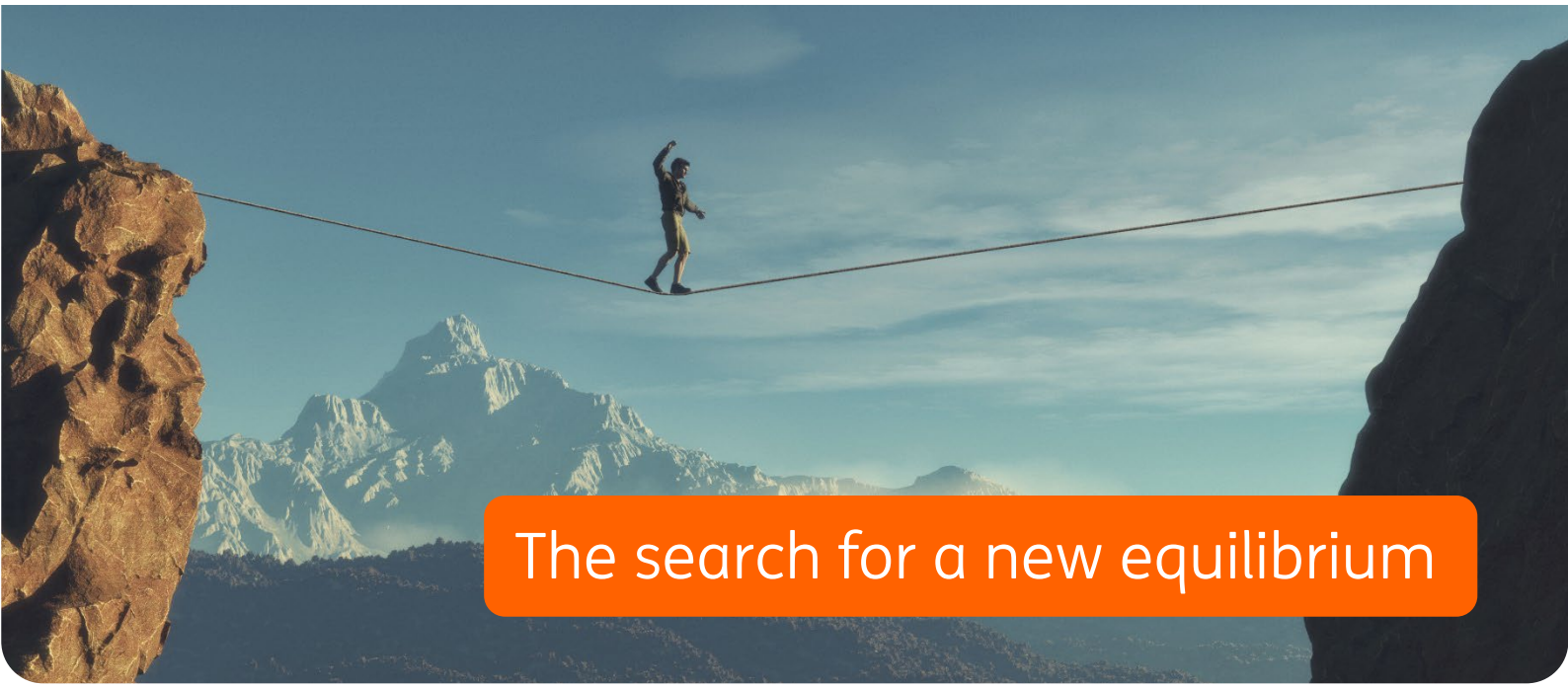
# ING Monthly

March 2023



# The search for a new equilibrium

**Optimism about an imminent strong economic recovery and a change of tack by the central banks was short-lived. We expect a longer period of subdued growth in the eurozone, while we also anticipate a significant slowdown of the US economy. It's no surprise markets and analysts are having a hard time seeing clearly at the moment**

Recent weeks have shown that optimism about an imminent strong economic recovery and a pivot by the major central banks was premature. Markets, economies and central banks are still searching for a new balance, a new equilibrium, of structural transition and cyclical developments, higher inflation and interest rates, stricter monetary policy and loose fiscal policy.

The path to this new balance, wherever it may be, was always expected to be rough and volatile and not linear. In fact, major central banks are witnessing stubbornly high inflation and still very few signs that recent monetary tightening will destroy demand and hence bring down inflation. We have argued before that both markets and central banks are currently too impatient. It simply takes months before tighter monetary policy finds its way into the real economy. And it will. Or put differently, if the greatest monetary policy turnaround in years does not leave any marks on the real economy, we could also close all central banks.

However, since last summer, central bankers seem to have become increasingly afraid that they may lose their grip on inflation. This is why there is currently so little patience and rather a trend of "high or higher for longer". No single central bank wants to be on the wrong side of inflation. Longer-term inflation projections are no longer the main anchor. It is rather a combination of current headline and core inflation, longer-term inflation projections and a large portion of gut feeling. In any case, probably the biggest concern for most central bankers at the moment is relaxing too early. This is why a scenario in which central banks overshoot with their rate hikes is more likely than a scenario in which central banks start cutting rates prematurely. All of this means that the US Federal Reserve and European Central Bank (ECB) will continue to hike interest rates in the coming months.

While the global economy will still experience the full impact of the monetary policy tightening of the last year, major economies are clearly out of sync. The reopening of the Chinese economy is only gradually gaining traction and we expect it to last until the second half of the year before the recovery really takes off. The relief that the reopening of the Chinese economy should at least provide for the European economy will not be enough to stage a strong recovery. The eurozone economy seemed to have avoided a recession before we received downward revisions in German growth data. Now, a technical recession is still possible. Even though lower energy prices and the Chinese reopening could give a short-term boost to industry, the large inventory build-up as well as the ECB's monetary tightening will weigh on the recovery. We expect a longer period of subdued growth in the eurozone.

The resilience of the US economy has been remarkable. However, we do see the first cracks in the labour and housing markets and expect a significant slowdown of the economy. Still, with the Inflation Reduction Act and rich energy supply, the US economy should experience a rather textbook-style slowdown, followed by looser monetary policy and consequently a recovery in 2024.

With economies struggling between cyclical and structural developments, governments moving from short-term stimulus to longer-term investments, stubbornly high inflation

and a new era of "high for longer" at central banks, it shouldn't be a surprise that markets and analysts are having a hard time seeing clearly at the moment. Remember Jimmy Cliff, who only saw all the obstacles in his way when the rain was gone? In the global economy, it will still take some time before the rain disappears.

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## Our main calls this month

- **United States**: A strong start to the year is largely down to unusual weather and generous seasonal adjustment factors. Nonetheless, with inflation proving to be stickier than hoped the Federal Reserve looks set to raise rates to 5.25-5.5%. Lending conditions are tightening rapidly and borrowing costs are rising so recession remains a high probability event. Disinflation from key housing components will intensify from the third quarter with interest rate cuts still on the cards for late 2023.
- **Eurozone:** After a weak fourth quarter, the fall in energy prices has pushed up confidence among businesses and consumers in the eurozone. However, the better growth outlook will slow the decline in underlying inflation, pushing the European Central Bank to act more forcefully. A terminal deposit rate of at least 3.50% now seems likely. As a consequence, the economy will slow down again in the second half of the year and 2024's growth is likely to be weaker than 2023's expansion.
- **China:** Consumption was a lot softer in February after the holiday in January. But factories are resuming work quickly. The risk of a technology war has increased as the US initiated the CHIPS4 meeting (a gathering of US, Korea, Japan and Taiwan). Infrastructure investment has been slow so far even as loan growth to corporates has been strong.
- **Asia ex-China:** Asian inflation is still going up, but we are getting very close to the peak, and may already be there for many economies in the region. The causes of the recent pick up in year-on-year inflation are numerous, but one common feature is that the run rate for inflation this time last year was very high, and we are unlikely to see that repeated this year – geopolitics and weather permitting. That also means that Asian central bank policy rates are also at, or very close to their peak.
- **United Kingdom:** The Bank of England has signalled it is very close to the end of its tightening cycle, and barring any nasty surprises in wage and inflation data over the next couple of months, we think a 25bp March rate hike is likely to be the last in this cycle.
- **FX:** The higher rates for longer narrative means that a resumption of the dollar bear trend will probably have to wait until the second half, when clearer signs of US

disinflation emerge. Before then, EUR/USD can bounce around in a 1.05-1.10 range, buffeted by central bank speak and the risk environment. Into the second half of the year, however, a sharp narrowing in US-Eurozone interest rate differentials can drag EUR/USD towards the 1.15 area.

- **Market rates:** We called for the recent rise in market rates, and when they eventually popped it was in a flash. Thematically, inflation stickiness is a key theme, and heads have turned to 'we told you so' central banks. Logically, some upward pressure for market rates remains, which is even more probable if risk assets perform. But this should be the final push higher, as the larger move from the second quarter will be for market rates to fall.

## 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 | 2.7 | 2.1 | 0.5 | -1.1 | -1.7 | -0.1 | 0.5 | 1.4 | 2.1 | 2.3 | 2.2 | 0.9 | 2.3 | 2.4 | 2.2 | 2.0 | 2.1 |
| CPI headline (% YoY) | 8.0 | 8.6 | 8.3 | 7.1 | 8.0 | 5.9 | 4.3 | 3.5 | 2.9 | 4.2 | 2.2 | 2 | 1.8 | 1.9 | 2 | 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 | 5.50 | 5.50 | 5.00 | 5.00 | 4.25 | 3.75 | 3.25 | 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 | 5.4 | 5.5 | 5 | 5 | 4.3 | 3.8 | 3.3 | 3.1 | 2.45 | 3 | 3 | 3 | 3 | 3 |
| 10-year interest rate (%, eop) | 2.30 | 3.00 | 3.80 | 3.88 | 3.88 | 4.00 | 4.00 | 3.75 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.75 | 3.75 | 3.75 | 3.75 | 4.00 | 4.00 | 4.00 |
| Fiscal balance (% of GDP) | | | | | -4.2 | | | | | -4.7 | | | | | -4.9 | | | | | -4.2 |
| Gross public debt / GDP | | | | | 99.8 | | | | | 100.2 | | | | | 101.9 | | | | | 102.2 |
| **Eurozone** | | | | | | | | | | | | | | | | | | | | |
| GDP (% QoQ, ann) | 2.6 | 3.4 | 1.2 | 0.4 | 3.5 | 0.0 | 1.0 | 0.8 | 0.5 | 0.8 | 0.4 | 0.8 | 1.1 | 1.2 | 0.7 | 1.6 | 1.6 | 1.4 | 1.4 | 1.3 |
| CPI headline (% YoY) | 6.0 | 8.0 | 9.3 | 10.0 | 8.3 | 7.9 | 5.8 | 4.5 | 3.9 | 5.5 | 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 | 4.00 | 4.00 | 3.50 | 3.50 | 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 | 3.20 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.50 | 3.10 | 3.10 | 2.70 | 2.75 | 2.80 | 2.85 | 2.85 |
| 10-year interest rate (%, eop) | 0.60 | 1.40 | 2.10 | 2.56 | 2.56 | 2.60 | 2.50 | 2.40 | 2.25 | 2.25 | 2.25 | 2.25 | 2.30 | 2.40 | 2.40 | 2.40 | 2.40 | 2.50 | 2.60 | 2.60 |
| Fiscal balance (% of GDP) | | | | | -3.8 | | | | | -4.4 | | | | | -3.4 | | | | | -3.3 |
| Gross public debt/GDP | | | | | 97.9 | | | | | 96.1 | | | | | 94.2 | | | | | 94.1 |
| **Japan** | | | | | | | | | | | | | | | | | | | | |
| GDP (% QoQ, ann) | -1.7 | 4.6 | -1.0 | 0.6 | 1.0 | 1.2 | 0.8 | 1.6 | 1.6 | 1.0 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| CPI headline (% YoY) | 0.9 | 2.4 | 2.9 | 3.8 | 2.5 | 4.1 | 3.6 | 3.1 | 2.2 | 3.2 | 1.7 | 1.8 | 2 | 2.3 | 2 | 2.3 | 2.2 | 2 | 1.8 | 2 |
| 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 | -0.10 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 |
| 3-month interest rate (%, eop) | -0.10 | -0.15 | -0.25 | -0.16 | -0.16 | -0.17 | -0.10 | -0.10 | -0.10 | -0.10 | 0.00 | 0.00 | 0.00 | 0.25 | 0.00 | 0.30 | 0.50 | 0.50 | 0.50 | 0.50 |
| 10-year interest rate (%, eop) | 0.25 | 0.20 | 0.25 | 0.25 | 0.25 | 0.50 | 0.40 | 0.40 | 0.50 | 0.50 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 |
| Fiscal balance (% of GDP) | | | | | -7 | | | | | -8 | | | | | -7 | | | | | -6 |
| Gross public debt/GDP | | | | | 270.0 | | | | | 275.0 | | | | | 275.0 | | | | | 270.0 |
| **China** | | | | | | | | | | | | | | | | | | | | |
| GDP (% YoY) | 4.8 | 0.4 | 3.9 | 2.9 | 3.0 | 4.5 | 5.2 | 5.7 | 4.5 | 5.0 | 5.5 | 5.3 | 5.0 | 5.5 | 5.3 | 4.7 | 5.4 | 5.2 | 5.2 | 5.1 |
| CPI headline (% YoY) | 1.1 | 2.3 | 2.5 | 2.1 | 2.0 | 2.3 | 2.5 | 2.0 | 2.0 | 2.2 | 2.2 | 2.2 | 2.3 | 2.5 | 2.3 | 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 | 2.30 | 2.35 | 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 | 3.1 | 3.15 | 3.2 | 3.35 | 3.35 | 3.45 | 3.55 | 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) | 2.5 | 0.2 | -1.2 | 0.0 | 4.1 | -0.8 | -0.5 | 0.3 | 1.0 | -0.3 | 1.2 | 1.2 | 1.4 | 1.4 | 1.0 | 1.7 | 1.7 | 1.7 | 1.7 | 1.5 |
| CPI headline (% YoY) | 6.2 | 9.2 | 10.0 | 10.8 | 9.0 | 9.7 | 6.4 | 4.0 | 2.1 | 5.6 | 1.8 | 1.5 | 2.3 | 1.9 | 1.8 | 2.0 | 1.8 | 1.8 | 2.1 | 1.9 |
| BoE official bank rate (%, eop) | 0.75 | 1.25 | 2.25 | 3.50 | 3.50 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 3.75 | 3.25 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| 3-month interest rate (%, eop) | 2.70 | 2.70 | 3.35 | 3.75 | 3.75 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.05 | 3.55 | 3.05 | 2.60 | 2.60 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 |
| 10-year interest rate (%, eop) | 2.50 | 2.25 | 4.10 | 3.20 | 3.20 | 3.60 | 3.50 | 3.30 | 3.10 | 3.10 | 2.90 | 2.90 | 2.80 | 2.80 | 2.80 | 2.80 | 2.90 | 3.00 | 3.00 | 3.00 |
| Fiscal balance (% of GDP) | | | | | 4.0 | | | | | 5.2 | | | | | 3.0 | | | | | 2.5 |
| Gross public debt/GDP | | | | | 97.5 | | | | | 98.1 | | | | | 98.1 | | | | | 97.7 |
| **EUR/USD (eop)** | 1.11 | 1.05 | 0.97 | 1.02 | 1.02 | 1.07 | 1.10 | 1.12 | 1.15 | 1.15 | 1.15 | 1.18 | 1.18 | 1.15 | 1.15 | 1.15 | 1.15 | 1.15 | 1.15 | 1.15 |
| **USD/JPY (eop)** | 122 | 132 | 145 | 138 | 138 | 135 | 130 | 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 | 6.9 | 6.85 | 6.70 | 6.50 | 6.50 | 6.5 | 6.4 | 6.35 | 6.4 | 6.4 | 6.5 | 6.3 | 6.1 | 6.2 | 6.20 |
| **EUR/GBP (eop)** | 0.84 | 0.86 | 0.88 | 0.87 | 0.87 | 0.89 | 0.89 | 0.89 | 0.9 | 0.90 | 0.90 | 0.90 | 0.89 | 0.88 | 0.88 | 0.88 | 0.88 | 0.88 | 0.88 | 0.88 |
| **ICE Brent -US$/bbl (average)** | 98 | 112 | 98 | 89 | 99 | 86 | 91 | 105 | 110 | 98 | 98 | 90 | 88 | 83 | 90 | 73 | 75 | 78 | 75 | 75 |
| **Dutch TTF - EUR/MWh (avg)** | 101 | 101 | 205 | 124 | 133 | 57 | 55 | 52 | 62 | 57 | 70 | 55 | 45 | 50 | 55 | 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 scenarios for markets and the economy

## Scenario #1 (base case): Europe avoids recession and central banks stay hawkish – for now

**Energy prices**
Demand destruction and resilient LNG supply help keep a lid on European gas prices. Storage starts next winter more than 90% full. European gas prices (TTF) average EUR55-60/MWh in second half of the year.

**China Reopening**
Consumption recovers more quickly than manufacturing, with exports weak as external demand dwindles. Commodity prices rise but not rapidly enough to materially impact global inflation profiles.

**Central banks**
Federal Reserve hikes in March, May and June, but cuts rates by 50bp by year-end. ECB hikes by 50bp in March and 25bp in May and June – and signals no cuts in 2023.

**Economics**
Europe avoids recession, suggesting core inflation takes time to come down even if headline rates tumble on lower gas prices. The US experiences a downturn as higher interest rates and low business confidence begin to hit hiring activity.

**Markets**
Sticky inflation keeps dollar supported through 1Q, but bear trend resumes through second half.

Market rates are pulled lower from the US end, and ECB hikes ensure convergence versus eurozone rates.

2023 growth forecasts

| 0.5% | 0.8% | 5.0% |
|---|---|---|
| US | Eurozone | China |

Markets: End-2023 forecasts

| 1.15 | 3.00% | 98 |
|---|---|---|
| EUR/USD | US 10-year | Oil (Brent) |

## Scenario #2: Core inflation is no longer an issue and central banks relax

**Energy prices**
Chinese LNG demand little changed on 2022, allowing EU to absorb more of 2023's supply growth. Dutch TTF averages EUR 45/MWh in second half of the year.

**China Reopening**
"Goldilocks" scenario where activity recovery surpasses the pre-pandemic level, but without any resulting squeeze on commodity prices.

**Central banks**
Central banks become much more relaxed about inflation, enabling earlier rate cuts in Europe and more aggressive cuts in the US.

**Economics**
Core inflation falls faster than in our base case. Services inflation is less of an issue, partly as lower energy/input prices take the pressure off otherwise competitive consumer industries. Goods prices tumble on healthier supply chains and inventory levels but also on weaker demand.

**Markets**
Not a big change from base case. EUR/USD probably does a little better given better global growth.

US rates see a bigger pull power, tightening spread versus the eurozone more from the US side.

2023 growth forecasts

| 1.6% | 1.3% | 5.6% |
|---|---|---|
| US | Eurozone | China |

Markets: End-2023 forecasts

| 1.18 | 2.75% | 78 |
|---|---|---|
| EUR/USD | US 10-year | Oil (Brent) |

## Scenario #3: Energy prices surge, rates rise further but recession becomes inevitable

**Energy prices**
Russian gas flows to Europe further reduced. Chinese LNG demand recovers faster than expected, and European gas prices need to rise to compete. Dutch TTF averages EUR135/MWh in second half of 2023. Winter 23/24 brings colder weather.

**China Reopening**
Industry recovers faster than expected, putting abrupt pressure on global energy and commodity prices. Impact on global inflation slightly mitigated by further improved supply chain reliability. Recession in eurozone and US slows Chinese recovery.

**Central banks**
Policy rates go another leg higher, and no major central bank cuts rates in 2023. But a deeper recession prompts widespread easing in 2024.

**Economics**
Core goods price inflation falls less rapidly. Higher gas prices push the eurozone into recession. Government support and boost from Chinese demand provide too little offset. US is more insulated, but higher rates prompt a deeper downturn.

**Markets**
Dollar rebounds as sticky inflation nixes Fed easing cycle and damages global growth prospects.

Market rates forced to reprice terminal central bank rates higher; abrupt unwind of current richness.

2023 growth forecasts

| 0.0% | 0.3% | 4.8% |
|---|---|---|
| US | Eurozone | China |

Markets: End-2023 forecasts

| 1.00 | 4.50% | 110 |
|---|---|---|
| EUR/USD | US 10-year | Oil (Brent) |

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

## March 2023 - Scenario forecasts

### United States

| Real GDP (QoQ ann%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 1.9 | 0.8 | 0.9 | 1.5 | 1.6 | 2.3 | 2.8 | 2.4 | 2.4 | 1.9 |
| Base case | 0.5 | -1.1 | -1.7 | -0.1 | 0.5 | 1.4 | 2.1 | 2.3 | 2.2 | 0.9 |
| Negative scenario | -0.2 | -1.8 | -3.1 | -2.4 | 0.0 | -0.9 | 0.7 | 1.9 | 2.0 | -0.7 |

| Inflation (YoY%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 5.8 | 3.9 | 2.8 | 1.8 | 3.6 | 1.1 | 0.9 | 1.3 | 1.7 | 1.2 |
| Base case | 5.9 | 4.3 | 3.5 | 2.9 | 4.2 | 2.2 | 2.0 | 1.8 | 1.9 | 2.0 |
| Negative scenario | 6.0 | 4.9 | 4.6 | 4.1 | 4.9 | 3.2 | 2.9 | 1.4 | 1.2 | 2.0 |

| Fed Funds Rate (%, eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 5.00 | 5.25 | 5.25 | 4.50 | 4.50 | 4.00 | 3.50 | 3.00 | 2.50 | 2.50 |
| Base case | 5.00 | 5.50 | 5.50 | 5.00 | 5.00 | 4.25 | 3.75 | 3.25 | 3.00 | 3.00 |
| Negative scenario | 5.00 | 5.50 | 6.00 | 6.00 | 6.00 | 5.00 | 4.00 | 3.00 | 2.00 | 2.00 |

### Eurozone

| Real GDP (QoQ ann%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 0.8 | 1.3 | 2.1 | 2.3 | 1.3 | 2.1 | 2.1 | 1.6 | 1.6 | 2.0 |
| Base case | 0.0 | 1.0 | 0.8 | 0.5 | 0.8 | 0.4 | 0.8 | 1.1 | 1.2 | 0.7 |
| Negative scenario | -0.7 | 0.4 | 0.4 | -2.0 | 0.3 | -1.4 | 0.3 | 0.6 | 0.8 | -0.5 |

| Inflation (YoY%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 7.8 | 5.3 | 3.7 | 2.9 | 4.9 | 2.6 | 2.3 | 2.0 | 1.8 | 2.2 |
| Base case | 7.9 | 5.8 | 4.5 | 3.9 | 5.5 | 3.2 | 3.1 | 2.3 | 1.7 | 2.6 |
| Negative scenario | 8.0 | 6.3 | 6.0 | 6.2 | 6.6 | 6.0 | 4.0 | 2.2 | 1.2 | 3.4 |

| ECB Main Refi Rate (%, eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 3.50 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.50 | 3.25 | 3.00 | 3.00 |
| Base case | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 3.50 | 3.50 |
| Negative scenario | 3.50 | 4.25 | 4.50 | 4.50 | 4.50 | 4.00 | 3.50 | 3.00 | 2.75 | 2.75 |

### United Kingdom

| Real GDP (QoQ ann%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 0.3 | 1.0 | 1.2 | 1.5 | 0.4 | 1.8 | 1.8 | 1.9 | 0.9 | 1.6 |
| Base case | -0.8 | -0.5 | 0.3 | 1.0 | -0.3 | 1.2 | 1.2 | 1.4 | 1.4 | 1.0 |
| Negative scenario | -2.4 | -0.8 | 0.0 | -0.7 | -0.8 | -0.8 | 0.4 | 0.9 | 1.4 | -0.1 |

| Inflation (YoY%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 9.6 | 5.9 | 3.3 | 1.3 | 5.0 | 1.0 | 1.0 | 2.0 | 1.8 | 1.4 |
| Base case | 9.7 | 6.4 | 4.0 | 2.1 | 5.6 | 1.8 | 1.5 | 2.3 | 1.9 | 1.8 |
| Negative scenario | 9.9 | 7.6 | 6.2 | 4.0 | 6.9 | 3.7 | 1.8 | 1.7 | 1.5 | 2.2 |

| Bank Rate (%, eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 4.25 | 4.25 | 4.25 | 4.00 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 3.00 |
| Base case | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 3.75 | 3.25 | 2.75 | 2.75 |
| Negative scenario | 4.25 | 4.75 | 4.75 | 4.75 | 4.75 | 4.25 | 3.25 | 2.75 | 2.25 | 2.25 |

## China

| Real GDP (YoY%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 4.7 | 5.5 | 5.9 | 6.3 | 5.6 | 5.7 | 5.5 | 6.1 | 5.6 | 5.7 |
| Base case | 4.5 | 5.2 | 5.7 | 4.5 | 5.0 | 5.5 | 5.3 | 5.0 | 5.5 | 5.3 |
| Negative scenario | 4.7 | 5.0 | 5.0 | 4.6 | 4.8 | 5.3 | 5.0 | 5.2 | 5.0 | 5.1 |

| Inflation (YoY%) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 2.2 | 2.3 | 2 | 2 | 2.1 | 2.1 | 2.1 | 2.2 | 2.4 | 2.2 |
| Base case | 2.3 | 2.5 | 2 | 2 | 2.2 | 2.2 | 2.2 | 2.3 | 2.5 | 2.3 |
| Negative scenario | 2.3 | 2.6 | 2.5 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 | 2.7 | 2.5 |

| 7-day reverse repo (%, eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.10 | 2.20 | 2.20 |
| Base case | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.10 | 2.20 | 2.20 |
| Negative scenario | 2.00 | 2.05 | 2.05 | 2.10 | 2.10 | 2.10 | 2.15 | 2.20 | 2.35 | 2.35 |

## Energy

| Brent crude (USD/bbl) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 80 | 80 | 78 | 75 | 78 | 75 | 78 | 76 | 72 | 75 |
| Base case | 86 | 91 | 105 | 110 | 98 | 98 | 90 | 88 | 83 | 90 |
| Negative scenario | 90 | 110 | 118 | 122 | 110 | 105 | 96 | 94 | 88 | 96 |

| Dutch TTF (EUR/MWh) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 50 | 47 | 41 | 49 | 47 | 55 | 44 | 30 | 40 | 42 |
| Base case | 57 | 55 | 52 | 62 | 57 | 70 | 55 | 45 | 50 | 55 |
| Negative scenario | 65 | 90 | 120 | 150 | 106 | 155 | 100 | 85 | 95 | 109 |

## Markets

| EUR/USD (eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 1.08 | 1.12 | 1.15 | 1.18 | 1.18 | 1.18 | 1.20 | 1.20 | 1.20 | 1.20 |
| Base case | 1.07 | 1.10 | 1.12 | 1.15 | 1.15 | 1.15 | 1.18 | 1.18 | 1.15 | 1.15 |
| Negative scenario | 1.05 | 1.03 | 1.00 | 1.00 | 1.00 | 1.00 | 1.03 | 1.03 | 1.05 | 1.05 |

| US 10Y (eop) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Positive scenario | 4.00 | 3.75 | 3.25 | 2.75 | 2.75 | 2.75 | 3.00 | 3.25 | 3.75 | 3.75 |
| Base case | 4.00 | 4.00 | 3.75 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.50 | 3.50 |
| Negative scenario | 4.25 | 5.00 | 5.00 | 4.50 | 4.50 | 3.00 | 2.00 | 2.00 | 2.50 | 2.50 |

All forecasts are average of the period unless marked 'eop' (end of period)
Source: ING

# Commodities: Energy concerns ease further

**Warren Patterson**
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**Energy prices came under further pressure in February, particularly when it comes to natural gas. Storage in Europe is looking increasingly comfortable, and it is a similar story for the US natural gas market. Oil prices continue to trade in a range-bound manner**

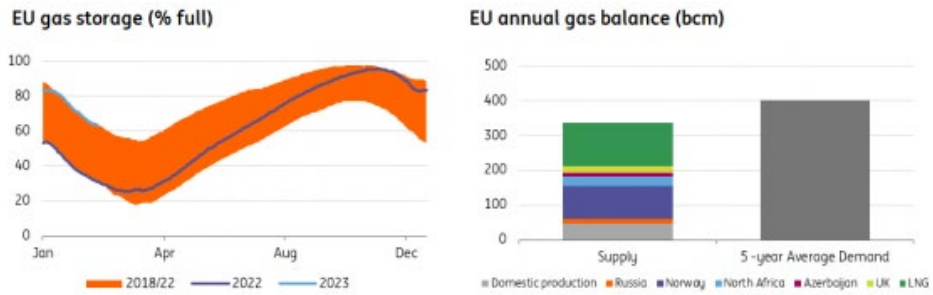
The oil market is well supplied in the near term due to Russian supply holding up better than expected

## EU gas storage increasingly comfortable

TTF prices broke below EUR50/MWh in February, the lowest levels seen since August 2021. This has occurred as EU gas storage looks increasingly comfortable. Strong liquefied natural gas (LNG) flows and weaker-than-expected demand has allowed storage to draw at a slower-than-expected pace. We now expect to end this heating season with EU storage at around 54% full, compared to previous expectations of a little over 50%. This is significantly higher than the 26% seen at the end of the last heating season and also above the five-year average of 34%. As a result, the EU will need to only see net additions of around 36bcm over the injection season to hit the EU storage target of 90% by 1 November. Over the same period last year, we saw roughly 67bcm added. This should be much more manageable for the region and in fact, there is a growing risk that storage could essentially be full ahead of the next heating season, which suggests the potential for further price weakness in the third quarter.

We have revised lower our 2023 TTF forecast from EUR70/MWh to EUR57/MWh. We believe that further downside from current levels is limited as we move further into the coal-to-gas switching range. Lower Asian LNG prices should also start to spark some buying appetite. Risks to our view include a stoppage of remaining Russian pipeline gas flow to Europe, a stronger-than-expected recovery in Chinese LNG demand (we are assuming a little over 10% growth year-on-year) and a stronger European demand response to the more recent weakness in prices. It is worth noting that the EU is still in deficit and so will need to continue to see demand destruction through this year to manage – we are assuming 10% below the five-year average from April onward.

**EU gas storage comfortable but the region is still in deficit**




Source: GIE, ENTSOG, Eurostat, ING Research

## US natural gas falls towards pandemic levels

US natural gas prices briefly traded below US$2/MMBtu in February and hit their lowest levels since September 2020. The US has also seen a largely milder winter this year, which has meant that gas storage has been falling at a slower-than-usual pace. The US went into the 2022/23 winter with natural gas storage 1% below the five-year average at the end of October and, given weaker heating demand, it is now around 15% above the five-year average. This gap is also expected to widen before this winter ends. The extended outage of the Freeport LNG export plant has added further pressure on prices. However, this plant is in the process of restarting, which should provide a further outlet for US gas.

Weaker demand has come at a time when we continue to see supply growth. US natural gas production is expected to grow in the region of 2.2Bcf/day in 2023, which would take total output in excess of 100Bcf/day this year, which would also be record levels. US storage is expected to remain above the five-year average for the remainder of this year, which suggests a limited upside in prices throughout the year.

## Oil market set to still tighten

Oil prices continue to trade in a range-bound manner. Expectations that the oil market will remain well supplied in the near term, along with expectations for a more hawkish Federal Reserve, have kept a cap on prices for the time being.

The market is well supplied in the near term due to Russian supply holding up better than expected. However, we expect that Russian supply will start to decline more aggressively in the months ahead, following the EU ban on Russian refined products. Russia has already announced that it will cut supply by 500Mbbls/d from March, whilst we expect that Russian output will decline by a little over 1MMbbls/d YoY in 2023. There are few other suppliers in the market who are able or willing to make up for Russia's shortfall. OPEC has made it clear that it intends to stick to its current cuts throughout the year, whilst US supply growth in 2023 will not be able to make up for the Russian shortfall.

As for demand, we are currently assuming that global demand will grow by 1.9MMbbls/d, which will take demand to record levels this year. This growth is predominantly driven by Asia, specifically China. Given that China dominates global growth, that does leave an obvious downside risk to the market.

Strong demand growth and limited non-OPEC supply growth in 2023 suggest that the market will tighten as we move into the second half of the year. Therefore, we expect Brent to trade back above US$100/bbl later this year.

# Our view on the major central banks

**We now expect the Fed funds rate to peak at a higher level, but still think rate cuts are likely by year-end. The European Central Bank is likely to slow the pace of hikes beyond March, while the Bank of England looks very close to the end of its tightening cycle**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Governor of the Bank of England Andrew Bailey, ECB President Christine Lagarde, US Federal Reserve Board Chairman Jerome Powell

## Federal Reserve

Having implemented four consecutive 75bp rate hikes, the Federal Reserve switched to 50bp in December and then 25bp in February. The data since then has been strong with the economy adding 517,000 jobs in January, retail sales jumping 3% month-on-month and inflation re-accelerating at the core level. Several Fed officials have since commented that they would have considered a 50bp move in February had they known. But those giving this message are all non-voters this year and with borrowing costs rising broadly throughout the economy and banks tightening lending standards, we think the Fed will stick with 25bp increments. Nonetheless, given the current situation, we think the Fed will now hike in March, May and June. Inflation is still slowing and this process will likely accelerate over the summer months, and with job loss announcements on the rise we still anticipate rate cuts before year end – we look for a 50bp cut in December.

## European Central Bank

As long as core inflation remains stubbornly high in the eurozone, the ECB will continue hiking rates and will not consider future rate cuts. A 50bp rate hike at the March meeting has been pre-announced and looks like a done deal. Beyond the March meeting, the ECB seems to be entering a new game in which further rate hikes will not necessarily get the same support within the governing council, as hiking deep into restrictive territory increases the risk of adverse effects on the economy. The main question beyond the March meeting will be whether the ECB will wait to see the impact of its tightening on the economy or whether it will continue hiking until core inflation starts to substantially come down. We currently expect a compromise: two additional rate hikes of 25bp each in May and June, before pausing the hiking cycle and entering a longer wait-and-see period.

## Bank of England

The Bank of England's February meeting saw a stark change in communication, with policymakers signalling that the end of the tightening cycle is near. It said further hikes were contingent on signs of additional “inflation persistence”, which suggests policymakers are less beholden to month-to-month swings in data and are more focused on longer-term term trends. In truth, the news here is mixed. The Bank’s own survey has hinted both that recruitment difficulties are easing and price/wage expectations might have peaked. That can’t yet be said for the official wage data, though core services inflation did take a surprise nose-dive in the most recent numbers. Officials have hinted strongly that any future hikes will be in 25bp increments, and they have stressed that much of the impact of past hikes is yet to feed through. Barring inflation/wage data becoming more worrisome, we think a 25bp March hike is likely to be the last.

# US: Smoke, mirrors and uncertainty by the truckload

**James Knightley**
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**Firm numbers for the start of the year have led the market to embrace a higher-for-longer narrative for interest rates. The Federal Reserve is indeed set to raise interest rates more than we expected, but higher borrowing costs in an environment of tightening lending standards and weak sentiment runs the risk of a bad reaction down the line**

## A higher interest rate peak, but cuts will come

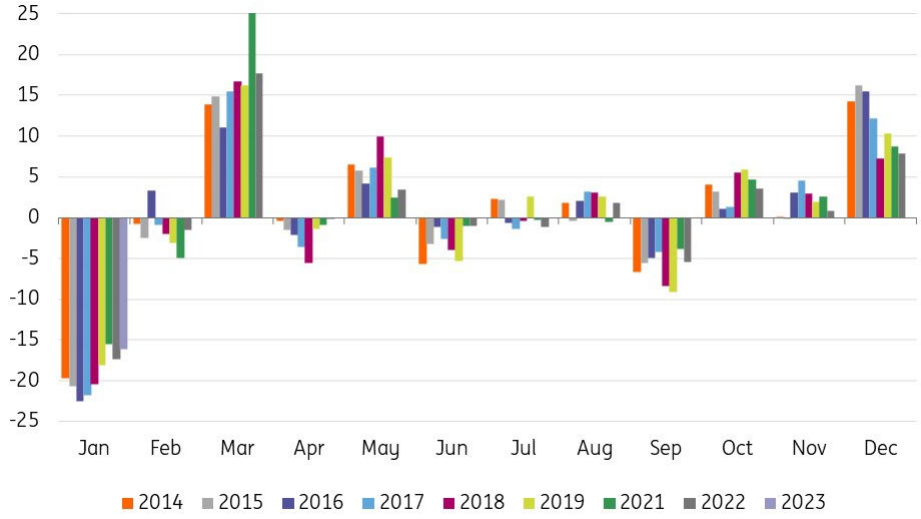
Until recently, the market narrative had been that the most aggressive and rapid pace of Federal Reserve interest rate increases in 40 years would inevitably lead to a major slowdown in economic activity, with the Fed set to revert to rate cuts in the second half of the year as inflation subsided. However, the data released for January suggests the economy is still running hot, with half a million jobs added and retail sales jumping higher. Inflation is also proving to be stickier than expected, leading the market to price at least three further 25bp rate hikes by June.

Federal Reserve comments suggest a strong appetite to continue hiking interest rates and we now think it more likely than not that it will seek to raise the Fed funds target range to 5.25-5.50% in the second quarter. That said, we do not think that the economy is in as strong a position as the data prints indicate and continue to expect strong disinflation from the late second quarter onwards, with the Fed eventually cutting rates from December.

## Weather and seasonal adjustments provided a boost

The January numbers have benefited from fine weather, especially considering the wintery conditions in December which led to depressed activity and disrupted holiday plans. Favourable seasonal adjustment factors also appear to have lifted the data. For example, the raw unadjusted data shows that retail sales fell 16% month-on-month in January 2023, which was comparable to the 15.5% drop in 2021 and the 17.4% drop in 2022. Yet on a 'seasonally adjusted' basis, which tries to smooth out seasonal holiday and working day effects, the 16% drop turned into a 3% gain. Likewise, the raw 2.5 million drop in January unadjusted payrolls wasn't far from the 2.6mn decline in 2021 and 2.8mn fall in 2022 – and yet on a seasonally adjusted basis, we saw a 517,000 gain.

**Retail sales rose 3%, but the raw data doesn't look as rosy – MoM changes in retail sales by month and year**




Source: Macrobond, ING

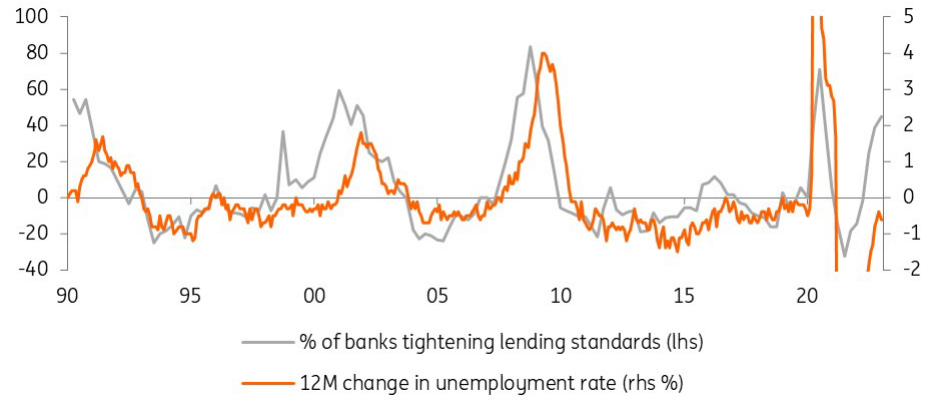
The weather has since deteriorated and we don't expect as much support from the seasonal adjustment calculations over the coming months. Consequently, there are likely to be more headwinds to activity for February and March, especially if warmer temperatures merely brought forward consumer activity that would eventually have come about anyway (a new home search or a car purchase, for example).

## It isn't hard to find areas for concern

Moreover, there are fundamental areas of weakness. Despite the positive reaction to the 517,000 job 'gain', the fact that full-time employment has flatlined since March 2022 (meaning that all job creation has been for part-time positions) was largely overlooked. Job lay-off announcements are also on the rise, so we're nervous that the jobs report may look fine on the surface while a compositional shift away from higher paid full-time jobs to lower paid, less secure, part-time positions could be taking place.

On top of this, the Federal Reserve's Senior Loan Officer survey shows that banks are sensing the economy is coming under pressure and are rapidly tightening lending standards for both households and businesses. This is restricting the availability of credit to the economy at a time when borrowing costs are moving higher once more, and is likely to intensify the pressure on struggling households and businesses. The chart below shows how, over the past 30 years or so, the phenomenon of banks pulling back access to credit has led to the unemployment rate climbing within nine months.

**Tighter bank lending standards lead to rising unemployment**




Source: Macrobond, ING

We also know that household finances are coming under more pressure, with household savings rates in a 4-5% range after having been 6-9% pre-pandemic and up at 30%+ during the pandemic. At the same time, the proportion of income devoted to servicing debt repayments on consumer loans has risen to its highest since 2009. Then there is the renewed rise in mortgage rates that led to mortgage applications for home purchases dropping to a 28-year low last week – the monthly mortgage payment on a $400,000 mortgage taken out 12 months ago is now the same as for a $260,000 mortgage taken out today! With business confidence remaining weak, we suspect a more defensive mindset amongst corporate America will weigh on capex spending, adding to concerns about potential future job losses.

## Disinflation leaves the door open to rate cuts before year end

Inflation has been running hotter than we expected, but the disinflation story remains in play with shelter-related components set to drag inflation sharply lower from the third quarter onwards. House prices are already falling, and this has led to rents topping out in all major cities. It's just a matter of time before this is reflected within the CPI and PCE deflator reports. We also expect the weakening activity to put downward pressure on corporate profit margins, which should also help lower inflation later in the year.

Given the Federal Reserve has a dual mandate of targeting inflation at 2% and maximising employment, we still think interest rate cuts remain on the cards for 2023. However, our previous call of a third-quarter start looks ambitious. We are now forecasting the first 50bp cut in December, with the bulk of the rate cuts occurring in 2024.

# Eurozone: Better than expected doesn't mean good

**Peter Vanden Houte**
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**Lower energy prices have boosted both business and consumer confidence. However, the better growth outlook will slow the decline in core inflation, pushing the ECB to act more forcefully. A terminal deposit rate of at least 3.50% now seems likely. Consequently, the economy will slow down in 2H and 2024's growth is likely to be weaker than 2023's expansion**

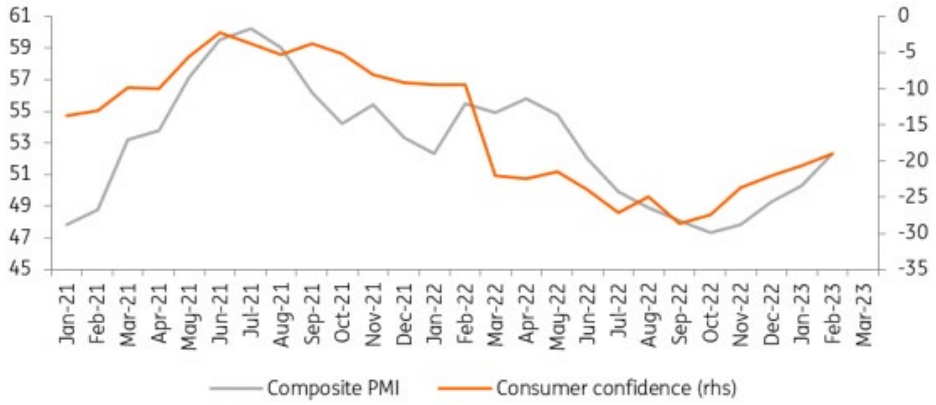
The President of European Central Bank Christine Lagarde delivers a speech at the European Parliament in Strasbourg, eastern France - 15 February 2023

## Black or red zero

After the recent downward revision of German GDP growth figures for the fourth quarter of 2022 to -0.4% quarter-on-quarter (which might also lead to a small negative figure for the eurozone) the jury is still out on whether a winter (technical) recession has now been avoided after all. Not that it matters much, because we are basically talking about a black or a red zero. What is more important is whether the underlying momentum is improving or not. The good news is that the PMI composite indicator rose for the fourth consecutive month in February on the back of improving supply chains, rising demand and a reduction of order backlogs.

While the European Commission's economic sentiment indicator took a breather in February after three months of growing confidence, the picture still reflects a healing consumer. The assessment of activity over the past three months in services and in the retail sector points to growing consumption, after a weak fourth quarter. That said, it is not unlikely that some of the demand will be satisfied out of currently bloated inventories. The bottom line is that growth in the first quarter is still likely to hover around 0%, but also that the economy has gradually entered recovery territory.

**Eurozone confidence is improving**




Source: Refinitiv Datastream

## Shaky recovery

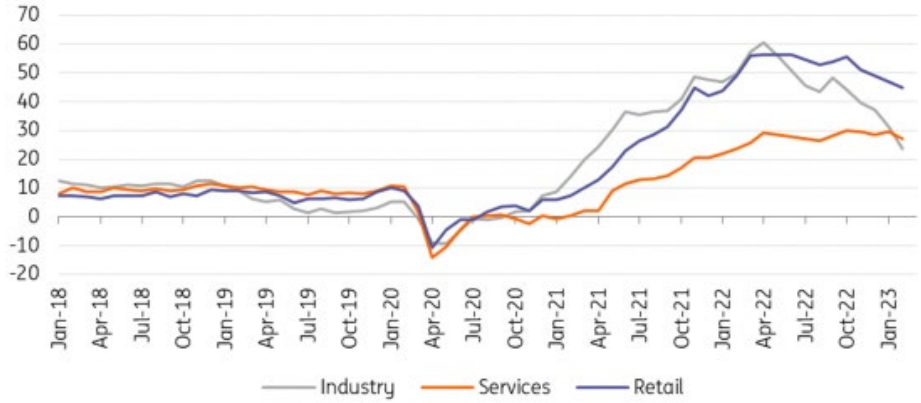
Even though falling gas prices are providing the economy with some oxygen, it is too early for optimism. Energy prices are unlikely to remain at the current low level for the whole of the year, although we now believe that any increase will remain limited. Fiscal policy, which is still a tailwind, is likely to get less stimulative in the second half of the year. And of course, the ECB's monetary tightening will eventually act as a brake on growth. According to its own models, the negative impact on real GDP growth of the current monetary tightening is estimated to be around 1.5 percentage points on average over the three years from 2022 to 2024, with the biggest impact in 2023 and 2024.

After a stronger growth figure in the second quarter, we see the expansion softening again in the second half of the year. For the whole of the year, this results in a small upward revision in our growth forecast to 0.8%. However, with the biggest impact of fiscal and (additional) monetary tightening felt next year, we have downgraded 2024 GDP growth to only 0.7%.

## Stubborn inflation

Headline inflation is now on a downward path on the back of the year-on-year decline in energy prices. However, core inflation unexpectedly climbed to 5.6% in February, the highest level since the start of the Monetary Union. That said, looking at price expectations in the business surveys, it seems as if we're also close to the peak in core inflation, though it might still take several months before a clear downturn sets in. The fact that consumption is picking up is certainly not helping to get inflation down rapidly. On the back of falling energy price inflation, we have decreased our headline inflation estimate to 5.5% for 2023, while for 2024 we now anticipate 2.6% headline inflation.

**Price expectations are not coming down as fast in all sectors**




Source: Refinitiv Datastream

## A more hawkish ECB

The ECB already signalled another 50 basis point rate hike in March, but it now looks all but certain that the tightening cycle will go further after that. With a strong downturn averted, core inflation rather sticky, and medium-term consumer inflation expectations back up to 3%, the ECB is probably not done yet at a deposit rate of 3.0%. Board member Isabel Schnabel even described an anticipated 3.50% terminal rate by markets as being “priced for perfection”. In that regard, a higher terminal rate could be envisaged. However, for the time being, we stick with two additional 25bp rate hikes in the second quarter and the deposit rate remaining at that level until the fourth quarter of 2024. With short-term rates remaining high for longer, we have also raised our bond yield forecast, with the 10yr Bund hovering around 2.50% in the first half of the year, before a modest rally brings it back to 2.25% by the end of 2023.

# UK: Three events that will shape the outlook this month

**James Smith**
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**This month's UK budget will likely result in lower energy bills than planned, but is unlikely to offer any medium-term support. The Bank of England is poised for a 25bp hike – which may well be its last**


Agreement was reached between Prime Minister Rishi Sunak and Ursula von der Leyen over Brexit and Northern Ireland trade rules, 27 February 2023

## New Brexit deal a welcome development, but no gamechanger

Three key economic events over the next month will help determine the growth outlook for the rest of this year.

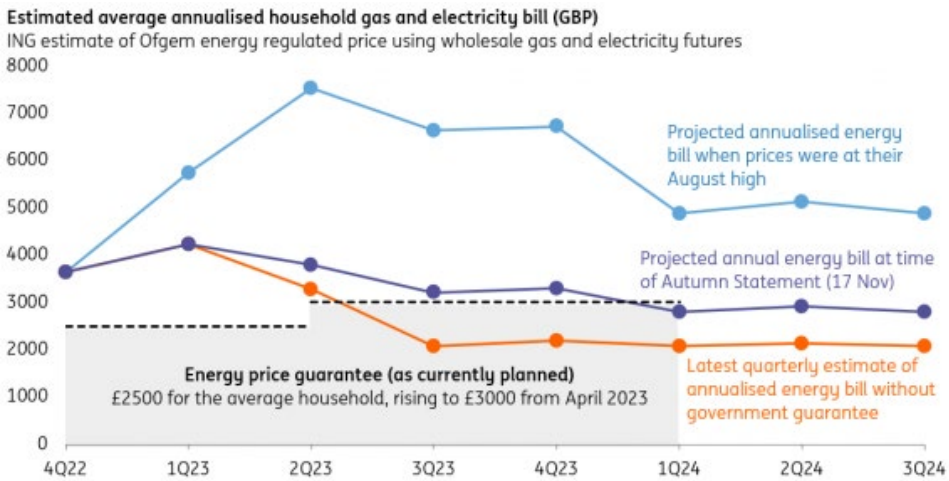
The first – and by far the least consequential – will be the progression of the new agreement recently announced between the UK and EU. The so-called Windsor Framework alleviates some of the major frictions that have emerged from the imposition of a customs and regulatory border between Northern Ireland and the British Mainland. But it's unlikely to make any material difference to the wider economic outlook – partly because it has no bearing on wider UK-EU trade terms, but also because it shouldn't alter corporate investment plans on a nationwide basis.

## Budget set to cut energy bills but offers little to no medium-term stimulus

The second and economically more significant event will be the Spring Statement from the Chancellor. It will be the UK's third fiscal event since last September, though hopefully the least dramatic. The Chancellor will be able to bank the short-term gains of a reduced political risk premium in government borrowing costs, and more importantly, much lower gas prices. On its current trajectory, the FY2022 deficit is set to be £25-30bn lower than the Office for Budget Responsibility expected in November.

In practice, that means the government can afford to ditch the planned increase in the Energy Price Guarantee, which would have seen the average bill climb to £3000 (from £2500 currently, or £2100 once factoring an additional one-off discount).

**UK energy bills set to fall close to £2000 by summer**




Source: Ofgem, ING, Refinitiv

Indeed by the third quarter, the government will most likely no longer be supporting households at all. The default regulated pricing, which is based on wholesale gas/electricity futures, should allow the average bill to fall to £2100 as things stand. All of this means the UK's recession will be extremely mild – if it happens at all. We're pencilling in an annual GDP of -0.3% this year.

The issue for the Treasury is that this short-term positivity is likely to be counter-balanced by some offsetting downgrades to medium-term GDP and upgrades to inflation. That means the medium-term picture, which required the Chancellor to commit to some hefty – albeit currently very hypothetical – fiscal tightening later this decade, looks largely unchanged. In short, don't expect tax cuts this month.

## Bank of England set for a 25bp hike in March – which could be its last

Finally, there's the March Bank of England decision, where we expect a 25bp hike. While the Bank hinted strongly last month that it stands ready to pause hikes, persistent wage pressures suggest there's still a little more work to do. Recent comments from officials narrowly suggest a March rate hike could be the last, but we aren't ruling out another move in May if inflation data doesn't show consistent signs of improvement.

# China: Recovery is not much of a surprise

**Iris Pang**
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**Strong consumption during the January holidays eased back in February and infrastructure spending is also not growing robustly. This hints at only a gradual continuation of the recovery in February. We expect this will persist until March, after which, the Two Sessions will provide us with further clues**

Jabil Wuxi electronics factory in China - 21 Feb 2023

## China's recovery is not a big event, yet

China's economic reopening appears to be a gradual one. Consumption was very strong during the holidays in January but was more subdued in February. We have not seen revenge spending. This is especially true in the car market as subsidies for electric vehicles have ended. We also do not expect strong handset sales in February as many people bought new handsets during the recent holidays.

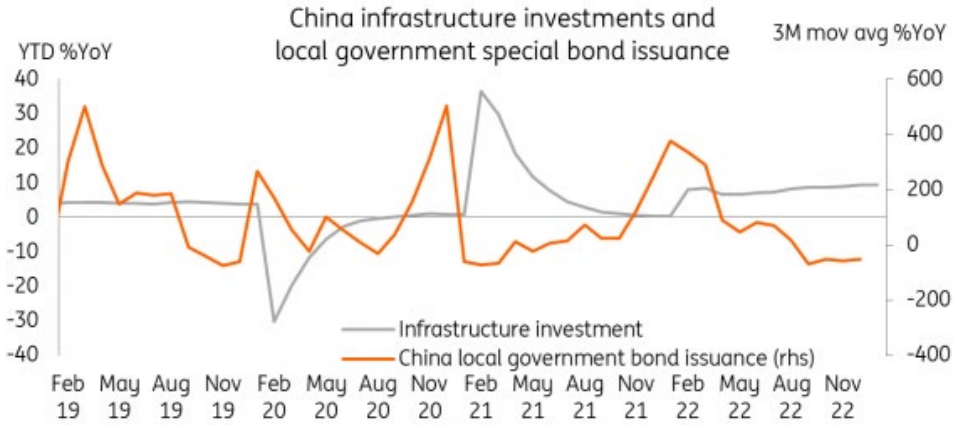
Nevertheless, we believe that consumption strength is increasing following an improving jobs market. After the Chinese New Year, more people landed jobs in the services sector. And wages in factories have generally increased. This should have a positive knock-on effect on the jobs market in the services sector and China could experience a rising wage spiral in the first half of 2023.

## Infrastructure is lagging as the second growth engine

We have not yet seen the infrastructure investment data from the government. But media reports do not suggest a lot of new infrastructure projects from local governments. This might be related to the change of government personnel in the Two Sessions. If so, we should note from the Two Sessions: 1) the scale of new issuance of local government special bonds, which we expect to be CNY4 trillion; and 2) which sub-sectors within infrastructure should receive the most government money.

For the latter, we believe that environmental, social, and corporate governance (ESG) infrastructure and technology research and development infrastructure will be prioritised over brand-new transport infrastructure.

**Infrastructure and local government bonds**




Source: CEIC, ING

## All eyes on the Two Sessions

There will be a lot of attention on the Two Sessions given that it is a year of new government personnel even though President Xi Jinping remains the leader. And the country faces more geopolitical tensions with various parts of the world. In addition, it is a year of recovery. The Two Sessions will give us many hints on policy direction, and how that will affect different sectors.

You can read our Two Session preview here.

Given the gradual pick-up of the economy, we are keeping our GDP forecast for 2023 at 5%.

# Asia: A last hurrah for Asian inflation

**The US is not alone in seeing an unwelcome acceleration in inflation in January – a number of Asian economies have seen something similar. But for many of Asia's economies, this is likely to be the peak, or if not, close to it**

**Rob Carnell**
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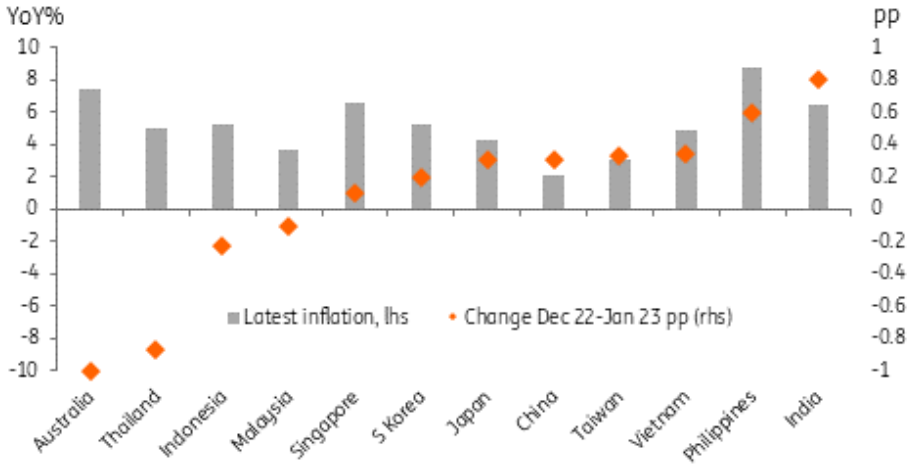
## It has been a bad start to the year for inflation in Asia

As well as the unwelcome resilience of inflation in the US and Europe, a number of Asian economies have provided upside misses to consensus inflation forecasts in the last month or two.

The biggest upset was in Australia, where monthly inflation rates in December jumped up to 8.4% year-on-year from 7.3% previously, a gain of more than a full percentage point. This has proved short-lived, with the January inflation figures already retreating back to 7.4%. There were also big increases in inflation in India and the Philippines.

Besides the reversal in Australian inflation, most other economies in the region have seen at least some small increase in the inflation rate between December 2022 and January 2023, and only in Thailand were the declines also particularly substantial with the year-on-year inflation rate dropping to 5.02% from 5.89%.

**Inflation is still rising in most Asian economies**




Source: CEIC, ING

## A mixed bag of reasons for stubborn inflation

Exactly why inflation across most of the region staged a further increase in January seems to differ from economy to economy. Doing a lot of the damage to the Australian numbers in December was an eye-popping 30% increase in the costs of holidays – as reopening collided with seasonal holidays. That dropped out again in January, but it doesn't tell us much about the months ahead.

In India, food, as is often the case, was the main culprit. Rising wheat prices coupled with smaller declines in vegetable prices than in the previous month were responsible for much of the increase in the year-on-year rate, though base effects also played their role.

Japan's inflation, as the Bank of Japan has been keen to point out as it sticks to its ultra-easy monetary policy, remains largely driven by supply-side factors. Exclude food and energy, and the core rate is only 1.9% YoY even as headline inflation rose to 4.2% in January from 4.0% in December.

The Philippines is a slightly different story, with contributions from almost all categories, presenting Bangko Sentral ng Pilipinas (BSP) – the central bank of the Philippines – with more of a price-taming headache than many of its Asian peers. And inflation rates also continued to push higher in Vietnam, Taiwan, South Korea and Singapore in January.

## Policy prognosis equally mixed

With a mixed bag of reasons for the persistence of inflation across the region, there is no single policy remedy or likely outcome as we head further into the year. For some economies, the January figures do look like the last hurrah of earlier price increases. And with last year's price levels strongly affected from February onwards by the Russian invasion of Ukraine, year-on-year comparisons should help to bring year-on-year inflation rates down, absent any further positive price-level shocks, which against the backdrop of tense geopolitics and increasingly frequent climate change-related extreme weather events, is not a caveat you can lightly make these days.

Certainly, there are some economies in Asia where the inflation-taming struggle is not yet won, and the backdrop of a Federal Reserve also hard at work squeezing inflation out of the US economy will keep central banks of the more inflation-challenged economies in tightening mode.

For others, it has felt for a few months now that the worst of the inflation crisis has passed. And while it may not be the right time to start talking about an Asian pivot, if inflation rates do begin to ease lower over the middle of the year, the monetary tightening already put in place across the region could begin to look not only adequate but perhaps a little excessive, raising the prospect of some paring of rates further down the line. For now, though, such thoughts are not even on the long-range radar, though it would probably only take a month of benign price data to bring such thoughts back into view.

# CEE: Inflation finally heading down but still sticky

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**Central and Eastern Europe is flirting with a technical recession. Inflation numbers are finally starting to head down but we are clearly in for a bumpy and sticky ride. So rate cuts will be later rather than sooner, though still on course for this year**


Marton Kekesi of Hungary in action during the Men's Super-G race at the FIS Alpine Skiing World Championships in Courchevel, France, February 2023

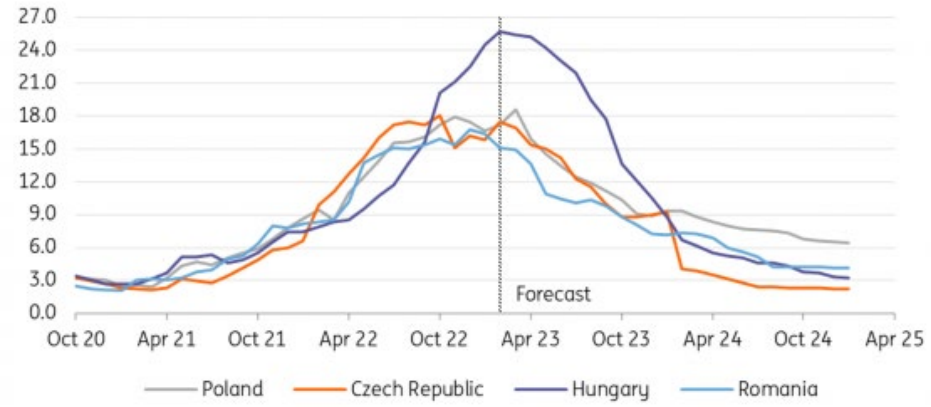
## Poland: Lower inflation but rate cut is not in sight

Poland's economy proved resilient in light of multiple shocks last year (war, high energy prices, sharp interest rate hikes), but the beginning of this year looks difficult. Activity data for January was worse than expected (industrial production, retail sales), growth in the first quarter will be negative in year-on-year terms, but still less so than expected a few months ago. Overall, we expect just 1% growth in 2023 compared to 4.9% in 2022. Our above-consensus view is supported by the better eurozone outlook. The primary reasons behind the GDP slowdown in 2023 are the high base effects from the post-Covid reopening, the disinvestments in inventories as well as the erosion of disposable incomes and private consumption due to the negative inflation surprise in 2022.

Although CPI inflation turned out lower than expected in January, it was still 17.2% year-on-year with core inflation close to 12% YoY. This is far from an acceptable level. Base effects and global disinflationary forces should bring the headline inflation rate into single digits in December, but the core rate should stay persistently high. In our view, this will not justify interest rate cuts later in the year, but we cannot exclude such a signalling move by the Monetary Policy Council late this year.

In mid-February, local markets paid careful attention to a spokesman from the European Court of Justice who suggested that banks may not charge interest on CHF mortgages terminated by courts. If re-confirmed by the future ECJ verdict, this would be favourable to credit takers and affect banks' balance sheets. So far, the equity and bond market reaction has been rather muted because in the last few years, banks have already added high provisions and if they are given more time, they can absorb the shock. Still, this may impair credit creation and banks' willingness to buy domestic debt, to some extent. That is why the government is mulling a kind of legislative change to share the losses on CHF loans between banks and clients.

**CPI in CEE region (%, YoY)**




Source: Macrobond, ING

## Czech Republic: Record strong koruna

The Czech GDP report will likely confirm that the economy entered a recession in the second half of 2022. Business sentiment indicators suggest that even at the beginning of the first quarter this year, the economy has remained in negative territory. The recession has mainly been driven by the continuous strong decline in consumer spending as high energy prices weigh on household purchasing power. Still, the labour market has not seen a significant impact and the economy should return to soft growth in the second half of this year driven by the gradual improvement in external demand and investment. Inflation likely peaked in January and the February report will likely show a gradual moderation. Despite the expected softening in inflation, the central bank will likely maintain its prudent stance in terms of advocating for the current level of interest rates for a longer period. On the fiscal side, a discussion is opening up on the consolidation of the state budget deficit next year. The Ministry of Finance has signalled a CZK70bn reduction from the originally planned CZK295bn.

The Czech koruna has been breaking historically strong levels in recent weeks. Currently, the koruna is the strongest since July 2008. Domestic conditions, i.e. falling interest rate differentials and the current account deficit, do not support such levels. However, within the CEE region, the koruna seems to offer the best story. Although the Czech National Bank is not actively intervening, it is still prepared to limit the upward movement. In addition, interest rates appear to be staying higher for longer. So together with a stable carry, this still seems to be the most popular currency in the region.

## Hungary: Waiting for more evidence that better days are coming

The Hungarian economy slumped into a technical recession during the second half of 2022. We are still waiting for hard evidence on whether the downturn continued in early 2023 or whether the economy has started to rebound. Our assumption, considering the very strong inflation data and its impact on purchasing power, is that Hungary is facing one more quarter of falling real GDP on a quarterly basis. However, as the labour market looks resilient enough and surveys suggest improvement in economic sentiment in 12 months, we foresee a rebound from the middle of this year. This will be fuelled by better export activity, with rising capacity and still-strong order levels in manufacturing early on. By the end of the year, the return of positive real wage growth might improve domestic demand as well. We see this translating into 0.7% GDP growth in 2023 as a whole with some upside risks, followed by a 3.6% full-year performance in 2024.

As good as this sounds, it comes with a significant caveat: this quick rebound might slow down or even keep inflation from descending further after reaching high single-digit territory (8-9% YoY) in the fourth quarter. In our view, the peak in headline inflation might be behind us with January's 25.7% year-on-year reading. Anecdotal evidence

shows a pivot in food, fuel and energy prices, translating into easing price pressures from February. However, as wage growth will remain high and yet another round of energy price increases might come in the autumn, cost-side pressures and catch-up domestic demand might result in stronger repricing. We think that the road from the peak in inflation to single-digit territory might prove to be easier than getting prices down to the central bank's target range during 2024. That's why we think the pivot from the National Bank of Hungary will be gradual and slow, ensuring that the real interest rate environment remains positive during the easing cycle.

### Romania: Rates to remain unchanged for rest of year

The economy expanded in the fourth quarter of 2022 by 1.1% versus the previous quarter and by 4.6% when compared to the fourth quarter of 2021. This takes the full 2022 GDP growth to 4.8%, which is perhaps among the better figures that one could have hoped for. The available high-frequency data suggests that it's been a strong quarter for construction activity, which expanded by 7.4% versus the third quarter. Services for companies were also around 2.0% higher while retail sales rose by 0.8%. Industrial production lagged at -2.1%.

On the inflation front, we see the peak as behind us at 16.8% in November and we anticipate a gradual shift lower throughout 2023. We estimate year-end inflation at 7.4% with risks slightly to the downside. The main factors weighing on prices are base effects, energy price caps, and international energy and food prices stabilisation while upside forces include cost increases not yet fully passed-through, wage pressures and still negative real rates.

The National Bank of Romania is likely to maintain the current course of its monetary policy, meaning the key rate should remain unchanged at 7.00% for the rest of the year. Shorter-term market rates – which are more dependent on interbank liquidity situation – might have neared a bottom, though that doesn't necessarily mean that an upward trajectory is to follow. In essence, we expect stability around current levels. The liquidity picture is more likely to remain accommodative, though the surplus could shrink to more manageable levels (say RON5bn-10bn). Should the inflation trajectory surprise (even mildly) to the downside, we wouldn't rule out a modest rate cut by the end of 2023.

# Make no mistake, ECB tightening is having its desired effect

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**The European Central Bank's policy stance has become restrictive. To us, the impact on the economy is probably the most underestimated drag on growth for 2023. The good news is that we see no meaningful signs of fragmentation between countries, so monetary policy is not causing shocks in more vulnerable parts of the eurozone**


The President of European Central Bank Christine Lagarde delivers a speech at the European Parliament in Strasbourg, eastern France - 15 February 2023

## Most channels through which higher rates work are showing tightening impact

To get a sense of how the end of the tightening of monetary policy ultimately feeds through to growth and inflation, we look at the main channels through which monetary policy transmits. These are money/credit developments, bank rates, asset prices and exchange rates. All four channels have seen sizable adjustments since last summer:

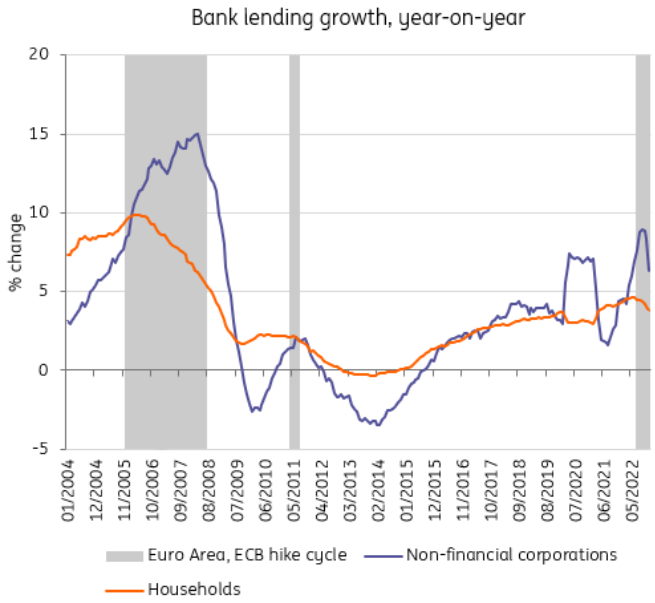
The money supply has fallen quickly since the ECB started reducing asset purchases. In fact, growth in real money (M1) has not been so negative since the ECB's record-keeping began. This historically corresponds to a significant correction in economic activity.

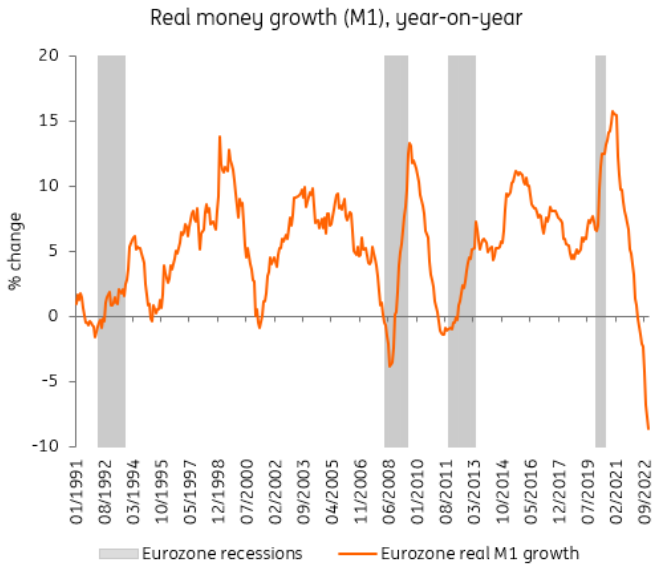
When looking at asset prices, we note that stocks and bonds saw substantial corrections in 2022 (although we have seen a bounce-back as investors are expecting a peak in rates to come soon), while real estate prices have been somewhat slower to respond but are undoubtedly starting to turn.

Bank rates have also increased considerably since the beginning of 2022, following the increase at the longer end of the yield curve. Growth in bank lending has almost stalled for households and is negative for businesses. We expect this to have an important dampening impact on investment in the eurozone in the quarters ahead, although the recovery fund's impact on southern economies could mute the overall investment response seen in 2023.

The euro has appreciated since the end of last year as investors are expecting more rate hikes from the ECB and because energy prices have fallen significantly from their peaks which has resulted in a fading trade deficit. This is starting to feed through to import prices, which have started to see lower year-on-year growth.

**The early phase of monetary transmission is fast at work**




Source: ECB, Eurostat, ING Research

## No need for TPI as monetary transmission is not showing signs of fragmentation

When looking at the above-defined categories per country, we see that there is not that much difference in transmission. Compared to the average, we see that France is still experiencing a smaller impact on all counts, while Italy is experiencing a somewhat more significant impact. Overall though, there is no shock happening in the system for any country measured and monetary transmission is therefore not causing problems. So far, there is no reason to use the ECB's new Transmission Protection Instrument (TPI) as fragmentation of monetary transmission in the eurozone is not happening at the moment.

**The much-feared fragmentation of monetary transmission has not happened so far**

| | Household borrowing rate | Business borrowing rate | Yield on 10y government bond | Main stock index (%) | House price index (%) | Nominal effective exchange rate (%) | Credit growth to households (YoY | Credit growth to non-financial corporates (YoY) |
|---|---|---|---|---|---|---|---|---|
| Germany | 2.2 | 2.1 | 2.5 | -4.8 | 2.9 | -1.6 | -0.8 | 3.6 |
| France | 1.0 | 1.9 | 2.6 | -1.0 | 5.4 | -1.3 | -0.3 | 4.0 |
| Italy | 1.9 | 2.3 | 3.0 | -2.7 | 2.9 | -1.7 | -0.2 | -1.7 |
| Spain | 1.5 | 2.0 | 2.7 | 3.7 | 4.9 | -1.1 | -0.3 | -1.0 |
| Netherlands | 1.7 | 2.2 | 2.6 | -6.6 | 6.7 | -0.9 | 0.4 | -4.9 |
| Greece | 1.1 | 1.7 | 3.0 | 15.2 | 10.2 | -0.5 | 0.4 | 8.3 |
| Portugal | 2.5 | 2.4 | 2.7 | 5.7 | 14.9 | -1.0 | -0.4 | -3.7 |
| Belgium | 1.6 | 2.0 | 2.7 | -10.4 | 5.2 | -1.2 | -0.2 | 3.9 |
| | Ppt change since Dec 2021 | | | % change since Dec 2021 | | | Ppt change since Dec 2021 | |

Note: red indicates more tightening impact than eurozone average, green indicates less tightening than average
Source: Macrobond, ECB, ING Research

## Most of the impact on inflation and growth still has to feed through

While the initial boxes of monetary transmission have clearly been ticked, the timing of the actual impact of monetary policy on the real economy has always been difficult. In theory or in large macro models, it is assumed that it takes nine to 12 months before monetary policy affects the real economy most. Recently, there have been (US Federal Reserve) central bankers suggesting that the current lag could be shorter than in the past.

Still, it's too early for the ECB to claim victory. Core inflation is still trending up and is far above the central bank's target, at 5.3%. Wage growth is also still moving up cautiously. It is therefore too early to say there has been a success on price developments. And

expectations have started to feed through the monetary transmission system in the wrong way recently. As investors worry about recession and are optimistic about inflation returning to benign levels after the peak was recently reached, we see that financial conditions are loosening again.

## Restrictive policy will have a significant downside impact on the economy this year

While we don't see the impact of monetary policy on prices fully yet, we do see transmission in full force at the moment, which will eventually have a larger impact on output and prices. With uncertain delays on economic activity and prices at work, the question is how hawkish the ECB will remain over the course of the year, given the tightening of monetary policy so far. We expect the ECB to hike by another 100 basis points this year, making policy very restrictive.

For our economic outlook, we think that restrictive monetary policy will be a key factor preventing the economy from bouncing back from its current weak spell. While all eyes are on the energy crisis at the moment, higher rates will also be an important factor in dampening any meaningful recovery. While we don't see the bulk of the impact yet, expect a eurozone economy that flirts with zero growth for most of the year as higher rates complete the transmission to demand.

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# FX: Dollar disinflation trade gets postponed

**February proved a counter-trend month in FX markets, where firm US activity and price data saw the dollar reclaim a third of its losses since last October. March looks set to be a mixed month for FX, where presumably a hawkish Fed can keep the dollar supported a little further. It looks like the broader dollar bear trend will have to take a**

U.S. Federal Reserve Chair Jerome Powell

## In data we trust

Dollar strength in February was really a function of incoming data rather than central bank speak. In fact, Federal Reserve Chair Jerome Powell proudly started the month by saying that the broad disinflation trend had started – a view quickly shelved by the market after the strong January releases of US jobs and core PCE price data.

Will February's dollar gains be quickly reversed? There is a scenario where US activity data reverses lower this month from inflated January levels – those high readings driven by warmer weather and aggressive seasonal adjustment factors. And should the housing slowdown start to feed into official rental statistics, core PCE could reverse lower too.

Yet the reason we doubt investors are ready to jump back into short dollar positions is the 22 March FOMC meeting. Here, the Fed will have little choice but to sound hawkish. And some upward revisions to the Dot Plot fed funds expectation should support the recent hawkish re-pricing of the Fed curve.

We have mentioned this several times before, but a severely inverted US yield curve is not conducive to the kind of benign dollar decline that seemed likely in January. And central banks tightening into slowdowns will generate greater headwinds for risk assets. This again is not a particularly positive story for pro-cyclical currencies such as the euro – at least in the immediate future.

## Further adjustments to FX forecasts

Last month, we raised our EUR/USD profile and had felt that the second quarter could be the best quarter of the year for this pair. Sticky US inflation suggests that clear signs of disinflation may not emerge until the summer. We are therefore revising lower our EUR/USD forecast for the second quarter, where we now see volatility in a 1.05-1.10

range depending on the data. And we are pushing back our 1.15 EUR/USD forecast to the fourth quarter when our macro and rate strategy teams now look for the substantial compression in two-year EUR/USD swap differentials – a key driver of the spot rate.

Elsewhere, the Chinese recovery will continue to help the commodity FX bloc – though broader gains in this segment will not emerge until the second half when the Fed has greater confidence in disinflation. And one of the best-performing currencies in the world should remain the Mexican peso. This has been buoyed by some of the highest risk-adjusted yields and Mexico's position as a major beneficiary of 'friendshoring' direct investment trends.

# Rates: Risk mood to tip the balance ahead

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**We called for the recent rise in market rates, and when they eventually popped it was in a flash. Thematically, inflation stickiness is a key theme, and heads have turned to 'we told you so' central banks. Logically, upward pressure for market rates remains, which is probable if risk assets perform. If not, duration buying should mute the upside risk**

## Front ends are getting priced higher on more hikes and fewer cuts being discounted

Front ends are hitting new extremes as the rate hike narrative from central banks has become more credible. The German 2yr has popped above 3% in the past week for the first time since the Great Financial Crisis. And the 10yr Euribor is also now back above 3%; comfortably in fact, at 3.2%. The marketplace is being bullied by inflation stickiness (see the latest French and Spanish readings) and the associated heightened European Central Bank rate hike risks.

> *"The front end is being bullied by inflation stickiness"*

It's a similar story on the US curve. A June hike of 25bp is now fully priced (so we have 25bp priced for March, May and June). There is some talk of a 50bp move, although we view this as being quite unlikely, and indeed unnecessary. The Fed needs a degree of underlying stability, so upping the size of hikes here would be counter-productive.

The other big change on the US front end has been the downsizing of the probability attached to interest rate cuts in late 2023. This is the other reason for the US 2yr to hit a new cycle high in recent days. It's off the highs hit in the week but is still only a smidgen below 5%, a level that the 2yr yield collapsed from in 2007 as US banks began to feel a sense of impending doom as the housing market collapsed.

> *"Long rates also rising, but still low versus the front end"*

The US 10yr has responded to heaping pressure to move higher in yield over the past few weeks but still remains a tad anomalous, as the 3.9% area is still some 150bp below the market's projected peak in the Fed funds rate. Most of the time the 10yr hits the same peak as the front end, only much sooner. Here, the 10yr peaked at around 4.25% back in October. That's a deep discount versus the terminal funds rate now discounted at 5.4%.

## Long rates suggest that economies will creak ahead

One of the plausible reasons for the remarkable early and deep inversion of the US curve is longer maturities are a tad nervous about the future. Putin's war in Ukraine shows how uncertain geopolitics is, and how impacts from such events become global really quickly. And it's ongoing. The bigger question ahead is whether we can sensibly suggest that the US and eurozone economies are about to successfully weather the cumulative effect of rate hikes delivered. Remember these rate hikes have been quite aggressive, and quick, and they are not yet complete. At a certain point, economies will creak.

The data ahead will of course be pivotal. But we'll also take our cue from the appetite for risk. Stay risk-on, and market rates are pressured up in tandem with recent data. Come off, and they can calm down as future data is projected to take a dip. We think market rates should be calming here after their hectic ride higher, and should be dominated by duration buying and fixed rate receiving, ultimately pulling market rates back down. But the current mood is in fact to go the other way; risk-on, tempting rates to dare to go higher still first.

### GDP forecasts: Developed Markets

| (QoQ% annualised growth) | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022F | 2023F | 2025F |
|---|---|---|---|---|---|---|---|
| US | 0.5 | -1.1 | -1.7 | -0.1 | 0.5 | 0.9 | 2.1 |
| Japan | 1.2 | 0.8 | 1.6 | 1.6 | 1.0 | 1.3 | 1.2 |
| Germany | -1.2 | 1.2 | 0.8 | -0.8 | -0.1 | 0.2 | 1.5 |
| France | 0.4 | 0.8 | 0.8 | 0.4 | 0.7 | 0.7 | 1.3 |
| UK | -0.8 | -0.5 | 0.3 | 1.0 | -0.3 | 1.0 | 1.5 |
| Italy | -0.1 | 0.6 | 1.2 | 0.9 | 0.7 | 1.1 | 1.2 |
| Canada | 2.0 | 1.2 | -1.0 | -0.8 | 1.1 | 0.9 | 2.0 |
| Australia | 1.2 | 1.6 | 1.6 | 2.0 | 1.9 | 2.0 | 3.1 |
| Eurozone | 0.0 | 1.0 | 0.8 | 0.5 | 0.80 | 0.7 | 1.3 |
| Austria | -0.4 | 1.2 | 0.8 | 0.4 | 0.30 | 1.0 | 1.5 |
| Spain | 0.8 | 0.8 | 0.6 | 0.3 | 1.3 | 0.8 | 1.8 |
| Netherlands | 0.3 | 1.5 | 1.9 | 1.4 | 1.6 | 1.4 | 1.4 |
| Belgium | 0.4 | 1.2 | 1.2 | 0.4 | 0.8 | 0.8 | 1.4 |
| Greece | 0.4 | 3.5 | 3.1 | 2.7 | 1.0 | 1.7 | 1.8 |
| Portugal | 0.2 | 0.4 | 0.8 | 0.6 | 0.8 | 1.0 | 1.9 |
| Switzerland | 0.4 | 0.8 | 0.8 | 1.2 | 0.6 | 1.0 | 1.4 |
| Sweden | -1.2 | -2.6 | 0.4 | 1.2 | -1.2 | 1.0 | 1.5 |
| Norway | -1.8 | 0.3 | 0.8 | 1.9 | 1.0 | 1.7 | 2.0 |

Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies
Source: ING estimates

### GDP forecasts: Emerging Markets

| (YoY% growth) | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022F | 2023F | 2025F |
|---|---|---|---|---|---|---|---|
| Bulgaria | 1.6 | 1.3 | 1.7 | 1.9 | 1.6 | 3.2 | 3.5 |
| Croatia | 1.5 | 0.4 | 1.8 | 2.6 | 1.6 | 2.9 | 2.5 |
| Hungary | -0.6 | -0.9 | 1.3 | 2.9 | 0.7 | 3.6 | 3.8 |
| Poland | -1.0 | 1.2 | 1.0 | 2.4 | 1.0 | 2.4 | 3.5 |
| Romania | 3.8 | 2.8 | 1.9 | 2.0 | 2.5 | 3.7 | 3.5 |
| Turkey | 3.4 | 3.6 | 1.3 | 0.3 | 2.0 | 4.3 | 4.0 |
| Serbia | 1.1 | 0.9 | 3.1 | 3.6 | 2.2 | 3.8 | 4.5 |
| Russia | -3.5 | -2.5 | -2.5 | -2.7 | -2.7 | -2.0 | 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 | 2.5 |
| China | 4.5 | 5.2 | 5.7 | 4.5 | 5.0 | 5.3 | 5.1 |
| India | 4.3 | 8.3 | 7.2 | 6.9 | 6.6 | 6.7 | 7.4 |
| Indonesia | 4.2 | 4.1 | 4.6 | 4.7 | 4.9 | 4.5 | 4.5 |
| Korea | 0.5 | 0.2 | 0.4 | 1.5 | 0.6 | 2.3 | 2.1 |
| Philippines | 4.9 | 5.1 | 5.0 | 4.9 | 5.5 | 6.0 | 5.5 |
| Singapore | 2.5 | 2.2 | 2.1 | 2.7 | 3.2 | 3.0 | 3.0 |
| Taiwan | -1.0 | -0.4 | 2.5 | 3.0 | 1.0 | 4.3 | 4.6 |

Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies
Source: ING estimates

**CPI forecasts (pa)**

| %YoY | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|
| US | 5.9 | 4.3 | 3.5 | 2.9 | 4.2 | 2.0 | 2.1 |
| Japan | 4.1 | 3.6 | 3.1 | 2.2 | 3.2 | 2.0 | 2.0 |
| Germany | 8.4 | 6.1 | 5.7 | 3.6 | 5.9 | 3.0 | 2.1 |
| France | 7.2 | 6.9 | 6.0 | 5.2 | 6.3 | 3.4 | 1.9 |
| UK | 9.7 | 6.4 | 4.0 | 2.1 | 5.6 | 1.8 | 1.9 |
| Italy | 9.9 | 7.7 | 5.4 | 2.1 | 6.2 | 2.2 | 2.0 |
| Canada | 5.1 | 2.9 | 2.5 | 2.2 | 3.2 | 1.9 | 2.0 |
| Australia | 6.4 | 5.4 | 4.1 | 2.9 | 6.6 | 4.7 | 2.5 |
| Eurozone | 7.9 | 5.8 | 4.5 | 3.9 | 5.5 | 2.6 | 2.0 |
| Austria | 9.6 | 6.6 | 4.9 | 3.8 | 6.3 | 2.3 | 2.0 |
| Spain | 5.9 | 4.5 | 3.6 | 3.1 | 4.3 | 2.7 | 2.0 |
| Netherlands | 7.0 | 6.4 | 3.2 | 1.8 | 4.5 | 2.5 | 1.4 |
| Belgium | 7.5 | 5.6 | 4.4 | 3.6 | 5.3 | 2.4 | 2.1 |
| Greece | 6.8 | 4.4 | 3.2 | 3.6 | 4.5 | 2.2 | 2.1 |
| Portugal | 8.0 | 6.1 | 4.2 | 2.7 | 5.2 | 2.9 | 2.0 |
| Switzerland | 3.0 | 2.6 | 2.2 | 1.9 | 2.4 | 1.5 | 1.5 |
| Sweden | 8.1 | 5.6 | 3.6 | 1.5 | 4.0 | 1.9 | 2.0 |
| Norway | 6.6 | 4.9 | 3.5 | 2.9 | 4.5 | 3.0 | 2.5 |
| Bulgaria | 15.2 | 11.0 | 9.8 | 9.1 | 11.2 | 6.6 | 4.0 |
| Croatia | 11.7 | 7.5 | 5.5 | 4.0 | 7.2 | 4.0 | 3.0 |
| Hungary | 25.5 | 23.0 | 16.9 | 10.5 | 19.0 | 4.7 | 3.1 |
| Poland | 17.3 | 12.4 | 10.9 | 8.8 | 12.5 | 7.6 | 3.9 |
| Romania | 14.5 | 10.5 | 9.6 | 7.5 | 10.5 | 5.3 | 3.9 |
| Turkey | 53.1 | 42.3 | 41.0 | 43.9 | 44.7 | 33.7 | 19.0 |
| Serbia | 15.3 | 12.9 | 9.7 | 6.8 | 11.2 | 5.8 | 4.1 |
| Russia | 7.9 | 3.8 | 4.4 | 5.4 | 5.6 | 5.5 | 5.5 |
| Kazakhstan | 19.0 | 16.1 | 12.7 | 10.0 | 14.5 | 7.7 | 6.8 |
| Azerbaijan | 13.0 | 10.4 | 8.0 | 4.5 | 9.2 | 4.7 | 4.5 |
| China | 2.3 | 2.5 | 2.0 | 2.0 | 2.2 | 2.3 | 3.0 |
| India | 6.3 | 4.7 | 4.8 | 4.9 | 5.2 | 4.4 | 5 |
| Indonesia | 5.3 | 4.1 | 4.0 | 3.7 | 3.5 | 3.8 | 3.5 |
| Korea | 4.8 | 3.4 | 2.8 | 2.8 | 3.4 | 1.8 | 2.1 |
| Philippines | 8.3 | 5.8 | 5.1 | 4.0 | 3.9 | 3.5 | 4.0 |
| Singapore | 6.5 | 5.4 | 5.0 | 4.4 | 3.2 | 2.8 | 3.0 |
| Taiwan | 1.5 | 1.0 | 1.5 | 1.9 | 1.5 | 2.2 | 2.8 |

Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies
Source: ING estimates

**Oil forecasts (avg)**

| | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|
| Brent ($bbl) | 86.0 | 91.0 | 105.0 | 110.0 | 98.0 | 90.0 | 75.0 |
| Dutch TTF (€/MWh) | 57.0 | 55.0 | 52.0 | 62.0 | 57.0 | 55.0 | 50.0 |

Source: ING estimates

## Disclaimer