ING Monthly

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We're in a polycrisis

and this is what it means

polycrisis

[poli-krai-sis] *noun*

the simultaneous occurrence of several catastrophic events

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We're in a polycrisis, and this is what it means

The word of the moment appears to be 'polycrisis', defined by Collins as the *simultaneous occurrence of several catastrophic events*. It's apt, given the war in Ukraine, inflation, the pandemic... you know it. Europe's been at the epicentre of most of it. Now it seems a US variant is in the making

Things are brewing in the States

There appears to be no respite from seemingly never-ending economic crises and concern. The banking crisis in the US is far from over, and even if regulators have been very efficient in ringfencing failing institutions up to now, we all know the adage that 'past performance is no guarantee of future success', and it's rarely been so true for financial markets right now.

Regional banks had increased their lending portfolio significantly over the last year, while the larger ones became more cautious, given the changed interest rate environment. Tighter lending standards as a result of the recent banking turmoil will leave further marks on the real economy, with commercial real estate often cited as the possible next shoe to drop. And there's more, the political debate on the debt ceiling is fiercer than ever, increasing the risk of an – intended or unintended – fatal accident: a default on US treasuries.

A recent study by the US Council of Economic Advisors shows that a short default on US treasuries would cost 0.6 percentage points of GDP growth, while a protracted period would cost more than six percentage points. Leaving aside the effects of financial turmoil from such an unprecedented event, we still believe in a last-minute compromise. But the uncertainty and expenditure cuts in such a settlement will weigh on growth in the coming months. Add to this the ongoing student loan discussion and the lagged impact of the Fed's tightening, and the US has its very own definition of polycrisis.

With a looming recession in the US, it is easy to see the Fed not only stopping rate hikes but also cutting rates at the end of the year. As my colleague James Knightley always reminds all of us: on average, it only took six months in the US between the last rate hike and the first rate cut. To some extent, it is an advantage for the Fed that the US economy still shows many characteristics of a real business cycle: from bust to boom to bust. In such a situation, countercyclical monetary policy is almost a no-brainer and definitely the correct policy prescription.

Europe's somewhat depressing future

The situation in Europe, unfortunately, is slightly different. Here, the polycrisis of last year, the enormous structural challenges and transitions have somehow let a typical textbook business cycle disappear. Instead, the eurozone economy is facing a future of subdued growth at best. In fact, private consumption is still below pre-pandemic levels in real terms and industrial production is not really gaining momentum.

Still, the European Central Bank has sent clear signals that it intends to continue hiking rates over the coming months. The question is whether these intentions can actually come true. Demand for new loans has been on an unprecedented downward slide, the growth optimism from the start of the year is fading again, and the lagged impact from earlier rate hikes is still finding its way into the real economy.

It is hard to see how the eurozone and the ECB can escape a recession and rate cuts in the US. Of course, we all know the traditional reflex of European policymakers: Europe is not the US. The infamous 'decoupling' will probably make the rounds, but history tells us that decoupling almost always turns out to be an illusion after a couple of months; think of the ECB's communication in late 2021 when the Fed was already envisaging rate hikes or of the financial crisis when Europeans thought subprime was a pure US issue.

As a consequence, the ECB looks set to continue hiking rates for longer than the Fed but given the weak growth outlook for the eurozone and knock-on effects from everything going on in America, risks are high that every next single rate hike could turn out to be - at least with hindsight - a policy mistake.

What a luxury were those days with only a few crises! The macro policy answer was so much easier, but even then often disputed. Right now, we definitely don't envy central bankers and governments. Finding the right answers is, to say the least, somewhat complicated.

A new polycrisis is unfolding

Carsten Brzeski on growing concerns of a global 'polycrisis'

carsten.brzeski@ing.de

Our key calls this month:

Banking stresses: The US's bank troubles have been concentrated among smaller-sized banks, while the larger institutions have weathered the storm relatively well so far. The impact on banks in the European Union has remained moderate. European banks carry substantial liquidity buffers that they can tap into in times of stress. On both sides of the pond, authorities are looking into potential changes that could result in better protection for depositors, and as such perhaps more stability for the development of deposits in times of stress. An increase in depositor protection will push up costs from the guarantee schemes that will eventually be borne by the banking system.

US: The economy continues to perform pretty well with the strength of the jobs market an obvious highlight. However, higher borrowing costs, less credit availability, worries about the debt ceiling and squeezed consumer spending mean risks are skewed to the downside.

Eurozone: The expansion is now solely fuelled by a strong services sector, but tighter monetary policy is likely to bring the economy to a standstill in the second half of the year. While inflation is trending downwards and bank credit standards are tightening, the European Central Bank is likely to hike interest rates at least one more time.

China: Strong internal tourism during the Golden Week holiday in early May indicates that the domestic economy has rebounded. But exports remain weak and could worsen further. We are revising our GDP forecasts.

CEE region: We see continued improvement in headline inflation across the region, with some countries experiencing a slowdown in economic activity. However, with core prices remaining persistent and wage growth on the upside, central banks will have to tread carefully and it is too soon for a dovish pivot.

UK: Markets expect the Bank of England to lag behind the Federal Reserve when it comes to rate cuts. But we think such a divergence is unlikely, and think rate cuts will begin in earnest by this time next year.

FX: The dollar has stabilised over the past month following a prolonged downturn. In the near-term, risk sentiment instability can keep the dollar afloat, although US banking stress raises the chances of a hard landing for the US economy, and ultimately of larger cuts by the Fed later this year. This is a strong bullish argument for EUR/USD, especially considering that the ECB should hike again and keep rates unchanged into the year-end. We target a 1.20 peak in EUR/USD around 4Q23/1Q24.

Rates: The very system is being threatened by the necessity of central banks to raise rates to the extent that both sides of (weaker) banks' balance sheets have come under pressure. Overlay that with a threat to the quality of the US Treasury market, and there are reasons to worry. The thing is, these are pulling market rates in different directions. Something will have to give.

ING global forecasts

	2022					2023					2024					2025				
	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q24	2Q24	3Q24	4Q24	FY	1Q25	2Q25	3Q25	4Q25	FY
United States																				
GDP (% QoQ, ann)	-1.6	-0.6	3.2	2.6	2.1	1.1	0.4	-1.5	-2.2	0.8	-0.5	1.7	2.5	2.2	0	2.3	2.4	2.2	2.0	2.1
CPI headline (% YoY)	8.0	8.6	8.3	7.1	8.0	5.8	4.1	3.3	2.7	4	2.1	1.9	1.8	1.9	1.9	2.0	2.2	2.2	2.0	2.1
Federal funds (%, eop)	0.50	1.75	3.25	4.50	4.50	5.00	5.25	5.25	4.25	4.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3-month interest rate (%, eop)	0.65	2.1	3.5	4.6	4.6	4.9	5.2	5.2	4.2	4.2	3.2	3	3	3	3	3	3	3	3	3
10-year interest rate (%, eop)	2.30	3.00	3.80	3.88	3.88	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.75	3.75	4.00	4.00	4.00
Fiscal balance (% of GDP)					-4.2					-5.2					-5.4					-4.2
Gross public debt / GDP					97.0					98					101.5					101.7
Eurozone																				
GDP (% QoQ, ann)	2.6	3.4	1.2	0.4	3.5	0.6	1.2	0.9	0.1	0.8	0.1	0.5	1.3	1.2	0.6	1.6	1.6	1.4	1.4	1.3
CPI headline (% YoY)	6.0	8.0	9.3	10.0	8.3	8.0	5.8	4.5	3.9	5.6	3.2	3.1	2.3	1.7	2.6	1.9	2.0	2.1	2.1	2.0
Refi minimum bid rate (%, eop)	0.00	0.00	1.25	2.50	2.50	3.50	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.00	3.00	3.00	3.00	3.00
3-month interest rate (%, eop)	-0.45	-0.35	1.17	2.13	2.13	3.00	3.60	3.50	3.50	3.50	3.40	3.30	3.10	2.90	2.90	2.70	2.75	2.80	2.80	2.80
10-year interest rate (%, eop)	0.60	1.40	2.10	2.56	2.56	2.30	2.30	2.20	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.20	2.30	2.40	2.50	2.50
Fiscal balance (% of GDP)					-4.1					-4.2					-3.3					-3.1
Gross public debt/GDP					97.3					95					93.4					93.6
Japan																				
GDP (% QoQ, ann)	-1.8	4.7	-1.1	0.1	1.0	1.6	1.6	1.2	0.8	1.1	0.8	0.8	1.2	1.2	1.0	1.2	1.2	1.2	1.2	1.2
CPI headline (% YoY)	0.9	2.4	2.9	3.8	2.5	3.6	2.9	2.4	1.7	2.6	1.7	1.8	1.8	1.8	1.8	1.7	1.6	1.4	1.3	1.5
Int Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25
3-month interest rate (%, eop)	0.00	-0.03	-0.04	-0.02	-0.02	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.20	0.20	0.00	0.30	0.30	0.30	0.30	0.30
10-year interest rate (%, eop)	0.25	0.20	0.25	0.25	0.25	0.30	0.40	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.00	1.00	1.00
Fiscal balance (% of GDP)					-7					-11					-7					-7
Gross public debt/GDP					225.9					260.0					275.0					280.0
China																				
GDP (% YoY)	4.8	0.4	3.9	2.9	3.0	4.5	8.8	5.0	4.6	5.7	4.2	3.9	4.6	6.1	4.7	4.7	5.4	5.2	5.2	5.1
CPI headline (% YoY)	1.1	2.3	2.5	2.1	2.0	1.3	2.3	1.8	2.5	2.0	2.5	2.2	2.3	2.4	2.4	2.5	2.8	3.1	3.4	3.0
PBOC 7-day reverse repo rate (% eop)	2.10	2.10	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.10	2.20	2.20	2.30	2.40	2.50	2.60	2.60
3M SHIBOR (% eop)	2.38	2.20	1.65	2.20	2.20	2.45	2.40	2.40	2.50	2.50	2.55	2.60	2.65	2.70	2.70	2.75	2.80	2.85	2.95	2.95
10-year T-bond yield (%, eop)	2.80	2.75	2.75	2.95	2.95	2.86	3.00	3.15	3.20	3.20	3.35	3.50	3.65	3.80	3.80	3.90	4.00	4.15	4.25	4.25
Fiscal balance (% of GDP)					-8.0					-8.0					-6					-4
Public debt (% of GDP), incl. local govt.					129.0					131.0					132.0					129.0
UK																				
GDP (% QoQ, ann)	2.0	0.2	-0.4	0.5	4.1	0.5	-0.8	1.1	0.8	0.2	0.9	1.2	1.4	1.4	0.9	1.6	1.6	1.6	1.6	1.5
CPI headline (% YoY)	6.2	9.2	10.0	10.8	9.0	10.2	7.7	5.4	3.5	6.7	2.7	1.5	2.0	1.4	1.9	1.5	1.5	1.8	2.1	1.7
BoE official bank rate (%, eop)	0.75	1.25	2.25	3.50	3.50	4.25	4.50	4.50	4.50	4.50	4.50	4.00	3.50	3.00	3.00	2.75	2.50	2.50	2.50	2.50
10-year interest rate (%, eop)	2.50	2.25	4.10	3.20	3.20	3.50	3.10	3.00	3.00	3.00	3.00	3.00	3.00	3.10	3.10	3.30	3.30	3.40	3.50	3.00
Fiscal balance (% of GDP)					4.0					5.0					3.0					2.5
Gross public debt/GDP					110.6					103.0					102.0					99.0
EUR/USD (eop)	1.11	1.05	0.97	1.02	1.02	1.08	1.10	1.15	1.20	1.2	1.2	1.17	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
USD/JPY (eop)	122	132	145	138	138	133	128	125	120	120	118	115	115	115	115	115	115	115	115	115
USD/CNY (eop)	6.34	6.69	7.11	7.22	7.22	6.87	6.90	6.75	6.60	6.60	6.45	6.35	6.30	6.40	6.40	6.50	6.30	6.10	6.20	6.20
EUR/GBP (eop)	0.84	0.86	0.88	0.87	0.87	0.88	0.89	0.90	0.90	0.90	0.90	0.89	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88
ICE Brent -US$/bbl (average)	98	112	98	89	99	82	84	93	99	90	95	90	88	83	89	73	75	78	75	75
Dutch TTF - EUR/MWh (avg)	101	101	205	124	133	53	47	45	60	51	65	52	45	50	53	60	50	40	50	50

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

Source: ING forecasts

Three key risks to the global outlook

How further stresses in the banking system, a failure to resolve the debt ceiling dispute, and a resurgence in European gas prices, would affect our wider economic base case

James Smith
Economist, Developed Markets
james.smith@ing.com

Carsten Brzeski
Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

President Biden had much to talk about with the EU's Ursula von der Leyen in Washington last month

1 Risk 1: US bank troubles widen to several new institutions

Our base case:

The substantial deposit instability in many US regional banks has resulted in four mid-sized banks failing. The combination of the high perceived impact of higher interest rates on these banks' balance sheets and their large uninsured deposit bases made them vulnerable to fast and extensive deposit outflows, perhaps exaggerated by social media and the ease of mobile banking.

Large US banks have remained stable throughout the crisis, and to an extent, they've been part of the solution. Stabilisation of deposits is key for the sector worries to subside. The potential changes to the deposit guarantee scheme in the US could become part of the solution in the longer term, although this would come at a cost for the sector as a whole and is unlikely to be a quick fix.

We don't rule out further problems arising in some of these smaller US banks but expect larger banks to be able to weather the storm. The European banking sector remains well capitalised and, due to the stringent liquidity rules, can withstand substantial deposit outflows with their existing buffers. Ironically, the fact that banking union has not been finalised might currently help. We do not expect to see major liquidity events in large European banks.

Risk scenario and how it plays out:

The US bank problems have been driven by a quick loss of confidence on the part of uninsured depositors towards regional banks. If the loss of confidence were to spread quickly to impact more institutions, it could result in several banks to struggling to absorb deposit outflows simultaneously. This could create worries over contagion in the system and exaggerate further deposit instability. Finding buyers for assets to safeguard depositors and operational continuity for several, although smaller, banks at the same time could pose challenges.

In the very worst-case scenario, several smaller lenders end up being absorbed by larger ones. The failing banks may, however, come with unforeseen additional risks, which may eventually result in the credit profiles of the larger acquirers weakening more than expected. If the issues are severe enough, they may pose risks to the stability of the larger acquiring banks. If markets question the wider extent of the financial system's whole stability, then severe market disturbance may arise.

Wider economic impact:
Further banking stresses would fuel a further tightening in lending standards that we've already seen in the US. History shows this is almost always followed by a sharp rise in the unemployment rate and would deepen the recession we already expect. While it's uncertain whether contagion would spread directly to Europe, the prospect of a US downturn would inevitably have wider economic repercussions overseas. Central banks have so far been able to separate out financial stability and monetary policy tools, but such stresses, should they happen, are ultimately borne out of higher interest rates. This scenario would likely herald earlier and more aggressive rate cuts in both the US and Europe.

Risk 2: US fails to lift debt ceiling, triggering default

Our base case:
Politicians see sense and recognise the economic and financial damage default would cause. Government workers and creditors may get a little nervous about whether they would be paid, but concessions would be made by both sides, and the debt ceiling is raised in time.

Risk scenario and how it plays out:
House Republicans have already approved a package to raise the ceiling, but this involves significant government spending cuts that Senate Democrats refuse even to consider. They and the White House want the ceiling raised with no conditions attached, which the Republicans won't accept. Given the personalities involved and their entrenched positions, a smooth and quick deal looks out of the question. We fear that it will take significant economic and financial market stress to trigger a climbdown from the key players, including a government shutdown and possible default

Wider economic/market impact:
If a government shutdown and default look likely, the impact on financial markets, consumers and businesses would be huge at a time when sentiment is already fragile in the wake of recent banking failures. A default (or the material threat thereof) on just one bond would cause the rating agencies to downgrade US Treasuries. All financial products beholden to the US in any way would be at material risk for downgrade too. The dollar would suffer, and risk assets come under major pressure.

Risk 3: European natural gas prices surge

Our base case:
Fuller-than-usual European gas storage means the EU enters next winter in a strong place. Storage is currently more than 60% full, compared to around 36% at the same stage last year. Assuming a 'normal' winter, storage should be roughly aligned with the 5-year average this time next year. We expect TTF natural gas to average €60/MWh over the fourth quarter of this year and €65/MWh in the first three months of 2024.

Risk scenario and how it plays out:
The European market is still structurally short gas, and demand destruction is needed to balance the market. A colder-than-usual heating season over the 2023/24 winter and the cut-off of remaining Russian pipeline flows would tighten the market and push prices above €120/MWh. However, a higher starting point for storage levels, the TTF price cap,

and the potential for voluntary demand cuts becoming mandatory prevent prices from trading back to the 2022 highs.

Wider economic impact:
Experience this winter suggests the economy can weather higher gas prices, even if this resilience is highly dependent on the weather. Next winter is also likely to coincide with a period of weaker global growth and tighter corporate margins. European headline inflation stays higher for longer, though on the basis that gas prices stay well below 2022 highs, then we're still likely to see CPI end the year much lower than current levels. However, gas prices have proved to be an important ingredient in higher services inflation and also higher wage settlements. That could mean European core CPI stays higher for longer. Stagflation will be the name of the game.

The ECB and the Bank of England will struggle to take rates much higher than in our base case, but this scenario could push back the date of the first rate cut in Europe – amplifying potential divergence between the Federal Reserve and other central banks.

How American and European banks are dealing with the fallout from the US banking turmoil

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

The US's bank troubles have been concentrated among smaller-sized banks, while the larger institutions have weathered the storm relatively well so far. The impact on banks in the European Union has remained moderate. European banks carry substantial liquidity buffers that they can tap into in times of stress

JPMorgan's take-over of First Republic Bank removed one risk factor providing uncertainty to financial markets

US bank troubles remain limited to smaller banks so far

US bank worries have somewhat eased after the substantial deposit instability in the regional banks in March and April resulted in four mid-sized banks collapsing. The combination of a high perceived impact from higher interest rates on these banks' balance sheets and their relatively large uninsured deposit bases made them vulnerable to fast and extensive deposit outflows, potentially exaggerated by social media and the ease of mobile banking. The problems have been concentrated among smaller lenders. Larger US banks have remained more stable throughout the crisis and have, to an extent, been part of the solution.

Finding a large and strong enough acquirer for a failing bank may get more difficult if there are more resolution cases. Lack of transparency on the potential treatment of uninsured depositors is a factor keeping financial markets (and depositors) on their toes regarding US bank risks. Currently, depositors may count on deposit insurance of up to US$250k. In a report detailing three alternative ways to change the deposit guarantee system, the Federal Deposit Insurance Corporation (FDIC) suggests that a targeted significant increase in deposit insurance coverage for business payment accounts could best meet the objective of financial stability and depositor protection relative to its costs. Targeted changes to the current framework could provide stability to the whole system but would come with a cost for the industry as a whole. As also pointed out by the FDIC however, unlimited coverage in turn would risk eliminating depositor discipline and result in the market discipline to be driven by debtholders and stockholders.

Stabilisation of deposit swings remains key for the sector worries to subside, in our view. The JPMorgan First Republic transaction removed one risk factor providing uncertainty to financial markets. A targeted change to the deposit guarantee scheme could become part of a wider solution in the longer term but is unlikely to be a quick remedy as it

requires Congressional action for some parts. Higher coverage would also result in higher deposit insurance costs for the industry. In our opinion, increasing coverage could benefit smaller and riskier banks over stronger ones, as the latter already have better access to funding markets at more attractive levels. Unlimited deposit guarantee would pose a risk of a moral hazard.

The problems have been concentrated among smaller regional US banks, and we would not rule out further problems arising in the sector due to the tricky combination of relatively large unrealised losses and uninsured deposits. Our base case is that larger banks remain better positioned, with their systemic importance and stronger buffers supporting market confidence. In a more negative scenario, smaller names could need a wider solution than handling issues on the go as they surface.

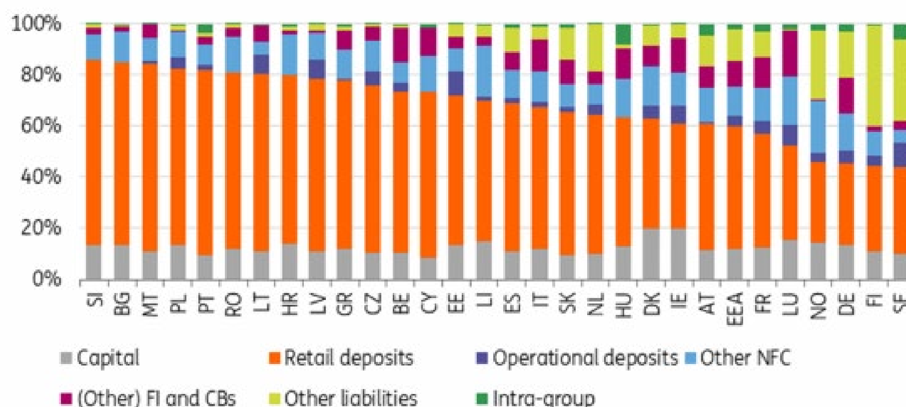
In Europe, banks weathered US bank stresses well

US bank troubles have had limited repercussions on the European banking sector. Large European banks have strong capital and liquidity buffers, which allow them to weather a substantial amount of uncertainty in times of stress. We have not seen major liquidity events in European banks outside of Credit Suisse, despite some pressures on deposit balances. In fact, European bank earnings in the first quarter have been relatively strong.

European banks have to meet a Liquidity Coverage Ratio (LCR) of 100% to prepare for liquidity outflows. The main idea of the LCR is to force banks to hold sufficient liquid assets to meet potential net liquidity outflows over a 30-day stress period. European banking sectors exceed the requirement with large margins.

We have seen bank deposit bases contract in the first quarter this year. In an environment of higher interest rates, clients may start to look for better-yielding alternatives to bank deposits, which may reflect as deposit outflows and result in upside pressures on deposit pricing. When assessing banks' liquidity risks, retail deposits are generally seen as stickier and less prone to quick outflows. The bulk is supported by deposit guarantee schemes protecting deposit balances of up to €100k. Southern European banks rely more on retail deposits in their funding mix, while Nordic, German and French banks have a smaller share of retail deposits in their funding palette. German and French banks have attracted a larger share of operational and other non-financial customer deposits than their Belgian or Dutch peers. These deposits may be more price sensitive and more volatile in times of stress.

Available stable funding split by country (after weighting) as of end-2022

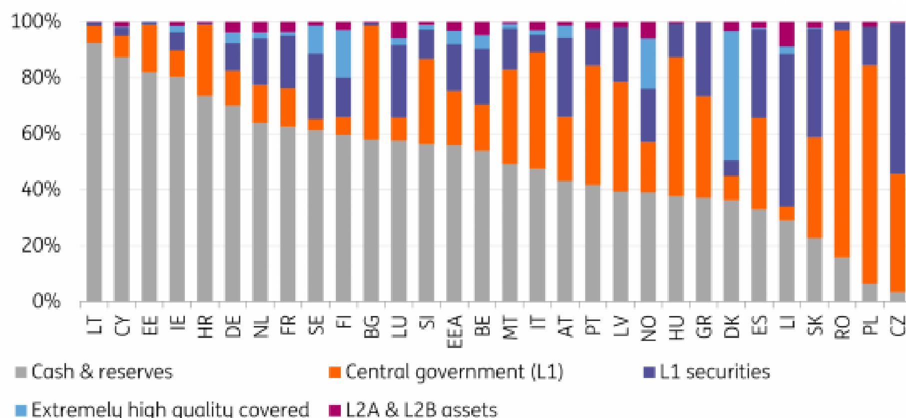


Source: ING, EBA

In case of liquidity outflows, banks rely on their liquidity buffers. Cash can be easily deployed. Debt securities may be used as collateral for central bank funding or in repo markets. Selling down securities portfolios may instead have an impact on earnings and capital metrics if the bonds were not being marked to market.

The bulk of liquidity buffers in countries such as Germany, the Netherlands and France rely on cash and reserves. In Southern European countries including Portugal, Italy, Greece and Spain, the share of central government exposures of liquidity buffers is instead higher.

Banking sector liquid assets by country (after weighting)



Source: ING, EBA

In our recent publication Scrutiny of liquidity metrics has increased, we calculated that most European banks could absorb very substantial outflows in their less stable deposit bases (which include deposits outside deposit guarantee schemes) with their existing liquidity buffers. Large banks with the least room for stressed deposit outflows included those names that were less geared towards stable (retail) deposit funding, including selected Swiss, UK and Spanish banks. Banks that had the strongest headroom for these types of liquidity shocks included mainly selected Benelux and Nordic names in our selection of banks.

Depositor protection is also under the radar in Europe such as it is in the US. One factor that could potentially support deposit stability in European banks is the Crisis Management and Deposit Insurance (CMDI) framework that is currently being assessed for changes. The European Commission proposals provide for a general depositor preference with a single-tiered ranking. This means that all deposits, including uncovered corporate deposits, will rank above ordinary unsecured claims in insolvency. Moreover, the relative ranking between the different categories of deposits would be replaced by a single-tier depositor preference, where all deposits rank pari-passu without a super-preference for covered deposits. These proposals suggest better protection for depositors, which could make deposits stickier and less prone to deposit runs. A general depositor preference would make the layer including preferred senior unsecured debt thinner in most EU countries. This would likely push up the costs of issuing preferred senior unsecured debt and result in a tightening of the spread of non-preferred senior over preferred senior debt. Part of the impact could be mitigated by growing loss absorption buffers, pushing up bank wholesale funding costs.

Conclusion

The US's bank troubles have been concentrated among smaller-sized banks, while the larger institutions have weathered the storm relatively well so far. The impacts on banks in the European Union have remained moderate. European banks carry substantial liquidity buffers that they can tap into in times of stress. On both sides of the pond, authorities are looking into potential changes that could result in better protection for depositors and as such perhaps more stability for the development of deposits in times of stress. An increase in depositor protection will push up costs from the guarantee schemes that will eventually be borne by the banking system. Better protection for depositors may increase the costs of issuing preferred senior unsecured debt in selected EU countries due to a higher potential burden sharing in times of stress.

Commodities: So much for OPEC+ cuts

Warren Patterson
Head of Commodities Strategy
warren.patterson@asia.ing.com

The oil market has given back all of its gains made following the latest OPEC+ supply cut announcement. Instead, it's the macro story which has dictated price action. While there may be a bit more downside in the near term, the outlook for the second half of the year remains constructive on the back of tighter fundamentals

Haitham al-Ghais, the Secretary General of the Organization of Petroleum Exporting Countries (OPEC)

Oil fundamentals still constructive

The sell-off in the market has been unrelenting over recent weeks, with negative sentiment rising following concerns over the macro environment and what it could eventually mean for oil demand. In addition, weaker refinery margins have also raised doubts over the strength of oil demand. Part of the weakness in margins is also driven by supply dynamics, with Russian refined product flows holding up well, whilst in Asia, Chinese refined exports remain strong.

Global oil demand is expected to grow by around 1.9MMbbls/d in 2023, compared to our previous forecast of 2MMbbls/d. This revision is largely driven by the US, where our macro team is expecting the economy to contract by a fairly sizeable amount over the latter part of the year. Approximately 90% of global demand growth will be driven by non-OECD countries.

On the supply side, the oil market has been dealing with continued disruptions to oil flows from Northern Iraq via Ceyhan in Turkey. This is after a court ruled in favour of the Iraqi government in a dispute over Kurdish flows via Turkey. The stoppage is holding around 450Mbbls/d from the market, which has been the case since late March. Iraq is still in talks with Turkey, but it is not yet clear when flows will resume.

As for Russia, seaborne export flows continue to hold up well, with volumes still at pre-war levels. The impact of import bans and price caps has therefore had a much more limited impact on flows than initially thought.

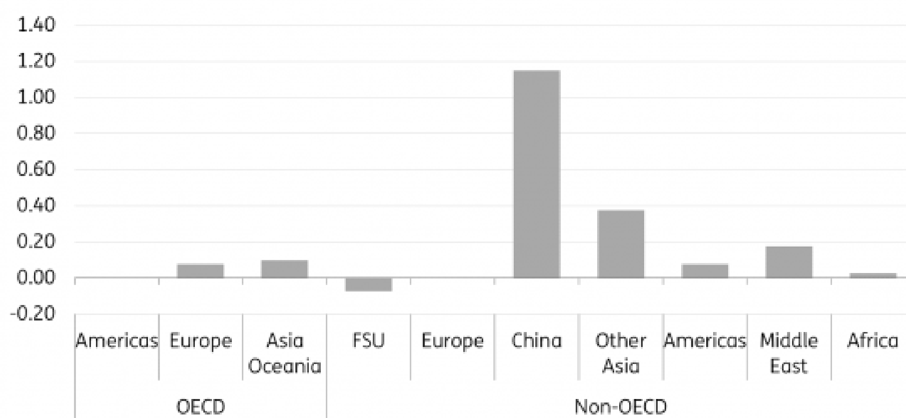
Expectations for 2023

While the oil market has been well supplied so far in 2023, it is expected to tighten significantly over the second half of the year. Demand growth largely from non-OECD countries combined with OPEC+ supply cuts should see the market drawing down inventories over the latter part of the year. While we will see growth in US supply, it will be much more modest than growth in previous years and not enough to prevent a large

deficit later this year. The action that we have seen from OPEC+ in recent months also suggests that the group is fully aware of limited supply growth from non-OPEC+ members. The group is confident that they can cut output without the risk of losing a large amount of market share. If we were to see further downward pressure in oil prices over the coming months, OPEC+ could be forced to act by reducing supply even further.

However, we expect oil prices to move higher from current levels due to the deficit environment over the second half of the year – although slightly weaker demand expectations and sticky Russian supply mean that this deficit is not as large as initially expected. As a result, we have revised lower our price forecast for Brent from US$101/bbl to US$96/bbl over the second half of 2023

2023 global oil demand growth driven by non-OECD (MMbbls/d)



Source: IEA, EIA, OPEC, ING Research

Injection season well underway for the European gas market

The European gas market has been a lot more subdued relative to the oil market over the last month. However, macro concerns along with weaker demand over the shoulder months have driven natural gas prices lower. TTF is trading below EUR40/MWh and has recently traded down to levels last seen in July 2021.

The end of winter has meant that Europe has started its injection season. Storage is currently around 62% full, well above the 36% seen at the same stage last year, and also higher than the five-year average of 42%. This puts the region in a good position to hit its target of having storage 90% full by 1st November. It also means that we do not need to see European buyers scramble like they did last year to ensure enough supply. Storage data already shows that net injections since the end of winter have been at a much slower pace than last year.

There also seems to be limited buying interest for LNG from Asia, which only adds to the downward pressure on global gas prices. Chinese LNG imports over the first quarter were down 4.9% year-on-year, already falling short of expectations. Spot Asian LNG continues to trade at a small discount to TTF, a trend that is also seen further along the forward curve.

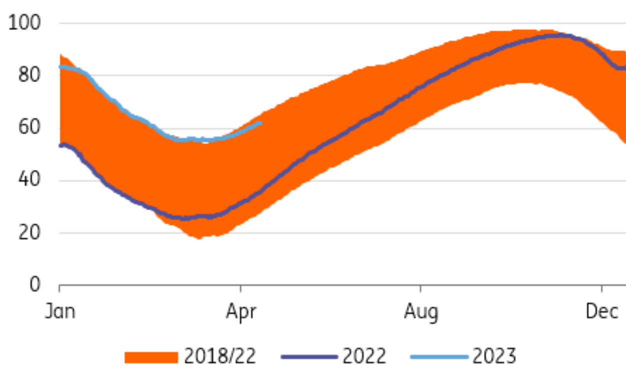
Looking ahead: Risks for Europe

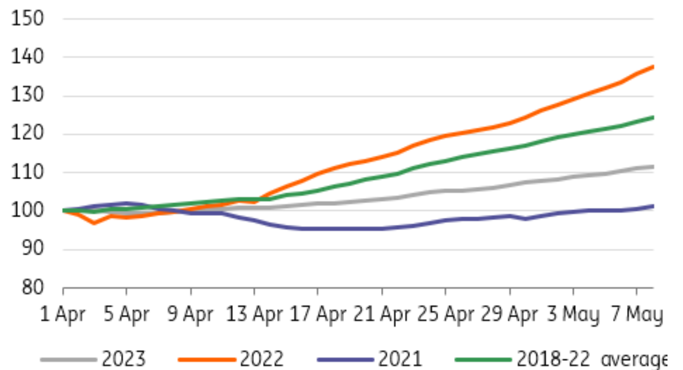
As for European gas, it appears as though we are still yet to see a strong recovery in industrial demand. In April, German industrial gas demand was 12.1% below the 2018-21 average, while total consumption was down just 5.9% from the average due to stronger household demand. We'll need to keep an eye on how demand responds in the coming months for more clarity on just how much of the recent drop is likely permanent. Our balance suggests that demand only needs to be around 10% below the five-year average rather than the European Commission's 15% voluntary cut, which has been extended until the end of next winter.

In the absence of any supply shocks, it's difficult to see significant upside in the near term with decent storage levels. We believe that Europe should enter the 2023/24 winter in a comfortable situation. However, assuming normal conditions, the EU will draw down inventories at a quicker pace over the next winter. We could finish the 2023/24 heating season with storage closer to the five-year average, while stronger draws (relative to the 2022/23 winter) should push prices higher. We forecast TTF to move up towards the EUR60-65/MWh range over the 2023/24 winter. This remains unchanged from last month.

Upside risks to this view would be a colder winter than usual, stronger Asian LNG demand over the second half of the year, and Russia cutting off remaining pipeline flows to Europe. A combination of these three events could leave Europe under extremely tight circumstances by the end of the next winter.

Pace of EU gas injections slower but storage still very comfortable





Source: GIE, ING Research

Our view on the major central banks

With the US Fed set to end rate hikes, the European Central Bank slowing but not stopping, and the Bank of England expected to go its own way, here's our look at how the main central banks are approaching the next few months

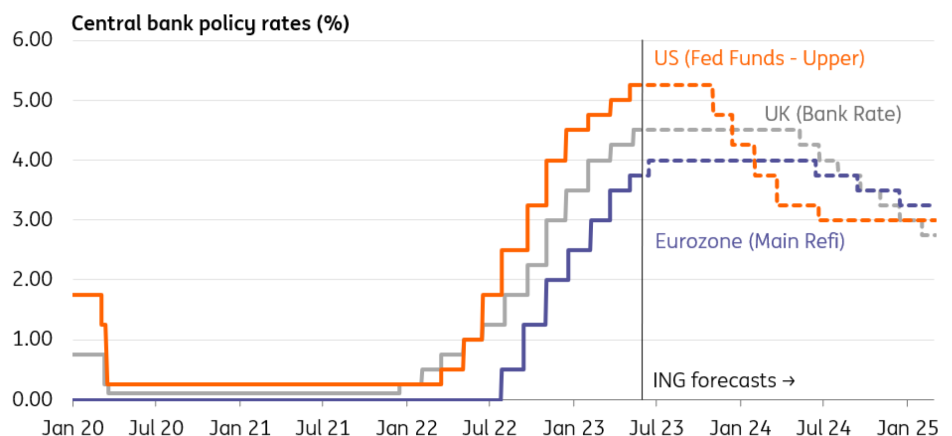
James Knightley
Chief International Economist, Americas
james.knightley@ing.com

Carsten Brzeski
Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

James Smith
Economist, Developed Markets
james.smith@ing.com

The Fed's Jerome Powell and Andrew Bailey, Governor of the Bank of England, at an IMF meeting last year

Our major central bank forecasts



Source: Macrobond, ING

Federal Reserve

After 500bp of interest rate increases, the Federal Reserve has signalled it feels monetary policy is now in restrictive territory and that further rate rises may not be required. The rapid tightening in lending conditions experienced over the past few quarters has only been intensified by recent bank failures. Consequently, the economy is facing dual headwinds of higher borrowing costs and less credit availability in an environment of already very weak business and consumer confidence.

The jobs market is holding up well for now, but we caution that this is the most lagging of indicators, and the risks are that we see a deterioration over the next couple of quarters. Inflation is still well above target, and the Fed continues to signal that rate cuts are unlikely before 2024. However, if the US does enter a recession, then inflation is likely

to fall more quickly than officials expect, potentially opening the door to rate cuts this year.

The market is pricing the first move coming as soon as September, but we think that is too early. The fourth quarter is s a more likely starting point, but the process could be more aggressive with 50bp moves in November and December our call.

European Central Bank

Slowing but not stopping. This was at least the message the ECB tried to send after its last meeting. Banking turbulence has aggravated the tightening impact of the ECB's rate hikes so far; a clear motivation to slow down the pace and size of rate hikes. However, for the time being, the fact that there are still no signs of any disinflationary process, discounting energy and commodity prices, as well as the fact that inflation has increasingly become demand-driven, will keep the ECB in tightening mode.

The main question for the ECB in the coming months will be when it should stop and wait for the rate hikes so far to do their work. Continuing with rate hikes until actual inflation has returned to 2% is hardly an option. Still, as the ECB seems to have lost full trust in its own macro forecasts, actual inflation developments are playing a more important role than in the past. It's a complicated situation as the risk that something in the economy 'breaks' increases every time rates rise. Consequently, the ECB will follow a 'hybrid strategy' bringing longer-term inflation developments under control, while waiting for actual (core) inflation to structurally come down.

To achieve this goal, we expect the ECB to hike one more time before entering a longer ‘high for longer’ period.

Bank of England

The Bank of England's May meeting contained no bombshells and saw the committee raise rates by 25bp and keep options open for June. But while the Bank still retains a tightening bias, it is conditional on inflation showing greater signs of persistence. Whether or not we get a June hike – which is not currently our base case – will hinge almost exclusively on the next two sets of CPI and wage data. But in general, the news on inflation is improving, and the fact that the BoE's own CPI forecasts are materially below target in two years' time is a clear hint that the tightening cycle is at its limit. Rate cuts may be less forthcoming than in the US, but we do expect core inflation to ease back over the next year and think the easing cycle will have begun by this time next year.

The US economy is holding up, despite significant challenges

James Knightley
Chief International Economist, Americas
james.knightley@ing.com

The US economy continues to perform pretty well with the strength of the jobs market an obvious highlight. However, higher borrowing costs, less credit availability, worries about the debt ceiling and squeezed consumer spending mean risks are skewed to the downside

The US economy is facing considerable challenges

Higher borrowing costs and reduced credit availability are major issues

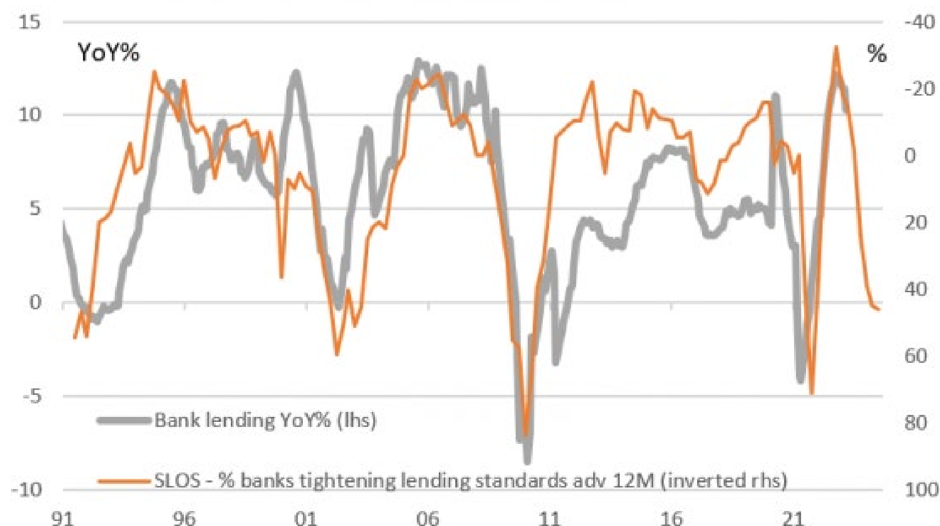
The Federal Reserve has raised interest rates by 500bp over the past 15 months in what has been the most rapid and aggressive phase of monetary policy tightening experienced in more than 40 years. At the same time, banking failures are creating significant stresses to the financial system with lending conditions rapidly tightening as well. Historically, the combination of these two events has been toxic for economic activity.

For now, inflation continues to run hot and the jobs market remains strong with unemployment returning to a cycle low of 3.4% in April. Still, the Federal Reserve appears to be of the mindset that monetary policy is now restrictive and given the "long and varied lags" between policy changes and the impact on the economy, it probably makes sense to pause at coming meetings.

We think that we are now at the peak for interest rates and the next move will be for the Fed to cut rates later this year. Business confidence, be it the Conference Board measure of CEO confidence or the NFIB small business optimism index, are at recession levels, which suggests a defensive mindset that implies less investment and hiring is likely over the coming quarters.

The housing market is also under pressure with mortgage applications for home purchases continuing to trend downwards. The combination of higher borrowing costs and reduced credit availability is likely to intensify these trends.

Tighter credit conditions point to a rapid slowdown in lending growth



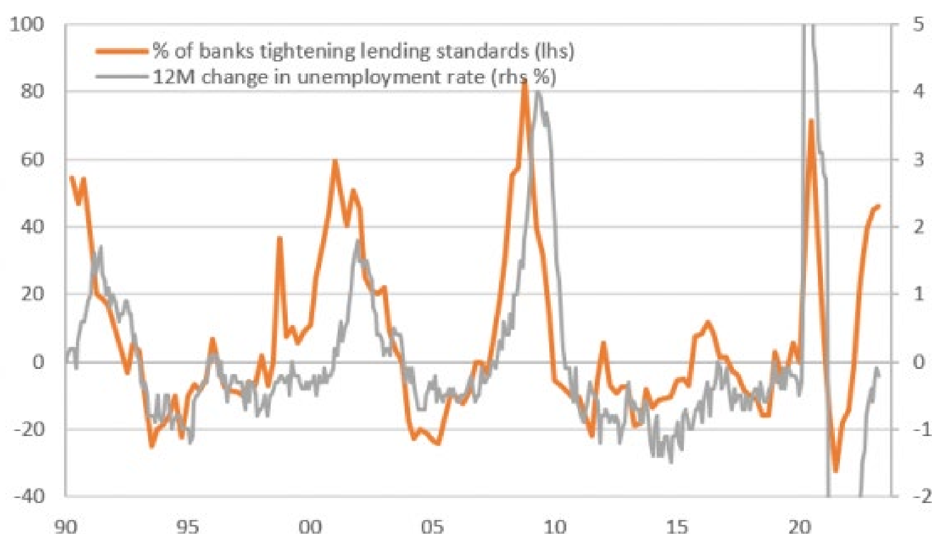
Source: Macrobond, ING

As credit tightens, unemployment rises

The latest Senior Loan Officer survey from the Fed shows that banks are increasingly nervous about the lending environment. This survey has historically had a strong relationship with many cyclical indicators and currently points to a rapid downturn in commercial bank lending growth over the next 12 months.

This is hugely significant as what turns struggling businesses into failing businesses is when credit availability evaporates. Small and regional banks have been hit by a deposit flight and will likely face greater regulatory oversight in the wake of recent events, both of which will deter lending. Given these banks account for more than 40% of all lending in the US, with a particular focus on small businesses outside of major cities, this is a troubling situation. Large banks are unlikely to be able to fill the gap and the risk is that unemployment climbs, as the chart below implies.

Tighter credit conditions always lead to higher unemployment



Source: Macrobond, ING

The challenges are mounting

An additional threat comes from the commercial real estate sector. Small and regional banks account for 70% of all lending here and with office valuations plunging as

refinancing costs soar and occupancy rates continue to languish, there is the very real threat of significant loan losses that will intensify the pressure on the US banking system.

On top of that, we have the US debt ceiling, which we address in greater detail elsewhere in this monthly update. Our key takeaway is that the personalities involved and their entrenched positions mean it is almost impossible to believe that a deal will happen smoothly and quickly. We fear that it will take significant economic and financial market stress to trigger a climbdown from the key players. This could mean a government shutdown and possible default, which would only heighten the likelihood of a recession.

There are also concerns about a potential resumption in Federal student loan repayments from September onwards. This could severely hit the spending power of millions of American households. As such, the challenges are really mounting for the second half of the year.

The Fed looks set to reverse course before year-end

Inflation is sticky, but given the darkening clouds surrounding the US economy and the fact that input costs are moderating, be it import prices, producer prices and even tentative signs of wage growth moderating, we think it will get back to the 2% target by early 2024.

The market is currently pricing the potential for rate cuts as soon as September, but we doubt that the Fed will respond quite as quickly given inflation is still likely to be well above target at that point. Nonetheless, the Fed has a dual mandate of maximising employment as well as achieving 2% inflation over time. Policy optimisation for the Fed's two targets implies it doesn't need to see inflation hitting 2% before cutting interest rates, if unemployment is starting to rise and it is confident inflation will continue to slow.

We think the Fed will wait until the fourth quarter before loosening policy, but will end up cutting interest rates more aggressively, at least in the early stages. We forecast 50bp of rate cuts at both the November and December Federal Open Market Committee meetings with the Fed funds rate getting down to 3% by mid-2024.

US debt ceiling stresses heighten recession risk

James Knightley
Chief International Economist, Americas
james.knightley@ing.com

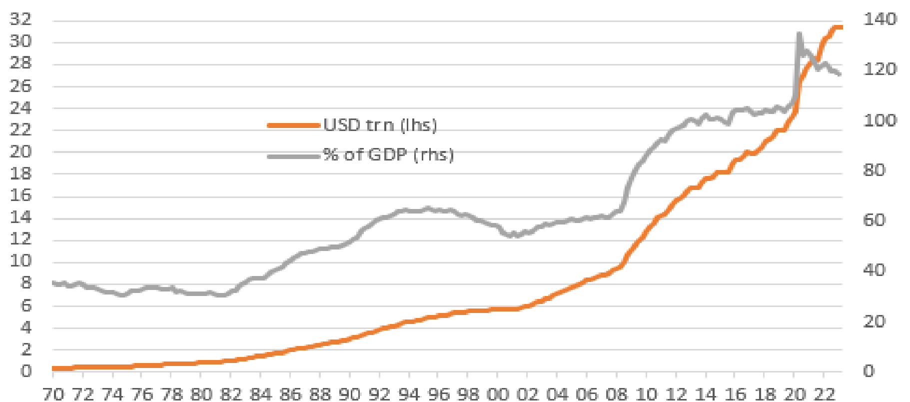
The US is running out of time to agree a deal on raising the debt ceiling. Failure would mean the government is unable to fund its obligations within a matter of weeks. Unfortunately, political positions are entrenched and the threat of a government shutdown and a hugely damaging default is very real. Here we look at what might happen

House Majority leader Steve Scalise (left) and Senate Democrats holding a news conference with Sheldon Whitehouse (right)

A debt ceiling deal needs to be agreed quickly

The US debt ceiling – the cap on US government borrowing set by Congress – was hit in January and ever since then the Treasury has been running down its cash balances and using accounting wizardry to prevent a default. Treasury Secretary Janet Yellen has since warned that these "extraordinary measures" may be exhausted by 1 June. This means a deal must soon be struck between the Democrats and Republicans, otherwise the US government will not be able to fund its obligations. These include paying its workers and making Social Security, Medicare and Medicaid payments. It would also result in debt interest payments and redemptions ceasing and America defaulting intentionally for the first time in history.

US government debt



Source: Macrobond, ING

What makes striking a deal to raise the ceiling so challenging is that we have a split Congress with the House controlled by the Republicans and the Senate controlled by the Democrats, and both need to approve the deal. House Republicans have already approved a package to raise the ceiling, but this involves significant government spending cuts that Senate Democrats refuse to even consider. They and the White House want the ceiling raised with no conditions attached, which the Republicans won't accept.

The best-case scenario is that politicians see sense and recognise the economic and financial damage default would cause. Government workers and creditors may get a little nervous about whether they would be paid, but we remain hopeful that concessions will be made by both sides and the debt ceiling is raised in time.

Economic stress may be required to trigger action

The problem is that the personalities involved and their entrenched positions mean it is almost impossible to believe that a deal will happen smoothly and quickly. We fear that it will take significant economic and financial market stress to trigger a climbdown from the key players; perhaps a realisation that individuals responsible for any pain will be punished at the ballot box.

If a government shutdown and default look likely, the impact on financial markets, consumers and businesses would be huge at a time when sentiment is already fragile in the wake of recent banking failures. Lending conditions, which are already tightening rapidly, could become even more restrictive and a crisis of confidence could quickly envelop the US economy with contagion for the rest of the world. Recession risks would be heightened which would push unemployment higher and lead to a more rapid fall in inflation, opening the door to even more aggressive interest rate cuts from the Federal Reserve than we are currently forecasting.

The one crumb of comfort is that we don't need all Democrats and all Republicans to agree on a deal. It's safe to say the hardliners will never be happy. We merely need enough movement within the centre ground to create a package that allows enough members of each party to save some face and claim they have been able to win concessions. This needs to happen fast though to minimise the disruption to markets and the economy. Failure would undoubtedly heighten the chances of a US recession.

A default would go hand in hand with rating downgrades

A default (or the material threat thereof) on just one bond would cause the rating agencies to downgrade US Treasuries. They would have to. The AAA rating is related to the certainty to receive redemptions and coupon flows. It is tough to argue a product class is AAA rated if there is a missed payment on one of its bonds, even if subsequently made good. It should not be a multi-notch downgrade to junk though. More likely a notch or two. But that would become more if there was to be one missed payment followed by no action taken.

All product that is beholden to the US in any way would be at material risk for downgrade too. Any product with an explicit or implied government guarantee would have to be downgraded. This would include the housing agencies (Freddie and Fannie), and other semi-government agencies. Regional and State debt too would be impacted. Corporates that have a strong US underpinning would be impacted as well, as AAA-rated Treasuries are typically seen as the reference against which corporates are measured.

There is the possibility that the Fed could step in and take the defaulted line out of circulation by swapping it with an alternative non-defaulted bond or bill. It has not said it would do this of course, but it is an option. The other could be for the Fed to buy the defaulted bond off holders at par, so that the investors are made whole and the body of

free-floating Treasuries in the market are non-defaulted bonds and bills. It would not be a good look for the Fed. But such damage limitation would be necessary.

If this did happen there could be a danger that both Congress and the president see this as a way to hold out longer. This would be extremely dangerous, as the market would quickly jump on the notion that all Treasures are extremely tainted and subject to default as coupon payments come due over time. Any Treasuries used as collateral in repo or margin guarantees, or anything really, would be subject to a huge margin call or a hard call for replacement of collateral. That would bring down the entire system.

What happens if the US Treasury misses just one payment

Any failure to pay one US Treasury bond interest payment risks contaminating the entire US Treasury product. That risks taking down the system. It's highly unlikely to happen. But mistakes can be made. The CDS levels we are seeing (75bp for 5yr USD) are at the highest since the Great Financial Crisis, and identify market apprehension/worry as at elevated levels.

For CDS, the key element is the ISDA committee agreement that a credit event has occurred. A credit event in the case of US Treasuries would most likely be a default. A default would be where the US Treasury fails to make either an interest rate or redemption payment. There is no grace period. Any missed payment on any bond would constitute a default. CDS cannot be triggered unless you have a hard default. A bond trading at a super deep discount, for example, would not constitute a credit event. Other forms of credit events could be a bond restructuring or bankruptcy. These are not in play here, so we're left with the fact that CDS will get triggered should the US Treasury miss a payment – any payment.

Importantly, there is no cross-default in US Treasuries. So, if one bond is in a state of default, that does not accelerate the rest of the Treasury market into a state of default. This would be the case for many corporates for example. But it's not the case for US Treasuries. However, this is a bit of a legal grey area, as if one bond is defaulted on, it can tarnish other Treasury bonds by association. For example, can they still be employed as eligible collateral? Open to interpretation. So while there is technical agreement that there is no cross-default, it can still be there by implication, or by inference (even if not there in fact). In all probability, just one missed payment has the potential to unravel into something quite sinister for the function of the system.

For CDS, the trigger is a missed payment (subject to ISDA approval), then default, and then the opportunity to swap a cheapest-to-deliver bond versus par. In actuality, though, the US Treasury will make any defaulted bondholders whole by ultimately paying the coupon or redemption in question. But contractually there would have to be a payout. Either way, a missed payment would significantly damage the quality of US Treasuries and dollar products generally, and certainly during the default period itself. This should be quite short as Congress rushes to correct things by suspending or raising the debt limit. If not, the longer the stand-off continues, the greater the risk that the entire system is taken down. Highly unlikely. But not impossible.

The eurozone’s flying on one engine

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

The eurozone expansion is now solely being fuelled by a strong services sector, but tighter monetary policy is likely to bring the economy to a standstill in the second half of the year. While inflation is trending downwards and bank credit standards are tightening, the European Central Bank is likely to hike interest rates at least one more time

All aboard! European leaders, including France's Emmanuel Macron and Germany's Olaf Scholz at the North Sea Summit last month

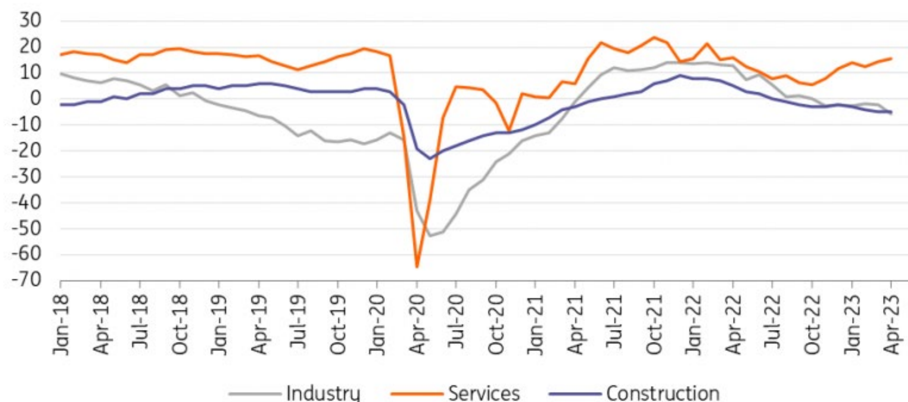
A disappointing first quarter

First estimates show that the eurozone grew by 0.1% in the first quarter. A disappointing stagnation in Germany and another freak figure for Ireland (which is prone to revision) offset decent growth figures in most other member states. However, many countervailing factors continue to muddle the growth outlook.

The tailwind created by the significant drop in natural gas prices is likely to be countered by diminishing fiscal support and tighter monetary policy. And while supply-side issues in industry have now been resolved, an inventory overhang and weak new orders are putting a lid on output growth.

Recovering growth in China could be a boon for European exports, though the fear is that this will be offset by the looming recession in the US. The strong decline in German industrial production in March is a warning sign, and sentiment indicators for April show that the eurozone industry weakened further in the first month of the second quarter. Both order books and export orders softened in April, which doesn’t bode well for the months ahead. Meanwhile, order books in the interest rate-sensitive construction sector also deteriorated in April, for the fourth month in a row.

Order book or future demand assessment



Source: Refinitiv Datastream

Services save the day

If it weren't for services, we would probably already have to start thinking about a recession. To some extent, consumers are still in a post-Covid mood, spending essentially on services rather than on goods. Retail sales turned out to be very weak in March. But the assessment of demand in the services sector is significantly above its long-term average. And expected services demand for the months ahead rose for the second month in a row in April. So, for the time being, growth hinges essentially on the consumer.

Purchasing power is improving on the back of higher wages and falling energy prices. But at the same time, cracks are starting to show in the labour market. Unemployment is still very low and with the structural tightness of the labour market, a strong increase in unemployment looks unlikely. At the same time, hiring intentions are weakening. This might ultimately lead the consumer to become a bit more cautious in spending, halting the decline in the savings ratio. This will probably weigh on activity in the second half of the year. For the year, 0.8% GDP growth should still be feasible, but starting from a lower base, we now only pencil in 0.6% growth for 2023, way below official forecasts.

Expected selling prices

Source: Refinitiv Datastream

Inflation is stubborn, but will come down

According to the flash estimate, headline inflation rose to 7% year-on-year in April, though core inflation fell to 5.6%. However, the underlying trend in core inflation (3M on 3M change, annualised) accelerated to 6.1%. These are not figures that will convince the ECB that inflation is under control. That said, disinflationary forces in manufacturing will get stronger – expectations for selling prices fell back in April to the lowest level since the

start of 2021. And while they are still high in the services sector, they have also been coming down for three consecutive months. That said, it might take until the second half of the year before service price inflation starts to drop significantly. The bottom line is that we expect the downward trend in inflation to continue, although core inflation is still likely to hover around 5% in the second quarter.

Monetary transmission in full force

As the dynamics of core inflation is one of the three factors that will drive monetary policy, according to ECB President Christine Lagarde, the ECB cannot rest on its laurels just yet. The ECB still projects inflation to remain "too high for too long". On the other hand, it is also clear that the monetary transmission mechanism is now working in full force.

Banks tightened credit standards the most since the financial crisis and in the first quarter credit demand was much weaker than anticipated, according to the Bank Lending Survey. M1 growth, which has been a good leading indicator in the past, fell 4.2% year-on-year in March. Another 25bp rate hike in June looks like a done deal. It remains a close call, but we cannot exclude a last 25bp rate hike in July too. In any case, a long pause is likely to follow from the second half of the year onwards. Given the likelihood of significant US monetary easing before the end of the year, we now anticipate the first ECB rate cut in the second quarter of 2024.

China's domestic economy is thriving, but exports remain vulnerable

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Strong internal tourism during the Golden Week holiday in early May indicates that the domestic economy has rebounded. But exports remain weak and could worsen further. We are revising our GDP forecasts

Domestic tourism in China is thriving, boosting the economy

Retail sales during Golden Week indicate the domestic economy has recovered

We are seeing clear signs that China's domestic economy has recovered.

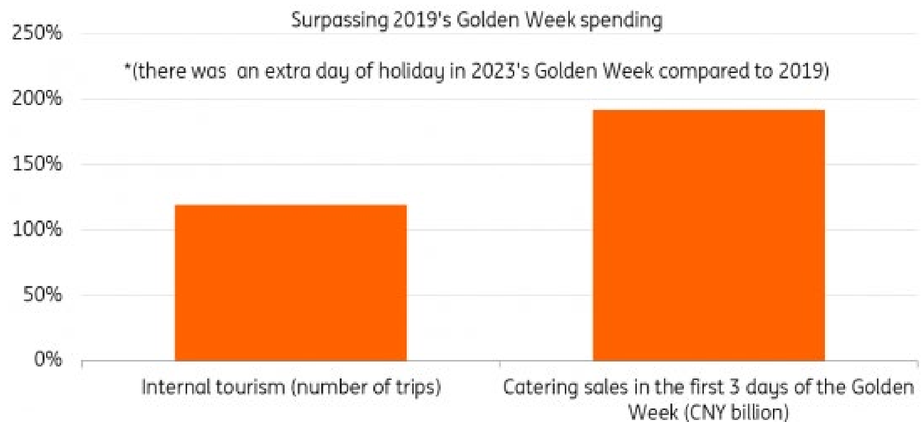
Retail sales and catering increased by 18.9% year-on-year during the Golden Week holiday (around the first week of May). In particular, catering jumped by 57.9%YoY. According to the app Meituan, dining sales at restaurants during the first three days of the holiday jumped by 92% from the 2019 pre-Covid level.

In terms of internal tourism, there were 274 million trips made during this year's Golden Week, a 40% increase from the 195 million trips made during the same period in 2019. Revenue from internal tourism was CNY148 billion, a 25% increase from the 2019 figure of CNY117 billion. But we need to consider that there was an extra day of holiday during this year's Golden Week compared to 2019. After taking this into account, the number of internal trips rose by 101% from 2019.

Outbound tourism, on the other hand, was not as good. There were only 1.253 million trips per day during this year's holiday, which was 59.2% of the 2019 total. One reason for this is that there has been a long wait to renew passports. Another is that Chinese tourists' wealth was hit during Covid and middle-income spenders are less willing to take long-haul flights and spend lavishly overseas, although the wealthy are not affected.

With little consumption leakage to outbound tourism, the domestic recovery could be more obvious during the summer holidays.

Golden Week in 2023 vs 2019



Source: ING

Exports are not promising

The global economy is weakening and we expect the US economy to slow further. This is making life more difficult for Chinese exporters. As we are not optimistic about the prospects for the global economy, manufacturing will likely remain weak for the rest of the year. This is going to affect wage growth in manufacturing, and as a result, overall wage growth in China's labour market. This will eventually hit the domestic economy by slowing consumption.

Fiscal stimulus could help break the negative feedback loop

We expect fiscal stimulus will be the main tool used to try to stop this negative feedback loop. The policy objective will be to support the manufacturing industry to keep labour demand stable in the sector. One possible policy tool would be to continue subsidising electric vehicle consumption, which will then increase the production of electric vehicles. Another would be to push infrastructure investment faster.

GDP forecast revision

With a better-than-expected GDP release for the first quarter, a surprisingly good Golden Week in May, and our expectation that retail sales and fiscal stimulus could keep up this momentum during the summer holidays, we are revising our GDP growth forecast up to 5.7% in 2023 from 5.0% previously. But the challenging global economic environment will affect China's economy more in 2024. As such, we are revising down the forecast for 2024 to 4.7% from 5.3%.

Rob Carnell
Regional Head of Research, Asia- Pacific
rob.carnell@ing.com

Asia not towing the FX line

Since February, Asian exchange rates have not been tracking EUR/USD as closely as they did last year. We look for economic answers to this conundrum and consider how long this may last

Asian exchange rates have not been tracking EUR/USD as closely as they did last year

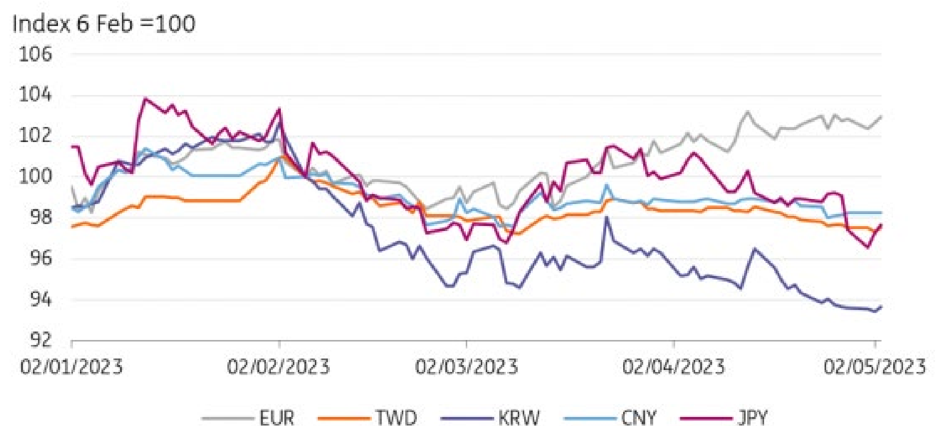
What's up with Asian FX?

We spend a lot of time and effort forecasting individual Asian currency pairs against the US dollar. But most of the time, if you have a good idea where EUR/USD is headed, that's all you really need to know.

However, this year, Asian currencies have been showing more individuality and bucking the major EUR/USD trend, which has taken the USD erratically weaker.

If we can figure out why, then we have a shot at answering whether this recent trend will continue, or whether Asian FX will revert to the broader FX theme of USD weakness.

Asian FX versus EUR/USD



Source: CEIC, ING

The really obvious explanations don't fully stack up

The first thing to note is that this is mainly a North Asian phenomenon. Unlike the euro, most of the currencies of North Asia are today no stronger, and usually somewhat

weaker, against the US dollar than they were in February. In contrast, Indonesia's rupiah has actually outperformed the euro over the same period.

The timing of this is also worth considering. Using the high-beta Korean won as our benchmark for the region, the FX weakness looks as if it started in early February. Though in fact, the real divergence with the euro for North Asia's major currencies occurred between 23 February and 3 March. This is important, as some have suggested that what is going on is a function of the problems in US banks (Silicon Valley Bank was closed on 10 March). It is quite possible that the banking crisis may be compounding an existing issue, and it is also entirely possible that the rise in risk aversion has resulted in emerging market Asian outflows – but mainly from North Asia? If anything, we'd imagine that this, and also concern about the US debt ceiling, would be more likely to lead to these large current account surplus economies selling US Treasuries and bank stocks and repatriating – hardly the stuff of currency weakness.

All of this also predates US Federal Reserve Chair Jerome Powell's short-lived threat to keep hiking rates at 50bp increments (7 March), as well as confirmation and most of the preamble surrounding Bank of Japan's (BoJ's) appointment of Kazuo Ueda as the new Governor (10 March). That said, there has been some simmering down of BoJ policy speculation that took off at the end of 2022 and implied Japanese rates have declined over this period. This will have helped keep the Japanese yen soft during the early part of 2023 as Ueda has proved to be patient with respect to the BoJ's existing policies. It may also have weighed on currencies such as the Korean won.

SOX" and aggregate North Asian FX index

Source: Asian FX versus EURUSD

Is geopolitics playing a role?

There has also been a lot of geopolitics at the beginning of this year. The US offered a major arms deal to Taiwan. And China's Two Sessions meeting in early March didn't deliver any major stimulus pledges, disappointing markets.

At a sectoral level, the global semiconductor industry (which brings the focus back towards North Asia), has also been struggling over this period (see the Philadelphia semiconductor index chart). Sales have been falling globally, with rising inventories and falling prices, not helped by incremental sanctions on Chinese high-tech companies and the cross-border restrictions on third countries which build on the 2022 Chips Act. For at least part of the period we are concerned about, the SOX index does seem to move closely in line with an aggregate index of North Asian currencies, so this is probably part of the answer, though we doubt it is the whole story.

Where do we go from here?

The conclusion we seem to be drifting toward is that no single factor accounts for the deviation of North Asian currencies from their South and South-East Asian counterparts

or benchmarks like EUR/USD. And though this makes it a little trickier to determine a turning point, we can offer a few thoughts on the likely path ahead.

The BoJ's rates policy may prove to be pivotal especially when you consider the scale of Japan's US Treasury holdings and the prospects for some end-of-year Fed easing. The JPY is also a major currency anchor in the region for currencies such as the KRW. We don't think the BoJ will lift its negative rates policy until next year though, but as we get closer to 2024, speculation may well lift the yen.

The China macro story is also looking somewhat weaker into the end of the year, though, at some stage, construction is likely to offer more of a lift to the industrial sector than it is currently doing. Optimistically, this is a second-half 2023 story, and the same goes for the semiconductor cycle (most relevant for the Taiwan dollar and Korean won), which we expect will also bottom at some point in the second half of the year. That said, we see little prospect of a decline in US-China tensions or ratcheting back of the tech war, and overcapacity in the semiconductor industry may also become an issue going into 2024.

Putting all this together, it is probably right to be a bit more constructive for North Asian FX over the second half of the year, but equally, any rebound looks likely to be fairly modest by previous standards.

James Smith
Economist, Developed Markets
james.smith@ing.com

The UK inflation story is starting to turn a corner

Markets expect the Bank of England to lag behind the Federal Reserve when it comes to rate cuts. But with the story on UK inflation slowly turning a corner, we think markets are overestimating the potential divergence between these two central banks

Andrew Bailey, Governor of the Bank of England, pictured at King Charles III's Coronation in May

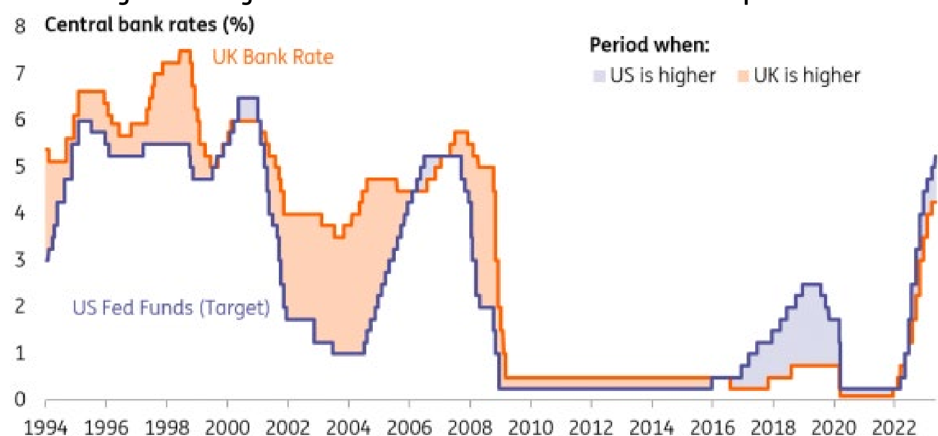
Markets expect the Fed to cut rates more aggressively than the Bank of England

Not for the first time in this central bank tightening cycle, an interesting divergence is opening up in the way investors are viewing the future path of rate hikes/cuts from the Bank of England relative to elsewhere. Where 200bp of rate cuts are now priced in the US over the next couple of years, investors are looking for just half that in the UK. And unlike the Federal Reserve, investors think the BoE still has rate hikes left in the tank before the summer.

Admittedly this divergence, if it plays out that way, wouldn't be new. The Fed was ahead of the game with rate cuts in 2007/08, while the US tightening cycle seen through 2017/18 was not replicated in the UK.

But to see the same kind of divergence this time around we think would imply that the banking crisis is likely to have a much greater impact on the US than Europe and/or that inflation will prove much stickier.

Bank of England divergence from the Federal Reserve is far from unprecedented



Source: Macrobond

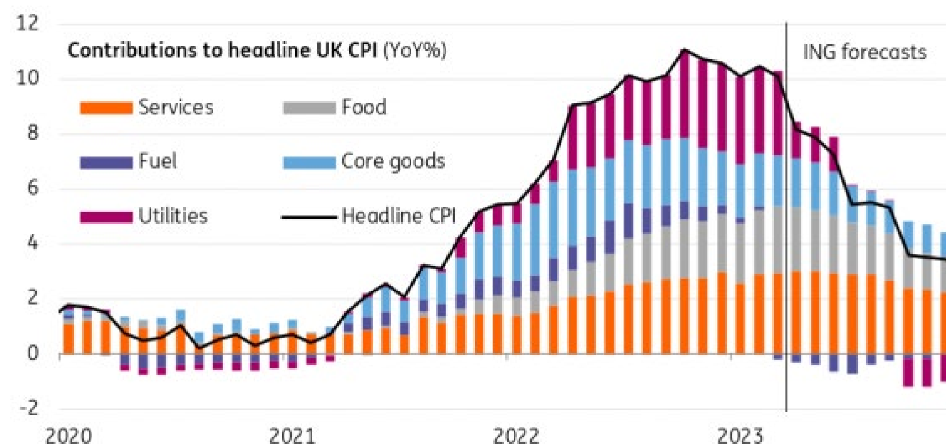
The UK inflation story is starting to turn a corner

On the former, so far we've not seen the same degree of tightening in lending standards in the Bank of England's Credit Conditions survey as we've seen in the Fed's Senior Loan Officer report. But equally, it's highly unlikely that the UK economy would be fully insulated from a US recession triggered by tighter lending conditions.

On inflation, there are reasons to think US inflation will fall more aggressively, or at an earlier stage, than in the UK and we're already seeing that. Partly that's a consequence of the UK's exposure to Europe's energy crisis, and it's also just a simple reflection of the much lower weight on housing/rent in the British inflation basket.

Still, the news on UK inflation is looking slowly better. Admittedly the most recent wage and CPI data came in higher than expected, though the former has been volatile and the latter is mainly down to food and "core goods", neither of which, by the BoE's own admission, are likely to be long-lasting trends. The BoE's own survey of chief financial officers shows both wage growth and price-setting expectations having fallen for a few months now.

UK inflation set to fall dramatically this year



Source: Macrobon, ING

Bank of England rate cuts coming in early/mid 2024

The worry of BoE hawks is that services inflation – the part of the basket that tends to be slower-moving – could stay higher for longer. But at 6.7%, we think we're virtually at the peak and it should go below 5% by the year-end. That's still uncomfortable and could be a catalyst for the Bank to hold rates as the Federal Reserve begins to cut. But much of the rise in service sector inflation can be traced back to higher gas prices, which are now considerably lower. That, and the potential for slower wage growth, point to a further fall in services inflation through 2024.

We therefore expect rate cuts to begin after Easter in 2024, and this easing cycle could ultimately see Bank Rate fall below 3%. That means that, over a two-year horizon, the BoE may not look that different to the Fed after all.

The slow disinflationary trend continues in the CEE

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Péter Virovácz
Senior Economist, Hungary
peter.virovacz@ing.com

Vojtech Benda
Chief Economist, Czech Republic
vojtech.benda@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

We see continued improvement in headline inflation, with a majority of countries in the region experiencing a slowdown in economic activity. However, with core inflation remaining persistently high and wage growth on the upside, central banks will have to tread carefully. It is too soon to signal easing with confidence, except for Hungary

High inflation in Central and Eastern Europe has suppressed consumer spending

Poland: No room for cuts this year as core price disinflation remains slow

The beginning of 2023 was rather poor for the Polish economy. As a result, we revised our first quarter GDP forecast from -1.2% year-on-year to -1.5% and the weak start to the year increases downside risks to our 0.5% economic growth forecast for 2023 as a whole.

The March set of monthly data from the real economy was not a pretty picture. Industrial output, construction and retail sales all fell in annual terms. Sales of goods were 7.2% lower than in March 2022. That indicates that in the first quarter of the year, household consumption fell even more than the -1.1% YoY reported in the fourth quarter of 2022, contributing to the decline in first-quarter GDP. Growth was mainly driven by an improving foreign trade balance, while domestic demand was shrinking.

Despite two quarters of consumption contraction, there is only moderate progress on the inflation front. Headline inflation declined further in April – down to 14.7% YoY – but core inflation was broadly unchanged. It suggests that enterprises are still able to pass on higher costs onto their prices and disinflation is chiefly due to the easing energy shock and lower pressure from food prices. We expect disinflation in core prices to be much slower than in the case of headline CPI. With CPI only slightly below 10% YoY in December, and with the National Bank of Poland (NBP) target still far away, we expect the Monetary Policy Council (MPC) to keep policy rates unchanged by the end of this year and cuts may start in 2024.

The Polish zloty gained 2% against the euro in April and outperformed CEE peers. The market has largely shrugged off risks related to the FX mortgage saga, and with a trade surplus exporters remain strong sellers of the euro. Moreover, with EUR/USD rises, the domestic soft patch, and NBP easing, expectations should play a lesser role. Given the improving current account and expected weakening of the dollar, this prompts us to

lower the EUR/PLN path in the remainder of the year. That said, technical analysis suggests, that at least the short-term scope for further PLN gains might have been largely exhausted.

The market continues to price NBP rate cuts in the second half of 2023. While we do not share this view, data for the remainder of this quarter and next (slowdown in headline CPI and soft real economy figures), as well as increasingly dovish MPC remarks, should only reinforce those expectations. Moreover, the government remains tame in pre-election promises, even signalling alternative financing sources (€24bn loans from the Recovery Fund). Given the debt-positive global environment, this may trigger curve flattening in the remainder of the quarter. Pre-election fiscal promises remain a major risk though (as opinion pools do not show a clear victory of the ruling PiS), but may start to manifest in June when the new election programme of the ruling PiS should be unveiled.

Czech Republic: Economy will recover in the second half of 2023

The Czech economy returned to soft positive growth of 0.1% quarter-on-quarter in the first quarter of this year, but remained negative in year-on-year terms (-0.2%). We expect the annual growth of GDP to remain negative in the first half of 2023 due to still declining household consumption, investment demand, and only soft growth of government spending.

During the remainder of 2023, however, the economy will likely show signs of a recovery, as gradually receding inflation will weigh less on the real purchasing power of households and the slowly improving external environment will support a gradual acceleration of exports. Yet investment demand will likely remain weak due to persistently high interest rates. Negative annual growth in the first half of 2023 and only a gradual recovery will result in an annual decline in 2023 of around -0.3%

A positive sign is that core inflation has been declining for four consecutive months, while in some other EU economies, core inflation is still picking up. This suggests that domestic inflationary pressures are slightly softening, which can be partly attributed to the relatively early start of hefty rate hikes from the Czech National Bank beginning in June 2021, when the economy was only just emerging from the Covid-19 lockdown.

The Czech koruna rebounded from 24.00 EUR/CZK in the post-Silicon Valley Bank period to record strong levels. We have seen weaker levels again in recent days, but we think the market is taking some profits given the long positioning, and we remain bullish on the CZK. The interest rate differential against EUR has fallen by around 30bp at the short end of the curve versus EUR rates and global conditions with a higher EUR/USD also supporting a further rally in the koruna. For now, we expect the koruna to settle in the 23.30-40 EUR/CZK band with the possibility of a further rally if global conditions allow.

Hungary: Gloom with some silver linings

Economic activity has slowed markedly during the first quarter based on high-frequency data. Retail sales, industry and construction underperformed throughout the first quarter, and we expect continued weakness in the first half of 2023. Thus the rebound from the ongoing technical recession will not be as robust as previously expected. Hence we downgrade our 2023 GDP growth outlook to 0.2%.

Inflation is mainly to blame as it has proven stickier than expected. Core inflation hit a new peak in March, while pending price increases in services could slow disinflation. The silver lining is that inflation will gradually decline throughout the year and real wage growth will flip back into positive territory at the end of the third quarter, which in our view will boost household savings. The central bank's dovish pivot has started by cutting the top-end of its rate corridor by 450bp, and we see effective rate cuts starting in May or June. The deal-breaker here remains the local market's stability accompanied by

improving metrics of external balances and continued positive developments in the global risk environment.

Investors are now focused on the EU funds story yet again with the budgetary situation in mind. We still see the 3.9% deficit-to-GDP target as roughly realistic, but the latest Convergence Programme showed that the task won't be easy as interest rate-related expenditures mount to 3.8% of GDP this year. The upwardly revised deficit targets of 2024-25 (by 0.4-0.4% of GDP) are also pointing to the direction that the government needs to manage the budgetary situation carefully. But markets continue to show confidence, evidenced by the stability of the EUR/HUF despite the effective easing cycle being at arm's length. We expect EUR/HUF to oscillate in the current range of 370-380, depending on the progress in the EU story and the National Bank of Hungary's boldness in the coming months. In our view, Hungarian government bonds can benefit the most from the combination of funding under control, monetary policy normalisation and positive news regarding EU funds (for more details, check out our Monitoring Hungary).

Romania: First quarter growth might surprise to the upside

As most of the high-frequency data show, economic activity in Romania seems to have remained quite resilient in the first quarter. While the industrial production advance has likely consolidated in negative territory, rather robust data could be observed in construction and services, bringing our +0.2% quarterly GDP advance estimate slightly on the conservative side. The relatively better-than-expected high-frequency data is underpinned by a still remarkable average wage growth (+14.8% as of February), which supports decent private consumption numbers (+6.8% as of March 2023).

On the inflation front, the National Bank of Romania (NBR) will release its latest forecasts in mid-May together with the May Inflation Report. Typically, the forecast revisions increase the short-term outlook while lowering the longer-term, but this time we expect the NBR to broadly maintain its forecasts from the previous report, which are pretty close to ours as well. We maintain our estimate of headline inflation touching 7.4% in December 2023.

We believe that NBR will stay on course and keep the key rate unchanged for the remainder of 2023. Should any upside pressures on EUR/RON emerge, the NBR will likely be more than willing to provide euro liquidity to the market in order to mop up some of the local currency surplus. Speaking of the currency, we have an already long-standing view that EUR/RON will be allowed to shift some 2.0-3.0% higher later this year, most likely when inflation is credibly within single digits. While we maintain our view, we must also notice that upside pressure on the pair has not been material and that the adjustment might take a bit longer to occur.

Bert Colijn
Senior Economist, Eurozone
bert.colijn@ing.com

Rico Luman
Senior Sector Economist
Rico.Luman@ing.com

World trade shows signs of diversification

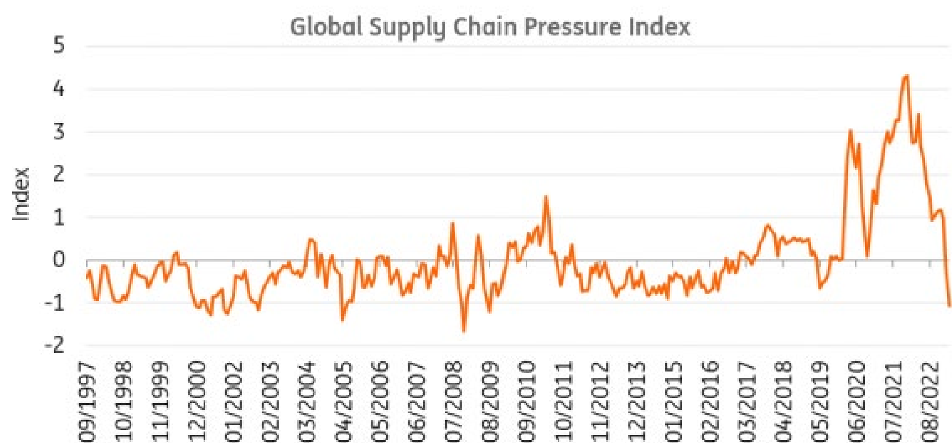
Large shifts in world trade patterns are occurring as advanced economies – especially the US – are diversifying input sourcing. With extreme pandemic effects fading, supply chain problems are unlikely to return at a similar scale as seen in recent years

We expect total trade to grow at just 1% compared to last year

Supply chain problems are easing rapidly

The main problems around world trade in 2021 and 2022 were related to disrupted supply chains. Transport costs soared on the back of container shortages, lockdowns caused production stops and inputs were in short supply amid strong demand. This resulted in spiking container rates, high supply delivery times and depleted inventories. Since mid-last year, more or less coinciding with the peak in world trade, we've started to see a turnaround in supply chain problems. They have eased substantially since then as global demand for goods has weakened and production capacity has been improving. Arrival reliability of container vessels has also improved to over 60% in March 2023 compared to 30% at the start of 2022 which helps to improve the global supply system.

Supply chain issues have faded quickly in recent months



Source: New York Federal Reserve Bank

The broad-based supply chain problems of recent years were clearly rooted in the pandemic. Overheating global demand for goods while supply was still very restricted because of pandemic-related limitations caused a rare mismatch of supply and demand resulting in extraordinary imbalances and widespread shortages. Since then, demand has been normalising and for many inputs, new production capacity has been coming online. This has resulted in rapidly improving supply chain problems.

The lesson for the future is that the unique nature of the shock allowed for such widespread problems to occur. While we expect that shortages and supply risks will continue to feature on the economic and business agenda as labour shortages remain more persistent and the energy transition could lead to new supply squeezes, we do deem it unlikely that similar broad-based shortages will return without a shock the size of the pandemic.

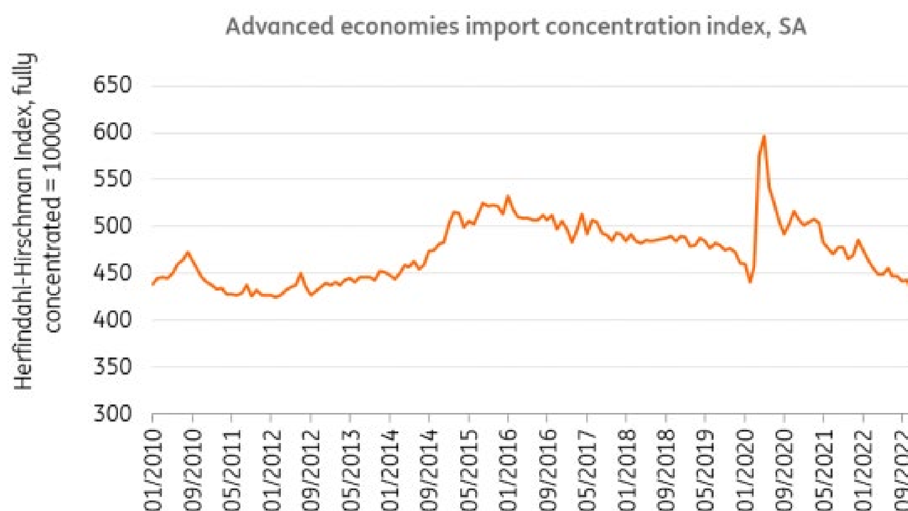
Normalisation and easing demand for goods made world trade contract

Since September, world trade has fallen by around 4%. The pandemic shock to global consumption has likely played a large role in trade trends in recent years. The initial phase of the pandemic resulted in lopsided consumption towards goods, which has now reversed towards services demand. Businesses also increased inventories early last year as supply chain problems persisted, which is now reversing. While the 'bullwhip effect' of stockpiling across the supply chain added to trade volumes earlier, the process of stock reduction now creates extra slack in the figures. Although this process has not been finished yet in the first quarter of 2023, we expect trade to recover mildly over the course of this year on the back of the reopening of China, starting at the end of the first quarter. All in all, we expect total trade to grow at just 1% compared to last year, with 2024 offering a 2% gain in trade volume. This means trade will drop below global GDP growth and continues in the slow lane compared to long-term averages.

Structurally, advanced markets are diversifying trade partners – particularly the US

It looks like diversification of sourcing products is the most dominant response to the supply chain problems seen in recent years. That is not just the case anecdotally and indicated in surveys, we also find this when looking at import country concentration. To gauge whether trade has been diversifying in terms of countries, we use a Herfindahl–Hirschman index to determine concentration. Using the IMF DOTS dataset on trade, we can go back several decades to find out how concentrated or diversified imports have been for advanced markets.

Concentration of import sourcing has been the trend since 2016



Source: IMF DOTS, ING Research calculations

Since 2016, we have seen steady declines in our import concentration index for advanced economies. This indicates that we indeed see some form of diversification happening in terms of imports from different countries. Interestingly, we do see notable differences between Europe and the US. In the EU, we note relatively little diversification so far outside of the pandemic shock. The US is the main diversification force at the moment. American imports are now a lot more diversified than they were in 2016 and this is mainly driven by a clear trend towards a lower dependency on China for imports.

Geopolitical problems are heating up and are starting to have more of a structural impact on world trade. We see that advanced economies are diversifying trade partners, mainly in the US for now, but this trend is likely to take off in Europe as well thanks to expected higher trade barriers and continued geopolitical concerns in the years ahead.

More in our extensive world trade outlook

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

FX: A stronger case for a weaker dollar

Fresh turmoil in the US banking sector is raising the chances of dollar underperformance in the latter part of the year, when we expect the Fed to cut rates by 100bp and US-eurozone divergence to drive EUR/USD to a 1.20 peak. However, some risks – including the US debt ceiling stalemate – can keep the dollar afloat in the short term

The recent US banking turmoil has weighed heavily on the dollar

A month ago, we stated that the key challenge in the currency market was timing the dollar sell-off. A few weeks of stabilisation in the dollar suggest this is, indeed, still the case. And, while the Federal Reserve presumably reaching its peak and US inflation continuing its descent hardly came as a surprise, the last month provided – in our opinion – more evidence in support of a bearish dollar case in the second half of the year. The resurgence of stress in the US banking sector recently warned of a more deeply rooted crisis in the regional lenders' system. While the government and Fed are keeping it from becoming a full-fledged financial catastrophe, the ramifications for the whole economy are deepening.

A substantial tightening of credit conditions beyond the Fed rate hikes effect is now pointing at a sharp downturn in the US economy, and we forecast the Fed will respond with 100bp of cuts later this year. On the other side of the Atlantic, the ECB is not in a hurry to give up its hawkish stance, and while we only anticipate one more 25bp hike this year, rate cuts should not be expected until the second half of 2024.

The widening of the US-eurozone and Fed-ECB divergence in the latter part of this year and the start of next year led us to revise our EUR/USD forecast higher: we now expect a peak at 1.20 in 4Q23/1Q23, before a descent to 1.15 toward the back-end of 2024 as the ECB starts easing.

The short-term outlook is admittedly less of a clear-cut bearish story for the dollar. It is important to take positioning into account, and the dollar is markedly oversold against the euro. Incidentally, if US banking stress can hit the dollar via the rate cut channel in the longer run, it can also keep it afloat in the short term by hurting risk sentiment and increasing safe-haven demand. Should the US debt ceiling stalemate result in substantial turbulence in money markets, it can also lead to a dramatic increase in demand for dollars.

From a different perspective, these shorter-term dangers led us to restate our bullish call on the yen, which may also benefit from the Bank of Japan's surprise hawkish tilt this summer. Elsewhere, we now expect GBP/USD to break through 1.30 before the end of the year, although the euro's outperformance over sterling (EUR/GBP to rise to 0.90) remains our base case.

Rates: Something's got to give

Padhraic Garvey
Head of Global Debt and Rates Strategy/
Regional Head of Research, Americas
padhraic.garvey@ing.com

The very system is being threatened by the necessity of central banks to raise rates to the extent that both sides of (weaker) bank balance sheets have come under pressure. Overlay that with a threat to the quality of the US Treasury market, and there are reasons to worry. The thing is, these are pulling market rates in different directions. Something will give

Market rates have been up and down since the fall of Silicon Valley Bank in March

The crisis in (small US) banks is a factor placing downward pressure on market rates

Typically, you would expect concern about the banks to have a dominant influence on market rates, pushing them lower. There certainly was an impact influence when Silicon Valley Bank in the US went down, followed by Credit Suisse in Europe. We had what looked like a simultaneous realisation that higher official rates were having a negative effect on the financial system that should cause central banks to tame their hiking ambitions.

Since then, market rates have been up and down, but all in all, iterating around a broadly flat trend. Even though the US banking story has been further muddied as a solution had to be found for First Republic Bank, and some other smaller banks have come under pressure, there is also the realisation that the American systemically important ones are fine, and European banks are not being overly impacted by the stresses in the smaller US banks.

This has prevented market rates from further nosediving, and indeed both the European Central Bank and the Federal Reserve have delivered interest rate hikes in the meantime.

Sticky inflation acts to question lower rates, and places upward pressure on market rates

Market rates remain on watch, and observing other key factors. One of those is inflation.

This, of course, is not a new story, but the big issue in play now is how sticky inflation has become. It's off the highs but running out of easy runway coming from base effects. Further falls will be tougher, keeping both the Fed and the ECB in hawkish territory. Market rates are impacted too, as ambition for longer market rates to fall in any material fashion is frustrated by the reality that they are still deeply negative in real terms, and also well below short tenor rates.

Longs in front-end US, for example, provide a running yield with a 5% handle on very little price risk, whereas the 10yr at 3.5% is more than 1.5% below this and subject to considerably more price risk. The inversion on the eurozone curve is not as pronounced, but the same logic applies. Euribor 6mth at 3.5% contrasts with the 10yr at 3%.

The size of negative real yields is also far more pronounced in the eurozone. Such negative real yields result in less relative value in bonds (yields eaten up by much higher inflation) and are also acting as a stimulus to the economy. The offset is this places upward pressure on long market rates.

The US debt ceiling issue could swing in both directions

Then back in the US, there is the debt ceiling saga to be concerned with. This is a global story: if we get to the point where the US Treasury misses just one interest payment on its debt, there is a domino effect that could take down the entire global financial system.

For that reason, such a breach is unlikely to happen. But it still could.

The impact of this on market rates is nuanced. The build-up likely causes Treasury yields to fall (with the exception of securities and bills that are due during the X-date range of June to August). In fact, the S&P downgrade of 2011 coincided with "flight to safety" falls in Treasury yields as risk assets took a hit, and in the background, the eurozone was going through its own crisis.

But this time, the stakes look to be a bit higher, with a higher associated risk for a mistake. That is more likely to cause players to exit Treasuries (to avoid being left long a defaulted security and the headache that it brings), placing net upward pressure on market rates. In the extreme – a missed payment/default – that exit could be swift, manifesting in sharp rises in Treasury yields.

The push and pull here is immense, and extreme outcomes are possible.

The very system is being threatened by the necessity of central banks to raise rates to the extent that both sides of (weaker) bank balance sheets have come under pressure. Overlay that with a threat to the quality of the US Treasury market, and there are big reasons to worry. The thing is, these are pulling market rates in different directions.

Something will have to give. We think we'll ultimately end up with lower rates (and no default), but the path to there is prone to extreme moves in either direction. And if there is a default (still unlikely), US market rates rate shoot higher instead, while non-US core rates shoot lower.

GDP forecasts

Developed Markets (QoQ% annualised growth)							
	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2025F
US	1.1	0.4	-1.5	-2.2	0.8	0.0	2.1
Japan	1.6	1.6	1.2	0.8	1.1	1.0	1.2
Germany	-0.2	1.2	0.2	-1.0	0.0	0.3	1.5
France	0.8	0.8	0.4	0.4	0.7	0.7	1.3
UK	0.5	-0.8	1.1	0.8	0.2	0.9	1.5
Italy	2.1	0.6	0.9	0.7	1.1	0.9	1.1
Canada	1.7	0.4	-0.8	-0.6	0.9	0.7	2.2
Australia	0.4	0.3	0.3	0.4	1.8	1.8	3.1
Eurozone	0.6	1.2	0.9	0.1	0.80	0.6	1.3
Austria	-1.2	1.2	0.8	0.4	0.60	0.8	1.4
Spain	1.9	1.2	1.0	0.5	1.9	1.0	2.0
Netherlands	1.7	0.6	1.0	0.8	1.8	0.7	1.2
Belgium	1.6	0.8	0.8	0.4	1.0	0.7	1.4
Greece	-0.8	0.7	1.5	0.9	1.7	1.3	1.5
Portugal	6.6	2.8	1.2	0.6	2.8	1.1	1.7
Switzerland	0.8	0.8	0.4	0.4	0.6	0.8	1.4
Sweden	0.9	-2.6	-0.4	1.2	-0.4	0.9	1.5
Norway	0.3	0.3	0.8	1.9	1.6	1.7	2.0

Emerging Markets (YoY% growth)							
	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2025F
Bulgaria	1.9	1.4	1.8	1.7	1.7	3.2	3.5
Croatia	2.0	1.1	2.3	2.0	1.9	2.7	2.5
Czech Republic							
Hungary	-0.8	-1.0	0.8	2.0	0.2	3.3	3.9
Poland	-1.5	0.7	0.8	1.6	0.5	2.4	3.5
Romania	3.8	2.8	1.9	2.0	2.5	3.7	3.5
Turkey	3.0	4.0	2.3	1.0	2.5	4.2	4.0
Serbia	0.7	0.9	3.1	3.6	2.2	3.8	4.5
Russia	-2.5	0.0	0.5	1.0	-0.5	0.5	0.0
Kazakhstan	3.5	4.0	4.1	4.1	3.8	4.0	3.0
Azerbaijan	2.5	2.8	3.2	3.4	3.0	2.5	2.0
China	4.5	8.8	5.0	4.6	5.7	4.7	5.1
India	3.4	7.8	6.7	6.3	6.0	6.6	7.4
Indonesia	5	4.2	4.6	4.7	4.6	4.9	4.5
Korea	0.9	0.5	0.5	1.5	0.9	2.1	2.3
Philippines	6.5	5.1	5	4.9	5.5	6	5.5
Singapore	.1	2	2.1	2	1.5	2.5	2.0
Taiwan	-3.0	-0.8	-1.0	3.8	-0.3	4.0	4.3

Source: ING estimates

CPI Forecasts (pa)

%YoY	1Q23F	2Q23F	3Q23F	4Q23F	2023F	2024F	2025F
US	5.8	4.1	3.3	2.7	4.0	1.9	2.1
Japan	3.6	2.9	2.4	1.7	2.6	1.8	1.5
Germany	8.7	6.9	6.6	4.4	6.2	3.1	1.8
France	7.0	7.0	5.6	4.0	5.9	2.8	1.6
UK	10.2	7.7	5.4	3.5	6.7	1.9	1.7
Italy	9.5	7.8	5.8	3.0	6.5	2.7	1.9
Canada	5.2	3.0	2.8	2.5	3.4	1.9	2.0
Australia	6.9	6.1	5.3	4.3	5.6	3.0	2.7
Eurozone	8.0	5.8	4.5	3.9	5.6	2.6	2.0
Austria	10.6	7.8	4.9	3.8	6.8	2.4	2.0
Spain	5.1	3.8	3.5	3.1	3.9	2.7	2.1
Netherlands	7.3	5.8	2.5	1.2	4.1	2.0	1.2
Belgium	7.4	6.3	4.9	3.9	5.7	2.4	2.1
Greece	6.4	4.4	3.3	3.6	4.4	2.3	2.0
Portugal	8.0	5.5	4.4	3.7	5.4	2.9	2.0
Switzerland	3.2	2.8	2.6	2.4	2.8	1.7	1.5
Sweden	8.9	7.3	5.2	3.1	5.6	2.0	1.8
Norway	6.6	5.8	4.5	3.9	5.2	3.2	2.0
Bulgaria	15.6	11.3	10.2	9.4	11.7	6.7	4.0
Croatia	11.8	7.5	5.5	4.0	7.2	4.0	3.0
Czech Republic							
Hungary	25.4	22.5	17.4	11.0	19.1	5.0	3.1
Poland	17.0	12.6	11.2	9.3	12.8	6.8	4.0
Romania	14.9	10.9	10.0	7.8	10.8	5.2	3.9
Turkey	54.3	42.6	42.6	45.4	45.8	33.0	19.3
Serbia	16.0	14.2	11.0	8.0	12.3	6.4	4.1
Russia	7.7	3.4	4.1	5.3	5.4	5.5	5.5
Kazakhstan	19.0	16.1	12.7	10.0	14.5	7.7	6.8
Azerbaijan	13.8	11.5	9.1	5.5	10.2	4.9	4.5
China	1.3	2.3	1.8	2.5	2.0	2.4	3.0
India	6.2	4.2	4.3	4.4	4.8	4.2	5
Indonesia	5.3	4.1	3.8	3.6	4.2	3.5	3.6
Korea	4.7	3.4	2.7	2.9	3.3	1.8	2.1
Philippines	8.3	5.8	4.9	3.9	6.2	3.9	3.5
Singapore	6.3	5.4	4.8	4.3	5.2	3.2	2.8
Taiwan	2.6	2.0	2.3	2.4	2.3	2.2	2.8

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

Source: ING estimates

Oil and natural gas price forecasts (avg)

	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
$/bbl							
Brent	82	84	93	99	90	89	75
EUR/MWh							
Dutch TTF	53.0	47.0	45.0	60.0	51.0	53.0	50.0

Source: ING estimates

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