

ING Monthly

June 2026

Already playing into extra time





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Traditionally, the World Cup may have offered a welcome reprieve from global uncertainty and heavy headlines. Still, there are moments when even the world's most popular distraction falls short. As the near-closure of the Strait of Hormuz plays into extra time and central banks grapple with the fallout, this month's macro forecast is one of them

The 2026 World Cup starts today. Traditionally, this is the moment when economists permit themselves a small, sanctioned act of intellectual frivolity. Forget the hard stuff for a week or two. Write something about host nation GDP multipliers, or the peer-reviewed – yes, peer-reviewed – literature on winning World Cup titles and consumer confidence or stock markets. Some even go as far as predicting the future World Cup champion with economic models. Having trouble forecasting what inflation will be doing a few months from now, yet playing around with World Cup results – why not?

I am a football fanatic and, believe me, I tried to come up with some great World Cup lines and parallels. The draft exists, and it was actually quite good. High hopes and broken dreams – reminiscent of many European economies at the start of the year, and then a few months later, facing stagflationary pressures amid the latest energy price shock. Or how about geopolitical risk as the dodgy VAR decision lurking in the background? Everyone has an opinion, nobody fully understands it, and in the end, it rarely changes the final score as much as the pundits claim. Except this time it does. Quite a lot, actually.

The rest of that World Cup draft is in the drawer now. Not only is it hard to get too excited about a scaled-up World Cup where ticket prices appear to be rising faster than inflation forecasts, but the macroeconomic situation is also simply too uncertain, too fragile, to find easy distraction in 22 men chasing one ball.

The Russian invasion of Ukraine has now lasted longer than World War I; the war in the Middle East has entered its fourth month. Even if it sometimes feels as if the world has grown used to these conflicts and geopolitical shifts, energy markets suggest otherwise.

This is why we have once again updated our baseline scenario, assuming that the effective near-closure of the Strait of Hormuz will continue and will, by mid-July, create a critical chokepoint in global oil supply. Prices would soar, potentially reaching \$120–130 a barrel, eventually becoming the trigger for the US to reach a compromise with Iran on at least reopening the Strait gradually from August onwards.

As a result, we have revised our inflation forecasts upwards across the board. These upward revisions are intensifying stagflationary pressures and worsening the already pressing dilemma for central banks: to look through a typical supply shock, or demonstrate a willingness to act and pre-empt a worse inflation spiral. Either option carries risks; rate hikes may worsen an economic downswing, but waiting too long could harm hard-won inflation-fighting credibility. It almost looks like a lose-lose situation.

We think the ECB is most concerned with its credibility and, in turn, will be both the first central bank to hike and the first to hike twice. Other central banks will follow, with only the Fed potentially remaining on the other side of the scale – though it'll still face rising pressure to engage in a symbolic pre-emptive hike. In short, we are ending the first half of 2026 very differently from how we had anticipated it at the start of the year. Instead of a global economy gaining momentum with central banks potentially cutting rates on the back of inflation undershooting, we are witnessing a global economy facing new supply chain frictions, an energy price shock and higher interest rates.

In normal times, even a scaled-up World Cup would have offered some welcome distraction and food for nerdy headlines. Unfortunately, there are times when even the world's most popular distraction feels somehow inappropriate to dive into. This month's macro forecast is one of them.

Watch: ING's updated economic forecasts amid dire geopolitical backdrop



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Our key calls this month

- **Energy:** With little tangible evidence of an imminent deal between the US and Iran to get energy supplies flowing through the Strait of Hormuz once again, we believe oil and gas markets are being too complacent. We expect ICE Brent to average USD 110/bbl in 3Q, with a possible spike to 120-130 in July. For natural gas, we think increasing competition from Asia for LNG cargoes will push the European TTF benchmark to average 60 EUR/MWh in 3Q.
- **Federal Reserve:** While we're yet to be convinced the Fed will hike rates, we've pushed back our forecast for the next rate cut to mid-2027.
- **European Central Bank:** Given our higher oil – and particularly natural gas – forecasts, we've added a second ECB rate hike this summer to our projections.
- **Bank of England:** We expect an on-hold decision in June, but higher energy prices will make it hard for the BoE to avoid a rate hike in July.
- **China:** Soft Chinese domestic activity data is likely an omen of decelerating growth in the second quarter, even as external demand remains strong. We maintain our call for a single 10bp rate cut in the fourth quarter.
- **FX:** We've cut our EUR/USD profile on a more hawkish Fed and our forecast for higher energy prices through the rest of 2026. We expect EUR/USD to end the year at 1.17.
- **Market rates:** Our baseline view is for the US 10-year to hug the 4.5% area, with a risk of a spike to 4.75%.

ING global forecasts

	2026					2027					2028				
	1Q26	2Q26F	3Q26F	4Q26F	2026F	1Q27F	2Q27F	3Q27F	4Q27F	2027F	1Q28F	2Q28F	3Q28F	4Q28F	2028F
United States															
GDP (% QoQ, ann)	1.6	3.0	1.7	1.7	2.1	2.0	2.0	2.2	2.1	2.0	2.1	2.1	2.1	2.1	2.1
CPI headline (% YoY, avg)	2.7	4.0	4.4	4.3	3.9	3.7	2.3	1.7	1.8	2.3	1.8	1.9	2.0	2.0	1.9
Federal funds (% eop)	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-month SOFR rate (% eop)	3.70	3.65	3.60	3.60	3.60	3.60	3.40	3.15	3.15	3.15	3.15	3.15	3.15	3.30	3.30
10-year interest rate (% eop)	4.20	4.50	4.50	4.50	4.50	4.25	4.25	4.30	4.40	4.40	4.50	4.50	4.50	4.50	4.50
Fiscal balance (% of GDP)					-6.3					-6.2					-6.3
Gross public debt / GDP					100.5					102.7					104.9
Eurozone															
GDP (% QoQ, ann)	-0.9	0.4	0.5	1.2	0.3	1.4	1.5	1.5	1.4	1.2	1.3	1.2	1.1	1.1	1.2
CPI headline (% YoY, avg)	2.0	3.2	4.0	3.9	3.3	3.6	2.1	1.9	1.9	2.4	2.1	2.1	2.1	2.2	2.1
ECB Deposit Rate (% eop)	2.00	2.25	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
3-month interest rate (% eop)	2.10	2.40	2.60	2.60	2.60	2.50	2.20	2.25	2.25	2.25	2.30	2.30	2.30	2.30	2.30
10-year interest rate (% eop)	3.00	3.10	3.15	3.10	3.10	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.20	3.20	3.20
Fiscal balance (% of GDP)					-3.2					-3.3					-3.1
Gross public debt/GDP					92.2					93.1					93.3
Japan															
GDP (% QoQ, ann)	1.8	1.2	0.4	1.2	0.7	0.8	1.2	1.2	0.8	1.0	0.8	1.2	0.8	0.8	0.9
CPI headline (% YoY, avg)	1.4	1.7	2.0	2.0	1.8	2.5	2.5	2.2	2.0	2.3	2.2	2.0	2.1	2.0	2.1
Target rate (% eop)	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3-month interest rate (% eop)	1.25	1.35	1.45	1.65	1.65	1.85	1.85	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10-year interest rate (% eop)	2.35	2.65	2.80	2.90	2.90	3.10	3.10	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Fiscal balance (% of GDP)					-1.8					-2.4					-2.9
Gross public debt/GDP					202					200					197
China															
GDP (% YoY)	5.0	4.6	4.7	4.5	4.7	4.0	4.8	4.4	4.3	4.4	4.4	4.0	4.2	4.3	4.2
CPI headline (% YoY, avg)	0.8	1.3	1.7	1.5	1.3	1.5	1.4	1.3	1.1	1.3	1.1	1.1	1.5	2.2	1.5
7-day Reverse Repo Rate (% eop)	1.40	1.40	1.40	1.30	1.30	1.30	1.30	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
3M SHIBOR (% eop)	1.51	1.42	1.35	1.35	1.35	1.35	1.35	1.25	1.25	1.25	1.30	1.30	1.30	1.30	1.30
10-year T-bond yield (% eop)	1.85	1.90	1.95	2.00	2.00	2.00	2.05	2.10	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Fiscal balance (% of GDP)					-5.3					-5.3					-5.4
Public debt (% of GDP), incl, local govt					140					145					150
United Kingdom															
GDP (% QoQ, ann)	2.5	0.6	-0.4	0.1	0.9	0.9	1.4	1.5	1.5	0.8	1.6	1.5	1.5	1.5	1.5
CPI headline (% YoY, avg)	3.1	3.0	3.7	4.1	3.5	4.1	3.7	3.0	2.5	3.3	2.1	1.8	1.9	2.0	1.9
BoE official bank rate (% eop)	3.75	3.75	4.00	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	3.50	4.00	4.00	4.00	4.00	3.95	3.70	3.45	3.25	3.25	3.25	3.25	3.25	3.25	3.25
10-year interest rate (% eop)	4.70	5.00	5.00	4.90	4.30	4.65	4.55	4.45	4.50	4.40	4.50	4.50	4.50	4.50	4.50
Fiscal balance (% of GDP)					3.6					3.1					3.1
Public sector net debt (FY, %)					94.8					95.7					97.0
EUR/USD (eop)	1.16	1.15	1.15	1.17	1.17	1.18	1.20	1.20	1.20	1.20	1.20	1.21	1.22	1.22	1.22
USD/JPY (eop)	159	160	160	158	158	155	154	153	152	152	152	150	150	150	150
USD/CNY (eop)	6.89	6.78	6.75	6.70	6.70	6.70	6.65	6.60	6.55	6.55	6.51	6.47	6.43	6.40	6.40
EUR/GBP (eop)	0.87	0.87	0.88	0.88	0.88	0.89	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
ICE Brent - US\$/bbl (average)	78	103	110	100	98	90	86	81	77	84	70	70	73	68	70
Dutch TTF - EUR/MWh (average)	40	52	60	70	56	60	46	43	43	48	35	30	28	30	31

Source: ING forecasts

In charts: our latest scenarios for energy prices, central banks and markets

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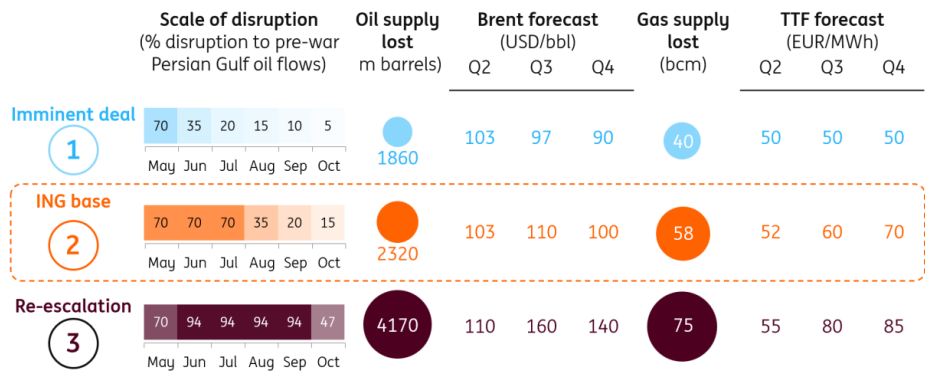
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Here's what happens to oil and natural gas prices if there's a quick deal or a severe re-escalation in the Middle East war – and how it would play out across financial markets

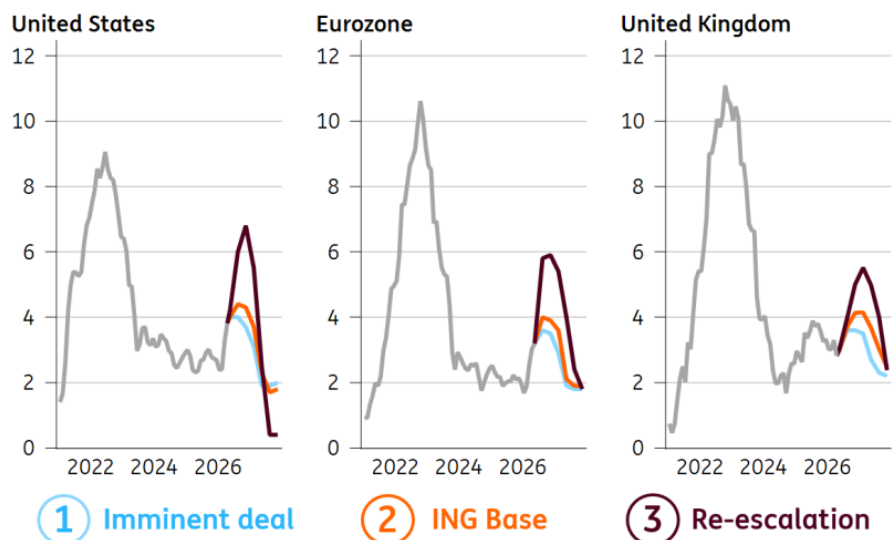


Three scenarios for energy markets



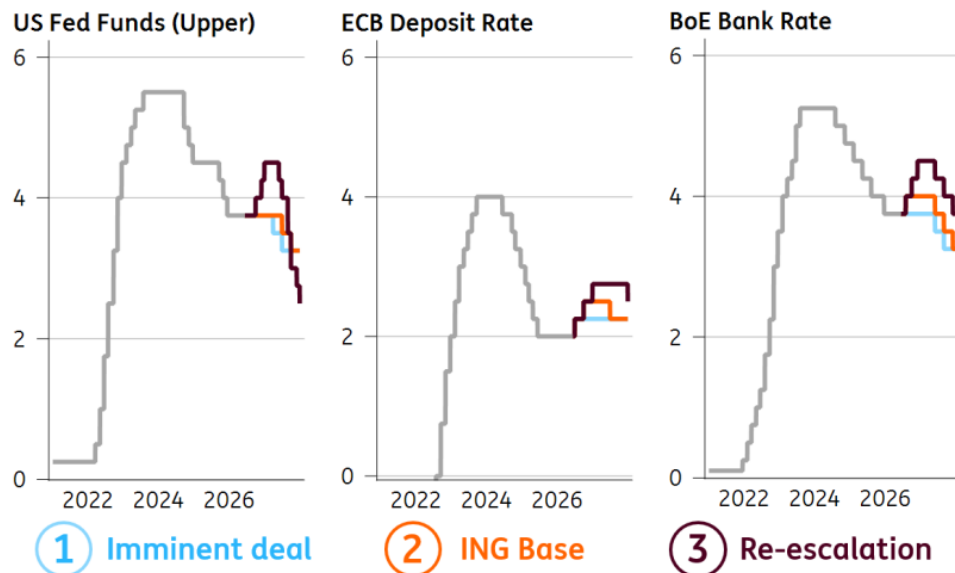
Source: ING

Three scenarios for inflation



Source: ING

Three scenarios for central banks



Source: ING

Three scenarios for markets

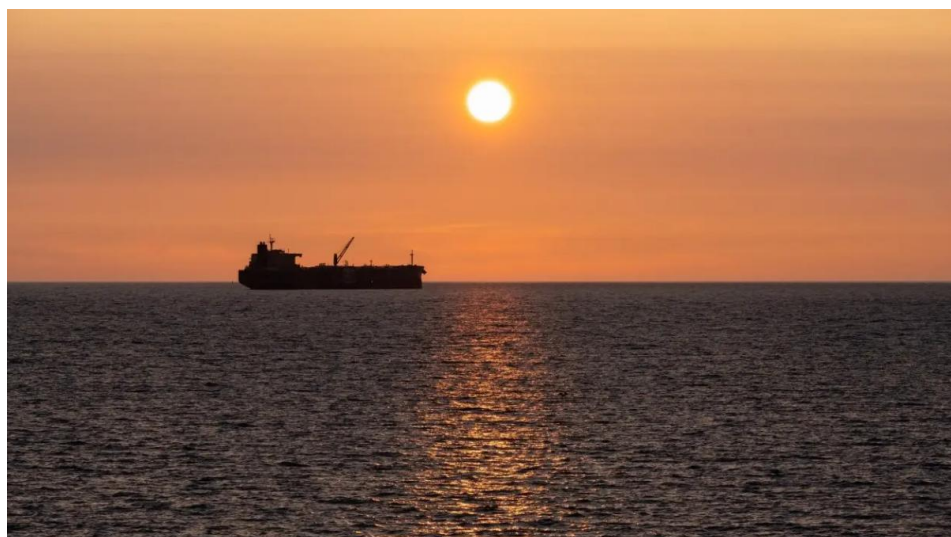
		1 Imminent deal			2 ING Base			3 Re-escalation		
	9 June	Q2	Q3	Q4	Q2	Q3	Q4	Q2	Q3	Q4
Brent Crude (USD/bbl)	91	103	97	90	103	110	100	110	160	140
Dutch TTF gas (EUR/MWh)	48	50	50	50	52	60	70	55	80	85
US Inflation (YoY%)	3.8%	4.0	4.0	3.7	4.0	4.4	4.3	4.2	6.0	6.8
Eurozone Inflation (YoY%)	3.2%	3.2	3.6	3.5	3.2	4.0	3.9	3.3	5.8	5.9
ECB Deposit Rate (%)	2.00	2.25	2.25	2.25	2.25	2.50	2.50	2.25	2.50	2.75
Fed Funds Rate (%)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	4.00	4.50
2Y EUR swap rate (%)	2.86	2.75	2.65	2.55	2.90	2.90	2.75	3.00	3.10	3.20
10Y EUR swap rate (%)	3.09	3.10	3.00	3.00	3.15	3.15	3.10	3.20	3.25	3.30
2Y USD swap rate (%)	3.99	3.90	3.80	3.55	4.00	3.95	3.85	4.20	4.25	4.30
10Y USD swap rate (%)	4.12	4.05	4.00	3.90	4.10	4.10	4.10	4.15	4.20	4.25
EUR/USD	1.15	1.17	1.18	1.19	1.15	1.15	1.17	1.12	1.07	1.10

Source: ING

Energy markets remain complacent despite significant supply shock

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With little tangible evidence of an imminent deal between the US and Iran to get energy supplies flowing through the Strait of Hormuz once again, we believe oil and gas markets are being too complacent, and see significant upside in the absence of a quick resolution



We are of the view that Strait of Hormuz flows will remain largely inhibited until the end of July

Falling Chinese oil imports offer relief to the oil market for now

One wouldn't think that the oil market is facing an unprecedented supply shock at the moment when looking at price action, with ICE Brent trading below \$100/bbl. There has been little to no improvement in energy flows through the Strait of Hormuz and for now there is little sign that we are going to see an imminent resumption in energy flows, with a deal still some way off. This means that the oil market will only continue to tighten and will eventually reach a point where the drawdown of buffers leaves the market increasingly vulnerable to significant upside.

From an inventory perspective, we believe that the end of July could be an inflection point for the market if there is no improvement in energy flows from the Persian Gulf. This could see ICE Brent spike to \$120-130/bbl, prompting increased pressure to come to a deal, which at least starts to see energy flows normalising. And failing a deal, one can't rule out the possibility that we get to a point where energy-starved buyers are more willing to pay Iran tolls for safe passage through the Strait of Hormuz.

Our base case now assumes that we have to wait for this upward pressure before seeing some sort of deal and/or resumption of flows. Therefore, we are of the view that Strait of Hormuz flows will remain largely inhibited until the end of July. This leaves the market in deficit over the third quarter, which sees Brent averaging \$110/bbl over 3Q26, before trending lower in 4Q26 and 2027 and flows recover.

There are several factors which have helped to take some pressure off oil markets since the start of the war. First, China has stepped back from the oil market significantly. Crude oil imports in May 2026 fell 3.2m b/d year-on-year to 7.8m b/d – the weakest since October 2017. While China sits on significant inventories, it's unclear how willing they would be to continue tapping reserves (or potentially even rely on more aggressively), particularly with uncertainty over the duration of the supply disruption. This is a clear risk to our view.

Second, the US has stepped up when it comes to exports. Since the start of the war, US oil and refined product exports are up 1.8m b/d YoY. However, this is not sustainable, given that these stronger exports are coming from inventory rather than additional supply growth. The clear upside risk for the market is if tightening in the US market prompts any intervention from the government when it comes to exports.

Releases from strategic reserves have also shielded the market from significantly higher prices. However, these will come to an end. The US SPR release is set to come to an end by the end of July, so again, without further releases, the pace of tightening in the oil market will pick up once this comes to an end. And this is at a time when demand is seasonally stronger.

Chinese crude oil imports fall further in May (m b/d)



Source: China Customs, ING Research

European gas storage continues to lag

The European gas market also appears to continue to underprice the supply impact from the Persian Gulf. Global LNG exports in May 2026 fell more than 7% YoY and down 23% from the record levels shipped in January 2026. This has left export volumes at their lowest level since June 2023. The ramping up of new US LNG export capacity has helped to offset some of the Persian Gulf supply losses, but clearly not enough to fully offset. And with new capacity start-ups in 2026 falling short of Persian Gulf disruptions, the market has and will continue to need to see some demand destruction.

Signs of more Asian buying recently could be the catalyst, which has started to raise concerns in Europe. The JKM-TTF spread has been widening as Asian buyers turn to the spot LNG market. This has particularly been evident with Chinese buying appetite returning, while Indian imports have also grown. The longer supply disruptions persist, the more likely we are to see increased competition between Asia and Europe for supplies. EU gas storage is around 43% full, well below the 5-year average of 57% full.

The issue for the European market is that the forward curve provides little incentive to inject natural gas for the winter. Summer prices are trading at a premium to winter prices. Therefore, we could see more urgency to fill storage through the third quarter, pushing prices higher. Obviously, the key concern for the market is if Persian Gulf supply disruptions persist through the third quarter, as this will bring more aggressive Asian buying into the spot LNG market at a time when Europe continues to try to fill its storage ahead of the 2026/27 winter.

Given our base case now assumes that energy flows will remain largely constrained until the end of July, we believe that TTF prices will still move higher from current levels. Lower storage levels heading into the 26/27 winter also suggest that prices will remain elevated although much will depend on winter weather.

Our latest views on central banks

We're now expecting two European Central Bank rate hikes in the summer, though we're still not convinced that the Federal Reserve will tighten policy this year

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What to expect from the Fed, ECB, BoE and BoJ in the coming months

Federal Reserve

The US economy is more insulated from Middle East risks than most countries due to its energy independence, but it is not immune. Higher motor fuel costs are adding to cost pressures, with inflation breaking above 4%. Business surveys currently point to 2-2.5% GDP growth; the economy is adding jobs and equity markets are at record highs. Understandably, market expectations of potential Federal Reserve rate hikes have increased.

That said, the US growth story is concentrated in high-income household spending and tech investment, while only three sectors – government, private education & healthcare services and leisure & hospitality – are actually adding jobs. The low-hire, low-fire economy means weak wage growth, with real household disposable income having fallen for three consecutive months. Consequently, a renewed spike in energy costs risks demand destruction.

It is a very close call whether the Fed will hike rates this year, but on balance we think it will instead choose to look through a near-term energy spike and hold rates steady for an extended period. Consumer and market inflation expectations remain in tolerable ranges and slowing housing rents, weak wage growth, a waning influence from tariffs and eventual energy price falls mean that inflation could undershoot the target in the second half of 2027. We look for 25bp rate cuts in 2Q 2027 and 3Q 2027 as policy eventually returns to a neutral setting.

James Knightley

European Central Bank

Even if the current inflation wave in the eurozone is very different from soaring and self-enforcing inflation in 2022, a lot of the European Central Bank's actions seem to be driven by the institutional memory of 2022. Not so much by recent inflation developments. So far, the increase in headline inflation has remained moderate. And while the knock-on effects of higher energy prices on other prices, like transportation and food, will be hard to avoid, the latest survey-based inflation expectations have come down a bit. Selling price expectations in both industry and services, and the ECB's own longer-term consumer inflation expectations, all dropped slightly in May.

Even as some critics argue the ECB risks repeating its 2022 mistake of reacting too late to an obvious inflation shock, the comparison with that period is flawed – not least in terms of fiscal stimulus and savings. Back in 2022, eurozone inflation was already above 4% YoY when the energy price shock hit. The ECB's infamous late reaction came with the first rate hike in July 2022, when headline inflation was actually above 8% YoY. Also, back then, less than 25% of the main inflation components recorded an inflation rate of less than 1% YoY. In April this year, it was 50%. Finally, the first rate hike in 2022 came from a policy rate of -0.5%. Currently, the policy rate is at 2%.

Still, memories of 2022 – and the acknowledgement that the ECB held on too long to the 'transitory' inflation narrative – are now driving the push for rate hikes. This is a kind of insurance rate hike, as the risk of doing nothing and potentially falling behind the curve is larger than the risk of any adverse effects on growth from higher interest rates. With our new oil price and inflation forecasts, there is now a probability of more than 50% that the ECB will actually opt for a second hike this summer.

However, as long as the bond market is doing part of the ECB's job in tightening financial conditions, governments are not fuelling an inflationary spiral with fiscal stimulus, and sentiment indicators remain weak, it's hard to imagine that the ECB would really want to fight an exogenous supply shock at the cost of worsening an economic downturn.

Carsten Brzeski

Bank of England

For the UK, the 2022 comparison is even more extreme than it is in the eurozone. The drop in vacancies has been comparatively more severe. Unemployment is up and consumer-facing sectors have shrunk their workforces by 2-3% since last year's payroll tax and minimum wage hikes. Wage growth is falling rapidly.

What's more, last year's spike in food inflation – which took headline CPI close to 4% – hasn't generated the sort of second-round effects that the Bank of England's hawks feared at the time. It's a reminder that UK businesses don't enjoy the pricing power they had after the pandemic and during the last energy shock – nor do workers have the same power on pay. In that environment, the rise in consumer inflation expectations we've seen over recent weeks may not matter all that much.

We think the Bank is stuck somewhere between a prolonged pause and a symbolic rate hike this summer. For now, with natural gas prices so benign, the need to act is limited. Remember that the Bank was otherwise on track to cut rates at least twice this year, so simply not doing that acts as de facto tightening.

However, under ING's new base case for energy prices, with a big spike in July, we think the Bank will struggle to avoid a rate hike over the summer. But we're still unconvinced by market pricing; two hikes are priced by next spring and this may well increase with our projected rise in oil prices. Our view is that if we do get a hike this summer, it's more likely to be a one-and-done move.

James Smith

Bank of Japan

The Bank of Japan is expected to deliver a 25bp hike at its June meeting. Despite Middle East uncertainty, resilient growth, negative real interest rates, and persistent upside risks to inflation justify BoJ rate hikes. There were already three dissenting votes in favour of a rate hike in April, and two others have since signalled support for further normalisation. Hawkish comments from several BoJ officials have led markets to price in another rate hike in 4Q26, in line with our forecasts.

While May inflation was quite soft at 1.4% YoY, this largely reflected government interventions and a high food-price base last year. Pipeline prices have climbed since March while the weak yen is expected to add more inflationary pressures. The BoJ is therefore likely to look through the current softness and instead focus on underlying inflation pressures that could build later this year. Firm wage growth is another reason to support the BoJ's rate hikes. With growth near potential and inflation expected to remain around 2% through 2027, we expect the BoJ to raise its policy rate to 1.50% by the first half of next year.

Meanwhile, the BoJ will also announce its latest JGB purchase plan at its June meeting. Currently, it is reducing purchases by 200 billion JPY per quarter through next March, but on the back of improved market functioning, the BoJ may pause tapering. Even if the BoJ pauses tightening from next April, its JGB holdings should continue to decline as redemptions remain sizeable. We expect this to help calm concerns about a sharp JGB sell-off and ease Prime Minister Sanae Takaichi's opposition to further rate hikes. With the policy rate rising, JGB10Y yields are expected to climb, albeit at a moderate pace, reaching 3.0% by 2027.

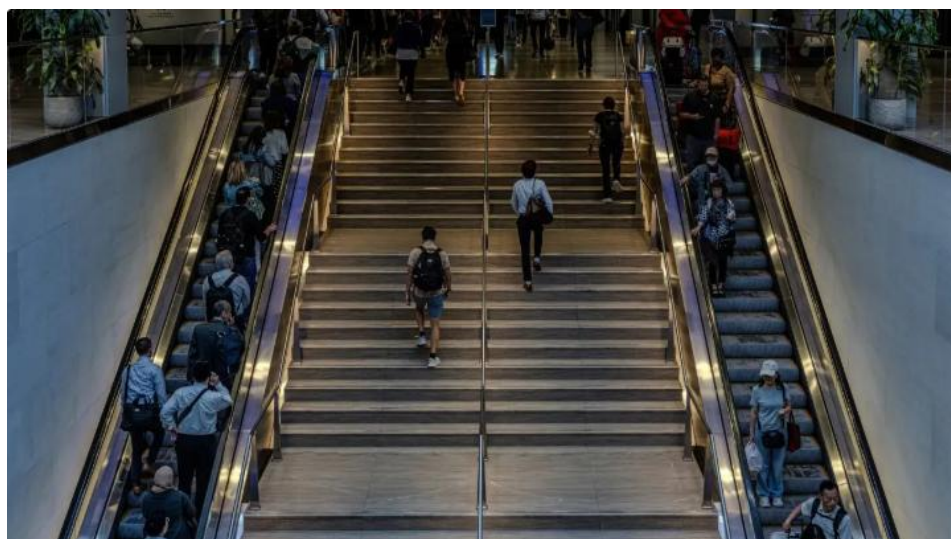
Min Joo Kang

Federal Reserve to resist the urge to hike US rates

James Knightley

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Business surveys and improved jobs numbers suggest the US economy has regained momentum, while the surge in motor fuel costs means inflation is likely to average more than 4% in the second half of 2026. Fed rate hike expectations are growing, but we think it will instead choose to hold steady in anticipation of a reversal of cost pressures in 2027



Moynihan Train Hall at Penn Station, New York. With inflation now above 4%, the squeeze on household spending power looks set to remain a constraint.

Rate risks on the rise

GDP growth was disappointing in the final quarter of 2025 and the first three months of this year, but business surveys suggest a re-acceleration is underway. This view is supported by a recent string of better-than-expected jobs reports and the obvious point that a surge in oil prices is a boon for an energy sector that is able and willing to export.

Tech capex relating to the AI story continues to drive business investment, and there appears to be no slowdown in sight based on chip orders. Meanwhile, consumer spending by high-income households continues apace. With energy prices pushing inflation above 4%, talk of potential Federal Reserve interest rate hikes has understandably increased.

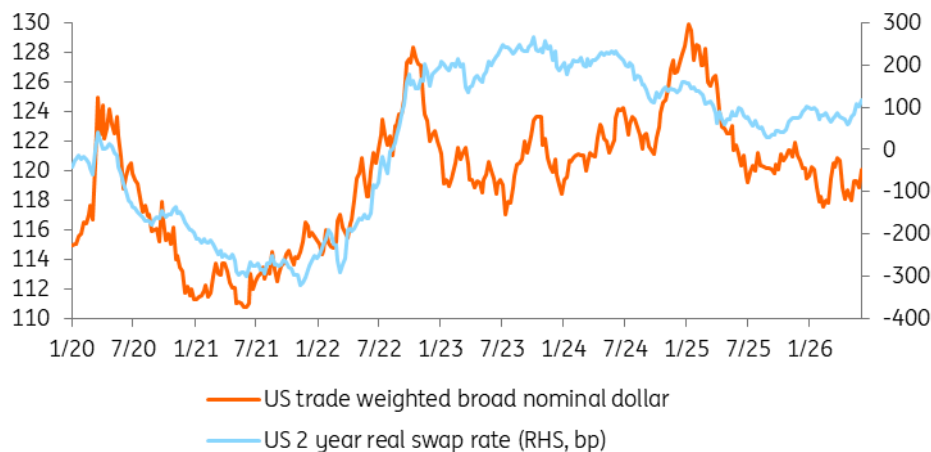
K-shaped growth narrative persists

That said, there are valid concerns about growth concentration risks – the so-called K-shaped economy. High-income households, buoyed by substantial wealth gains in recent years, are driving the momentum. For middle and lower-income households, there are growing signs of stress with consumer confidence at 50-year lows, which is remarkable given some of the events that have occurred over that period! This can at least be attributed in part to the fact that real household disposable incomes have fallen for three straight months, prompting greater use of credit cards and reduced savings just to maintain lifestyles.

There is a similar K-shaped story in business investment, which, outside tech-related capex, has fallen for six straight quarters. We even see this narrative in the labour market. Job creation is concentrated in just three sectors – government, leisure & hospitality and private education & healthcare services. All other sectors combined have seen net job losses over the past three years.

The low-hire, low-fire private sector economy means ongoing weak wage growth. The swing towards excess supply of workers and a declining quit rate, pointing to much reduced job turnover, is consistent with nominal earnings growth of barely 3%. With inflation now above 4%, the squeeze on household spending power looks set to remain a constraint.

Weak job turnover points to slowing wage growth



Source: Macrobond, ING

Non-energy price pressures to come to the Fed's aid

Our oil price forecasts, building on price pressure tied to tariffs and the tech roll-out, mean that inflation will likely stay above 4% through much of the second half of the year. Given the resilience of the economy, we are now in a situation where financial markets are fully pricing a 25bp Fed rate hike this year with a 70% chance of a second hike in 2027.

It is a close call, but while sounding hawkish, we think the Fed will 'look through' the energy-related near-term inflation and choose to hold interest rates steady at a level that a majority of officials still believe is mildly restrictive. We don't have the consumer demand impetus that would prompt a return of the broad and persistent inflation seen in 2022. Favourable factors are expected to emerge in the second half of the year that will help to mitigate any energy-related spillover effects into core inflation. Crucially, both financial market and consumer inflation expectations remain within tolerable ranges.

Housing is the largest component of the inflation basket by weight, and flat-lining home prices and cooling private rents – both Zillow and Realtor.com suggest rents are falling by around 1.5% year-on-year right now – suggest shelter inflation will slow from its current 3.5% year-on-year rate. The impact of tariffs should also wane. The Dallas Federal Reserve Bank estimates that tariffs are currently lifting the annual rate of core inflation by 0.9ppt. Tariffs are a one-off step change in prices, and we have since transitioned to a lower tariff regime that includes many exemptions, following the Supreme Court's decision to strike down 'Liberation Day' tariffs. The refunds of those tariffs will provide relief for corporate America and should go some way to covering any increase in energy/transportation costs they may be facing.

While supply/demand rebalancing will take time, we see greater scope for energy price falls in 2027 that will pull inflation lower. With core inflation looking more benign, there is the prospect that inflation falls back below 2%, giving the Fed room to resume moving policy rates back to neutral next year, although our conviction on the need for any interest rate cuts has receded.

Ireland skews eurozone growth data

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Although quirks in Irish GDP accounting drove the eurozone's negative growth reading in the first quarter, the underlying pace of activity is clearly losing momentum. Inflation is still moving up towards the 4% mark. As a result, the European Central Bank is now likely to deliver two rate hikes this year



Ireland hosts a large multinational sector, creating major distortions in export data

The Irish statistical quagmire

Eurozone GDP growth for the first quarter of 2026 was revised down from +0.1% to -0.2%. The revision was mainly driven by a new estimate for Irish growth, showing a contraction of 12.1%, which alone cut 0.5 percentage points from eurozone growth in the first three months of the year.

Ireland hosts a large multinational sector, with foreign firms often locating their intellectual property rights there. This creates major distortions in export data.

In addition, the pharmaceutical sector saw an exceptional export surge ahead of higher US tariffs, which is now gradually reversing. Even so, after four consecutive quarters of contraction, Irish GDP is likely to become less of a drag in the coming quarters. But that offers little comfort: even though eurozone growth excluding Ireland remained in positive territory, the second quarter is still likely to bring a slowdown.

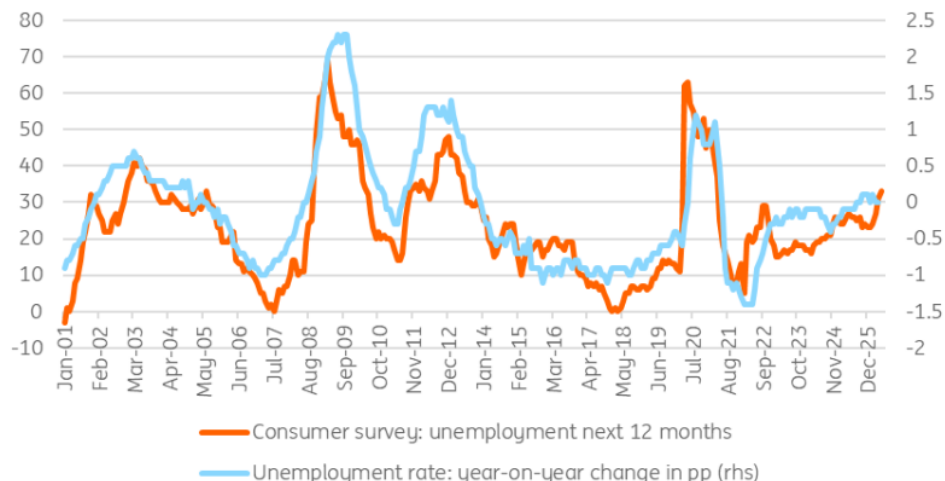
Stagnation ahead

The composite PMI dropped to 48.5 in May, the lowest level in 18 months and below the boom-or-bust threshold of 50. Although the European Commission's sentiment indicator edged up slightly last month, it remained well below the levels seen in the first quarter.

With uncertainty still elevated and energy prices unlikely to decline any time soon, the second and third quarters are likely to see an economy that is close to stagnation.

Beyond that, the likely end of the war, somewhat lower energy prices and a stronger impact from German fiscal stimulus should support a gradual improvement in growth. Given the much weaker first quarter and the ongoing crisis in the Middle East, we have revised our GDP growth forecast for 2026 down to 0.3%, and for 2027 to 1.2%.

Fears of higher unemployment



Source: LSEG Datastream

Don't expect a 2022-23 inflation revival

Headline inflation rose to 3.2% in May, while core inflation reached 2.5%. Upward pressure from energy prices is still likely to push headline inflation higher in the months ahead. And although we do expect some second-round effects, we do not think core inflation will move beyond the 3% threshold.

Compared with 2022, European consumers now report much higher unemployment expectations, while fiscal support aimed at softening the energy shock is more limited. A more cautious consumer, facing pressure on purchasing power, will make it far more difficult for companies to pass higher costs on to households. We are forecasting inflation at 3.3% in 2026 and 2.4% next year.

Two rate hikes this year

With three-year consumer inflation expectations standing at 2.9% in April, the ECB can justify some monetary tightening (and our updated Middle East forecast reinforces this idea).

Following the June hike, the probability of a second rate increase has now risen to above 50%, although the exact timing remains uncertain. Both July and September remain plausible options. A partial reversal of these rate hikes in 2027, once inflation returns to target, still appears to be the most likely path.

China's second-quarter slowdown underway amid soft consumption

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Soft Chinese domestic activity data is likely an omen of decelerating growth in the second quarter, even as external demand remains strong. While there appears to be limited urgency for now, China still has room for monetary easing this year if it's needed



Retail sales slowed to just 0.2% year-on-year in April, the softest month since 2022

Slowdown underway amid soft consumption and investment

China's April data came in well below market expectations. Retail sales slowed to just 0.2% year-on-year in April, the softest month since 2022. Sales look likely to tip into negative territory in May. We are now seeing the negative side of front-loaded consumption from the trade-in programmes of previous years. Beneficiary categories are seeing big year-on-year drops.

Investment remains soft, with fixed-asset investment slipping back into negative growth and new RMB lending continuing to contract – clear signs that firms are still holding back. Elevated uncertainty is likely weighing on investment, but the deeper issue is that, outside strategic sectors like tech and advanced manufacturing, investment appetite has been weak for a long stretch, even with low interest rates.

Risks to our full-year growth forecast remain relatively balanced but are more tilted towards the downside than they were a month ago. We've likely not yet seen the full impact of higher energy prices on the economy. Higher input prices will likely be passed on to consumers in the coming months.

Tighter controls on capital outflows

There have been reports of tighter controls out of China over the past month. First, the China Securities Regulatory Commission (CSRC) announced a crackdown on offshore trading platforms popular among Chinese citizens for investing in overseas assets.

Second, the State Council published new regulations on outbound investment at the start of June. There will be a greater focus on national security and tighter monitoring and oversight. While outbound investment is still generally encouraged, sensitive sectors will likely be impacted, with controls on tech, data, and talent transfers. This could potentially add a new hurdle for Chinese outbound investment.

Policymakers may have tightened controls due to concerns about bubble risks in global markets. Tightening rules on outbound investment, meanwhile, may reflect a more uncertain global geopolitical backdrop. Fewer capital outflows could support the yuan, which has already shown solid appreciation momentum. More capital staying in domestic markets could support both domestic equity and bond markets, though the impact may be incremental.

Rate cuts aren't off the table for China

China stands apart from many global central banks; others have shifted from expected cuts to renewed hikes as Iran-driven energy shocks lift inflation, but Beijing is unlikely to follow suit this year.

The main reason is that China is shifting from fighting deflation to positive inflation, albeit at low levels. We've seen inflation recover in the past few months, but it's still below the 2% target set at this year's Two Sessions. Even if we see inflation overshoot for a few months, it's unlikely to prompt policy tightening. This is especially the case considering that investment and borrowing demand are already very soft at current rates.

Policymakers have shown little urgency to ramp up stimulus, opting instead to stick with their existing policy playbook rather than launch new, aggressive measures. A stronger-than-expected first-quarter GDP read, combined with rising inflation, prompted many in the market to call for rates to remain unchanged the rest of the year. But if the deterioration in activity continues, this could swing in the other direction even as the deflation trend solidifies. We maintain our call for a single 10bp rate cut in the fourth quarter.

Bank of England poised for July rate hike on energy spike

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A material spike in oil and, crucially, natural gas prices this July would make it harder for the Bank of England to avoid hiking rates. We're pencilling in a one-and-done rate rise this summer



Data over the past month has been a stark reminder that the UK economy is less susceptible to another prolonged bout of inflationary pressure

A June rate hike now looks unlikely, but...

If we're right about energy prices, it's going to become increasingly difficult for the Bank of England to avoid a rate hike this summer.

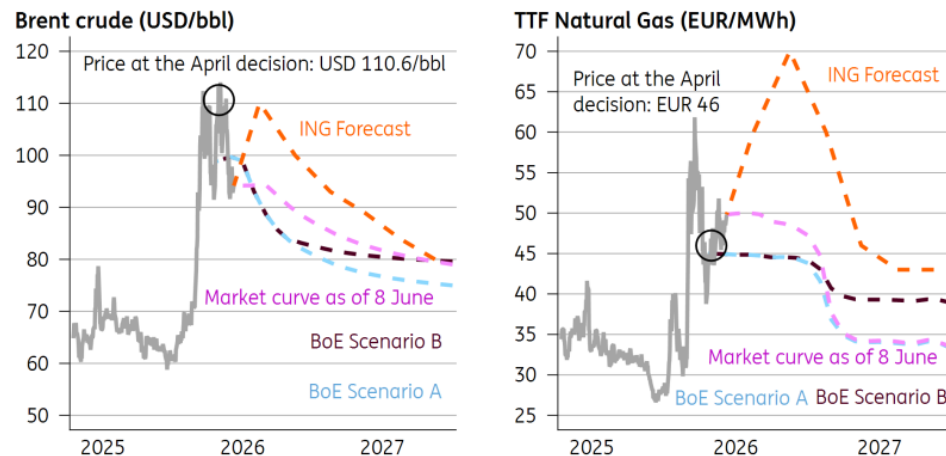
That said, the case for moving in June has weakened. Natural gas prices have stayed remarkably benign – and that matters, because Britain remains one of the most gas-reliant economies in Europe. Household energy bills are set to rise by 13% in July, but on current pricing they're likely to fall by around 7% in October.

Back in April, the BoE sketched out three scenarios. Right now, markets look closest to the middle one – 'scenario B' – which most officials felt didn't necessarily require further tightening. The Bank's models reckoned this scenario would be roughly consistent with 55bp of tightening versus a pre-war baseline. And given it had expected to cut rates twice this year, that means simply holding Bank Rate at 3.75% would probably do the trick.

But by July, the backdrop could look very different. Our Commodities team sees oil pushing up to \$120/bbl, with natural gas climbing towards €70/MWh by the fourth quarter (about 175p/therm on the UK benchmark).

That would take us well away from the Bank's 'scenario B' and halfway towards the more adverse 'scenario C'. In our new base case, we see headline CPI peaking at 4.3% early next year, as higher gas prices feed through into household energy bills and keep food inflation elevated into the winter.

Our forecasts are above the Bank of England's 'scenario B' from April



We've calculated the Bank's scenario A & B based on the methodology set out at the April meeting
 Source: Macrobond, ING

A July hike is likely if energy prices spike

If disruption in the Strait of Hormuz hasn't eased by the July meeting, the Bank will also have to lean more heavily against the tail risks, however unlikely, that the disruptions extend into the autumn. Policymakers are acutely aware that the longer this lasts, the greater the risk of second-round effects.

Against that backdrop, we think the BoE will tilt towards a July hike. It's not a done deal – and a faster resolution that avoids the renewed spike in oil and gas prices we're now forecasting would more easily justify a prolonged pause.

Even then, any move is likely to be one-and-done. Data over the past month has been a stark reminder that the UK economy is less susceptible to another prolonged bout of inflationary pressure. The jobs market is weak. Consumer-facing employment has fallen 2-3% over the past year, and the pace of the decline shows little sign of slowing.

Wage growth is dropping sharply and should soon fall below 3% in the private sector. Much of that reflects last year's tax and minimum wage hikes – a reminder that UK corporates have far less pricing power than they did during the last energy shock.

In short, the case for sustained tightening remains far from clear-cut. And we still think we're likely to see a return to rate cuts in 2027, something markets aren't currently pricing.

Asian policy tightening ahead as FX and inflation risks build

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Growth across Asia is easing gradually, while inflation is only inching higher. The most immediate adjustment so far has been in FX, where moves have been sharper and faster than in real activity or prices. This divergence is increasingly driving policy decisions, and we expect most Asian central banks to raise rates in the third quarter



Growth is softening gradually, while inflation pressures are building

Two main themes are emerging across Asia.

First, growth momentum is beginning to soften at the margin following a strong start to the year. Activity indicators for the second quarter show early signs of losing traction. In China, recent data points to a moderation from a robust first-quarter performance. South Korean industrial production fell more sharply than expected in April. Retail sales have fallen notably in Korea, Singapore, Malaysia, and Indonesia.

At the same time, inflation pressures are building, albeit gradually. Even in economies such as Japan and Korea – where policymakers have sought to cap domestic fuel prices – second-round effects are becoming more visible. Higher energy costs are increasingly feeding into food prices and core inflation, pointing to broader and more persistent pressures. Across Asia, average food and core inflation rose by around 30bp and 15bp, respectively, in April compared with the first quarter. Inflation is still manageable, but the risks are clearly shifting upward. Persistently high oil prices are poised to pass through more fully to consumers and producers.

In short, growth is softening gradually, and inflation is only picking up slowly. The largest and most immediate adjustment has been in FX. This widening divergence is increasingly shaping the policy response.

A second key theme is that sustained US dollar strength has driven broad-based weakness across Asian currencies, constraining policy flexibility. Currencies such as the Korean won, Indian rupee, and Malaysian ringgit have come under notable pressure over the past month, despite relatively resilient growth backdrops.

Malaysia's position as a net energy exporter offers some insulation. However, rising freight costs, domestic political risks, and delayed pass-through from higher oil prices continue to weigh on sentiment. With inflation still broadly manageable but FX

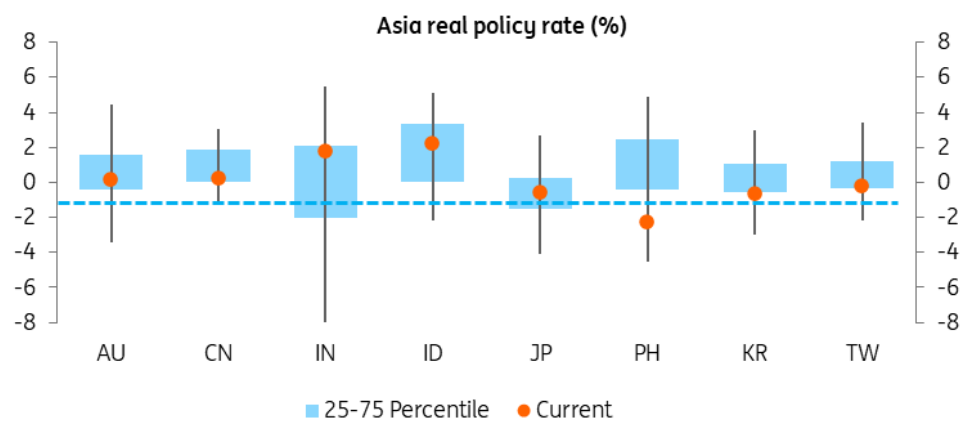
pressures intensifying, central banks increasingly face a binary choice, skewing policy toward further tightening.

This dynamic reinforces the case for additional rate hikes in both Japan and Korea. We're also incorporating further policy rate tightening into our outlook for India.

Across South and Southeast Asia, policy responses have become increasingly divergent. Some central banks – notably Bank Indonesia – are adopting more front-loaded rate hikes to support their currencies. Others, such as the Reserve Bank of India, where inflation remains relatively contained, are pairing gradual tightening with targeted measures to attract capital inflows. The RBI recently announced a series of forex measures, including offering concessional swaps to encourage external commercial borrowing by state-owned firms and foreign currency non-resident deposits. This could result in a \$30-40bn inflow, helping stabilise the local currency.

Looking ahead, the interplay between moderating growth, gradually rising inflation, and persistent currency pressures will shape the policy outlook. Central banks are likely to prioritise anchoring inflation expectations and stabilising exchange rates, even as growth risks mount. As elevated oil prices continue to tilt inflation risks upwards, we expect most Asian central banks to raise rates in the third quarter. But a gradual US dollar pullback and continued capital inflows should help stabilise regional currencies in the second half.

Real policy rates have fallen with a pick-up in inflation



Source: CEIC

CEE: Moving in all directions

The outlook for Central and Eastern Europe is broadly benign: Poland is holding rates steady as inflation eases and growth softens, the Czech economy is expanding with contained CPI despite cost pressures, and Hungary's post-election rally supports an easing bias with scope for summer rate cuts as risk premia falls and the inflation outlook improves

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Countries within Central and Eastern Europe are all moving in various directions, although the outlook on the whole looks relatively benign

Poland: Central bank to keep rates on hold this year

In line with market consensus, the National Bank of Poland kept rates on hold in June with the main rate at 3.75%. The decision came as no surprise in light of the latest inflation data. A surprising decline in inflation to 3.1% year-on-year in May from 3.2% YoY in April provided the Monetary Policy Council with a solid argument to maintain its wait-and-see stance. The drop was driven by a sharp decrease in food prices (unusual for May) and weaker-than-expected core inflation pressure. This suggests that the oil shock – stemming from surging crude oil prices – seems contained and does not require an imminent policy response.

GDP data for the first quarter of 2026 showed a growth slowdown to 3.5% YoY from 4.1% in the fourth quarter of 2025. Private consumption eased amid weaker wage growth, while investment was hit by harsh weather disrupting construction. High-frequency data for April indicated a significant slowdown in the corporate wage bill (driven by lower wage growth and a decrease in employment) and idle industrial production, while a revival in construction is just a return to normality from the winter freeze.

It is no surprise, then, that the National Bank of Poland governor declared the current level of interest rates adequate to stabilise inflation, and the risk of rate hikes has declined. We expect interest rates to remain on hold through the rest of the year. The spillover from the energy shock is also being contained by policymakers. The energy minister expects the fuel shield – lower excise duties and VAT on fuels – to be withdrawn only once global oil prices return to pre-war levels. In addition, the energy regulator has extended current household gas tariffs through to the end of 2026, at just under €50/MWh. Central bankers have also received a broadly benign set of data and external assumptions ahead of the July inflation projection.

Czech Republic: Continued expansion amid relatively modest inflation

Economic expansion at 2% this year is possible, particularly if the Strait of Hormuz conflict does not re-escalate and the Brent crude price remains below US\$100/bbl. We currently see price pressures building in the producer segment, along with surging input costs for energy, refined chemicals, and metals. However, second-round effects on consumer prices seem limited so far, while some relief in fuel prices should also moderate headline inflation. Overall, we expect rather benign headline inflation until November, with a subsequent brief increase largely driven by base effects. The core rate should remain somewhat elevated this year, without crossing the 3% barrier. We then see it receding next year.

The housing market is set to remain overheated, as excess demand over supply continues to drive strong property price growth. This is accompanied by robust credit expansion, both in mortgages and consumer credit, which supports the case for a marginally tighter monetary policy stance. At the same time, there are compelling reasons to keep policy rates unchanged, including a somewhat cooling economy, benign headline inflation and potential adverse effects on economic activity linked to the Middle Eastern conflict. In any case, monetary policy is likely to remain restrictive, as real interest rates are expected to move into positive territory over the forecast horizon. The koruna should remain supported by a relatively solid economic performance and a positive interest rate differential versus the ECB, in both nominal and real terms.

Hungary: From zero to hero

Almost two months have passed since the election, and Hungary is still enjoying the honeymoon phase. The forint has strengthened by around 10% compared to the pre-election peak, while government bond yields have fallen significantly, with the 10-year yield dropping by around 200bp. With CDS spreads narrowing, a 100bp mark-up over the US 10-year and a 245bp premium over the Bund, it is fair to say that Hungary has gone from zero to hero in the eyes of the market.

Unsurprisingly, this drop in risk premium has led the National Bank of Hungary to consider the possibility of a rate cut. Our updated inflation forecast predicts an average of 2.8% in 2026, peaking at around 4.5% year-on-year at the turn of 2026-2027. Given this, it is entirely possible that the central bank will not stop at one rate cut, but will make two or even three cuts over the summer.

Moving to the real economy, we are still forecasting 1.5% GDP growth this year, but with this swift rate-cut scenario, Hungary could see 2.5-3.0% economic growth in the coming years. EU funds will certainly support this, and the expected 'defrosting' of transfers will boost budgetary finances this year. The real economic impact could be felt from next year onwards. From a fiscal perspective, the next milestone is revising this year's budget. We expect the new official accrual-based deficit target to be 6.5-7.0%, while our technical projection sees this at 6.2% of GDP in 2026. We expect the convergence programme outlining the path towards euro adoption to be released in mid-to-late autumn. In general, if the positive momentum continues and commitments are turned into action, we anticipate the possibility of rating outlook upgrades in the fourth quarter.

CIS 4: Domestic resilience leads to softer rates outlook

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A firmer commodity price outlook adds to the global inflation story, but CIS-4 remains mainly driven by domestic themes. Commodity exporters benefit from stronger buffers, while FX resilience and softer CPI in Kazakhstan and Uzbekistan leave room for a more accommodative rates outlook



Resilient domestic dynamics in CIS-4 contrast with a still-inflationary global market backdrop

Armenia: Election results suggest continuity

The recent win for the ruling party in Armenia secures policy continuity. Still, the lack of a supermajority potentially complicates any constitutional changes needed to resolve tensions with Azerbaijan or ensure accession to the EU. On the one hand, the risk of unresolved frictions with Azerbaijan remains a reason for caution on the dram after strengthening supported by portfolio inflows and the pickup in annualised net remittances inflow to around 7% of GDP. On the other hand, slower Armenia-EU progress lowers the near-term risk of Russian economic retaliation. Russia is responsible for at least 80% of Armenia's gas imports, one-third of external trade and two-thirds of gross remittances inflows. For now, it remains unclear whether the political narrative of Armenia-EU-Russia is actionable for markets.

*Against the backdrop of inconclusive foreign policy signals, strong currency performance so far, and benign CPI within the 4-5% year-on-year range, we expect the Central Bank of Armenia to keep the policy rate unchanged at 6.50% next week with a balanced medium-term outlook.

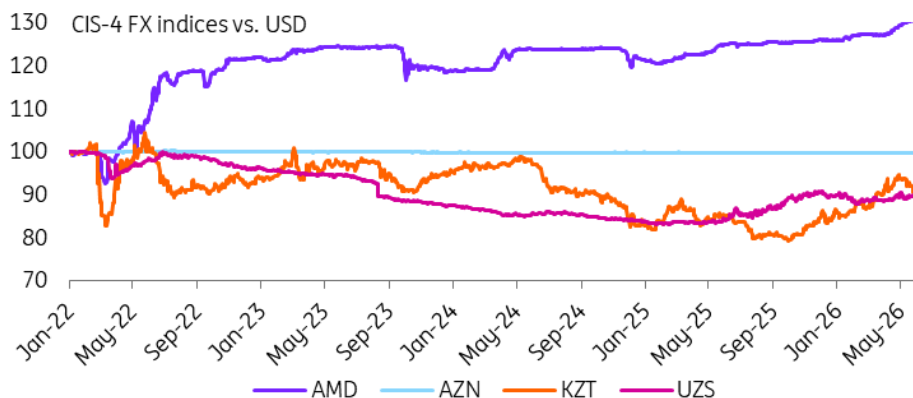
Azerbaijan: Trade remains the key strength

Azerbaijan remains the main beneficiary of elevated fuel prices, in line with our long-standing view. For now, higher fuel income and broader energy diplomacy remain the key story. The recent news flow points to a continued focus on developing trade channels, as international investments into the country's ACG field are being considered, a 15-year Absheron gas supply deal with Turkey has been signed, and the country's Baku-Supsa route is gauged as Kazakhstan's alternative export channel.

We see our updated global view as a direct boost to Azerbaijan's external and fiscal buffers, with the budget surplus now expected to reach 5% of GDP and the current account to total 11% of GDP in 2026. Meanwhile, a relatively high exposure to CPI

contagion from trading partners and lagging GDP activity growth remain factors to watch.

Even fuel importing CIS countries have shown FX resilience to Middle East tensions



Source: LSEG, CEIC, national sources, ING

Kazakhstan: Real rates remain high despite recent cut

Higher oil prices are supportive of Kazakhstan’s current account and budget as well, but the more important story is domestic. Despite the recent correction, the outlook for the tenge still appears to be supported by non-oil export proceeds and portfolio inflows, which should help cushion imported inflation risks. This matters because stronger FX, combined with still-high real rates, lowers the need to turn more hawkish even as the global inflation backdrop worsens.

After last week’s surprising 100bp cut, the next decision is more likely to be a hold, but the scope for further easing still exists in the medium term, in our view, especially if KZT remains supported by trade and capital flows.

Uzbekistan: Constructive view on UZS reaffirmed, rate outlook improved

Uzbekistan’s domestic story continues to improve. The restart of gold exports since April, together with portfolio inflows linked to the privatisation pipeline and improved sovereign rating prospects, is supporting the soum again. UZS has strengthened by around 1% since the outbreak of the Iran war despite a 15-20% correction in the gold price. Combined with apparent fiscal consolidation, this has helped push the inflation rate down by 1.8ppt since the start of the year to 5.5% year-on-year in May.

In our view, there is room for the Central Bank of Uzbekistan to cut the policy rate from 14.00% at next week’s meeting, contrary to global trends.

FX: Cyclical dollar bullishness takes over

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After much discussion about a structural decline in the dollar last year, investor sentiment is now swinging towards a cyclical dollar rally. Bearish flattening of the US yield curve is once again the dominant theme, but this is not 2022, and the dollar does not have to rally that far



Investor sentiment is shifting back towards a cyclical dollar rally as markets price a more prolonged period of tighter US monetary conditions

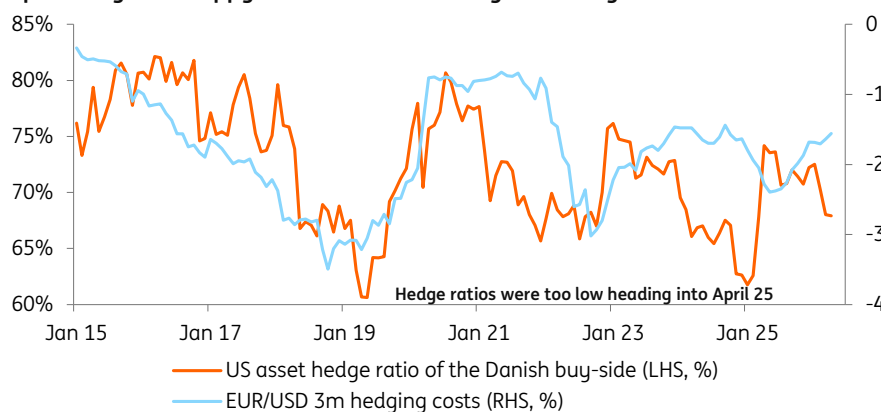
Structural factors postponed

A year ago, shortly after the 'Liberation Day' tariffs in April, the dollar was licking its wounds after a 12% year-to-date decline. At that time, evidence pointed to the European buy-side having been very under FX-hedged on their US investments and being forced to raise their hedge ratios in a hurry. There was also much discussion about a structural loss of confidence in the dollar and the loss of its safe-haven status.

On the subject of hedge ratios, the latest data from the Danish pension fund industry once again points to a European buy-side running dollar hedge ratios below levels which could normally be expected with respect to hedging costs. During March and April this year, dollar hedge ratios were pared back to the 68% area – well below the 73% level which would normally be expected given the cost of hedging US risk back into euros.

This suggests that the buy-side is once again happy to run dollar FX risk. Far from structural factors triggering an over-hedged position, the European buy-side is again drifting back towards under-hedged positions in the dollar.

European buy-side happy to run low dollar hedge ratios again



Source: Danish Central Bank, LSEG

Cyclical factors in play

We had taken a position over the last year questioning the calls for a structural decline in the dollar. None of the data really supported that contention, whether it be the currency share in FX reserve portfolios, transaction preferences, FX preferences for debt issuance or indeed, foreign holdings of US assets.

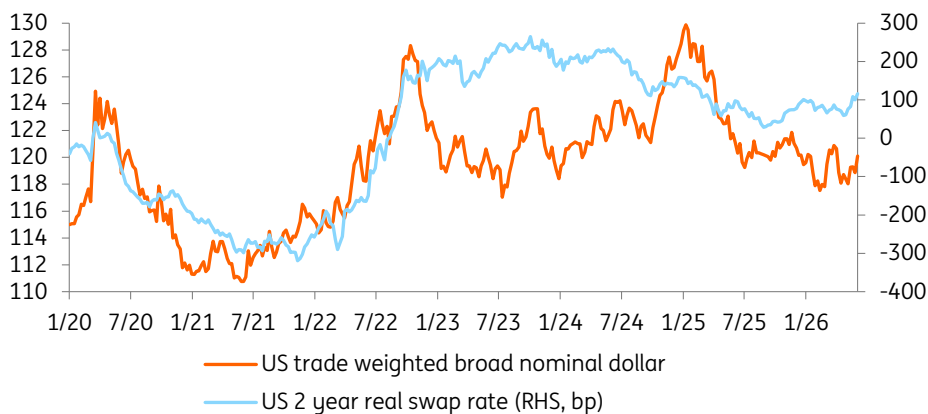
Instead, we felt the cyclical story would again dominate – and that cyclical story has undergone a substantial reversal over the last six to eight weeks. Far from the benign environment of bullish yield curve steepening in the US as the Federal Reserve prepared to cut rates back to neutral at 3.25%, markets have witnessed bearish flattening on the assumption that the Fed will need to apply the monetary policy brakes after all.

That cyclically bullish dollar story looks set to dominate over the coming months as the Fed rides out the inflation spike at a time of stable employment. The fact that we are pushing our call for a Fed rate cut back from this December and deep into 2027 is clearly going to create some headwinds to EUR/USD. Additionally, higher energy prices through the rest of 2026 – especially our call for a belated pick-up in natural gas prices – mean that we have to cut our EUR/USD forecast profile.

That means EUR/USD could be pressured into the 1.13/14 region over the coming months, and that any pick-up into year-end could lack momentum. And any bullish momentum for EUR/USD could in fact be postponed until next spring/summer if the Fed really is able to bring rates lower at that time. Instead of a year-end 2026 forecast of 1.20, EUR/USD could be struggling to make it much above the 1.16/17 area.

But we certainly are not looking for the kind of Fed tightening cycle seen in 2022 nor the magnitude of the spike in natural gas prices seen in that year either. That means EUR/USD does not need to trade aggressively lower. Some defensive European Central Bank tightening is also providing some defence to the euro.

US real rates moving higher - but this is not 2022



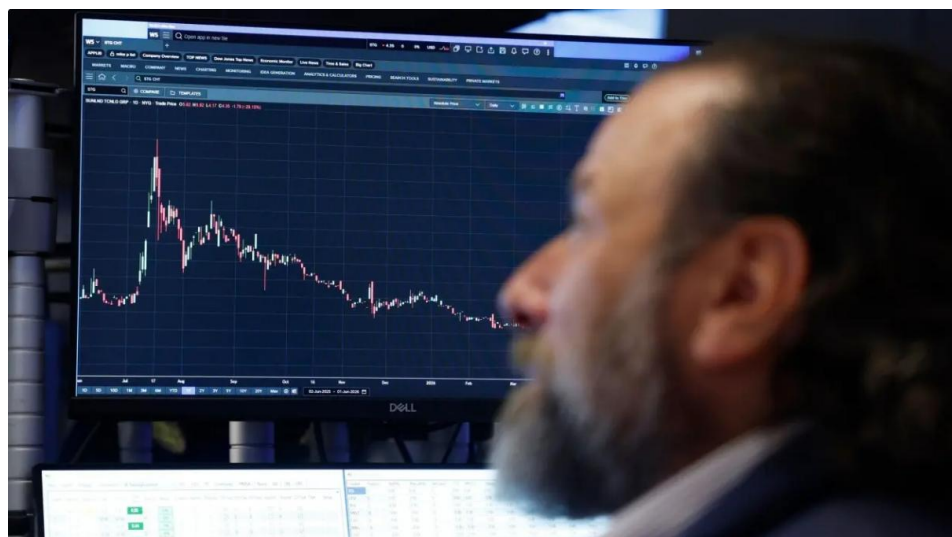
Source: LSEG, ING

Rates: Dealing with the rate hike narrative

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We're less aggressive than the market on rate hikes, but for now, it's best to position for the maintenance of material rate hike risks. Delivery of hikes is important, but not deterministic, as the mere discount for hikes can be just as impactful. At the same time,



The market discount for hikes matters as much as actual delivery

The market is discounting a series of hikes, but also signalling that the ECB can't go too far

The market discount for rate hikes has intensified, and the European Central Bank is set to validate part of that discount later today (25bp rate hike expected, the first hike in more than two and a half years). The market discount has the deposit rate trending to the 2.75% area within the next 12 months. While we are doubtful that the ECB will deliver all of these hikes, from the perspective of mapping out the rates curve, it actually does not matter much. What matters is where the front end is pitched, which is driven by the market discount for hikes.

Bottom line: the eurozone rate curve is initiated at around 2.75%, and longer tenors are built on top of that, e.g. the 2yr Euribor rate is bang on 2.75% currently. When we look at the 10yr rate, we find it trading at or around 3%. That's actually quite a tame valuation considering eurozone headline inflation is running at 3.2%. It's for this reason that we continue to expect eurozone 10yr rates to continue to hug the 3% area, with, if anything, a tendency to edge higher. In fact, we think it should remain above 3% for the coming months at least.

We also find that the 5yr part of the curve is trading a tad rich, meaning the 5yr rate trades below the interpolated line drawn between the 2yr rate and the 10yr rate. Typically, when the 5yr trades rich to the curve, the market is more tuned towards cuts than hikes. The latest 5yr 'richness' tells us that, while the market may be discounting rate hikes, the structure of the curve tells us that subsequent rate cuts are also being contemplated.

How to interpret this? Well, either the ECB does not hike as much as the market discounts (ING baseline view), or if they do, there would be the need for a bigger subsequent unwind.

The 10yr Treasury yield to hold in the 4.5% area, with upside tests a genuine risk

In the US, there is no rate hike discounted for the June or July meetings. It's from the September meeting that a rate hike discount really builds, and even then, it's a 50:50 call. It's the December meeting that has a full 25bp hike discounted, and the market attaches a high probability to that hike being delivered as early as the October meeting. Essentially, this pitches the front end of the curve in the 4% area. We build the curve from here.

The 10yr SOFR rate, at 4.15% currently, is in fact quite tame against that. And especially when we consider that US headline consumer price inflation is also in the 4% area. Interestingly, the structure of the US curve also features the 5yr rate trading through an interpolated line from the 2yr to the 10yr rate. This 'rich' 5yr valuation is consistent with either no hike from the Fed at all, or if the Fed does hike, it will subsequently find itself cutting quite quickly thereafter (a matter of months).

Given this, and adding the notion that an elevation in real yields has a longer-term rationale centred on the tech revolution (arguably tenuous, but there; see more [here](#)), we're comfortable with the 10yr yield hugging the 4.5% area. That's the type of environment we anticipate for the coming months, in fact with some upside risks. Inflation expectations are quite tame in the 10yr, and have room to edge higher in the coming months should the Strait of Hormuz remain closed.

Last month, we identified the 4.75% area as a risk for the 10yr yield, and we stick with that (we've already spiked to 4.7%). The baseline view, though, is we hug the 4.5% area and trade around that.

GDP forecasts

QoQ% Annualised (avg)										
	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2026F	2027F	2028F
US	3.0	1.7	1.7	2.0	2.0	2.2	2.1	2.1	2.0	2.1
Japan	1.2	0.4	1.2	0.8	1.2	1.2	0.8	0.7	1.0	0.9
Germany	0.1	0.8	1.3	1.6	1.9	1.9	1.9	0.6	1.5	1.8
France	-0.4	0.6	0.6	0.8	1.0	1.2	1.2	0.4	0.8	1.2
UK	0.6	-0.4	0.1	0.9	1.4	1.5	1.5	0.9	0.8	1.5
Italy	0.0	0.7	0.2	1.0	1.1	1.0	1.0	0.7	0.8	0.7
Canada	2.3	1.4	1.6	2.2	2.0	2.1	2.0	0.7	1.9	1.9
Australia	2.0	1.6	1.5	2.1	2.1	2.1	2.1	1.9	2.1	2.0
Eurozone	0.4	0.5	1.2	1.4	1.5	1.5	1.4	0.3	1.2	1.2
Austria	0.4	1.0	1.4	1.4	1.5	1.6	1.5	0.8	1.3	1.2
Spain	1.0	1.7	1.3	1.8	2.1	2.0	2.0	2.2	1.7	-
Netherlands	1.1	0.3	1.2	1.6	1.4	1.4	1.6	1.0	1.3	1.5
Belgium	0.0	1.2	1.4	1.2	1.2	1.2	1.2	0.7	1.2	1.2
Greece	0.7	1.2	1.2	1.5	3.4	2.1	1.7	1.6	1.6	1.7
Portugal	1.3	1.3	1.6	2.0	2.0	2.0	2.0	2.0	1.8	-
Switzerland	0.2	0.6	1.2	1.2	1.6	1.6	1.2	0.8	1.2	1.5

Emerging Markets, (YoY% growth)										
	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2026F	2027F	2028F
Bulgaria	2.8	2.7	2.5	2.5	2.5	2.5	2.7	2.8	2.5	-
Croatia	3.1	3.0	1.7	1.6	1.7	1.8	1.8	2.7	1.7	-
Czech Republic	2.2	1.9	1.8	2.3	2.4	2.5	2.5	2.0	2.4	2.5
Hungary	1.2	1.3	1.7	1.4	2.8	2.9	3.5	1.5	2.6	2.9
Poland	3.3	3.4	3.3	3.5	3.0	2.9	2.9	3.4	3.2	3.0
Turkey	2.8	2.9	3.2	3.5	3.9	4.0	4.4	2.9	4.0	4.0
Serbia	3.0	3.1	2.6	2.8	3.2	3.3	3.6	3.0	3.2	-
Azerbaijan	2.0	3.0	3.3	3.0	3.5	2.0	3.5	2.0	3.0	2.3
Kazakhstan	5.0	5.5	6.5	5.5	5.0	4.5	4.0	5.0	4.8	4.5
Russia	0.5	1.0	0.8	1.5	1.0	0.0	0.5	0.5	0.8	1.3
Uzbekistan	7.3	7.0	7.0	6.5	6.3	6.7	6.5	7.5	6.5	6.0
Ukraine	1.6	1.5	1.8	4.2	2.4	2.5	2.8	1.0	3.1	3.4
China	4.6	4.7	4.5	4.0	4.8	4.4	4.3	4.7	4.4	4.2
India	6.5	6.2	6.4	6.5	6.5	6.5	6.5	6.7	6.5	6.8
Indonesia	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.0	5.0
Korea	3.4	2.1	2.7	1.4	1.6	2.0	2.0	3.0	1.8	1.9
Philippines	3.5	5.5	6.0	5.5	5.5	5.5	5.5	4.5	5.5	6.0
Singapore	4.0	2.8	1.8	2.7	2.7	2.7	2.7	3.7	2.7	2.5
Taiwan	12.1	10.6	5.6	4.7	5.2	6.4	7.6	10.5	6.0	5.2

Norway: Forecasts are mainland GDP
 Source: ING estimates

CPI Forecasts (pa)

YoY% (avg)	1Q26	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2026F	2027F	2028F
US	2.7	4.0	4.4	4.3	3.7	2.3	1.7	1.8	3.9	2.3	1.9
Japan	1.4	1.7	2.0	2.0	2.5	2.5	2.2	2.0	1.8	2.3	2.1
Germany	2.2	3.3	4.3	4.2	4.1	3.0	1.9	1.8	3.5	2.7	1.7
France	1.1	2.8	2.9	3.0	2.5	1.7	1.2	1.4	2.5	1.7	1.4
UK	3.1	3.0	3.7	4.1	4.1	3.7	3.0	2.5	3.5	3.3	1.9
Italy	1.4	3.2	3.9	4.0	3.7	2.4	1.9	1.8	3.1	2.4	1.9
Canada	2.2	3.0	3.4	2.8	2.2	1.7	1.9	2.1	2.8	2.0	2.2
Australia	4.1	5.0	4.6	4.6	3.5	3.5	3.2	3.2	4.6	3.4	3.0
Eurozone	2.0	3.2	4.0	3.9	3.6	2.1	1.9	1.9	3.3	2.4	2.1
Austria	2.5	3.7	3.8	3.7	3.5	2.2	2.0	1.9	3.4	2.4	2.1
Spain	2.7	3.6	3.8	4.0	3.5	2.4	2.2	2.2	3.5	2.6	-
Netherlands	2.3	3.0	3.3	3.4	3.6	3.0	2.6	2.4	3.0	2.9	2.0
Belgium	1.4	4.2	4.5	4.3	3.9	3.1	2.4	2.1	3.6	2.9	2.1
Greece	3.1	4.6	4.7	4.5	4.3	2.7	2.5	2.2	4.2	2.9	2.3
Portugal	2.2	2.9	2.9	3.3	2.7	2.1	2.0	2.0	2.8	2.2	-
Switzerland	0.2	0.7	1.2	1.0	0.8	0.6	0.8	0.8	0.8	0.7	0.8
Bulgaria	3.3	3.8	2.3	2.5	2.5	2.3	2.5	2.6	3.0	2.5	-
Croatia	3.8	4.3	3.4	3.4	2.5	2.6	2.7	3.1	3.7	2.7	-
Czech Republic	1.6	2.2	2.0	2.5	2.9	2.4	2.3	2.3	2.1	2.5	2.2
Hungary	1.8	2.5	3.3	4.4	4.8	4.7	3.7	3.1	3.0	4.4	2.9
Poland	2.4	3.1	3.2	3.5	3.1	2.7	2.5	2.7	3.1	2.7	2.7
Turkey	30.9	32.5	29.8	29.0	25.9	22.5	21.4	21.0	30.9	22.9	20.1
Serbia	2.6	3.0	2.6	3.4	3.3	3.5	3.8	4.2	3.0	3.8	-
Azerbaijan	5.7	5.5	5.4	5.6	5.5	5.6	5.5	5.5	5.5	5.5	5.3
Kazakhstan	11.6	10.4	9.7	10.0	10.2	10.3	9.9	9.3	10.4	9.9	8.4
Russia	5.9	5.5	5.2	5.5	4.5	4.9	5.0	4.7	5.5	4.8	4.3
Uzbekistan	7.2	6.0	5.7	7.0	7.5	8.0	8.0	7.3	6.5	7.7	6.5
Ukraine	7.9	7.5	8.5	9.0	8.0	7.3	6.1	6.1	8.2	6.9	4.9
China	0.8	1.3	1.7	1.5	1.5	1.4	1.3	1.1	1.3	1.3	1.5
India	3.1	4.0	4.8	5.5	4.5	4.8	4.8	5.0	4.4	5.0	4.5
Indonesia	3.9	2.7	2.7	2.7	2.5	2.5	3.0	3.0	3.0	2.5	2.5
Korea	2.1	3.1	3.3	2.9	2.4	1.8	1.8	2.2	2.8	2.0	2.1
Philippines	2.8	7.4	7.2	6.5	3.5	3.5	3.5	3.5	6.0	3.5	3.0
Singapore	1.5	2.2	2.4	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.0
Taiwan	1.2	2.2	2.6	2.5	2.2	1.7	1.3	1.5	2.1	1.6	1.8

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

Source: ING estimates

Oil and natural gas forecasts (avg)

	1Q26	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F	3Q27F	4Q27F	2026F	2027F	2028F
Brent (\$/bbl)	78	103	110	100	90	86	81	77	98	84	70
Dutch TTF (EUR/MWh)	40	52	60	70	60	46	43	43	56	48	31

Source: ING estimates

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