

Monthly Economic Update

Another sequel no one really needed

Why hopes of a synchronised recovery are fading



THINK Economic and Financial Analysis

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- *Cracks are starting to appear in our base case scenario of a synchronised global recovery in the second half of the year, but we remain optimistic that better times are coming*
-

US: Waiting for lift-off

- *The economy will likely continue struggling for the next month or two, but with vaccinations accelerating and households looking cash rich, a reopening of the economy could see growth reach multi-decade highs*
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Eurozone: A delayed recovery

- *With more stringent lockdowns in the offing and a still underwhelming vaccination campaign, the eurozone economy is likely to shrink again in 1Q. A recovery can still be expected from 2Q, though some headwinds remain. Inflation is likely to be temporarily higher. Meanwhile, the European Central Bank seems to be moving towards yield curve control*
-

UK: Three reasons to be cheerful

- *The UK's vaccination programme has exceeded all expectations so far, and it's not inconceivable that all adults will have been offered a first dose by the end of the second quarter. The lockdowns also appear to be working, and a spring recovery now looks likely. The major risk now is that a new, vaccine-resistant strain requires a return to lockdown*
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China: Impact of muted spring travel

- *The Chinese New Year is coming and this year is different, as new partial lockdowns reduce domestic travel. We discuss the impact of the change to this big event as well as the progress made in deleveraging reform*
-

Asia: Covid catches up

- *Towards the end of last year, the relatively good performance of most Asian economies in terms of the Covid pandemic started to crack. The deterioration has not been as dramatic as in Europe or the US, but the tolerance for Covid in Asia is very much lower, and some restrictions have already been re-introduced*
-

CEE: Delayed recovery but no fundamental change to the outlook

- *The recovery is delayed, but not derailed. Although coming later than expected, we still look for a meaningful rebound from the second quarter. Our outlook for central banks and asset markets is unchanged. The Czech central bank should hike twice this year, while Poland and Hungary should stick to QE. CZK remains our top pick while HUF is the least preferred*
-

FX: Challenging our bearish dollar forecast

- *Our bearish dollar view for 2021 has been built firstly on the Federal Reserve keeping policy very loose and secondly on the synchronised global recovery providing attractive alternatives outside of the US. Both premises are coming into question. Yet we think it too early to be making wholesale changes to our dollar forecasts*
-

Rates: January, a month of Mondays? I don't think so

- *Often in January, we'd get some direction for the year ahead. Well this year, take your pick. We've been all over the shop, in rates, credit, equities, you name it. Direction be damned, it's all about volatility! To get back on track to hit a 1.5% US yield, volatility needs to calm considerably; that's not easy given how frothy risk assets are in valuation terms*
-

The return of inflation

- *The return of inflation could be a major theme in markets this year. It will force the Federal Reserve and the European Central Bank to balance even more carefully its communication to avoid any taper tantrum*
-

Eurozone politics: A taste of what's to come

- *When it comes to politics this year, there are three countries to watch: Italy, the Netherlands and Germany. All three have dominated the headlines in the first weeks of the new year*
-

Brexit: Taking stock after a chaotic month

- *Trade disruption could deliver a sizeable hit to UK manufacturing output this quarter, while lingering uncertainty and potential instability surrounding the future of the UK-EU trade deal will keep a lid on investment during the post-Covid recovery*
-

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Another sequel no one really needed



Cracks are starting to appear in our base case scenario of a synchronised global recovery in the second half of the year, but we remain optimistic that better times are coming

If it weren't so sad, the pandemic could be compared to a gripping TV series, taking all kinds of unexpected twists and turns every time the viewer thinks the plot has come to an end. Instead of happily fading into the sunset, the pandemic is still raging and is now showing a new face, having mutated into something even more transmissible. Meanwhile, the vaccination campaign, particularly in the EU, looks chaotic.

Thus cracks are starting to appear in our base case scenario of a synchronised global recovery in the second half of the year. The rollout of the vaccine is taking longer and is more uneven than previously anticipated. Based on currently available information on agreed vaccine supply deals, only the UK, Canada and the US are set to reach herd immunity by the summer. In Europe, it could take until the end of the third quarter, with again significant differences across countries. In China, it would take almost until the end of 2022. Other Asian countries also have severe problems getting hold of the vaccine. The same will hold for many parts of the developing world. The global recovery will be more granular.

Against this backdrop, potential dates for global herd immunity still seem very far away. Worryingly, new variants of the Covid-19 virus (call them the mutants), with a much higher infection rate than the original strain, have hit Europe. It is currently hard to tell whether other regions of the world have been hit by the more infectious variant or simply haven't been able to report it yet. As the virus is not constrained by borders, the latter is more likely. With Europe's vaccination strategy clearly falling behind the UK and the US, and longer and stricter lockdowns in many countries, the short-term outlook has deteriorated.

To make matters worse, Europe has started to engage in a blame game over who is responsible for the delays. Driven by solidarity, the larger eurozone countries agreed to delegate purchases to the EU- a move which might have slowed things down. At the same time, longer approval procedures to allow vaccines entering the European market, as well as production bottlenecks, seem to be the drivers behind the slow and stuttering start to the vaccination programme.

Despite the delays, most economies should start to reopen and the recovery should accelerate from the second quarter onwards. Admittedly, there is a risk that the world economy will have to get used to living with Covid-19, which increases the likelihood that the new normal will be quite different to the old normal, and also raises the risk that the recovery will be more muted than previously thought over the summer months.

One standout performer this year could well be the US. The second wave of the virus has not yet led to the same strict lockdown measures as seen previously. Also, the Biden administration is fully determined to implement enormous fiscal stimulus this year. Don't forget that President Biden will only have until the 2022 mid-term elections to implement all of his ambitious plans as historically mid-term elections always swing against sitting majorities.

A strong US economic performance will also bring back inflation this year. With headline inflation in the US probably breaching 3%, and approaching 2% in the eurozone, both the Federal Reserve and the European Central Bank will soon be facing an interesting

communication challenge; how to explain that symmetry, and hence the toleration for inflation to overshoot, is for real? If forward guidance and sheer words fail to convince markets, we might see interesting concepts like 'operation twist' or yield curve control being discussed soon.

It's not all bad news, and with all the fiscal and monetary stimulus in the global economy, the recovery should be strong once economies reopen. However, the timing of this has become more uncertain in recent weeks. Let's hope there are no more sequels to this pandemic in the making.

ING's three scenarios for the global economy and markets

Covid-19 economic Scenarios

Covid-19 in winter (A B C) + Vaccine rollout (I II III) = ING forecast combinations

Phase 1: Covid-19 spread over winter

	Scenario (A)	Scenario (B)	Scenario (C)
	ING Base – Moving towards B from A		
United States	Modest restrictions in some hotspots to combat elevated hospitalisation rates, but restrictions differ widely by state. Focus on limiting spread rather than closing businesses.	Current restrictions remain largely in place into the second quarter. Construction and manufacturing open, but hospitality heavily impacted	Further waves of Covid-19 push US into stricter lockdowns. Stay at home orders return. Non-essential retail shuts along with other close-contact services
	ING Base		
Europe	Lockdowns succeed. Case growth falls, economies reopen quickly in mid-February. Rapid testing capability and more controllable virus growth allows contact tracing to work more effectively. Vaccination strategies shift towards younger age groups	Tight restrictions extended until late February. Hospitality services stay broadly closed and household mixing rules remain strict until early summer. Vaccine will be rolled out in H1 21, with some temporary setbacks, allowing economies to gradually reopen in Q2.	Lockdowns persist well into H1 2021 or get stricter in the case of light lockdowns. Risk of complete circuit breaker lockdowns remains high. Situation continues at least until Easter and economies will only reopen from May onwards. Summer tourism still heavily affected.
Asia	Case numbers remain low or very low by international standards, and typically falling. Social distancing restrictions remain tight, but slowly easing, including international travel bubbles	Case numbers remain relatively low but rising in many countries. Lower tolerance for Covid brings targeted social distancing measures back into play and closure of travel bubbles	Asia follows the rest of the world into a second or in some cases third wave and national measures re-imposed to squeeze out the virus.

Phase 2: Vaccine development and roll-out

	Vaccine Scenario (I)	Vaccine Scenario (II)	Vaccine Scenario (III)
Vaccine timeline	Roll-out rapidly accelerates and most of the vulnerable population is vaccinated within weeks. Governments decide this justifies unwinding restrictions materially before Easter	Gradual improvement although differential rates of inoculation across economies. Countries higher-up the orders list of successful vaccines see earlier roll-out and quicker emergence from social distancing rules.	Vaccine roll-out takes longer New variants mean vaccines need to be re-worked, or programmes unexpectedly paused due to safety or efficacy concerns. Herd immunity not reached in 2021.

ING forecasts under each different scenario combinations

	Combination (A I)	Combination (B II)	Combination (C III)
Forecasts	2021 GDP US: 6.1% Eurozone: 4.6%	2021 GDP US: 5.2% Eurozone: 3.5%	2021 GDP US: 2.4% Eurozone: 0.9%

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

Source: ING

US: Waiting for lift-off

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The economy will likely continue struggling for the next month or two, but with vaccinations accelerating and households looking cash rich, a reopening of the economy could see growth reach multi-decade highs

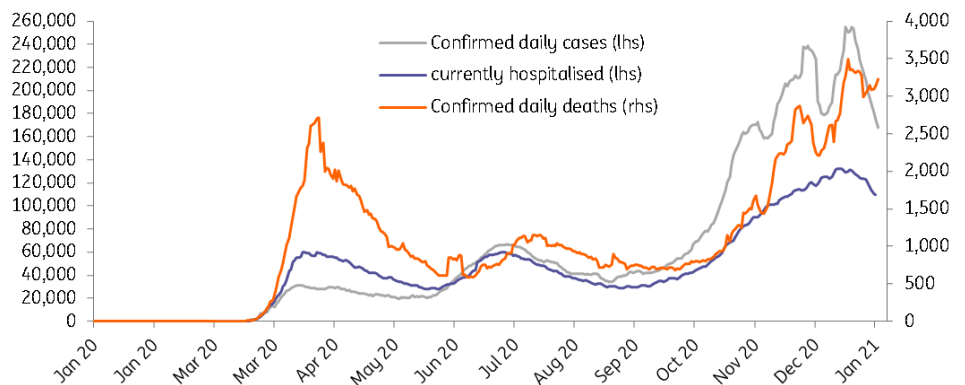


The quicker the vaccinations the sooner the reopening

The US economy started 2021 on a weak footing following three consecutive monthly falls in retail sales at the end of the year and news that 140,000 jobs were lost in December. With Covid containment measures continuing to weigh on sentiment and activity, we suspect that the economy will struggle through much of the first quarter.

However, the outlook thereafter is undoubtedly brightening. The US is getting close to averaging one million Covid vaccination doses a day with President Biden promising more resources to ramp up the process to 1.5 million and possibly even 2 million per day. With the warmer weather of spring approaching and hospitalisation numbers already falling, there is hope that a second quarter reopening of the economy is possible.

Covid cases and hospitalisations are falling. Deaths will follow



Source: Macrobond, ING

Consumer boom

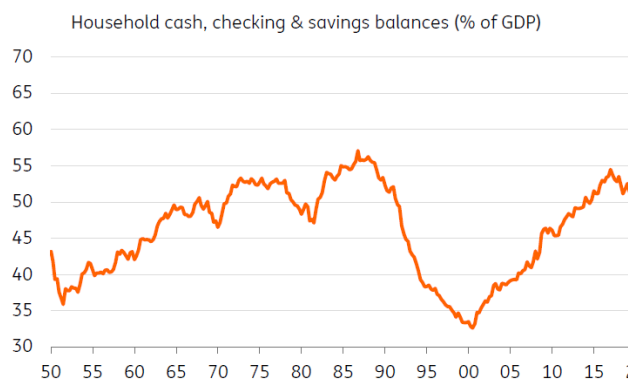
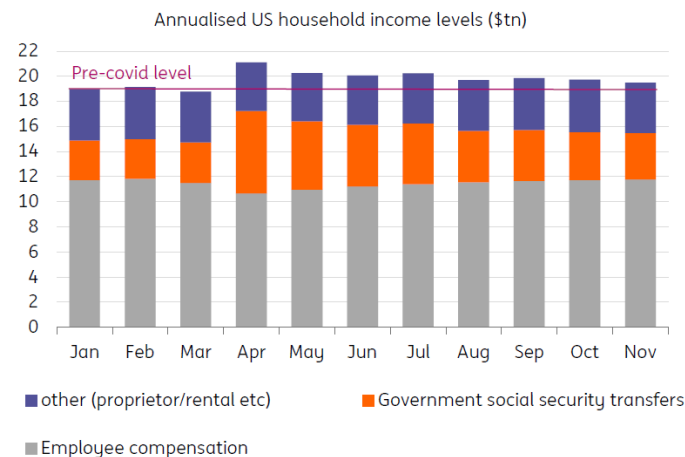
We expect to see consumer spending leading the charge with pent-up demand focused on the leisure, travel and entertainment sectors. Households are cash rich with government support programmes (extended unemployment benefits and individual cheques) helping lower income households. At the same time, the inability to travel and spend money on “experiences” has led to involuntary saving by higher income groups. The result is that savings in cash, checking and time deposits have surged \$2.4 trillion between the third quarter of 2019 and third quarter of 2020.

More support is proposed with a \$1.9tn fiscal plan set to make its way through Congress although some dilution and modifications will likely be required to get it [passed](#).

With credit card balances at four-year lows this means there is a huge amount of cash ammunition with which to propel spending higher. Add in the prospect of significant employment gains as the downtrodden service sector finds its feet and 2021 looks set to be the strongest year for economic growth in decades.

Elsewhere, the buoyant housing market is likely to keep residential construction activity robust while capex by US corporates is likely to recover after 12 months of flatlining. A pick-up in global trade and a more internationally-competitive US dollar following its recent declines will also support activity.

Higher household incomes have boosted savings



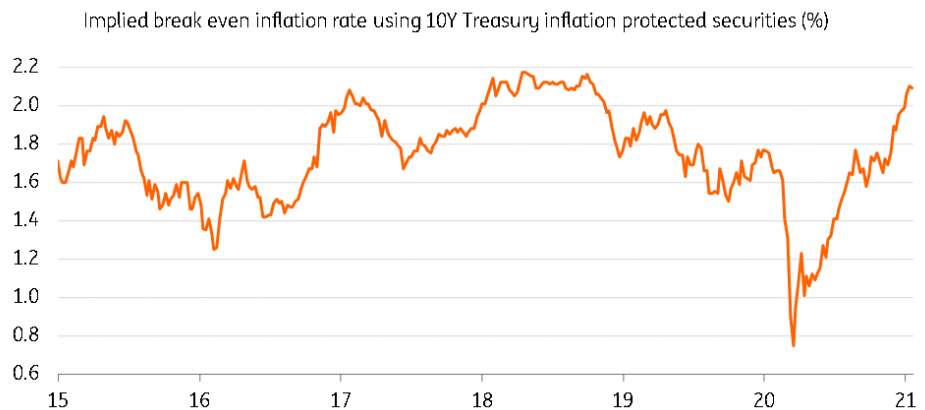
Source: Macrobond, ING

Inflation set to rise

Inflation will inevitably move higher. Much of it will be base effects as price levels in a vibrant, reopened economy will be higher than they were when companies were desperate for cash and were slashing prices in the depths of the pandemic in 2Q 2020. Moreover, higher fuel prices and some capacity constraints in heavily distressed sectors will add to upside inflation risks in the near-term.

Given this reflationary environment we expect to hear more talk of potential quantitative easing tapering this year with Federal Reserve interest rate hike expectations forecast to creep forward to 2023 from 2024.

Market inflation expectations have jumped



Source: Macrobond, ING

Can we avoid a taper tantrum?

This runs the risk of a taper tantrum 2.0 – similarly to when the Fed signalled it was going to slow its QE purchases in 2013 and the 10Y Treasury yield jumped from 1.6% to 3%. If repeated, this would lead to disruptive moves on the cost and availability of domestic credit, with implications for broader asset classes, including emerging markets.

We suspect that the tapering will be gradual and is likely to involve a twist operation to start – cutting the total purchases, but weighting more of those purchases towards the long end of the yield curve. Volatility could be further reduced if the Fed signals they are prepared to be flexible on this taper, such as by being willing to halt the taper and even temporarily increase purchases, depending on market circumstances. With more debt issuance coming this could be an important way of calming the market.

Fiscal optimism, but remember the mid-terms

The next move in fiscal policy will be an attempt to pass Joe Biden's \$3tn+ Build Back Better infrastructure and energy plan. This is going to be a major challenge given the Republican Party's re-discovered fiscal conservatism and the Democrats tiny majorities in the House and Senate.

The clock is already ticking given the mid-term elections in 2022. With all House seats and a third of the Senate up for re-election, legislation will have to be accelerated to give it time to be passed by Congress. Remember that through the 20th century, the incumbent President's party has on average lost 26 House seats and 4 Senate seats at the mid-terms. If this were to be repeated, the Republicans would control Congress and Joe Biden would be a lame duck President in the final two years of his term, with little chance of getting any more of his proposals written into law.

Eurozone: A delayed recovery

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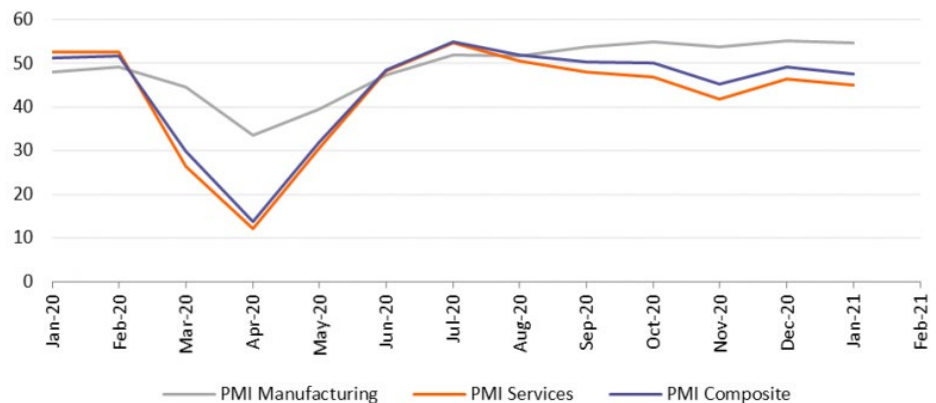
With more stringent lockdowns in the offing and a still underwhelming vaccination campaign, the eurozone economy is likely to shrink again in 1Q. A recovery can still be expected from 2Q, though some headwinds remain. Inflation is likely to be temporarily higher. Meanwhile, the European Central Bank seems to be moving towards yield curve control



A weak January

The eurozone economy most probably shrank in the fourth quarter, though the contraction might be slightly smaller than we previously anticipated. According to provisional estimates, the German economy has apparently avoided recession, with strong exports providing important support. However, the build-up of inventories in the UK in the run-up to 2021, pushing up imports from the continent, is likely to reverse. Initial economic data for 1Q already signals some weakening. The German Ifo indicator dropped more than expected in January, with both the current conditions and the expectations component weakening. Eurozone consumer confidence also fell back in January, while the composite PMI slid to 47.5 from 49.1 in December.

PMIs soften in January



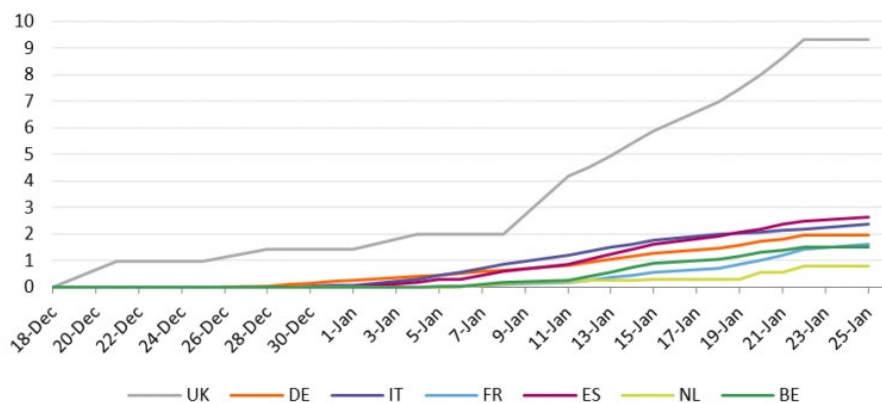
Source: Refinitiv Datastream

Underwhelming vaccination campaign

With the more contagious British and South-African Covid-19 strain spreading on the continent, lockdown measures have tightened again in several countries. The Netherlands introduced a curfew and France has tightened the existing one to 6pm. At the same time, the vaccine campaign continues to disappoint. While in the UK, almost 11% of the population was inoculated, in most eurozone countries, this was less than 2%. To make things even more painful, Pfizer had to reduce the deliveries of the vaccine to allow for changes in the production line. At the same time AstraZeneca, whose vaccine is not yet even approved, announced that it would deliver 60% fewer doses than promised in the first quarter. With these additional hurdles, it seems unlikely that herd immunity will be reached before the fourth quarter across the eurozone. That said, with the most vulnerable people probably inoculated by the end of April, some loosening of containment measures still looks likely. So after a difficult start of the year, we still stand by our recovery story from the second quarter onwards. However, the risk is that the number of infections remains high for some time to come. The political turmoil in Italy is not helping either, while the slow rollout of the plans to get money from the European Recovery Fund is also limiting the speed of the recovery. That is basically why we are looking at a sub-consensus 3.5% GDP growth rate in 2021 and 3.7% in 2022.

Slow vaccination pace

% of the population inoculated



Source: Refinitiv Datastream

Inflation might (temporarily) surprise

A VAT hike in Germany, higher energy prices and expected price hikes when some services reopen (see here) mean that inflation will come in higher this year. We expect an above-consensus average inflation rate of 1.3% for the year, with a 2% inflation rate at the start of the third quarter not out of reach. From the fourth quarter onwards, inflation should soften again and we expect it to settle around 1.3% in 2022. Given the fact that the inflation uplift is only temporary, the ECB is unlikely to react. What's more, by the summer months the ECB will probably have announced its new strategy. We expect the bank to go for an inflation target "around 2%", which allows for temporarily higher inflation without the need for a policy change.

Yield curve control by another name

For the time being, the ECB is certainly not thinking of tightening. Because of the huge negative output gap and the struggle to emerge from the pandemic-induced recession, loose monetary policy will still be required for some time to come. There is however a slight shift in the ECB's approach. The bank has now put the aim to preserve "favourable financing conditions" at the centre of its policy. While this sounds rather vague, it's obvious that long-term interest rates are an important determinant of financing conditions. As such, the ECB's Chief Economist Philip Lane declared that the Pandemic

Emergency Purchase Programme has an important role to play in ensuring that the middle and long-end segments of the yield curve remain “appropriate”. And that a premature steepening of the yield curve should be avoided. We read: yield curve control by another name. While we still expect long-term bond yields to rise somewhat during the year, the ECB bond purchases will probably limit the increase to 25bp by the end of this year.

UK: Three reasons to be cheerful

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The UK's vaccination programme has exceeded all expectations so far, and it's not inconceivable that all adults will have been offered a first dose by the end of the second quarter. The lockdowns also appear to be working, and a spring recovery now looks likely. The major risk now is that a new, vaccine-resistant strain requires a return to lockdown



Britain, Brexit and better times?



ING's James Smith on why we're looking for 5% growth in the UK this year but Brexit continues to bring significant disruption

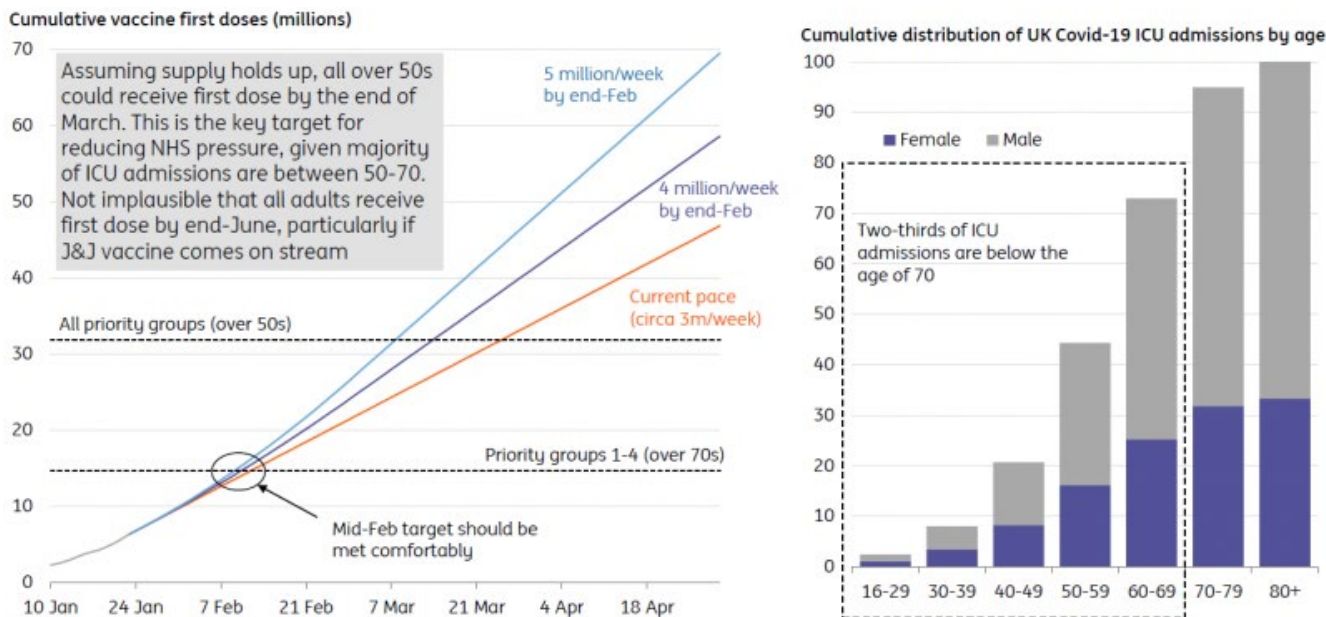
Despite grim virus news, there are some reasons to be positive

There's not been a great deal to celebrate in the UK over the past few months. Rapidly-changing restrictions and the emergence of a new, 30% more-transmissible strain, have culminated in hospital admissions peaking above the level seen in the spring. But almost one month into the latest national lockdown, there is hope that things are now starting to improve - and there are three positive developments since our last monthly update that are worth flagging.

Firstly, and most importantly, the vaccine rollout has so far exceeded all expectations. The UK is currently averaging around 2.5-3 million doses per week, equivalent to 4% of

the population. The majority of over 80s have now received their first dose, and it now looks likely that over 70s will have been offered the jab by mid-February, and over 50s by late-March. It is also not inconceivable that all adults receive at least one dose by the end of the second quarter, particularly if the single-dose Johnson & Johnson vaccine comes on stream as hoped.

All over 50s could receive the vaccine by the end of this quarter



Projections assume a smooth increase from the current pace to the new pace by the end of February, which is then constant thereafter
 Source: UK Government, ING projections, Intensive Care National Audit and Research Centre (ICNARC)

The second piece of good news is that, despite the concerns about the transmissibility of the new UK variant, lockdown has succeeded in bringing down case numbers - and in fact quite rapidly. School closures and a greater emphasis on working from home appears to have helped, while surveys show compliance with the new rules is high.

Finally, the latest GDP data shows that the damage from the lockdowns in November was much milder than first anticipated. The economy shrank by 'only' 2.6%, with most sectors coming away relatively unscathed. While the damage will be greater now than it was then - partly because schools are closed this time - it's clear that the economic impact is quite a bit smaller than last spring.

Piecing all of that together, the outlook beyond the first quarter looks relatively good. The key government priority is to reduce pressure on the health system, and the combination of lockdown and the inoculation of 50-70 year olds (who make up the bulk of ICU admissions), means that significant progress should have been made by Easter. We could see some mild reopening in March (shops?) followed by a gradual reopening through the second quarter. We're currently penciling in a 5% bounce in 2Q GDP, after a 3% fall in the first.

To us, that makes it seem increasingly unlikely that the Bank of England will introduce negative interest rates. There was already limited enthusiasm for the policy on the committee, and that has likely diminished further given the brighter outlook.

New variants pose biggest risk to the recovery

Of course, there's plenty that could yet go wrong. One possibility is that the UK's decision to focus on first doses reduces the effectiveness of the programme, though the tentative evidence so far is that it won't. Data from Israel indicates the Pfizer vaccine is highly effective after the first dose, while AstraZenica has suggested the efficacy of the second dose is actually stronger with a longer interval of two to three months.

Instead, the biggest threat comes from the new strains. A new, vaccine-resistant version of Covid-19 would cast serious doubt on the recovery later this year - particularly given that it could be several months for new versions of the vaccines to reach people's arms. Mitigating the risk will require strong global progress on vaccinations - something that is likely to take much of this year and beyond.

With the UK likely to be one of the first to inoculate all adults, the government is clearly worried that a spring reopening could be curtailed later in 2021. The fact that the UK is preparing to introduce strict, hotel quarantine for international arrivals indicates how worried ministers are about this.

There are plenty of other reasons for caution too. Higher unemployment is likely to partially offset the boost from pent-up consumer demand, while Brexit disruption will also slow down the recovery (we write about this separately in this monthly update).

We don't expect the UK economy to return to its pre-virus levels until late 2022 or beyond.

China: Impact of muted spring travel

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The Chinese New Year is coming and this year is different, as new partial lockdowns reduce domestic travel. We discuss the impact of the change to this big event as well as the progress made in deleveraging reform



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Lockdowns despite low numbers of Covid cases

For the first time since early 2020, there are once again partial lockdowns in Beijing city and Jilin province. Each lockdown has its own restrictions. This comes against a background of only around 100 cases per day nationally (though asymptomatic cases are often not reported in these numbers). The lockdown in Beijing sends a signal to the rest of the country that lockdown is possible anywhere, even when the number of cases is very low.

Workers are now reluctant to buy train and domestic flight tickets to return to their hometowns for the Chinese New Year. They worry that they may not be able to go back to work in time if they are caught in lockdowns away from their workplaces. This reluctance to travel suggests that the disruptions to factory operations which took place in 2020 are not going to be repeated in 2021. This is positive for manufacturing and export-import activities.

Without travel to and from hometowns and work locations, money that would have been spent on transport may instead be spent celebrating the holiday in a different way. We expect shopping malls to open and online shopping as well as delivery to continue during the Chinese New Year, which is different from the past when many of the shops closed and delivery services stopped due to a lack of labour.

In short, we believe that partial lockdowns in specific locations will not adversely affect economic activity during the holidays.

A different Chinese New Year



40% reduction in cross city movements in January 2021, implying fewer workers going back to home town for Chinese New Year



300 cities would enjoy delivery service in the Chinese New Year holiday, a contrast with almost no delivery service in the past



37.2% will work during the Chinese New Year, according to a private HR survey. This number is usually much smaller.

Source: ING

Vaccination progress

China has 10 million people vaccinated with the first dose of vaccines developed by the country, which is still a small number compared to the whole population of 1.4 billion. Vaccination will continue after perhaps some pause over the Chinese New Year.

Deleveraging focuses on the property market

It has become obvious over recent months that deleveraging reform has resumed in China. The focus of this round of reform is real estate property developers. The government would like to lower the debt levels of these companies, most of which are private companies. Limits were set on debt-to-cash, debt-to-assets and debt-to-equity ratios in August 2020, and on bank lending ratios for property developers towards the end of 2020. More recently, additional constraints have been placed on property transactions and mortgages in some cities.

But the central government does not seem to be squeezing too hard on price and quantity restrictions for selling properties. It is giving some breathing space to the developers to sell existing properties (though not at higher prices) to get cash to repay debts. The whole process is finely managed. This reduces our concern about a financial crunch caused by the property sector.

Asia: Covid catches up

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Towards the end of last year, the relatively good performance of most Asian economies in terms of the Covid pandemic started to crack. The deterioration has not been as dramatic as in Europe or the US, but the tolerance for Covid in Asia is very much lower, and some restrictions have already been re-introduced



Asia is not immune to Covid

In early December 2020, the very low prevailing daily case numbers in South Korea started to creep up, and at one stage topped 1,200 per day. Japan, which had inexplicably managed to be only mildly affected during earlier waves of the pandemic, started to see its numbers move higher even earlier, though the rise was slower and didn't really pick up aggressively until late December. Both Korea and Japan's daily Covid figures are beginning to ease down again now, but at their peak, Japan was registering close to 8000 cases per day.

Malaysia is now recording around 4,000 cases per day, Indonesia more than 10,000. China too has been seeing case numbers rise (see China section), though so far the numbers remain low relative to the millions who have been confined to their homes in response.

There are exceptions to this trend. In India, daily case numbers continue to fall but they still remain relatively high at around 14,000 a day if we accept the recorded figures at face value.

Rising Covid means rising restrictions

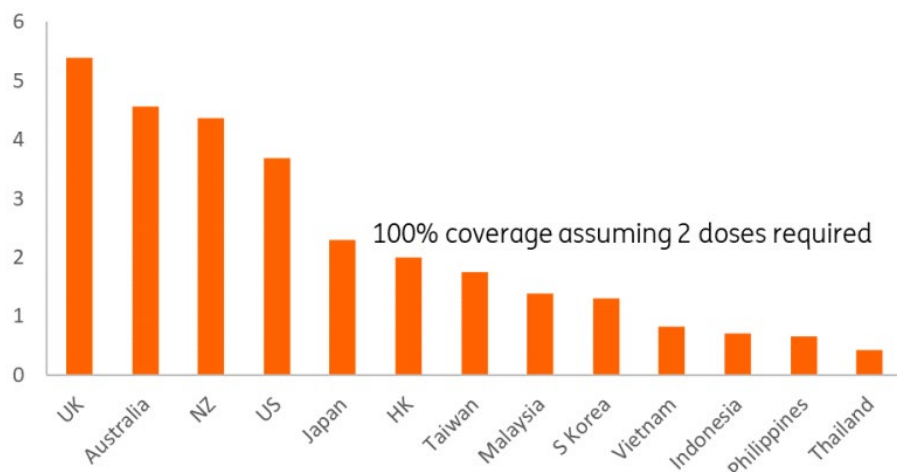
Even in Singapore, where the average number of community cases has risen from less than one to the occasional small cluster, the planned easing ahead of the Chinese New Year has been scaled back. Japan has been rolling out its regional states of emergency as caseloads have picked up in different parts of the country. Malaysia too has rolled out its movement restrictions. And in Indonesia, restrictions have been extended in Jakarta and Bali. The following table summarises what we believe to be the current situation in terms of restrictions around the region, against the recent seven-day moving average for daily cases.

Current Asian travel restrictions

Economy	Current Restrictions in place	7-day MAV *
Australia	➤ Some local hotspot related restrictions, some restrictions on interstate travel	8
New Zealand	➤ Limited to mask wearing on public transport	4
Japan	➤ States of Emergency until 7 Feb in Tokyo, Kanagawa, Chiba, Saitama, Osaka, Kyoto and Hyogo prefectures – limits on bar and restaurant opening hours and capacity, encouragement to work from home / stay home	5,217
South Korea	➤ Ban on gatherings of more than 4 persons ➤ Early closing for Cafes / restaurants. ➤ Clubs / Karaoke closed	398
Singapore	➤ Phase-3 reopening started on 28 Dec with up to 8 persons for social gathering and with higher operating capacity at retail outlets. ➤ Guidelines for restricted celebrations during the Chinese New Year festivities kicked in from 26 January.	32
Malaysia	➤ The government re-imposed Covid-19 Movement Control Orders (MCOs) in 5 Malaysian states and 3 Federal territories for two weeks on 13 Jan. ➤ It also declared a nationwide state of emergency lasting until 1 August. By 21 January most of the country under MCO 2.0 banning all social gatherings and dining out, limiting only two persons to do essential shopping locally , and restricting interstate travel.	3,587
Thailand	➤ On 3 January, the Thai Government declared 28 provinces, including Bangkok as high-risk zones , asking people to stay at home, avoid gathering, or travel across provinces. ➤ It is now considering easing some of the restrictions , including reopening schools in 20 out of 28 provinces from 1 February.	181
India	➤ Covid-19 restrictions have been relaxed as the country starts its vaccination drive. ➤ Strict controls on non-essential activity, including nightly curfews and a ban on public and private transport, will continue in hot-spots until at least end-January. ➤ Essential businesses are allowed to operate with minimum employees and bars and restaurants at 50% capacity.	13,580
Philippines	➤ Full (Enhanced Community quarantine) lockdown in Tuguegarao and Kalinga. ➤ General community quarantine (partial lockdown) for Capital region and surrounds. ➤ Restricted mall hours, restaurant capacity, movements for seniors and children. ➤ Firms, public transport at 50% capacity. ➤ Schools closed for in-person attendance.	1,753
Indonesia	➤ Java and Bali have enhanced lockdown – office capacity restricted to 75%, malls close at 7pm, restaurants dine-in limited to 25%. ➤ Worship services at 50% ➤ Schools closed for in-person attendance. ➤ Rest of country requirements on mask wearing and social distancing.	11,749
Taiwan	➤ Tightened international travel restrictions to SA requiring quarantine on arrival and additional testing.	4
Hong Kong	➤ Flight crew now need to quarantine for stays of over 2 hours. ➤ Restaurant hours and capacity limited. ➤ Selective lockdowns to conduct testing (part of Kowloon 22-24 Jan). ➤ Public mask wearing mandatory. ➤ Karaoke, facial, massage etc. banned.	71

7-Day MAV is the 7-day moving average as of 25 January.
International Travel restrictions not detailed – but generally bans for non-residents or quarantine plus testing if allowed.
*Includes quarantined arrivals from overseas.

Confirmed vaccines secured* relative to population multiples of population



* Vaccines secured by population
Duke University, ING

Case numbers low, but vaccine rollout is very slow

Covid case numbers in Asia may still look favourable relative to Europe or the US, even if their tolerance for very low case numbers is low. But the vaccination rollout speed has been very slow. China is probably in the lead here, but China has billions of vaccinations to disseminate, and vaccinations per 100 of the population (which is the appropriate metric for vaccinations) remain exceptionally low.

Many Asian countries will not even begin to roll out vaccines until February, and few countries have secured sufficient doses of reliable and efficient vaccines to be able to cover their entire population, at least not yet. Either that or local regulatory bodies have been slow to authorise the use of any of the new vaccines coming to the market. For many countries in the region, there are no physical stocks of vaccines, even if stocks have been "secured" on paper. This clearly prevents the rollout from proceeding at speed.

And until that happens, even though there are some good things happening in some sectors, for example, technology exports, which are important for the region, the broader recovery which will involve opening up the service sector, and international travel and hospitality can hardly be said to be recovering on a regional basis. With the exception of China, pre-Covid levels of activity remain a distant goal. A double-dip recession may be avoided, but we switched Asia (ex-China) to our second, less favourable scenario last month, and we are not going to change it back again this month and probably not next either.

With vaccine rollout likely to remain slow until 2Q 2021, Asia's recovery to pre-Covid levels is likely to remain subdued until later this year.

CEE: Delayed recovery but no fundamental change to the outlook

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The recovery is delayed, but not derailed. Although coming later than expected, we still look for a meaningful rebound from the second quarter. Our outlook for central banks and asset markets is unchanged. The Czech central bank should hike twice this year, while Poland and Hungary should stick to QE. CZK remains our top pick while HUF is the least preferred



Long queue of border commuters at Czech-Germany border-crossing in Folmava, Czech Republic - 25 Jan 2021

Covid-related restrictions delay the recovery...

As is the case in the eurozone, Covid restrictions will stay in place in the Central and Eastern European region for longer than initially expected. The pace of vaccination is similarly rather slow and as such, the expected rebound will come later than expected. But while the recovery has been delayed, the latest Covid restrictions will not derail the regional growth story and the outlook for local central banks and asset markets remains largely unchanged.

The Czech Republic provides a case in point. Although the country has suffered from one of the worst daily death rates in the world, this has not led to stricter lockdown measures in comparison to its European peers, thus not translating into a more pronounced fall in economic activity and in turn not warranting a material revision to the growth outlook relative to others.

The expected rebound in CEE economies from the second quarter onwards, as restrictions ease in the spring, should be driven by a mix of factors such as consumption, exports, and public investment (with the strength of each varying among CEE countries).

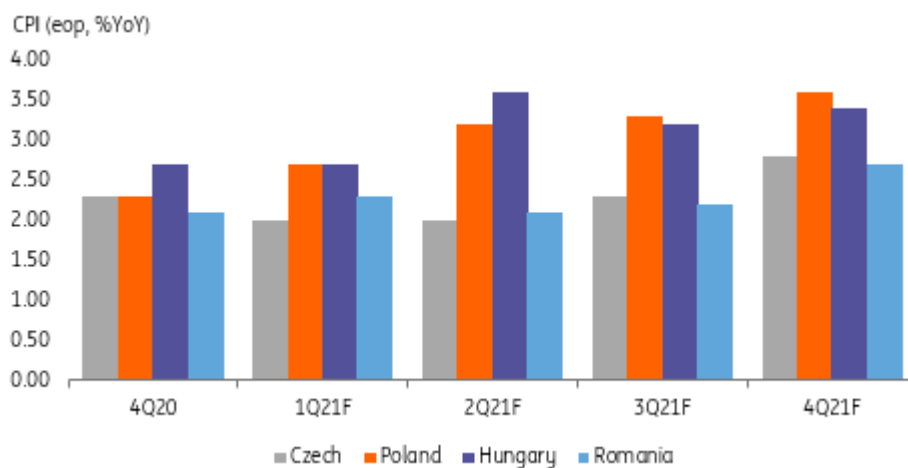
... but this should have a limited impact on the stance of local central banks

On the inflation front, we will see some divergence in coming months (see the chart below). While in the Czech Republic, inflation will move temporarily lower, in Hungary and Poland, CPI should move above target, with Hungarian CPI likely to reach 4% in May

(albeit temporarily and due to base effects). But the National Bank of Poland and Hungary are unlikely to react and should keep policy accommodative (both central banks should continue with QE and rule out rate hikes). The Czech National Bank should be a first mover in the region and Europe as whole, commencing a tightening cycle in the second half of the year as CPI picks up again.

Hence, and despite the delayed post-Covid recovery, the outlook for the region remains unchanged, with the CNB regaining its position as the hawkish outlier in Europe, while the NBP and the NBH leave their respective policies accommodative. In Romania, the central bank delivered a surprise 25bp rate cut in early January. Albeit a close call, we don't expect further rate cuts from here.

Diverging trends in CEE CPIs during the first half of the year



Source: ING

CZK still the top pick, HUF the least preferred

With the prolonged Covid restrictions having a largely non-differentiating impact on CEE economies and the outlook for local central banks remaining unchanged, our CEE FX view for 2021 has not changed either. We have a strong preference for the Czech koruna, a neutral view on Poland's zloty and the Romanian leu, and see Hungary's forint as the least attractive currency in the region.

CZK should benefit from the most hawkish central bank in Europe. The 50bp tightening we forecast for this year should help EUR/CZK to move to 25.50, with a strong downside risk to 25.00. While the NBP continues to threaten FX intervention, this will be hard to justify from mid-year onwards once the economic recovery gains traction. Add to this the highest current account surplus in the region and EUR/PLN should dip below 4.40 in the second half of the year. In contrast, Hungary's non-tightening policy stance, less sound current account position (vs Poland) and preference for gradual currency weakness all suggest that the forint should lag the koruna and zloty, with EUR/HUF likely moving higher in the second quarter as inflation starts to rise (albeit temporarily) towards 4%.

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FX: Challenging our bearish dollar forecast

Our bearish dollar view for 2021 has been built firstly on the Federal Reserve keeping policy very loose and secondly on the synchronised global recovery providing attractive alternatives outside of the US. Both premises are coming into question. Yet we think it too early to be making wholesale changes to our dollar forecasts



Confidence in reflationary trends under threat

Reflationary trends across asset classes, such as higher equities, higher commodities, steeper yield curves, and a weaker dollar require two key ingredients. The first is central banks (largely the Fed) keeping policy very loose and ideally driving real interest rates deep into negative territory – this the Fed has done.

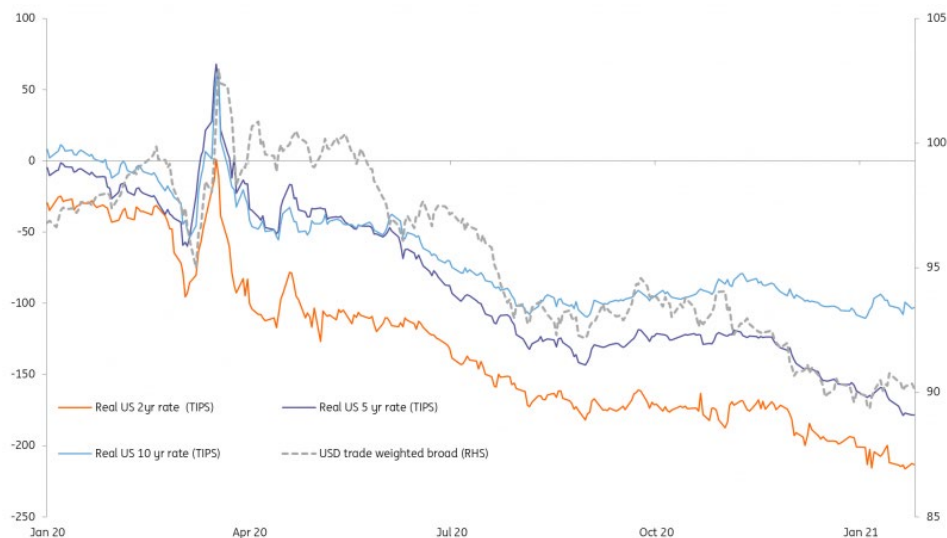
The question now is whether significant US fiscal stimulus and a seemingly successful vaccine rollout in the US prompt the Fed to rein in loose monetary conditions. While Fed tapering expectations may drive longer-term real interest rates higher later this year, shorter-term real interest rates should remain rooted deeply in negative territory. This is because we doubt the Fed will want expectations of rate hikes to rise too quickly, nor inflation expectations to fall back – consistent with its Average Inflation Target policy.

The second ingredient in the secret sauce of reflationary trends is investors buying into recovery stories. Here huge fiscal stimulus and the rollout of vaccines certainly dominated trends through late 2020 – though confidence in a synchronised global recovery is starting to fray around the edges.

Our macro team is still largely holding onto 2Q onward recovery stories – even in Europe. This breakout quarter for growth should prove supportive for global reflationary trends and negative for the dollar. The European Central Bank will not like it, but we still see a case for EUR/USD pressing 1.25 this summer.

We will watch both these trends carefully. Should the Fed surprise by applying the brakes to monetary policy early (driving short-term real interest settings higher) or extended lockdowns in Europe push back the timing of the synchronised global recovery even further – we would have to revise our dollar forecasts higher. But we are not there yet.

Real interest rates have dragged the dollar lower since March



Source: Refinitiv, ING

Upgrading the pound

The dust is beginning to settle on the Brexit deal and the UK is making good progress on its vaccination rollout. Since last spring, we had been running with a flat EUR/GBP forecast through 2021 at around the 0.88/90 area.

Now looks the time to refine that profile. Based on our medium-term fair value estimates, we see EUR/GBP around 7% overvalued at current levels. Of course, there will be setbacks along the way, yet the removal of the Brexit uncertainty and a relatively good chance of reopening the UK economy in 2Q21 should allow EUR/GBP to start slowly making its way towards the 0.82 area by end of 2022.

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Rates: January, a month of Mondays? I don't think so

Often in January, we'd get some direction for the year ahead. Well this year, take your pick. We've been all over the shop, in rates, credit, equities, you name it. Direction be damned, it's all about volatility! To get back on track to hit a 1.5% US yield, volatility needs to calm considerably; that's not easy given how frothy risk assets are in valuation terms



The roller coaster of the 10yr US yield, and we are not finished yet

It's been a remarkable January. The US 10yr yield shot out of the blocks as if it had awaited the switch for 2021 to be flicked on.

Having languished in the 90-basis-point territory for nigh on six weeks into the holidays, it broke above 1% and had the boldness then to attempt marking 1.2%, all before the first two weeks of the New Year.

“We're still looking for 1.5% on the US 10yr at some point in 2021, even if we did temporarily dip below 1%”

But, it's been heavy going since. A good chunk of that good work towards high yields has been taken back, and the 10yr is now in danger of breaking back below 1%. It could... should the risk asset sell-off persist, but we doubt it will.

Even if it does, we think it can hold in the 90-basis-point area again. The reason for that is we continue to believe that this is a reflationary environment, and it will feel more and more that way as we progress through 2021.

The mood in the risk asset space has been an important backstory for rates

But there is a problem - quite a frothy underpinning has been uncovered for equities and risk assets generally.

The S&P for example is trading at almost 23 times projected earnings, practically the highest levels since the dot com bubble. Some consolidation here is overdue, and we are seeing it of late.

Something similar is in play in credit markets, where spreads have been quite close to historic lows, and that at a time when we are still in the midst of a global pandemic. Markets are forward-looking operators, but still.

This whole combination has acted to heighten volatility, with the equity VIX index marking out its highest level since the fourth quarter of last year, and the volatility of volatility is also elevated. Usually, this means trouble for risk assets, and we are seeing a bit of that right now. This is also acting to push investor holdings back into the safety of Treasuries and similar core products, pushing down on yields (and weakening the reflation discount).

The eurozone continues to do its own thing, but not very impressively. Lots of supply though

There has not been quite the same directional story for market rates coming out of the eurozone. The German 10yr yield remains in the -55bp area, not too deviant from all-time lows, and not too divergent from the upside extreme seen when the US almost hit 1.2%. These markets are still polls apart when it comes to the reflation story.

What is remarkable though is the tremendous demand for low and negative-yielding product in the eurozone as the primary market continues to get pinged with new and heavy core issuance, and on a promise that there is more to come.

“What is remarkable though is the tremendous demand for low and negative-yielding product in the eurozone”

The only logical answer to this is asset managers matching liabilities that are discounted using something akin to those same low to negative rates, and/or need pure euro-denominated core bond exposure (practically at any cost).

Right now, issuance is not the driving force for market rates. The US re-funding announcement is due in the first week of February and will show more issuance. But it is unlikely to impact valuation; the demand is still very much there for core product during these uncertain times.

What is impactful is volatility and the mood of risk assets. To resume our projected uptrend in market rates, we would need to see volatility calm and risk assets to feel far less jumpy than they currently do.

We're still looking for 1.5% on the US 10yr at some point in 2021, even if we did temporarily dip below 1%.

The return of inflation

The return of inflation could be a major theme in markets this year. It will force the Federal Reserve and the European Central Bank to balance even more carefully its communication to avoid any taper tantrum

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It's not quite the return of the Living Dead but the comeback of an almost forgotten relic from the past could haunt financial markets this year: inflation. In both the US and the eurozone, headline inflation is set to reach levels last seen years ago. In the US, we see headline inflation above 3% in the second and third quarters, with core inflation likely to breach 2.5%. In the eurozone, headline inflation could reach the 2% mark in the second half of the year. At first glance, these developments are linked to higher energy prices, some catch-up of price increases after the end of lockdown restrictions, and in the case of the eurozone, the reversal of the German VAT cut. The key question for markets is how sustainable all of this will be.

Inflation prospects in the US and the eurozone

In the US, inflation in the near term will be pushed higher by base effects as a weak 2Q/3Q last year is compared to (hopefully) a vibrant 2Q/3Q 2021. Remember that at the nadir of March-May 2020, businesses were shut and travel came to a standstill as people were told to stay at home. Companies were desperate for cash to pay staff and creditors and were willing to sell at deep discounts.

In contrast, we are all hoping that 2Q 2021 will be a period of economic re-awakening, with the vaccination programme having gained momentum and Covid hospitalisations plunging, thereby allowing Covid containment measures and economic restrictions to be lifted. With households and businesses free to spend, supported by high savings levels, low credit card balances and additional government cheques, we are likely to see vigorous pent-up demand.

We are hearing some monetarists suggest that the risks are skewed towards even higher numbers than our 3-3.5% forecast. These analysts are concerned that broad money supply is accelerating across this world and with the velocity of money set to

pick up on an economic reopening, more vigorous inflation is inevitable. Separately, there is also concern that higher energy prices and a weaker dollar could add to US headline inflation.

At the same time, there is justifiable concern that supply capacity has been destroyed in some areas of the economy. Airlines have laid off staff and mothballed aircraft, many hotels, bars, restaurants and gyms have gone out of business, while numerous retailers have shuttered stores. Consequently, vigorous demand coming up against supply constraints will allow for price levels to recover to pre-pandemic levels and possibly beyond very quickly. This could make the year-on-year inflation rates look alarming for a time.

The situation in the eurozone is not so different. In fact, the reopening of the economy could bring similar upward pressure on prices, at least in some sectors. However, the current problems with new infections and vaccinations imply that the reopening of the economy will come later than in the US. Also, the stronger euro will dampen the upward pressure from higher oil prices, at least when compared to the US. The reversal of the German VAT reduction, as well as a CO2 fee, will insert additional upward pressure on headline inflation in the second half of the year.

It's all about the second round

All of that said, most of the drivers of inflation in 2021 will have faded by 2022. They will peter out of the headline inflation numbers because they're mainly base effects. More important is inflation in the service sector. In the US, developments in non-energy services, which make up 60% of the inflation basket, will dominate. Actual rents in major cities are falling and owner equivalent rent is depressed for now. The contribution from these components will eventually creep upwards on higher house price inflation, but booming housing construction should bring supply and demand into better balance this year. In the near-term, it is wages that drive inflation in the service sector. We have barely had any wage inflation over the past decade and with 10 million fewer people in work than 12 months ago, there is little reason for that to change soon. In the eurozone, the situation is very similar. Ongoing structural change in many economies, as well as the fact the eurozone economy will not return to its pre-crisis level before 2023, offers little room for wage increases. Digitalisation and demographic change will also continue to exert downward pressure on inflation in the longer run.

So, while a period of above-target inflation looks probable, there are structural forces at play that will limit the threat of it becoming entrenched over the medium to longer-term.

What to expect from the Fed and the ECB?

The latest changes to the Fed's monetary policy strategy show that the central bank has clearly allowed for inflation to overshoot. Developments in 2021 will be the first test case for the Fed's determination to actually implement this strategy. Given that we expect the ECB to follow in the Fed's footsteps with its own strategy review, introducing more symmetry to its inflation target and hence also allowing for an overshoot, looking through 2021 developments seems to be the most likely option. Still, never underestimate the power of financial markets. If the surge in headline inflation were to coincide with a massive reduction of savings and consequently an enormous boost in economic activity, some market participants and also central bankers could start to get nervous. Diverging statements from individual central bankers could easily trigger upward pressure on inflation expectations. Both the Fed and the ECB will want to avoid a taper tantrum this year. Therefore, we expect them to use forward guidance first to anchor inflation and rate expectations. If need be, a bit of 'operation twist' or yield curve control could be the next preferred option, capping any upward pressure on longer-term yields.

Eurozone politics: A taste of what's to come

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When it comes to politics this year, there are three countries to watch: Italy, the Netherlands and Germany. All three have dominated the headlines in the first weeks of the new year



Politics, both at the national and European level, has always been an important factor for the eurozone economy, sometimes unexpectedly derailing an economic recovery but sometimes, as in 2020, actually supporting and accelerating it. In the eyes of many international observers and financial market participants, the strong and relatively swift fiscal response to the pandemic was one of the positive developments of 2020. The agreement on a European Recovery Fund, a departure from the previous principle of loans-based solidarity, has been a new milestone for eurozone integration. However, experience has shown that new political obstacles are never far away. For 2021, the financial market's main focus will be on two national elections, in the Netherlands and Germany, while developments in Italy will also continue to attract attention. As long as the European Central Bank is fully exploiting its quantitative easing programme, there is very little risk of a severe calamity but European politics can always surprise. The first few weeks of the year have already given some flavour of what's to come.

Italy: Centre stage again

In Italy, strong divisions over the management (and projected governance) of the forthcoming EU Recovery Plan in the hands of Prime Minister Giuseppe Conte have created increasing tension within the government coalition alliance. Matteo Renzi, the leader of Italia Viva, a junior coalition party, has been by far the most vocal critic, focusing mainly on two key issues: the poor quality of the first draft of the Italian Recovery Plan and PM Conte's decision not to tap the available European Stability Mechanism's Covid facility in the midst of a health emergency. A revision to the Recovery Plan as suggested by critics and a late promise by PM Conte to begin a sanity check on the government's activity and consider a cabinet re-shuffle did not stop Renzi from withdrawing Italia Viva's parliamentary support for the government. PM Conte

managed to avoid an outright crisis in parliament by winning confidence votes in both houses, but the thin simple majority obtained in the Senate left him in a weakened position.

PM Conte's attempt to find a sustainable majority, by looking to moderate pro-European MPs in the opposition ranks, proved unsuccessful. Faced with the growing risk of a parliamentary defeat, which would have severely reduced his chances of a new mandate, Conte decided to resign, a move endorsed by 5SM, the PD and Leu - the remaining partners in the government alliance after Renzi's departure. President Mattarella accepted his resignation, and asked him to stay on for ordinary business. President Mattarella will now run a round of consultations (possibly completed before the end of this week) before deciding if conditions exist for a new mandate.

We see three main options ahead.

- The first would be to seek a new mandate for a Conte 3.0 government with renewed support from Renzi's Italia Viva and the addition of some pro-European moderates from the opposition ranks.
- A possible alternative could be that of a national unity government with broader parliamentary support led by a technocrat. Moves in this direction have already been made by Silvio Berlusconi, the leader of Forza Italia, the pro-European moderate party in the opposition.
- The least likely option (but far from impossible) in our view, is that of snap elections "by accident", which would be hard to justify to the electorate during the height of a pandemic, and in view of the forthcoming Next Generation EU inflow of funds.

Germany: Slowly but surely preparing for the post-Merkel era

With federal elections scheduled for the end of September, the CDU is finally preparing for a post-Merkel era. After an often-postponed vote on the party leadership, Armin Laschet, currently minister-president of NorthRhine Westfalia, became chairman of the CDU in mid-January. While normally, the chairman of the CDU is also the designated candidate to lead the party into federal elections, this race has not yet been decided. In our view, it will either be Armin Laschet or the minister-president of the Bavarian CSU, Markus Soeder, who will take pole position. A date for this decision has not been announced, yet.

Two influential events on the road to the federal elections, and the CDU/CSU's ultimate leadership, are the regional state elections in Baden-Wuerttemberg and Rhineland Palatinate, both on 14 March. In Baden-Wuerttemberg, attention will focus on whether the incumbent minister-president Winfried Kretschmann from the Green party remains in office, while in Rhineland Palatinate, the test will be whether the Labour Party can reconfirm its minister-president Malu Dreyer. These votes will be important barometers for whether the Greens are still strong candidates to join the next federal government and whether the Labour Party can stop its decline of recent years. They will also provide some insight into the popularity of the new CDU chairman, which will indirectly decide the CDU/CSU's candidacy for the federal elections. This would not be the first time that federal elections have already been largely decided by the regional elections in spring.

Netherlands: Stepping down but still in charge

On 15 January, the Dutch government resigned because of the so called "day-care allowance affair", in which the government unjustly treated thousands of households as fraudulent. This led to the resignation of the minister of Economic Affairs and Climate, Eric Wiebes (member of VVD), who was the undersecretary of Finance in the earlier government. Two other major political parties, the Christian-democrats CDA and the Labour Party PvdA, have also seen unexpected changes in political leadership in recent

weeks. The CDA will now be led into the elections by current finance minister Wobke Hoekstra and the PvdA will be led by Lilianne Ploumen, minister for Development Aid in a previous government.

Given that the next national elections had already been planned for 17 March, the Rutte government will continue as a caretaking government, with limited consequences for urgent policies and the economy. The ongoing business of the parliamentary commission on European Affairs for instance, including Brexit, has all been deemed “non-controversial” so far. Several opposition parties have already stated that they would allow the government ample room to continue to manage the Covid-19 crisis. Indeed, it is not altogether unusual for a government in the Netherlands to step down weeks ahead of planned elections. The House of Representatives has, however, deemed the opening of Lelystad Airport (intended for November 2021) to be one of the controversial policies, likely meaning that the opening will be postponed for a fifth time.

Speculative polls suggest that the early end of the Rutte III government has led to only minor shifts in support for the parties involved and that the coalition parties still have the support of the majority of the population. However, a lot can happen in Dutch politics in the final weeks of the campaign.

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Brexit: Taking stock after a chaotic month

Trade disruption could deliver a sizeable hit to UK manufacturing output this quarter, while lingering uncertainty and potential instability surrounding the future of the UK-EU trade deal will keep a lid on investment during the post-Covid recovery



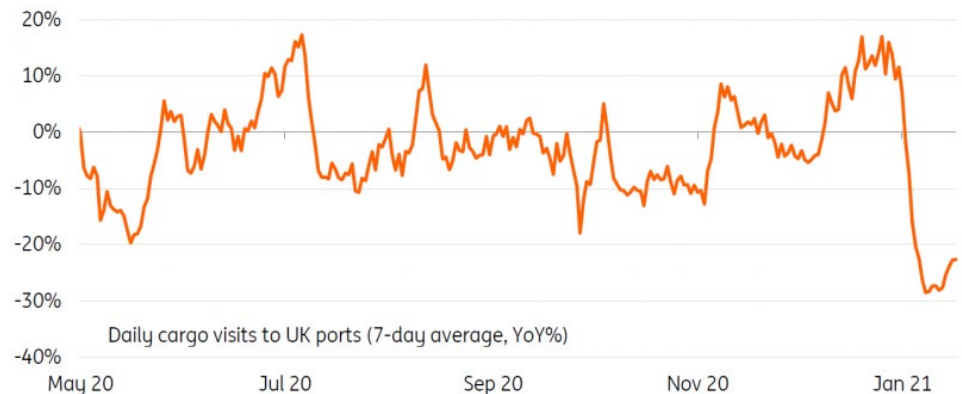
Despite a lack of lorry queues, the disruption has been huge

This article is an abridged version of our more detailed recent update - [Brexit and the impact of new trade ties on the UK outlook](#)

The dust has begun to settle on the new UK-EU trade deal, where initial pre-Christmas relief has quickly given way to widespread reports of disruption. The deal achieved tariff-free trade, but the UK's exit from the single market and customs union has heralded large - and abrupt - changes to the way the UK trades with Europe.

So what's been happening? Well firstly, it's pretty clear that trade between the EU and UK has slowed noticeably since the start of the year. New ONS data shows fewer visits by ships to UK ports, while there have also been fewer lorries crossing the Channel.

Visits by cargo ships are much lower than usual



Source: ONS

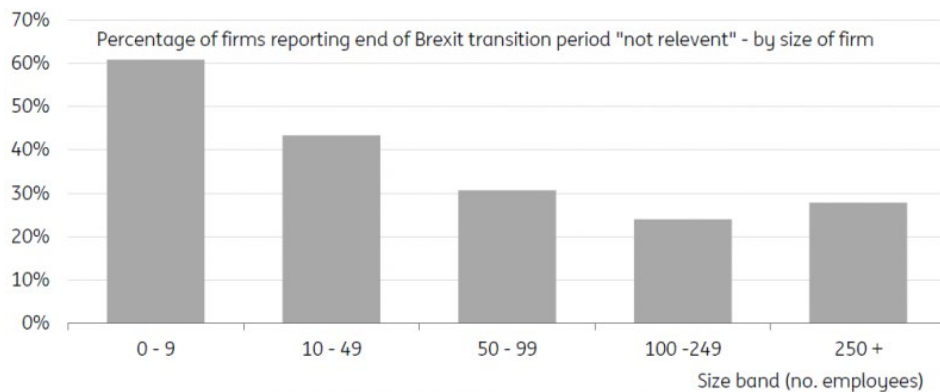
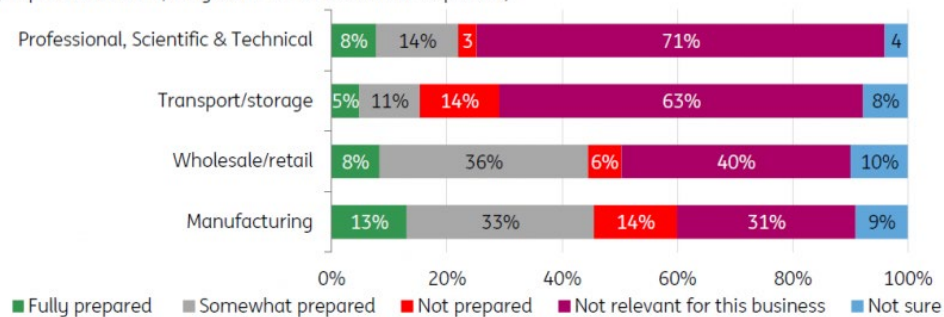
Partly this is because firms stockpiled during 2020, opting to 'wait-and-see' what happens in the first few weeks of January (and therefore traffic will inevitably build again over coming days). But increasingly it is also because many firms are struggling to adapt to the new trade barriers, not least because the pandemic has limited the ability of businesses (particularly small-medium enterprises) to prepare.

While it's true the outlines of the trade deal have been known for months, in many cases staff involved in the preparations will have been furloughed. Smaller businesses also often won't have had access to legal and consultancy resources to help them work through the consequences for their business.

All of this has been amplified by transport issues. Some hauliers have been reluctant to carry multiple firms' loads together in one shipment - particularly for food - given the added challenges it poses for collating paperwork and clearing customs.

How prepared were firms for these new changes?

Overall, how prepared is your business for the end of the EU transition period?
(Proportion of firms, weighted - 14-23 December responses)



Data taken from survey wave 20
Source: ONS Business Impact of Coronavirus survey

Manufacturing production is likely to fall this quarter

In short, the situation is fairly bleak. But working out the magnitude of the impact on the wider economy is less straightforward, not least because Covid-19 continues to dominate the statistics.

One thing that looks inevitable is a fall in manufacturing production in January - perhaps in the region of 3-4%. That's partly because the situation is unlikely to resolve itself quickly - and in fact may become worse in the short-term as border traffic builds up once again. Net trade is also likely to weigh on GDP through this year, assuming imports recover as lockdowns are unwound but exports take much longer to recover.

The longer-term impact: Uncertain and potentially unstable

We think there are three potential long-term implications of the new trading relationship.

- Firstly, given the new costs of customs declarations and transportation are here to stay - some British, Europe-facing firms will ultimately no longer be profitable, and some will be forced to move more parts of their operation overseas. That will inevitably reduce investment in the UK and will add further pressure to unemployment (which already looks set to rise through 2021).
- Secondly, given Covid-19 travel curbs, the impact on services is only likely to become fully visible after the pandemic. This is where the UK's competitive advantage lies, and it is also where arguably life outside the single market is more complex.
- Finally, what will happen to the UK-EU relationship in the long term? Domestic politics will likely make it difficult for a future UK government to push for closer ties. And instead the bigger question is whether the deal will stand the test of time. In part, this depends on how the UK decides to shape policy surrounding the 'level playing field'. Future divergence on state aid or labour laws could see market access partially rescinded, for example via tariffs.

ING global forecasts

	1Q20	2Q20	2020		FY	2021					2022				
			3Q20	4Q20		1Q21	2Q21	3Q21	4Q21	FY	1Q22	2Q22	3Q22	4Q22	FY
United States															
GDP (% QoQ, ann)	-5.00	-31.40	33.40	4.20	-3.50	1.60	7.80	8.00	4.50	5.20	3.50	3.00	2.90	2.90	4.30
CPI headline (% YoY)	2.10	0.40	1.30	1.20	1.30	1.60	3.10	2.50	2.50	2.40	2.30	2.20	2.10	2.10	2.10
Federal funds (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-month interest rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-year interest rate (% eop)	0.67	0.68	0.68	1.00	1.00	1.25	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00
Fiscal balance (% of GDP)					-16.00					-11.50					-5.20
Gross public debt / GDP					97.30					101.90					101.30
Eurozone															
GDP (% QoQ, ann)	-14.10	-39.20	60.00	-6.60	-7.00	-2.00	7.10	8.30	4.40	3.50	2.80	2.00	1.90	1.60	3.70
CPI headline (% YoY)	1.10	0.20	-0.10	-0.30	0.20	0.30	1.50	1.70	1.50	1.30	1.20	1.30	1.30	1.40	1.30
Refi minimum bid rate (% eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (% eop)	-0.40	-0.45	-0.49	-0.55	-0.55	-0.55	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.40	-0.40	-0.40
10-year interest rate (% eop)	-0.47	-0.45	-0.55	-0.57	-0.57	-0.50	-0.40	-0.30	-0.30	-0.30	-0.20	-0.20	-0.15	-0.10	-0.10
Fiscal balance (% of GDP)					-8.80					-6.60					-4.00
Gross public debt/GDP					104.90					106.50					104.10
Japan															
GDP (% QoQ, ann)	-2.30	-28.80	22.90	0.50	-5.60	0.60	0.80	3.20	2.60	1.40	1.20	1.00	1.10	2.50	1.70
CPI headline (% YoY)	0.50	0.10	0.20	-0.70	0.00	-0.70	-0.30	0.80	0.50	-0.10	0.80	0.80	0.60	0.60	0.70
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
3-month interest rate (% eop)	0.00	0.00	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10-year interest rate (% eop)	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-17.00					-9.80					-8.90
Gross public debt/GDP					223.00					229.00					233.00
China															
GDP (% YoY)	-6.80	3.20	4.90	5.50	1.70	12.00	5.50	5.00	5.50	7.00	3.00	5.00	5.50	5.00	4.60
CPI headline (% YoY)	5.00	2.70	2.40	0.60	2.60	2.00	2.50	2.50	2.90	2.50	2.80	2.60	2.40	2.50	2.50
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	1.95	2.13	2.67	3.00	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.70	3.70
10-year T-bond yield (% eop)	2.59	2.87	3.10	3.25	3.25	3.20	3.20	3.25	3.30	3.30	3.35	3.40	3.45	3.50	3.50
Fiscal balance (% of GDP)					-6.00					-6.00					-4.00
Public debt (% of GDP), incl. local govt.					110.00					115.00					118.00
UK															
GDP (% QoQ, ann)	-11.5	-56.4	81.1	2.4	-10	-11.2	22	10	4.0	4.8	3.8	2.9	2.0	1.5	5.1
CPI headline (% YoY)	1.7	0.6	0.6	0.5	0.9	0.8	1.5	1.4	1.7	1.4	1.5	1.5	1.6	1.6	1.5
BoE official bank rate (% eop)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-month interest rate (% eop)	0.60	0.20	0.10	0.00	0.00	0.00	0.00	0.10	0.15	0.15	0.20	0.20	0.25	0.30	0.30
10-year interest rate (% eop)	0.30	0.20	0.20	0.20	0.20	0.25	0.40	0.50	0.60	0.60	0.70	0.70	0.70	0.80	0.80
Fiscal balance (% of GDP)					-15.0					-7.0					-3.5
Gross public debt/GDP					112.0					110.5					110.5
EUR/USD (eop)	1.10	1.13	1.17	1.22	1.20	1.22	1.25	1.28	1.30	1.30	1.30	1.30	1.28	1.25	1.25
USD/JPY (eop)	107	107	105	103	103	102	100	100	100	100.0	102	103	104	105	105
USD/CNY (eop)	7.08	7.07	6.78	6.53	6.70	6.60	6.50	6.45	6.30	6.3	6.35	6.40	6.45	6.50	6.5
EUR/GBP (eop)	0.89	0.91	0.91	0.89	0.89	0.88	0.86	0.85	0.85	0.85	0.84	0.83	0.82	0.82	0.82

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

Source: ING forecasts

ING's forecasts under three different scenarios

	2020					2021					2022				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Scenario 1:															
Real GDP growth (QoQ% annualised)															
United States	-5.00	-31.40	33.40	4.20	-3.60	5.40	9.60	5.70	4.30	6.10	3.60	3.20	3.00	2.80	4.20
Eurozone	-14.10	-39.20	60.00	-6.60	-7.00	1.20	8.00	8.30	6.60	4.60	3.90	2.20	2.00	1.60	4.40
China (YoY%)	-6.80	3.20	4.90	5.50	1.70	12.00	5.50	5.00	5.50	7.00	3.00	5.00	5.50	5.00	4.63
Japan	-2.10	-29.20	22.90	2.70	-1.43	2.20	2.70	4.10	3.00	3.00	1.50	1.30	1.40	1.40	1.40
United Kingdom	-11.50	-56.40	81.10	2.40	-10.00	-6.40	22.0	9.80	3.50	6.10	2.20	2.30	2.30	2.30	4.50
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.56	97.56	-	98.85	101.14	102.55	103.64	-	104.56	105.39	106.17	106.90	-
Eurozone	96.27	85.01	95.61	93.99	-	94.27	96.10	98.04	99.62	-	100.58	101.12	101.63	102.03	-
Japan	99.47	91.24	96.07	96.71	-	97.24	97.89	98.88	99.61	-	99.98	100.31	100.66	101.01	-
United Kingdom	96.99	78.81	91.43	91.97	-	90.47	95.13	97.38	98.23	-	98.76	99.32	99.89	100.46	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.25	1.30	1.30	1.28	-	1.25	1.22	1.20	1.15	-
US 10-year yield (%)	0.67	0.68	0.68	1.00	-	1.50	1.75	1.75	2.00	-	2.00	2.00	2.25	2.25	-
Scenario 2 – ING base case															
Real GDP growth (QoQ% annualised)															
United States	-5.00	-31.40	33.40	4.20	-3.50	1.60	7.80	8.00	4.50	5.20	3.50	3.00	2.90	2.90	4.30
Eurozone	-14.10	-39.20	60.00	-6.60	-7.00	-2.00	7.10	8.30	4.40	3.50	2.80	2.00	1.90	1.60	3.70
China (YoY%)	-6.80	3.20	4.90	5.00	1.58	7.00	5.00	4.50	5.00	5.38	3.00	4.50	6.00	6.00	4.88
Japan	-2.10	-29.20	22.90	0.50	-1.98	0.60	0.80	3.20	2.60	1.80	1.20	1.00	1.10	2.50	1.45
United Kingdom	-11.50	-56.40	81.10	2.40	-10.00	-11.20	22.0	10.0	4.00	4.80	3.80	2.90	2.00	1.50	5.10
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.56	97.56	-	97.95	99.80	101.74	102.87	-	103.76	104.53	105.28	106.03	-
Eurozone	96.27	85.01	95.61	93.99	-	93.52	95.14	97.05	98.10	-	98.78	99.27	99.74	100.14	-
Japan	99.47	91.24	96.07	96.19	-	96.33	96.53	97.29	97.92	-	98.21	98.45	98.72	99.33	-
United Kingdom	96.99	78.81	91.43	91.97	-	89.28	93.87	96.20	97.15	-	98.06	98.76	99.25	99.62	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.22	1.25	1.28	1.30	-	1.30	1.30	1.28	1.25	-
US 10-year yield (%)	0.67	0.68	0.68	1.00	-	1.25	1.50	1.50	1.75	-	1.75	1.75	2.00	2.00	-
Scenario 3 -															
Real GDP growth (QoQ% annualised)															
United States	-5.00	-31.40	33.40	4.20	-3.50	-5.50	4.50	5.80	4.60	2.40	4.60	4.50	3.80	3.50	4.60
Eurozone	-14.10	-39.20	60.00	-6.60	-7.00	-5.30	-0.20	5.20	5.50	0.90	6.00	5.60	2.70	1.80	4.70
China (YoY%)	-6.80	3.20	4.90	0.00	0.33	2.00	4.00	3.00	1.00	2.50	3.00	5.00	6.00	6.00	5.00
Japan	-2.10	-29.20	22.90	-1.90	-2.58	-0.60	-0.70	1.10	1.10	0.23	0.80	1.40	5.10	4.10	2.85
United Kingdom	-11.50	-56.40	81.10	2.40	-10.00	-17.0	16.50	13.0	5.50	2.70	0.60	1.20	1.20	0.70	4.10
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.56	97.56	-	96.19	97.25	98.63	99.75	-	100.88	101.99	102.95	103.84	-
Eurozone	96.27	85.01	95.61	93.99	-	92.72	92.67	93.86	95.12	-	96.52	97.84	98.49	98.94	-
Japan	99.47	91.24	96.07	95.61	-	95.47	95.30	95.56	95.82	-	96.01	96.35	97.55	98.54	-
United Kingdom	96.99	78.81	91.43	91.97	-	87.87	91.29	94.10	95.37	-	95.51	95.79	96.08	96.25	-
EUR/USD	1.10	1.12	1.17	1.22	-	1.10	1.10	1.12	1.13	-	1.15	1.17	1.18	1.20	-
US 10-year yield (%)	0.67	0.68	0.68	1.00	-	0.50	0.50	0.50	0.75	-	0.75	1.00	1.25	1.25	-

Source: ING. Note most growth forecasts rounded to nearest whole or half number)

*Scenario two is our current base case for China

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