**7.20**	**7.25**	**7.25**	**7.25**	**7.20**	**7.20**	**7.20**	**7.20**
EUR/GBP (eop)	**0.86**	**0.87**	**0.84**	**0.83**	**0.83**	**0.84**	**0.85**	**0.86**	**0.86**	**0.86**	**0.87**	**0.87**	**0.88**	**0.88**	**0.88**
ICE Brent - US$/bbl (average)	**82**	**85**	**79**	**74**	**80**	**75**	**64**	**62**	**59**	**65**	**58**	**56**	**58**	**54**	**57**
Dutch TTF - EUR/MWh (average)	**28**	**32**	**36**	**43**	**35**	**47**	**35**	**37**	**39**	**39**	**37**	**30**	**30**	**34**	**33**

Source: ING forecasts

Global trade forecast drops; Section 232 tariffs set to intensify

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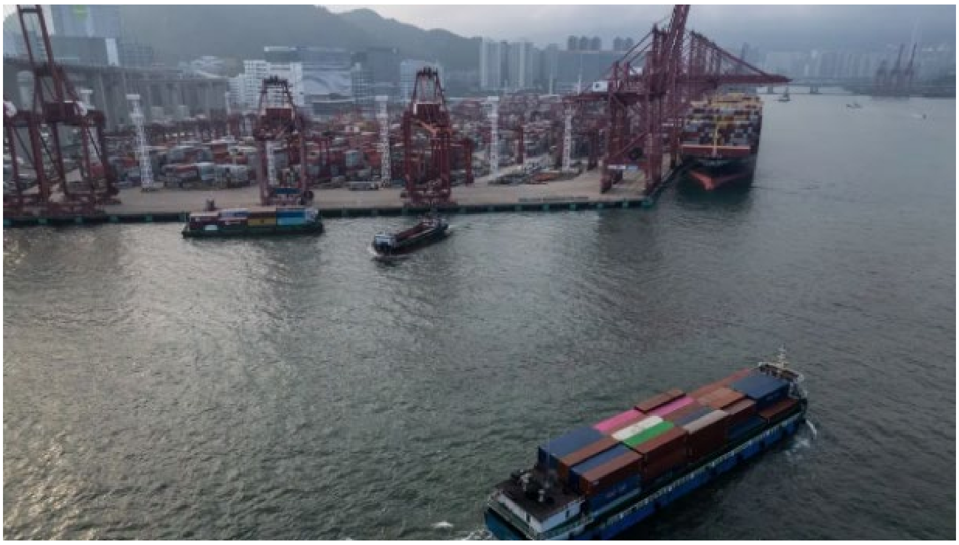
US imports surged 41.3% in the first quarter of this year, led by medicinal and tech products. But container bookings dropped sharply in April, leading to a lowered 2025 trade growth forecast of 1.2%. Section 232 tariffs are expected to not only remain but intensify, with adjustments and reimbursements to be made amid US stagflation



This year's trade growth forecast has taken a hit, but a glimmer of hope remains for a partial recovery in 2026

US imports surge amid anticipation of Trump's tariffs

In anticipation of US President Donald Trump's tariffs, US imports surged at an annualised rate of 41.3% in the first quarter of 2025, led by medicinal, dental, and pharmaceutical preparations. This was followed by computers, peripherals, and parts, marking the highest increase since the third quarter of 2020. Up to February, imports from Ireland (pharma), or Taiwan (computer & electronic products), showed significant increases, but imports from China (computer & electronic products) also rose by 8.3% year-to-date despite the higher tariffs in place since February, according to data from the International Trade Administration (ITA).

Container bookings drop sharply in April, leading to lowered 2025 trade growth forecast

Compared to our base case last month, recent data suggests less front-loading than expected in the second quarter, despite the 90-day tariff pause. Container bookings to the US dropped significantly, shifting from double-digit growth in February to two consecutive 22% year-on-year declines in mid-April, according to data from Vizion. Bookings from China to the US fell by 44% and 49% YoY, respectively. Cancelled container vessel sailings indicate this trend is likely to continue into the first half of May.

Globally, TEU bookings have been declining since late March, culminating in a 12.1% YoY drop by the end of April. With new orders declining in both China and the US, the second quarter overall appears unfavourable for world trade, particularly as the front-loading in the first quarter is followed by a sharper downturn in the second quarter, resulting in fewer goods coming in. While the trade situation remains highly volatile and the drop might prove temporary, we are lowering our 2025 trade growth forecast from 2.5% to 1.2% YoY.

Still, we refrain from predicting a negative number due to several factors:

- Only about 13% of total global exports are directed to the US, indicating that while the US plays a significant role, it is not the sole focus of global trade.
- The trade numbers for this year are expected to be positively influenced by a statistical effect stemming from the low base of comparison in the first and second quarters of 2024, combined with the front-loading observed in the first quarter. Additionally, global merchandise trade volume has increased by 3.6% year-to-date up to February, according to CPB World Trade Monitor data. March also remained strong, as indicated by port and container bookings data.
- Slightly increased trade between other countries and more sourcing into the US from countries facing lower tariffs. Parts of China-US trade are being replaced by trade via other countries in the region.
- (Temporary) exemptions from tariffs for certain goods (e.g., smartphones, computers, chips and other electronics, USMCA-compliant content, pharmaceuticals).

Section 232 tariffs to intensify; adjustments and reimbursements likely amid US stagflation scenario

When it comes to our tariff baseline, we anticipate that the 10% universal tariffs will remain in place throughout President Trump's current term. However, we believe that reciprocal tariffs will be reduced or eliminated completely for some US trade partners over the year as trade deals progress and a stagflation scenario develops in the US. This reduction might only occur after 8 July for some trade partners, though, when the 90-day reciprocal tariff pause ends, and could extend well into the second half of the year.

For the EU, for example, we currently anticipate a reduction in reciprocal tariffs as the second half of the year progresses. Despite the EU's efforts to secure a deal by delaying its countermeasures for 90 days until 14 July, offering a €50 billion trade deal that includes LNG purchases and soybeans to reduce the trade deficit, and proposing 0% tariffs on cars and industrial goods, achieving a satisfactory agreement remains challenging. This is largely due to demands from the US, with Trump, for instance, having insisted on $350 billion in energy purchases and the need for consensus among all EU member countries. If a deal fails to materialise before 8 July, the EU will introduce its countermeasures covering €21 billion of US exports as voted for on 9 April, while exploring further retaliatory measures.

Section 232 tariffs could be slightly modified. They've already been adjusted for car parts, allowing automakers to reclaim 3.75% of the value of US-manufactured vehicles for one year, and this is set to drop to 2.5% in the following year. We don't expect a change in the rate of Section 232 tariffs – those on cars, steel, and other articles will remain at their 25% levels – but further reimbursements are likely to cushion the blow from additional tariffs.

Still, we expect that they'll remain in place. Some countries, such as the UK and Japan, may negotiate exemptions – but Section 232 (or 301) tariffs are based on more substantial grounds than IEEPA tariffs. These measures are designed to bolster the US manufacturing sector and are unlikely to be lifted for most trade partners. Additionally, the list of products subject to upcoming Section 232 tariffs is extensive (see the second column in our chart below), including pharmaceuticals and their ingredients.

For Europe, this means that while a reduction in reciprocal tariffs would be welcome news, tariffs on pharmaceutical products – accounting for 20% of the EU's exports to the

US – would partially offset the 10ppt reduction in reciprocal tariffs, making it even more challenging to achieve a mutually beneficial deal.

Tariff overview: tariffs in place, to come and current exemptions

Tariffs in place	Investigations under way/ tariffs to come	Goods (temporarily) excluded from tariffs
World • 10% (as of 5 April) • Section 232 tariffs: – 25% on cars (as of 3 April) and car parts (as of 3 May) – 25% on steel and aluminium and certain derivative steel and aluminium articles **China:** a minimum of 145% (as of 10 April) • Elimination of de minimis (goods worth less than US$800): – 120% tariff or a fee of US$100 (as of 2 May, fee rising to US$200 as of 1 June) **Canada and Mexico** • 25% for non-USMCA compliant goods • 10% for non-USMCA compliant energy and potash	• Medium and heavy-duty trucks, parts and derivative products (Section 232, comments until 16 May) • Pharmaceuticals and pharmaceutical ingredients, and derivative products (Section 232, comments until 7 May) • Semiconductors and semiconductor manufacturing equipment, and their derivative products (Section 232 investigation, comments until 7 May) • Critical minerals (Section 232, comments until 16 May) • Seafood (Section 301, provide recommendations no later than 14 October 2025) • Shipping: As of 14 October, fee of US$50 per net tonnage, which will increase annually for three years, will be charged no more than five times a year per individual vessel plus additional fees laid out in the Federal register note • Ship-to-shore cranes, assembled or made using components from Chinese origin and certain cargo handling equipment of China: Proposition of additional 100% (Section 301) • Copper in all forms, incl. derivative products (Section 232, report due no later than 22 November 2025) • Timber, lumber, and their derivative products (Section 232, report due no later than 26 November 2025)	• Reciprocal tariffs ranging from 11% to 50% suspended until 8 July • Articles subject to Section 232 tariffs now or in the future (e.g. semiconductors, pharma) • Bullion • Energy and other certain minerals that are not available in the US **Amendments to cars and car parts tariffs:** • 3 April 2025 - 30 April 2026: Offset amount equal to 3.75% of the MSRP value of all automobiles assembled in the US • 1 May 2026 - 30 April 2027: Offset amount equal to 2.5% of the MSRP value of all automobiles assembled in the US • USMCA compliant goods

Source: White House, Federal Register, ING Research, as of 5 May 2025

The pessimistic scenario: trade deals fail, trade partners retaliate and global trade slumps

Despite some goods entering the US being exempt from tariffs, the significant uncertainty surrounding tariffs and accurate customs declarations may still deter customers from purchasing goods altogether. This suggests that at least part of the inflicted damage will persist.

Here, the 90-day tariff pause does not result in major trade deals, merely reinstating the bulk of reciprocal tariff rates. Even halving tariffs on Chinese goods does not materially change trade inflows. The imposition of Section 232 tariffs exacerbates the situation, further deterring trade flows. The prevailing uncertainty and market turmoil could cause consumers worldwide to hesitate when purchasing goods, potentially leading to a substantial downturn in global trade.

Combined with reciprocal tariffs and countermeasures, trade in goods could slump into negative territory, resulting in a projected -0.7% drop in 2025.

2026 trade outlook sees partial recovery

With anticipated improvements in trade relations in 2026, trade in goods is expected to recover to some extent. However, we do not foresee a complete rebound to previous average growth numbers (of around 3%), given the 10% baseline tariff and ongoing reshuffling in trade flows. This results in a forecasted YoY growth rate of some 2%.

What remains is immense uncertainty, meaning this likely won't be the last time we reconsider our forecasts.

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OPEC+ policy shift clashes with demand uncertainty

Another large supply hike from OPEC+ confirms the group's policy change. However, the issue is that this policy shift is occurring at a time when there is already plenty of demand uncertainty. Stronger supply means the oil market will face a larger-than-expected surplus this year

Haitham Al Ghais, Secretary General of OPEC since 2022

OPEC+ policy shift

Demand concerns induced by tariff uncertainty have only been compounded by a shift in OPEC+ policy, which has weighed heavily on oil prices. OPEC+ appears to be in the process of moving away from defending prices towards defending market share. The group has announced two larger-than-scheduled supply increases for May and June. OPEC+ is set to increase supply by 411k b/d in both May and June. Under the original plan, the group was set to bring back 2.2m b/d of supply over 18 months. However, in a three-month window, it is set to bring almost 1m b/d of supply back onto the market. And if the group sticks with increases similar to those seen for May and June, the full 2.2m b/d of supply will have been brought back by the end of the third quarter of this year – a full 12 months ahead of schedule.

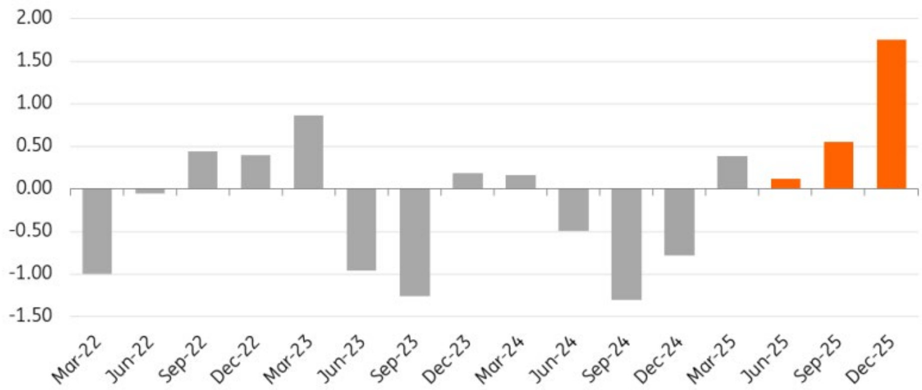
A key reason for this shift in policy appears to be growing discord within OPEC+. Saudi Arabia is not happy that some members are producing above their agreed production levels, specifically Kazakhstan and Iraq. Therefore, the boost in output is to punish those producers who have consistently pumped above their target levels.

The move to bring back supply quicker than expected leaves the market in a larger surplus through 2025, thereby lowering the market's floor. We have revised our 2025 Brent forecast from US$70/bbl to US$65/bbl. While the scale of the surplus later in the year should mean further pressure on prices in the fourth quarter, where we now forecast Brent to average US$59/bbl. Expectations for a larger surplus are also reflected in the Brent forward curve, with more of 2025 trading in contango.

The uncertainty for the market is how long OPEC+ is willing to run with this new policy before reversing back to trying to support the market. Saudi Arabia needs around US$90/bbl to balance its fiscal budget, and so the country will be facing a widening budget deficit given the price weakness.

US oil producers will also be feeling the pain. The US industry needs an average of US$65/bbl to profitably drill a new well, according to the Dallas Federal Reserve's quarterly energy survey. And with WTI trading sub-US$60/bbl, we are likely to see a pullback in drilling activity in the US, which also calls into question any forecast for US crude oil supply growth this year and next.

Global oil balance moves deeper into surplus (m b/d)



Source: ING Research, IEA, EIA, OPEC

European gas supply fears ease... for now

European gas prices remain under pressure, with TTF down more than 20% since "Liberation Day". Tariff uncertainty will raise demand concerns. However, there are also other factors weighing on prices.

Europe has been seeing stronger flows of LNG in recent months. In fact, EU LNG send-outs in April were the highest on record. Weaker Chinese LNG demand has allowed for stronger flows to Europe. Chinese LNG imports over the first three months of the year were down more than 21% YoY. Lower prices might stimulate some Chinese spot demand in the short term, however, tariff escalation does pose some broader demand risks in the months ahead.

In addition, the EU is moving towards possibly lowering storage targets ahead of the 2025/26 winter, as well as providing more flexibility on these targets. This would naturally reduce the buying needed over the injection season to hit storage targets. This has also helped the TTF forward curve return to a more normal shape, where summer 2025 prices are now trading at a discount to winter 2025/26 prices, providing more of an incentive to store gas ahead of next winter.

EU gas storage stands at more than 41% full now, up from a low of 34% at the end of March. However, it is still some distance below the five-year average of 51%, and therefore, ahead of next winter, we will still need to see the largest net injections since 2022 to reach the current 90% storage target.

Demand risks, stronger LNG flows, a better storage situation and more flexibility in storage mean that we have cut our TTF forecast. We have lowered our 2025 forecast from EUR45/MWh to EUR39/MWh. However, we are reluctant to cut significantly more for now, given that the market is still relatively tight and remains vulnerable.

Our latest views on the major central banks

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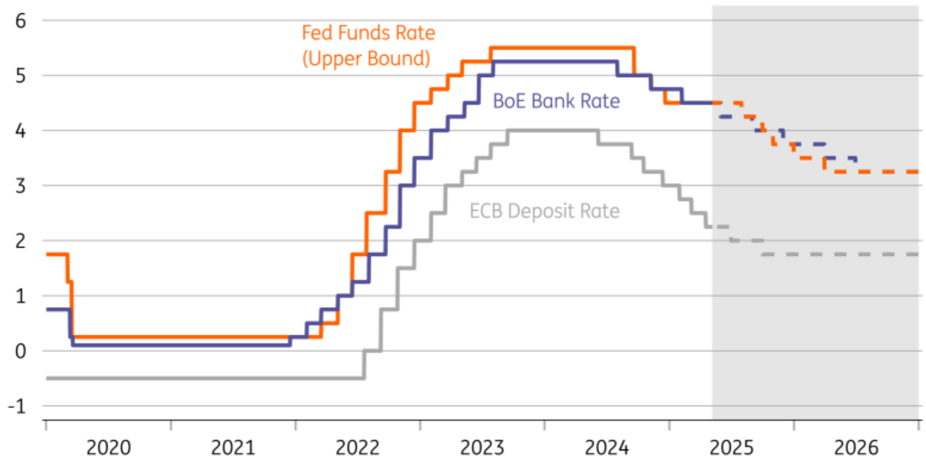
Central banks are waiting to assess the full impact of Trump's tariffs before making any big moves

The US Federal Reserve, chaired by Jerome Powell, is under pressure from Donald Trump to cut interest rates

Our policy rate forecasts



Source: ING Forecasts, Macrobond

Federal Reserve

President Trump wants the Fed to cut interest rates, but those demands are falling on deaf ears as officials try to gauge the inflationary impact from his trade policies amid ongoing labour market strength. Higher tariffs look set to lift prices while port operators and logistics firms are warning of a potential supply crunch that risks amplifying the near-term inflation threat. As such, the Fed is in "wait and see" mode, with Chair Jay Powell warning that its "obligation is to keep longer-term inflation expectations well anchored and to make certain that a one-time increase in the price level does not become an ongoing inflation problem".

However, the scale of the slump in consumer and corporate sentiment to levels consistent with recession suggests that trade deals and tax cuts need to be agreed quickly to prevent a stagflation-infused downturn. Nonetheless, we expect that shelter-related disinflation will give the Fed room to respond with rate cuts later in the year. The market favours a July start point, but we see the risk for slippage, and it may be that the Fed kicks things off with a 50bp cut in September, just as it did in 2024.

European Central Bank

Assuming that trade tensions will not fade away any time soon and that the coming weeks will show the first fallout for the eurozone economy, the risk for the ECB of undershooting its inflation target will increase. In fact, we think that after the April rate cut, the ECB's work is not yet done. On the contrary, the recent drop in energy prices and the stronger euro exchange rate have actually increased disinflationary pressures in the eurozone, leaving more room for the ECB to continue cutting rates.

At the April press conference, ECB President Christine Lagarde may not have been as straightforward and explicit as her predecessor Mario Draghi, but stressed the ECB's "readiness" and "agility". A clear hint that the ECB will not shy away from cutting rates further. The U-turn on fiscal policy in Germany and the plans to increase defence spending in Europe are expected to enhance the eurozone's long-term economic outlook. This improvement may eventually prompt the European Central Bank to reconsider the extent of its rate cuts. But for now, the direction of travel is clear: we expect two more cuts by late summer.

Bank of England

There's a growing expectation within financial markets that the Bank of England will be forced to pick up the pace of rate cuts. Ahead of the Bank's May meeting, markets have been pricing three cuts at the next four meetings, which would mark an acceleration from the quarterly 25bp moves we've seen so far. We have some sympathy with that view, given that services inflation – a key metric for the BoE – should end the quarter closer to 4% than 5%, where it has hovered for some time.

But we're less convinced that tariffs and the financial volatility we saw in April are enough of a catalyst for the Bank to speed things up. Britain is less susceptible to the direct hit of US tariffs, even if wider economic weakness in America would be a bigger deal. Meanwhile, headline inflation is set to rise to 3.5% later this year, which, though driven primarily by energy prices, the Bank is concerned might prompt a longer period of above-target inflation, like we saw after the 2022 gas price shock. Those concerns look overblown, but the BoE's cautious approach to easing suggests the path of least resistance is to keep cutting rates once per quarter this year.

Bank of Japan

The Bank of Japan's latest quarterly outlook report showed a sizable downside revision of GDP for FY2025. At the press conference, Governor Kazuo Ueda also stressed extreme uncertainty regarding trade and the BoJ's growth outlook. This was clearly the main reason for the decision to keep rates steady. The BoJ seems to be struggling to anticipate how US trade policy will evolve and how tariff rates will settle. The central bank's policy decision ahead will depend heavily on this.

We believe that despite inflation being above 3%, the BoJ will maintain its wait-and-see stance until any trade agreements between Japan and the US are finalised. Given the US 90-day pause on 'reciprocal' tariffs, the earliest the BoJ can start raising rates again is July, with the big assumption being that bilateral talks will lead to a reduction in tariffs from current levels. We also think there is a possibility that the BoJ's outlook for GDP and CPI could be revised upwards if progress is made in the tariff negotiations.

US sentiment slump means trade deals can't come quickly enough

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Financial markets have bounced back after the chaos and confusion of 'Liberation Day', on optimism that trade deals will be signed and tax cuts will be agreed. But the collapse in economic sentiment suggests these agreements need to materialise quickly to prevent a downturn

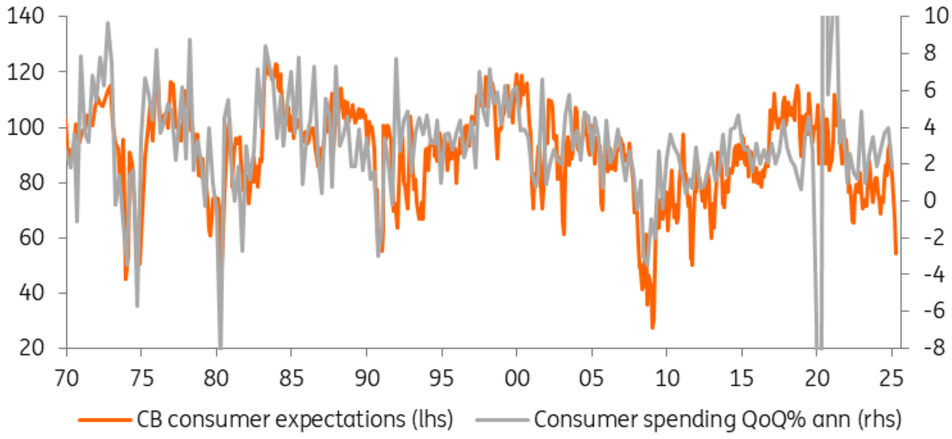
US President Donald Trump signing a series of executive orders in the Oval Office of the White House this week

Sentiment sours on trade and inflation uncertainty

US President Donald Trump's decision to rewrite the rules on trade is having a clear impact, not just on trade partners, but on the US economy too. First quarter US GDP was dragged down by a surge in imports as US companies sought to bring as much product in as possible ahead of the imposition of tariffs. Much of this has been accumulated as inventory, but it also helped to facilitate a large increase in consumer spending in March for big-ticket items such as cars, while investment in equipment also performed strongly.

Second quarter GDP should bounce back into positive territory as imports reverse, based on shipping and port data, while April spending also held up as consumers continued to bring forward purchases in advance of tariff-induced price hikes. This, though, will mask a clear shift in the underlying fundamentals of the economy.

Plunge in consumer sentiment points to the threat of outright spending declines



Source: Macrobond, ING

Weak macro fundamentals spread across all sectors

Consumer sentiment has undoubtedly soured since President Trump's election victory last November. Worries about higher prices and squeezed spending power from tariffs, concern about a cooling jobs market and anger and disappointment tied to falling asset prices have caused confidence to plummet to levels typically seen only during recessions. The chart above shows the historically strong relationship between sentiment and spending that is currently warning of a steep decline in demand.

The uncertainty created by the on-off-on again implementation of tariffs and the unclear trading environment companies face is impacting corporate sentiment and leading to businesses becoming more vague on earnings guidance. This, in turn, is likely to mean a growing reluctance to put money to work, which suggests hiring and investment should slow significantly. This comes at a time when the federal government is trying to trim spending, with the President proposing a 23% cut to non-defence discretionary spending next fiscal year.

Another concern is the steep drop-off in foreign visitors, which will hit leisure and hospitality in key regions, while talk of foreign consumer boycotts of US made goods and services makes export forecasts vulnerable to revision.

Market optimism will be tested in the face of waning economic momentum

While there is still the threat of a sharp slowdown, we have to be cautious. Recession was the base case of many economists 18 months ago, yet the economy continued to power on – write the US consumer off at your own peril! This time around there does appear to be more of a headwind with the fiscal policy being tightened and the Fed signalling little prospect of imminent interest rate cuts.

Financial markets, though, are looking at the positives, having fully recovered the losses seen in the wake of the shock from the initial "Liberation Day" announcements. They appear to be taking the president at face value in terms of his promise of trade deals that de-escalate tensions and that he will soon pivot to significant tax cuts that will provide meaningful support to the economy.

That may well be true, but it needs to happen quickly otherwise the loss of momentum caused by tariff uncertainty and consumer worries about prices, incomes and wealth could become entrenched.

Moreover, an extension of the 2017 Tax Cuts and Jobs Act on its own will do nothing to lift the economy – it merely prevents a huge tax hike that would heighten the chances of recession. Not taxing tips and a trimming of corporate tax rates will not move the needle much while President Trump's more significant tax cuts relating to social security payments and overtime pay could yet be stymied by Republican fiscal hawks in the Senate.

Weaker services inflation to give the Fed scope for 100bp of rate cuts

Inflation in the very near-term is being held down by the drop off in leisure, tourism and hospitality, with airfares and hotel prices falling sharply. However, goods prices will soon start to rise due to tariffs, which will also feed through into some price hikes for services, such as higher car insurance costs. We expect this to become more apparent from June onwards and risks being amplified by the potential supply shock that port operators, logistics firms and big retailers are warning of relating to the sudden drop in orders of foreign-made goods.

The uncertainty over the duration and scale of the inflationary impact looks set to keep the Federal Reserve from imminent rate cuts, but we continue to anticipate 100bp of easing in the second half of 2025. It may possibly start with a 25bp cut from July with three further 25bp cuts and a fourth in early 2026. However, if the jobs market holds up and inflation is stickier, then it may be a September start with a 50bp lead-off more likely, similar to the Fed's playbook from last year.

Housing inflation by that point could start to influence the story more. Housing is 40% of the CPI basket, and a weaker economy and rising unemployment are going to mean landlords will likely end up being more conservative in their pricing. In this regard, the Cleveland Fed's national new tenant rent series is already falling in year-on-year terms. This decline in service sector inflation, combined with tariff influence on inflation fading next year, sees inflation back at target by late 2026.

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The eurozone is still heading for a slowdown

Despite stronger-than-expected first-quarter growth, the eurozone's economic outlook remains bleak. While inflation figures for April disappointed, falling energy prices are still likely to push headline inflation to 2% before the end of the year, allowing the ECB to cut rates two more times

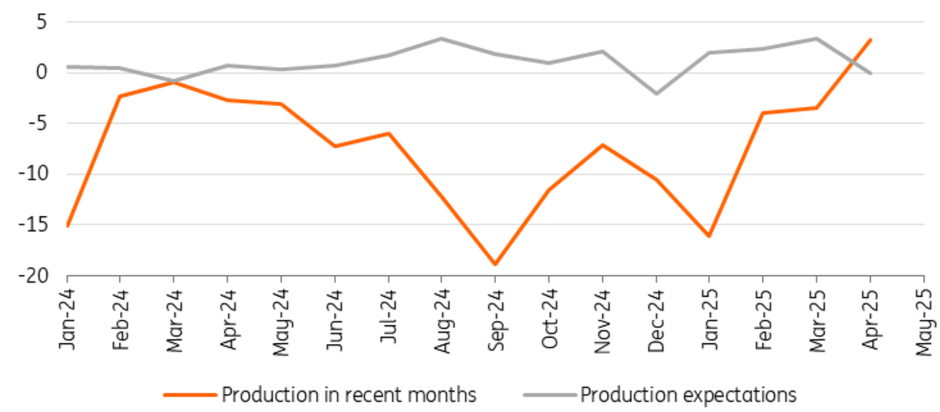
A man walks past a store having a sale in Paris

Surprisingly strong growth in the first quarter

Eurozone growth surprised in the first quarter with a 0.4% quarter-on-quarter expansion. We don't yet know all the details of the GDP component, but stronger exports ahead of the US import tariffs were the likely key driver. However, this unusual boost in the first quarter may lead to weaker performance in the subsequent ones. This is already evident in the European Commission's business and consumer survey, where production expectations in manufacturing fell significantly in April after three consecutive months of increases.

Additionally, as long as uncertainty regarding tariffs persists, companies might delay investment and hiring decisions. Households are also likely to postpone spending on big-ticket items due to increased geopolitical uncertainty. The sharp drop in consumer confidence in April supports this view.

Industry survey signals weaker production growth ahead



Source: LSEG Datastream

Lower energy prices offer welcome support

On the positive side, the drop in energy prices provides welcome support for both businesses and households, offsetting some of the negative impact of the trade war. While we previously downplayed the impact of increased defence spending on GDP growth due to high import leakage and offsetting expenditure cuts, this view has strengthened as some countries attempt to reclassify existing public spending as defence spending.

The German infrastructure package is likely to be a stronger tailwind, though its impact will probably only be felt from 2026 onwards. Overall, we continue to expect economic stagnation in the coming quarters, though a full-blown recession seems unlikely. Due to the stronger carry-over effect from the first quarter, we now project 0.7% growth in 2025. Next year's growth forecast remains at 1.1%.

Mixed inflation data

April's inflation data has been mixed. While headline inflation fell to 2.1%, underlying inflation increased to 2.7%. Although the late Easter holidays may have distorted the figures, the jump in core inflation cannot be entirely dismissed. Indeed, the three-month annualised growth of services prices remains at 4.1%, and selling price expectations stayed high in the European Commission's April survey.

That said, the economic slowdown will likely temper underlying inflationary pressures, while the significant decrease in energy prices will continue to exert downward pressure on the headline numbers. We now forecast 2.1% inflation in 2025 and 2.0% in 2026, a slight downward revision.

Two more rate cuts

With energy prices declining, the European Central Bank still has some room to cut rates further. However, it's now more aware of the risk of easing monetary policy too much. As Dutch central bank governor Klaas Knot stated, *"In the short term, it's 100 percent clear that the demand shock will dominate, so inflation will go down."* At the same time, he warned that in the longer term, the risks of supply chain disruptions and fiscal stimulus pose upward risks to inflation.

Therefore, we believe that two additional 25bp rate cuts are still highly likely, but thereafter the ECB will probably keep short rates stable at 1.75% at least until the end of 2026.

The UK is relying on EU trade reset to bolster its public finances

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For all the excitement about trade deals with India and the US, it's talks with the EU that will be most pivotal for the UK. Whether that's enough to unlock huge gains in fiscal 'headroom', we're not so sure

UK PM Keir Starmer on the 80th anniversary of VE Day. The government is seeking to secure several trade deals to improve the country's finances

The UK is seeking to secure a number of deals

Trade deals are like buses. You don't see one for weeks, then two – maybe even three – come along at once.

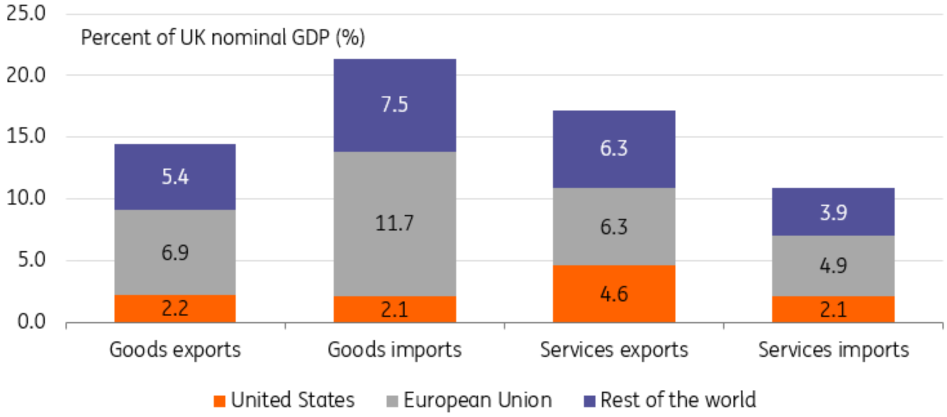
The UK and India have, after years of talks, agreed a deal that will reduce tariffs for some UK-made goods in exchange for tax concessions on Indian workers moving to Britain, amongst other things. And if reports are accurate, the UK has virtually reached a deal with the US on exempting at least a portion of British steel and car exports from President Trump's sectoral tariffs. Time will tell whether that gets signed.

The UK is walking a fine line on both sets of negotiations, cautious not to give concessions that could jeopardise talks with the European Union, which could prove much more consequential.

This is not simply about reducing reliance on the US. All of these negotiations, particularly those with the EU, are designed above all to ease the pressure on Britain's public finances.

The logic is simple. The Office for Budget Responsibility, which polices the fiscal rules, judged that Brexit would generate a permanent 4% hit to productivity. Lower productivity means slower economic growth. And slower economic growth makes it harder to reduce budget deficits and stabilise debt-to-GDP ratios, which is what the UK's fiscal rules mandate.

UK trade with the EU is more significant than with the US



Source: Office for Budget Responsibility

Closer UK-EU ties could be helpful for the public finances

Closer EU trades will, the UK government hopes, convince the OBR that some of this productivity hit can be undone.

Formally, the UK has said it doesn't want to regain single market or customs union membership. But those red lines could get significantly watered down over the coming months.

The government has said it wants to agree a veterinary agreement, which would see Britain realign with EU food standards and remove cumbersome border checks. In practice, we think that an agreement could cover a much wider range of goods exports. The UK hasn't meaningfully diverged from EU product regulation since Brexit, after all.

Of course, the EU would have to agree, and for some in Brussels, this probably sounds a lot like cherry-picking. Then again, the political climate has changed dramatically since the UK left the EU in 2020. Migration isn't the priority it once was, while the UK has a strong hand to play on defence.

Both sides meet for a summit on 19 May, and positive headlines could potentially have a tangible impact on UK markets, even if those initial talks are centred on military rather than economic matters.

Whether this is a game-changer for the UK's public finances, we're not so sure. That 4% productivity hit to the OBR's forecasts is not going to be fully regained, given the UK isn't going to completely re-align with the EU. And that limits the scope for upward revisions to those OBR growth projections, even if a deal can be reached before the Autumn budget.

In fact, given the more sombre global economic outlook, it's more likely those forecasts will get revised down. And that makes further tax rises look increasingly unavoidable later this year.

Read more on UK-EU talks and the impact on Britain's public finances

China's tariff pain is likely to permeate April data ahead of trade talks

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April is likely to be the month when the full impact of US tariffs on China's economy begins to come into view. Key indicators to watch include trade and manufacturing, while consumption offers insight on whether domestic demand can pick up the slack

We think the US and China will come back to the table soon to negotiate on tariffs

China and US impasse is a test of endurance

After the abrupt escalation of tariffs, we've now entered into a bit of a lull period. Both China and the US are refusing to engage unless the other makes the first conciliatory move. The US has vacillated between claims that negotiations with China are going well, to sharp anti-China rhetoric, to admitting that tariffs are unsustainable at the current levels. This most recent pivot raises hopes for eventual de-escalation.

President Trump himself has claimed on multiple occasions that China wants to strike a deal. True or not, such statements are misleading. China maintains that while it's open to discussions if the US acts from a position of mutual respect, no talks have resumed yet. China, for its part, has been more focused on reaching out to other trading partners.

This is what we've characterised as a test of endurance. Even though high tariffs will start to hurt both countries, the negotiating process could take weeks or months. Eventually, we do expect both parties to come back to the table. Hopefully, without a further escalation of frictions or additional tariffs or non-tariff measures.

So far, market reactions and strong public backlash have appeared to be Trump's key pain points. For China, we believe it's the health of the job market, which is key for economic stability.

Policy response has been restrained in the early stages

Despite the sharp escalation of tariffs, Chinese policymakers have refrained from splashy announcements. On top of the prior commitments to boost domestic demand via the trade-in policy and the equipment renewal scheme, April's Politburo meeting emphasised offering support for exporters. Other priorities include stabilising employment and increasing debt issuance to provide economic support.

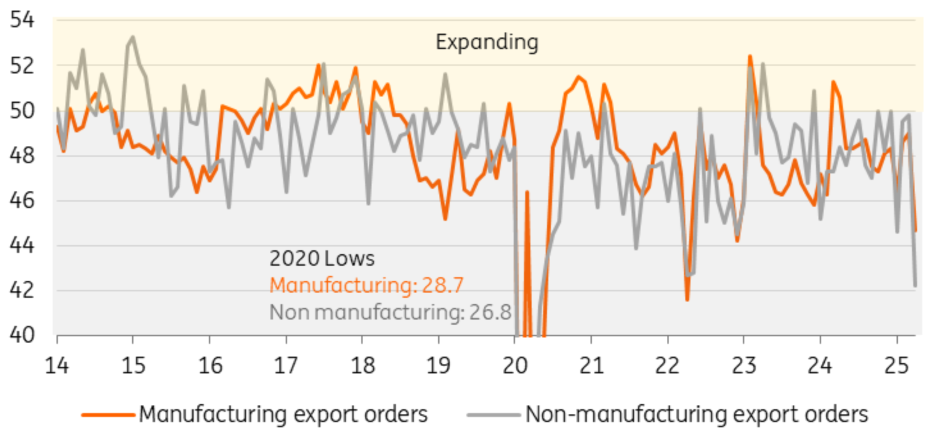
The People's Bank of China (PBoC) has signalled it would ease policy if conditions warrant it. Surprisingly, the tariff escalation didn't prompt an immediate monetary response. We see three potential reasons for this. First, markets stabilised without intervention. Second, possible concerns over currencies, namely not wanting to add to depreciation pressures. Third, there may have been a strategic effort to avoid steps that might smack of panic in the face of Trump's tariffs.

Still, we anticipate 30bp of rate cuts and 100bp of reserve-requirement-ratio (RRR) cuts this year, with the first move likely in the second quarter.

First look at tariff impact suggests a noticeable hit, but no knockout blow

China's April purchasing managers' index (PMI) data was our first look at the tariff impact. As expected, the trade war sent the manufacturing PMI back into contraction. New export orders subindices in both the manufacturing and non-manufacturing PMI also took quite a blow. This is likely to translate to weaker real activity data out later this month.

Export demand has taken a hit after tariff spike



Source: CEIC, ING

We anticipate that April data will show the biggest hit yet to China's US-bound exports. US importers frontloaded imports in the first quarter and likely spent much of April in a wait-and-see mode, hoping for tariff de-escalation. If tariffs remain in place, inventories will eventually drop. Importers will be faced with a choice to either pay tariffs or cease operations. Estimates of when this may occur vary, but we should see clear signs in the coming months.

We’re lowering our Asia growth forecasts because of tariffs

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The direct impact of President Trump's tariffs on exports, along with the indirect effects through China, will slow growth for most Asian economies, and because of that, we're lowering our GDP forecasts for 2025

South Korea is expected to post the lowest growth rate in Asia this year

Revising our GDP growth forecasts

We are revising our GDP growth forecasts for Asia downward across the board. The direct impact of tariffs on exports, coupled with the indirect effects via China, will reduce growth for most economies in the region. Economies heavily reliant on external demand are expected to see a significant decline in export growth. Manufacturing activity indicators have already shown signs of weakening in April, necessitating a reassessment of our GDP growth projections.

Conversely, economies driven by domestic demand are likely to perform better. However, they will not be entirely immune to the negative effects. The direct hit to export growth will also have secondary impacts on employment, investment and consumption, leading to a broader slowdown in economic activity.

More fiscal and monetary support is likely on its way across economies. We now anticipate that both India and the Philippines will reduce interest rates by an additional 75bp in 2025, up from the previously expected 50bp. This adjustment is driven by lower global oil prices and stronger local currencies, which should confirm a sustained decline in domestic inflation. The Monetary Authority of Singapore (MAS) has eased monetary policy twice in a row via a reduction in the S$NEER slope, and we expect another move in the third quarter. The governments of Singapore, Indonesia and the Philippines have indicated higher government spending if downside risks escalate.

Below is a quick snapshot of our views around the region.

Singapore: We estimate that 5% of Singapore's exports to the US are routed through China and will therefore incur a higher tariff rate of 125%. The remaining 95% of exports (excluding semiconductors and pharmaceuticals) will be taxed at 10%. Assuming a price elasticity of one in response to higher tariffs, we anticipate a corresponding decline in demand. Consequently, with reciprocal tariffs currently on hold, we expect US tariffs to reduce exports by 0.7% of GDP. The broader impact on GDP growth will be more significant as second-round effects ripple through other sectors of the economy, particularly manufacturing and employment.

Considering the effects of higher tariffs on exports, the weaker-than-expected growth in the manufacturing sector during the first quarter – which is likely to persist throughout the year – and the potential spillover of the manufacturing slowdown into the services sector, we are adjusting our GDP forecast for 2025 down by 100bp to 1.6% year-on-year.

Korea: South Korea is expected to post the lowest growth rate in the region in 2025 (0.4% YoY in 2025). Headwinds from weaker global demand will weigh on exports, but domestic growth is expected to rebound as the political situation normalises. The new government is likely to support growth with a sizable supplementary budget, while the Bank of Korea is expected to lower its policy rates below its neutral level.

Japan: We have lowered Japan's GDP growth modestly to 0.9% YoY for 2025. The Japanese economy is expected to have contracted in the first quarter (-0.1% QoQ sa). Monthly activity data shows that Japan has had limited support from frontloading. Instead, Japanese companies appear to have been managing their inventories. Japan is expected to aim to lower tariffs on its largest export, automobiles, instead of accommodating most of the US's demands. With fiscal support and solid private consumption, the economy is likely to recover in the second half of the year. With inflation remaining high, above 3%, the Bank of Japan is likely to raise its key interest rate by 25bp this year. The timing will depend on a trade agreement.

India: We maintain our view that India is expected to outperform growth in the rest of the region. India is not only the most advanced in tariff negotiations with the US, but it also benefits from tariff exemptions on pharmaceutical exports in the interim. However, the manufacturing sector and consumption growth during the year have so far been weaker than expected, largely due to a cyclical slowdown in domestic demand. Consequently, we now expect GDP growth of 6.4% in 2025, down from our previous estimate of 6.8%.

The Philippines: Higher fiscal spending ahead of the mid-term elections this month, along with a continued push for infrastructure development and lower oil prices, should help cushion GDP growth from the drag caused by slower exports. Consequently, we are lowering our 2025 GDP forecast by a modest 20bp to 5.9% year-on-year.

Indonesia: Indonesia's high trade exposure to China, coupled with weaker commodity prices, is expected to negatively impact export growth. A larger concern for the country's growth trajectory stems from substantial spending cuts on infrastructure and public works, which have been redirected to less efficient and productive programmes. Additionally, weak retail sales growth reflects tepid consumption. Although bank credit grew at a respectable 10% year-on-year as of December 2024, it has been declining since April 2024. Overall, we see Indonesia's GDP growing at 4.8% in 2025, down from our previous estimate of 5%.

Weak manufacturing activity in trade-oriented economies

Widening divergence across the CEE region

Lately, we've seen divergence beginning to widen across Central and Eastern Europe. Poland remains the strongest economy, the Czech Republic has surprised to the upside, while Hungary and Romania are growing below expectations. We also see more divergence in the direction of inflation, as well as monetary and fiscal policy

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Poland remains strong, the Czech Republic is surprising to the upside, and Hungary and Romania are growing below expectations

Poland: Policymakers ready to start monetary easing

Last month, we saw the hawkish bias from Poland's Monetary Policy Council (MPC) since December shift to a more dovish stance, as illustrated by the National Bank of Poland Governor Adam Glapiński. Lower-than-expected CPI inflation in the first quarter of the year, slowing core inflation, easing wage pressure and probably softer annual GDP growth than in last year's final quarter all bolster the argument for the adjustment. According to the flash estimate in April, CPI fell to 4.2% year-on-year and is broadly expected to be around 3% YoY in July amid a high reference base from July 2024, when energy prices were partially deregulated.

In such an environment, there's no need to maintain a restrictive monetary policy stance and a high real rate. What's more is that authorities decided to postpone the approval of new energy tariffs for households from mid-2025 into the year's fourth quarter. The hope is that this will allow for lower levels amid favourable developments of wholesale electricity prices on the energy stock exchange.

We expect policymakers to cut NBP rates by 50bp in May. Another important decision to be made is pinning down the policy easing strategy for the coming months. We think the Council could pause in June and resume rate cuts in July, after the next central bank staff projection.

We also see rate setters switching to a standard 25bp pace in response to upcoming data and high levels of uncertainty, including the impact of US tariffs on global price developments. We see room for 125bp of cuts in 2025 and an additional 75bp in 2026, bringing the main policy rate to 3.75% at the end of next year. Markets have priced aggressive and frontloaded cuts in – so a potential pause in June, alongside a less dovish tone than expected in May's post-meeting press release and conference, could trigger a rebound in PLN yields.

Czech Republic: Consumer rules, while industry is at a crossroads

The Czech economic rebound continues; consumers are still king, with their budgets benefiting from tamed inflation and nominal wage increases. There are even enough resources to propel the construction boom, with demand for residential properties outpacing supply and pushing up property prices. Private spending and reviving construction are also set to foster economic expansion throughout the coming quarters.

Meanwhile, industrial confidence tanked recently on the back of the trade war undermining the global growth outlook, with Germany – the dominant partner of Czech exporters – not being able to come up with a viable growth model and properly lift off. The price competition in manufacturing rules with an iron fist in conditions of a laggard demand, while declining prices pose a threat to profit margins. Czech fixed investment remains weak, which could weaken growth prospects in the not-so-distant future.

With inflation below target and low Brent crude prices putting a lid on future price increases, we believe that this is the right time to set monetary conditions in a way that Czech firms could not resist investing in. Under the current setup, we see the Czech National Bank's board reducing the policy rate to 3.25% by the summer to support the rebound of the Czech industrial base. Getting lower is likely not an option right now, as core inflation remains elevated and could gain traction as household budgets see some relief in the form of lower energy bills. The Czech economy is set to outperform the wider eurozone, which will contribute to a gradual appreciation of the koruna, along with the more potent rates differential vis-à-vis the European Central Bank.

Hungary: Another year when hopes for strong GDP growth are quickly dashed

This is the third consecutive year that we have had to adjust our economic outlook significantly to the downside due to negative surprises in economic activity. With a quarter-on-quarter drop in GDP in the first quarter, we are facing the prospect of yet another technical recession in Hungary. One might be a coincidence, two might be bad luck, but three in three years? This suggests structural problems in the economy. Investment activity remains in freefall due to shaky business confidence and a lack of budgetary firepower.

While consumption remains a silver lining, this comes with an increased need for imports, especially given the trade war, which has probably resulted in front-loaded import activity. Conversely, external demand remains depleted, keeping industry and industrial exports on a downward trend. In this context, we are revising our 2025 GDP forecast from 1.9% to 1.2%, with a further downward revision possible.

The inflation outlook is improving in the short term, which is a blessing in disguise. This is partly due to weaker economic activity, which keeps demand-driven inflation in check. On the other hand, the government's price control measures are lowering food inflation, while falling oil prices are helping with fuel costs.

In summary, we have lowered our 2025 inflation outlook from 4.6% to 4.4% on average. Despite the dovish economic backdrop, as a baseline, we expect the central bank to keep interest rates unchanged throughout this year and anticipate the first rate cut at the start of next year. However, there are currently risks of further downside surprises in inflation due to hard-to-quantify government measures, as well as risks of downside surprises in economic growth driven by global developments. This would increase the chances of a rate cut at the end of this year.

Bearing this in mind, we maintain our bearish forecast for the Hungarian forint and expect EUR/HUF to move back into the 410–420 range in the second half of this year. This is not only due to rising expectations of monetary easing, but also to rising fiscal concerns and the elevated risk of negative credit rating actions.

Romania: Last minute fiscal improvements need to get around political uncertainties

After last weekend’s first round of Romania's presidential elections, all eyes are now on the near-term outcomes stemming from the complicated political situation. Our GDP growth base case remains that, while the Romanian economy is set for another challenging year, output could nevertheless see a slight pick up to 1.2% (2024: 0.8%) on the back of investments and a still-healthy private consumption outturn. Productivity improvements amid infrastructure upgrades and the Schengen ascension should also contribute positively. That said, the post-election environment brings heightened downside risks.

On the monetary policy front, the National Bank of Romania left rates on hold at its April meeting. Policymakers will likely continue with a cautious approach until they have a clearer view of the internal demand pressures and their impact on inflation, especially those stemming from the fiscal front. Moreover, we think that external risks need to moderate, too, before the NBR proceeds with more rate cuts. For 2025, we foresee a total of 50bp of rate cuts left for the second half of this year, taking the key rate to 6.00%. Upside risks are at play.

On the fiscal front, we continue to pencil in a fiscal deficit of 7.0% in 2025, following 2024’s whopping 8.6%. A reportedly more positive result in the April balances could bring more equilibrium to the picture if confirmed in late May. Prospects of more visible revenue collection improvements in the second half of the year are also an important factor. Risks to the outlook stem from scenarios of weaker-than-expected consumption and potentially tougher financing conditions. Renewed political negotiations also bring new risks for correction delays.

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We're changing the outlook for the CIS-4 due to global woes

Global trade developments appear to be hitting the CIS region through higher inflation risks, stronger gold and weaker oil; there are not many opportunities for high-risk currencies. We have adjusted our macro views on Azerbaijan, Armenia, Kazakhstan and Uzbekistan, mainly to reflect oil's recent downturn

A view from the Caspian walkway in Baku, Azerbaijan

The initial reaction by central banks and currencies so far align with our views

Our initial take on the implications of global trade tensions for the CIS region was that, despite the limited direct exposure to the US, the consequences would manifest themselves through indirect channels. These include higher inflationary concerns, expectations of stronger gold and weaker oil prices, and the mitigation of global dollar weakness due to portfolio outflows from high-risk assets.

Although three weeks is not enough time to provide a full set of new macro data, some preliminary signals suggest that the first impressions were largely correct.

- The central banks of Azerbaijan, Uzbekistan, and most recently Armenia followed the earlier example of Kazakhstan in expressing concerns about the growing inflationary risks coming from the external environment. In all four meetings over the past month, the respective policy rates were kept unchanged, in some cases contrary to signals and market expectations of a cut. The CPI trajectories are generally pointing up, further reinforcing our expectations that the room for key rate cuts for the foreseeable future is extremely low.

- The CIS-4 currencies have so far failed to materially benefit from the weakness of the global US dollar. Setting the Azerbaijani manat aside for now, as it is pegged to the US dollar, the year-to-date moves of the currency pairs in the area vary from flat for the Uzbekistani soum to a 1.4-1.5% appreciation of the Armenian dram and Kazakhstani tenge – all against the backdrop of 8% depreciation of the US dollar to the major currencies over the same period. While there are country-specific contributors to this muted reaction to be discussed further, the general take is that in the time of global uncertainty, the capital flowing out of one safe asset is looking for another safe haven. Therefore, the CIS-4 is not a likely receiver of portfolio flows in the current environment.

- Uzbekistan is benefiting from higher gold prices. The flat YTD performance of the soum is actually an improvement compared to steady 3-4% p.a. nominal depreciation vs. the US dollar seen in the previous years. Stronger gold exports could be a factor here. The recent customs data shows it boosted monthly gold sales to around 17 metric tons per month between February and March 2025, volumes last seen 11 months ago. Most likely, this reflects the tactic of capitalising on the stronger gold price environment. To note, Uzbekistan earns US$3-4m per $1/oz of gold price annually, depending on the physical volumes of gold exports. Assuming the average gold price stays just above US$3,000 per ounce in 2025, that would mean an increase of annual gold export proceeds from US$7.5bn in 2024 to US$9.5-10.0bn in 2025.
- Lower oil prices put Kazakhstan and Azerbaijan in the spotlight. As the two countries derive a significant portion of their export proceeds (55% and 88%, respectively) and fiscal revenues (22% and 52%) from oil trade, each $1/bbl of oil price matters. According to our estimates, each dollar of average annual oil price means US$550m of annual export proceeds and US$150m of budget revenues for Kazakhstan, while for Azerbaijan, it is US$300m and US$150 mn, respectively. The recent downgrade in the house view on oil prices by US$5 for 2025 and US$11 for 2026 can increase Kazakhstan's expected current account and fiscal deficits by 0.3-0.6ppt of GDP in 2025-26, while the scale of financial hit for Azerbaijan could reach around 2% of GDP on a two-year horizon. While Kazakhstan has the opportunity to adjust through the flexible exchange rate, Azerbaijan's peg might lead to the first current account deficit since 2020. Azerbaijan's large fiscal buffers could serve as a mitigating factor here.
- For Armenia, the implications are mixed. On the one hand, higher gold prices and lower oil prices should improve the expected current account trajectory by around 1ppt GDP in 2025-26 each, and that could already be the reason behind continued dram appreciation from the already expensive levels. In addition, lower trade exposure to the EU and China (10-20%) compared to oil-producing Azerbaijan and Kazakhstan (50-60%) should better insulate Armenia from the potential slowdown in trade partner activity. On the other hand, the small size of the economy and financial market, combined with country- and region-specific risks, could prevent Armenia from fully benefiting from the capital account and activity side.

Tweaking our 2025-26 forecasts

Overall, compared to our March views on the CIS-4, we have to make the following adjustments. First, we increase the expected CPI trajectories by 0.5-1.0ppt and reiterate a lack of scope for key rate cuts at least until the end of this year. Second, we improve Uzbekistan's current account expectations by 1% of GDP for 2025 and 2026, softening the expected depreciation path to 3% p.a. Third, we downgrade fiscal and current account expectations for Kazakhstan (within 0.3-0.6ppt) and Azerbaijan (c.2% GDP), reflecting lower oil price expectations. This reinforces our view on the likely KZT depreciation in the longer term and adds some weight to balance of payments concerns we expressed earlier about Azerbaijan.

Finally, we trim our 2025 GDP growth expectations for Armenia and Azerbaijan by 0.5ppt, largely reflecting the weak first quarter performance. Our below-consensus view on 4.5% GDP growth for Kazakhstan has now gained weight, while Uzbekistan's activity may surprise on the upside.

Despite the abovementioned concerns, we continue to see the CIS-4 region as offering at least some insulation from the global turmoil, compared to regions directly targeted by the US trade policies.

FX: Dollar struggles to shake off the negatives

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The dollar's bounce has been lacklustre, unlike US equity and bond markets, which have recovered from the April lows. Preventing more of a recovery in the dollar seems to be uncertainty around US policy and an expectation that FX hedge ratios on US assets will have to be raised

The dollar's rebound has been underwhelming

Fact versus fiction

The theme of de-dollarisation is rife in global financial markets. We think the transition away from the unipolar dollar world will be a long one, but April's dislocation in US asset markets has clearly brought this theme into sharp focus. We've written extensively about that here.

And it is important to separate the cyclical from the structural here. A 13% decline in the share of USD holdings amongst FX reserve managers since 2000 should not be confused with the cyclical adjustment of asset managers rotating out of US assets in February and March. The only data we have here shows that foreigners did indeed buy a lot of eurozone equities in February, while they also slowed their purchases of US equities in the same month.

We intend to keep a close watch of Balance of Payments data over the coming months to see if the portfolio flow data does corroborate reports of foreigners leaving US asset markets.

What is virtually impossible to tell, however, is the amount of dollar selling underway relating to the adjustment of dollar hedges. Here, investment committees at buy-side firms may just take the view that in the shadow of the Mar-a-Lago accord – a series of potential deals to get the dollar lower – it may be worth increasing the hedge ratios on US investments.

Some studies suggest the buyside in aggregate has FX hedge ratios in the 30-40% range for US assets, though that can be much higher for certain communities, such as life insurers. Helping the buy-side to reach those decisions would be Federal Reserve policy, where a more dovish central bank and lower USD swap rates would lower dollar hedging costs. This may well be a theme for late summer.

Before then, we cautiously expect EUR/USD to trade in a 1.12-1.15 range. Limiting the upside will be the dovish ECB and a soft eurozone growth story. And we think EUR/USD is already trading at stretched levels relative to short-term rate differentials. Yet at the same time, the medium-term fundamentals are starting to improve with lower oil prices.

If any trading nation with the US were to conclude a deal which included the exchange rate, we think the dollar could fall another 5% across the board. As such, we are not ruling out a move to 1.20 this year – but it's not our baseline.

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Rates: a Jekyll and Hyde bond market

It's difficult to forget the recent selling pressure on US Treasuries, which has left lingering risks. Since then, there has been a shift back to a more traditional fear of macro weakness. This could initially lower yields and drag European yields down with them. But correlation could turn negative should US Treasury pressure re-emerge

The US Treasury market acts as the global benchmark for bond yields, presenting what should be a risk-free return on exposure to invested US dollars

Here's why we should be on alert for some spikes higher in Treasury yields – 'Hyde Version'

The US Treasury market acts as the global benchmark for bond yields, presenting what should be a risk-free return on exposure to invested US dollars. During periods of turbulence, its quality credentials typically facilitate price appreciation, and when there are doubts or worries, investors have tended to autopilot into the safety of US Treasuries. The events post 'Liberation Day' have muddied those waters. Even if only fleetingly (lasting just a week), that safety trade turned into a pain trade.

Hyde in action: for an exposure in the US 10yr Treasury bond from 7-14 April there was a 6% fall in price and an additional 3.5% fall in the US dollar; a cumulative 10% hit for overseas players. A European-based player invested in the Euro Stoxx 50 would have returned +6.5% over the same period. That's a cumulative Delta above 15%. This is an experience that will not be unlearnt easily.

Even though US Treasuries have since settled back into a more traditional feel, when we get the next wobbles, the subsequent flight to Treasuries will not be the blindly obvious trade.

The foreign exchange angle also continues to bubble away with an undertone of US dollar vulnerability. For example, there has been a spike appreciation of the Taiwanese dollar, on the theory that it is first on the list of crosses primed to move on a weak US dollar trade. The Swiss franc experienced something similar some weeks back, and many other currencies are up versus the US dollar by more than 8% year-to-date. That includes the euro and the Japanese yen. There's an eye too on the Hong Kong dollar, for instance, as it sits right on its floor, held there on FX intervention. There's always a risk where lower-yielding funding currencies spike, as it exposes liabilities set in them, especially leveraged ones.

That's one side of the risk trade. The other side is the risk of unruly dollar weakness, as that is a clear menace for overseas holders of US Treasuries.

When we talk of a 'Sell America Inc' trade, there are three angles to this. The first is the notion of hurting America. That was the genesis of talk that the Chinese had been sellers of Treasuries, or could be sellers of Treasuries in the future. It does not have to be adversaries selling, it can also be friends selling. Some in Europe have held that out as a means to getting back at America. The second notion is down to self-preservation. The idea here is that if there are enough sellers, regardless of who they are, then the other side of that trade is not where you want to be. The third is down to fundamentals. The US fiscal / inflation prognosis presents that. There's enough here to warrant remaining on 'Sell America Inc.' alert.

Here's why we can first test lower in yields based on a more traditional theory – 'Jekyll version'

That being said, there is another side to the bond story in the months ahead, one centred on the risk of recession. Traditionally, the onset of a recessionary tendency would coincide with downward pressure on bond yields. The theory here is that a slowing environment is typically not an inflationary one, and risk assets tend to struggle on attendant risks to corporate earnings. Even though risk assets of late appear to be in better shape (despite prior scares), that can change quickly. The coming months will be crucial in this respect, with the clearest risk coming from any material scent of recession ahead.

The latter presents a rationale for a downside test to Treasury yields, a more traditional drift lower in anticipation of slower activity (potentially a recession of some description), supported by a rate-cutting narrative from the Federal Reserve. While the Fed is anticipated to get down to the 3-3.25% range, there is every chance that the 10yr Treasury yield slips back below 4% – a typical reaction to concern on the state of the economy. The ability to get too far below 4% would be constrained by the swap spread, currently in the 50bp area (10yr Treasury yield at 50bp over 10yr SOFR). To get much lower, the Fed would need to cut by more than currently anticipated.

European bonds and other markets may diverge, negatively correlating on the Hyde version

There is an important nuance for other core market yields, where any 'Sell America Inc.' theme likely coincides with residual flows into other core markets, especially if the selling of Treasuries is driven by idiosyncratic reasons. In that sense, the likes of European bonds would be recipients of inflows, generating a divergence with US Treasuries (and widening spreads).

Then, for 2026, we could see the opposite where increased fiscal spending and its wider ancillary positives can manifest in relative rises in European yields (likely tighter spreads). For the immediate few months, expect a positive correlation to dominate and yields in the US and Europe to have a downside tendency.

> We don't love a V-shaped view, but it's what we're confronted with. The first half of the 'V' has the 10yr yield heading for 4%, and likely slightly through, as the data deteriorates. The second half of the 'V' is laced with the 'Sell America Inc' risk and US dollar vulnerability. If needed, this is fundamentally bolstered by rising inflation and ongoing deficit elevation. That can take us back above 4.5%, likely settling somewhere between 4.5% to 5%.

Clearly, any visit to the latter extreme would be immensely unsettling. The odds are that policy objectives would be massaged in a way to avert hitting 5%, which is why it's more of a risk call than a base one. This type of environment can see a correlation with the European bond market turning negative, and spreads re-widening.

Developed Markets (QoQ% annualised growth)	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	-0.3	1.9	-0.9	0.1	1.3	2.0	2.1	2.3	1.2	1.1
Japan	-0.4	0.0	1.2	0.8	0.8	0.8	0.8	1.2	0.9	0.8
Germany	0.8	-0.7	0.6	0.8	1.1	1.9	2.4	2.6	0.0	1.3
France	0.3	0.4	0.4	0.4	0.8	1.2	1.2	1.2	0.4	0.8
UK	2.3	0.7	1.2	1.0	0.8	1.0	1.0	1.0	1.1	1.0
Italy	0.7	0.3	0.6	0.8	0.5	1.2	0.9	1.4	0.5	0.8
Canada	1.6	-1.0	-1.2	-0.5	1.2	1.8	2.3	2.5	0.9	0.8
Australia	1.6	2.0	2.2	2.2	2.8	2.4	2.4	2.4	2.0	2.6
Eurozone	1.5	0.0	0.1	0.8	1.2	1.4	1.8	2.1	0.7	1.1
Austria	0.8	0.4	0.6	1.2	1.4	1.4	1.6	1.6	-0.1	1.2
Spain	2.2	2.0	2.3	2.5	2.2	1.8	2.0	2.0	2.5	2.1
Netherlands	0.4	1.0	0.4	1.3	1.2	1.2	1.6	1.9	0.6	1.8
Belgium	1.6	-0.4	0.0	0.8	1.2	0.8	1.2	1.6	0.7	0.8
Greece	1.4	0.6	0.9	1.9	1.3	2.3	2.1	2.1	1.9	1.8
Portugal	-2.0	2.1	2.2	2.2	2.0	2.0	2.5	2.5	1.6	2.2
Switzerland	0.8	0.4	0.8	0.8	1.2	1.6	1.6	1.6	0.9	1.2
Sweden	1.4	1.3	0.9	0.9	1.4	1.1	1.1	1.1	1.7	1.1

Emerging Markets (YoY% growth)	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
Bulgaria	3.0	2.8	2.6	2.2	2.3	2.4	2.4	2.3	2.6	2.3
Croatia	4.1	3.4	3.4	2.4	2.2	2.1	2.1	1.8	3.3	2.1
Czech Rep.	2.0	2.2	2.1	2.1	2.3	2.5	2.7	2.8	2.1	2.6
Hungary	0.0	-0.3	1.9	3.3	4.6	5.2	4.4	3.4	1.2	4.4
Poland	3.0	2.9	3.5	3.5	4.1	3.4	2.8	3.2	3.2	3.4
Romania	1.0	0.9	1.4	1.3	1.7	2.0	2.4	2.6	1.2	2.2
Turkey	2.1	2.6	3.0	3.4	4.1	3.8	3.4	2.9	2.8	3.5
Serbia	3.0	3.1	3.5	3.4	4.5	4.4	4.1	3.8	3.3	4.2
Azerbaijan	0.3	3.0	2.5	4.0	3.5	3.0	2.5	1.0	2.5	2.5
Kazakhstan	5.8	4.5	4.0	3.5	2.0	3.0	4.0	5.0	4.5	3.5
Russia	1.7	2.5	2.0	1.7	1.0	1.0	0.5	-0.5	2.0	0.5
Ukraine	2.2	3.0	4.0	4.5	4.6	4.3	4.0	4.0	3.3	4.3
China	5.3	4.5	4.3	4.1	4.1	4.4	4.3	3.9	4.5	4.2
India	6.7	6.4	6.2	6.2	6.8	6.8	6.8	6.8	6.4	6.8
Indonesia	4.9	4.9	4.7	4.7	5.0	5.0	5.1	5.1	4.8	5.1
Korea	-0.1	0.1	0.6	1.1	1.7	1.9	1.7	1.5	0.4	1.7
Philippines	5.9	6.2	6.0	5.5	6.1	6.1	5.9	5.7	5.9	6.0
Singapore	3.8	2.0	0.7	0.0	2.6	2.8	2.6	2.6	1.6	2.7
Taiwan	5.4	3.1	2.2	2.5	1.4	2.1	3.5	3.4	3.2	2.6

Norway: Forecasts are mainland GDP

Source: ING estimates

CPI Forecasts (pa)

YoY%	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	2.7	2.7	3.9	4.1	3.8	3.6	2.4	1.9	3.4	2.9
Japan	3.8	3.4	2.6	2.1	1.5	1.7	2.1	2.2	3.0	1.8
Germany	2.7	2.4	2.2	2.0	1.8	1.9	2.2	2.4	2.4	2.1
France	1.2	1.3	1.4	1.7	1.7	1.0	1.1	2.0	1.4	1.5
UK	2.8	3.3	3.5	3.2	2.8	2.0	2.3	2.4	3.2	2.4
Italy	1.8	1.9	1.8	1.8	1.8	1.9	2.2	2.3	1.8	2.0
Canada	2.3	1.9	2.5	3.2	3.0	2.3	1.6	1.4	2.5	2.2
Australia	2.4	2.0	2.4	2.8	2.8	2.7	2.5	2.4	2.4	2.6
Eurozone	2.3	2.1	2.1	2.0	2.0	2.0	2.1	2.1	2.1	2.0
Austria	3.3	2.9	2.3	2.1	2.1	2.1	2.1	2.1	2.7	2.1
Spain	2.7	2.3	2.1	2.0	2.1	2.1	2.1	2.1	2.3	2.1
Netherlands	3.3	3.4	2.6	2.1	2.0	1.5	1.5	1.8	2.9	1.7
Belgium	3.5	2.7	2.2	2.3	1.6	1.9	2.3	2.1	2.7	2.0
Greece	3.0	2.7	2.3	2.2	2.1	2.1	2.0	2.2	2.5	2.1
Portugal	2.3	2.1	2.0	2.0	2.1	2.2	2.2	2.1	2.1	2.2
Switzerland	0.4	0.4	0.6	0.8	0.9	0.9	1.0	0.9	0.5	0.9
Sweden	2.3	2.3	2.5	2.2	1.3	1.4	1.6	1.9	2.3	1.6
Bulgaria	3.9	4.9	5.1	5.2	3.1	2.7	2.8	2.9	4.8	2.9
Croatia	3.6	3.2	3.1	2.7	2.2	3.3	3.5	3.8	3.2	3.2
Czech Republic	2.7	2	2.2	2.4	2.1	2.5	2.4	2.3	2.4	2.3
Hungary	5.3	3.9	4.1	4.3	2.7	3.9	3.8	3.7	4.4	3.5
Poland	4.9	4.2	3.0	2.9	2.9	2.9	2.4	2.4	3.7	2.6
Romania	4.9	5.5	5.0	4.9	4.3	4.4	4.3	4.3	5.2	4.3
Turkey	38.1	36.0	30.5	29.0	24.6	20.7	19.7	18.5	34.1	21.3
Serbia	4.5	4.2	3.7	3.2	3.2	3.4	3.5	3.5	3.9	3.4
Azerbaijan	5.6	5.9	4.4	4.6	4.4	4.9	5.2	5.7	5.1	5.1
Kazakhstan	9.4	10.6	10.6	11.1	13.0	12.6	12.0	11.0	10.4	12.2
Russia	10.1	10.0	9.3	7.9	6.8	6.4	6.0	5.6	9.3	6.2
Ukraine	13.6	14.0	12.0	8.4	7.0	6.7	6.5	6.3	12.0	6.6
China	-0.1	0.0	0.0	0.2	1.1	0.8	0.8	1.8	0.0	1.1
India	3.7	3.8	3.5	3.5	4.5	4.5	4.7	4.4	3.6	4.5
Indonesia	0.6	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.2
Korea	2.1	2.2	2.1	2.4	1.6	1.7	1.9	1.9	2.2	1.8
Philippines	2.2	2.1	2.6	2.8	3.0	3.0	3.0	3.0	2.4	3.0
Singapore	1.0	1.3	1.4	1.5	2.0	2.0	2.0	2.0	1.3	2.0
Taiwan	2.2	2.2	2.0	1.9	1.5	1.5	1.4	1.5	2.1	1.5

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Brent ($/bbl)	64	62	59	58	56	65	57
Dutch TTF (EUR/MWh)	35	37	39	37	30	39	33

Disclaimer