

ING Monthly

October 2021 economic update

Starting the great

rotation



Starting the great rotation



As many countries are now learning to live with Covid, supply chain frictions, labour market bottlenecks and inflation could lead to a great policy rotation. Emergency support measures can be gradually brought to an end, giving rise to questions about how best to support the recovery and structural transition over the long term.

The latest surge in energy prices has not only dented the view that higher inflation is transitory, it has also brought back a term which spooked the economic world in the 1970s: stagflation.

Over the past 50 years, periods of accelerating inflation and slowing economic momentum have often been labelled as stagflation even though there has hardly ever been a real repeat of the kind seen in the 1970s. Back then, stagflation was the result of several energy crises, acute logistical problems and a severe crisis of missing supply. As a result, economies contracted, unemployment surged to double-digit levels and currency regimes came under enormous pressure. Today, industrialised economies have become much less dependent on energy, both in terms of private consumption and in industrial production. As a consequence, any increase in energy prices, as unwelcome as it is for producers, consumers and central bankers, does not have the same economic impact as it did in the '70s. And of course, the current increase in energy prices, both in relative and absolute terms, and the slowing of economies is still nothing like the 1970s' experience. Let's not forget that currently, most industrialised economies have already, or will soon, reach pre-pandemic levels of activity and unemployment is actually improving, not getting worse.

If the comparison with the '70s holds any lessons for the current situation though, it is simply in the challenge that policymakers, and particularly central bankers, face in dealing with accelerating inflation, mainly driven by higher energy prices. The '70s told policymakers that an ever-increasing wage-price spiral, if identified too late, can only be stopped by aggressive interest rate hikes.

Again, the current situation is not comparable to the 1970s but high headline inflation, surging energy prices, and arguably some global factors turning from disinflationary forces to inflationary ones, have made it harder for central bank doves to argue against any kind of policy normalisation. Admittedly, both the Federal Reserve and the European Central Bank seem to have decided for themselves that the cost of being behind the curve is lower than the potential cost of normalising prematurely. But there does seem to be some second-guessing of this theory.

It won't be an easy process but we expect to see the start of a policy shift in the coming months. As most countries are now trying to live with Covid and economies are starting to reach pre-pandemic levels, labour market bottlenecks and inflation could trigger governments and central bankers to bring an end to emergency support measures, albeit gradually. However, the end of these measures will be immediately followed by questions about how best to support the recovery and any structural transition going forward. This is why we don't expect a traditional exit but rather, a great rotation.

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ING's three scenarios for the global economy and markets

ING Global Outlook: Our base case



Covid-19

Winter lockdowns averted in US/Europe, but hospital pressure persists. Regions with lower vaccine uptake in older groups suffer more. Boosters help mitigate new variants.



Vaccines

The 'vaccine gap' between DM & EM/SE Asia gradually narrows, but some countries retain 'zero Covid' approach into 2022, amplifying supply chain issues. Global herd immunity by summer 2022.



Economic backdrop

Some consumer caution returns on negative virus headlines. Global travel remains slowly returns as countries reopen to vaccinated travelers. Return to the office plateaus.



Inflation

Supply chain disruption lasts longer. Christmas beset by shortages. Headline inflation remains higher for longer, but falls faster in Europe in 2H22 vs. the US.



Jobs market

Jobs market recovery faster than post-GFC. Existing staff shortages ease as government support ends. European unemployment rises modestly as furlough stops.



Governments

Biden's spending plans trimmed and money dispersed in 2022. **European Recovery Fund** continues to pay out money in 2022 and **fiscal policy** stays accommodative after German and French elections.



Central banks

Fed tapers in 4Q21, and starts hiking in 3Q22. We're forecasting 5 rate hikes by the end of 2023. **ECB starts gradual taper in 1Q22** but without explicit end to QE.



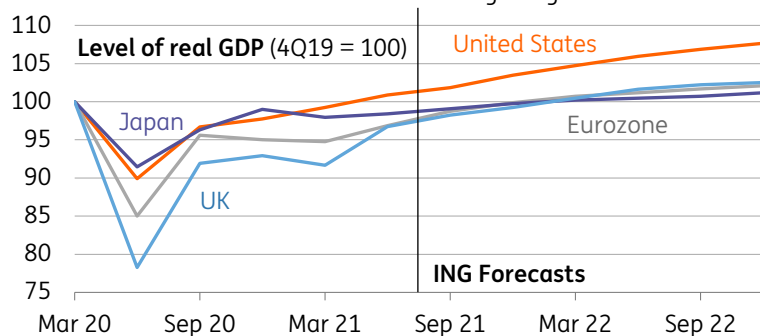
FX

Dollar **gearing up for an extended rally through 2022** ahead of the start of the Fed tightening cycle. Topside break-out in the dollar could be seen over **coming months**, though larger move seen in 2022.



Market rates

A Fed taper facilitates a **gradual move higher in market rates**, on a global scale. **Delta impact mutes upside.** Europe is lagging, but core rates look to have bottomed.



2021 growth
US: 5.9 % Eurozone: 5.1% China 8.7%

2022 growth
US: 4.9% Eurozone: 3.9% China 4.6%

End-2021 market forecasts
EUR/USD: 1.17 US 10-year: 1.75%

Optimistic scenario



Hospital pressure less than feared over winter. More countries ease restrictions and 'zero Covid' largely ends. Several EM manage to vaccination >50% populations by year-end.



Confidence grows and consumers/firms spend greater share of cash accumulated through pandemic, lifting growth. Reduced Covid pressure in manufacturing hubs means faster return of capacity.

2021 growth
US: 6.20% Eurozone: 5.40% China 9.20%

2022 growth
US: 6.10% Eurozone: 4.80% China 4.60%

End-2021 market forecasts
EUR/USD: 1.10 US 10-year: 2.50%

Pessimistic scenario



Vaccine immunity wanes faster than hoped and/or new variants are a greater threat. Some business closures required. Rush for boosters constrains supply further, so DM-EM divide lasts longer



Return of some lockdown restrictions hit GDP and further dent confidence. Pressure on corporates/SMEs grows. Closures amplify supply chain pressures. Inflation above target for most of 2022

2021 growth
US: 4.90% Eurozone: 4.70% China 2.80%

2022 growth
US: 2.60% Eurozone: 1.90% China 5.00%

End-2021 market forecasts
EUR/USD: 1.20 US 10-year: 0.75%

James Knightley

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US: Getting back on track

Covid, inflation and political intransigence have weighed on the economy during the third quarter, but things are starting to look a little clearer as we move into the final three months of the year. Inflation remains an issue though with the Federal Reserve set to dial back on the stimulus this quarter and raise interest rates next year

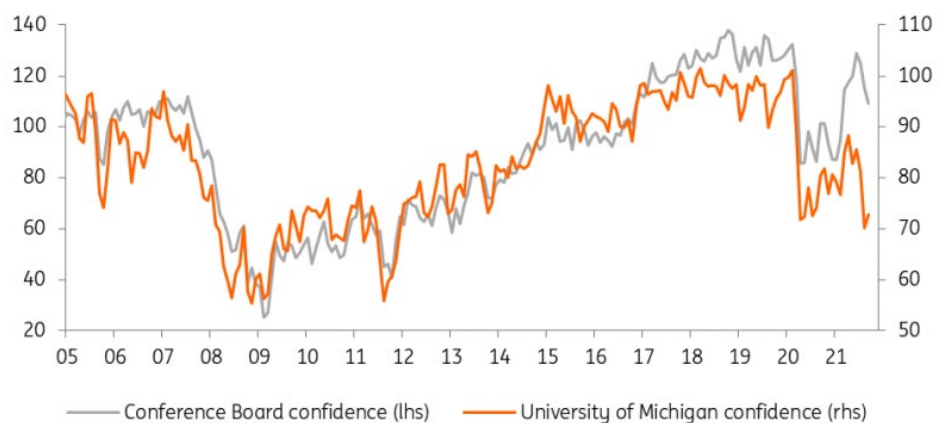


Changing Economy Downtown Blues, Nashville, United States - 10 Sep 2021

3Q slowdown led by Covid and inflation fears

Growth was always likely to slow following the stimulus cheque driven spending splurge in the second quarter, but the rate of deceleration caught us a little by surprise. The blame lies with the surge in cases of the Delta variant combined with anxiety over rising inflation, which led to consumers spending more cautiously. This was compounded by supply chain strains hurting a number of sectors, most notably vehicle sales, which plummeted from an annualised rate of 18.5m units in April to 12.2m in September.

US consumer confidence fell sharply through the summer



Source: Macrobond, ING

Budget problems add to the uncertainty

With inflation remaining elevated and energy prices rising sharply, we are hearing some commentators raise the specter of stagflation. Nervousness surrounding the US debt ceiling and the lack of progress on President Biden's spending plans is not helping either.

18 October is the date that Treasury officials have suggested as the deadline for when the US exhausts all its options to prevent a potentially calamitous debt default. To prevent this the debt ceiling either needs to be raised or suspended in order to allow the government to continue paying its obligations. For electoral reasons, Republicans want to label the Democrats as the party of higher spending, taxes and debt and have made it clear they will not be making it an easy process. This is despite having accrued a significant proportion of the debt under President Trump.

The Republicans have offered an extension of the debt ceiling until December, but this will merely kick the proverbial can down the road and we will be facing the same dilemma in two months' time. With little chance of getting the 60 Senate votes required to raise the ceiling, we expect the Democrats will have to go it alone and use the more complicated budget reconciliations process to suspend the debt ceiling. This needs a simple majority (the Democrats' 50 Senators plus Vice President Kamala Harris).

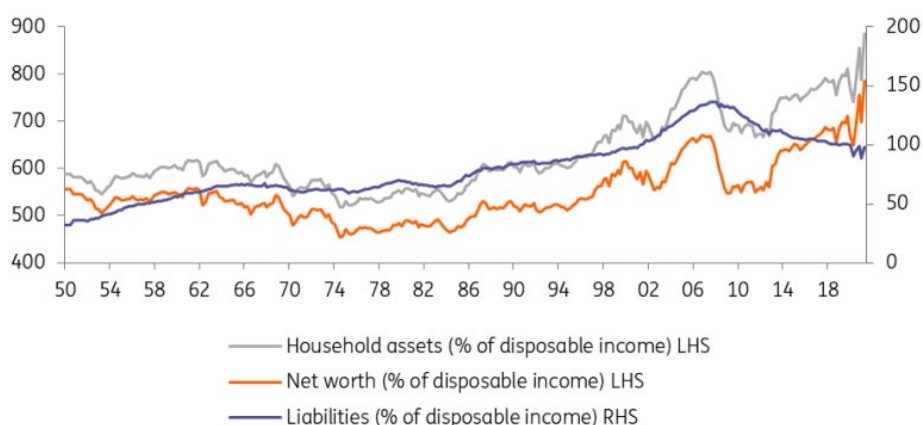
The other problem is that the Democrat party is far from unified on President Biden's spending plans. Our central case is that there will be eventual alignment with the infrastructure plan and a stripped down version of the Build Back Better social spending plan approved that comes in close to \$2tn rather than the \$3.5tn proposed.

Optimism is returning as Covid wanes

This will lift some of the uncertainty over the economic outlook, but what is really improving sentiment is that Covid cases are falling sharply across the United States. High frequency data suggests consumers are responding positively with a significant turnaround seen in restaurant dining, air travel and hotel stays over the past few weeks.

Household fundamentals are also in great shape. Incomes are being supported by rising employment and with businesses continuing to complain about a lack of suitable workers, we expect wages to push higher. This is complemented by a huge strengthening in household balance sheets resulting from the unprecedented fiscal and central bank stimulus efforts.

Household balance sheets provide a strong underpinning for spending



Source: Macrobond, ING

Corporate capex is returning and the infrastructure money should start flowing next year. On top of this, we think that the international borders being reopened to vaccinated visitors is going to add an extra \$150-180b of spending in the economy. Exports may also receive a boost from stronger global growth while a rebuild in domestic inventories will add to growth, at the expense of imports.

Persistent inflation puts pressure on the Fed

Unfortunately, we doubt supply chain issues and labour market shortages will be resolved quickly, so inflation will remain elevated through 2022. Remember, too, that housing accounts for a high proportion of the inflation basket and with house prices rising 20%+ year-on-year, this is a story that can offset much of the decline in the components seeing “transitory” inflation.

Given this situation, we continue to expect a Federal Reserve QE tapering announcement in November, which is concluded within six to eight months. We also still expect interest rate rises in September and December next year.

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Eurozone: recovery hampered by supply bottlenecks and soaring energy prices

Although Covid-19 is now more or less under control, other headwinds are slowing the pace of the eurozone recovery: supply chain distortions have not disappeared, while surging energy prices will also weigh on growth. Inflation continues to surprise to the upside, strengthening the tapering debate within the European Central Bank

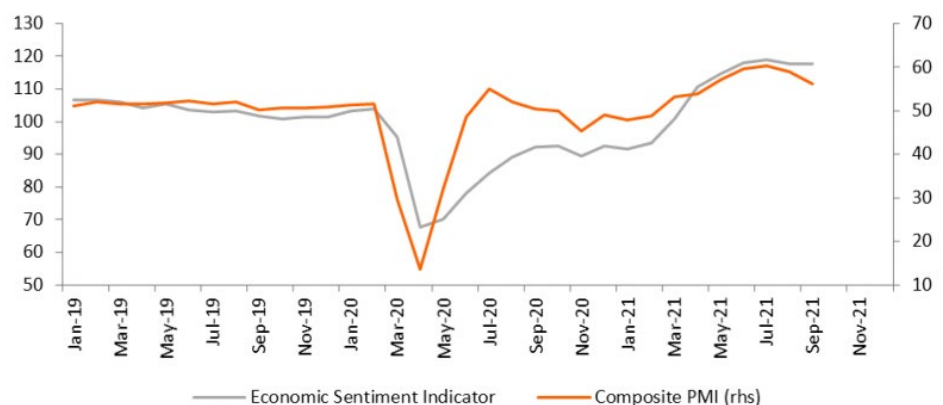


Electricity prices have hit historic records, according to Spain's Central Bank. Madrid, Spain, Aug 2021

Robust growth, but slowing

The eurozone economy faced a mixed return from the holiday season. While the Economic Sentiment Indicator staged a surprise increase in September, the composite PMI fell to the lowest level in five months. The Eurocoin indicator, a gauge for the underlying growth trend, softened to 0.75 from 0.98 in August. So it seems as if we are still looking at a rather robust recovery, though the pace of growth is decelerating. The high vaccination rate, keeping Covid-19 infections under control, certainly helps. But at the same time, we see some slowdown in the rest of the world, especially in China, which is likely to impact eurozone exports. On top of that, manufacturing continues to be hurt by low supplies of raw materials and key components, poor freight availability and port congestion.

Growth has peaked



Source: Refinitiv Datastream

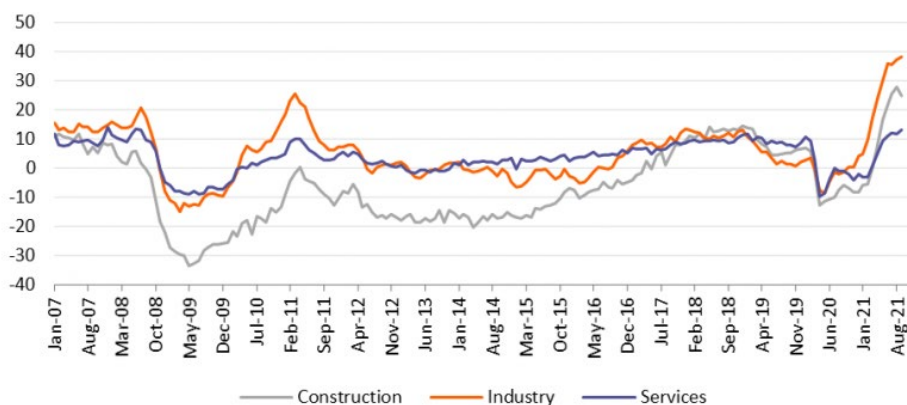
Energy prices become a headwind

Survey data indicates that employment growth slowed a bit in September yet remained among the highest seen over the past two decades, as companies try to increase capacity. No wonder consumer confidence remains upbeat, with unemployment expectations falling rapidly. That would normally bode well for consumption in the coming months, though soaring energy prices are a growing headwind. That said, several governments have already announced energy cost support for lower income households, which should limit the damage. All in all, we see the growth pace weakening somewhat from the fourth quarter onwards. On the back of an upward growth revision for the second quarter, we have raised our GDP forecast for 2021 to 5.1%, while the 2022 outlook is slightly lowered to 3.9%.

Inflation worries

Inflation continues to surprise to the upside. The flash HICP inflation rate came out at 3.4% in September, the highest level in 13 years. High energy prices are the main culprit (natural gas prices are at a historic high), but core inflation also picked up to 1.9%. As a matter of fact, non-energy industrial goods climbed 2.6% year-on-year, probably the consequence of continuing supply chain problems and higher input costs. Looking at the European Commission's ESI survey, companies in the manufacturing sector are planning to raise prices further while in services and construction, selling price expectations are also close to all-time highs. This makes the inflation outlook an increasingly difficult story. While in 1Q 2022 the impact of the German VAT hike will fall out of the equation, elevated energy prices and second-round effects are likely to keep inflation high. We only expect it to fall back below 2% in the second half of next year. Consequently, we have revised our inflation forecast up to 2.1% for 2021 and to 1.9% for 2022.

Net percentage of companies expecting higher selling prices very high



Source: Refinitiv Datastream

Tapering discussion intensifies

All of this is bound to strengthen the hawks within the ECB's Governing Council. Board member Isabel Schnabel already prepared the ground for a tapering of bond purchases by stating that "as the inflation outlook brightens, it becomes less important how much a central bank buys or when a reduction in the pace of net asset purchases starts, but rather when such purchases end. It is the end date which signals that the conditions for an increase in policy rates are getting closer". We expect that after the end of the Pandemic Emergency Purchase Programme in March 2022, the Asset Purchase Programme will be temporarily increased to €50b - €60b to smooth out the reduction in quantitative easing, but then be reduced again to €20b - €40b in the second half of the year. As for interest rates, we now forecast a first rate hike around the turn of the year 2023/24.

UK: rate rises are further off than markets expect

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Without more concrete signs of widespread wage growth, the recent surge in electricity prices and subsequent rise in inflation will simply weigh on the cost of living and slow growth this winter. That suggests markets are wrong to price in almost three rate hikes by the end of next year. We don't expect the first move from the Bank of England until May 2022



Higher electricity prices add to a growing mix of growth headwinds

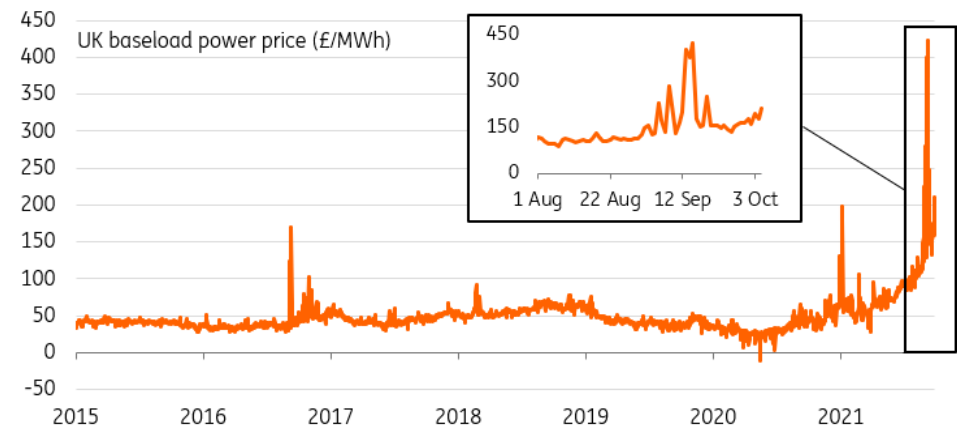
The eye-watering spike in natural gas prices is a [particular problem for the UK](#). Not only is Britain among the most reliant on gas for its power, but it's also been an unrelentingly bad few months for wind generation. Gas stockpiles are also perilously low, and Britain has only 6% of what Italy has in storage – Europe's other big gas-power generator.

The household energy cap is likely to rise by another 20-30% next April, and that's likely to take headline inflation to 4.5% or above. That, and ongoing supply chain pressures, mean headline inflation may now stay above target through all of next year.

Markets have taken this as a signal that the Bank of England is going to have to act earlier – and investors now have almost three hikes priced by the end of 2022, the first by February. To us, this seems too aggressive. And while we are bringing forward our previous BoE call, we're still not expecting the first hike until May 2022, with the second not until 1Q23.

That's mainly because the UK is entering a cost of living crunch, and the impact of higher energy/goods prices are being amplified by tighter fiscal policy. The government has now reversed a £20/week uplift to Universal Credit (welfare) payments, which represents a 5% average income cut for its five-million recipients, according to the Resolution Foundation. That puts the UK at odds with some eurozone governments, which are helping to offset rising household energy bills.

UK power prices are surging



Source: Refinitiv

Concrete signs of wage growth are more important than inflation expectations for the BoE

All of this is likely to weigh on growth this winter. Consumer confidence fell noticeably in September, and the recent petrol issues won't have helped either.

So what would it take for the Bank of England to hike into what is a tricky growth environment?

Inevitably there's much focus on inflation expectations, and Governor Andrew Bailey said recently he's taking this risk 'very seriously'. Certainly, market-based measures are high, and you'd assume household surveys would pick up further, too. But what matters is whether higher inflation now translates into repeated, elevated price rises in the future. That seems unlikely to be a direct consequence of higher energy prices, particularly as we would assume the situation will calm down after this winter – in turn lowering headline inflation into 2023.

Instead, as always, it comes down to wage growth.

Unfortunately, the data here isn't currently that helpful, though the BoE's network of agents believe pay is rising at pre-pandemic rates. There's no doubt that skill-shortage jobs are seeing sharp wage increases. But that's likely coinciding with some increased spare capacity in the jobs market, now the furlough scheme has ended. 2% of workers were estimated to have been 'fully furloughed' to the end, and that's now likely to translate into a modest rise in unemployment and inactivity (eg involuntary early retirement).

The UK is experiencing a mismatch, and what the Bank of England needs to decide is which competing jobs narrative is more prevalent. We're a little more cautious than the Bank, but importantly, policymakers are unlikely to know for sure until late this year. In the meantime, caution is likely to prevail.

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China: GDP downgraded as electricity policy hits growth

China's restriction of electricity supply and power shutdowns in some regions have hurt manufacturing activity, as well as the daily lives of many households. Taking into account other policy measures which are weighing on growth, we are downgrading our GDP forecasts for 2021



Electricity grid construction in east China, Mingguang, Anhui - 15 Sep 2021

Electricity shock follows aggressive local government decisions

There has been an abrupt cutback in electricity supply in many regions of China as a result of decisions made by a number of local governments. Power problems have occurred because the regions have been pressured to reduce emissions, having previously failed to meet tough reduction targets for the first half of the year. The target levels are set by a combination of the energy consumption level and energy consumption intensity imposed by the central government.

The reduction of carbon emissions is clearly good for both the Chinese and the global environment, but the move has also created challenges. Recent actions have adversely affected around one-third of China's manufacturing sector, as Guangdong and Zhejiang, which are major manufacturing locations in China, were under strict electricity supply restrictions that have hampered their production ability. The electricity supply cuts also coincide with the export production season, which is very bad for exporters' and manufacturers' revenue. If this persists, it could also increase account receivables, which means bad loans will increase, and the jobless rate will probably also rise.

In order to alleviate some of the pressure on businesses, as of 29 September, officials encouraged electricity generating companies to buy more coal from, for example, Mongolia and Indonesia, to reduce or eliminate the power problems.

What the power problems reveal

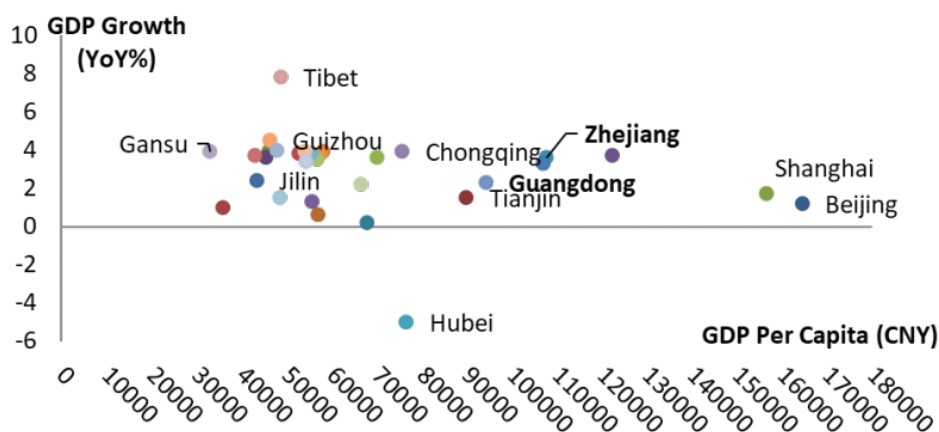
This episode reveals that reducing carbon emissions remains a top priority of the government, but that it also carries a cost.

Even if the electricity cuts stop, control of electricity demand by suspending production in high electricity usage factories will continue. In other words, policymakers are prepared to sacrifice short-term growth to achieve their environmental goals.

We expect that high electricity usage factories may only operate at two-thirds of capacity from now on. This will affect both the jobs and the wages of factory workers. And it will probably also exert a negative impact on the consumption of lower-income groups.

On the other hand, investment in improving electricity efficiency and raising the contribution of renewable energy should result in a reduction in overall energy consumption. This will take some time, but will eventually feed into stronger GDP.

Zhejiang and Guangdong province GDP per capita and GDP growth as of February 2021



Source: National Statistics Bureau of PRC, ING

The implications of the Evergrande crisis

We believe the Evergrande incident will mean that the government will provide a capital injection to the company and that Evergrande will either become a State-Owned Enterprise or come under the umbrella of an existing SOE. At a macro level, the impact of any redundancies or problems for the company's suppliers will be negative for consumption. But to provide some offset to this, some SOEs may be required to absorb redundant workers, though most likely at lower wages than they were previously receiving.

Questions remain about whether Evergrande will pay debtors first or continue to complete its residential property projects. The evidence so far suggests completion of already sold properties is a priority, which ties in with the government's common prosperity goals of protecting individuals before big businesses.

Combining all the policy hits, we have to downgrade our GDP forecasts

In the second quarter, the GDP of the secondary and tertiary sectors in China was CNY10.4 trillion (+7.5% year-on-year) and CNY14.718 trillion (+8.3% YoY), respectively. Both sectors have been hit in the third quarter. Electricity shortages and the suspension of factory operations have affected the secondary sector. Covid-driven port suspensions mainly affect the tertiary sector. Tech data privacy, limits of online game time, and the shutdown of tuition centres also belong to the tertiary sector.

We expect a deep contraction of 7% quarter-on-quarter before seasonal adjustment, and that means 4% year-on-year growth for the third quarter from our previous estimate of 4.5% YoY.

Furthermore, we expect some of the policy hit to still be affecting growth in the fourth quarter of 2021. For example, we may see more tuition centres shut down and more people lose their job or take a salary cut as a result of the Evergrande incident. We expect China's central bank, the People's Bank of China, to respond to all this with a reserve requirement ratio (RRR) cut of 0.5 percentage points in October. Taking these

factors into account we are also reducing our fourth-quarter GDP forecast to 4.5% YoY from 5.0% YoY.

Our GDP growth forecast for 2021 is now 8.7%, down from the previous forecast of 8.9%.

A final word. Most of these policies have good intentions - namely, to improve the quality of life for ordinary people. The government has decided to take this sharp short-term pain in exchange for higher quality growth in the future. The government may consider that it is better to suffer the short term consequences of something like the Evergrande property business collapse now than to keep propping it up with easy money and suffer an even bigger collapse later on.

Asia: Rocked by supply disruptions

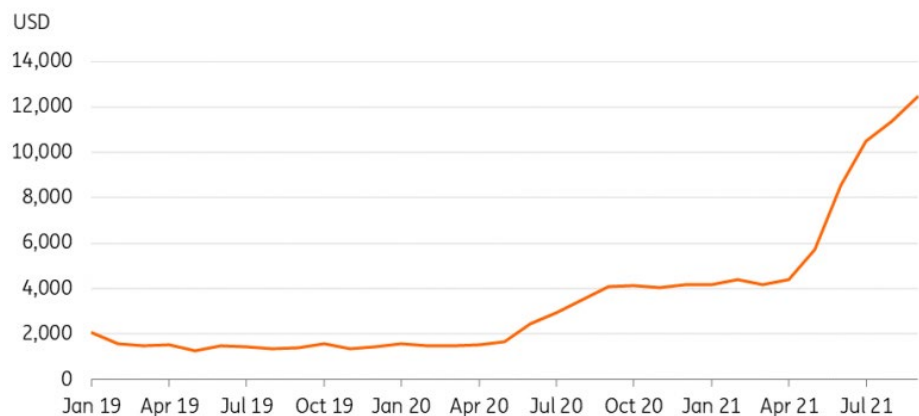
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Covid remains a disruptive force in some parts of Asia, and it is now contributing to supply chain disruptions across the region



Shanghai to LA container cost (40ft box)



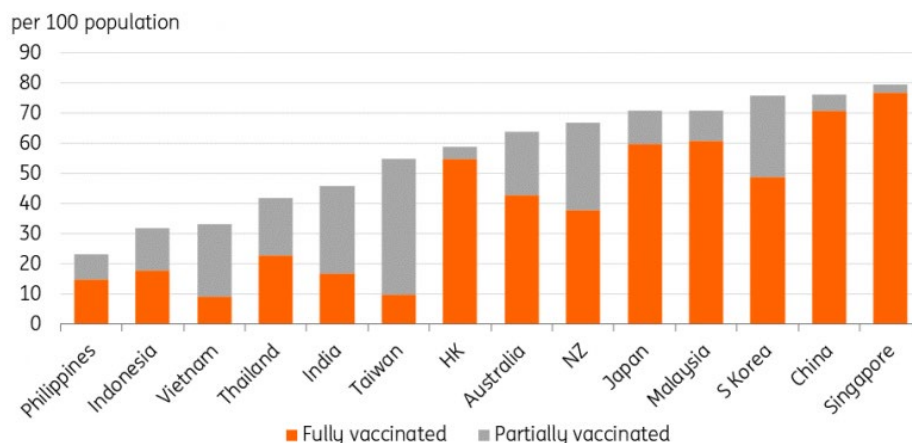
Source: S CEIC

Ongoing problems

For most of this year, we have focused on the impact of the Covid pandemic in Asia, looking at daily cases, mortality, and more recently, the lack of progress on the vaccination rollout.

It is now October, and some things haven't changed. Encouragingly, one thing that has is that vaccination rates have picked up quite a lot, though some South East Asian economies are still lagging behind. Even so, daily Covid cases remain high in many countries, even where vaccination rates are high. In the less vaccinated countries, daily deaths due to Covid also often remain high. Governments are trying hard to exit the ongoing cycle of reopening, rising cases, and return to restrictions. But they aren't having much success. There just doesn't seem to be a coherent strategy for how to exit this impasse.

Asia vaccinations per 100 people by dose



Source: Our World in data

Asia hit hard by container shortages

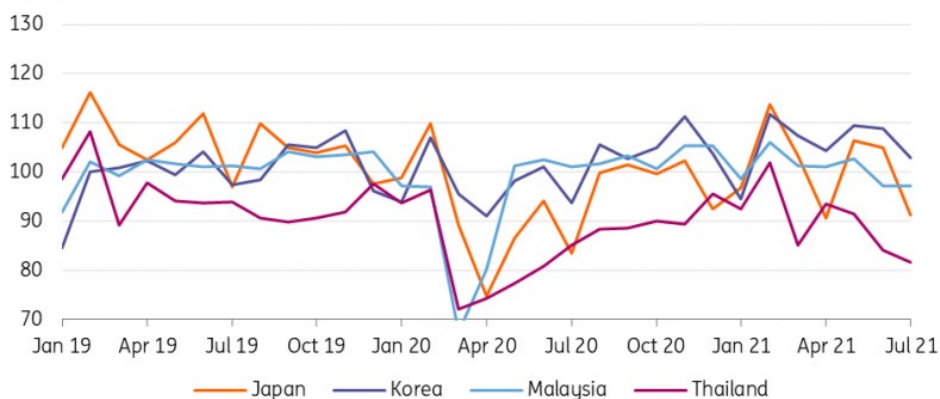
As well as the direct impact on domestic demand and production from lockdowns and other restrictive measures, producers in Asia are struggling with the resulting supply chain disruptions this is causing. A container shortage is one such spillover and is a global problem. But Asia has been particularly badly affected by it. The causes are complicated, but include:

- Pandemic consumption patterns altering in favour of shipped goods and away from intangibles and services (more demand for containers)
- A more rapid initial recovery in Asia from the pandemic in 2020 than in Europe and the US, resulting in production and trade exports bouncing back more rapidly – more containers going to US and Europe than coming back to Asia – this remains in imbalance
- Increases in turnaround times at pandemic-affected ports resulting in more containers in storage or penned up inland and out of use
- A general shortage of containers – not enough new containers have been produced.

It isn't easy to get data on the impact this is having on production in the region. But indirectly, we can see the effect of the container shortage in unit prices for container traffic. These have risen from about \$1500 for a 40ft box on the Shanghai to LA route to more than \$12,000 today - an eight-fold increase. This price surge doesn't, however, pick up the delays that also accompany these shortages. Manufacturers are often having to wait many months to gain access to containers to export their goods..

Asia industrial production volumes (Index) - selected countries

Jan 2019=100



Source: CEIC

It's not just high-Covid countries suffering

The impact of such supply chain disruptions across the region is mixed. SE Asia is often singled out given its poor Covid track record and its importance as a supplier of parts and intermediate goods in regional supply chains. And indeed, production volumes in Thailand and Malaysia have been particularly soft in recent months. Singapore, in contrast, has seen much steadier production volumes.

But North Asia has not escaped these disruptions either, which given its reliance on SE Asian parts, should come as no surprise. Production volumes in Japan and Korea have both dipped in recent months. Taiwan is doing much better. And as the pre-eminent producer of semiconductors globally, this puts it at the beginning of many supply chains, which may explain its resilience.

Financial markets in the region have been rocked by China's Evergrande issue, though we see few regional linkages outside Greater China. However, Asia is quite vulnerable to the energy price surges the world is witnessing, and which China's policies may be exacerbating. And with the domestic growth outlook currently challenged by a combination of Covid, supply chain disruption and China's restructuring policies, the added complication of rising global bond yields and a strengthening USD may be contributing to regional investor anxiety, especially with respect to the current account deficit emerging economies of the region.

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FX: The return of mercantilism

It has been a while since we have used terms such as 'currency wars' or 'mercantilism' in FX markets. Such terms normally relate to competitive devaluations to secure export share in a deflationary world. But what's the best currency policy in an environment of scarce commodity resources? The renminbi shows the way here and we think the dollar will follow



Weak currencies fall out of fashion

Faced with disinflationary forces over the last 20 years and particularly during the pandemic last year, most developed nations have preferred weak currencies to support export growth. Competitive devaluations, greater interest in the US Treasury's report on currency manipulation and the term 'currency war' were all synonymous with assumptions that inflation was dead and that all economic levers, including FX, should be employed towards growth.

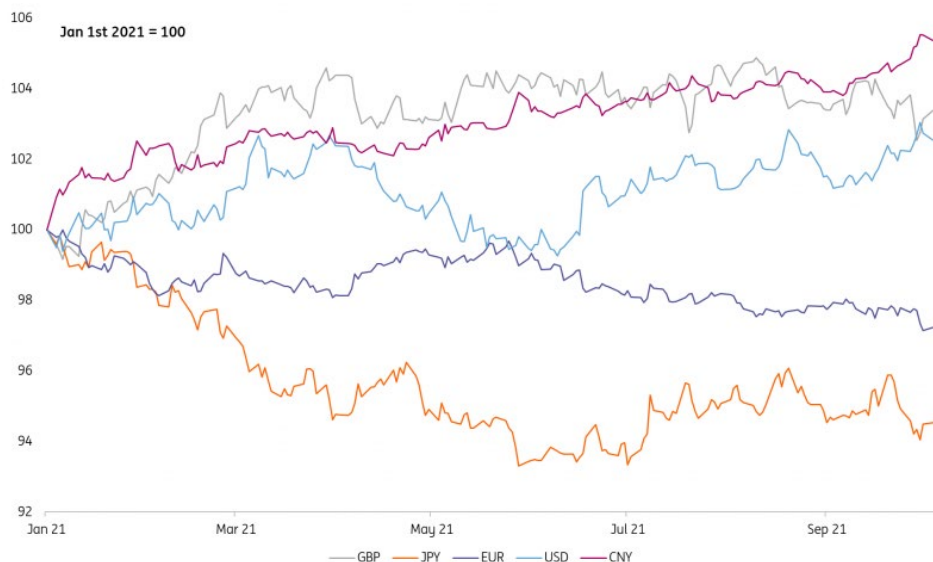
There are signs that currency preferences are starting to change. Leading the pack amongst the major currencies this year is the renminbi. The broad, trade-weighted renminbi is up nearly 6%. The move seems at odds with China slowdown fears, the People's Bank of China reserve requirement cut and Evergrande related concerns in the Chinese financial sector.

How to explain it? We suspect the move relates to some of the issues we discussed in an article in May. Higher commodity prices have been a concern for Chinese policymakers for some time and this concern has been backed by unprecedented Chinese sales of strategic reserves from energy and industrial metal stockpiles. Most recently, Chinese policy makers have instructed major energy companies to secure energy supplies for this winter at all costs. A stronger renminbi certainly helps in this exercise.

Surging energy prices are also starting to question FX policy preferences elsewhere in the world. Central banks where tightening cycles are underway, especially in emerging markets, would welcome more stable or stronger currencies. And in the developed space, both Norway and New Zealand have already started tightening cycles and would not be averse to currency strength. At completely the other end of the spectrum are the central banks in the eurozone, Sweden, Switzerland and Japan which all retain their fears of disinflation and show no signs of switching to a less accommodative stance.

This brings us to the dollar. Here, expectations of Fed policy are on the move and we are now bringing forward our forecast rally in the dollar.

Broad trade-weighted currencies: The renminbi leads the pack



Source: BIS, ING

Bringing forward the forecast dollar rally

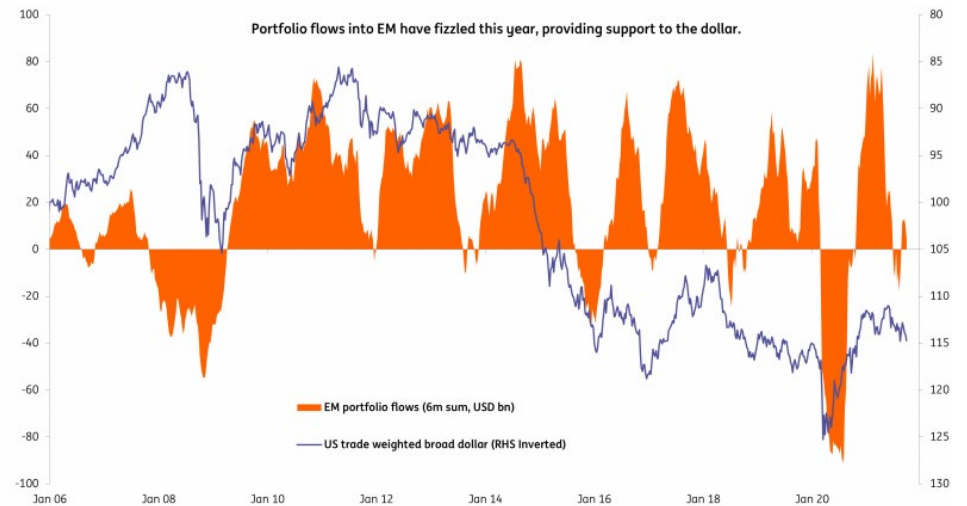
James Knightley has had a good call this year being on the right side of the inflation and Federal Reserve policy story. Based on his views that September 2022 would be the lift-off for the Fed tightening cycle, we had expected the bulk of the dollar rally to start coming through from 2Q22 onwards.

But based on a very hawkish set of Fed Dot Plots released in September and the energy price surge - effectively demanding a more urgent policy response - we think this dollar rally can start much sooner - even now. Driving the move is the adjustment in short-term US interest rates. Here, the 1m USD OIS rate priced three years' forward is still some 50bp below Fed projections. We think the pressure from better US activity data and progress towards the Fed's employment goals over coming months can maintain the hawkish re-pricing in US rates markets and keep the dollar bid.

An unresponsive European Central Bank should mean EUR/USD presses 1.15 and possibly trades to 1.13 over coming months. But seasonal dollar weakness in December is the reason for our 1.17 end-year '21 target. And we are bringing forward our 1.10 end-2023 target by a year to end-2022.

Higher US rates and ongoing trade and supply chain problems suggest 2022 will be a difficult time for emerging markets. The year also sees some big and contentious elections in Brazil. 2021 has been a poor year for flows into EM and one of the reasons the anti-cyclical dollar has stayed supported. A tough year for EM portfolio flows in 2022 is another reason why we see the dollar staying supported for the next 15 months.

Portfolio flows into EM have been disappointing this year



Source: IIF, ING

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Rates: Here's why market rates should head higher still

We find the notion of medium-term upward pressure on rates convincing. It's not all a macro inflation story, even if that is a good one. It's also a new drive to central bank sentiment (BoE etc), and a Fed that will eventually get a bank reserves reduction plan going. That three-way combo can push rates up, debt ceiling complications apart



The United States Capitol Building, home of the USA Congress on National Mall in Washington, D.C.

Sticky inflation and a healthy dose of hawkishness

Market rates have been on the rise for two months now, having bottomed at the end of July. Not a whole lot has really changed to really rationalise the move, but we can point to some ongoing drivers, ones that culminate in a likely push higher in market rates.

On the macro side, the stickiness of inflation has become more evident, even if complicated by supply constraints, which themselves are proving less temporary than many had expected. Fixed income markets hate inflation, or are supposed to, and in any case will find it hard to ignore if it just does not go away quickly enough.

“The belly (5yr area) of core curves have come under cheapening pressure”

On a technical front, the belly (5yr area) of core curves has come under cheapening pressure, with market rates there rising the most. This is an anticipatory move, where the curve begins

to make some room for future rate hikes, but not imminent ones. The best example of this is on the US curve.

Euro and UK rates are on the up, too

The eurozone curve is feeling the same pressures, but being less steep than the US in not pricing in material rate hikes until well after US moves. The sequencing here sees the Fed hiking from 2022 onwards while for the eurozone, rates hikes are closer to a 2024 event (and lots can happen between now and then).

The UK curve is a step ahead of this again, where the pressure has elevated on the front end through a ratchet higher in 2yr market rates, in anticipation of even sooner rate hikes. It's unusual for the UK to move ahead of the US, but the market discount is paying close attention to the notion that an earlier UK rate hike is a live risk.

Central banks need higher market rates too

One of the issues with all of this is the 10yr (and 5yr) market rates ideally need to be higher than they currently are, so that central banks have the room to manoeuvre official rates higher in the coming years, ideally without threatening to invert yield curves.

“Central banks need higher market rates to create room for future hikes”

Remember, this future phase of rate hikes is engineered to take the foot off the accelerator and take them to more neutral levels, and not to slam on the brakes. Forcing curves into

inversion would not be fitting with this. In consequence, policymakers would likely prefer for market rates to be more anticipatory.

And ahead, the Fed will take reserves from the system

The US 10yr heading towards 2% is a fitting objective, and would act as a beacon for other core markets to follow. Even if macro factors don't push us there, a key technical pull will come from the period after the Fed has completed tapering, as there will be a subsequent requirement to take bank reserves out of the system. This, in fact, would feel like a Fed bond selling programme (QE reversal) even if it's not, which should ultimately result in upward pressure on market rates.

“The debt ceiling is preventing the Treasury from mopping up liquidity through bills issuance, and this could become quite perverse.”

For now, the Fed is taking in short-term excess liquidity. The debt ceiling is preventing the Treasury from mopping up liquidity through bills issuance, and this could become quite perverse. The likely short-term raise of the debt ceiling helps avoid potentially huge

complications. Raising it can also ease the excess liquidity circumstances that show up in the Fed's reverse repo facility. And that, followed by a taper, and an eventual reduction in bank reserves should correlate with some upward pressure on rates.

That said, the mooted temporary short-term solution to the debt ceiling keeps the whole complication simmering in the background as a frustrating technical issue that mutes upward pressure on market rates.

Winter is coming... and so is further volatility for energy markets

Warren Patterson

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Energy prices have seen significant strength recently. European gas prices have rallied 94% over September, taking them to record levels. Oil and coal have also strengthened, as concerns grow that tightness in energy markets will persist throughout the winter. Higher energy prices also have implications for the rest of the commodities complex



94% Rise in gas prices over September

Natural gas tightness

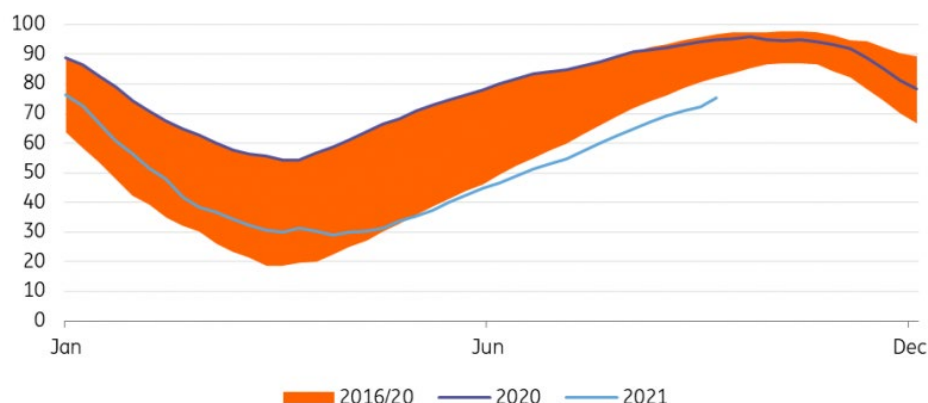
The European winter gas season officially started on 1 October and the region has entered it with the lowest natural gas storage levels in over a decade. Gas storage, as of 30 September, was 75% full compared to a five-year average of 89% for this stage of the year. Lower flows of Russian gas, along with a heavy maintenance season in Norway, have led to this tightness, while recovering demand post-Covid-19, has only added to this. The LNG market has provided little relief to the European market, with higher prices in Asia ensuring that spot cargoes have gone there rather than to Europe.

While the market is already tight, high prices also reflect fears over tightness in the months ahead, particularly if we see a colder-than-usual winter. If Europe experiences a normal or mild winter, there is the potential for a downward correction.

In addition, if there is a quick ramp-up of gas flows along the 55bcm Nord Stream 2 pipeline, this could take some of the pressure off the market. However, realistically it is unlikely that the now-complete pipeline will receive all the necessary regulatory approvals in time to make a meaningful difference to the European market this year. LNG inflows could also help to improve the supply situation, but as we have seen for much of the year, Europe will need to compete with Asia for these cargoes.

Given the amount of uncertainty heading into winter, we suspect natural gas prices will remain elevated and volatile. It is only as we move towards the end of winter that we see significantly weaker prices.

European gas storage % full

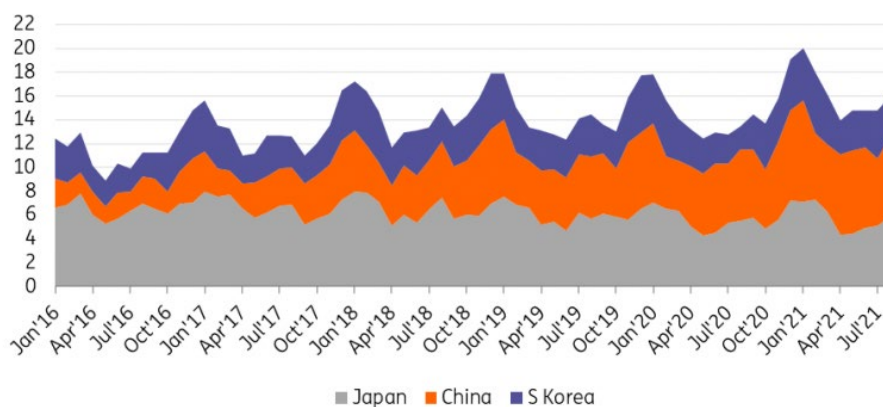


Source: GIE

China coal shortages provide further support

We have all seen the headlines of power rationing in China in recent weeks. Power consumption in China has reached record levels this year, and over the first eight months, is up almost 14% year-on-year. However, coal, which still makes up the bulk of the power mix, has seen its output grow by only 4.4% YoY over the same period. In addition, imports are limited partly as a result of the continued unofficial ban on Australian coal imports, while flows from Mongolia have been under pressure due to Covid-19 restrictions. This has seen the domestic coal market tighten up and so China has had to rely on other fuels. This has helped to support the strong growth in LNG imports this year, which have grown by 24% YoY over the first eight months of the year. Recent reports that China has urged domestic energy companies to ensure adequate supply going into the winter, suggest that coal and LNG markets will remain well bid by Chinese buyers in the short term.

Key Asian LNG importers (m tonnes)



Source: China Customs, METI, Korea Customs

Oil demand set to benefit

The significant strength that we have seen in the gas market has meant that it is trading at a large premium to oil. TTF gas prices in Europe are trading at an oil equivalent of more than US\$250/bbl, well above current oil prices of around US\$82/bbl. This should incentivise switching from gas to oil when it comes to power generation. We are already seeing this happen in several countries where there is capacity. This will provide a boost

to oil demand for the remainder of the year. As a result, the oil market is looking tighter in the short term, which suggests that prices will remain well supported until the end of the year.

This has led us to revise higher our ICE Brent forecast for the final quarter of this year to an average of US\$77/bbl, up from a previous forecast of US\$70/bbl. The reason we are not comfortable revising the forecast to an even higher level is because if prices trade above US\$80/bbl for a sustained period, there is a greater risk of OPEC+ easing its supply cuts.

As for 2022, we continue to expect that oil prices will trade lower from current levels and are forecasting that ICE Brent will average US\$70/bbl over the year. The market is expected to be much more balanced next year due to the expectation of strong non-OPEC supply growth. In fact, there could be periods next year when OPEC+ may need to delay further easing, with the market in surplus in some months.

Impact on the rest of the commodities complex

Higher energy prices are also having an impact on other parts of the commodities complex. In Europe, we have also seen several industrial players reducing operations due to rising electricity costs. For example, a zinc smelter in the Netherlands has already curtailed operations during peak times.

It may be easy to think that the impact of power rationing in China would be constructive for several other commodities. For example, we have seen several metals industries forced to curtail operations due to power shortages. The aluminium and steel industry receive the most attention with regards to this. While this will certainly have an impact on supply, government orders to reduce power consumption go all the way down the supply chain and thus affect downstream consumers as well. Therefore, it becomes a little bit more difficult to fully judge, at least in the short term, if these power issues are overall bullish or bearish for some metal markets.

In addition, some soybean crushing plants in China have also had to shut, and while this may be supportive for soybean meal and soybean oil prices in China, it certainly is not a constructive development for soybean demand and prices.

Ultimately, the longer this higher energy price environment persists, the more likely it is that we see these higher prices feeding through to higher production costs for other commodities. As a result, this should raise the floor for commodity prices more widely. However, our base case assumes a downward correction in energy prices as we near the end of the 2021/22 winter, which should help ease some of the cost pressures for other commodities.

Our take on inflation

With inflation still on the rise, the risk is that this so-called 'transitory' period will be much longer than many central bankers had anticipated

Carsten Brzeski

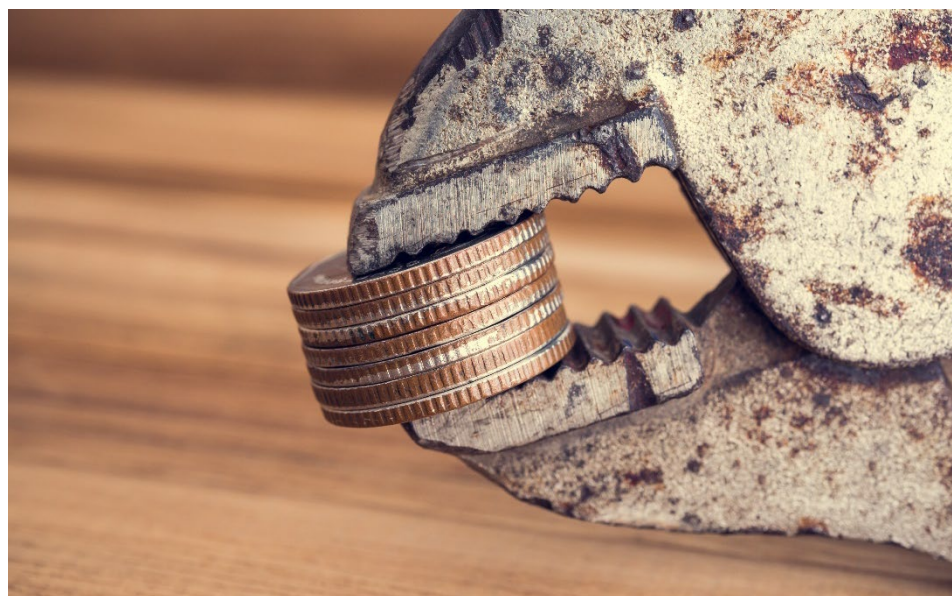
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If 'pandemic', 'lockdowns' and 'Covid' were the most used words of 2020, 'supply chain frictions' and 'inflation' are clearly the most popular economic words of 2021. Our entire global research team has written extensively on the return of inflation and its impact on major central banks' reaction functions. And, interestingly, our view on inflation has hardly changed. We are still somewhere in the middle between the 'transitory' and the 'runaway' inflation camp. As interest in the inflation topic has remained high, here is a recap of our current take on inflation. A longer analysis can be found [here](#).

Current inflation dynamics

Headline inflation is currently running north of 5% in the US, and north of 3% in the eurozone. And it won't stop here. In fact, the entire range of possible inflation drivers is still at work, including higher commodity prices, supply chain disruptions, production bottlenecks, post-lockdown reopening price mark-ups and in the eurozone, the German VAT reversal. Admittedly, aside from one-off factors there are also base effects at work, as we are comparing reopened economies to periods of lockdown last year, which boosts the year-on-year numbers.

Near-term outlook

With the latest surge in energy prices, any drop in headline inflation from negative energy base effects will not materialise at the start of 2022. Instead, energy base effects look likely to push up headline inflation in the first few months of 2022. At the same time, cost-push inflation is gaining momentum in both the US and the eurozone. Here, producers' selling price expectations are close to, or at, record highs and even in the services sector, selling price expectations are now close to all-time highs. When it comes to inflation expectations, US developments clearly differ from the eurozone with US inflation expectations surging in recent weeks. For the eurozone, inflation is currently

still mainly driven by base effects, while the US is already seeing a strong increase in three-month inflation as well.

Traditionally, it takes between six and twelve months before any pass-through from higher producer prices to consumer prices materialises. There are no standard estimates for this pass-through as pricing power differs depending, for example, on the state of the economic cycle or the level of competition. In the current situation, both in the US and eurozone, high backlogs in the manufacturing sector and cash-rich consumers suggest there is strong potential for a significant pass-through.

A final driver of inflation going into 2022 could be housing costs. In the US, primary rents and owners' equivalent rent account for a third of the CPI basket and given that rents are typically only changed once a year, ongoing upward pressure in the housing sector could still show up in the US numbers. In the eurozone, the HICP includes rents but not imputed housing costs. As around 60% of eurozone households are homeowners who don't pay rent costs, it is fair to say that housing costs are not properly reflected in the eurozone's inflation measure.

Wage-price spiral in the making

The lack of skilled workers in both the US and the eurozone has already started to exert upward pressure on wages. Particularly in the US, a supply-demand mismatch in the labour market should lead to higher wages. In the eurozone, despite some slack and furlough schemes, the labour market has recovered unexpectedly fast and is also showing the first signs of a supply-demand mismatch. Add to this inflation-indexation in some countries, and unions focusing on wage rises instead of job security in others, and we should see higher wages next year as well.

Inflation outlook 2022

All of the above suggests that elevated inflation levels will be 'transitory' but this period of transition could be longer than previously anticipated. Even if some of the one-off factors fade out of YoY inflation next year, the delayed pass-through from higher producer prices as well as lockdown-related price volatility could still impact inflation far into 2022. As a consequence, we see headline inflation slowing in the second half of 2022 but still staying above pre-pandemic levels.

Longer-term considerations

In our view, the disinflationary period of the last decade was not only the result of the balance sheet recession and subsequent deleveraging and low growth but also a result of two external developments: the emergence of China in the global economy and cheap labour as well as digitalisation (price transparency, competition and making services mobile). In addition to the trends mentioned above, including wage-price spirals and sustainably higher commodity prices, it is important to assess how these two major 'external' drivers will shape inflation in the coming years.

“Two external factors – the emergence of China in the global economy and cheap labour as well as digitalisation – have contributed to disinflation”

Regarding globalisation, it could in fact be more de-globalisation, protectionism and regionalisation of supply chains which push price levels higher. Also, with China's ambition to become a fully developed economy, the country's role in the global economy could

become inflationary rather than disinflationary. Sure, there is still an enormous pool of untapped labour, be it in Africa or Asia, but the question is whether these regions will be able to take over the role of cheap labour provided by China quickly or whether this will only come with a long delay. Some economists even claim that the ageing of the global population and the adverse trend of the dependency ratio will result in higher real

wages leading to greater inflationary pressure. Even the Japanese experience seems to indicate that an ageing economy has a preference for low inflation.

The disinflationary impact from digitalisation, however, could last a while. Price transparency, increased competition and services becoming mobile have exerted disinflationary pressure on most economies over the last decade and are likely to continue to do so over the coming years. On a different note, it is still unclear how the costs of the energy transition will affect inflation going forward. Don't expect permanent upward pressure on prices but rather inflationary spikes on the back of carbon pricing or higher or new taxes.

It is very early to draw strong conclusions about longer-term inflation trends on the back of the pandemic, but these moves could be far more relevant than most of the transitory factors mentioned above. Changes to underlying inflation trends will not cause large jumps in the immediate outlook, but if indeed a somewhat higher trend in inflation emerges in the aftermath of the pandemic, this would be key for central bank policy.

We stick to our previous view of inflation remaining at elevated, albeit lower levels than at present, until at least mid-2022

All in all, we stick to our previous view of inflation remaining at elevated, albeit lower levels than at present, until at least mid-2022. Once all base effects and one-off factors have petered out, inflation will still not return to pre-pandemic levels as there are many good reasons to believe that former structurally disinflationary drivers will become inflationary in the years to come.

ING's outlook for central banks

Our economists look at the places where monetary policy is likely to be tightened first over the next few years

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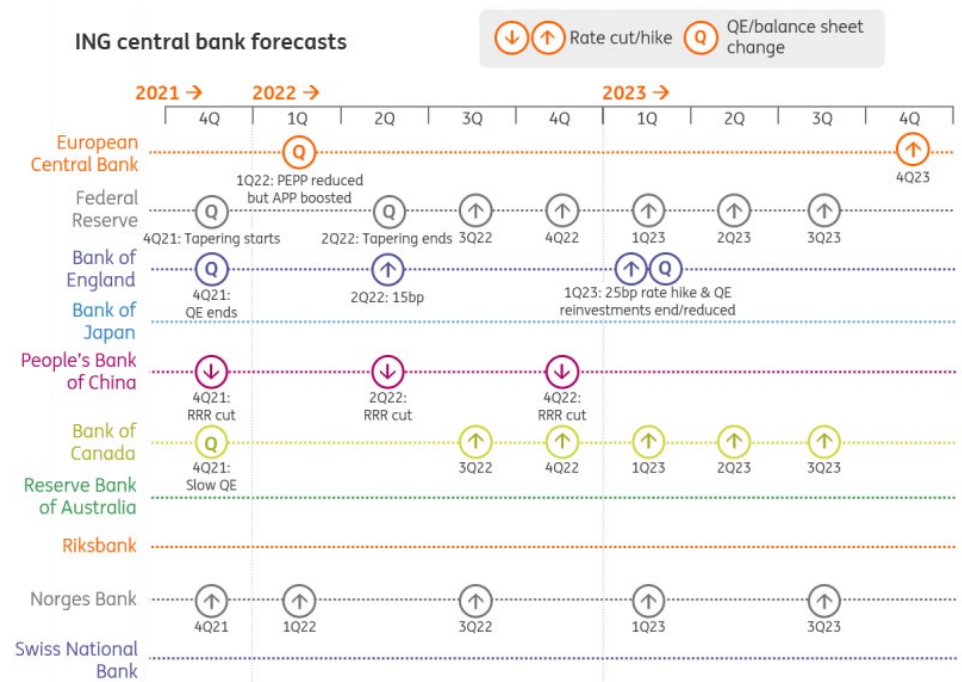
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Shopper in New York, USA

The central bank tightening timeline



Source: ING

Federal Reserve

After a soft patch in the third quarter, the early signs are that the fourth quarter should see a renewed acceleration in US growth and job creation now that the number of Covid cases is on a steep decline. At the same time, inflation pressures remain elevated as

supply chain issues, production bottlenecks and labour market shortages mean that the supply-side capacity of the economy struggles to keep pace with demand.

The combination of cost-push and demand-pull inflation is unlikely to ease anytime soon and with the labour market improving again, the latest Fed commentary and forecasts suggest a consensus is building behind a 3 November quantitative easing taper announcement. This will lead to monthly QE asset purchases slowing from their current \$120b rate down to zero by early summer 2022.

The Fed has been at pains to emphasise that the decision on QE is completely separate to the decision on interest rates. However, we forecast that the strong growth story will continue, with the risk being supply-side constraints don't ease as quickly as hoped. Our suspicion is that inflation stays higher for longer with the Federal Reserve responding with interest rate hikes in September and December next year.

European Central Bank

The ECB's new dovishness of the summer has gradually been replaced by a more balanced inflation assessment in recent weeks. While the ECB's base case scenario, with an inflation forecast clearly below 2% in 2023, would argue for even more policy accommodation, the rise in headline inflation and the increasing risk of second-round effects materialising argues for more caution. And, indeed, since the ECB's September meeting, the Bank's tone on inflation has become somewhat more cautious and balanced.

The December meeting, with a fresh set of macro-economic projections, will be a very intense one with heated debates between the doves and hawks. The focus of the discussion should not be about whether the Pandemic Emergency Purchase Programme is stopped in March but rather what size of asset purchases will be needed going into the second half of 2022.

We expect a first announcement on asset purchase reductions at the end of this year. This will mean a rotation out of PEPP into the Asset Purchase Programme and initially only a very gradual reduction of total purchases. However, the ECB's new stance on inflation could lead to a faster and more significant reduction of monthly asset purchases in the second half of 2022.

Bank of England

We now expect the first Bank of England 15bp rate hike in May 2022, earlier than we'd previously pencilled in, followed by another 25bp move in 1Q23. At that point, the BoE will also likely begin passively shrinking its balance sheet. This involves ending reinvestments linked to the bonds accumulated under successive rounds of QE.

All of this follows some hawkish comments from policymakers over recent weeks, which suggests they aren't going to hang around longer than a year before tightening policy. Still, markets are probably getting ahead of themselves by pricing in almost three rate hikes by the end of 2022.

Investors are inferring that the rise in electricity prices - and the resulting spike in inflation - will pressure the Bank to raise rates, concerned perhaps about the feed through to longer-term inflation expectations. But we think if anything rising energy prices, which coincide with tighter fiscal policy, is a dovish factor. The pace of rate hikes instead relies on the increased rates of wage growth we're seeing for the likes of lorry drivers and food workers becoming more widespread. This isn't a given, seeing as jobs market slack is also rising now the furlough scheme has ended.

ING global forecasts

	1Q21	2Q21	2021 3Q21	4Q21	FY	1Q22	2Q22	2022 3Q22	4Q22	FY	1Q23	2Q23	2023 3Q23	4Q23	FY
United States															
GDP (% QoQ, ann)	6.3	6.7	3.9	6.5	5.9	5.0	4.7	3.5	3.1	4.9	3.0	3.0	2.9	2.8	3.2
CPI headline (% YoY)	1.9	4.8	5.3	5.5	4.4	5.2	3.8	2.9	2.7	3.7	2.7	2.6	2.5	2.5	2.6
Federal funds (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.5	0.75	0.75	1	1.25	1.5	1.5	1.5
3-month interest rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.6	0.9	0.9	1.20	1.50	1.70	1.70	1.70
10-year interest rate (% eop)	1.74	1.47	1.50	1.75	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Fiscal balance (% of GDP)					-13.5					-6.8					-4.8
Gross public debt / GDP					104.6					103					102.2
Eurozone															
GDP (% QoQ, ann)	-1.1	9.2	7.9	4.6	5.1	3.4	2.0	1.9	1.6	3.9	1.8	1.6	1.4	1.4	1.7
CPI headline (% YoY)	1.0	1.8	2.8	2.7	2.1	2.3	2	1.5	1.6	1.9	1.7	1.7	1.7	1.7	1.7
Refi minimum bid rate (% eop)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3-month interest rate (% eop)	-0.55	-0.55	-0.55	-0.55	-0.50	-0.55	-0.55	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.30	-0.30
10-year interest rate (% eop)	-0.35	-0.19	-0.20	-0.15	-0.15	-0.10	0.00	0.10	0.10	0.10	0.20	0.25	0.30	0.30	0.30
Fiscal balance (% of GDP)					-8					-3.8					-2.6
Gross public debt/GDP					103.9					102					98.7
Japan															
GDP (% QoQ, ann)	-4.2	1.9	2.7	2.8	2.4	1.8	1.0	1.1	1.8	1.8	1.2	1.2	1.2	1.2	1.3
CPI headline (% YoY)	-0.4	-0.1	0.4	1.2	0.3	1.1	1.3	0.7	0.6	0.9	0.6	0.6	0.6	0.6	0.6
Interest Rate on Excess Reserves (%)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
3-month interest rate (% eop)	-0.10	-0.10	-0.10	-0.10	-0.1	-0.10	-0.10	-0.10	-0.10	-0.1	-0.10	-0.10	-0.10	-0.10	-0.1
10-year interest rate (% eop)	0.10	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-9.6					-8.7					-7.5
Gross public debt/GDP					228.7					232.5					237.5
China															
GDP (% YoY)	18.3	6.0	4.0	4.5	8.7	3.0	5.0	5.5	5.0	4.6	4.8	4.6	4.4	4.2	4.5
CPI headline (% YoY)	-0.1	1.0	0.9	2	0.95	2.5	2	2.4	2.5	2.4	1.8	2.6	1.9	1.8	2.0
PBOC 7-day reverse repo rate (% eop)	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
3M SHIBOR (% eop)	2.64	2.50	2.40	2.50	2.50	2.40	2.30	2.30	2.20	2.20	2.30	2.30	2.30	2.40	2.40
10-year T-bond yield (% eop)	3.19	3.10	2.90	3.00	3.00	2.90	2.80	2.70	2.60	2.60	2.80	2.95	3.10	3.30	3.30
Fiscal balance (% of GDP)					-7.0					-5.0					-5.0
Public debt (% of GDP), incl. local govt.					125.0					130.0					134.0
UK															
GDP (% QoQ, ann)	-5.3	23.9	6.3	4.3	7.1	4.9	4.7	2.4	1.2	5.4	1.2	0.6	1	1.4	1.4
CPI headline (% YoY)	0.6	2.1	2.8	4.1	2.4	4.2	4.3	3.6	2.2	3.6	2.2	1.0	1.1	1.6	1.5
BoE official bank rate (% eop)	0.1	0.1	0.1	0.1	0.1	0.1	0.25	0.25	0.25	0.25	0.5	0.5	0.5	0.5	0.5
3-month interest rate (% eop)	0.00	0.00	0.10	0.15	0.15	0.25	0.40	0.40	0.50	0.30	0.65	0.65	0.70	0.70	0.70
10-year interest rate (% eop)	0.80	0.70	1.00	1.10	1.10	1.20	1.20	1.30	1.30	1.30	1.50	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-12.9					-8.2					-4.0
Gross public debt/GDP					112					115.0					117.0
EUR/USD (eop)	1.18	1.19	1.16	1.17	1.2	1.15	1.13	1.11	1.10	1.1	1.10	1.12	1.12	1.15	1.15
USD/JPY (eop)	108	111	111	112	112	113	115	118	120	120	121	122	123	125	125
USD/CNY (eop)	6.54	6.48	6.55	6.70	6.70	6.78	6.70	6.60	6.40	6.4	6.30	6.25	6.20	6.20	6.2
EUR/GBP (eop)	0.85	0.85	0.85	0.85	0.85	0.84	0.83	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
ICE Brent -US\$/bbl (average)	61	67	73	77	70	70	68	73	70	70	70	75	78	75	75

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

Source: ING forecasts

ING's forecasts under three different scenarios

	2021					2022					2023				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
Scenario 1: Optimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	6.30	6.70	5.00	10.20	6.20	7.30	4.20	3.00	3.00	6.10	3.00	3.00	3.00	3.00	3.00
Eurozone	-1.10	9.20	9.50	6.50	5.40	3.80	3.50	1.90	2.00	4.80	2.20	1.80	1.80	1.80	2.00
China (YoY%)	18.30	7.00	6.00	5.50	9.20	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
Japan	-4.20	1.90	4.50	3.50	2.70	2.80	1.40	1.00	1.50	2.50	1.20	1.20	1.20	1.20	1.20
United Kingdom	-5.30	23.90	7.90	9.40	7.60	8.10	5.90	3.90	2.70	7.90	1.70	1.10	1.00	1.40	2.20
Real GDP level (Indexed at 4Q19=100)															
United States	99.25	100.87	102.11	104.62	-	106.48	107.58	108.38	109.18	-	109.99	110.81	111.63	112.46	-
Eurozone	94.77	96.88	99.10	100.67	-	101.62	102.49	102.98	103.49	-	104.05	104.52	104.98	105.45	-
Japan	97.94	98.41	99.49	100.35	-	101.05	101.40	101.65	102.03	-	102.34	102.64	102.95	103.26	-
United Kingdom	91.69	96.73	98.59	100.83	-	102.81	104.29	105.30	106.00	-	106.45	106.74	107.00	107.38	-
EUR/USD	1.18	1.19	1.16	1.10	-	1.09	1.08	1.07	1.05	-	1.05	1.05	1.08	1.10	-
US 10-year yield (%)	1.74	1.47	1.50	2.50	-	2.75	3.00	3.00	3.25	-	3.25	3.50	3.50	3.50	-
Scenario 2: ING base case															
Real GDP growth (QoQ% annualised)															
United States	6.30	6.70	3.90	6.50	5.90	5.00	4.70	3.50	3.10	4.90	3.00	3.00	2.90	2.80	3.20
Eurozone	-1.10	9.20	7.90	4.60	5.10	3.40	2.00	1.90	1.60	3.90	1.80	1.60	1.40	1.40	1.70
China (YoY%)	18.30	6.00	4.50	4.00	8.70	3.00	5.00	5.50	5.00	4.63	4.80	4.60	4.40	4.20	4.50
Japan	-4.20	1.90	2.70	2.80	2.40	1.80	1.00	1.10	1.80	1.80	1.20	1.20	1.20	1.20	1.30
United Kingdom	-5.30	23.90	6.30	4.30	7.10	4.90	4.70	2.40	1.20	5.40	1.20	0.60	1.00	1.40	1.40
Real GDP level (Indexed at 4Q19=100)															
United States	99.25	100.87	101.84	103.46	-	104.73	105.94	106.85	107.67	-	108.47	109.28	110.06	110.82	-
Eurozone	94.77	96.88	98.74	99.85	-	100.69	101.19	101.67	102.07	-	102.53	102.94	103.29	103.65	-
Japan	97.94	98.41	99.06	99.75	-	100.19	100.44	100.72	101.17	-	101.47	101.77	102.08	102.38	-
United Kingdom	91.69	96.73	98.22	99.26	-	100.45	101.61	102.22	102.52	-	102.83	102.98	103.24	103.60	-
EUR/USD	1.18	1.19	1.16	1.17	-	1.15	1.13	1.11	1.10	-	1.10	1.12	1.12	1.15	-
US 10-year yield (%)	1.74	1.47	1.50	1.75	-	2.00	2.25	2.25	2.25	-	2.25	2.25	2.25	2.25	-
Scenario 3: Pessimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	6.30	6.70	1.80	-3.40	4.90	-2.50	12.70	5.10	4.90	2.60	4.00	4.00	3.30	3.10	4.60
Eurozone	-1.10	9.20	6.60	0.20	4.70	-0.70	0.80	2.30	3.20	1.90	2.00	2.40	1.80	1.80	2.20
China (YoY%)	3.00	4.00	3.00	0.00	2.80	3.00	5.00	6.00	6.00	5.00	6.00	5.80	5.50	5.80	5.78
Japan	-4.20	1.90	2.50	-1.20	2.10	1.40	0.90	0.90	0.90	0.90	0.80	1.20	1.20	1.20	1.00
United Kingdom	-5.30	23.90	2.30	-5.90	5.80	4.90	8.00	3.90	2.20	3.80	1.60	0.30	0.70	1.00	2.00
Real GDP level (Indexed at 4Q19=100)															
United States	99.25	100.87	101.33	100.45	-	99.82	102.85	104.13	105.39	-	106.43	107.47	108.35	109.18	-
Eurozone	94.77	96.88	98.44	98.49	-	98.31	98.51	99.07	99.85	-	100.35	100.95	101.40	101.85	-
Japan	97.94	98.41	99.01	98.72	-	99.06	99.28	99.50	99.73	-	99.93	100.22	100.52	100.82	-
United Kingdom	91.69	96.73	97.28	95.82	-	96.97	98.85	99.80	100.35	-	100.75	100.82	101.00	101.25	-
EUR/USD	1.18	1.19	1.16	1.20	-	1.20	1.20	1.20	1.20	-	1.20	1.20	1.20	1.20	-
US 10-year yield (%)	1.74	1.47	1.50	0.75	-	1.00	1.00	1.25	1.25	-	1.25	1.25	1.25	1.25	-

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

*Scenario two is our current base case for China

GDP forecasts

%YoY	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
World (USD)	4.4	4.5	4.5	4.6	6.2	4.4	3.9
US	5.4	5.8	5.5	5.0	5.9	4.9	3.2
Japan	2.9	0.8	2.3	2.1	2.4	1.9	1.3
Germany	1.1	2.9	5.4	5.7	2.7	4.6	2.2
France	2.0	4.1	4.8	4.3	6.1	3.6	2.0
UK	6.8	6.8	9.6	5.0	7.1	5.4	1.4
Italy	3.3	5.5	6.0	4.0	6.0	4.0	2.5
Canada	4.1	3.7	3.3	4.5	5.0	4.0	2.4
Australia	3.6	2.1	1.0	1.1	4.0	2.3	2.9
Eurozone	3.5	5.1	6.3	4.5	5.1	3.9	1.7
Austria	2.0	5.7	6.9	3.9	3.8	4.3	2.5
Spain	4.2	5.7	7.3	7.1	5.3	5.3	2.0
Netherlands	4.0	4.9	6.5	3.3	4.1	3.6	1.7
Ireland	3.8	4.5	4.1	3.0	5.4	3.0	2.1
Belgium	12.5	18.8	10.0	4.1	15.7	4.7	2.1
Greece	8.6	5.3	3.7	1.2	6.6	4.0	2.7
Portugal	4.5	5.8	10.3	6.3	4.8	5.6	2.0
Switzerland	2.8	3.9	4.9	3.4	3.4	3.0	1.5
Sweden	2.4	2.7	2.2	1.7	3.5	1.7	1.2
Norway	3.2	1.8	3.6	3.0	2.9	3.2	2.0
Bulgaria	5.9	4.7	3.4	3.8	4.3	3.8	3.2
Croatia	10.2	7.0	2.7	4.5	8.0	4.1	3.2
Hungary	7.8	7.1	6.3	4.6	7.7	4.6	3.8
Poland	5.0	6.3	5.4	5.3	5.4	5.0	5.3
Romania	9.5	6.3	4.7	4.3	7.5	4.5	4.5
Turkey	6.2	1.7	3.4	3.9	8.5	4.0	4.0
Serbia	6.8	5.8	4.8	5.0	7.0	5.0	5.0
Russia	4.5	3.0	2.5	1.5	4.3	2.2	3.0
Kazakhstan	4.5	4.3	3.5	3.7	3.6	3.7	4.0
Ukraine	4.0	5.5	6.4	6.5	3.8	4.3	4.0
Azerbaijan	6.50	5.50	3.00	3.40	4.10	3.40	2.5
China	4.00	4.50	3.00	5.00	8.70	4.60	6.00
India	5.2	4.1	6.0	9.2	8.1	6.8	6.5
Indonesia	3.6	4.6	4.5	3.7	3.5	4.3	5.0
Korea	4.3	3.7	2.7	2.7	4.0	2.8	3.2
Philippines	3.7	3.8	4.8	4.1	3.7	4.4	4.5
Singapore	5.20	3.60	4.00	2.50	5.70	3.80	3.1
Taiwan	2.5	2.2	1.8	2.2	5.4	2.3	3.5

Source: ING estimates

CPI Forecasts (pa)

%YoY	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
World	3.8	4.2	4.1	3.1	2.8	3.2	2.8
US	5.3	5.5	5.2	3.8	4.4	3.7	2.6
Japan	0.4	1.2	1.1	1.3	0.3	0.9	0.6
Germany	3.7	4.7	2.5	2.2	3.1	2.2	1.9
France	2.2	2.6	2.1	1.8	1.9	1.7	1.5
UK	2.8	4.1	4.2	4.2	2.4	3.6	1.5
Italy	2.1	3.2	3.0	2.5	1.8	1.9	1.4
Canada	3.8	4.0	3.8	3.4	3.2	3.1	2.3
Australia	3.1	3.1	3.0	2.7	3.3	2.7	2.5
Eurozone	2.8	2.7	2.3	2.0	2.1	1.9	1.7
Austria	3.0	2.7	2.0	1.9	2.5	1.9	1.7
Spain	3.4	3.0	2.1	1.7	2.3	1.8	1.7
Netherlands	2.2	2.7	2.2	1.8	2.2	1.6	1.8
Belgium	2.3	3.2	3.3	2.6	1.9	2.1	1.6
Ireland	3.0	3.3	2.4	1.9	2.0	1.8	1.9
Greece	1.1	1.8	2.1	2.6	0.1	1.4	1.2
Portugal	1.5	2.0	1.8	1.7	0.9	1.7	1.7
Switzerland	0.8	1.1	0.3	0.7	0.5	0.7	0.6
Sweden	2.5	3.0	2.8	1.0	2.0	2.2	1.6
Norway	3.4	4.2	3.2	3.3	3.3	2.9	2.4
Bulgaria	3.7	4.4	4.2	3.6	2.6	3.5	2.8
Croatia	3.1	3.8	3.0	2.5	2.3	2.0	1.6
Hungary	5.0	5.6	4.7	3.8	4.7	3.7	3.0
Poland	5.3	6.5	6.0	5.0	4.8	4.5	3.8
Romania	5.3	6.6	5.5	5.1	4.7	4.5	3.0
Turkey	19.6	17.4	17.2	15.6	17.6	15.6	12.1
Serbia	4.2	5.4	5.6	4.7	3.5	3.5	2.6
Russia	7.4	7.0	6.4	5.7	6.4	5.7	4.7
Kazakhstan	8.9	7.9	7.7	6.5	7.8	6.8	6.3
Ukraine	10.4	10.1	8.6	7.9	9.6	7.3	5.4
Azerbaijan	7.1	7.1	5.6	5.5	5.6	5.2	3.8
China	0.9	2.0	2.5	2.0	2.2	1.3	2.4
India	6.0	6.2	6.7	6.2	6.2	5.5	5.1
Indonesia	2.0	2.6	3.1	3.3	2.0	3.3	3.2
Korea	2.5	2.9	1.9	1.9	2.2	1.8	1.7
Philippines	4.6	4.0	3.1	3.2	4.4	3.3	3.4
Singapore	1.0	1.1	1.3	1.2	0.8	1.1	1.2
Taiwan	1.7	1.4	1.1	1.3	1.4	1.5	2.0

Source: ING estimates

Oil Forecasts (avg)

(\$/bbl)	3Q21F	4Q21F	1Q22F	2Q22F	2021F	2022F	2023F
Brent	73	77	70	68	70	70	75

Source: ING estimates

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