ING global outlook 2022

2 December 2021

Three calls for countries, markets and sectors as Omicron delays recovery

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The Omicron storm in our crystal ball

Not again. Financial markets showed a very human reaction to the Omicron variant, selling off assets as lockdown fears mounted. It's too early to come up with anything other than an amateur's view on what happens next with Covid. But as we look at the most important trends for next year, it reminds us that the pandemic is far from over

Omicron could delay the 2022 global recovery

Just when we thought we were through the worst, along comes the Omicron variant. And that skews at least the short-term outlook for the global economy in 2022. ING's Carsten Brzeski looks at what it all could mean

It's a storm in our crystal ball. In our base-case scenario, we assume that Omicron will not be a game-changer and rather short-lived, at best motivating some European governments to tighten restrictions; something they'd been considering anyway in the current fourth wave of the pandemic. And even if parts of the world were to go into lockdown, the experience of 18 months of crisis shows economies can adapt. With every single lockdown, the adverse economic impact becomes weaker.

In a best-case scenario, Omicron could even speed up herd immunity, at least if it remains a contagious but very mild variant. Needless to say, we can all imagine how the worst-case scenario would look. Interestingly, major central banks seem to be ignoring this new uncertainty. Fed Chairman Jay Powell just retired the word 'transitory' when it comes to inflation, signalling a faster taper and consequently earlier rate hikes. I hope that 'transitory' ends up in the same retirement home as 'holistic', 'upstream' and 'downstream' or 'multifaceted'. These are words from a central bankers' dictionary no one really needs.

It was always a bit strange to call inflation 'transitory', transiting to where or for what reason? 'Temporary' would have been a better choice. With the Fed now fearing longer inflationary pressure and the ECB still being in 'team transitory', inflation will remain a big issue in 2022. In our view, inflation will come down but not as quickly as that team expects. It will take until the end of 2022 before inflation again approaches 3% in the US and 2% in the eurozone. We expect the global economy to gain momentum at the latest by the European spring. That means central banks will have very few options other than to taper and to start, or start thinking about hiking rates.

When it comes to fiscal policy, 2022 will have to prove that our hopes and expectations that governments will shift from emergency measures to public investment become a reality. There have been promising developments this year, not least with President Biden's infrastructure programme, Europe's recovery plan, the new German government's agenda and a realisation that the 'green' transition needs to be stepped up. The era of accommodative fiscal policies began some time ago; some even call it fiscal dominance.

Returning to our crystal ball in early December 2021, I have a strong déjà-vu feeling from last year when we were looking at a still fairly bleak future. But then I think that we know so much more about this virus and how governments, central banks and economies can quickly adapt. So, we're still optimistic. And we're sure that 2022 should be a year of further policy rotation as those central banks try to find the exit door from their emergency policies while governments shift from crisis stimulus to the green transition and structural improvements.

And perhaps our stormy crystal ball is simply one of those kitsch snow globes; shaking them creates a tempest. But every storm in every globe does every time find calm. Eventually.

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Three Omicron scenarios for the global economy

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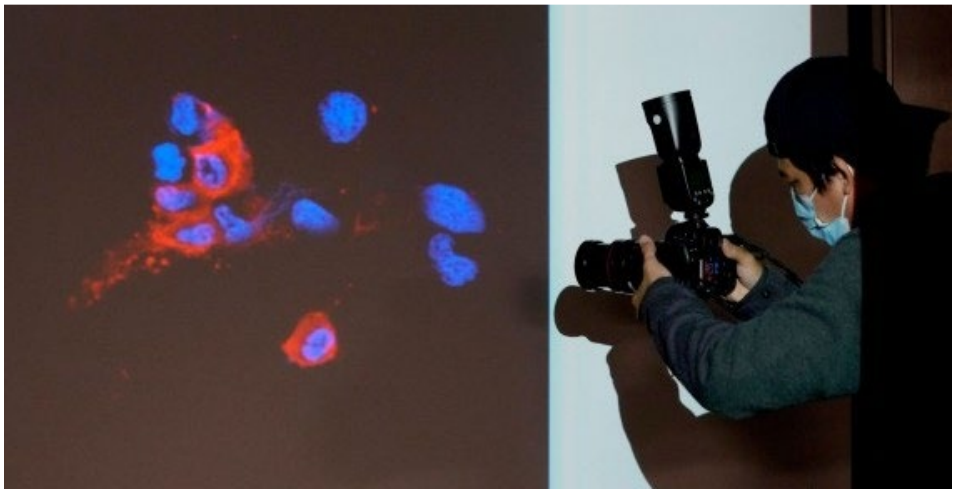
Nobody knows if the new variant will be more transmissible or deal a significant blow to the current vaccines. These are best and worst outcomes for the global economy



Immunofluorescence staining of Omicron infected cells in Hong Kong

Very little is known about the new Omicron variant, at the time of writing. Data is scarce, but we know what happens next depends heavily on two key questions. First, is the virus more transmissible, as some early reports have hinted? And second – perhaps more importantly for the economic outlook at least – how resistant is the new variant to vaccines and pre-existing immunity?

We've mapped out three scenarios based on the answers to those questions

ING's three scenarios for the global economy and markets

	Omicron assumptions				
	Faster spread?	**Vaccines less effective?**	**More serious illness?**	**Economic impact**	**Forecasts**
1 Optimistic Omicron	**No** Delta stays dominant *or* transmission advantage minimal	**No** Vaccines work well, especially against serious illness	**No** Milder illness aids path to normality (less relevant if Delta still dominant)	Recovery continues. Central banks tighten/taper further in December	2022 growth: US **5.8%** EZ **4.2%** End-2022 EUR/USD **1.05**
2 Base case Omicron 'difficult' not 'disaster'	**Yes** Increases pressure further where gaps in vaccination exist	**Yes – a bit** Reduced but reasonable protection against serious illness	**No** Possibly milder but not the dominant driver of the scenario	Winter growth slows. Central banks pause but 2022 tightening largely on track	2022 growth: US **4.4%** EZ **3.8%** End-2022 EUR/USD **1.10**
3 Omicron a significant blow	**Yes** Increases pressure further where gaps in vaccination exist	**Yes – a lot** Serious dent to protection increases hospital pressure in Q1	**Yes** Contrary to early signs, new variant is more deadly than Delta	Lockdowns hit GDP (though less than 2021). Central bank tightening stops	2022 growth: US **1.3%** EZ **2.1%** End-2022 EUR/USD **1.20**

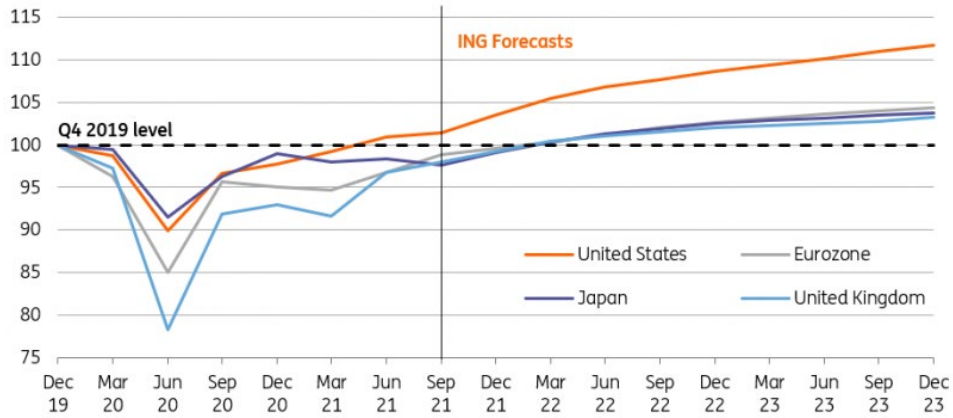
Source: ING

1 Scenario 1: Optimistic Omicron

Omicron proves to be a 'storm in a teacup'. Either that's because it can't gain a foothold over Delta – something we saw with the Beta variant earlier in the year – or indeed because it lowers the threat level of Covid-19 by lowering the chances of severe disease.

This looks similar to our previous base case, and here central banks press on with their tightening plans. The Fed accelerates its taper in December and gears up for three rate hikes in 2022. Sporadic Delta lockdowns slow eurozone growth over Christmas and early into the new year, but the situation improves through the spring. The European Central Bank begins to taper amid growing wariness about inflation. The Bank of England kicks off its rate hike cycle this month.

Scenario 1 - Level of real GDP (Q419 = 100)



Source: Macrobond, ING

2 Scenario 2: Omicron 'difficult' but not a 'disaster'

This is loosely our base case. It assumes that early signs are correct that Omicron has a transmission advantage. That means a greater share of the population needs immunity to keep the virus under control. In practice, this threshold was already very high under Delta, but countries with lower vaccine take-up in vulnerable groups face a greater challenge.

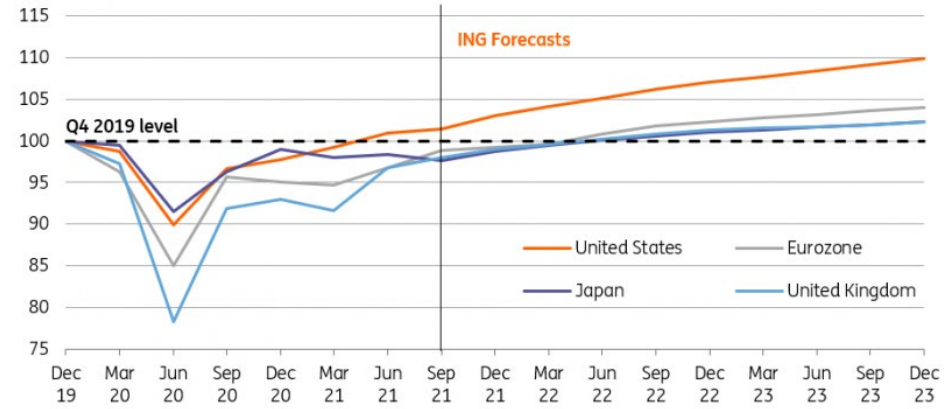
Vaccine efficacy also takes a hit, though as we saw with the Delta variant, the current jabs still provide strong (if reduced) protection against severe disease, even if they're much less likely to stop you from getting Covid altogether.

For the world economy, experience from the Delta wave last summer offers some clues. Omicron doesn't help Europe at a time of spiking cases and offers more justification for more aggressive action in the run-up to Christmas. But high vaccine rates and the arrival of boosters mean the continent (including the UK) comes off more lightly than other parts of the world. Consumer 'virus confidence' (eg appetite for socialising) need not take a permanent hit assuming vaccines still offer some reasonable protection.

The effect might be slightly more noticeable in the US, even if the bar for lockdowns is much higher. Lower vaccine rates (notably among vulnerable groups) could mean that confidence slips and activity levels take a hit, as we saw with Delta. Meanwhile, in Asia, Omicron stalls the move away from zero-Covid, especially in China. The recovery of supply chains is further delayed.

Central banks are likely to 'wait and see' in December, not least because it may be weeks before we know what we're dealing with. But inflation remains front and centre, so we should still expect some tightening of monetary policy next year

Scenario 2 - Level of real GDP (Q419 = 100)



Source: Macrobond, ING

3 Scenario 3 – Omicron deals significant blow to the recovery

This is the scenario markets were first worried about when the Omicron news first broke. Vaccines are significantly worse at stopping severe disease, making Europe and the US especially vulnerable to a fresh increase in hospitalisations, versus our other scenarios. We're also assuming Omicron ends up being more deadly too.

Countries that have relied most heavily on vaccines so far tighten restrictions. Europe returns to lockdowns in the first quarter, as do parts of the US.

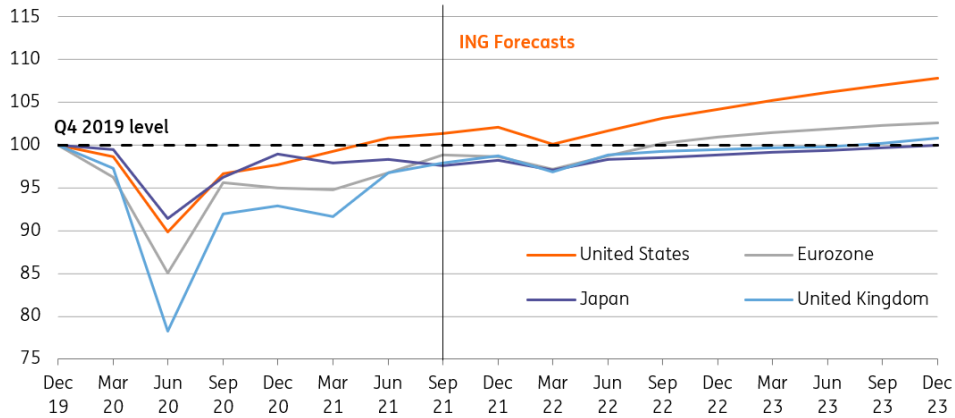
That said, the economic hit is unlikely to be quite as bad as last winter. Most scientists agree that the current vaccines will still do something, even if considerably less than against Delta. And we know with reasonable certainty that a new vaccine can be made, albeit not rolled out much before the summer in large numbers. New anti-viral treatments will help too.

Protests in Europe also hint at some 'virus fatigue', making it politically challenging for governments to maintain strict restrictions for as long as last year. The second wave in early 2021 also showed that businesses are more geared up for tighter restrictions than when Covid first arrived. This is probably even more true now.

In short, we expect a dip in first-quarter GDP in the major developed economies, albeit not as deep as in early-2021. But the subsequent recovery could be gradual. A vaccine-resistant Omicron acts as a wake-up call that without more widespread vaccine manufacturing capability, future variants could deliver similar blows in subsequent winters.

Firms begin to factor this into their business decisions, limiting their appetite to invest. Consumers look to keep savings levels higher, in anticipation of future turbulence. Overall growth momentum proves more lacklustre through 2022, compared to the rapid rebounds we saw in Q2/3 2021.

Scenario 3 - Level of real GDP (Q419 = 100)



Source: Macrobond, ING

At a glance: The world right now

From faster Fed tapering to zero-Covid policies in Asia, we look at the latest developments in the global economy and what they mean for our forecasts

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1 US: Fed on its way to faster taper

On the back of new virus fears with the Omicron variant, some consumer caution is likely even if there are no plans at this stage for new government restrictions. Assuming this is a scare rather than a more serious lockdown story, rising incomes and wealth should facilitate strong consumer spending while business surveys and government infrastructure plans point to an improving investment outlook. Easing supply chain strains should also allow firms to ramp up production.

Reopening price pressures are giving way to more entrenched inflation with tight labour markets prompting sharp rises in employment costs. In an environment of strong demand, companies have pricing power so can pass cost increases onto customers with relative ease.

Assuming Omicron fears start to fade, the growth and inflation backdrop justifies the Federal Reserve bringing QE tapering to an early conclusion, increasing the likelihood of three rate hikes in 2022.

2 China: Zero Covid to remain a key theme

The recent deluge of policy announcements from the Chinese government has at least slowed. These continue to affect a wide range of areas, including new rules for deleveraging the real estate sector and data compliance on technology companies. Meanwhile, China's tough 'zero-Covid' approach to the pandemic will continue, spurred on by the discovery of the Omicron variant. This approach limits people's movements even during the long holidays. Both inbound and outbound tourism will continue to be curtailed. Strict local lockdowns where any outbreak is concentrated will continue.

The government will rely on investment to support growth, partially filling the gap left by investment previously undertaken by real estate developers. Consumption too will play a major role while manufacturing will depend on export demand, freight rates, and the availability of semiconductors.

3 Eurozone: Another difficult winter

Even before the appearance of the Omicron variant, the number of Covid-19 infections in the eurozone was rising rapidly, pushing several member states to reintroduce containment measures, with Austria even returning into full lockdown. As we expect more countries to tighten measures, growth is likely to slow significantly in 4Q and 1Q 2022, with a negative growth figure in one quarter not impossible. But on the back of booster shots and antiviral drugs, a strong recovery might follow, potentially leading to 3.8% growth in 2022.

Inflation is expected to drop below 2% towards the end of 2022, with the average for the entire year staying above the ECB's target. As the medium-term inflation outlook has become more uncertain, the ECB is likely to be more cautious in its forward guidance. The Pandemic Emergency Purchase Programme will end in March, but a small transitional programme could be introduced to smooth the tapering process. We now see a first rate hike at the end of the first quarter of 2023.

4 Rest of Asia: No trouble-free return to normality

The biggest improvement to the outlook for non-China Asia is in the progress being made with vaccinations. Only the Philippines and Indonesia still lag with less than 50% of the population at least partially vaccinated. 2022 should see all economies of the region rising to internationally comparable levels of vaccination.

However, as Singapore has shown, even very high levels of vaccination do not offer complete protection. And that may be lessened further if the new omicron variant proves vaccine resistant. With overseas rates of Covid infection often lower than those in Asia, some further progress in re-opening international travel is possible, though this view could be heavily challenged by the characteristics of the latest variant. Any recovery in tourism we do see would go a long way to reviving SE Asia's economies. A slower China remains a concern for NE Asia's industrial economies.

Domestic recovery could also bring complications. Current accounts are likely to worsen as imports rise faster than tourism receipts rebound. Increased demand for credit may also clash with rising inflationary pressures and less supportive central banks. A return of ratings pressure may also mean that a return to normality, if that is what we get in 2022, is not trouble-free for Asia.

5 UK: A December delay for the Bank of England

Omicron's arrival and all the associated uncertainty look set to delay the Bank of England's December rate rise into the new year. November's surprise pause showed policymakers are happy to wait a bit longer, even if economic data has been reasonably encouraging. Redundancies have not increased following the end of the furlough scheme in September, while inflation has continued to surprise to the upside.

The economic recovery has slowed, but decent retail figures and a gradual increase in transport usage as offices return shows it hasn't ground to a complete halt. Cost of living increases and tighter fiscal policy will keep growth in check into 2022, though investment looks like a bright spot for next year - virus-depending of course. The UK government has stepped back from the brink of triggering Article 16 of the Northern Ireland agreement, at least for now. The UK-EU row is far from over though, and relations could yet deteriorate further next year.

6 CEE caught between a rock and a hard place

Growth prospects in the Central and Eastern European countries (CEE) remain sound but dependent on easing global supply chain disruptions - these affecting more the automobile-based Czech Republic and Hungary rather than the more diversified Polish economy. At the same time, record-high inflation will dent households' real incomes and consumption. CEE consumers will have to get used to elevated energy prices, while their central banks will have to get rising inflation expectations back under control. That is why we see terminal rates in the CE3 region at 3-3.5%, with upside potential given that the risk of second-round effects is higher than in developed markets.

The region also has to bear higher import bills and weaker external balances, which will make their exchange rates vulnerable. Protecting incomes against accelerating inflation via social transfers (Poland) or huge minimum wage hikes (Romania, Hungary) may add oil to the fire. Given low vaccination rates, Delta and possibly Omicron variants will make CEE policy choices even more complicated.

7 Rates: Still waiting for the push

More ups than downs were seen for market rates through 2021. The overall 60bp rise in the US 10yr has re-positioned it close to the 1.5% area, well clear of the 1% area that had been briefly considered earlier in the summer. The move in the eurozone 10yr, while not as marked, has arguably been more dramatic. At the start of the year it was deeply negative, at -30bp. It's now around (plus) 15bp, a negative to positive flip.

For 2022, we expect market rates to push higher still. The US 10yr should target a 2% handle, and for the eurozone, the 50bp level should be breached. Also, expect a bigger uplift from front end rates, in recognition of the rate hiking job to be done by the Fed. Even with the ECB on hold, eurozone front rates will push higher, too. Curves will be pulled up from both ends.

8 FX: Omicron deflates dollar

Omicron's re-pricing of global growth prospects has not spared currency markets. The unpopular funding currencies of the Japanese yen, Swiss franc and the euro have found new friends, while the pro-growth commodity currencies have all suffered in line with flatter yield curves. The net effect has been to knock trade-weighted measures of the dollar roughly 1% off their highs of the year.

That the dollar is net down on the news of a new variant is a function of the re-pricing of Fed policy. Uncertainty around Omicron and the easing of balance sheet adjustment pressures could keep the dollar soft into year-end. Into 2022, however, and assuming that the Omicron news follows the more benign path in our baseline, the dollar should be rallying again, and we retain a year-end 2022 EUR/USD target of 1.10.

Three calls for the US

Inflation, the Fed and political pressures will dominate the United States' economic trajectory next year

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President Biden giving a TV update seen on screens in the New York Stock Exchange

1 Inflation to stay above 3% throughout 2022

Supply chain strains, labour market shortages and the arrival of corporate pricing power have pushed inflation to a 30-year high. The Federal Reserve expects these influences to fade through 2022, but we are not so sure. Firms have millions of job vacancies to fill so competition to find workers with the right skill set will remain intense. Demand-supply issues are a global phenomenon with semiconductor producers warning shortages could last through 2023. In an environment of strong demand, record order backlogs and ongoing supply constraints, cost increases can continue to be passed onto customers.

2 Federal Reserve to act harder and faster

Omicron obviously warrants caution, but our base case remains for a strong year for economic growth as income and wealth gains propel consumer spending. Together with strong private and public investment growth, and the desire to boost inventory levels, 4%+ GDP growth is achievable. With inflation likely averaging something similar, the case for an early end to QE and a minimum of two interest rate increases looks strong.

3 Biden's Blues

The Democrat party is already looking nervously towards next November's mid-term elections. Despite overseeing a strong economy, rising asset prices and delivering a major infrastructure plan, President Biden's approval rating is deep in negative territory. Lingering Covid worries and growing voter anxiety over the rising cost of living mean that the Democrats are lagging well behind Republicans in national polling. All members of the House of Representatives are up for re-election, as are 34 of the 100 seats in the Senate (14 of which are currently Democrat, 20 Republican). Should the Democrats lose control of Congress, President Biden's legislative aspirations for the second half of his term will be curtailed and he would be forced to focus more on trade policy and international relations.

Eurozone: Our three calls for 2022

From fiscal reforms to wage growth to inflation; these are three significant challenges for the eurozone in 2022

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Eurogroup President Paschal Donohoe, top, European Commission President Ursula von der Leyen, bottom left, and ECB President Christine Lagarde

1 Still no fiscal reforms but silent power shift towards Brussels

The long-awaited discussion on how to modernise the eurozone's fiscal rules will gain momentum in the second half of the year after the French presidential elections. The new German government has kept the door open to some reforms, even if we warn against too much optimism. There have hardly been any coalition agreements in any eurozone country in the past, spelling out upfront a roadmap to eurozone reforms. On substance, we don't expect changes to the numerical fiscal rules but a shift towards a more pragmatic country-specific approach, balancing between debt sustainability and the need for investments. In this setup, the European Commission will play a more decisive and prominent role. In the meantime, the frontloading of investments planned by the new German government will find many eurozone followers, postponing any austerity to 2023.

2 Expect a rebound in wage growth for 2022

The pandemic has killed off the modest rise in wages seen in 2019 resulting in negotiated wage growth falling to an all-time low in the third quarter of 2021. However, this is where that low wage growth stops. Labour shortages have returned far quicker than expected, improving workers' bargaining power. The soaring inflation rate has already and will continue to result in higher wage demands from unions, while countries with inflation indexation will automatically see wages rise. Finally, strong profits give corporates room to increase salaries. Admittedly, union power has weakened in recent years and differences between countries are big in job market pressures, which could dampen the average jump in nominal wages. Still, we expect an increase to 3-3.5% in 2022, which is above the peak seen in 2019.

3 Inflation will fall below 2%, but the ECB's medium-term target will be met

We agree with the ECB that the disappearing effect from the German VAT increase in 2021, an improvement of supply chain disruptions and a more favourable base effect for energy prices are likely to push inflation towards 2% in the second half of 2022. However, the output gap in the eurozone will turn positive next year and will be significantly marked in 2023 and beyond. In this environment we expect wages to increase more rapidly (see above) and some demand-driven price pressures will emerge, especially as services will be in a good position to increase prices. On top of that, the green transition will, at least in the first few years, lead to structurally higher energy prices. The ECB's staff forecasts from December 2022 are likely to show an inflation rate of around 2% over the forecasting horizon, a backdrop that would justify an initial rate hike in the first half of 2023.

Three calls for the eurozone's big three

German growth, French uncertainty, Italian doubts; here are our three calls for each of these major eurozone countries

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French President Emmanuel Macron, left, and Italian Premier Mario Draghi

1 Germany: The return of Europe's growth champion

Throughout 2021 the German economy often seemed to suffer more from global supply chain frictions than from the pandemic. Industrial production contracted in two consecutive quarters despite filled order books and low inventories. As a result, Germany ended at the end of growth league tables and many may wonder where the large fiscal stimulus of the last two years has gone.

No worries! Previous government stimulus plus the new government's impressive investment policies will unfold in 2022 and lead to stellar growth performance. As soon as global supply chain frictions start to abate and the fourth wave of the pandemic is behind us, industrial production will strongly rebound, private consumption will start to pick up and investments will flourish and the German economy should stage an impressive comeback as European growth champion 2022.

2 France: Macron likely winner, but unlikely reformer

Macron's re-election at the upcoming presidential elections in April 2022 remains the most probable outcome, despite the uncertainty over his likely opponent in the second round. The subsequent legislative elections in June should also give him a majority as Macron-compatible political forces are already preparing an alliance. Nevertheless, this will be more of a default vote than a real vote of support. In the current hyper-polarised political climate, outright opposition from civil society is expected at any attempt at major reform, just like we saw with the "yellow vests".

Emmanuel Macron will therefore have to navigate an even narrower path to reform France, notably concerning pensions, the public service and the labour market. He can no longer count on the enthusiasm for a fresh new movement as in 2017, as the French population is unlikely to embrace painful reform after years of tough Covid-19 measures impacting daily life. This will make Macron a winner but not necessarily a reformer.

3 Italy: Not a victim of Mario Draghi's success

Under Prime Minister Mario Draghi's leadership, the Italian government has so far broadly delivered on the targets and milestones set within the recovery and resilience plan. Yet, with another 5 years until completion, the plan is still in its infancy and needs continuity. From this perspective, the upcoming presidential elections, due late in January 2022, represent a potentially risky event. As Draghi is often cited as one of the possible candidates, the worry is that his eventual success could mark a break in the reform process, depriving the current national unity government of its crucial aggregator, with a government crisis and snap elections already a possible consequence for 2022.

While acknowledging this risk, we still think the government and its reform agenda will make it until the end of its official term in spring 2023 as no party wants to bear the political costs of being responsible for pulling the plugs and rushing to the polls.

UK: Our three calls for 2022

The Bank of England is set to hike rates by February, though what comes after will be slower than markets expect. Brexit has the potential to get worse before it gets better

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The UK Prime Minister, Boris Johnson

1 Growth to slow on consumer headwinds despite better investment

Growth has slowed in the fourth quarter and it's likely to moderate further over the winter. Consumers – particularly lower earners – face a perfect storm of lower benefit payments, higher taxes and rising energy costs. The Omicron variant would add further pressure given surveys until now have shown consumers more relaxed about leaving home than earlier in the year. It's not all bad though. A renewed return to the office and more global travel would lift the still-depressed transport sector. Investment could return, given solid corporate cash levels and rising confidence. Consumers are still sitting on a lot of accumulated savings, albeit concentrated among higher earners who are more likely to save than spend. Annual growth in the 4.5% region looks likely.

2 Bank of England to move cautiously on rate hikes

A severe Omicron shock aside, it's clear the Bank of England thinks the days of emergency policy are behind us. QE is about to end, and a rate hike is likely by February. After that, policymakers are likely to move more cautiously than markets expect. True, inflation is likely to peak at 5% in April on higher electricity costs. But it's likely to be much closer to target by the end of the year, and below in 2023 (assuming used car and energy prices begin to 'mean-revert'). And with modest residual slack in the jobs market, we're less convinced broad-based wage pressures will become a big enough problem for policymakers to justify taking rates higher than they've been since 2008. Two – or at most three- rate rises in 2022 look likely.

3 Brexit uncertainty to get worse before it gets better

Brexit is on the backburner again, though recent tensions over migration remind us that UK-EU trust is low. There's still a fair chance that the UK government will trigger Article 16 in the new year and rewrite parts of the Northern Ireland agreement. The EU would retaliate, and there's a decent chance Brussels could simply suspend the trade deal – with nine months' notice.

The bottom line is more uncertainty. And even if (a big if, perhaps) we return to 'no deal' territory, the economic impact need not be gigantic. After all, the UK left the single market and customs union months ago, and that's where the biggest economic adjustment costs lay.

China: Our three calls for 2022

The slew of policy announcements in recent months has slowed. The government will rely on investment to drive growth, while tough Covid-19 measures will remain

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A visitor looks at a screen showing Chinese President Xi Jinping, at the Museum of the Communist Party of China in Beijing

1 State-Owned Enterprises to return as the core of investment entity

As intense policy actions are expected to be toned down, the pattern of economic growth should start to return to normal. But this will involve more reliance on State-Owned Enterprises (SOEs) to invest in infrastructure for renewable energy and technology. Private-owned enterprises (POEs) will play a role to facilitate these projects when SOEs contract out work to the private sector.

2 No change to the slight easing of monetary policy

Given that the government will continue to carry out deleveraging reforms, monetary policy is not likely to be relaxed unless it looks like economic growth is at serious risk, and the probability of this is low as the government can control the pace of investment growth. We believe that the likelihood that the People's Bank of China (PBoC) cuts policy rates or the Reserve Rate Requirement (RRR) is small.

But the central bank can also release liquidity via daily open market operations to stabilise the front end of the interest rate curve and to avoid spikes in market interest rates. If there is any sort of easing action, we believe that a broad-based RRR cut of 0.5 percentage points is more likely than a cut in policy rates. The chances of an interest rate hike to match other central banks is also very unlikely given the reform background.

3 Portfolio inflows via opening-up of the capital account

The yuan has recently been very strong against the dollar even as the dollar index has been rising. The opening-up of China's capital account has attracted portfolio inflows. These inflows will slow if further opening in 2022 starts to look less likely. In this event, there will be more two-way portfolio flows depending on relative asset prices onshore versus offshore. This means the yuan could be volatile. And the tendency towards yuan depreciation in the face of an increasingly hawkish Fed will be significant. This should end up with a weaker yuan against the dollar by the end of 2022.

Asia: Our three calls for 2022

2022 will see Asia continuing to move forward, but not at a rapid pace amidst rising inflation, rate increases, a return to fiscal conservatism and rating pressure.

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A man looks at screens in an electronics store in Malaysia

1 Ratings downgrades possible

In 2020, rating agencies in Asia mostly stood on the sidelines, understanding that economic survival meant abandoning fiscal prudence. In 2021, they began to comment that the emergency policies introduced in 2020 should not be made permanent fixtures and that lasting damage to the economy could damage the longer-term growth potential of those in the region. In 2022, we believe the warnings will result in actual downgrades. The Philippines is top of the risk list, but we also have some concerns about Indonesia and India, which is on the cusp of dropping to high yield status.

2 Rate rises will become more common

Rising global inflation is not confined to the G-7, and though Asian inflation rates have not risen as sharply as elsewhere, current inflation is no longer compatible with emergency levels of rates achieved in 2020 and 2021. The Bank of Korea was the first central bank in the region to start hiking, and we expect more from them in 2022. The Monetary Authority of Singapore also shifted its Singapore dollar Nominal Effective Exchange Rate (SGD NEER) path to an appreciating one and could well step up the pace in May 2022. We also expect rates to start slowly rising in the Philippines and India.

3 We do not expect a repeat of 2018/19

At the end of 2018, going into 2019, investors began to worry that rising US rates and a stronger dollar would undermine Emerging Market assets. Prompted by some catalysts outside the region, this resulted in a short, but worrying sell-off. This time around, although we may well see the Fed tighten more rapidly than they are indicating, the peak in US rates is anticipated to be much lower, and the extent of USD strength more limited. So some retrenchment in risk assets and currencies, yes. But full-scale panic selling, probably not.

Three calls for Central and Eastern Europe in 2022

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Sticky inflation, politics and Turkey's quest for growth will be some of the hottest themes for the CEE region in 2022

The Polish, Hungarian, Slovak and Czech presidents at a meeting of the 'Visegrad Four'

1 Second-round effects a much greater threat to Central Europe

The peak in CE3 headline inflation should be reached somewhere between December (Poland) and the first half of next year (Hungary, Romania). What we really want to emphasise is that core inflation will stay elevated even when headline CPI slows on base effects. Here, labour costs and demand pressures are expected to take a leading role in driving inflation in 2022-23 as opposed to 2021 when supply shocks were mainly responsible for elevated CPI.

Central European economies face a much greater risk of second-round inflation effects than developed economies. And with these economies growing close to potential in 2022, labour scarcity is a real constraint in both, although this is less the case in Romania. The strong bargaining power of employees poses an upside risk for wages, which may grow at double-digit levels in 2022.

2 More political and geopolitical risk

The CEE region is facing a lot of political and geopolitical risks next year, maintaining a high level of uncertainty. The rule of law debate is far from over in Hungary and Poland. Things could get more complicated with the incoming new German government. Hungary is also facing a general election in April with the tightest race in decades. In Poland, elections are scheduled for 2023, but given the complicated situation within the ruling coalition, an earlier vote is becoming more likely. Additionally, a compromise between Poland and the EU in the judiciary dispute still seems far off. However, the government may start some of the projects from the Recovery Plan even with EU funding still frozen. This may require extra local funding.

Geopolitical issues are present, too, as Russia flexes its muscles and there is tension on the EU-Belarus and Russia-Ukraine borders. The approval of its Nordstream II pipeline, and Europe's gas shortage, looks inextricably linked to tension in the region.

3 Turkey's quest for growth

The Turkish government's implementation of a new policy, with the participation of the central bank, has seen major fluctuations in local financial markets over recent weeks. Policymakers seem to be targeting investment by lowering interest rates while allowing the Turkish lira to weaken. Accordingly, policymakers expect a recovery in the current account, driven by higher exports and controlled imports. These measures are intended to support Turkey's external debt stock.

However, the implications of these policy measures for topics such as dollarization, the path of inflation, the fiscal balance, capital flows, and growth will also very much be in focus in 2022. Given this backdrop, the continued implementation of this current policy line will likely be closely followed by market participants.

Central Banks in 2022

From rate hikes to tapering, we look at what the world's major central banks are likely to do next year

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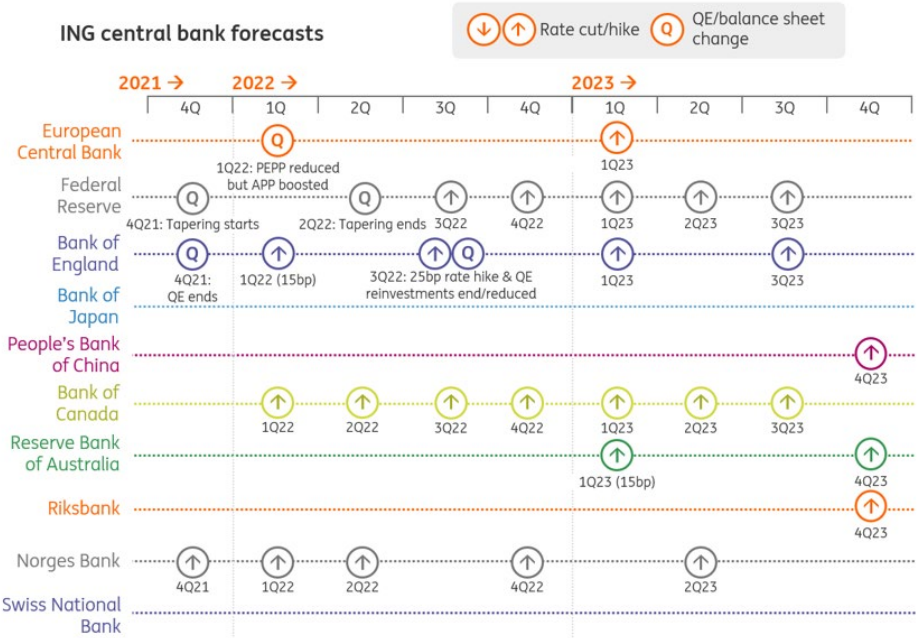
The Chairman of the US Federal Reserve, Jerome Powell

ING's view on central banks in 2022



Source: ING

Federal Reserve

It may seem odd timing given the emergence of the Omicron Covid variant, but Fed Chair Jerome Powell has acknowledged that it is time to retire the "transitory" description of inflation and is now mulling the potential for a swifter conclusion of QE tapering that would also open the door to earlier interest rate increases. There are significant uncertainties presented by Omicron, which could weigh on growth, job creation and inflation, so we narrowly favour the Fed waiting until the 27 January FOMC meeting before accelerating the taper to $30b per month.

Nonetheless, there is clearly the potential for the announcement to come in December if scientific evidence suggests we are not entering a darker period for the pandemic. At present, we are sticking to our two 25bp hike call for the second half of 2022, but if the all-clear is sounded we would imagine three hikes is far more likely.

European Central Bank

The fourth wave and the Omicron variant have complicated the ECB's life and more particularly its path towards the exit from the emergency measures. However, we expect the ECB this time to resist its old reflex to continue or even step up emergency measures, and to replace its Pandemic Emergency Purchase Programme with a new transitory programme starting April 2022. As a result, monthly asset purchases will be gradually reduced and brought to an end before late-2022 as high inflation rates indeed turn out to be transitory but medium-term forecasts point to inflation rates of around or above 2%. These will be the perfect conditions to start talking about a first rate hike to be delivered in early 2023.

Bank of England

We now expect the BoE to hold off on a December rate rise, assuming the uncertainty surrounding Omicron hasn't materially lifted before the next meeting. But unless the new variant decisively changes the economic outlook, then a rate rise in February looks likely. In November, policymakers implied they wanted to be sure that the end of furlough in September hadn't triggered a serious rise in redundancies – and all the data so far suggests it hasn't. However markets, which are still pricing 1% on bank rate next year, are still probably overestimating the pace of tightening in 2022.

We are forecasting a rate rise in February and August, which would imply the Bank also begins reducing the size of its balance sheet by ending reinvestments. A third move – taking Bank rate to 0.75% – is possible in 2022. Remember though, if policymakers are divided on whether to hike rates now, there's unlikely to be consensus for the sharp adjustment in interest rates that markets have long been expecting.

People's Bank of China

The PBoC did not cut the required reserve ratio when the real estate sector's default payments triggered a financial market sell-off. The government has recently calmed down its rhetoric on policy, but we would note that the deleveraging reform continues. As the policy tone returns to normal, we expect the central bank to refrain from changing interest rates, e.g. the loan prime rate and the 7D reverse repo. If the government changes to a pro-growth policy direction, the PBoC might cut the RRR by 0.5 percentage points. We expect one rate hike of 25bp in 4Q23 when deleveraging reform should come to an end, and economic growth will be stronger.

Bank of Japan

The Bank of Japan remains locked in an endless loop of low rates and asset purchases that aren't doing anything particularly helpful, but could pose a risk to the market if they were to be withdrawn. This situation has been going on for years and looks set to persist for years to come, or at least until Governor Kuroda's term is over in April 2023. Some members of the BoJ have recently indicated some more confidence in the path of inflation. But with core inflation excluding food and energy recording a 0.7% year-on-year decline in October, we don't share this confidence.

Bank of Canada

The Bank of Canada decided to end QE in October and brought forward its guidance for the timing of the first rate hike to mid-2022. The economy is growing strongly and inflation will soon breach 5%. At the same time, Canada has been far more successful at job creation than the US with employment already above pre-Covid levels. Given less spare capacity than most other economies, we immediately shifted to forecasting four

25bp rate hikes in 2022. We are reluctant to make any changes to this view right now given the uncertainty over Omicron, but the obvious risk is that the BoC ends up delaying the first hike until 2Q should consumer caution kick in on Covid anxiety.

Reserve Bank of Australia

The RBA has been softening its insistence that rates will not be raised until 2024, and this is now wrapped up with various caveats and scenarios that suggest they are working out a way to shift their base case to 2023. The recent Omicron shock may postpone an announcement of any change, but markets have already priced in a very aggressive tightening schedule, that probably goes too far the other way. While wages growth remains fairly benign, and inflation is still not an issue in Australia, the RBA can continue to maintain its dovishness. But we suspect the first rate hike will not come too long after the Fed's liftoff, so 1Q23, with a possibility of an end-2022 hike.

Swedish Riksbank

The Riksbank won't be joining others in hiking rates in 2022, though it has inched a little closer to tightening in recent weeks. Policymakers have, for the first time, put a hike into its published interest rate projection, albeit for 4Q 2024. In practice, the first rate rise is likely to come much earlier, perhaps towards the end of 2023.

Where the Riksbank differs from others is that, like the Bank of England, it has begun talking about shrinking its balance sheet. While details are scarce, it looks likely that policymakers will begin reducing the pool of covered bonds accumulated through the Covid-19 crisis under quantitative easing, most likely in 2023. The upshot is that quantitative tightening, as this process is sometimes known, could come well before the first rate hike.

Norges Bank (Norway)

Norway has already hiked rates once, and has hinted at another move in December. That's a little more uncertain given the Omicron-fuelled decline in oil prices, and the sharp rise in Covid-19 cases domestically. For now, we reckon policymakers will still go ahead with the forecast rate rise – not least because the November statement more-or-less said that this was nailed on. Norges Bank is forecasting another three rate rises next year and we're not inclined to doubt that, unless of course Omicron turns out to be a significant problem for the world economy.

Swiss National Bank

We do not expect any change in the SNB's monetary policy; it will continue to intervene in the foreign exchange market when it deems it necessary in order to combat an excessive appreciation of the Swiss franc. The more inflationary context makes it less concerned about deflation and should allow it to tolerate slightly higher levels of the franc than in the past, but in a moderate way in order to maintain its credibility. The expected tightening of monetary policy around the world should give the SNB some relief, but not enough to consider starting to tighten itself.

Supply chain frictions: Our three calls for 2022

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The good news is that supply chain problems will begin to ease next year. But it's going to take a while. Semiconductor production won't be back to normal for many months.

Chips for many electronic goods have been in short supply. Pictured, an Apple store in Beijing

1 Supply chain frictions will start to ease but not until well into 2022

We expect input shortages and transportation issues to abate only after the Chinese New Year. Earlier improvements in Asian countries will first be used for domestic destinations before going overseas. Consequently, global supply chains should expect another few months of extreme market conditions. International transportation should improve throughout the year, while it could take well until the end of the year before microchip production is back to normal. With an enormous backlog for industry and richly-filled order books, shipping prices will remain elevated; prices for key inputs that are in shortage at the moment are set to remain well above pre-crisis levels.

2 No rush towards deglobalisation in 2022

Don't expect any swift advances as far as deglobalisation is concerned. Any reshoring activity is set to be marginal despite pandemic disruptions. Sure, some businesses will move production back to Europe and the US but the vast majority is expected to keep globalised production in place. Firms generally expect a more normalised global economy within a year or so and that means they're willing to take the current supply-chain issue pain now rather than move to areas where consumption is highest as such relocations carry significantly higher costs.

3 Input shortages likely to remain a key theme in 2022 but oversupply could return

Current extreme shortages and price pressures are not here to stay indefinitely. Some key inputs currently causing problems such as semiconductors, plastics and chemicals are likely to remain problematic for most of 2022; in some cases supply is set to pick up substantially only by early 2023. The big question is when the turnaround will be. Current estimates of supply in certain critical markets are improving, think of semiconductors and containers, but demand is overstretched at the moment due to hoarding effects from businesses. This could result in a quick turnaround in prices once demand drops off to more regular levels.

Commodities: Our three calls for 2022

Commodity prices should moderate in 2022 after an extraordinary year. We now think we'll see a better supply and demand balance

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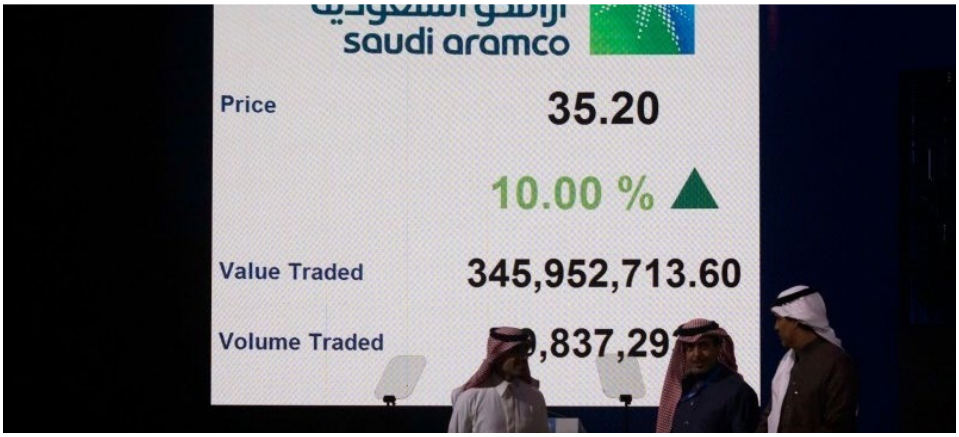

People walk past a screen displaying company details of Saudi Arabia's state-owned oil firm Armco in Riyadh

Supply to improve in 2022

Commodities, in general, are on course for their best annual performance in twenty years, mainly driven by energy markets. Cautious OPEC+ policies have supported oil prices; low gas supplies coupled with reduced Russian flows suggest prices will remain supported here in the coming months. But change is coming. Supply in many commodities is increasing and any economic slowdown, Covid-related or not, will weigh on prices. A higher US dollar and more tightening in monetary policy will also play a part.

1 Oil market to return to surplus

We believe that we'll see oil prices easing in 2022 from the high levels that we've become used to this year. Our expectation is that strong non-OPEC supply growth combined with a further easing in OPEC+ supply cuts will tip the global oil market back into surplus next year. Our view is that the market returns to building inventories as soon as the first quarter after significant drawdowns through 2021. As a result, we see ICE Brent averaging $76/bbl over the full year of 2022.

2 European gas tightness to persist

Concerns over low gas storage levels in Europe have not eased and this is likely to be a concern through the winter, as heating demand only grows. These worries over tightness should mean that prices remain elevated, yet volatile for the remainder of this year and into early next year. We expect that European gas prices will start to ease once we are past the peak of winter demand, although given that Europe could finish winter with historically low inventories, we still believe that prices will remain seasonally high over much of 2022.

3 Aluminium to stand out in metals

Most metal markets should be better supplied in 2022 which suggests that prices will trend lower. Monetary tightening and a stronger US dollar should provide some further headwinds. However, aluminium is likely to be the outlier. The aluminium market is moving into a structural deficit, given the lack of investment in smelting capacity. While we will see some smelters bringing back capacity over the course of 2022, it will not be enough to alleviate the tightness in the market. As a result, we expect prices to average close to US$3,000/t in 2022.

Sustainability: Our three calls for 2022

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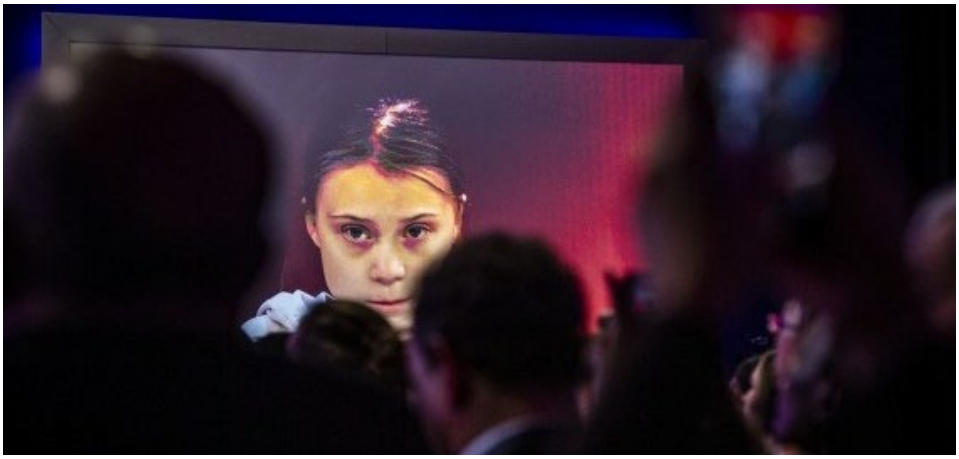
2022 promises another year of political decision-making on sustainability. Expect to see Europe continue its lead and more scrutiny on plans after a year full of pledges. The scope is likely to broaden to social matters. More - borrowed - money on the table should help soften some of the transition pain



The climate activist, Greta Thunberg

Milestones and trade-offs

2022 will be all about keeping up momentum on sustainability. This year, we passed significant milestones: The US re-joined the Paris agreement, Europe launched its Fit for 55 package, and carbon prices doubled. South Korea, Malaysia, Vietnam, Nepal, Laos, Indonesia, India, and Sri Lanka all made their zero-carbon pledge. On the corporate side, green bond issuance was at a record high and corporate leaders explicitly supported carbon pricing. Joe Biden's spending plans move the US towards net zero. However, it can still often be characterised as 'more pledges than plans', as for example at COP26.

Sustainability, be it climate, biodiversity, human rights, diversity, poverty or health and wellbeing, is mostly about the public and common good, areas where we all depend on others' behaviours. With that comes the 'tragedy of the commons', where an individual's short-term benefit come at an ultimate cost to the many. Markets alone have insufficient incentives to achieve optimal outcomes in these areas. Collective action - standards, regulation, taxation and public infrastructure – assure that business cases for sustainable products become financially sustainable – be it green bonds, hydrogen or electric vehicles.

Sustainability is often up to politicians. They decide on the, possibly unpopular, interventions. Often global measures are required. Health and climate are, after all, global public goods. Covid-19 shows us that this is far from easy, even if there's a direct personal risk involved. Climate policy is even harder as returns come decades after the costs, and both pain and gains are far from equally distributed among countries. Progress depends on political support for painful trade-offs.

1 Europe continues to lead

Europe will continue to lead the green transition, with the implementation of an ambitious German coalition agreement probably followed shortly by the Dutch. Elections in Italy and France potentially accelerate the European speed. November's US midterm elections are a huge risk to climate policy with polls hinting at a Republican

resurgence, which could see new policy implementation grind to a halt. Rising energy demand will test Asian zero-carbon pledges.

2 More scrutiny while the scope broadens

Scepticism is no longer so much on climate change itself but rather on the zero-carbon pledges made to combat it. Neither the public nor regulators will reward 'greenwashing'. Europe leads here too and requires sustainability disclosure. The exact classification of what is sustainable remains to be seen, but the social taxonomy will broaden the scope to issues such as decent work and health.

3 Fiscal deficits to soften the pain

Financial support from developed countries for climate mitigation in developing countries will be on the table again at COP27. Some countries, potential losers of the transition, will also have to be appeased. Deficit spending, like in the US infrastructure bill or the Next Generation EU fund, will likely remain a politically viable way to soften that pain, especially as interest rates remain low. From the future generations' perspective this may still be acceptable, as much of the money can have positive returns.

Rates: Our three calls for 2022

Negative rates will remain a major feature of 2022 but we are already seeing some significant movement

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A screen showing market data in Shanghai, China

1 US 10yr to hit 2%

The last time the US 10yr was at 2% Covid was a remote, even unlikely issue at the end of 2019. Even with variants hitting us as we head into 2022, the pull of inflation should help to drag us back up there again. It's a tough one though, as persistent demand for core fixed income remains in play, practically regardless of price. Buying bonds continues to come with deep negative real rates. These will shrink as 2022 progresses, but even by the end of 2022, negative real rates will remain in play right out to beyond the 10yrs maturity.

2 Eurozone 10yr swap rate to breach 50bp

If the US 10yr hits 2%, the Eurozone 10yr swap rate should get to 50bp at least. It's not been there since the second quarter of 2019 and, in a way, this is a bigger call. It requires a repeat of the rise in the 10yr rate seen in 2021, and that was quite a heavy lift. This should help pull the 5yr structurally back above zero too, but rates with maturities of 3yrs and below will likely remain negative throughout the year, held back by the -50bp depo rate, which is on a promise not to be touched in 2022.

3 Curves to steepen, but 2022 should be dominated by ultimate flattening

The driver here is the Federal Reserve. Room should be made for hikes, with the US 10yr pivoting higher first. But from there, front end rates in both the US and the eurozone should come under upward pressure, re-flattening curves. This will be led by the US 2yr, with its spread versus the Eurozone 2yr coming under widening pressure. The same should happen in ultra-short maturities once the US debt ceiling is raised as liquidity is taken out of the system.

FX: Our three calls for 2022

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We expect the dollar to stay strong, commodity currencies to remain in demand and investors to have to work hard to identify returns in emerging market FX

1 Don't mess with the dollar

Assuming that Omicron risks play out closer to the benign end of the spectrum, our team looks for the sharper Fed tightening cycle to return as a theme in early 2022. This should be good news for the dollar. Here the US economy's positive output gap should mean that the Fed moves to the forefront in the G10 policy normalisation story in 2022 – and that the dollar plays its part in tightening US monetary conditions.

In a world where the European Swiss and Japanese central banks are late to tighten – or have the biggest cause to pause – dollar gains should largely come at the expense of the low-yielding currencies. Here EUR/USD can trade to 1.10 through the year and USD/JPY potentially as high as 120. Helping these trends will be European and Japanese investors reducing FX hedge ratios on US investments because of the high cost of dollar hedging, while US investors will happily increase FX hedge ratios on European and Japanese investments – being paid to do so.

2 Commodity currencies have more to offer

2021 has proved a mixed year for commodity currencies, but 2022 should be better. We think their current valuations do not fully reflect the terms of trade gains seen in 2021 and the positive income shock delivered to their economies. Here, strong profits particularly among the energy exporter community should lead to enduring business investment trends and provide local central banks in the likes of Canada and Norway with the confidence to extend tightening cycles, perhaps by as much as 100bp in both countries in 2022.

In addition, Norway's Krone has struggled to reclaim the liquidity-induced collapse in March 2020 and scores cheap on medium-term valuation models. The Canadian dollar has the benefit of the support from the strong US final demand story next year.

3 Emerging market FX requires Alpha to be sought

Emerging market currency trading in 2021 proved that it was not simply enough to take a 'risk-on, risk-off view' of the world and trade the asset class accordingly. The Alpha, the excess returns over the benchmark index, were very much determined by local stories.

The same should be true for 2022. One big theme for next year will be if and when Chinese authorities allow the very strong renminbi to correct lower. That could be a story in the second half should priorities shift from protecting importers to protecting exporters.

Elsewhere, emerging currency trends will be determined by themes such as the pandemic, central bank reaction functions and politics. There are big elections across many regions next year (Hungary and Brazil to name but two) and how policymakers handle inflation, growth and sovereign balance sheets will very much be in focus. Of the bigger emerging currencies, we would probably favour the Mexican Peso, backed by strong US growth and a central bank looking to insert a near 6% policy rate buffer over the US.

ING global forecasts

	1Q21	2Q21	2021 3Q21	4Q21	FY	1Q22	2Q22	2022 3Q22	4Q22	FY	1Q23	2Q23	2023 3Q23	4Q23	FY
United States															
GDP (% QoQ, ann)	6.3	6.7	2.1	6.4	5.6	4.3	4.2	3.9	3.3	4.4	2.5	2.6	2.8	2.8	3.0
CPI headline (% YoY)	1.9	4.8	5.3	6.5	4.6	6.4	5.0	4.0	3.0	4.5	2.6	2.4	2.3	2.3	2.4
Federal funds (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50	1.50	1.50
3-month interest rate (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.60	0.90	1.20	1.20	1.50	1.70	1.90	1.90	1.90
10-year interest rate (%, eop)	1.74	1.47	1.50	1.75	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Fiscal balance (% of GDP)					-13.5					-6.8					-4.8
Gross public debt / GDP					104.8					102.8					102
Eurozone															
GDP (% QoQ, ann)	-1.2	8.7	9.1	1.3	5.0	1.4	5.0	4.2	1.9	3.8	1.8	1.7	1.6	1.6	2.2
CPI headline (% YoY)	1.0	1.8	2.8	4.4	2.5	2.9	2.4	1.8	1.8	2.2	1.8	1.8	1.9	1.9	1.8
Refi minimum bid rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25
3-month interest rate (%, eop)	-0.55	-0.55	-0.55	-0.55	-0.50	-0.55	-0.55	-0.55	-0.50	-0.50	-0.30	-0.20	-0.20	0.10	0.10
10-year interest rate (%, eop)	-0.35	-0.19	-0.20	-0.30	-0.30	-0.15	0.00	0.10	0.20	0.20	0.25	0.30	0.40	0.50	0.50
Fiscal balance (% of GDP)					-7.9					-4					-2.5
Gross public debt/GDP					103.7					101.9					98.7
Japan															
GDP (% QoQ, ann)	-4.1	1.5	-3.0	4.6	1.8	3.3	2.4	1.9	1.8	2.2	1.2	1.2	1.2	1.2	1.5
CPI headline (% YoY)	-0.4	-0.1	0.5	1.3	0.3	1.2	1.4	0.7	0.6	1.0	0.6	0.6	0.6	0.6	0.6
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
3-month interest rate (%, eop)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10-year interest rate (%, eop)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Fiscal balance (% of GDP)					-9.6					-8.7					-7.5
Gross public debt/GDP					225					232.5					237.5
China															
GDP (% YoY)	18.3	7.9	4.9	4.3	8.9	4.0	5.0	6.0	6.5	5.4	7.0	5.5	5.5	6.0	6.0
CPI headline (% YoY)	0.0	1.1	0.8	2.0	1.0	2.5	2.0	2.4	2.5	2.4	1.8	2.6	1.9	1.8	2.0
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	2.64	2.46	2.43	2.50	2.50	2.40	2.30	2.30	2.50	2.50	2.30	2.30	2.30	2.60	2.60
10-year T-bond yield (%, eop)	3.19	3.10	2.88	3.00	3.00	2.90	2.95	2.80	2.90	2.90	2.80	2.95	3.10	3.30	3.30
Fiscal balance (% of GDP)					-7.0					-7.0					-6.0
Public debt (% of GDP), incl. local govt.					125					133					136
UK															
GDP (% QoQ, ann)	-5.3	23.9	5.1	4.1	6.9	2.9	2.5	2.0	2.1	4.3	1.1	0.6	1.0	1.3	1.4
CPI headline (% YoY)	0.6	2.1	2.8	4.5	2.5	4.6	4.7	4.1	2.4	4.0	2.1	0.7	0.7	1.2	1.2
BoE official bank rate (%, eop)	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00
3-month interest rate (%, eop)	0.00	0.00	0.10	0.20	0.20	0.30	0.50	0.60	0.70	0.70	0.80	0.90	1.10	1.10	1.10
10-year interest rate (%, eop)	0.80	0.70	1.00	1.00	1.00	1.20	1.30	1.40	1.40	1.30	1.50	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-8					-4					-3
Gross public debt/GDP					110					109					107
EUR/USD (eop)	1.18	1.19	1.16	1.17	1.15	1.15	1.13	1.11	1.10	1.10	1.10	1.12	1.12	1.15	1.15
USD/JPY (eop)	108	111	111	113	113	114	115	118	120	120	121	122	123	125	125
USD/CNY (eop)	6.55	6.46	6.44	6.40	6.40	6.35	6.35	6.40	6.50	6.50	6.55	6.50	6.40	6.20	6.20
EUR/GBP (eop)	0.85	0.85	0.86	0.85	0.85	0.84	0.83	0.83	0.82	0.82	0.82	0.83	0.84	0.85	0.85
ICE Brent -US$/bbl (average)	61	67	73	81	71	78	74	76	75	76	70	75	78	75	75

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

Source: ING forecasts

ING's forecasts under three different scenarios

	2021					2022					2023				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
Scenario 1: Optimistic Omicron															
Real GDP growth (QoQ% annualised)															
United States	6.3	6.7	2.1	8.8	5.8	7.6	5.1	3.5	3.4	5.8	2.8	2.8	2.9	2.9	3.1
Eurozone	-1.2	8.7	9.1	3.0	5.2	3.1	3.5	3.4	2.3	4.2	1.9	1.7	1.6	1.5	2.2
China (YoY%)	18.3	7.0	6.0	5.5	9.2	3.0	5.0	5.5	5.0	4.6	4.8	4.6	4.4	4.2	4.5
Japan	-4.1	1.5	-3.0	6.2	1.9	5.4	3.7	2.6	2.2	3.3	1.5	1.2	1.2	1.2	1.8
United Kingdom	-5.3	23.9	5.1	5.4	7.0	4.7	2.5	2.0	2.1	5.0	1.1	0.8	1.2	1.9	1.5
Real GDP level (Indexed at 4Q19=100)															
United States	99.3	100.9	101.4	103.6	-	105.5	106.8	107.7	108.6	-	109.4	110.1	110.9	111.7	-
Eurozone	94.7	96.7	98.9	99.6	-	100.4	101.2	102.1	102.7	-	103.2	103.6	104.0	104.4	-
Japan	98.0	98.3	97.6	99.1	-	100.4	101.3	102.0	102.5	-	102.9	103.2	103.5	103.8	-
United Kingdom	91.7	96.7	97.9	99.2	-	100.4	101.0	101.5	102.0	-	102.3	102.5	102.8	103.3	-
EUR/USD	1.18	1.19	1.16	1.15	-	1.13	1.1	1.07	1.05	-	1.05	1.05	1.08	1.1	-
US 10-year yield (%)	1.74	1.47	1.5	2.00	-	2.5	3	3	3.25	-	3.25	3.5	3.5	3.5	-
Scenario 2 (Base case): Omicron 'difficult' but not a 'disaster'															
Real GDP growth (QoQ% annualised)															
United States	6.3	6.7	2.1	6.4	5.6	4.3	4.2	3.9	3.3	4.4	2.5	2.6	2.8	2.8	3.0
Eurozone	-1.2	8.7	9.1	1.3	5.0	1.4	5.0	4.2	1.9	3.8	1.8	1.7	1.6	1.6	2.2
China (YoY%)	18.3	7.9	4.9	4.3	8.9	4.0	5.0	6.0	6.5	5.4	7.0	5.5	5.5	6.0	6.0
Japan	-4.1	1.5	-3.0	4.6	1.8	3.3	2.4	1.9	1.8	2.2	1.2	1.2	1.2	1.2	1.5
United Kingdom	-5.3	23.9	5.1	4.1	6.9	2.9	2.5	2.0	2.1	4.3	1.1	0.6	1.0	1.3	1.4
Real GDP level (Indexed at 4Q19=100)															
United States	99.3	100.9	101.4	103.0	-	104.1	105.2	106.2	107.0	-	107.7	108.4	109.1	109.9	-
Eurozone	94.7	96.7	98.9	99.2	-	99.5	100.8	101.8	102.3	-	102.7	103.2	103.6	104.0	-
Japan	98.0	98.3	97.6	98.7	-	99.5	100.1	100.6	101.0	-	101.3	101.6	101.9	102.2	-
United Kingdom	91.7	96.7	97.9	98.9	-	99.6	100.3	100.8	101.3	-	101.6	101.7	102.0	102.3	-
EUR/USD	1.18	1.19	1.16	1.15	-	1.15	1.13	1.11	1.1	-	1.1	1.12	1.12	1.15	-
US 10-year yield (%)	1.74	1.47	1.5	1.75	-	2	2.25	2.25	2.25	-	2.25	2.25	2.25	2.25	-
Scenario 3: Omicron deals significant blow to the recovery															
Real GDP growth (QoQ% annualised)															
United States	6.3	6.7	2.1	2.7	5.4	-7.6	6.4	6.2	4.2	1.3	3.8	3.7	3.2	3.0	4.2
Eurozone	-1.2	8.7	9.1	-0.7	4.9	-6.1	6.7	6.3	3.0	2.1	1.8	1.7	1.5	1.4	2.8
China (YoY%)	3.0	4.0	3.0	0.0	2.8	3.0	5.0	6.0	6.0	5.0	6.0	5.8	5.5	5.8	5.8
Japan	-4.1	1.5	-3.0	2.6	1.6	-4.5	5.2	1.1	1.0	0.2	1.2	1.2	1.2	1.2	1.4
United Kingdom	-5.3	23.9	5.1	3.6	6.9	-7.7	8.7	1.8	0.6	2.4	0.7	0.6	1.9	2.3	1.5
Real GDP level (Indexed at 4Q19=100)															
United States	99.3	100.9	101.4	102.1	-	100.1	101.6	103.2	104.3	-	105.2	106.2	107.0	107.8	-
Eurozone	94.7	96.7	98.9	98.7	-	97.2	98.7	100.3	101.0	-	101.5	101.9	102.3	102.6	-
Japan	98.0	98.3	97.6	98.2	-	97.1	98.3	98.6	98.8	-	99.1	99.4	99.7	100.0	-
United Kingdom	91.7	96.7	97.9	98.8	-	96.9	98.9	99.3	99.5	-	99.7	99.8	100.3	100.8	-
EUR/USD	1.18	1.19	1.16	1.15	-	1.18	1.2	1.2	1.2	-	1.2	1.2	1.2	1.2	-
US 10-year yield (%)	1.74	1.47	1.5	0.75	-	1	1	1.25	1.5	-	1.5	1.5	1.5	1.5	-

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

GDP forecasts

%YoY	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
World (USD)	4.8	4.1	3.9	4.9	6.1	4.5	4.1
US	4.9	5.4	4.9	4.3	5.6	4.4	3.0
Japan	1.3	-0.3	1.5	1.8	1.7	2.2	1.5
Germany	2.5	2.1	4.4	4.5	2.7	4.5	2.5
France	3.3	4.9	5.3	5.0	6.7	4.0	2.3
UK	6.6	6.5	8.7	3.7	6.9	4.3	1.4
Italy	4.0	6.1	6.3	4.5	6.3	4.1	2.5
Canada	4.0	2.9	2.6	4.4	4.5	3.6	2.9
Australia	3.9	1.8	1.0	1.0	4.0	2.4	3.0
Eurozone	3.7	4.4	5.1	4.2	5.0	3.8	2.3
Austria	4.8	3.0	11.1	4.6	3.9	5.1	2.5
Spain	2.7	3.1	4.0	4.2	4.2	3.4	2.2
Netherlands	5.0	5.1	6.0	3.3	4.4	3.6	2.4
Belgium	4.9	5.4	4.5	3.4	6.1	3.0	1.8
Greece	8.6	4.9	3.2	0.7	6.5	3.7	3.0
Portugal	4.2	5.0	8.7	5.6	4.5	5.2	2.0
Switzerland	3.3	3.7	4.0	3.1	3.5	2.7	1.5
Sweden	4.5	4.7	3.8	3.2	4.6	2.4	1.3
Norway	4.9	4.3	5.5	4.9	4.2	4.3	2.0
Bulgaria	0.4	1.4	2.7	4.0	2.0	3.6	3.2
Croatia	10.8	7.3	3.4	4.6	8.1	4.1	4.0
Hungary	6.1	6.0	6.3	5.1	7.0	5.0	3.7
Poland	5.1	6.3	5.2	5.1	5.4	4.5	5.2
Romania	7.2	5.5	4.3	4.1	6.5	4.5	4.5
Turkey	7.4	4.0	1.8	3.5	9.5	3.5	4.0
Serbia	7.4	6.0	5.0	5.2	7.0	5.0	5.0
Russia	4.3	3.0	2.5	1.5	4.3	2.2	3.0
Kazakhstan	4.5	4.3	3.5	3.7	3.6	3.7	4.0
Azerbaijan	9.9	5.5	3.0	3.4	5.0	3.4	2.5
China	4.9	4.3	4.0	5.0	8.9	5.4	6.0
India	8.4	3.0	1.1	15.0	7.4	7.3	8.0
Indonesia	3.5	5.1	4.6	3.9	3.7	4.3	5.0
Korea	4.0	3.2	2.1	2.1	3.8	2.4	2.9
Philippines	7.1	5.5	5.6	3.9	5.2	4.7	4.5
Singapore	7.1	4.5	2.4	4.0	6.4	3.7	3.5
Taiwan	3.7	3.5	2.0	4.0	6.0	3.7	5.3

Source: ING estimates

CPI Forecasts (pa)

%YoY	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
World	3.6	4.7	4.8	3.5	2.5	4.0	2.8
US	5.3	6.5	6.6	5.1	4.6	4.5	2.4
Japan	0.5	1.3	1.2	1.4	0.3	1.0	0.6
Germany	3.5	5.0	2.9	2.5	3.2	2.4	1.9
France	2.2	3.3	2.4	1.9	2.0	2.0	1.6
UK	2.8	4.5	4.6	4.7	2.5	4.0	1.2
Italy	1.3	3.9	4.3	3.4	1.9	2.6	1.5
Canada	4.1	5.1	5.0	4.1	3.6	3.5	2.4
Australia	3.0	3.1	3.2	3.0	2.8	2.9	2.5
Eurozone	2.8	4.2	2.9	2.4	2.5	2.2	1.8
Austria	3.1	3.9	2.1	1.9	2.8	1.9	1.8
Spain	3.4	5.5	5.1	3.0	2.9	2.8	1.7
Netherlands	2.2	4.4	3.6	2.9	2.6	2.7	2.7
Belgium	2.6	3.9	3.3	2.1	2.1	2.3	1.8
Greece	1.3	3.9	4.3	3.4	0.6	2.6	1.3
Portugal	1.2	1.9	2.1	1.7	0.8	1.7	1.6
Switzerland	0.8	1.1	0.6	0.6	0.5	0.7	0.6
Sweden	2.3	2.9	2.8	2.6	2.0	2.2	1.6
Norway	3.5	4.0	2.9	3.0	3.3	2.6	2.2
Bulgaria	4.8	6.2	6.0	5.4	3.1	5.0	4.3
Croatia	3.2	4.9	4.1	3.7	2.5	3.0	1.5
Hungary	7.0	6.6	5.2	4.2	5.0	4.8	3.1
Poland	5.5	7.7	7.9	7.5	5.1	6.7	4.2
Romania	6.3	8.0	7.1	8.0	5.0	7.0	4.0
Turkey	19.6	23.0	27.0	26.7	18.4	26.0	17.3
Serbia	5.7	7.1	6.4	5.4	3.9	5.0	3.0
Russia	7.4	8.1	7.8	7.1	6.6	6.8	4.8
Kazakhstan	8.9	9.3	9.4	7.8	8.1	7.9	6.3
Azerbaijan	8.5	10.6	9.0	8.6	6.5	7.5	3.9
China	0.8	2.0	2.5	2.0	1.0	2.4	2.0
India	5.1	5.3	6.1	5.2	5.2	5.4	4.7
Indonesia	1.6	1.9	2.9	3.1	1.7	3.2	3.2
Korea	2.6	3.4	2.6	2.5	2.4	2.3	1.7
Philippines	4.6	3.7	3.5	3.6	4.2	3.5	3.4
Singapore*	1.1	1.6	1.6	1.4	1.0	1.5	1.3
Taiwan	2.3	1.4	1.1	1.3	1.6	1.5	2.0

*Singapore core inflation
Source: ING estimates

Oil Forecasts (avg)

($/bbl)	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
Brent	73	81	78	74	71	76	75

Source: ING estimates

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