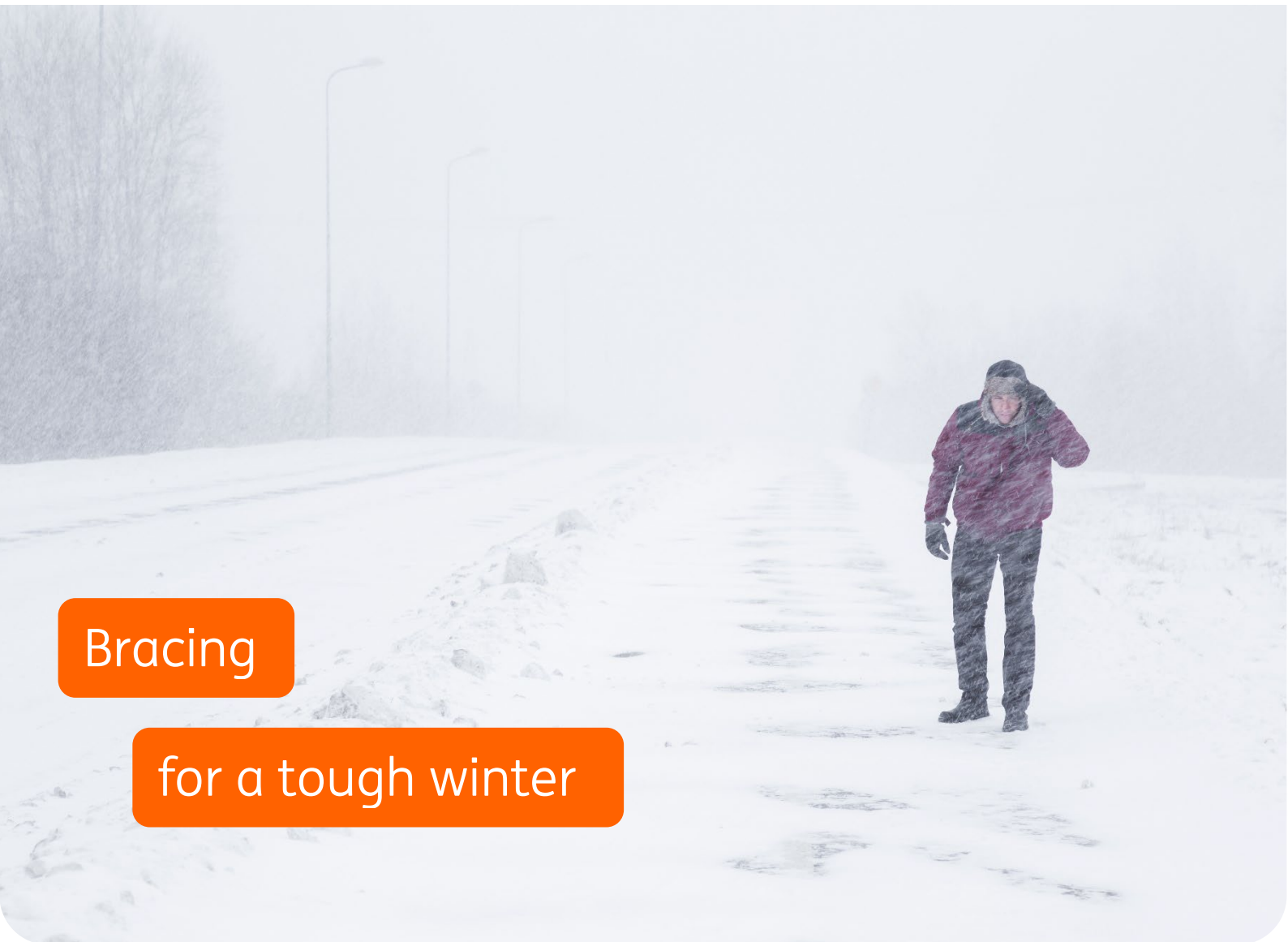


# ING Monthly

October 2022



Bracing

for a tough winter



## Bracing for a tough winter



**As the global economy slides into a winter recession, Europe is in the eye of the storm. High energy costs caused by the war in Ukraine and rising interest rates have sent a cold chill through the region, which is only set to get worse. And as ING's Carsten Brzeski explains, there is no easy way out**

The global economy has clearly not turned for the better in recent weeks. On the contrary, our earlier fears of a looming recession seem to have become a reality. All sentiment indicators point to a slowing of the global economy; the only question is how severe this slowdown will be. The deceleration in activity is being driven by high energy and commodity prices but increasingly also by higher interest rates. Let's not forget that over the last 70 years, the most common trigger for a global recession has indeed been too aggressive monetary policy tightening.

It is no surprise that Europe remains in the eye of the storm. The war in Ukraine continues to rage on and the risk of further escalation seems higher than a peace deal being reached any time soon. High energy prices have increasingly found their way into the real economy, denting private consumption, industrial production and shrinking profit margins. The silver lining of filled national gas reserves has recently become clouded again by the stoppage of the Nordstream 1 pipeline and the cold September weather. The risk of energy supply disruptions is back again. Even worse, there is an increasing awareness that high energy prices will not only be a problem for this winter but also for next.

While everyone is still assessing the depth of a potential winter recession, another risk has not yet received sufficient attention; the eurozone may be witnessing the end of the business cycle as we knew it. Energy prices are very likely to remain high – very high – in the coming years. This will be a structural, not just cyclical burden on companies' cost competitiveness and households' purchasing power. It is a structural shift that could be compared with the deleveraging many eurozone countries saw after the financial crisis and which led to subdued growth for many years. Consequently, the risk is high that the eurozone economy will not experience a V-shaped or U-shaped recovery but rather, a J-shaped recovery.

This distinction between a rather traditional cyclical recession and a recession at the start of a structural change is important as it has implications for the right policy answer. Currently, many governments have started to support the demand side of the economy with large fiscal stimulus packages. It is a recipe that worked well during the pandemic. However, the history of previous crises or downturns in the eurozone shows that such fiscal stimulus only works in the absence of structural issues. In the case of highly needed structural change and transition, fiscal stimulus aimed at the demand side of the economy rather runs the risk of delaying change at the cost of surging government debt.

It is not easy to be a European policymaker these days. The potential economic fallout of the looming recession could be painful and in a worst-case scenario runs the risk of destroying production capacity for good. At the same time, the European economy is facing a structural energy shock which actually requires a policy answer aimed at the supply side of the economy. Currently, however, most efforts are aimed at the demand side, and monetary and fiscal policy are clearly not in sync. While the European Central Bank is hiking interest rates to fight inflation and inflation expectations, implicitly accepting a weakening of the demand side, governments are actually supporting the demand side. Delivering fiscal stimulus that is both aimed at the supply and demand

side of the economy is possible in theory, but in practice, there are clear limits to such stimulus in the form of too high government debt, as the recent market reaction to the UK government's fiscal stimulus plans showed.

An uncomfortable truth is that the current crisis in Europe cannot be quickly and easily resolved. Indeed, it increasingly appears that it cannot be resolved without accepting economic damage. We are bracing for a tough winter.



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### Our key calls this month

- The US economy is likely to deteriorate in 2023 with consumer spending and business capital expenditure set to fall, while unemployment is likely to rise. We expect a 75bp rate hike from the Federal Reserve in November and a further 50bp in December. But mounting concerns about growth and the housing market are likely to lead to rate cuts from the third quarter of 2023.
- The Eurozone is entering a recession and we expect a deeper downturn over the winter months. But inflation has hit double-digits and we don't expect headline inflation to fall to the ECB's 2% target until 2024. We expect a 75bp hike in October, followed by 50bp in December and 25bp in February 2023, bringing the deposit rate to 2.25%.
- The UK government has U-turned on part of its controversial tax plan but markets are looking for further measures to reduce borrowing requirements. We expect a 100bp rate hike in November but think the Bank of England is reaching the limits of how far it can realistically tighten. Mortgage rates have already spiked and together with higher (albeit capped) energy prices, a mild recession still looks likely.
- China's economy has recovered slightly due to more flexible Covid measures. But the real estate crisis will put pressure on economic growth if home sales do not pick up. Infrastructure stimulus has yet to impact growth as local government spending has been split between finishing uncompleted homes and infrastructure investment.
- For FX, three quarters of negative growth into 2Q23 and a still hawkish Fed is a bearish cocktail for EUR/USD. This pair is not particularly cheap and a pick-up in gas prices this winter will keep the eurozone trade balance under pressure. This could see EUR/USD falling towards the lower end of a 0.90-0.95 range over the next 3-6 months.
- There is a big fall in market rates to come, but not till the Fed is much closer to being done. Until then, don't be too surprised to see a 4% 10-year Treasury yield again in the weeks ahead. And in the eurozone, the German 10-year back above 2% and the 10-year swap rate above 3%, are all entirely possible.

**ING global forecasts**

|   | 2022  |       |       |       |       | 2023  |       |       |       |       | 2024  |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|   | 1Q22  | 2Q22  | 3Q22  | 4Q22  | FY    | 1Q23  | 2Q23  | 3Q23  | 4Q23  | FY    | 1Q24  | 2Q24  | 3Q24  | 4Q24  | FY    |
| <b>United States</b>                      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| GDP (% QoQ, ann)                          | -1.6  | -0.6  | 1.4   | 0.6   | 1.7   | -2    | -1.6  | 1.3   | 2.3   | -0.3  | 2.7   | 2.6   | 2.3   | 2.2   | 2.1   |
| CPI headline (% YoY)                      | 8.0   | 8.6   | 8.3   | 7.2   | 8.0   | 5.6   | 3.4   | 2.6   | 2.2   | 3.5   | 1.8   | 1.6   | 1.6   | 1.8   | 1.7   |
| Federal funds (% eop)                     | 0.50  | 1.75  | 3.25  | 4.50  | 4.50  | 4.50  | 4.50  | 4.00  | 3.50  | 3.50  | 3.00  | 2.50  | 2.50  | 2.50  | 2.50  |
| 3-month interest rate (% eop)             | 0.65  | 2.1   | 3.5   | 4.6   | 4.6   | 4.4   | 4.25  | 3.8   | 3.25  | 3.25  | 2.75  | 2.5   | 2.4   | 2.45  | 2.45  |
| 10-year interest rate (% eop)             | 2.40  | 3.00  | 3.75  | 4.00  | 4.00  | 3.50  | 3.00  | 2.75  | 2.50  | 2.50  | 2.50  | 2.50  | 2.75  | 3.00  | 3.00  |
| Fiscal balance (% of GDP)                 |       |       |       |       | -4.2  |       |       |       |       | -4.6  |       |       |       |       | -3.9  |
| Gross public debt / GDP                   |       |       |       |       | 100.2 |       |       |       |       | 101.7 |       |       |       |       | 101.8 |
| <b>Eurozone</b>                           |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| GDP (% QoQ, ann)                          | 2.7   | 3.1   | -0.8  | -3.2  | 2.9   | -2.4  | 0.4   | 1.2   | 1.4   | -0.8  | 1.7   | 1.6   | 1.6   | 1.4   | 1.5   |
| CPI headline (% YoY)                      | 6.0   | 8.0   | 9.3   | 10.0  | 8.3   | 9.1   | 6.4   | 4.4   | 2.6   | 5.6   | 2.3   | 2.2   | 1.9   | 1.9   | 2.1   |
| Refi minimum bid rate (% eop)             | 0.00  | 0.00  | 1.25  | 2.50  | 2.50  | 2.75  | 2.75  | 2.75  | 2.75  | 2.75  | 2.50  | 2.50  | 2.50  | 2.50  | 2.50  |
| 3-month interest rate (% eop)             | -0.45 | -0.35 | 1.17  | 2.20  | 2.20  | 2.40  | 2.40  | 2.40  | 2.30  | 2.30  | 2.10  | 2.10  | 2.20  | 2.30  | 2.30  |
| 10-year interest rate (% eop)             | 0.60  | 1.40  | 2.10  | 2.25  | 2.25  | 1.80  | 1.80  | 1.90  | 1.90  | 1.90  | 2.00  | 2.10  | 2.30  | 2.40  | 2.40  |
| Fiscal balance (% of GDP)                 |       |       |       |       | -5.1  |       |       |       |       | -4.5  |       |       |       |       | -3.5  |
| Gross public debt/GDP                     |       |       |       |       | 99.9  |       |       |       |       | 97.7  |       |       |       |       | 97    |
| <b>Japan</b>                              |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| GDP (% QoQ, ann)                          | 0.2   | 3.5   | 2.0   | 1.6   | 1.6   | 0.4   | 0.4   | 0.8   | 0.8   | 1.1   | 1.2   | 1.2   | 1.2   | 1.2   | 1.0   |
| CPI headline (% YoY)                      | 0.9   | 2.5   | 2.9   | 3.4   | 2.4   | 3.1   | 2.4   | 1.9   | 1.4   | 2.2   | 1.2   | 1.2   | 1.2   | 1.2   | 1.2   |
| 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  | -0.04 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 |
| 10-year interest rate (% eop)             | 0.25  | 0.20  | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.20  | 0.20  | 0.20  | 0.20  | 0.20  | 0.15  | 0.15  | 0.15  |
| Fiscal balance (% of GDP)                 |       |       |       |       | -10   |       |       |       |       | -7    |       |       |       |       | -5    |
| Gross public debt/GDP                     |       |       |       |       | 270.0 |       |       |       |       | 265.0 |       |       |       |       | 260.0 |
| <b>China</b>                              |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| GDP (% YoY)                               | 4.8   | 0.4   | 4.4   | 4.6   | 3.6   | 5.4   | 9.3   | 3.9   | 6.3   | 6.2   | 5.0   | 3.4   | 6.1   | 4.0   | 4.6   |
| CPI headline (% YoY)                      | 1.1   | 2.3   | 2.5   | 2.6   | 2.1   | 2.8   | 2.6   | 2.6   | 2.6   | 2.1   | 2.8   | 2.6   | 2.0   | 1.8   | 2.3   |
| 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  |
| 3M SHIBOR (% eop)                         | 2.38  | 2.20  | 1.45  | 1.50  | 1.50  | 1.60  | 1.80  | 1.65  | 1.30  | 1.30  | 1.20  | 1.30  | 1.50  | 1.70  | 1.70  |
| 10-year T-bond yield (% eop)              | 2.80  | 2.75  | 2.51  | 2.55  | 2.55  | 2.6   | 2.67  | 2.51  | 2.55  | 2.55  | 2.60  | 2.67  | 2.73  | 2.75  | 2.75  |
| Fiscal balance (% of GDP)                 |       |       |       |       | -5.2  |       |       |       |       | -5.5  |       |       |       |       | -2.8  |
| Public debt (% of GDP), incl. local govt. |       |       |       |       | 142.0 |       |       |       |       | 152.0 |       |       |       |       | 154.0 |
| <b>UK</b>                                 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| GDP (% QoQ, ann)                          | 2.8   | 0.9   | 0.1   | -2.1  | 4.4   | -1.0  | 0.0   | 1.0   | 1.0   | -0.4  | 1.3   | 1.5   | 1.5   | 1.5   | 1.2   |
| CPI headline (% YoY)                      | 6.2   | 9.2   | 10.1  | 10.4  | 9.0   | 9.8   | 6.4   | 4.8   | 3.0   | 6.0   | 2.3   | 1.9   | 2.0   | 2.0   | 2.1   |
| BoE official bank rate (% eop)            | 0.75  | 1.25  | 2.25  | 3.75  | 3.75  | 3.75  | 3.75  | 3.75  | 3.50  | 3.50  | 3.00  | 2.50  | 2.25  | 2.25  | 2.25  |
| 3-month interest rate (% eop)             | 2.70  | 2.70  | 3.35  | 3.70  | 3.70  | 3.70  | 3.70  | 3.70  | 3.40  | 3.40  | 2.85  | 2.35  | 2.20  | 2.20  | 2.20  |
| 10-year interest rate (% eop)             | 2.50  | 2.25  | 4.10  | 4.25  | 4.25  | 3.75  | 3.75  | 3.50  | 3.25  | 3.25  | 3.00  | 3.00  | 3.25  | 3.25  | 3.25  |
| Fiscal balance (% of GDP)                 |       |       |       |       | 4.0   |       |       |       |       | 7.8   |       |       |       |       | 4.5   |
| Gross public debt/GDP                     |       |       |       |       | 99.3  |       |       |       |       | 104.1 |       |       |       |       | 106.1 |
| <b>EUR/USD (eop)</b>                      | 1.11  | 1.05  | 0.97  | 0.92  | 0.92  | 0.92  | 0.95  | 0.98  | 1.00  | 1.00  | 1.02  | 1.05  | 1.08  | 1.10  | 1.10  |
| <b>USD/JPY (eop)</b>                      | 122   | 132   | 145   | 148   | 148   | 148   | 145   | 143   | 140   | 140   | 138   | 135   | 133   | 130   | 130   |
| <b>USD/CNY (eop)</b>                      | 6.34  | 6.69  | 7.11  | 7.35  | 7.35  | 7.3   | 7.10  | 6.95  | 6.90  | 6.90  | 6.8   | 6.65  | 6.50  | 6.30  | 6.30  |
| <b>EUR/GBP (eop)</b>                      | 0.84  | 0.86  | 0.88  | 0.92  | 0.92  | 0.92  | 0.90  | 0.88  | 0.88  | 0.88  | 0.88  | 0.88  | 0.88  | 0.88  | 0.88  |
| <b>ICE Brent -US\$/bbl (average)</b>      | 98    | 112   | 98    | 97    | 101   | 94    | 92    | 98    | 102   | 97    | 95    | 87    | 85    | 80    | 87    |

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 the global economy and energy prices as winter beckons

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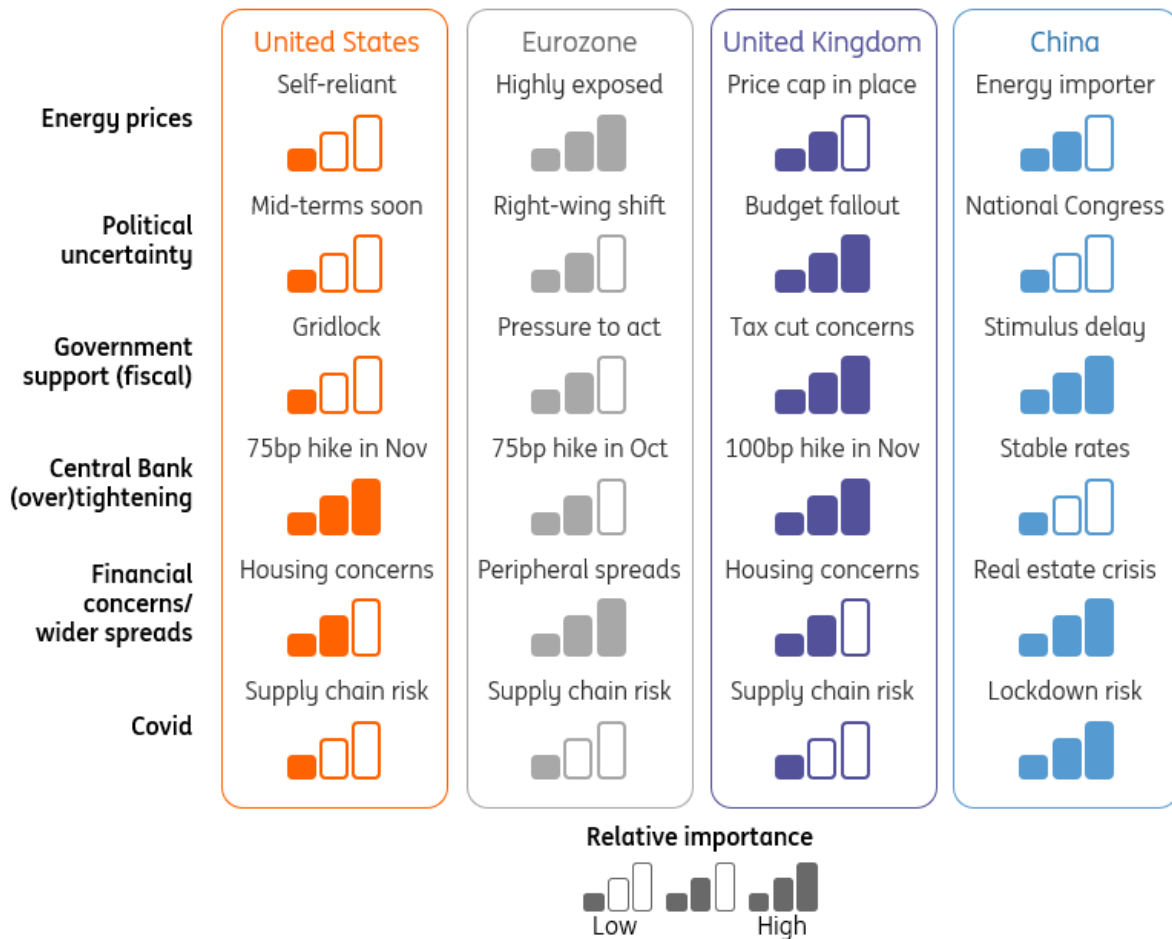
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It's no secret that the global economic outlook hinges on energy prices this winter, but every country faces a unique cocktail of challenges ranging from central bank tightening to Covid-19. Our team have built three new scenarios for each of the major economies we cover

### Three scenarios for the global economy and energy prices

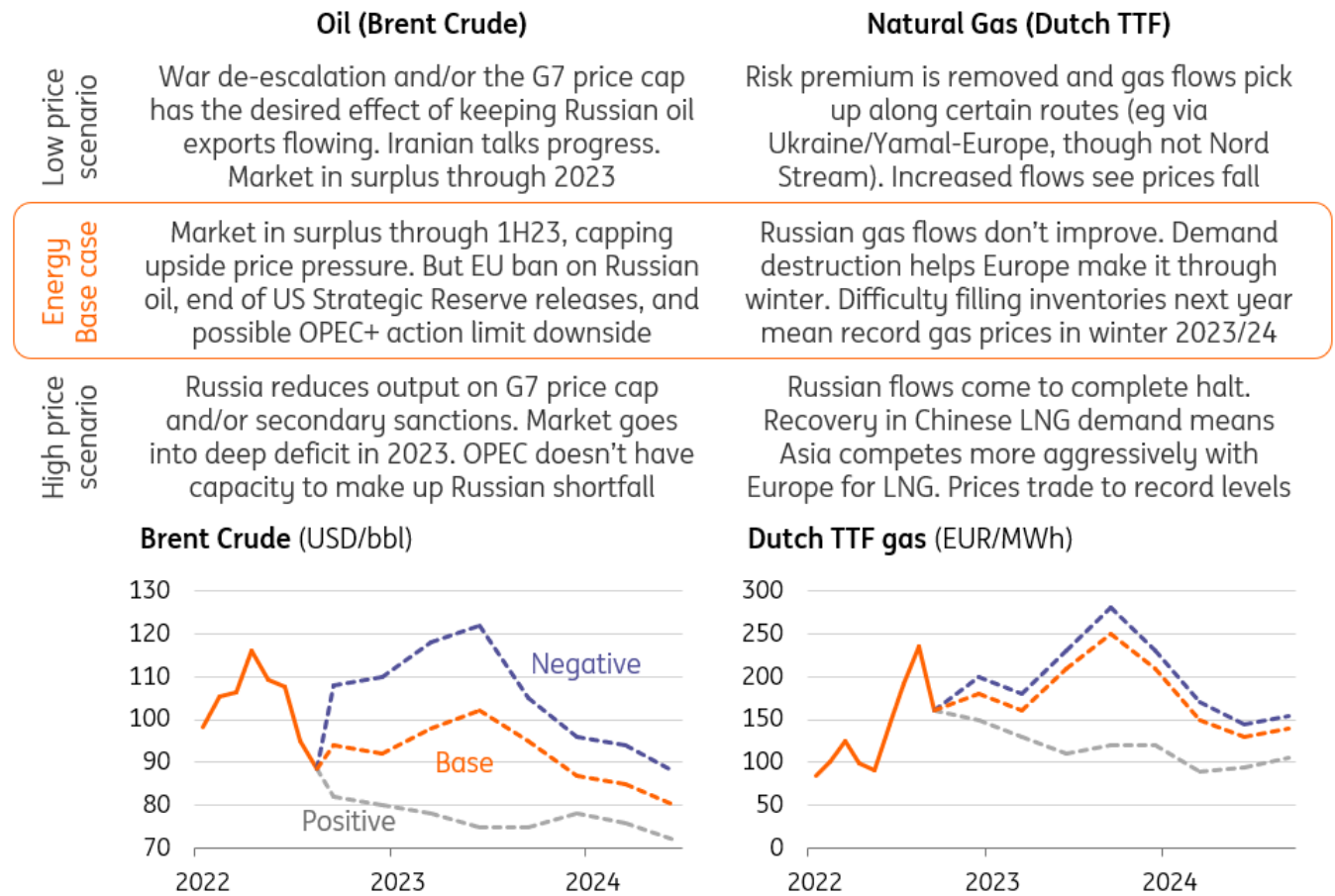
With the global economy in the grips of various crises and uncertainties, it once again makes sense to view the outlook through scenarios. But unlike during Covid - where most countries were up against a common set of challenges - each economy is typically facing a unique cocktail of several key issues. A one-size-fits-all approach to scenario planning no longer makes sense. This article outlines three scenarios for each of the major economies we cover, and delves into what they imply for growth, inflation and central bank policy.

### Every economy is facing a different cocktail of challenges



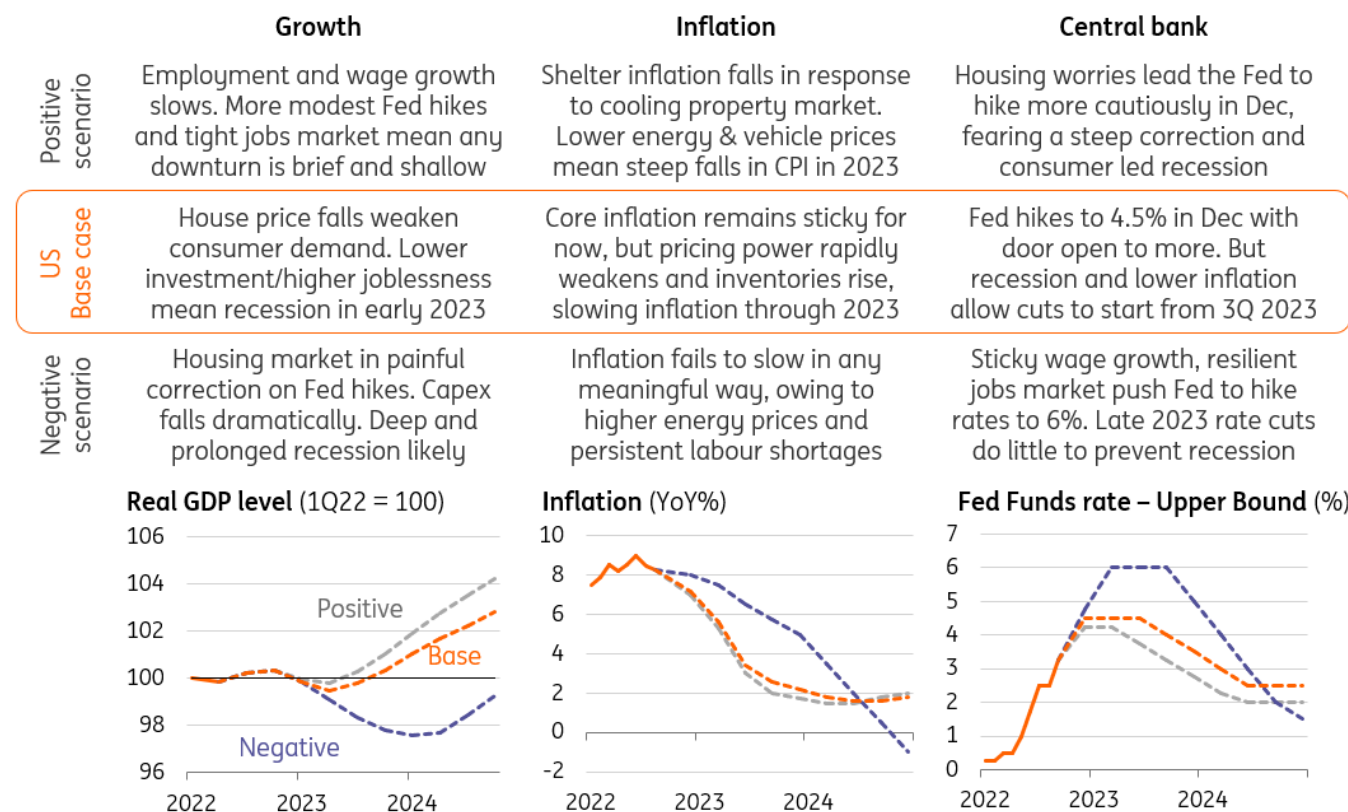
Source: ING

### Three scenarios for energy prices



Source: Macrobond, ING

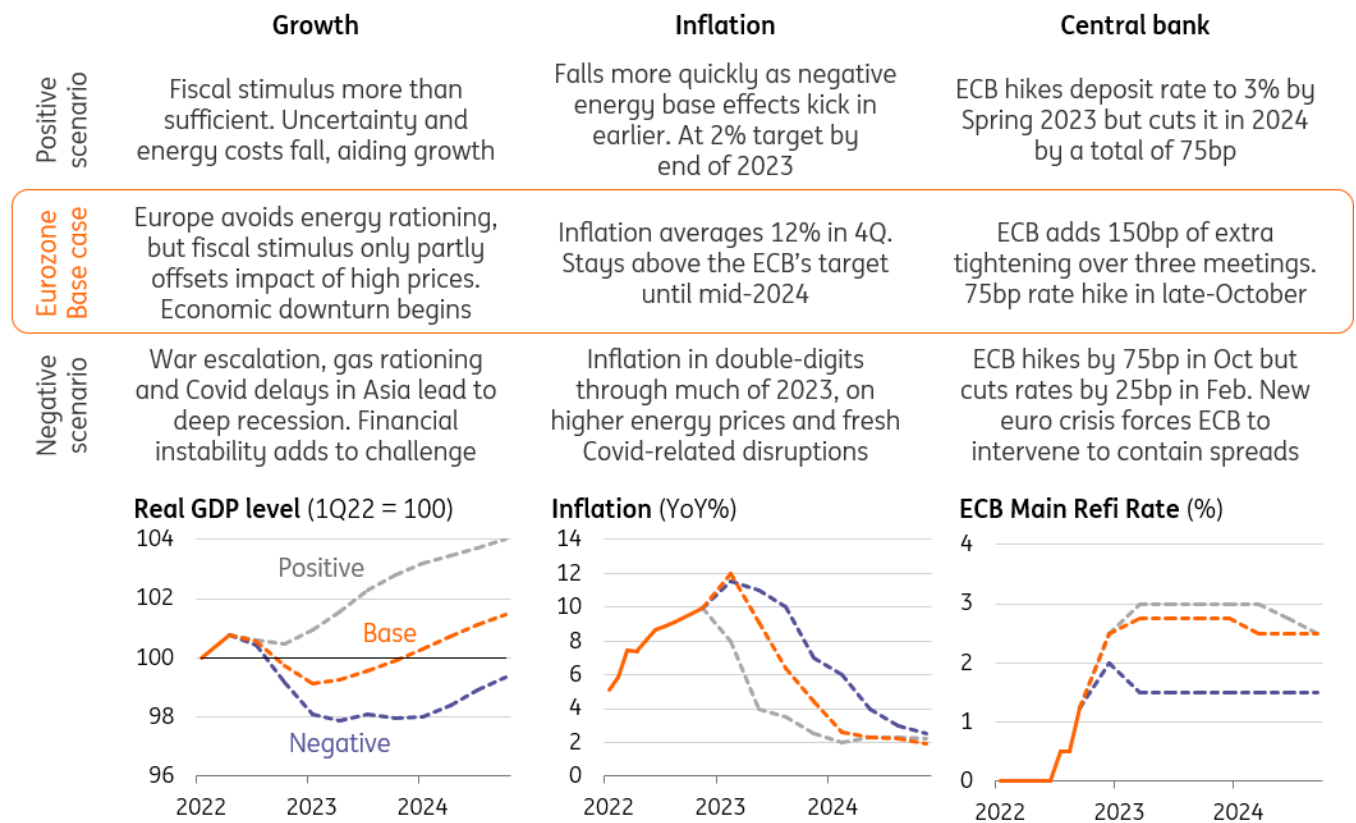
### Three scenarios for the US economy



Source: Macrobond, ING

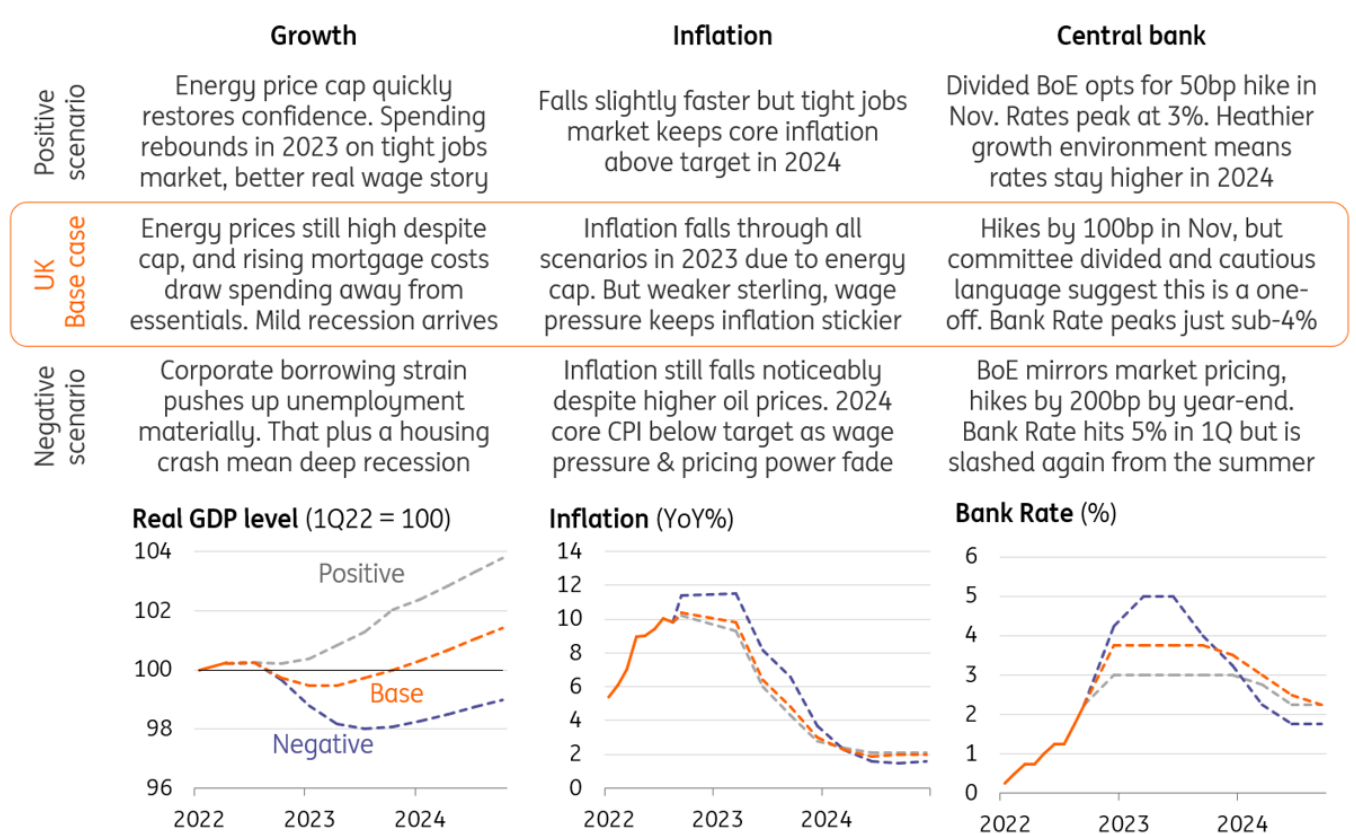


### Three scenarios for the Eurozone economy



Source: Macrobond, ING

### Three scenarios for the UK economy

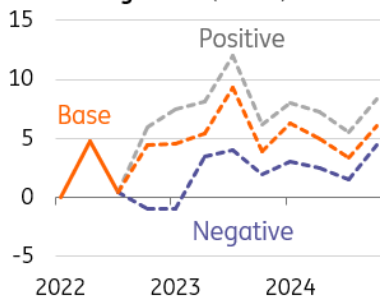


Source: Macrobond, ING

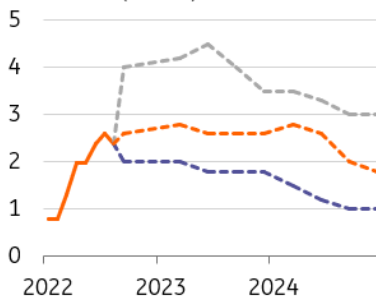
### Three scenarios for China's economy

|                   | Growth   | Inflation  | Central bank  |
|-------------------|--|--|---|
| Positive scenario | Covid measures relaxed. Job market recovers and retail sales improve steadily. Infrastructure spending lifts growth      | As the economy recovers, high energy prices are reflected in consumer prices. CPI inflation rises to around 3-3.5% | Economic recovery permits re-lending schemes to end. PBoC kicks off rate hike cycle when inflation is above 3.5%.       |
| China Base case   | Retail sales & production gradually recover on more flexible Covid rules. Real estate crisis is the main growth issue    | Barring a resolution to the real estate crisis, inflation pressures stay muted reflecting the weak economy         | PBoC opposed to ultra-low interest rates and doesn't lower rates further. Instead it lifts quota for re-lending schemes |
| Negative scenario | Frequent lockdowns return, adding jobs market pressure. Factories run at partial capacity. Economy on brink of recession | Risk of deflation increases as unemployment rises and wage pressure eases  | Required reserve ratio cut to release cash to banks. Rate cuts start again but remain a secondary tool.                 |

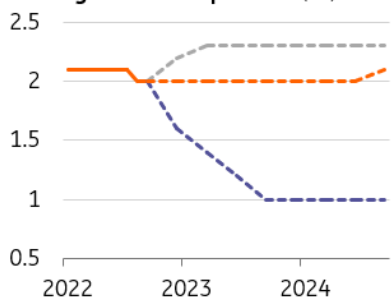
Real GDP growth (YoY%)



Inflation (YoY%)



7-day reverse repo rate (%)



Source: Macrobond, ING



October 2022 - Scenario forecasts

|                               | 3Q22 | 4Q22 | FY22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | FY23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | FY24 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <b>United States</b>          |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>Real GDP (QoQ ann%)</b>    |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 1.4  | 1.5  | 1.8  | -0.5 | 0.5  | 2.0  | 3.0  | 0.8  | 3.5  | 3.5  | 3.0  | 2.7  | 2.9  |
| Base case                     | 1.4  | 0.6  | 1.7  | -2.0 | -1.6 | 1.3  | 2.3  | -0.3 | 2.7  | 2.6  | 2.3  | 2.2  | 2.1  |
| Downside scenario             | 1.4  | 0.2  | 1.7  | -2.0 | -3.0 | -3.0 | -2.0 | -1.4 | -1.0 | 0.5  | 3.0  | 3.5  | -0.5 |
| <b>Inflation (YoY%)</b>       |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 8.3  | 7.0  | 8.0  | 5.3  | 3.0  | 2.0  | 1.7  | 3.0  | 1.5  | 1.5  | 1.8  | 2.0  | 1.7  |
| Base case                     | 8.3  | 7.2  | 8.0  | 5.6  | 3.4  | 2.6  | 2.2  | 3.5  | 1.8  | 1.6  | 1.6  | 1.8  | 1.7  |
| Downside scenario             | 8.3  | 8.0  | 8.2  | 7.5  | 6.5  | 5.8  | 5.0  | 6.2  | 3.5  | 2.0  | 0.5  | -1.0 | 1.3  |
| <b>Fed Funds Rate (%)</b>     |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 3.25 | 4.25 | 4.25 | 4.25 | 3.75 | 3.25 | 2.75 | 2.75 | 2.25 | 2.00 | 2.00 | 2.00 | 2.00 |
| Base case                     | 3.25 | 4.50 | 4.50 | 4.50 | 4.50 | 4.00 | 3.50 | 3.50 | 3.00 | 2.50 | 2.50 | 2.50 | 2.50 |
| Downside scenario             | 3.25 | 4.75 | 4.75 | 6.00 | 6.00 | 6.00 | 5.00 | 5.00 | 4.00 | 3.00 | 2.00 | 1.50 | 1.50 |
| <b>Eurozone</b>               |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>Real GDP (QoQ ann%)</b>    |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | -0.7 | -0.5 | 3.1  | 2.0  | 2.3  | 3.0  | 2.0  | 1.4  | 1.5  | 1.0  | 1.1  | 1.2  | 1.7  |
| Base case                     | -0.8 | -3.2 | 2.9  | -2.4 | 0.4  | 1.2  | 1.4  | -0.8 | 1.7  | 1.6  | 1.6  | 1.4  | 1.6  |
| Downside scenario             | -1.4 | -4.8 | 2.7  | -4.3 | -0.9 | 0.8  | -0.5 | -2.1 | 0.2  | 1.7  | 2.0  | 1.8  | 0.7  |
| <b>Inflation (YoY%)</b>       |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 9.3  | 8.0  | 7.8  | 4.0  | 3.5  | 2.5  | 2.0  | 3.0  | 2.3  | 2.3  | 2.2  | 2.1  | 2.2  |
| Base case                     | 9.3  | 12.0 | 8.3  | 9.1  | 6.4  | 4.4  | 2.6  | 5.6  | 2.3  | 2.2  | 1.9  | 1.9  | 2.1  |
| Downside scenario             | 9.3  | 11.5 | 8.6  | 11.0 | 10.0 | 7.0  | 6.0  | 8.5  | 4.0  | 3.0  | 2.5  | 2.0  | 2.9  |
| <b>ECB Main Refi Rate (%)</b> |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 1.25 | 2.50 | 2.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 2.75 | 2.50 | 2.25 | 2.25 |
| Base case                     | 1.25 | 2.50 | 2.50 | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Downside scenario             | 1.25 | 2.00 | 2.00 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| <b>United Kingdom</b>         |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>Real GDP (QoQ ann%)</b>    |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 0.1  | -0.2 | 4.6  | 0.6  | 1.8  | 1.9  | 2.9  | 0.9  | 1.4  | 1.8  | 1.8  | 1.8  | 1.9  |
| Base case                     | 0.1  | -2.1 | 4.4  | -1.0 | 0.0  | 1.0  | 1.0  | -0.4 | 1.3  | 1.5  | 1.5  | 1.5  | 1.2  |
| Downside scenario             | 0.1  | -2.3 | 4.4  | -3.5 | -2.4 | -0.6 | 0.2  | -1.8 | 0.7  | 1.0  | 1.0  | 1.0  | 0.4  |
| <b>Inflation (YoY%)</b>       |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 10.1 | 10.2 | 8.9  | 9.3  | 6.0  | 4.3  | 2.8  | 5.6  | 2.4  | 2.1  | 2.1  | 2.1  | 2.2  |
| Base case                     | 10.1 | 10.4 | 9.0  | 9.8  | 6.4  | 4.8  | 3.0  | 6.0  | 2.3  | 1.9  | 2.0  | 2.0  | 2.1  |
| Downside scenario             | 10.1 | 11.4 | 9.2  | 11.5 | 8.2  | 6.6  | 3.7  | 7.5  | 2.3  | 1.6  | 1.5  | 1.6  | 1.8  |
| <b>Bank Rate (%)</b>          |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 2.25 | 3.00 | -    | 3.00 | 3.00 | 3.00 | 3.00 | -    | 2.75 | 2.25 | 2.25 | 2.25 | -    |
| Base case                     | 2.25 | 3.75 | -    | 3.75 | 3.75 | 3.75 | 3.50 | -    | 3.00 | 2.50 | 2.25 | 2.25 | -    |
| Downside scenario             | 2.25 | 4.25 | -    | 5.00 | 5.00 | 4.00 | 3.25 | -    | 2.25 | 1.75 | 1.75 | 2.00 | -    |
| <b>China</b>                  |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>Real GDP (YoY%)</b>        |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 6.0  | 7.5  | 5.3  | 8.1  | 12.0 | 6.2  | 8.0  | 8.6  | 7.3  | 5.5  | 8.3  | 7.8  | 7.2  |
| Base case                     | 4.4  | 4.6  | 3.6  | 5.4  | 9.3  | 3.9  | 6.3  | 6.2  | 5.0  | 3.4  | 6.1  | 4.0  | 4.6  |
| Downside scenario             | -1.0 | -1.0 | -0.1 | 3.5  | 4.0  | 2.0  | 3.0  | 3.1  | 2.5  | 1.5  | 4.5  | 2.0  | 2.6  |
| <b>Inflation (YoY%)</b>       |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 3.5  | 4.0  | 3.5  | 4.2  | 4.5  | 4.0  | 3.5  | 4.1  | 3.5  | 3.3  | 3.0  | 3.0  | 3.2  |
| Base case                     | 2.5  | 2.6  | 2.1  | 2.8  | 2.6  | 2.6  | 2.6  | 2.1  | 2.8  | 2.6  | 2.0  | 1.8  | 2.3  |
| Downside scenario             | 1.8  | 2.0  | 1.8  | 2.0  | 1.8  | 1.8  | 1.8  | 1.9  | 1.5  | 1.2  | 1.0  | 1.0  | 1.2  |
| <b>7-day reverse repo (%)</b> |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| Base case                     | 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 |
| Downside scenario             | 1.80 | 1.60 | 1.60 | 1.40 | 1.20 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| <b>Energy</b>                 |      |      |      |      |      |      |      |      |      |      |      |      |      |
| <b>Brent crude (USD/bbl)</b>  |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 98   | 85   | 98   | 82   | 80   | 78   | 75   | 79   | 75   | 78   | 76   | 72   | 75   |
| Base case                     | 98   | 97   | 101  | 94   | 92   | 98   | 102  | 97   | 95   | 87   | 85   | 80   | 87   |
| Downside scenario             | 98   | 105  | 103  | 108  | 110  | 118  | 122  | 115  | 105  | 96   | 94   | 88   | 96   |
| <b>Dutch TTF (EUR/MWh)</b>    |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Upside scenario               | 205  | 195  | 151  | 150  | 130  | 110  | 120  | 128  | 120  | 90   | 95   | 105  | 103  |
| Base case                     | 205  | 225  | 158  | 180  | 160  | 210  | 250  | 200  | 210  | 150  | 130  | 140  | 158  |
| Downside scenario             | 205  | 250  | 164  | 200  | 180  | 230  | 280  | 223  | 230  | 170  | 145  | 155  | 175  |

Source: ING estimates

# Central banks: what next from the Fed, ECB and Bank of England?

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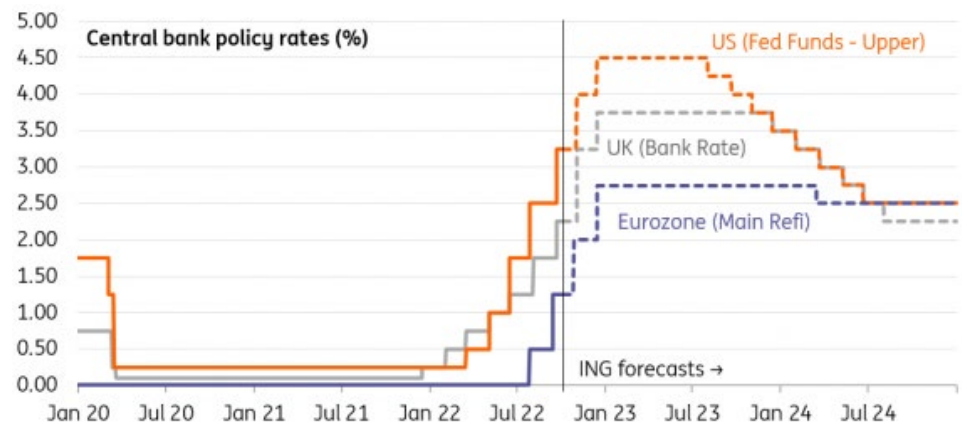
## James Smith

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The Federal Reserve is closing in on the top of its tightening cycle as the European Central bank gets started. The Bank of England could hike by 100bp in November but is likely to undershoot market expectations thereafter



## ING's latest central bank forecasts



Source: Macrobond, ING

## Federal Reserve

The Fed's belated attempts to get a grip on inflation have resulted in the most rapid and aggressive interest rate increases since the 1980s. Borrowing costs are surging throughout the economy and are already causing significant pain, particularly in the housing market which has just posted the first monthly price fall in more than 10 years in the wake of plunging mortgage applications and rising supply.

Construction activity is already capitulating while the cost-of-living crisis and plunging equity and bond markets and a softening housing market are set to weigh more intensely on consumer spending in the months ahead. At the same time, businesses are becoming more cautious with survey evidence suggesting corporate investment plans are being scaled back and a growing proportion of companies are freezing hiring plans. Nonetheless, inflation pressures are lingering with core (excluding food and energy rates) rising once again. As such, we favour a fourth consecutive 75bp hike in November, but we expect a more muted 50bp hike in December given the weakening backdrop.

We are increasingly convinced that the US will experience substantial falls in inflation in 2023. Used car auction prices are down 15% while falling home prices are set to intensify and will drag down the key shelter components within inflation in the second half of the year. Surveys of corporate price plans have weakened markedly, energy costs are lower and recessionary forces will only intensify these trends. This should allow the Fed to pivot to rate cuts in the second half of 2023.

### **European Central Bank**

Since the late summer and probably marked by Isabel Schnabel's Jackson Hole speech, the ECB's reaction function has clearly and drastically changed. Following in the Fed's footsteps, the ECB has increasingly focused on actual inflation and, to a lesser extent, inflation expectations.

What started off as a gradual normalisation process has become a hardcore fight against actual inflation. Not too long ago, the ECB's forward guidance hinted at no rate hikes in 2022, or only a 25bp rate hike in July. It's all history. With eurozone inflation at 10%, it is hard to see how the ECB cannot move again by 75bp at the October meeting. In this context, the discussion on whether or not the ECB can actually bring down actual headline inflation is no longer relevant for the ECB.

Even an increasingly unfolding recession is not enough to slow down the ECB. It clearly is an experiment with a risk of turning into a policy mistake, particularly if the economy falters much more than the ECB currently expects, but for the time being the central bank looks fully determined to continue on the path of aggressive rate hikes.

The first real test of how sustainable the consensus within the ECB is will only come at the December meeting. A new round of staff projections is likely to show further downward revisions to growth and could show 2025 inflation at 2%, tempting some of the newly self-declared tough inflation fighters to blink. However, we currently see the ECB hiking by another 50bp in December and 25bp in February 2023. We sense that it would like to go even further but we fear that the recession could be nasty enough to even second-guess the February hike.

### **Bank of England**

Markets are expecting a lot from the Bank of England over the coming months. Though the situation has calmed in recent days, investors are still pricing the Bank Rate to go above 5% by March 2023 (currently 2.25%). Over 100bp worth of hikes are priced for the November meeting alone.

That puts policymakers in a tricky position. If the Bank follows through with this amount of tightening, then there's a clear risk of turbulence for borrowers. Two-year mortgage rates are already tipping over 5%, and at the very least that's likely to see a dramatic slowdown in housing transactions.

Consumer fundamentals – be it employment or savings levels – remain solid, so it's not clear whether a material number of homeowners are pressured to sell. But at the very least, the rise in monthly repayments as consumers re-fix will take money away from other non-essential spending categories. For corporates, [previous Bank of England analysis](#) has suggested that the percentage of firms experiencing low interest coverage ratios would hit a record high should rates go north of 4%.

We therefore expect the Bank to err on the side of caution. We expect a sizable hike at the November meeting, and it's a bit of a coin toss between 75bp and 100bp (we've pencilled in the latter). Market pricing may force the BoE's hand, and we know the hawks are worried about sterling weakness.

But the committee is undeniably divided, and the newest member – Swati Dhingra – voted for just 25bp at the most recent September meeting. Even if the Bank does hike by 100bp next month, subsequent tightening is likely to be less aggressive. We expect the Bank Rate to peak a little below 4% in December.

# Macro concerns vs commodity supply constraints

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Commodity markets have come under pressure due to a strengthening US dollar and a raft of central banks hiking interest rates recently. This has clouded the macro outlook. However, the supply picture for a number of commodities remains fragile



## The OPEC+ put

Oil prices came under pressure in September, with ICE Brent falling by almost 9% over the month and trading to the lowest levels since January. US dollar strength and central bank tightening have weighed on prices and clouded the demand outlook.

From a supply perspective, the oil market has been in a more comfortable position. Russian oil supply has held up better than most were expecting due to China and India stepping in to buy large volumes of discounted Russian crude oil. The demand picture has also been weaker than expected.

However, we believe there is a good floor for the market not too far below current levels. Firstly, the EU ban on Russian oil comes into force on 5 December, followed by a refined products ban on 5 February. This should eventually lead to a decline in Russian supply, as it is unlikely that China and India would be able to absorb significantly more Russian oil.

Secondly, US Strategic Petroleum Reserve releases are set to end later this year. If not extended, we could start to see large drawdowns in US commercial inventories, which are very visible to the market and could provide more support.

Potential OPEC+ intervention should also provide a good floor to the market. Already this week, OPEC+ announced a 2MMbbls/d supply cut through until the end of 2023.

However, it is important to remember that given OPEC+ is cutting output from target production levels, the actual cut will be smaller given that most OPEC+ members are already producing well below their target levels. Our numbers suggest that the group's paper cut of 2MMbbls/d will work out to an actual cut of around 1.1MMbbls/d.

## Price caps and price forecasts

As for the proposed G7 price cap on Russian oil, the EU now appears to have agreed on the mechanism. However, once implemented, there is still plenty of uncertainty over whether it will have the desired effect of keeping Russian oil flowing and limiting Russian oil revenues. Without the participation of big buyers, such as China and India, it is difficult to see the price cap being very successful. In addition, there is always the risk that Russia reduces output in response to the price cap.

We currently expect Brent to trade largely within the US\$90 area for the remainder of this year and into the first half of 2023, before strengthening over the second half of 2023. However, given the large supply cut recently announced by OPEC+, the global market will likely be in deficit through the whole of 2023, suggesting that there is upside to our current forecasts.

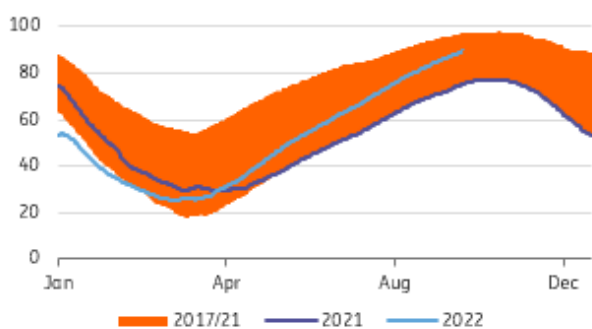
### Even tighter times ahead for European gas

European natural gas prices have come off their highs in August, falling more than 40% from the recent peak. Comfortable inventory levels have helped, with storage 89% full already. The EU has also managed to build storage at a quicker pace than originally planned. In addition, intervention from the EU is likely to leave some market participants on the sidelines, given the uncertainty over how policy may evolve.

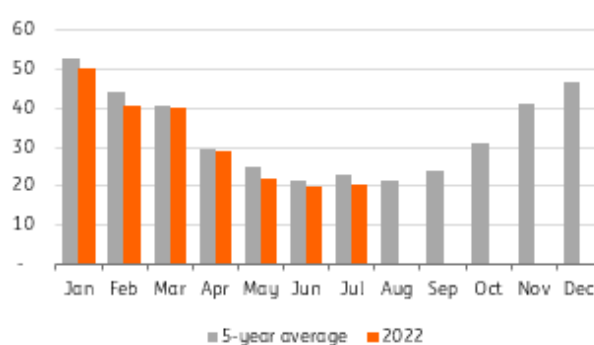
It also appears that the EU is moving towards a price cap on natural gas in some shape or form. Whilst this will offer some relief to consumers, it does not solve the fundamental issue of a tight market for the upcoming winter. We need to see demand destruction in order to balance the market through the high demand months of the winter, but capping prices will do little to ensure this. It will be difficult to get through this period unless we see demand falling aggressively, and this becomes more of a challenge when we see seasonally higher demand. The latest numbers from Eurostat show that EU gas consumption was 11% below the five-year average over July, falling short of the 15% reduction the EU is targeting. In recent weeks, consumption has also come under further pressure as a result of industrial shutdowns.

#### EU gas storage above target levels while demand comes under pressure

EU gas storage % full



EU monthly gas demand-2022 vs. 5 yr average (bcm)



Source: GIE, Eurostat, ING Research

It is looking increasingly likely that the trend for Russian gas flows is lower in the months ahead. At the moment, the EU is only receiving Russian pipeline natural gas via Ukraine and through TurkStream, and there is the risk that we will see these flows decline as well. Recently, Gazprom warned that Russia could sanction Ukraine's Naftogaz due to ongoing arbitration. This would mean that Gazprom would be unable to pay transit fees to Naftogaz, which puts this supply at risk. At the moment, volumes transiting Ukraine are in the region of 40mcm/day. Meanwhile, total daily Russian flows via pipeline to the EU are down in the region of 75-80% year-on-year.

The EU should be able to get through the upcoming winter if demand declines by 15% from the five-year average between now and the end of March. The bigger concern, however, will be for the following winter in 2023/24. Earlier this year, we saw some decent flows of Russian gas, which helped with rebuilding inventory. Next year, Russian flows are likely to be minimal, which means that the EU may build inventories at a slower pace. We therefore expect to go into winter in 2023/24 with very tight inventories, which suggests the risk of even higher prices over this period.



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## US: a cold wind is blowing

This has been a disappointing year for the US economy with two consecutive quarters of falling output. It will be worse in 2023. Consumer spending and business capital expenditure look set to fall and unemployment will rise in response to the rapidly tightening financial conditions caused by dollar strength, rising rates and widening credit spreads



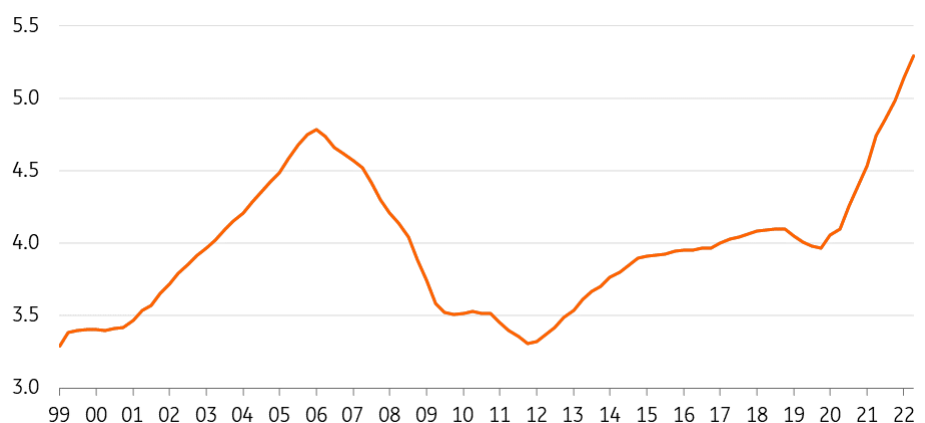
### Tougher conditions ahead for consumers and businesses

The Federal Reserve's delayed response to the obvious inflation threat means it is playing catch-up and raising interest rates faster than at any time since the late 1980s. This is contributing to considerable dollar strength while prompting rapid rises in borrowing costs throughout the economy. This significant tightening of financial conditions is a clear headwind to growth and comes at a time when consumer and business confidence is already under immense pressure from the rising cost of living and falling equity, bond and real estate prices.

### Housing market set for sustained weakness

Unfortunately, our worst fears about falling transactions and the prospect of sharp price falls in the US residential property market appear to be coming true. Mortgage rates have doubled since the start of the year leading to a 36% collapse in mortgage applications for home purchases while the supply of new and existing homes is up 64% and 50% from their respective lows.

### Ratio of US existing home prices to median household income ratios (1999-2022)



Source: Macrobond, ING

This rapidly changing dynamic means the 45% jump in home prices since the start of the pandemic looks unsustainable. After all, the median house price-to-income ratio is



more stretched than at the peak of the 2005/06 housing bubble. Consequently, July's first monthly price fall in more than 10 years looks set to be the start of many with even Fed Chair Jerome Powell publicly acknowledging the need for a correction. This will be bad news for construction activity as well as spending on furniture, furnishings, electronics and building supplies.

### Labour market shows signs of softening

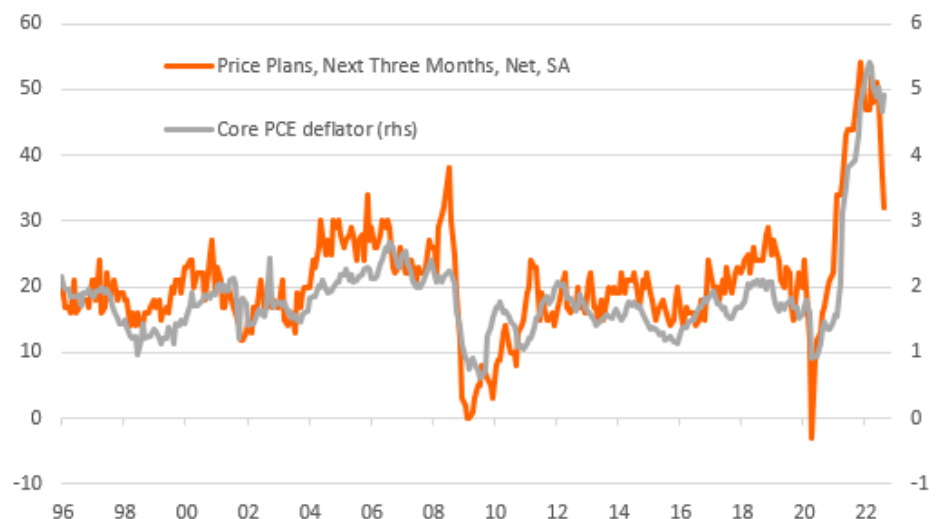
Consumer weakness is already spreading beyond the property market. We had hoped the plunge in gasoline prices would free up cash that would translate into stronger consumer activity elsewhere. There was a temporary lift to restaurant dining numbers, air passenger traffic and google mobility data, but it hasn't shown up in consumer spending more broadly.

On top of this, we are seeing a growing number of firms freeze hiring plans with job vacancies falling by more than one million in August. The one consolation is that most firms are experiencing labour shortages so there will be a reluctance to fire staff. The Fed is predicting a 0.9pp rise in the unemployment rate over the next year, which would work out as 1.2 million people losing their jobs assuming the labour supply remains unchanged.

### Inflation will soon turn lower

While core inflation rates have been moving higher recently, we are increasingly confident in our call that we could see inflation head towards 2% by the end of 2023 as recessionary forces erode corporate pricing power. The chart below of the National Federation of Independent Businesses' price plan series is already offering very encouraging news for a potential slowdown in US inflation with fewer firms anticipating price hikes due to weakening sales growth and rising inventories.

#### Corporate pricing power appears to be weakening: NFIB price plans and the core PCE deflator inflation measure



Source: Macrobond, ING

Moreover, weightings for shelter costs and vehicle prices are far, far higher in the US inflation calculation than in Europe – a combined 40% for the US basket of goods and services versus 12% for Europe. With the US housing rent components lagging house price changes by around 12-14 months, we expect to see shelter go from contributing more than 2pp to the headline inflation rate to contributing nothing next year. Meanwhile, auction prices for used cars are down 15% from their peak and are set to fall sharply as the supply of new vehicles ramps up now as supply chain strains are easing.

### **Fed rate hikes to give way to cuts in the second half of 2023**

We are forecasting that the Federal Reserve will raise the policy rate by another 75bp in November, but the intensifying economic headwinds look set to result in a more modest 50bp hike in December which will mark the peak at 4.25-4.5%. This would mean real interest rates turning positive in the second quarter based on our inflation forecast – a key metric that the Fed wants to achieve.

Once the Fed has hit the pause button on rate hikes the market will swiftly move to anticipate rate cuts. We expect them to start coming through from the third quarter of 2023 as the Fed seeks to prevent a more prolonged downturn that could result in inflation falling well below 2% over the medium term. Robust household balance sheets and a still-tight labour market offer hope that once lower borrowing costs materialise and risk assets stabilise, the recovery can come relatively quickly and vigorously.

# There's no denying it anymore: the eurozone is in recession

## Peter Vanden Houte

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After a growth deceleration over the summer months, eurozone indicators strongly deteriorated in September, suggesting the start of the recession. Meanwhile, inflation has reached double-digit figures, setting the European Central Bank on a more aggressive tightening path

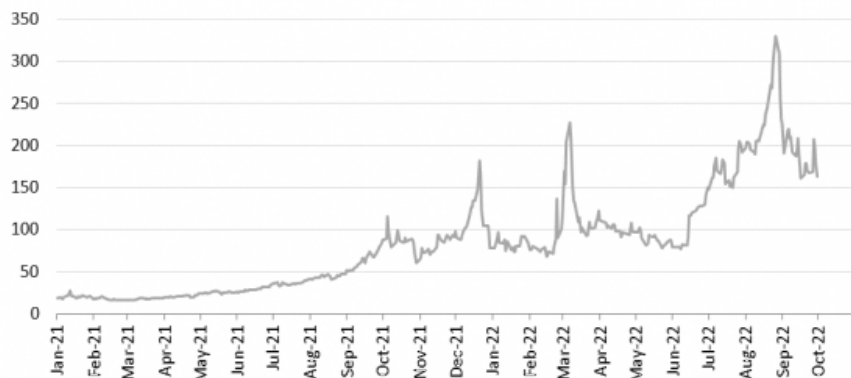


According to the latest weather analyses, the risk of a cold winter has risen

## Headwinds intensify

The challenges that the eurozone economy has been facing over the last few months have not disappeared. If anything, they have got worse. The war in Ukraine seems to be far from over with Russia deciding on a partial mobilisation after a rather successful Ukrainian counter-offensive. Natural gas exports from Russia to the European Union have been cut further and the sabotage of the Nord Stream 1 and 2 pipelines has created some fears regarding the safety of the gas pipelines from Norway. Unfortunately, according to the latest weather analyses, the risk of a cold winter has risen. We continue to expect very tight natural gas markets over the winter months, keeping prices at uncomfortably high levels. Moreover, because of the lack of natural gas imports from Russia, prices are not likely to fall significantly in 2023. This will hurt the supply side of the economy, with a growing number of European companies reducing production. And while governments have stepped up their support for households and businesses, we still believe that consumption will contract. At the same time, increasingly tight financial conditions are another headwind for growth.

## European natural gas prices are likely to remain at historically high levels



Source: Refinitiv Datastream

### Negative growth in 2023

While the deceleration of economic activity seemed to be limited during the holiday season, the September data now clearly screams recession. The Composite PMI indicator stood at 48.2 in September, clearly below the 50 boom-or-bust-level. With inventories building on the back of slowing sales, eurozone manufacturers reduced their purchases of inputs for the third month in a row. Consumer confidence fell in September to the lowest level since the survey started, with households especially worried about their financial situation over the next 12 months.

The ECB's assessment that households will reduce their savings to maintain their level of consumption looks illusory to us, as European consumers tend to save more in times of great uncertainty. The Eurocoin indicator, a gauge of the underlying growth pace, perfectly illustrates the strong deterioration of the economic environment in September: it fell from 0.23% to -0.73%. We therefore stand with our forecast of a small negative growth figure for the third quarter of 2022 and a deeper downturn over the winter months. With the ECB in a tightening mode, we also anticipate a more subdued recovery over the course of 2023. For next year, we now anticipate a 0.8% GDP contraction, after a 2.9% expansion in 2022.

#### Eurozone consumer confidence falls to a very low level



Source: Refinitiv Datastream

### Double-digit inflation

Meanwhile, the inflation rate has hit double-digit figures: it rose to 10% in September. Energy prices remain the main culprit, but core inflation also rose to 4.8%. However, according to the models of the national central banks, the indirect effects of higher energy costs are currently contributing around one-third to core inflation. This means that once energy prices stabilise, core inflation will also come down. That said, this is likely to be a very gradual process. We still expect 5.6% headline inflation for 2023 and we believe it will take until the second half of 2024 before inflation reaches the ECB's 2% target.

### A more hawkish ECB

Since the Jackson Hole conference in August, the ECB has become more aggressive. As it seems to have lost confidence in its medium-term inflation forecast, it is now focusing much more on current inflation. Quite a change! That explains why the bank now wants to get rates back to neutral as fast as possible and is even willing to go a bit further, as long as the recession is not creating too much unemployment. We therefore see a 75bp hike in October, followed by 50bp in December and 25bp in February 2023, bringing the deposit rate to 2.25%. The ECB might also decide to stop the reinvestment of its asset purchase programme (APP) portfolio somewhere in the first half of next year. However, the pandemic emergency purchase programme (PEPP) portfolio is likely to be reinvested until the end of 2024. As for bond yields, some further limited upward potential is still on the cards, but around the turn of the year, the yield curve is very likely to invert in the wake of the significant economic downturn.

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## UK: recession likely amid mounting market turmoil

The UK government has U-turned on part of its controversial tax plan but markets are looking for further measures to reduce borrowing requirements over the next couple of years. The prospect of further Bank of England tightening means higher mortgage rates, which coupled with expensive (though capped) energy bills likely means recession



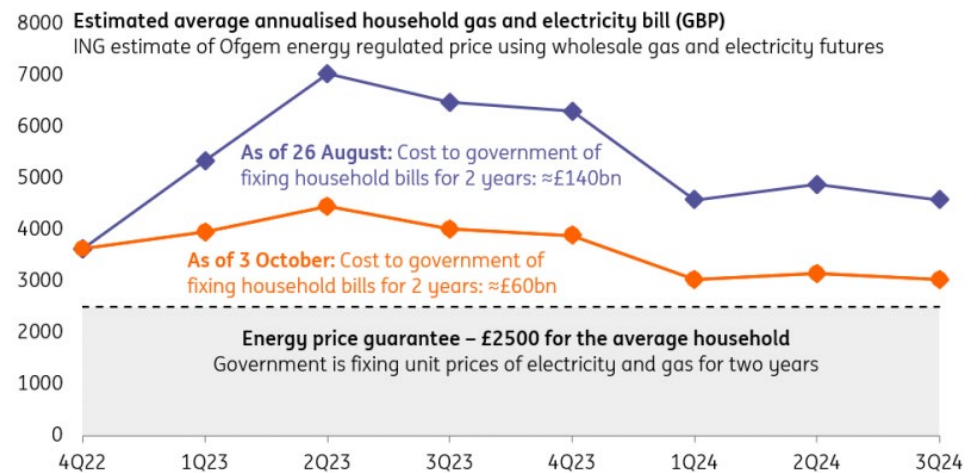
British Prime Minister Liz Truss and Chancellor of the Exchequer Kwasi Kwarteng at the opening session of Conservative Party Conference, London, UK - 02 Oct 2022

### The UK's fiscal event has prompted a wave of volatility in markets

The British government's not-so-mini Budget a couple of weeks ago sparked chaos in UK financial markets. Investors are worried both about the amount of extra borrowing markets will need to absorb as a result of the government's energy price guarantee and unfunded tax cuts, and the inflationary impact and resulting Bank of England reaction. Any resolution to the current crisis needs to be seen through that lens.

The government has since rowed back on a plan to cut the top rate of income tax, and will also bring forward the publication of its 'medium-term fiscal plan'. The latter likely involves spending cuts to offset the tax rises, and it'll also be coupled with a forecast from the Office for Budget Responsibility. Investors are reading this both as a sign that the government is prepared to compromise in the face of market (and political) pressure, and that it is seeking to restore the role of the UK's independent OBR in the process. The lack of an independent forecast with the mini-Budget had added to investor concerns.

**The cost of fixing household energy bills has tumbled - but that could change if gas prices surge once more**



Source: Ofgem Methodology, Refinitiv, ING calculations - Without the government's guarantee, the unit prices for energy bills are set by the regulator Ofgem. We have estimated what these unit prices would have been based on wholesale gas and electricity futures now, and as of 26 August when gas prices peaked. The cost to the government is calculated as the difference between these unit prices, and the government's price guarantee (£2500) over a period of two years

**Markets want further reassurances on tax cuts and the BoE's QT plans**

These are first steps, however, and neither U-turn addresses the central issue for investors described earlier. Scrapping the 45% tax bracket made up only £2bn out of the total £45bn tax cuts package. Spending cuts are likely, but these may prove both politically and practically challenging. Many government departments are already set to face real-terms cuts in budgets while reducing public-sector investment goals looks inconsistent with ambitions to improve the supply side of the economy.

Fortunately, gas futures prices have fallen sharply since August, and the aggregate cost of fixing household energy bills has more than halved. The 'energy price guarantee' will fix the average household energy bill at £2500, which is roughly where it has been since April once additional discounts are added in.

Still, the government may find it needs to look again at a broader windfall tax covering certain types of energy producers – something that is politically popular, would likely raise tens of billions, and would provide a natural hedge should energy prices surge once again (raising the government's bill for capping consumer/business costs).

*“Our base case for the economy is still recession”*

For now, some limited order has been restored to both the pound and the government bond (gilt) market – though the latter heavily relies on the Bank of England's verdict on whether to plough ahead with active bond sales later this month, as part of its quantitative tightening process. Together with a decision earlier this year to stop reinvesting the proceeds of maturing bonds in its portfolio, selling gilts would add roughly £80bn of extra supply for the market to absorb over 12 months. In such a volatile environment that's a hard sell – and we suspect the BoE will put its plans to sell gilts on ice for a little while longer.

**Higher mortgage and energy costs point to a mild recession**

Our base case for the economy is still recession – albeit perhaps a mild one by historical comparison. Despite the mounting fiscal concerns, we shouldn't underestimate the difference the government's energy price cap will make to the outlook. It will save £1500 on average over the next 12 months.



Still, households will still be paying more than twice as much for energy as they were two years ago, and it's a similar story for mortgages. The average monthly payment on a two-year fix looks set to top £1600, up from around £900 in 2020, looking at the current rates available. Households inevitably need to cut back on non-essential spending, and that likely means negative GDP growth rates through the winter.

# China: recovery derailed by real estate crisis

**Iris Pang**

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The economy has recovered slightly due to more flexible Covid measures. But the real estate crisis will put pressure on economic growth if home sales do not pick up. Infrastructure stimulus has yet to impact growth as local government spending has been split between finishing uncompleted homes and infrastructure investment



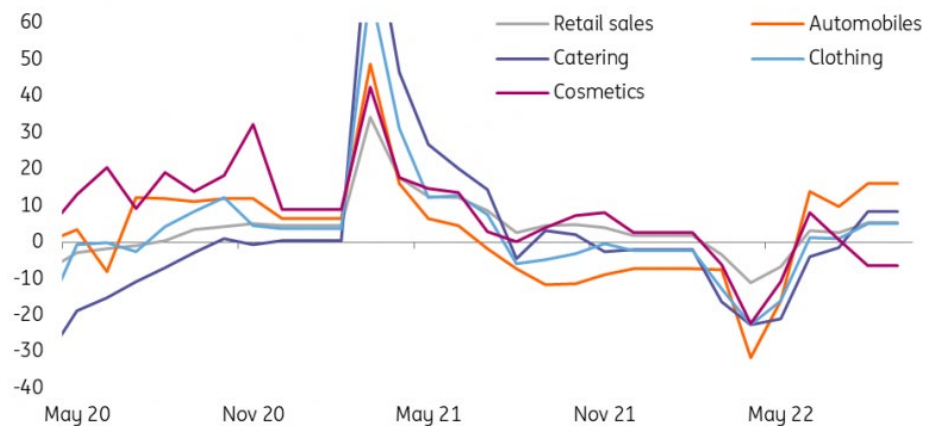
## China finally show signs of a slight recovery

More flexible Covid measures have resulted in shorter quarantine periods and more localised lockdowns, which have had less impact on the labour force than the measures imposed a few months back. Consumers have shown a willingness to buy electric vehicles with government subsidies and are also eating out more. But they are still reluctant to buy luxury items. Overall, retail sales grew 5.4% year-on-year in August after 2.7% growth in July.

Industrial production also picked up to 4.2% YoY in August from 3.8% in July as more flexible Covid measures enabled more people to go to work.

As such, the People's Bank of China did not cut interest rates in September.

## China retail sales show recovery (%YoY)



Source: ING, Bloomberg

## Real estate crisis

In the real estate market, some local governments have been pairing with property developers to finish uncompleted projects. But an improvement in market sentiment will

only happen if some of the larger projects are finished to a high standard. Home buying activity should then pick up.

The market is now seeing genuine demand. The government is trying to fully unleash this demand by implementing policies such as cutting taxes for home upgrades. There are also policies for first-time buyers with lower mortgage rates. This fresh demand seems to be re-activating existing home sales, which were sluggish in the past due to a lot of new builds coming onto the market. This shift could reduce demand for new homes as buyers may worry that houses bought off-plan may not be completed. This, in turn, does not help housing starts. But at least some buyers are back in the market.

### The long delay of fiscal stimulus

Facing both a Covid crisis and a real estate crisis, local governments with limited fiscal resources have had to prioritise what to deal with first. For most of them, the more urgent problem has been the stagnation in housing starts - and thus the drop in land auctions, which have traditionally provided local governments with the revenue they need to run their governments properly.

This explains the delay in infrastructure projects even as local government special bonds have been issued for this year. Even though the central government has called for an increase in infrastructure investment, only a few local governments have actually accelerated spending and they are mainly investing in existing projects, not new ones.



Source: ING, CEIC

### Double whammy is coming

External demand could be weaker in 2023. If the real estate crisis and decisions over Covid measures cannot be resolved (at least partially) China could face a tough year ahead, especially in manufacturing.

# Asia: this is not 1997

Despite some superficial similarities, there are really very few parallels between today's markets and the Asian financial crisis of 1997/98

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## Things were very different (worse) in 1997 Asia

Being old enough to have been covering the Asia-Pacific region during the financial crisis in 1997/98, I can speak with some authority in saying that it was nothing like what we are experiencing today. Indeed, the Asia region as a whole was in far worse shape then than it is now.

Let's break it down.

### Asian FX: A relative outperformer

Perhaps the most important difference between now and then is in the exchange rate regimes being run by Asian economies. For the most part, these were fixed exchange rates pegged to the USD. There is a concise description of the causes and effects of the Asian financial crisis from the IMF in 1998 [here](#). In a nutshell, Asian economies back then combined high interest rates to attract capital inflows to finance investment and currencies pegged to the US dollar at favourable rates to achieve rapid export-led growth. Hot money was often channelled into unproductive property investments rather than raising the productive capital of these economies, which worsened the side effects when the bubble finally popped.

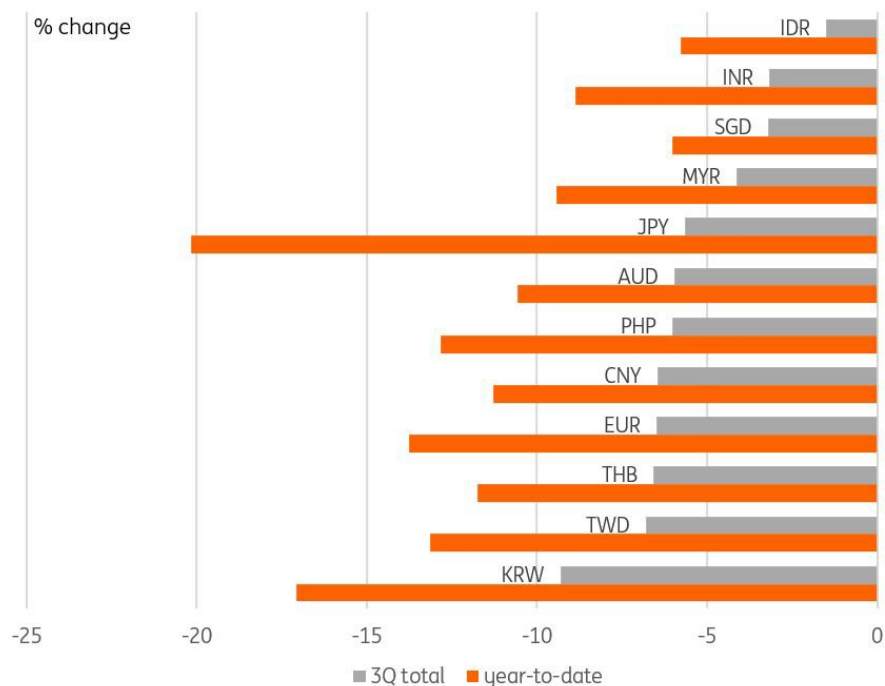
About the only similarity between then and now is what ultimately broke the currency pegs: hot money outflows attracted back to the US as the Federal Reserve raised rates to curb inflation upon emerging from recession in the mid-1990s. This caused the USD to appreciate along with Asian currencies as they were pegged, losing competitiveness. The Thai baht collapsed first, and contagion then pulled down the Philippine peso, Indonesian rupiah, and eventually the Korean won. The foreign debt that had helped finance the earlier rapid growth then became a massive debt-service headache, requiring IMF assistance and bailouts to prevent default.

So the first and rather glaring point to make is that across the region, exchange rates are not currently pegged to the USD. They may not all be the purest floats, and not all currencies are freely convertible, but they are not fixed. Nevertheless, as the chart below

shows, their depreciation (year-to-date and quarter-to-date 3Q22) is for the most part not as severe as the benchmark EUR/USD, or many other G-10 currencies (British pound, Swedish krona, Norwegian krone).

Put another way, Asian currencies aren't collapsing; the USD is strengthening.

**Relative Asian FX performance year and quarter-to-date (3Q22)**



Source: CEIC, ING

**FX reserves much fatter buffers**

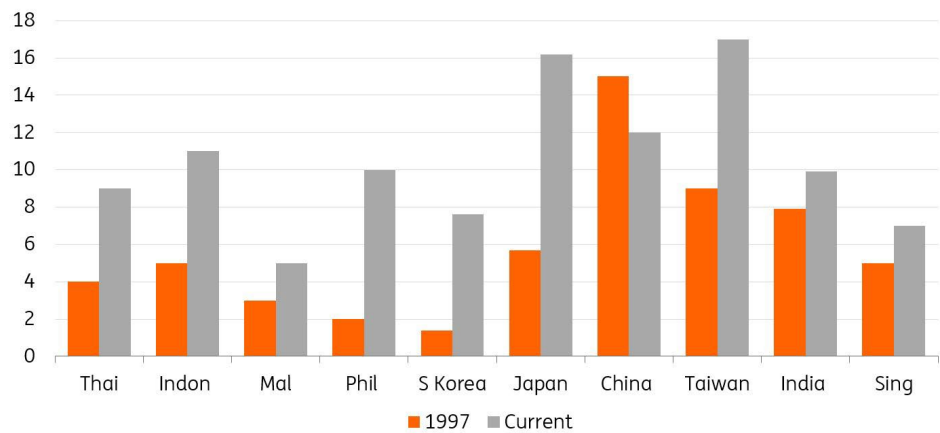
One of the remedies prescribed by the IMF to fix the broken Asian economies in the late 90s was that they needed to bolster themselves by accruing much bigger FX reserves. The two charts below show the extent of these reserves with reference to 1) months of import cover and 2) gross external debt (really, net external debt is the relevant metric, but gross debt serves its purpose here).

In almost all cases, export-cover is considerably better today than in 1997 or is very high anyway if not. Six months of cover is generally considered a decent buffer, so anything over that should not result in market nervousness. Malaysia is the main exception to this, and even then, import cover is almost double what it was back in 1997. The ringgit took a different path to salvation from other Asian currencies during this period. But for the record, Bank Negara Malaysia Governor Nor Shamsiah Mohd Yunus ruled out a return to capital controls or currency pegs [a little more than a week ago](#).

The second chart shows reserves as a ratio to gross external debt. Like import cover, reserves relative to external debt are now much more substantial. Where they remain low (Japan, Singapore), the gross debt position is negligible anyway, and the net position is a substantial surplus, so it is irrelevant.

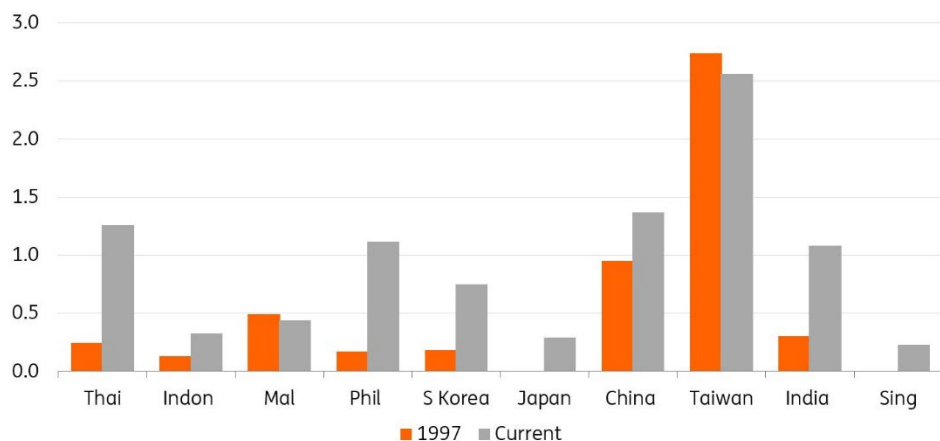
The only caveat we would make to this discussion that hints that everything is fine is that although the levels look comfortable, they have been declining. Central banks across the region have recently started intervening to limit the amount of currency depreciation, or at least to smooth its volatility. Reserves have been dropping, and the value of imports is rising due to inflation, so this is definitely a space worth watching. It isn't all good.

### Import cover (months)



Source: CEIC, ING

### Reserves to external debt ratio



Source: World Bank, ING

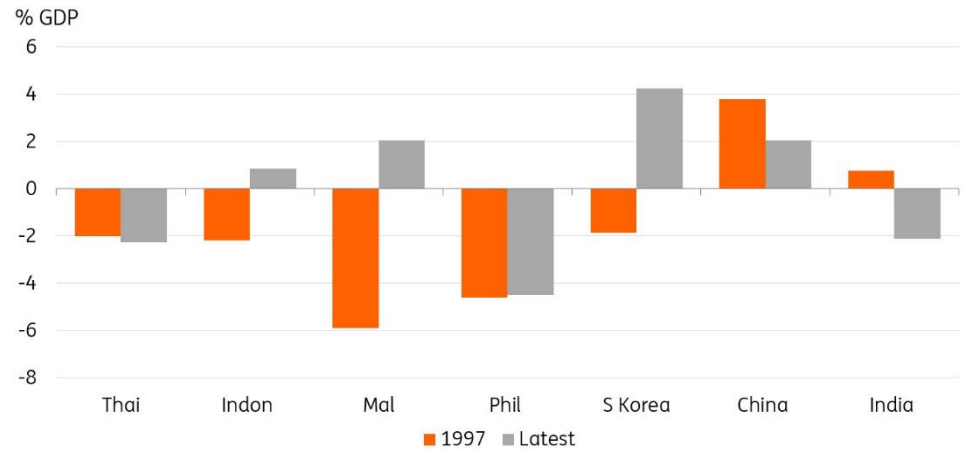
### Current accounts good, but not as good as they were

The other thing that isn't quite as good now as it was before Covid and before Russia invaded Ukraine is Asia's current account environment. Of course, this is the main way to replenish depleted FX reserves. China used to account for a large proportion of Asia's inbound tourism, but as its zero Covid policies effectively keep these flows close to zero, tourism centres like Thailand have been hit extremely hard. As a result, their current account surplus has been turned into a deficit.

Secondly, most of Asia is a net importer of energy (exceptions are Malaysia and Indonesia, as well as Australia). So, with natural gas prices spiking on increased competition with Europe for available non-Russian LNG, much of Asia has seen long-standing trade surpluses turn into deficits. Fortunately, large net investment income inflows mean that current accounts have held up better than trade balances.



### Current accounts in Asia still strong



Source: CEIC, ING

### On balance, things still look OK

We wouldn't want to finish this note by hinting that everything is fine in Asia. It isn't. Growth is slowing as inflation bites on spending power and increasing policy rates are beginning to raise debt service burdens. China's lacklustre activity and European demand weakness are weighing on regional export strength, and a US recession is likely before too long. On top of this, there is also a downturn in the important semiconductor sector.

However, while all of this probably implies further currency weakness ahead, this is the safety valve that means a more abrupt break should be avoided. Never say never, but we don't see this ending like in 1997.

# CEE: central banks face tough policy decisions amid persistent inflation

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The economies of Central and Eastern Europe are slowing, but the picture in most cases is not that bad. However, global conditions suggest it will be a hard winter. Central banks are trying to end the hiking cycle against market expectations, although the peak in inflation is not clear and fiscal policy has become more expansionary



Countries in Central and Eastern Europe continue to grapple with high inflation. Pictured: Brasov, Romania

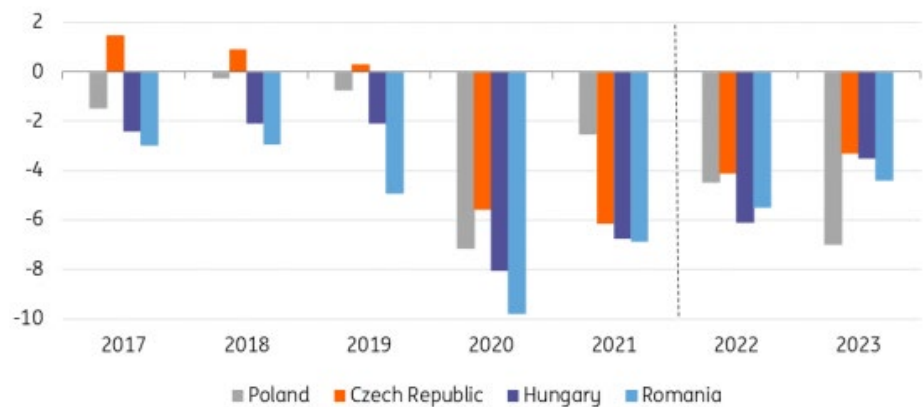
## Poland: To end the hiking cycle or not?

Poland faces persistently rising inflation and zloty (PLN) weakness. The National Bank of Poland's (NBP) forecast of CPI stabilising after the summer holidays has failed to materialise. In September, CPI rose to 17.2% year-on-year, a 25-year high. Upward pressure from energy prices is being accompanied by second-round effects. Core inflation continues to grow strongly. This throws Monetary Policy Council calls to end, or at least pause, hiking into question. We expect at least two 25bp rate hikes by the central bank in the fourth quarter of 2022. The rate hike cycle should conclude at 7.5%, or lower, in the first quarter of 2023. Proposed fiscal measures targeted at cushioning increases in electricity and gas prices for households should allow for a CPI slowdown and the NBP to ease in the second half of 2023. But the end of these measures could then cause CPI to rise above 10% year-on-year in 2024. For a more detailed outlook, check our latest Monitoring Poland.

The economy is on track to expand by 0.6% quarter-on-quarter, seasonally adjusted in the third quarter, after a decline of 2.1% QoQ, avoiding a technical recession in mid-2022. Annual growth may slightly exceed 3% in the third quarter, and 2022 full-year GDP should reach 4%, before slowing to 1.5% in 2023 amid the intensifying energy shock, deteriorating external conditions and elevated inflation. High inflation is projected to cool down consumer demand, while high interest rates hamper investment activity.

The zloty remains under pressure. Sentiment is unlikely to change given the unfavourable external environment (especially mounting tensions between Russia and the West) and the NBP signalling a prompt end to its tightening cycle. Still, positioning against PLN is already significant and should offer some scope for a recovery of the zloty if external factors improve. However, EUR/PLN is unlikely to move significantly below 4.8 in the fourth quarter regardless.

### General government balance (% of GDP)



Source: Macrobond, ING forecast

### Czech Republic: All work has been done

While leading indicators continue to disappoint - the PMI has fallen to its lowest level since 2020 and consumer confidence is at a record low due to rising inflation - the hard data has been more upbeat, with GDP surprising on the upside in the second quarter. Thus, the overall picture is better than expected but confirms a slowing economy. In terms of inflation, we have seen downside surprises in the last two months. However, this does not change the inflation trajectory, in our view. We expect a peak in the next few months, probably in the September number at 17.6% year-on-year.

Fiscal policy remains very unclear given the ongoing discussions at the government level on measures to counter energy prices. The government has approved an increase in the state budget deficit from CZK280bn to CZK330bn (4.9% of GDP), but MPs are proposing a further increase to CZK370bn (5.4% of GDP), which should be decided in the coming weeks. Monetary policy remains unchanged. The Czech National Bank confirmed the end of the hiking cycle at its last meeting in September and we don't see many triggers that would force the central bank to deliver an additional rate hike.

On the FX side, things are getting more interesting given the increase in the cost of central bank interventions during the September meeting, which puts the potential early exit of this regime back on the table. In the baseline scenario, we expect the koruna to remain near intervention levels of 24.60-70 EUR/CZK until at least year-end, however, we see a higher risk that the Czech National Bank will be forced to make a change to the current regime sooner.

### Hungary: We see relief rallies despite gathering clouds

Anecdotal evidence and economic rationality suggest that the Hungarian economy is already navigating through recessionary territory. Households are facing higher energy bills after the change in the utility bill support scheme. Eurostat's harmonised index of consumer prices (HICP) is showing an 18.6% year-on-year inflation rate mainly driven by food and utility prices. These should affect consumption negatively. High interest rates and the cloudy outlook will take their toll on investment activity.

On the other hand, hard data regarding the third quarter has been limited. July readings haven't shown any major issues, so our gloomy view of the economy is based more on a hunch than real evidence. August data is coming soon and we will probably see the first set of hard data evidencing the downturn. We see a technical recession during the third and fourth quarters of 2022, providing a major headwind for 2023, where we see only 0.4% GDP growth alongside 15% average inflation. For a more detailed outlook, check our latest [Monitoring Hungary](#).

We see two key challenges ahead. First, the government needs to comply with the European Commission's recommendations to close the Rule-of-Law procedure for good as soon as possible. This could eliminate a big chunk of investor scepticism regarding the country's perceived, rather than real, fiscal and financing woes. We see the government and the debt management agency in control. New retail sales bonds are hot and in demand, providing a solid financing boost and giving relief to the Hungarian government bond markets. Though the forint has had some rough times lately, we still believe that the mid-November EU deal will free the HUF's potential alongside a marked drying-up of forint liquidity. The latter will be driven by the new set of National Bank of Hungary measures. And this is the second challenge. These measures are aimed at draining excess liquidity as monetary policy has moved into a new era, ending the rate hike cycle at 13% but continuing the tightening cycle with a focus on squeezing liquidity. We see these measures living up to expectations, though markets have remained sceptical so far. In our view, drying up around HUF4-5tr, or half of the excess liquidity in a short period of time could give enough support to the forint until the game changer EU deal is worked out and EUR/HUF might be back at 400 by the end of the year. Such a relief rally could come in the local bond markets as well on some of the expected positive headlines.

### **Romania: The end of the hiking cycle is in sight**

With the eurozone economy slowing down rapidly (likely already experiencing a recession) and most forecasts for 2023 already pointing to various degrees of GDP contraction (-0.8% is ING's house view), we believe that Romania's capacity to fend off the contractionary impact of these developments is limited. Therefore, our already below-market GDP estimate for 2023 of 3.0% is starting to look overly optimistic and we are revising it to 1.8%. At the same time, we marginally revise the GDP growth estimate in 2022 from 7.0% to 6.6% as a mild contraction in the third and fourth quarters cannot be excluded anymore. This all assumes that no significant statistical data revisions will occur which, given the abnormally high growth in the first half of 2022, is not such a light assumption to make.

On the inflation front, we maintain the view that we witnessed the peak in August at 15.3%, although the September print will not be far from that (15.2% is our current estimate). Starting in October, stronger base effects will kick in and headline inflation should come in lower by at least 1ppt. However, our year-end forecast of 13.6% in 2022 is looking a bit optimistic given the persistently high energy prices, though we are not changing it at the moment. For end-2023, we maintain our 7.0% forecast, but the possibility of inflation hitting the National Bank of Romania's (NBR's) target band (1.5-3.5%) by the end of the two-year forecast horizon looks a touch more distant now.

With the above in mind, we reaffirm our view of a sequential approach by the NBR. This implies that the pace of policy tightening will slow down to 50bp in October and 25bp in November, taking the key rate to 6.25%. As usual, the level of the policy rate itself is not always the most relevant, as it corroborates with the strained liquidity conditions in the money market which will likely be maintained.

# An uphill start for the next Italian government

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**A new government will soon take over from Mario Draghi. An increasingly difficult economic environment might force it to adopt an approach inspired by continuity, with very limited fiscal space to deliver on electoral promises, at least in the short run**



Giorgia Meloni

## **Sufficient majority for the likely Meloni government**

The parliamentary elections held on 25 September marked a clear victory for the centre-right coalition, confirming what opinion polls had anticipated. The ability to form an ample coalition was a decisive factor for the centre-right, which managed to win most seats in the first-past-the-post part of the vote and obtained an ample majority in both branches of the Italian parliament (235 seats out of 400 at the House of Deputies and 112 out of 200 at the Senate). Giorgia Meloni, the leader of the right-wing Fratelli d'Italia party, was the uncontested winner within the coalition (26% of votes), leading by a very wide margin over the (now) junior coalition parties (Forza Italia and Lega both at 8% of votes). On the back of such an overwhelming victory, Meloni will very likely be mandated soon (around mid-October) by President Sergio Mattarella to form a new government.

## **Draghi government's widespread approval points to some continuity in policies**

We believe the electoral outcome to be solid enough to ensure short-term government stability. True, the poor result of the Lega is raising a leadership issue within the party, but we don't believe this will threaten the start of a Meloni centre-right government. Interestingly, opinion polls ran at the end of September (a few days after the polling day) pointed to a growing approval rate for both the government and Prime Minister Draghi himself, an uncommon feature in changeover times. With the appreciation for Draghi extending to the electorate of the centre-right (whose leaders contributed to his resignation), there seems to be a widespread bottom-up call for continuity in policies. We suspect that, against a very complicated geopolitical and economic backdrop, this will be at least partially picked up by the incoming Meloni government. Indeed, the first moves from Meloni's quarters point to an orderly transition with a cooperative approach.

## **Still scarce visibility on future fiscal policy**

Against this backdrop, we see very little room for substantial short-term deviations from Draghi's line, be it on the geopolitical front or on the economic front. On the first front,

Meloni has been keen to reassure international counterparties on the international positioning of Italy, however, when it comes to the future fiscal policy, little is known. We will know more when the list of ministers is announced.

### **Uphill start for Meloni, as recession will be drying up fiscal space**

For Meloni it will be an uphill start, as she will be taking office at a time when the Italian economy is entering recession territory as the re-opening and tourism effects evaporate and inflation eats more deeply into households' disposable income (hitting low-income earners the hardest). As a complete stop to Russian gas cannot be ruled out, it seems likely that at the start of her mandate she will have to prioritise energy-related emergencies. If Draghi in 2022 managed to engineer piecemeal support packages without incurring more of a deficit thanks to the combined effect of high tax revenues from GDP growth and rising inflation, in the short term Meloni will lose the support of the growth factor. She will thus have to deal with very limited (if any) fiscal room left to implement electoral promises.

### **Delivering on the recovery plan even more crucial in a recession**

In a recessionary environment, the availability of European Recovery and Resilience Facility funds gets even more relevant. As 2023 is a year when the amount of public expenditure activated by the RRF fund will increase substantially (some €41bn from €15bn in 2022, according to recent estimates by the Italian government), the new government will have to set the implementation of the national recovery plan (and the accompanying reforms) as a top priority. Another forced line of continuity.



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# FX: too soon for Plaza 2.0

**Volatility has picked up sharply in FX markets as the strong dollar pressure tests financial market vulnerabilities around the world. Some are saying that policymakers need to produce a new Plaza agreement to deliver an orderly reversal of the dollar. Until the Fed feels its work in fighting inflation is done, don't bet on a Plaza 2.0**



G5 Plaza Agreement, New York, 1985

## FX Volatility back to its March 2020 highs

Driven by the wild swings in debt and rates markets, FX volatility is back to its March 2020 highs. At the heart of the story remains the strong dollar and how trading partners are reacting. Japan has already started its first FX intervention campaign since 1998 in support of the yen. Around US\$20bn has been sold so far and this looks part of what could be a multi-month, if not multi-quarter campaign to fight USD/JPY strength. Chinese authorities may well be selling dollars above CNY7.20 as well.

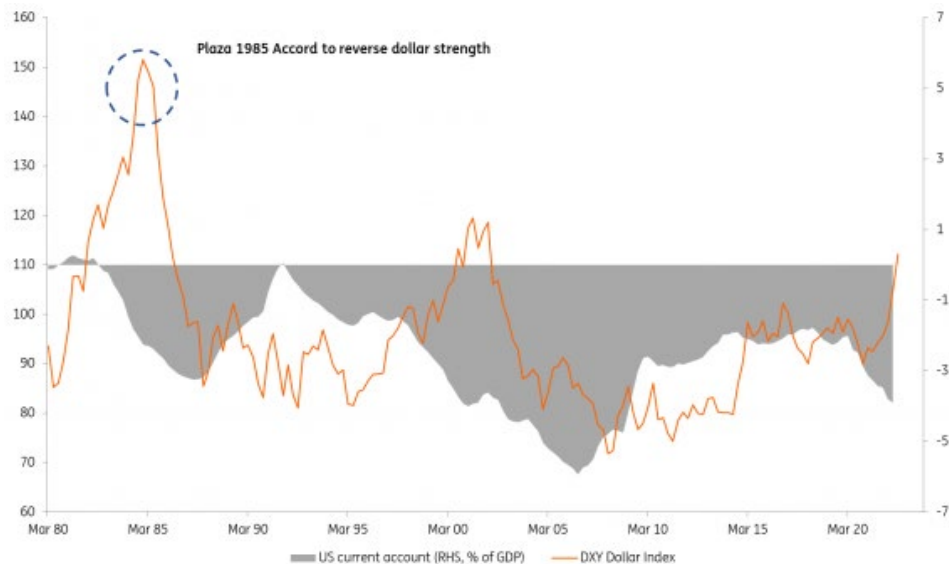
Arguably the collapse in GBP/USD could be partly blamed on tight US financial conditions caused by the strong dollar, even if UK authorities lit the fire for sterling's drop. This is leading some commentators to argue in favour of another Plaza agreement. This was a 1985 deal agreed by G5 nations (in the Plaza hotel in New York) for an orderly reversal in the dollar. Focus could build on the next release of a G20 Communiqué on 12 October.

We think it is too early for a Plaza 2.0 agreement – largely because the Fed is still sounding so hawkish. The success of the 1985 Plaza agreement was very much driven by consistent monetary policy considerations. At the time, coordinated FX intervention to sell dollars was backed up by a Fed prepared to cut rates (the policy rate was halved from 1984-1986) and the Bank of Japan to hike.

Arguably today the BoJ is a little more likely to hike than the Fed to cut – but both still seem distant prospects. Indeed, we continue to think it dangerous to try picking a top in the dollar as the Fed continues to tighten the screws and take US real rates further into positive territory. Not until the Fed is prepared to declare its work done – most forcefully through a dovish adjustment in its Dot Plots – should we be thinking about a top in the dollar. We suspect that is a story for March, if not June 2023.

What does this mean for EUR/USD? Three quarters of eurozone recession into 2Q23 and a still hawkish Fed is a bearish cocktail for EUR/USD. This pair is not particularly cheap and a pick-up in gas prices this winter will keep the eurozone trade balance under pressure. This could see EUR/USD falling towards the lower end of a 0.90-0.95 range over the next three to six months before a potential turnaround in 2Q23 if the Fed is more dovish and both the US and the eurozone exit recession.

**Q: Are we ready for another Plaza Accord? A: Not yet**



Source: ING, Refinitiv

**Sterling to remain challenged**

The UK's government experiment with unfunded tax cuts ended poorly in the form of emergency bond market intervention from the Bank of England and a fiscal policy U-turn. Making the budget numbers add up will remain a challenge for the UK government this autumn and winter. That probably means a risk premium should stay in the pound, which will already be vulnerable to a difficult external environment.

Failure by policymakers to win over a sceptical gilt market with the late November budget update could easily see sterling sink back to the lows – especially against the strong dollar. And as we have discussed recently, do not expect emergency BoE rate hikes or FX intervention in support of the pound. UK authorities tried that in 1992 and it did not end well either.

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# Rates: here's why rates need to rise again before falling

**Market rates are primed for a large fall. But first, we need to see hints of a peak in official rates, and that still depends on a very uncertain path for (core) inflation. Once that is in, or we are much closer to it, we can prepare for a structural decline in market rates**



## Significant volatility as we approach end game for hikes but terminal rates still unknown

It's been quite the ride over the past few weeks, and there is little to suggest that things will get materially calmer in the months ahead.

The move at the long end of the gilt curve was nothing short of spectacular, with the 30-year yield rising from 4% to 5% in the space of two days in response to the government's proposed tax cuts. It correlated with the US 10-year yield briefly breaching 4%, and the eurozone 10-year swap rate hitting 3.3%.

All of these levels are significant: 5%, 4% and a breach above 3.25% for long tenor market rates in the UK, US and eurozone. The last time we saw such levels was in the 2010/11 period, as the euro sovereign debt crisis was developing. And only a few years before that, on the eve of the Great Financial Crisis, the UK Bank rate and the Fed funds rate were in the area of 5%, and the European Central Bank's refi rate was in the area of 4%.

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*“The delta between current official rates and terminal ones has shrunk”*

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Fast forward to today and the current market discount sees the UK Bank rate getting to 5.5%, the Fed funds rate to 4.5% and the ECB refi rate to 2.75%. The delta between where official rates are now and where they are expected to get to remains large, at more than 3% in the UK, 1.25% in the US and 1.5% in the eurozone.

That said, large chunks will be taken out of those in the next few weeks, as expected hikes are 1% from the UK and 75bp apiece from the Federal Reserve and the ECB. Those are close enough to be broadly nailed on. After that, the delta from official rate levels to likely terminal rates shrinks to 2.25% in the UK, 50bp in the US and 75bp in the eurozone.

That's quite close to the peak, if those are in fact the peak. And that remains a key unknown.

### **If market rates fall further, that will frustrate the purpose of central banks. So in the end, they rise**

Apart from the UK, which is paying a future rate premium for the fiscal loosening, the market discount for the Fed and ECB senses an end game for hikes. Disentangling this move from the Bank of England's intervention is important. We do that by focusing on financial conditions in the US and eurozone, and we find that on the Bloomberg measure they are very tight right now.

That does suggest that central banks can begin to ease off, and in fact, justifies the fall in market rates seen in the past week or so. The issue, however, is whether those implied terminal rates will be realised. We will only know the answer when we get there.

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*“Market rates should not anticipate a peak in official rates in an overly premature fashion”*

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Market rates should not anticipate a peak in official rates in an overly premature fashion. For two reasons:

- 1) We can't say with certainty that core inflation pressures have turned lower in a material enough fashion, and central banks will want to sustain tight financial conditions until we are at a point where those core inflation pressures have actually eased.
- 2) Any material fall in market rates will loosen financial conditions, potentially causing central banks to then double down with sustained hawkish rhetoric, in turn requiring a re-elevation in terminal rate expectations, and pulling market rates back up with them.

The counter argument is we are at a tipping point here. Some of the survey evidence helps to support this stance but most of the labour market data does not. And wage inflation is a key ingredient when it comes to second-round inflation effects.

#### **There is a big fall in market rates to come, but not till the Fed is much closer to being done**

Market rates are on a declining trend currently, partly as they have been shocked there by the Bank of England's move, but also as that is what tends to happen when official rates approach a peak. We agree that market rates are primed for a large fall. But we need to see hints of a peak in official rates first, and that still depends on a very uncertain path for (core) inflation ahead. Once that is in, or we are much closer to it, we can prepare for a structural fall in market rates.

In consequence, we feel that any material fall in market rates from here will subsequently need to be reversed higher. We might not quite get back to a 5% handle on the UK 30-year gilt yield, but don't be too surprised to see a 4% 10-year Treasury yield again in the weeks ahead. And in the eurozone, the German 10-year back above 2% and the 10-year swap rate above 3%, are all entirely possible.

**GDP forecasts**

| %YoY           | 3Q22F | 4Q22F | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022F | 2023F | 2024F |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| World (USD)    | 2.9   | 1.4   | 1.1   | 2.7   | 1.9   | 3.1   | 3.0   | 2.2   | 3.1   |
| US             | 1.5   | -0.1  | -0.2  | -0.4  | -0.4  | 0.0   | 1.7   | -0.3  | 2.1   |
| Japan          | 2.4   | 1.8   | 1.9   | 1.1   | 0.8   | 0.6   | 1.6   | 1.1   | 1.0   |
| Germany        | 0.1   | -0.6  | -2.1  | -2.0  | -0.8  | -0.2  | 1.1   | -1.3  | 1.3   |
| France         | 0.8   | -0.3  | -0.3  | -0.8  | -0.6  | 0.3   | 2.3   | -0.4  | 1.1   |
| UK             | 2.6   | 0.4   | -0.5  | -0.8  | -0.5  | 0.2   | 4.4   | -0.4  | 1.2   |
| Italy          | 2.0   | 0.8   | 0.3   | -0.5  | -0.2  | 0.7   | 3.4   | 0.1   | 1.6   |
| Canada         | 3.6   | 2.0   | 0.8   | 0.1   | 0.0   | 0.5   | 3.2   | 0.4   | 2.0   |
| Australia      | 6.6   | 3.3   | 3.3   | 3.0   | 2.7   | 2.7   | 4.2   | 3.0   | 2.7   |
| Eurozone       | 1.7   | 0.4   | -0.8  | -1.5  | -1.0  | 0.1   | 2.9   | -0.8  | 1.5   |
| Spain          | 3.9   | 1.2   | 0.7   | -0.4  | -0.3  | 0.8   | 4.3   | 0.2   | 1.8   |
| Netherlands    | 3.0   | 2.0   | 1.6   | -0.4  | 0.8   | 1.8   | 4.2   | 0.9   | 2.1   |
| Belgium        | 1.2   | 0.4   | -0.5  | -0.7  | -0.5  | 0.2   | 2.4   | -0.4  | 1.2   |
| Ireland        | 6.7   | 9.1   | 2.8   | 1.2   | 1.0   | 1.2   | 9.4   | 1.5   | 1.8   |
| Greece         | 4.3   | 2.2   | -0.9  | -1.6  | 0.0   | 1.7   | 5.5   | -0.2  | 2.0   |
| Portugal       | 3.8   | 1.6   | -1.0  | -0.8  | 0.0   | 1.0   | 5.9   | -0.2  | 1.7   |
| Switzerland    | 0.9   | 0.6   | 0.1   | -0.1  | 0.0   | 0.5   | 2.0   | 0.1   | 1.2   |
| Sweden         | 2.8   | 1.1   | 0.8   | 0.1   | 0.1   | 0.7   | 3.0   | 0.4   | 1.3   |
| Norway         | 1.5   | 0.0   | 0.5   | 0.1   | 0.8   | 1.2   | 2.7   | 0.6   | 1.6   |
| Bulgaria       | 2.9   | 1.5   | 0.8   | 0.8   | 1.8   | 2.6   | 3.2   | 1.6   | 3.3   |
| Croatia        | 7.2   | 6.1   | 3.5   | 2.5   | 2.3   | 2.9   | 7.0   | 2.8   | 2.9   |
| Czech Republic | 1.2   | -0.4  | -0.9  | 0.0   | 1.9   | 3.9   | 2.3   | 1.3   | 3.2   |
| Hungary        | 3.5   | -0.2  | -1.5  | -2.0  | 1.5   | 3.7   | 4.5   | 0.4   | 3.4   |
| Poland         | 3.0   | 0.7   | -1.0  | 2.1   | 2.3   | 2.4   | 4.1   | 1.5   | 3.3   |
| Romania        | 7.6   | 6.7   | 1.8   |       | 2.0   | 2.9   | 6.6   | 1.8   | 3.7   |
| Turkey         | 5.0   | 0.7   | -1.8  | 3.6   | 4.5   | 5.1   | 5.0   | 3.0   | 4.0   |
| Serbia         | 2.8   | 1.9   | 3.1   | 2.5   | 3.0   | 2.7   | 3.2   | 2.8   | 3.0   |
| Russia         | -6.5  | -13.0 | -15.0 | -8.0  | -2.0  | 5.0   | -5.0  | -5.0  | -2.0  |
| Kazakhstan     | 3.2   | 2.8   | 3.5   | 4.0   | 4.1   | 4.1   | 3.2   | 3.8   | 3.5   |
| Azerbaijan     | 3.0   | 3.5   | 2.5   | 2.8   | 3.2   | 3.4   | 4.5   | 3.0   | 2.5   |
| China          | 4.4   | 4.6   | 5.4   | 9.3   | 3.9   | 6.3   | 3.6   | 6.2   | 4.6   |
| India          | 6.3   | 2.3   | 2.1   | 8.6   | 8.1   | 8.3   | 6.4   | 6.8   | 8     |
| Indonesia      | 5.5   | 4.9   | 4.1   | 4.2   | 4.5   | 4.6   | 5.2   | 4.4   | 4.7   |
| Korea          | 2.8   | 1.0   | 0.0   | 0.3   | 0.6   | 1.6   | 2.5   | 0.6   | 2.3   |
| Philippines    | 4.7   | 3.8   | 5.4   | 6.4   | 4.6   | 4.2   | 6.0   | 5.2   | 5.0   |
| Singapore      | 3.1   | 3.0   | 3.3   | 3.1   | 3.2   | 3.4   | 3.6   | 3.5   | 3.3   |
| Taiwan         | 4.7   | 2.8   | 2.4   | 2.8   | 4.3   | 3.9   | 3.6   | 3.4   | 4.9   |

Source: ING estimates

**CPI Forecasts (pa)**

| %YoY           | 3Q22F | 4Q22F | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022F | 2023F | 2024F |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| World (USD)    | 8.7   | 8.3   | 6.8   | 4.1   | 4.5   | 3.8   | 6.4   | 5.1   | 3.3   |
| US             | 8.3   | 7.2   | 5.6   | 3.4   | 2.6   | 2.2   | 8.0   | 3.5   | 1.7   |
| Japan          | 2.9   | 3.4   | 3.1   | 2.4   | 1.9   | 1.4   | 2.4   | 2.2   | 1.2   |
| Germany        | 9.0   | 11.0  | 9.7   | 7.1   | 6.3   | 3.6   | 8.8   | 6.6   | 2.0   |
| France         | 6.5   | 6.8   | 7.1   | 6.3   | 5.6   | 4.0   | 5.9   | 5.7   | 3.5   |
| UK             | 10.1  | 10.4  | 9.8   | 6.4   | 4.8   | 3.0   | 9.0   | 6.0   | 2.1   |
| Italy          | 9.0   | 9.9   | 9.0   | 7.1   | 4.4   | 2.4   | 8.1   | 5.7   | 2.1   |
| Canada         | 7.2   | 6.6   | 5.0   | 2.4   | 1.9   | 2.0   | 6.7   | 2.8   | 2.0   |
| Australia      | 6.4   | 5.9   | 4.5   | 3.5   | 3.2   | 3.0   | 5.9   | 3.6   | 2.6   |
| Eurozone       | 9.3   | 10.0  | 9.1   | 6.4   | 4.4   | 2.6   | 8.3   | 5.6   | 2.1   |
| Spain          | 10.1  | 8.0   | 6.2   | 4.5   | 3.6   | 3.1   | 8.7   | 4.4   | 2.2   |
| Netherlands    | 14.1  | 16.4  | 9.8   | 8.9   | 5.5   | 1.0   | 12.5  | 6.1   | 6.7   |
| Belgium        | 10.3  | 9.6   | 8.2   | 6.2   | 5.3   | 3.6   | 9.2   | 5.9   | 2.1   |
| Ireland        | 8.2   | 7.5   | 6.8   | 5.5   | 3.8   | 2.4   | 8.3   | 4.6   | 2.1   |
| Greece         | 11.2  | 10.8  | 9.1   | 5.5   | 3.7   | 2.6   | 9.7   | 5.2   | 2.0   |
| Portugal       | 9.1   | 8.0   | 6.0   | 4.6   | 2.8   | 2.1   | 7.3   | 3.9   | 2.7   |
| Switzerland    | 3.4   | 3.2   | 2.9   | 2.6   | 2.2   | 1.9   | 2.9   | 2.4   | 1.3   |
| Sweden         | 8.7   | 8.2   | 7.0   | 5.0   | 3.6   | 3.4   | 7.6   | 4.4   | 2.0   |
| Norway         | 6.5   | 6.1   | 5.9   | 4.3   | 3.3   | 3.1   | 5.6   | 4.2   | 2.5   |
| Bulgaria       | 17.4  | 15.6  | 13.0  | 8.9   | 8.0   | 8.2   | 14.8  | 9.5   | 4.5   |
| Croatia        | 12.3  | 11.0  | 9.3   | 5.2   | 3.5   | 3.4   | 10.2  | 5.5   | 2.3   |
| Czech Republic | 17.4  | 16.7  | 15.4  | 12.0  | 9.8   | 8.7   | 15.3  | 11.5  | 5.5   |
| Hungary        | 19.9  | 20.6  | 20.5  | 17.3  | 9.3   | 8.0   | 13.9  | 14.9  | 4.5   |
| Poland         | 16.3  | 17.8  | 17.5  | 13.1  | 10.7  | 7.8   | 14.4  | 12.5  | 10.7  |
| Romania        | 15.2  | 14.9  | 13.4  | 9.6   | 9.5   | 8.2   | 13.4  | 10.0  | 5.0   |
| Turkey         | 83.5  | 69.0  | 49.7  | 40.7  | 40.5  | 40.0  | 73.1  | 43.8  | 28.2  |
| Serbia         | 13.2  | 12.7  | 11.5  | 9.2   | 6.3   | 5.0   | 11.5  | 8.0   | 4.0   |
| Russia         | 13.6  | 12.5  | 4.5   | 4.3   | 5.7   | 6.0   | 13.9  | 6.1   | 6.1   |
| Kazakhstan     | 17.7  | 18.6  | 15.2  | 11.2  | 7.5   | 7.7   | 14.3  | 12.0  | 5.0   |
| Azerbaijan     | 13.2  | 13.0  | 11.2  | 9.1   | 7.8   | 5.0   | 12.9  | 9.2   | 5.0   |
| China          | 2.6   | 2.6   | 2.8   | 2.6   | 2.0   | 1.8   | 2.1   | 2.3   | 2.3   |
| India          | 7.1   | 7.1   | 6.8   | 4.9   | 5.3   | 4.9   | 7     | 5.4   | 4.3   |
| Indonesia      | 5.1   | 6.4   | 5.5   | 5.1   | 4.2   | 4.1   | 4.4   | 4.6   | 3.5   |
| Korea          | 5.9   | 5.8   | 5.2   | 3.6   | 2.7   | 2.0   | 5.3   | 3.4   | 1.6   |
| Philippines    | 6.6   | 7.0   | 6.5   | 4.7   | 3.4   | 3.0   | 5.6   | 4.4   | 3.9   |
| Singapore      | 6.8   | 5.7   | 4.8   | 4.6   | 3.6   | 3.5   | 5.8   | 4.1   | 3.5   |
| Taiwan         | 3.0   | 2.8   | 2.3   | 2.0   | 1.9   | 1.9   | 3.0   | 2.0   | 2.2   |

Source: ING estimates

**Oil Forecasts (avg)**

| \$/bbl | 3Q22F | 4Q22F | 1Q23F | 2Q23F | 3Q23F | 4Q23F | 2022F | 2023F | 2024F |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Brent  | 98.0  | 97.0  | 94.0  | 92.0  | 98.0  | 102.0 | 101.0 | 97.0  | 87.0  |

Source: ING estimates



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