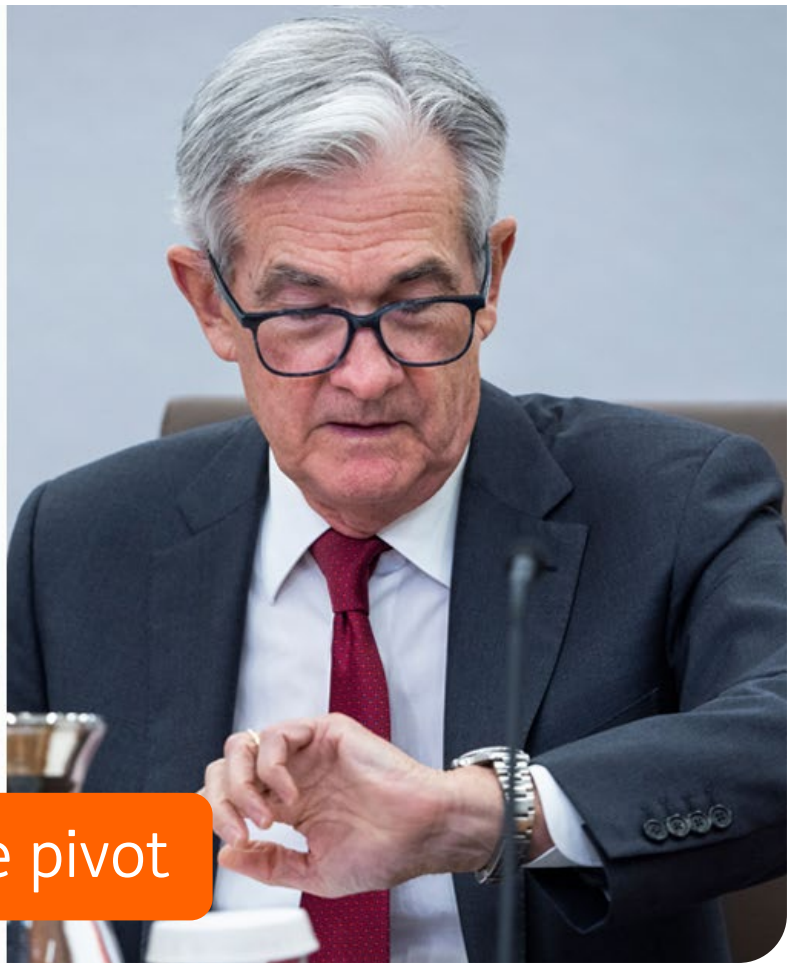
THINK Economic and Financial Analysis

ING Monthly

November 2022



The long wait for the pivot

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The long wait for the pivot

There are tentative signs that central bankers on both sides of the Atlantic are considering a pivot to more modest interest rate hikes. But this could be months away

As we approach the end of the year, many of us are waiting. Waiting for the end of the war, waiting for inflation to finally peak, waiting for the Christmas holiday season to begin. For financial markets, the wait is on central banks and whether they will pivot.

“Pivot” is probably not the correct term to use as a pivot would imply a real turning point in central bank policies, while what markets - and we - are actually looking for are signs of a slowdown and an eventual end to the current rate hike cycles.

Getting to this pivotal moment is easier said than done. Major central banks are still facing high and, in some cases, increasing inflation, while signs of economic slowdowns and recessions are growing. It will be too little too late for central banks to simply bet that weaker demand will break down inflation and inflation expectations, as long as inflation largely remains a supply-side issue. Admittedly, given the importance housing costs play in the US inflation measure, the Federal Reserve is in a better position to bring down inflation (via higher mortgage rates depressing the costs of shelter) than, for example, the European Central Bank. What complicates central bankers’ decisions is the fact that they have now rushed so much toward policy normalisation that they cannot see the full impact of their decisions yet. It typically takes at least six to nine months before monetary policy changes have found their full way into the real economy. This time lag increases the risk of overshooting. At the same time, however, the stickiness of inflation over the last two years has also increased the risk that a too-premature end to tighter monetary policy will be insufficient in returning the inflation genie to the bottle. It’s not easy being a central banker these days.

Still, we have seen tentative signs by central bankers on both sides of the Atlantic Ocean suggesting that a slowdown, or even an end to rate hikes, is being considered an option. It will not necessarily be an explicit end to hikes but rather conveyed as a "taking stock pause". As the looming economic slowdowns and recessions will be more visible in December, we expect major central banks to slow down their tightening efforts and eventually end them in the first quarter of next year. Don’t forget that balance sheet deleveraging can easily be a substitute to rate hikes in 2023.

In Europe, in particular, the inflation shock will dominate next year’s headlines. While government price caps can limit inflationary pressure in the short run, they will push up headline inflation immediately when they are lifted again. Government subsidies which offset the negative effects of higher energy prices on households and consumers do actually extend inflationary pressures. Also, the energy crisis won't disappear after this winter but will last until the winter of 2023/24 as national gas reserves will start the next year at lower levels than in the spring of 2022, putting upward pressure on the demand for natural gas.

Whether they like it or not, the worsening economic backdrop has brought many central bankers closer to the moment of slowing tightening efforts, and eventually even pausing rate hikes. Financial markets waiting for the pivot might not be like waiting for Godot, but for a real pivot, headline and core inflation will first need to come down significantly. This a scenario we definitely do not foresee before next summer.

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Our key calls this month

- **Eurozone:** The exceptionally mild October weather and well-filled gas inventories, combined with government support packages in many countries could soften but not entirely prevent the winter recession. We pencil in -0.7% GDP growth in 2023, after 3.1% in 2022. At the same time, we expect energy prices to remain high, making the winter of 2023/24 another economic and political challenge. With ongoing uncertainty and rates having reached more neutral levels, we expect the European Central Bank to deliver additional rate hikes amounting to 75bp up until February next year.
- **United States:** With November marking the fourth consecutive 75bp hike from the Federal Reserve there is a growing expectation that the pace of increases will slow from December onwards as recession worries mount. Nonetheless, there is certainly more work to be done with a possibly higher "terminal" interest rate. Recession risks are rising, but that is the price the Fed is prepared to pay to get inflation under control. With inflation set to slow sharply in the first half of 2023, we continue to see scope for significant rate cuts after the summer.
- **China:** The Chinese government has quickly followed up the Party Congress' key policy objectives by allowing foreign direct investment on an expanded high-tech list. But short-term economic growth prospects have weakened as Covid-19 cases have risen, and we are now downgrading our GDP forecast. The actual numbers remain better than the underlying narrative.
- **UK:** The change of political leadership which accompanied a dramatic U-turn in fiscal policy has helped ease market concerns about UK debt sustainability/borrowing. However, a recession remains inevitable as the prospects of fiscal tightening, limited energy support, and sky-high mortgage rates look set to reduce the size of the UK economy by roughly 2% over several quarters.
- **Energy Focus:** Natural gas prices came under significant pressure in October due to milder weather and growing European storage but the relief won't last long. The European gas markets will remain tight and we expect more upside in prices to ensure adequate demand destruction. On the back of OPEC+ supply cuts and the EU ban on Russian oil, the oil market will be in deficit through the whole of next year, which suggests higher prices. We have revised our 2023 Brent forecast from $97/bbl to $104/bbl.

- **FX markets:** October proved a corrective month in FX as a reversal in the UK policy mix and some pricing of the Fed pivot knocked 3-4% off the dollar index. Lower natural gas prices also allowed EUR/USD to briefly trade back above 1.00. We feel dollar strength can re-assert itself into the end of this year, where a still hawkish Fed can combine with weak growth in the eurozone and China to send EUR/USD back to 0.95.
- **Rates:** The pivot camp thinks market rates have peaked. We think it's too early for a precipitous fall, unless the system creaks loud(er). Recession risks are not enough – they may slow down hikes, but that doesn't make them go away. Market rates therefore remain under upward pressure.

ING global forecasts

	2022					2023					2024					2025				
	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY	1Q24	2Q24	3Q24	4Q24	FY	1Q25	2Q25	3Q25	4Q25	FY
United States																				
GDP (% QoQ, ann)	-1.6	-0.6	2.6	1	**1.9**	-2.3	-1.8	-0.5	1.7	**-0.4**	2.7	2.6	2.3	2.2	**1.7**	2.0	2.0	2.0	2.0	**2.0**
CPI headline (% YoY)	8.0	8.6	8.3	7.6	**8.1**	6.2	4	3.2	2.3	**3.9**	1.8	1.6	1.6	1.8	**1.7**	2.0	2.2	2.2	2.0	**2.1**
Federal funds (%, eop)	0.50	1.75	3.25	4.50	**4.50**	5.00	5.00	4.50	4.00	**4.00**	3.50	3.00	2.50	2.50	**2.50**	2.50	2.75	3.00	3.00	**3.00**
3-month interest rate (%, eop)	0.65	2.10	3.50	4.60	**4.6**	4.90	4.75	4.30	3.75	**3.75**	3.25	2.75	2.40	2.45	**2.45**	2.50	2.70	2.90	2.90	**2.90**
10-year interest rate (%, eop)	2.40	3.00	3.75	4.25	**4.25**	4.00	3.75	3.25	2.75	**2.75**	2.75	2.75	2.75	3.00	**3.00**	3.00	3.25	3.50	3.50	**3.50**
Fiscal balance (% of GDP)					**-4.2**					**-4.6**					**-3.9**					**-3.4**
Gross public debt / GDP					**99.9**					**100.9**					**101.8**					**100.5**
Eurozone																				
GDP (% QoQ, ann)	2.7	3.1	0.8	-3.2	**3.1**	-2.4	0.4	1.0	1.1	**-0.7**	1.6	1.6	1.6	1.4	**1.3**	1.4	1.4	1.4	1.4	**1.4**
CPI headline (% YoY)	6.0	8.0	9.3	10.4	**8.4**	9.1	6.4	4.4	2.6	**5.6**	2.3	2.2	1.9	1.9	**2.1**	2.0	2.0	2.1	2.1	**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**	2.50	2.50	2.25	2.25	**2.25**
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	2.20	**2.20**	2.20	2.20	2.10	2.10	**2.10**
10-year interest rate (%, eop)	0.60	1.40	2.10	2.25	**2.25**	1.90	1.80	1.80	1.80	**1.80**	1.80	1.90	2.20	2.20	**2.20**	2.30	2.40	2.50	2.50	**2.50**
Fiscal balance (% of GDP)					**-4.5**					**-4.4**					**-3.5**					**-3.3**
Gross public debt/GDP					**99.2**					**98.4**					**96.7**					**96.6**
Japan																				
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**	1.6	1.6	1.6	1.6	**1.5**
CPI headline (% YoY)	0.9	2.5	2.8	3.4	**2.4**	3.2	2.5	2	1.5	**2.2**	1.2	1.2	1.2	1.2	**1.2**	1.3	1.5	1.7	1.8	**1.5**
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**	0.00	0.00	0.00	0.00	**0.00**
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**	0.10	0.10	0.10	0.10	**0.10**
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	0.20	0.20	**0.20**	0.30	0.30	0.30	0.30	**0.30**
Fiscal balance (% of GDP)					**-7.0**					**-7.0**					**-6.0**					**-6.0**
Gross public debt/GDP					**270.0**					**260.0**					**260.0**					**260.0**
China																				
GDP (% YoY)	4.8	0.4	3.9	4.2	**3.3**	4.0	7.0	5.1	5.2	**5.3**	5.2	4.7	5.3	5.1	**5.1**	5.3	5.8	5.3	5.5	**5.5**
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**	2.5	2.8	3.1	3.4	**3.0**
PBOC 7-day reverse repo rate (% eop)	2.10	2.10	2.00	2.00	**2.00**	2.00	2.00	2.00	2.00	**2.00**	2.00	2.00	2.10	2.20	**2.20**	2.30	2.40	2.50	2.60	**2.60**
3M SHIBOR (% eop)	2.38	2.20	1.65	1.85	**1.85**	1.70	1.50	1.50	1.70	**1.70**	2.00	2.30	2.40	2.55	**2.55**	2.65	2.75	2.85	2.95	**2.95**
10-year T-bond yield (%, eop)	2.80	2.75	2.75	2.60	**2.60**	2.6	2.7	2.7	2.8	**2.80**	2.80	2.90	3.00	3.10	**3.10**	3.20	3.30	3.40	3.50	**3.50**
Fiscal balance (% of GDP)					**-8.0**					**-6.0**					**-4.5**					**-4**
Public debt (% of GDP), incl. local govt.					**129.0**					**135.0**					**136.0**					**135.0**
UK																				
GDP (% QoQ, ann)	2.8	0.9	-1.7	-1.3	**4.3**	-3.1	-1.1	1.0	1.0	**-1.2**	1.2	1.5	1.5	1.5	**1.1**	1.5	1.5	1.5	1.5	**1.5**
CPI headline (% YoY)	6.2	9.2	10.0	10.2	**8.9**	9.5	6.2	4.7	3.1	**5.9**	2.6	2.3	2.3	2.1	**2.3**	2.0	1.8	1.8	2.1	**1.9**
BoE official bank rate (%, eop)	0.75	1.25	2.25	3.50	**3.50**	3.75	3.75	3.75	3.50	**3.50**	3.00	2.50	2.25	2.25	**2.25**	2.25	2.25	2.25	2.25	**2.25**
3-month interest rate (%, eop)	2.70	2.70	3.35	3.65	**3.50**	3.70	3.70	3.70	3.35	**3.35**	2.85	2.35	2.20	2.20	**2.20**	2.20	2.20	2.20	2.20	**2.25**
10-year interest rate (%, eop)	2.50	2.25	4.10	3.70	**3.70**	3.40	3.20	3.10	3.10	**3.10**	2.90	2.80	2.80	2.80	**2.80**	2.90	3.00	3.00	3.00	**3.00**
Fiscal balance (% of GDP)					**4.0**					**5.2**					**3.0**					**2.5**
Gross public debt/GDP					**97.5**					**98.1**					**98.1**					**97.7**
EUR/USD (eop)	1.11	1.05	0.97	0.92	**0.92**	0.92	0.95	0.98	1.00	**1.00**	1.02	1.05	1.08	1.10	**1.10**	1.10	1.10	1.10	1.10	**1.10**
USD/JPY (eop)	122	132	145	148	**148**	148	145	143	140	**140**	138	135	133	130	**130**	130	130	130	130	**130**
USD/CNY (eop)	6.34	6.69	7.11	7.40	**7.40**	7.65	7.05	6.95	6.85	**6.85**	6.95	7.00	7.00	7.05	**7.05**	7.07	7.08	7.10	7.12	**7.12**
EUR/GBP (eop)	0.84	0.86	0.88	0.89	**0.89**	0.89	0.88	0.88	0.88	**0.88**	0.88	0.88	0.88	0.88	**0.88**	0.88	0.88	0.88	0.88	**0.88**
ICE Brent -US$/bbl (average)	98	112	98	97	**101**	100	100	105	110	**104**	98	90	88	83	**90**	73	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

Three scenarios for the global economy and energy prices

The bullish and bearish case for energy prices and what those scenarios would mean for the major economies

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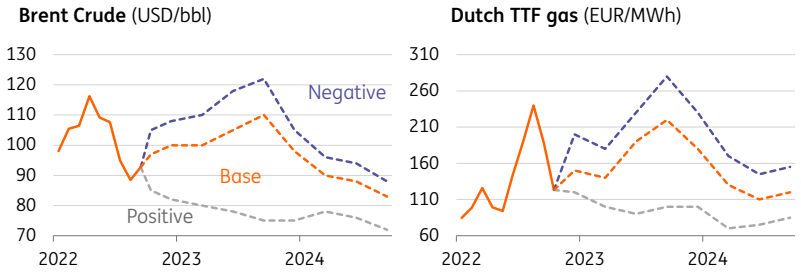
Three scenarios for the global economy and energy prices

Last month we set out a series of scenarios for the energy market and the major economies we cover. Since then the renewed collapse in gas prices for immediate delivery, as well as the rapid turnaround in political and market sentiment towards the UK, shows why it makes sense to stress test assumptions and central forecasts. What follows is an overview of what underpins our base case, alongside both an upside and downside scenario for growth, inflation and central bank policy. xxx

Three scenarios for energy prices

	Oil (Brent Crude)	Natural Gas (Dutch TTF)
Low price scenario	War de-escalation and/or the G7 price cap has the desired effect of keeping Russian oil exports flowing. Iranian talks progress. Market in surplus through 2023	Risk premium is removed and gas flows pick up along certain routes (e.g. via Ukraine/Yamal-Europe, though not Nord Stream). Increased flows see prices fall
Energy Base case	Market in deficit through 2023 due to OPEC+ cuts and EU ban on Russian oil. As a result, higher prices expected. Potential refill of the SPR provides a floor to the market.	Russian gas flows don't improve. Demand destruction helps Europe make it through winter. Difficulty filling inventories next year means higher gas prices in winter 2023/24
High price scenario	Russia reduces output on G7 price cap and/or secondary sanctions. Market goes into deep deficit in 2023. OPEC doesn't have capacity to make up Russian shortfall	Russian flows come to complete halt. Recovery in Chinese LNG demand means Asia competes more aggressively with Europe for LNG. Prices trade to record levels

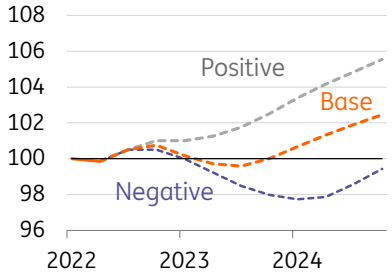


Source: Macrobond, ING

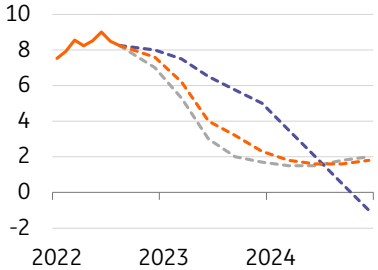
Three scenarios for the US economy

	Growth	Inflation	Central bank
Positive scenario	Employment and wage growth slows. More modest Fed hikes and tight jobs market mean any downturn is brief and shallow	Shelter inflation falls in response to cooling property market. Lower energy and vehicle prices mean steep falls in CPI in 2023	Housing worries lead the Fed to hike more cautiously in Dec, fearing a steep correction and consumer led recession
US Base case	House price falls weaken consumer demand. Lower investment/higher joblessness mean recession in early 2023	Core inflation remains sticky for now, but pricing power rapidly weakens and inventories rise, slowing inflation through 2023	Fed hikes to 4.5% in Dec and 5% in Feb 2023. But recession and lower inflation allow cuts to start from 3Q 2023
Negative scenario	Housing market in painful correction on Fed hikes. Capex falls dramatically. Deep and prolonged recession likely	Inflation fails to slow in any meaningful way, owing to higher energy prices and persistent labour shortages	Sticky wage growth, resilient jobs market push Fed to hike rates to 6%. Late 2023 rate cuts do little to prevent recession

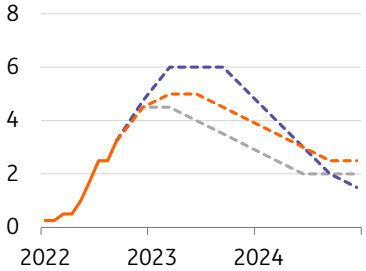
Real GDP level (1Q22 = 100)



Inflation (YoY%)



Fed Funds rate – Upper Bound (%)

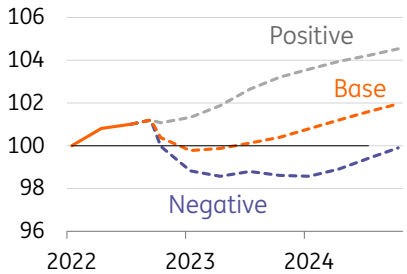


Source: Macrobond, ING

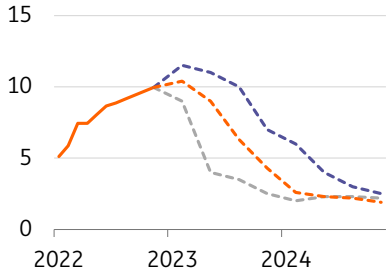
Three scenarios for the Eurozone economy

	Growth	Inflation	Central bank
Positive scenario	Fiscal stimulus more than sufficient. Warm weather reduces uncertainty and energy costs, aiding growth	Falls more quickly as negative energy base effects kick in earlier. At 2% target by end of 2023	ECB hikes refi rate to 3% by spring 2023 but cuts it in 2024 by a total of 75bp
Eurozone Base case	Europe avoids energy rationing, but fiscal stimulus only partly offsets impact of high prices. Economic downturn begins	Inflation averages 10.4% in 4Q. Stays above the ECB's target until mid-2024	ECB adds 75bp of extra tightening over the next two meetings.
Negative scenario	War escalation, gas rationing and Covid delays in Asia lead to deep recession. Financial instability adds to challenge	Inflation in double-digits through much of 2023, on higher energy prices and fresh Covid-related disruptions	Stops tightening monetary policy and cuts rates by 25bp in Feb. New euro crisis forces ECB to intervene to contain spreads

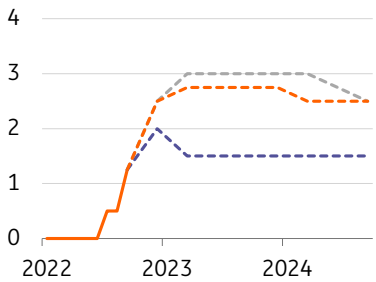
Real GDP level (1Q22 = 100)



Inflation (YoY%)



ECB Main Refi Rate (%)

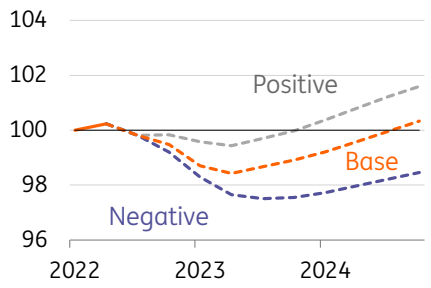


Source: Macrobond, ING

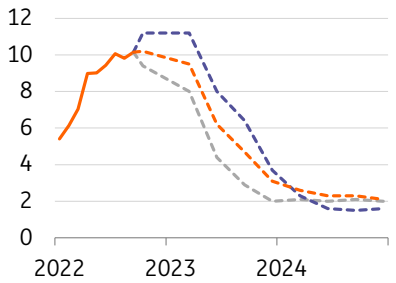
Three scenarios for the UK economy

	Growth	Inflation	Central bank
Positive scenario	Energy price cap quickly restores confidence. Spending rebounds in 2023 on tight jobs market, better real wage story	Falls slightly faster but tight jobs market keeps core inflation above target in 2024	BoE opts for 25bp hike in Dec. Rates peak slightly above 3%. Heathier growth environment means rates stay higher in 2024
UK Base case	Rising mortgage rates and less generous energy support triggers multi-quarter recession	Inflation falls through all scenarios in 2023 due to energy cap. But weaker sterling, wage pressure keeps inflation stickier	A divided Bank of England hikes by a further 50bp in December. Bank Rate peaks around 4%
Negative scenario	Corporate borrowing strain pushes up unemployment materially. That plus a housing crash mean deep recession	Inflation still falls noticeably despite higher oil prices. 2024 core CPI below target as wage pressure & pricing power fade	BoE mirrors market pricing, hikes rates to 5% in 1Q but is slashed again from the summer

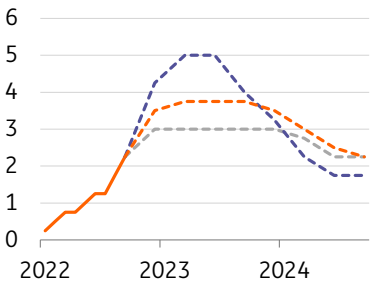
Real GDP level (1Q22 = 100)



Inflation (YoY%)



Bank Rate (%)

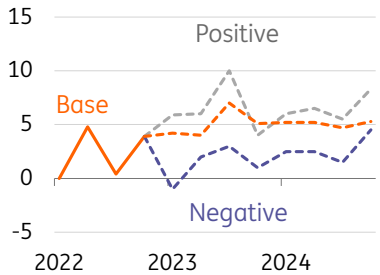


Source: Macrobond, ING

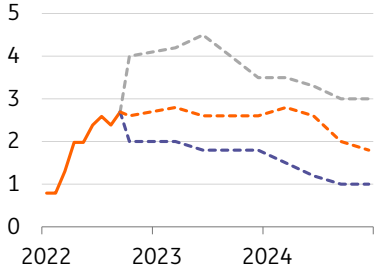
Three scenarios for China's economy

	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 3.5-4%	Economic recovery permits re-lending schemes to end. PBoC kicks off rate hike cycle when inflation is above 3.5%
China Base case	Retail recovers on more flexible Covid rules. Factories hit by weak exports. 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

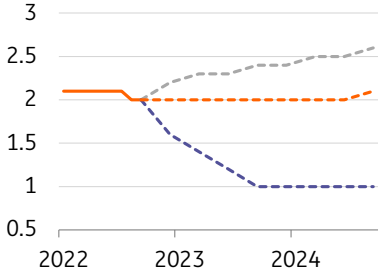
Real GDP growth (YoY%)



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
United States													
Real GDP (QoQ ann%)													
Upside scenario	2.6	2.0	**1.9**	0.0	1.0	2.0	3.0	**1.3**	3.5	3.0	2.7	2.7	**2.7**
Base case	2.6	1.0	**1.9**	-2.3	-1.8	-0.5	1.7	**-0.4**	2.7	2.6	2.3	2.2	**1.7**
Downside scenario	2.6	0.0	**1.8**	-2.0	-3.0	-3.0	-2.0	**-1.3**	-1.0	0.5	3.0	3.5	**-0.5**
Inflation (YoY%)													
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	7.6	**8.1**	6.2	4.0	3.2	2.3	**3.9**	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**
Fed Funds Rate (%)													
Upside scenario	3.25	4.50	**4.50**	4.50	4.00	3.50	3.00	**3.00**	2.50	2.00	2.00	2.00	**2.00**
Base case	3.25	4.50	**4.50**	5.00	5.00	4.50	4.00	**4.00**	3.50	3.00	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**
Eurozone													
Real GDP (QoQ ann%)													
Upside scenario	0.8	-0.5	**3.3**	1.0	2.2	3.0	2.2	**1.4**	1.5	1.4	1.1	1.2	**1.8**
Base case	0.8	-3.2	**3.1**	-2.4	0.4	1.0	1.1	**-0.7**	1.6	1.6	1.6	1.4	**1.3**
Downside scenario	0.8	-4.8	**3.0**	-4.5	-1.0	0.9	-0.7	**-1.9**	-0.2	1.4	2.0	2.0	**0.5**
Inflation (YoY%)													
Upside scenario	9.3	9.0	**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	10.4	**8.4**	9.0	6.3	4.3	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**
ECB Main Refi Rate (%)													
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**
United Kingdom													
Real GDP (QoQ ann%)													
Upside scenario	-1.7	0.1	**4.4**	-1.0	-0.6	1.1	1.1	**-0.3**	1.6	1.7	1.7	1.5	**1.3**
Base case	-1.7	-1.3	**4.3**	-3.1	-1.1	1.0	1.0	**-1.2**	1.2	1.5	1.5	1.5	**1.1**
Downside scenario	-1.7	-2.4	**4.2**	-3.6	-2.6	-0.6	0.2	**-2.1**	0.7	1.0	1.0	1.0	**0.4**
Inflation (YoY%)													
Upside scenario	10.0	9.4	**8.7**	8.0	4.4	2.9	2.0	**4.3**	2.1	2.0	2.1	2.0	**2.0**
Base case	10.0	10.2	**8.9**	9.5	6.2	4.7	3.1	**5.9**	2.6	2.3	2.3	2.1	**2.3**
Downside scenario	10.0	11.2	**9.1**	11.2	8.0	6.4	3.7	**7.3**	2.3	1.6	1.5	1.6	**1.7**
Bank Rate (%)													
Upside scenario	2.25	3.00	**3.00**	3.00	3.00	3.00	3.00	**3.00**	2.75	2.25	2.25	2.25	**2.25**
Base case	2.25	3.50	**3.50**	3.75	3.75	3.75	3.50	**3.50**	3.00	2.50	2.25	2.25	**2.25**
Downside scenario	2.25	4.25	**4.25**	5.00	5.00	4.00	3.25	**3.25**	2.25	1.75	1.75	2.00	**2.00**
China													
Real GDP (YoY%)													
Upside scenario	3.9	5.9	**3.8**	6.0	10.0	4.0	6.0	**6.5**	6.5	5.5	8.3	7.8	**7.0**
Base case	3.9	4.2	**3.3**	4.0	7.0	5.1	5.2	**5.3**	5.2	4.7	5.3	5.1	**5.1**
Downside scenario	3.9	-1.0	**2.0**	2.0	3.0	1.0	2.5	**2.1**	2.5	1.5	4.5	2.0	**2.6**
Inflation (YoY%)													
Upside scenario	2.5	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	2.5	2.0	**1.8**	2.0	1.8	1.8	1.8	**1.9**	1.5	1.2	1.0	1.0	**1.2**
7-day reverse repo (%)													
Upside scenario	2.10	2.20	**2.20**	2.30	2.30	2.40	2.40	**2.40**	2.50	2.50	2.60	2.70	**2.70**
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	2.10	1.60	**1.60**	1.40	1.20	1.00	1.00	**1.00**	1.00	1.00	1.00	1.00	**1.00**
Energy													
Brent crude (USD/bbl)													
Upside scenario	98	85	**98**	82	80	78	75	**79**	75	78	76	72	**75**
Base case	98	97	**101**	100	100	105	110	**104**	98	90	88	83	**90**
Downside scenario	98	105	**103**	108	110	118	122	**115**	105	96	94	88	**96**
Dutch TTF (EUR/MWh)													
Upside scenario	205	130	**134**	120	100	90	100	**103**	100	70	75	85	**83**
Base case	205	160	**142**	150	140	190	220	**175**	180	130	110	120	**138**
Downside scenario	205	190	**149**	200	180	230	280	**223**	230	170	145	155	**175**

Source: ING estimates

Commodities: relief for energy markets won't last long

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Natural gas prices came under significant pressure in October due to milder weather and growing European storage. Oil prices have been relatively stable following the recently announced OPEC+ supply cuts. Despite the recent weakness, the 2023 outlook remains bullish

The scale of the collapse of European natural gas prices has been extraordinary but many problems lie ahead

European natural gas prices collapse

The scale and pace of the collapse in European natural gas prices have been extraordinary; day-ahead TTF prices fell by 79% over October, trading to their lowest levels since June 2021. Meanwhile, TTF next-hour prices briefly traded in negative territory towards the end of the month. This may be an odd move during an ongoing energy crisis, which is being felt most acutely in Europe. However, milder-than-usual weather across large parts of Europe has meant that heating demand has been lower than usual while EU gas storage continues to grow. The latest numbers from Gas Infrastructure Europe show that European inventories are almost 95% full right now, well above the European Commission's initial target of having storage 80% full by 1 November. It's also above the 5-year average of around 89%.

> *"Essentially, EU storage is full"*

Clearly, through much of 2022 strong LNG shipments and demand destruction helped the European Union build inventories at a good pace despite the significant fall in Russian pipeline gas flows - YTD Russian flows to the EU have fallen by around 50% Year-on-Year.

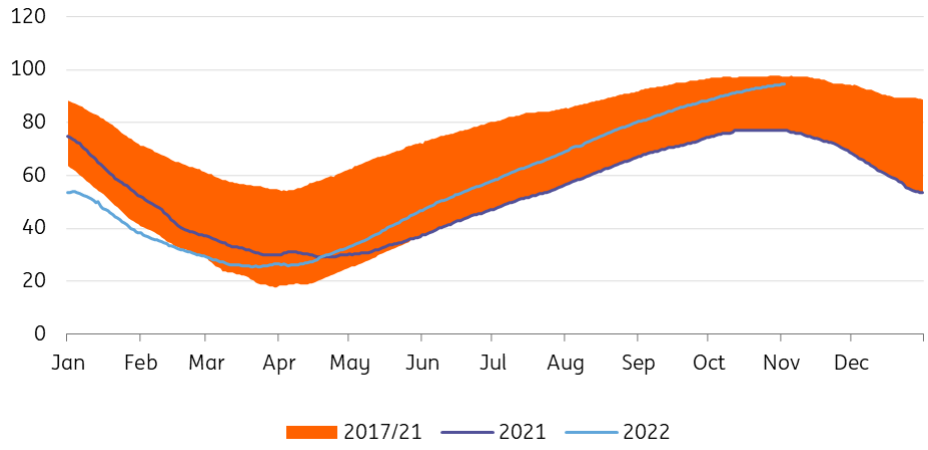
While weakness in prices provides some relief to consumers, the concern is whether those lower prices will stimulate demand once again. European fertiliser producers have already started to bring back curtailed capacity following the recent weakness in prices. If we see this happening on a larger scale, Europe's efforts to refill storage next year will be more difficult.

There are still concerns for Europe over the longer term, particularly through 2023 and into 2024. The front end of the TTF forward curve is in significant contango with Feb-23

TTF futures trading in excess of EUR130/MWh (vs. day-ahead at around EUR34/MWh). The forward curve through 2023 until early 2024 remains fairly flat at these elevated levels.

EU gas storage

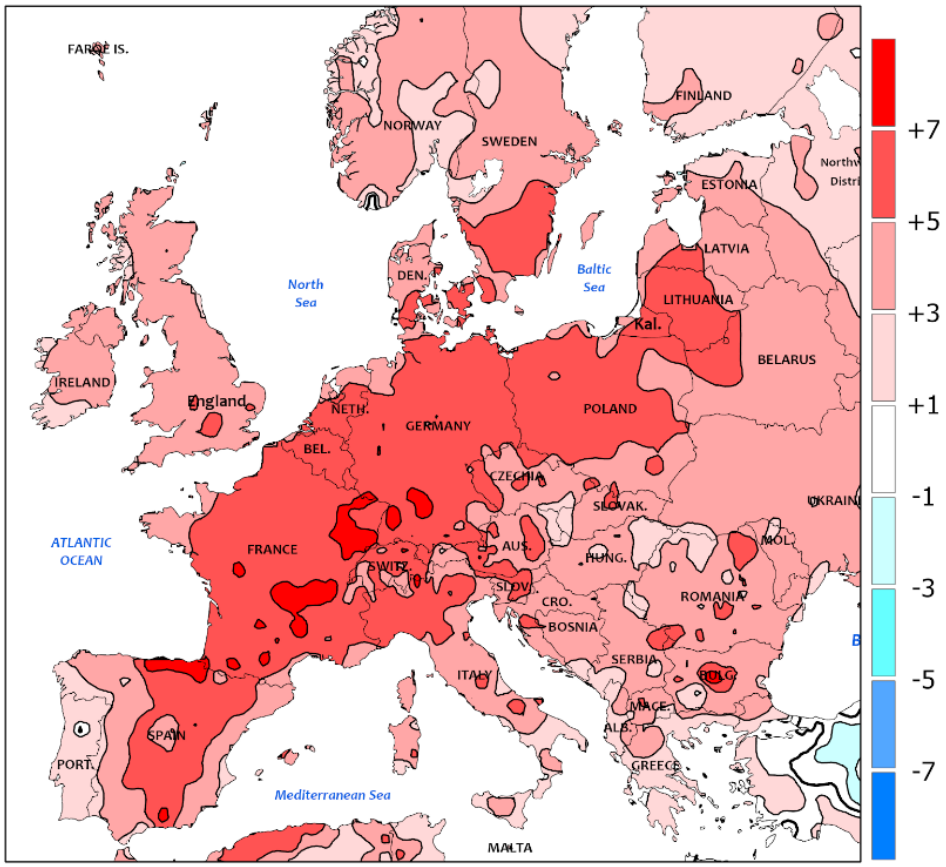
Chart shows total capacity as a percentage



Source: GIE, ING Research

Europe's temperature anomaly

The darker red colours show the higher-than-normal temperatures in the week beginning 23 October



Source: NOAA

2023 will be tight for European gas

The pace of inventory builds during the 2023 injection season will be much more modest compared to what we have seen this year, given the reductions in Russian supply. If Russian gas flows remain as they are currently, annual flows next year will still be down

60% YoY. And clearly, there is the risk that these remaining flows still come to a complete stop.

The ability of the EU to completely turn to other sources is just not possible. There are constraints to how much more LNG Europe can import. There are reports that LNG carriers are queuing for spots at regasification units. This highlights the lack of regas capacity in Europe at the moment. It could also be partly due to market players wanting to take advantage of the significant contango in the front end of the TTF curve.

The EU is seeing the start of a fair amount of regasification capacity in the form of Floating Storage Regasification Units (FSRUs) over the second half of this year and into early 2023. This will help with some of the infrastructure constraints Europe is facing, but the issue is also around global LNG supply and the limited capacity which is expected to start next year. Also, a key upside risk for Europe is if we see a recovery in Chinese LNG imports next year. The world's largest importer has seen weaker demand so far this year due to the impact of Covid-related lockdowns and higher prices. Chinese LNG imports over the first nine months of 2022 were down 21% YoY.

As a result, Europe is likely to go into the winter with tight storage which will leave the region vulnerable this time next year. In order to get through this winter comfortably, we will have to see continued demand destruction. This will have to be either a result of market forces (prices needing to trade higher to reduce demand) or EU-mandated demand cuts. While Europe should be able to scrape through this winter if current Russian gas flows continue, it is much more challenging if the remaining Russian gas flows come to a full stop.

Therefore, we believe there to be upside to current 2023 forward values, particularly those towards the end of the year. Although much will depend on how much storage the EU drawdowns this winter, which obviously will depend on heating demand through the peak of winter.

OPEC+ cuts change 2023 oil outlook

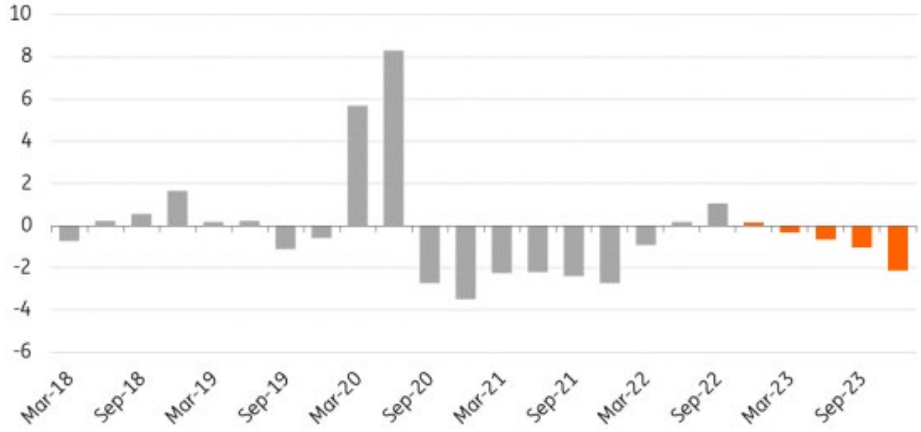
The outlook for the oil market has changed significantly since last month and this is a result of the OPEC+ supply cuts announced in early October. OPEC+ agreed to reduce their output targets by 2MMbbls/d from August production levels. These cuts will start in November and run through until the end of 2023. However, given that the bulk of OPEC+ members are producing well below their target levels, the actual cuts we see from the group will be much smaller. We estimate that output will fall by around 1.1MMbbls/d.

These OPEC+ cuts come at a time of plenty of uncertainty around Russian supply. The EU ban on Russian seaborne crude oil comes into effect on 5 December, followed by the ban on Russian refined products on 5 February. Up to now, Russian supply has held up well thanks largely to India, China and a handful of small buyers increasing their share of Russian oil purchases, but it is difficult to see them having room to increase these purchases significantly. Therefore, when these bans come into force, we would expect to see more significant declines in Russian supply. For now, we are assuming Russian supply to fall by a little more than 2MMbbls/d in the first quarter of next year.

Prior to the latest OPEC+ supply cut announcement; we were forecasting that the oil market would be in surplus through to mid-2023. However, with the market set to lose in the region of 1.1MMbbls/d of supply, it's now expected to be in deficit throughout the whole year. This is even after considering slower demand growth next year, given the macro headwinds (the IEA estimates demand growth of 1.7MMbbls/d for 2023 vs. a previous forecast of 2.1MMbbls/d). As a result, we see oil prices trading higher over 2023. We currently forecast ICE Brent to average US$104/bbl next year.

There are several risks to this view. These include a worse-than-expected macro environment, OPEC+ ending supply cuts early or members not adhering to their cuts, and obviously a de-escalation in the Russia-Ukraine war. For now, we believe it is unlikely that US sanctions against Iran will be lifted, so we see no change in Iranian supply through 2023.

Global quarterly oil balance (MMbbls/d)



Source: IEA, EIA, OPEC, ING Research

Central banks: our main calls

We're now expecting the Fed Funds Rate to hit 5% early next year, even if the pace of hikes slows. We also think there are limits to how much further both the European Central Bank and Bank of England can hike rates amid a looming recession

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China's central bank seems to have abandoned the traditional monetary policy tool of policy rate cuts and RRR cuts as a means to support the economy

Federal Reserve

After four consecutive 75bp Federal Reserve interest rate increases officials have opened to door to a slower pace of hikes from December. The harder and faster a central bank moves into restrictive territory, the less control over the outcome and the greater chance of an adverse reaction. Given the state of the residential real estate market and the deteriorating corporate and consumer outlook, recession in the US now looks unavoidable. However, inflation is showing little sign of slowing. We need 0.1% or 0.2% month-on-month core inflation readings to get the annual rate down to 2% rather than the 0.5% or 0.6% MoM increases in ex-food and energy prices we are seeing. So, while the pace of hikes may slow, the expected terminal rate keeps moving higher. Nonetheless, with housing rents and used car prices now falling, and corporate pricing power being squeezed by the downturn, we think a 5% Fed Funds Rate will mark the peak in February and the door will open for rate cuts through the second half of 2023.

European Central Bank

The ECB's October meeting had something for everyone. Another jumbo rate hike of 75bp and the opening for more for the hawks, but also more recession warnings and an opening to a dovish pivot in December for the doves. Consequently, the times of uncontested decisions at the ECB seem to be over. The December meeting will be much more controversial with a looming recession and a high chance that the ECB's longer-term inflation forecasts will point to a sharp inflation retreat in 2024 and 2025. These aren't really the best arguments to hike into restrictive territory.

We expect the ECB to deliver rate hikes totalling 75bp at the December and February meetings. The balance sheet reduction has started with the announced changes to the ECB's longer-term loans to banks and the option for earlier repayments. More will follow as a gradual phasing out of the reinvestments of asset purchases could become a substitute for additional rate hikes in 2023.

Bank of England

Markets have pared back interest rate expectations in light of a more stable fiscal backdrop but are still pricing Bank Rate to near 5% next year. Bank of England officials have begun to hint more explicitly that this would come with huge damage to the economy and is inconsistent with the amount of tightening needed to get inflation lower. Still, policymakers face an unpalatable decision. If they undershoot market rate expectations, the risk is that we see a renewed downside for the pound – not least because a full-blown pivot from the Federal Reserve seems at least a few months off. That helps explain why the BoE accelerated the pace of rate hikes in November.

But doing so repeatedly risks baking in mortgage rates and corporate borrowing costs which risk material stress in the economy. Around a third of mortgages are fixed for two years, while small and medium-sized enterprises (SMEs) are typically on floating interest rate products. We therefore expect the Bank to undershoot market expectations and remain unconvinced Bank Rate will go above 4% next year. We think the 75bp hike was a one-off.

People's Bank of China

The PBoC seems to have abandoned the traditional monetary policy tool of policy rate cuts and Reserve Requirement Ratio (RRR) cuts as a means to support the economy. Instead, the central bank has increased liquidity via policy banks in China. These policy banks lend directly to local governments for a specific policy target, for example, to finish unfinished home construction projects. This should be more time efficient as commercial banks would not be able to lend to property developers due to the still restrictive policies set for property developers, and they would be reluctant to lend to construction companies. This kind of direct lending to local government avoids them having to increase bond issuance, and therefore reduces interest costs of local governments in general. We expect the central bank to increase liquidity injections through policy banks until all unfinished residential projects are completed.

The US is hiking into a recession

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The Federal Reserve is focused on defeating inflation, whatever the economic cost. Nonetheless, after four consecutive 75bp rate hikes the pace is set to slow. We look for Fed funds to peak at 5%, but with nascent signs that inflation will fall sharply next year and the likelihood that recession will bite hard, the chances of a policy reversal in 2023 are high

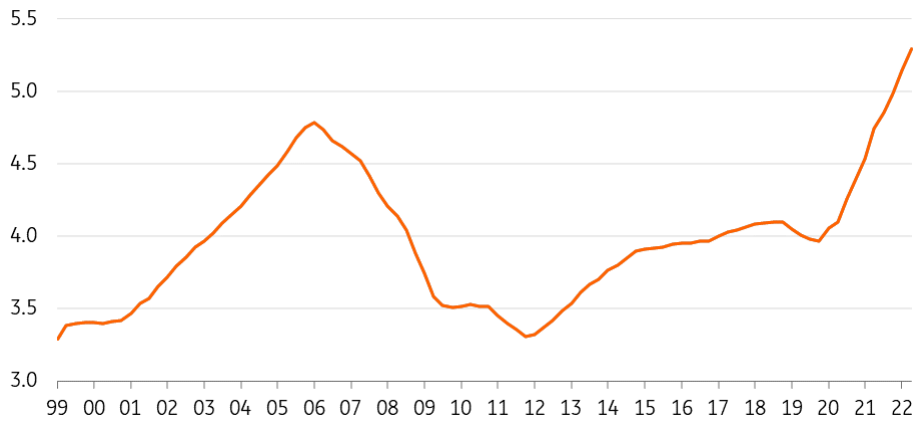
Fed chair Jerome Powell at a press conference on 2 November, following the implementation of a fourth consecutive three-quarter point interest rate hike

Recession risks rise as the Fed stays focused on inflation

The Federal Reserve has now raised interest rates by 375bp this year, the fastest pace of policy tightening since Paul Volker led the Fed in the late 1970s/early 80s. The danger is that the harder and faster a central bank moves into restrictive territory – to get a grip on inflation – the less control over the outcome and the greater chance of a recession. That is now our big fear.

The residential real estate market is where the pain is currently most acute with surging mortgage rates prompting a plunge in mortgage applications and falling housing transactions. Home prices have fallen for two months in a row, but we feel this is just the start. To return house price-to-income ratios back to 30-year averages it would require prices to fall more than 20%. This would be dire news for residential investment and the construction sector more broadly while retail activity that correlates with home sales – household furniture, furnishings and home appliances – will also be heavily hit.

House price-to-income ratios 1999-2022



Source: Macrobond, ING

The corporate sector is also now facing some strains as demand slows, yet cost pressures remain intense. This deteriorating profit outlook is forcing boards to dial back their expansion plans with falling capital goods orders pointing to declining investment, while the trending lower in the number of job openings signals increased caution. A cooling jobs market comes at a time when household spending power is squeezed by high inflation with confidence under additional pressure from broad asset price falls.

Fed set to step down to 50bp from December

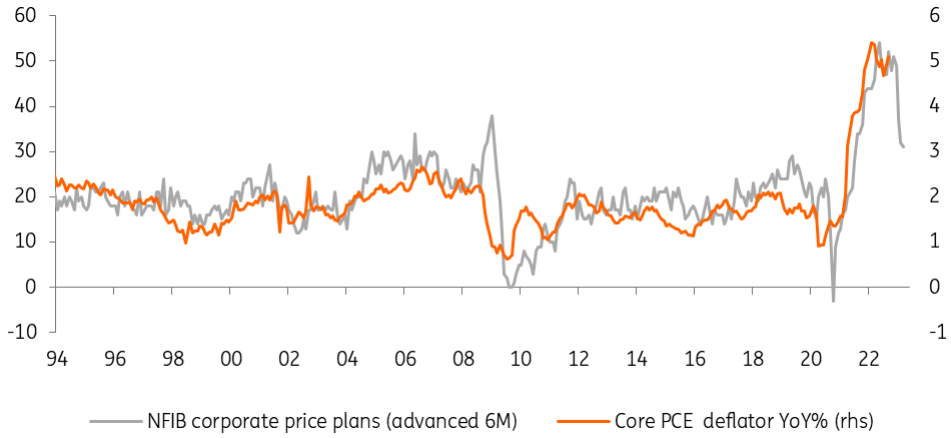
Unfortunately, there will be no let-up in interest rate hikes until the Fed is confident inflation is coming under control. Currently, both the core CPI (ex-food and energy) and personal consumer expenditure deflator are reporting monthly price rises of 0.5% or 0.6%, but to get inflation to average 2% over time we need numbers closer to 0.2% month-on-month. In the very near term, we are not hopeful that momentum will slow, but it does appear that the Fed, like other central banks, is looking to moderate the pace of future hikes as recession fears spread.

We continue to expect a 50bp rate hike in December, but given the stickiness in core inflation we now look at a final 50bp hike in February, which would take the Fed funds target range up to 4.75-5%. We don't think the Fed will keep hiking into the second quarter though. Despite the near-term stickiness, there are encouraging signs that suggest inflation could slow quite quickly through the first half of next year.

Inflation is set to slow in 2023

Normally house price moves lead to changes in the housing CPI components by a year, but there is evidence to suggest actual rents are already falling, as reported by rent.com and realtor.com, amongst others. If so, the heavy 32% weighting of housing within inflation can contribute to a steep CPI slowdown more quickly than would typically be the case. Furthermore, the Manheim used car data points to used vehicles (4% CPI weight) falling 15% over the next couple of months, which can make a big dent in annual inflation rates.

NFIB survey suggests fewer companies are looking to raise prices, meaning core inflation could plunge



Source: Macrobond

The most interesting guide though is from the National Federation of Independent Businesses, whose price plans series, which shows the proportion of companies looking to raise their prices in the next few months, suggests that corporate pricing power is rapidly weakening. This is highly correlated with the Fed's favoured measure of inflation – the core PCE deflator (see chart above). A recession will only intensify competitiveness pressures as businesses fight for customers.

2023 rate cuts remain our call

We now forecast three quarters of negative GDP growth in 2023 as the deteriorating domestic backdrop is compounded by a weakening external environment and ongoing dollar strength. But we also believe inflation will fall to close to 2% by the end of next year. With the Republicans likely to gain control of Congress after next week's mid-term elections, this will severely curtail President Joe Biden's ability to offer any support from fiscal policy. This means the onus will be on the Fed to promote a return to growth. We feel that in the second half of 2023 it will be in a position to do so with rate cuts.

The eurozone's last hurrah before recession bites

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The eurozone economy expanded in the third quarter, but most recent data suggests that the recession has already started. Double-digit inflation is keeping the ECB in tightening mode, though substantial progress has been made in withdrawing stimulus. That means we're unlikely to see any more rate hikes after February next year

The growth party's nearly over in the eurozone

Growth surprises positively in the third quarter

The eurozone registered an unexpected 0.2% Quarter-on-Quarter expansion in the third quarter. Not surprisingly Spain, Italy and France did see growth on the back of a good tourism season, but Germany also performed much better than expected with 0.3% QoQ growth. However, it is striking to see that economic data has started to deteriorate strongly after the summer holidays.

The eurozone composite PMI flash estimate fell to a lower-than-expected 47.1 in October. This is just a near 2-year low but also the fourth consecutive month that the PMI is hovering below the 50 boom-or-bust levels, clearly suggesting negative GDP growth. We get the same story from the European Commission's economic sentiment indicator: it fell in October for the eighth month in a row to the lowest level since November 2020. The forward-looking components of the business surveys such as hiring intentions and new orders are heading south, a signal that the downturn is likely to intensify in the coming months.

Consumption is softening

Source: Refinitiv Datastream

Consumption is likely to cave in

Admittedly, consumer confidence improved slightly in October, but it remains close to the historical low reached in September. As households are expecting higher unemployment in the next 12 months, their intentions to make major purchases, renovate their homes or purchase a house, are all at very low levels. This strong cooling of consumption is also seen in high-frequency data such as hotel bookings, which are showing a post-summer dip.

To be sure, in most countries there is budgetary support to alleviate the energy bills, but we don't expect this to be sufficient to generate positive consumption growth in the coming quarters. With the significant rise in interest rates, accompanied by tighter credit standards, the real estate market is starting to cool rapidly in several countries, putting downward pressure on house prices. This is likely to impact construction activity negatively over the coming year.

We're reiterating our forecast of a GDP contraction in the fourth quarter of this year and in the first of 2023. But there's more. The ECB's current tightening policies and the still difficult energy transition away from Russian gas will restrain the recovery thereafter. On the back of the better third-quarter numbers, we've revised our 2022 eurozone growth forecast up to 3.1%. For 2023 we are now pencilling in -0.7% growth and for 2024 1.3%.

Horror inflation

The October inflation data, published on Halloween, was another shocker: 10.7% headline inflation and 5.0% core inflation. The good news is that upstream in the supply chain there finally seems to be some moderation in price pressures. Supply chain delays eased to the lowest level for over two years, with shipping and material prices now clearly coming down.

With inventories of finished products rising rapidly, pricing power is also likely to wane. On the back of the mild October weather, natural gas prices have also softened significantly, though we expect prices to rise again over the coming months when more normal winter temperatures set in. But even then, the contribution of energy to headline inflation is likely to diminish gradually. For 2022 we are now looking at 8.4% inflation and for next year, 5.6%.

High inventories are likely to depress pricing power

Source: Refinitiv Datastream

Substantial progress in withdrawing stimulus

The European Central Bank no longer dismisses the possibility of a recession, though we will have to wait for the December staff forecasts to know whether it will become the base case. For the time being the bank is still in tightening mode. But at the same time, it acknowledges that substantial progress has been made in withdrawing monetary

stimulus. While the Bank's president, Christine Lagarde, didn't want to put a figure on the neutral or the terminal interest rate during the press conference after the last rate hike, Banque de France President, Villeroy de Galhau, stated on several occasions that the neutral nominal interest rate is believed to be close to 2%.

We, therefore, maintain our forecast of a deposit rate of 2% in December and a final rate hike of 25bp in February. The ECB is also likely to announce the conditions that will trigger the start of Quantitative Tightening. We believe that it will begin in the second quarter of 2023 at the earliest, basically through no longer fully reinvesting the Asset Purchase Programme portfolio. This will only have a minor impact on excess liquidity and bond yields next year.

UK recession inevitable as government winds back economic support

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Prospects of fiscal tightening, limited energy support, and sky-high mortgage rates look set to reduce the size of the UK economy by roughly 2% over several quarters

Rishi Sunak, Prime Minister, UK - 26 Oct 2022

The new prime minister has succeeded in calming markets

The appointment of Rishi Sunak as the new UK prime minister heralds a very different fiscal approach to his predecessor. Promises of debt sustainability have succeeded in stabilising financial markets, and both the pound and gilt yields have gone full circle since the mid-September 'mini budget'. The political risk premium, as measured by the spread between German and UK 10-year yields, has narrowed back, although it is still wider than it was before the Conservative leadership contest started in July.

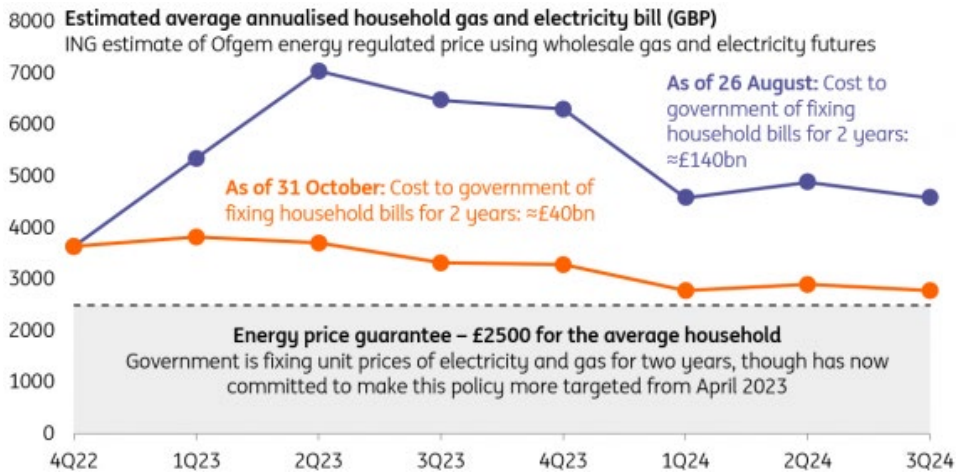
Unfortunately, that's where the good news stops. Sunak may have tentatively won back investor confidence, but he'll need to find savings worth roughly £30-40bn/year to convince the independent Office for Budget Responsibility that debt won't rise across the medium-term as a percentage of GDP. With very limited scope to cut day-to-day spending, we suspect he'll have to chop back public investment plans and potentially also look at increases to personal taxes.

Energy support to become less generous

None of this will be good for growth, though the impact will be dominated by a decision to make the government's flagship energy support programme less generous from April 2023. Under existing plans, the average household energy bill is capped at £2,500 for two years, but the government has signalled this will become more targeted.

Aside from adjusting income tax rates, the only obvious way of doing this would be to make a distinction between those on welfare support and those that aren't. One scenario could see most consumers move back to paying the Ofgem-regulated price from April.

The cost of fixing household energy bills has collapsed



Source: Refinitiv, Ofgem, ING calculations

Under that sort of policy, we'd expect most households to pay on average £3,300 in FY2023 for energy, without any government support. As the chart shows, the sharp fall in gas prices means that estimate has halved since August. But that would still leave the average household paying close to 10% of their disposable income on energy.

Alongside that, mortgage rates look set to fall fairly gradually, against a backdrop of stubbornly high Bank of England expectations and a greater premium from lenders for high loan-to-value products. With roughly a third of mortgages fixed for two years, millions of homeowners look set to lock-in these higher rates. The two-year fixed rate recently peaked at 6.5%.

A recession looks inevitable

All of this suggests a recession is now inevitable, and we've once again downgraded our GDP forecasts. We now expect the size of the economy to shrink by roughly 2% over four quarters, concentrated in the first half of 2023.

Admittedly these forecasts are still heavily contingent on how the government adjusts its energy support. If gas prices begin to rise, particularly for winter 2023/24 contracts, then the government will be under heavy pressure to once again extend its energy support to all households beyond April next year.

China hopes expanded high-tech FDI list will boost ailing economy

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The Chinese government has quickly followed up the Party Congress' key policy objectives by allowing foreign direct investment on an expanded high-tech list. But short-term economic growth prospects have weakened as Covid-19 cases have risen, and we are now downgrading our GDP forecast

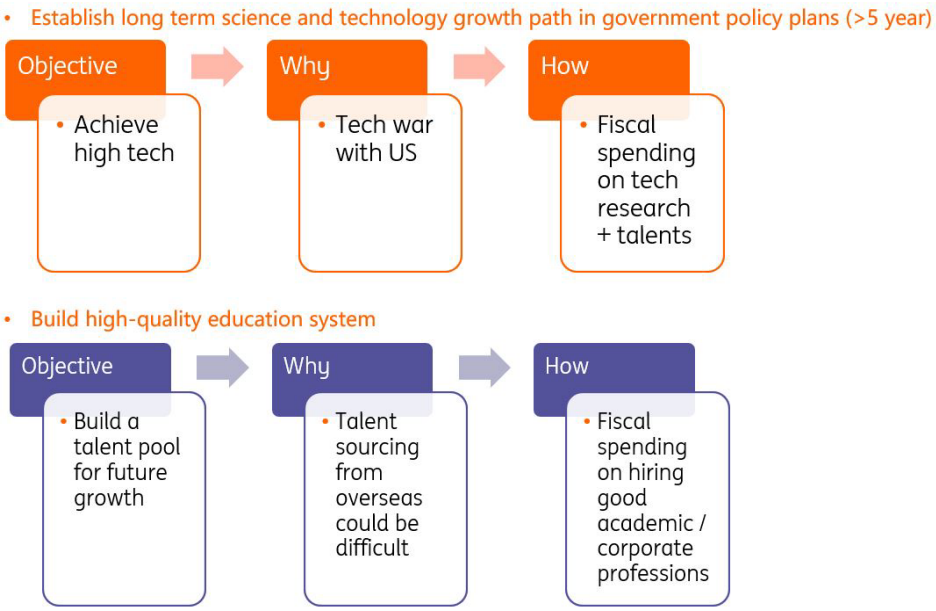
The expanded FDI list is an important policy action to enhance China's production capability of more advanced tech goods and parts, including semiconductors

Policy follow-up after the 20th Party Congress

In a previous note, we wrote about how the 20th Party Congress last month focused on advanced technology and a high-quality education system. And in line with these goals, the government has announced an expanded foreign direct investment (FDI) catalogue to be effective from the first day of 2023, which will replace the existing one announced back in 2020.

The main difference in the new FDI catalogue is in the advanced manufacturing and services area, including parts and equipment manufacturing, and environmental protection-related industries.

20th Party Congress key policy objectives



Source: ING

Expanded FDI on high tech

We see this as an important policy action to enhance China's production capability of more advanced technological goods and parts, including semiconductors. This is an essential part of China's economic strategy to ensure that it can further advance in the technology area once the US implements the CHIPS Act. But because of the CHIPS Act, this expanded FDI list may yield little result as it will make it more difficult for foreign companies to set up technology-based factories and offices in China.

To get the most out of the expanded FDI list, China needs to show multinational companies that China's domestic market is big enough to set up a supply chain outside the US and without US technology. This will be difficult, though we cannot rule it out. As such, we believe that there will also need to be more preferential policies for high-tech industries announced between now and the "Two Sessions" that take place in March 2023.

Expanded FDI on green technology

More foreign direct investment in green technology and environmental protection-related industries should enhance technology available for renewable energy. It should therefore improve China's probability of achieving its stated goals of reaching peak carbon emissions by 2030 and net-zero carbon by 2060.

Getting more FDI for green technology will be easier than for advanced technology, as it should run into fewer problems from the US CHIPS Act. China is also a very big market when it comes to green investment opportunities, which should make it an attractive market for foreign firms.

Covid is still a problem, but there are some social distancing relaxation experiments

Recently, Covid cases have started to rise again in China, and some small area lockdowns could result. On the other hand, China is doing some "controlled experiments" on relaxing social distancing measures. Two big events will be held in China in the first half of November: the Beijing Marathon and Shanghai expo. Foreigners will be granted visas for the latter, which is a big step forward for China's border control policy. We will watch how the government manages these events if there is a Covid outbreak at the same time. For now, we do not think there will be a material change in Covid measures, but there are encouraging signs for the future.

In the short-term though, the rise in Covid cases is one of the reasons, in addition to disappointing third-quarter GDP growth, we are downgrading China's full-year 2022 GDP forecast from 3.6% to 3.3%.

Lack of Chinese tourists is hindering Asia's economic recovery

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As Asia's current account surpluses get hit by high energy prices, resurgent tourism could be one tonic to soften the blow – but there's one major issue...

The lack of Chinese tourists is a huge blow to Thailand's tourism sector

It's the less developed nations that have suffered the most

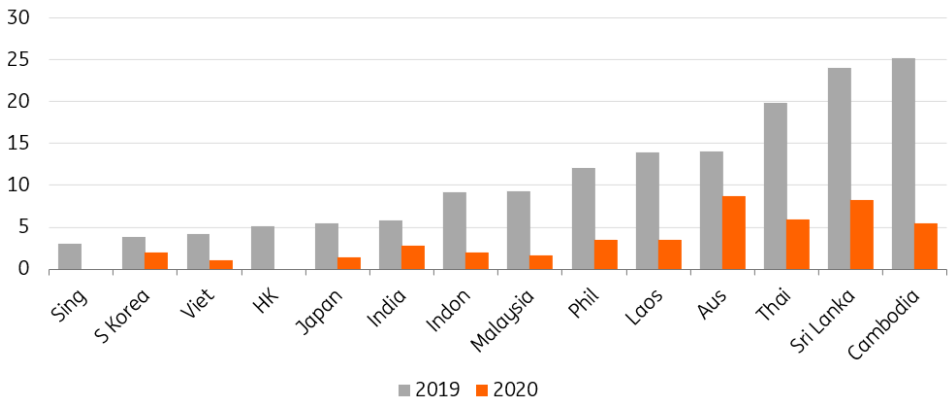
The global pandemic and ensuing slump in global tourism didn't just hurt Asia, but the region certainly has its share of top global travel destinations and the collapse in tourism that accompanied the pandemic was an unwelcome additional cost to bear.

According to United Nations research, travel restrictions caused a cumulative 95.3% decline in international arrivals to Asia and the Pacific between January and July 2021 – the biggest decline in international arrivals globally – compared to the same period in 2019. Prior to this, international tourist arrivals to Asia-Pacific had risen from 208 million in 2010 to 360 million by 2019, and the sector was poised to deliver further growth before the world went into collective quarantine.

Across the region, including China, the World Travel and Tourism Council estimates that the tourism sector directly accounted for around 185 million jobs pre-pandemic, with more than 30 million of these jobs disappearing during the pandemic.

The pain has been felt disproportionately by the region's less developed economies, where alternative sources of foreign currency income are less available. As a percentage of total exports, Asia's most tourism-dependent economies in 2019 included Cambodia, Laos, and Sri Lanka. Not surprisingly, middle-income Thailand also made it into the top end of the range, with nearly 20% of 2019 exports accounted for by international tourism receipts. High-income Australia isn't too far behind.

International tourism receipts as % of total exports



Source: World Bank, ING

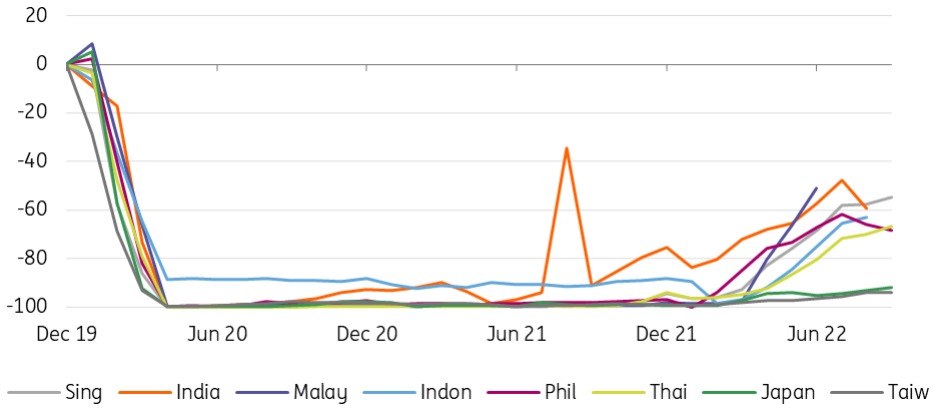
Tourism revenues have plunged and haven't bounced back all that much

Tourism revenues plunged in 2020 (along with total exports), and though we are still waiting for World Bank data for 2021, this situation probably didn't improve much until this year. That improvement in tourism revenue would have been very welcome in Asia, as the Russian invasion of Ukraine and subsequent spikes in energy prices have left their mark on current accounts around the region.

For a region that has generally run large and steady current account surpluses and amassed large stocks of foreign exchange reserves, this surge in energy prices for all but a few net energy exporters (Indonesia, Malaysia, Australia) has eaten away at the external balances, leaving some economies looking at their first deficits since before the Asian financial crisis in 1997. On top of this, central bank intervention to temper currency depreciation has taken a toll on FX reserves.

So, while it may not totally eradicate the damage caused by this big terms of trade shift, and the current strength of the US dollar, some additional tourism revenues would at least help to ease the pain.

Tourist arrivals (Dec 2019=0)



Source: CEIC, ING

Despite reopening, tourism numbers are still low

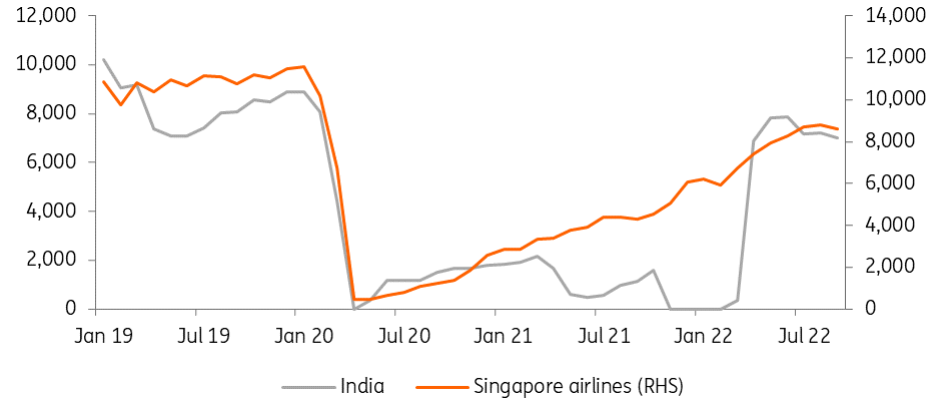
But for all that we read about "revenge spending", the statistics for tourism are quite disappointing. In the chart above, we show the foreign tourist arrivals for the region. Nowhere do the latest numbers come even close to pre-Covid levels of arrivals.

Singapore, which has seen the biggest recovery in tourism across the region, is still only seeing about 40% of the pre-Covid levels of inward tourism. And for tourism stalwarts like Thailand, the figure is 30% or less.

Hotel room rates and foreign occupancy figures add to the story. Using Thai data as a proxy for much of the rest of the region, the data shows that hotel room rates have recovered to about half of their pre-Covid levels. There is still very low foreign occupancy, which suggests that local tourism is still filling most of the gaps.

The reasons for the foreign tourist shortfall may be explained by some of the passenger seat kilometre data that is available. Both Singapore and India data on airline capacity remain at levels less than 80% of pre-Covid capacity, as (possibly) shortages in maintenance crews to re-commission mothballed aircraft, as well as shortages in cabin staff and flight crew, have curbed availability. Anecdotally, this shows up in some steep increases in airline prices, over and above any reflection of higher aviation fuel costs. Why fly to a low-cost tourism destination when the cost of getting there has soared?

Passenger seat km availability (m)



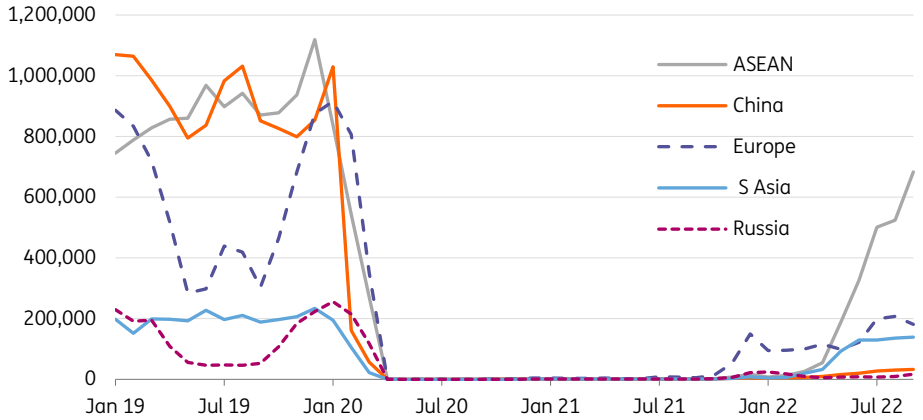
Source: CEIC, ING

The elephant not in the room

In the end, though, more than expensive plane tickets, or seat availability, Thai visitor arrivals data by nationality shows that there is one single factor that is resulting in dismal tourism numbers and revenues: the absence of China.

The chart below even understates this impact, as it is by visitor nationality, not residence, so will include Chinese nationals living outside of Mainland China. And even though we are beginning to see ASEAN visitor numbers pick up some of the slack, it is extremely unlikely that Asia-Pacific tourism can manage a full recovery without Chinese tourism returning.

Arrivals by nationality (Thailand)



Source: CEIC, ING

On this subject, the last few weeks have delivered both disappointment and hope. The disappointment came from the re-commitment to its zero-Covid strategy by China's President Xi Jinping at the 20th Party Congress in October. Markets collectively registered their disappointment at what they surmised would mean another year of dismal Chinese demand, and this was especially bad news for Asia's tourism sector.

But despite this commitment, actions on the ground seem to be more hopeful. International travel restrictions for foreign business executives have recently been eased, and events are being trialled with fewer Covid restrictions (for example, the Shanghai expo and Beijing Marathon), potentially a precursor to some slow rewind on other travel restrictions.

Tourism in Asia is still a long way off from being able to declare recovery, and without China's tourists that prospect still seems distant. But we may at least be seeing the first stages of a slow re-opening in China.

CEE: struggling to stave off recession

We see signs of a recession in the region in the hard data, but inflation has yet to peak. Central banks are thus resisting pressure to raise rates further and are seeking a balance with expansionary fiscal policy. Although the overall picture is not as bad as first feared, risks are mounting as we head into winter

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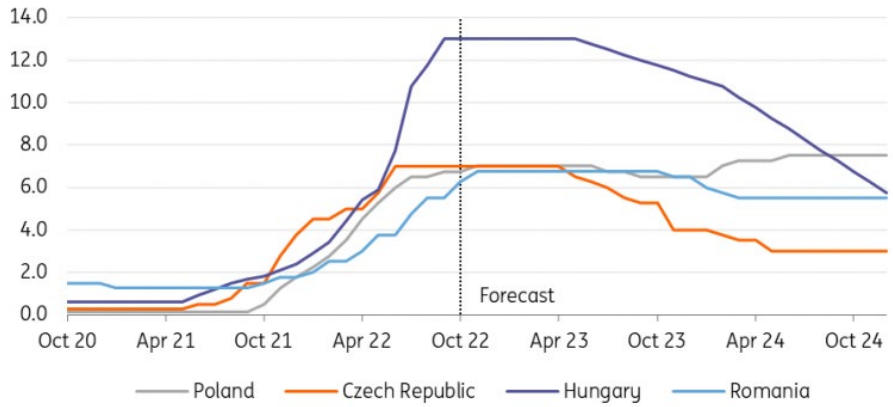
Poland: Will the MPC hike in November or not?

Consumer inflation continues to trend upward but selling pressure on the zloty (PLN) and Polish government bonds has abated, at least, for some time. Neither the theory of a summer peak in CPI inflation nor the scenario of an "inflation plateau" envisaged by the National Bank of Poland (NBP) have materialised. In October, CPI jumped by 17.9% year-on-year and rose 1.8% month-on-month. Sharp increases in food and petroleum prices were accompanied by higher prices of energy and further growth in core inflation. The latter confirms that higher costs of energy and transport are still being passed through to output prices. The majority of the Monetary Policy Council (MPC) is in favour of ending the tightening cycle but the CPI path in the November staff projection may convince policymakers to deliver another rate hike (25bp) next week. At the same time, we do not rule out that the Council might refrain from lifting rates, extending the pause initiated in September. It is going to be a close call.

September data indicates that the economy expanded by about 1% quarter-on-quarter (seasonally adjusted) in the third quarter of 2022, following a sharp 2.1% QoQ decline in the second quarter, with industry showing strong resilience to headwinds from softening external demand and poor sentiment. In 2022, the economy is projected to expand by around 4%, before slowing to about 1.5% as both supply and demand are hit by high prices and costs. External conditions are expected to cool and high interest rates should curb investment activity.

The zloty regained some ground as liquidity conditions lifted the cost of PLN financing and discouraged the building of short positions. Still, with high inflation ahead and the NBP reluctant to provide further monetary tightening, the PLN is expected to remain on the weaker side and may end the year closer to 4.90 as both the Federal Reserve and European Central Bank continue to tighten decisively.

Monetary policy rates in the CEE region



Source: Macrobond, ING forecast

Czech Republic: First country in the region to enter recession

In the third quarter, the Czech economy posted its first contraction in quarterly terms since the first quarter of 2021 and is the first country in the region to open the door to a winter recession. Leading indicators show that the situation is continuing to deteriorate. Nevertheless, we expect the economy to return to growth early next year. We expect inflation to peak in October, just slightly above September's figure (18% YoY). Government measures to lower energy prices in the fourth quarter should help to artificially lower inflation.

On the monetary policy side, nothing has changed in our view. We expect interest rates to remain unchanged until at least the end of the first quarter of next year and then depending on inflation and the performance of the economy, we see the possibility of reopening the discussion on rate cuts. Although we see the Czech Republic as being the first country in the CEE region to end its hiking cycle, we see moderate risks for additional rate hikes stemming from higher wage growth and the cost of FX intervention, which we will continue to monitor closely.

More interesting is the situation on the fiscal side, where the government recently approved an increase in the state budget from CZK280bn to CZK375bn (5.2% of GDP) for this year and CZK295bn (3.7% of GDP) for next year. In addition, a number of proposed changes on both the revenue and expenditure sides have not yet been approved, adding to the uncertainty over increasingly expansionary fiscal policy.

On the market side, the selling pressure on Czech government bonds has subsided, however, given the rising bond supply, questions over fiscal policy and the risk of a sovereign rating downgrade, we believe CZGBs will see more pain. The Czech koruna, on the other hand, remains fully under the central bank's control. Although the Bank's FX intervention costs are rising, we believe the cushion is still large enough and do not expect any change in the coming months.

Hungary: The eye of a needle

It would be easier to get a camel through the eye of a needle than to guess what might come next in local money markets and economic policy. We agree with the market consensus that economic activity in Hungary is deteriorating, though hard evidence of this has been limited – a function of the time lag between reality and data releases. Soft indicators like manufacturing PMI and business confidence suggest a drop in industrial production. On the household side, decreasing real wage growth, a rising unemployment rate and recession fears are translating into lower consumer confidence, and thus retreating consumption. The high interest rate environment – despite

investment support programmes and mortgage freezes – will affect new lending, creating a temporary gap in investment activity until new EU projects come online.

In all, we see two to three quarters of technical recession during late 2022 and early 2023, translating into 4.5% GDP growth this year and 0.4% next year, with downside risks. Though we see the peak in inflation in the first quarter of 2023, the normalisation will be relatively slow, keeping the yearly average higher (15.7% in 2023) than in the previous year (14.2%). Retreating inflation will be helped by moderating energy prices, which will also impact Hungary's external balance. We see a narrowing in the current account deficit during 2023, thus systematic pressure on the forint will be easing. This, along with falling inflation, might open the door for a turnaround in the base rate. However, in the short run, we expect the National Bank of Hungary to maintain its hawkish "whatever it takes" approach. The effective rate will remain at 18% until we see a marked improvement in the external and internal risk environment. The latter includes the agreement with the EU, which we expect to be signed during the second half of December, igniting a relief rally in Hungarian assets.

Romania: Not in the mood for a recession yet

While we don't yet have a full picture of the third quarter, most of the high-frequency data has been rather upbeat, although the slowdown from the second quarter is notable. We've seen rather strong readings in construction and services, quasi-flat retail sales and a marginal contraction in industrial production, all underpinned by a still solid labour market. Incorporating all of this and presuming that the still missing third quarter data will come in on the softer side, it seems that our call for a GDP contraction versus the second quarter is too pessimistic and a small but positive quarterly expansion looks more likely. This is supported as well by the higher-than-expected data from the eurozone, by far Romania's main trading partner.

On the monetary policy front, the shift higher in the level of the inflation peak and the rise from early in the third quarter towards year-end means that another hike from the National Bank of Romania (NBR) at the 8 November meeting is a done deal. We currently favour a 50bp hike to 6.75% and an "open-ended" press release, with little-to-no forward guidance. While we narrowly favour the scenario of no more hikes into 2023, another 25bp hike in January cannot be excluded. This hiking decision will be data-dependent and – if taken – should mark the end of the hiking cycle.

Though rather small by most standards, the volatility of the EUR/RON FX rate has been rather eye-catching lately. Unlike in August when the EUR/RON marked a pronounced V-shaped pattern, the appreciation of the leu seems to be more sustainable this time. We believe that this suits the central bank's circumstantial objectives regarding inflation and firm liquidity management. A year-end FX rate closer to 4.90 rather than 4.95 looks plausible now.

Global trade slows and supply chains remain unbalanced

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Global trade is slowing over faltering consumer demand amid the energy and inflation crisis. Delays have eased and container rates have tumbled, but supply frictions remain

Aerial view of containers arranged on a terminal in the port of Los Angeles

After a relatively strong first half of the year, global trade has entered the slow lane

Global merchandise trade has held up well so far this year given the volatile and uncertain environment, with world goods trade standing at 4.4% year-to-date (January to August) according to CPB world trade data. In the first half of the year, consumers' appetite for goods was still running high compared to the year before, but with a shift back to services and travelling, and with people worrying about the rising cost of living, things changed over the summer.

On the back of a relatively strong first half of the year, global trade will likely see a growth rate of 3.8% for the whole of 2022, but amid headwinds the pace is slowing quickly. For next year, we expect merchant trade growth to slow to just 1.2%, as discussed in more detail in our trade outlook for 2023. This falls behind expected GDP growth.

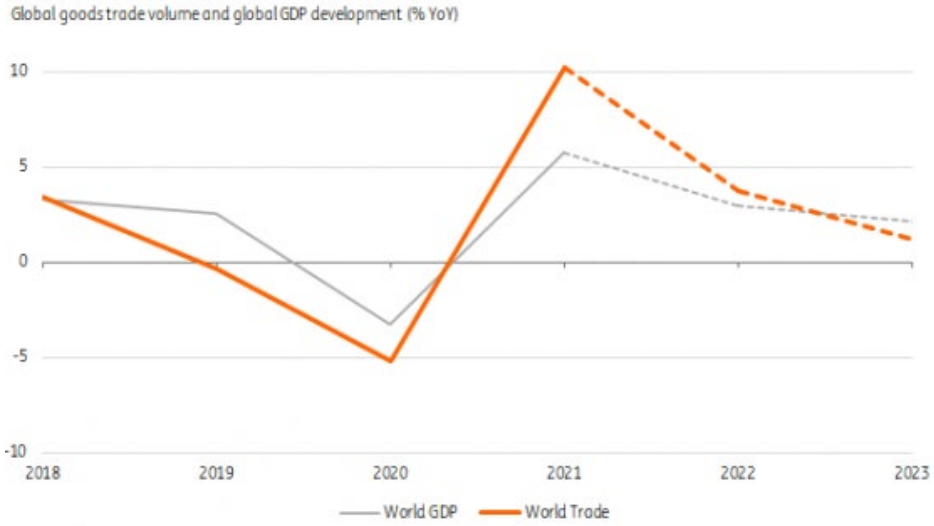
Mixed picture: intra-Asia trade and bulk flows hold up better

With consumer demand faltering, the energy and subsequent inflation crisis persisting, and ongoing labour and material shortages, there are simply not enough silver linings to keep global goods trade robustly flowing. Energy prices are very likely to remain high, burdening (industrial) companies' cost competitiveness and households' purchasing power, despite government compensation packages. While Europe is expected to see a flat year, the US is holding up better and intra-Asia trade is expected to push up the global average.

In terms of categories, the energy crisis tends to lead to more transport of energy carriers (like liquefied natural gas, or LNG). Demand for oil and oil products is continuing to catch up after the Covid-19 pandemic setback and this is expected to continue in 2023, despite weak economic perspectives. On the container side (predominantly

consumer goods), there will be very little growth and will stick well below its long-term average. For dry bulk flows, 2023 is set to be a better year as industrial demand from China is expected to catch up compared to 2022.

Growth in world trade will stay behind world GDP in 2023



Source: Refinitiv, ING Forecasts

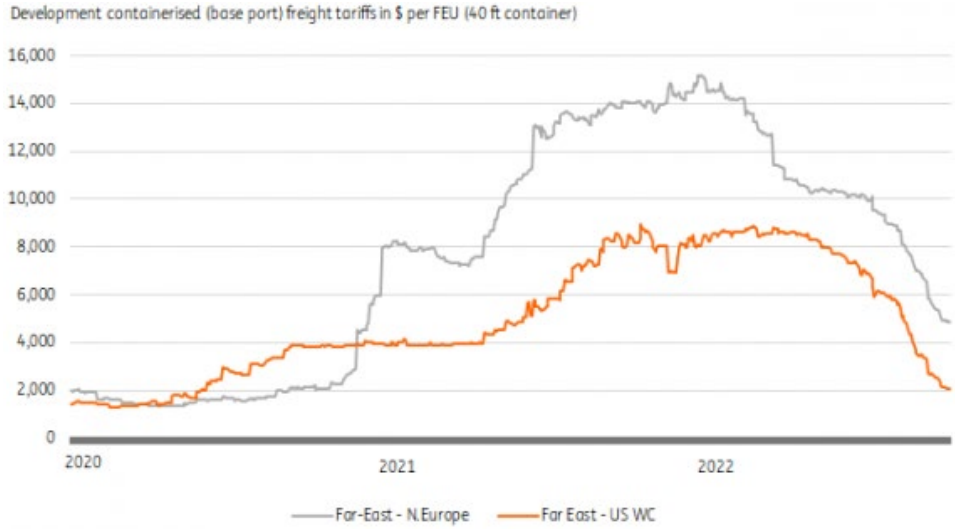
Resolved congestion at US bottleneck port illustrative of supply chain relief

Congested supply chains have improved recently. After an unprecedented wave of incoming containers, record throughput, and peaking congestion, the impressive backlog of waiting vessels at US bottleneck port LA-LB was almost cleared in September. A combination of the shift back to services and the rationalisation of consumer spending created an opposite 'bullwhip effect' of self-reinforcing inventory moderation across the supply chain. This temporarily pushed year-on-year throughput numbers deeper into negative territory in August and September. The current slack in consumer spending on goods (and normalisation) is also reflected in the package handling figures of FedEx which were down just over 10% year-on-year over the summer, and also the forward guidance of Amazon, which expects a more moderate fourth quarter and holiday season.

Falling container rates mark a turning point in transport costs for consumer goods

Softening demand has also sent spot rates on major trade lanes from Asia down, ending an extraordinary two-year period in container shipping, although locked-in contract rates slow the impact for shippers. But transport will be significantly cheaper next year. Yet, contrary to the container market, tanker rates have rallied after a difficult pandemic phase with lower oil demand – with the Ukraine war and oil bans having severe implications – for the oil and tanker market.

Elevated container spot rates on major trade lanes have plummeted



Source: Clarksons, ING Research, last data point: 10/27

But supply chain performance hasn't returned to normality yet

Supply chains are rebalancing in a volatile world. Although major ports have managed to get through unprecedented backlogs, there is still a way to go before normality returns. Smaller ports are still seeing relatively high delays and average ocean timelines are hovering around double pre-pandemic levels at around 80-90 days (cargo ex-work to leaving the port of destination). At the same time, arrival performance still has a long way to go to return to normal levels with just 45.5% of the container vessels arriving on time in September (the pre-pandemic two-year average is 74%).

2023 won't be free of supply concerns as fragility and shortages remain

Despite improvements in logistics, manufacturing companies still face shortages of particular materials and components. The supply of chips has subsided, but mismatches persist and new shortages in, for example, battery metals loom. While recovering from the pandemic, the effects of the war in Ukraine as well as other geopolitical tensions have created new frictions in multiple markets. Russian trade bans have already led to trade inefficiencies such as longer routes, and the EU ban on Russian oil, which comes into force on 5 December, followed by a ban on refined products on 5 February, will add to that.

In Europe, the energy crisis has also forced energy-intensive companies in chemicals, glass and aluminium to reconsider production. This complex also explains why car maker VW sees ongoing supply chain constraints. And the situation in Ukraine remains unpredictable as the instant suspension of the grain deal by the end of October showed.

Supply chains in general remain exposed to a risk of strikes as inflation has eroded the purchasing power of workers in transportation and manufacturing. And in China recurring regional Covid-19 lockdowns remain a threat to supply chains, although they have become shorter and more focused.

All in all, trade demand is slowing, but supply chains remain unbalanced. You can read more on this in our 2023 trade and supply chain outlook.

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FX markets: The dollar, asset markets and the global cycle

FX markets have entered a consolidative phase as they attempt to second-guess the next move from the Federal Reserve. That has allowed the dollar to correct 3-4% lower, continuing its negative correlation with global equity and debt markets. Yet, we still feel it is too soon to call a major turn in the dollar

Central to the dollar story has been the Fed and its desire to get inflation under control

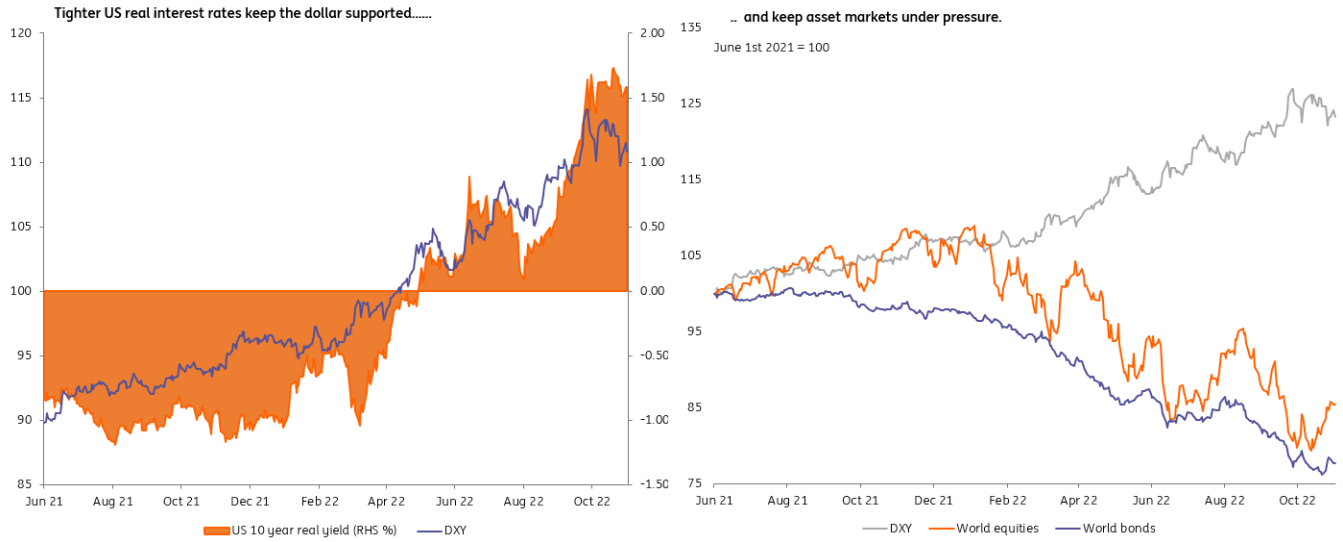
The Fed is not done with the dollar yet

Looking at the year-to-date FX performance in the G10 space, it has clearly been a good year for the dollar. More restrictive US monetary conditions have seen the dollar rally from as little as 7% against the Canadian dollar to as much as 22% against the Japanese yen. In response, Japanese authorities have initiated an FX intervention campaign to support the yen – currently worth more than $60bn.

Central to the dollar story has been the Fed and its desire to get inflation under control. The sharply inverted US yield curve is a good signal of the Fed "getting ahead of the curve". Another is US real rates. Here, nominal rates adjusted for inflation expectations have moved from deeply negative in the summer of 2021 – when the Fed shifted policy – to restrictive levels today. For example, the real US 10-year yield has moved from -1.00% to +1.50%.

Our rates strategy team believes that, over the next couple of months, the direction of travel for US real yields is higher still. A 2.00% level on the US 10-year real yield is entirely possible as the Fed takes the policy rate towards 5.00%, dragging long-end yields with it. That should keep the dollar bid across the board.

Real interest rates drag the dollar higher, hit bond and equity markets



Source: ING calculations

When will asset markets turn?

We think it is always worth considering FX markets in the context of the global economic cycle and looking at the performance of the dollar relative to major asset markets, such as bonds and equities. Clearly, it has been a bad year for both bonds and equities, where global benchmark indices for both groups are down roughly 20% year-to-date. The narrative here is that after the sustained period of easy money, both bond and equity markets are suffering as central banks seek to rein in liquidity.

It is quite rare to see both bond and equity markets hit equally hard at the same time. Typically, one might expect equity markets as the last asset market to turn before a recession, with bond markets starting to outperform when it becomes clear that tightening cycles are over. In fact, there have been some signs of this pattern developing already in Latin American debt. This region saw early and aggressive tightening cycles (especially in Brazil), which now look to be over. Latam local currency government bond indices are near flat on the year, versus 32% and 13% declines for EMEA and Asia equivalents.

We mention this because the turn in global bond markets should provide the first real opportunity for money to be put back to work in asset markets – potentially at the expense of the dollar. Looking at FX correlations with global bond indices this year, the Japanese yen and the Swiss franc have actually had the highest correlations, suggesting USD/JPY and USD/CHF might lead a dollar turn if and when it happens. Our base case, however, is that this is not a story until early 2023.

Before then, we see EUR/USD staying under pressure this winter. Sub-0.95 levels are possible. Japan's campaign to slow the USD/JPY advance should not prevent further forays over 150. And GBP/USD can easily trade at sub 1.10 levels as the tight fiscal and less hawkish monetary policy wins through in a still difficult external environment.

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Rates: If the system's okay, rates should edge up

The pivot camp thinks market rates have peaked. They may indeed have, but that doesn't mean we can't get back up to that peak. We think it's too early for a precipitous fall, unless the system creaks loud(er). Recession risks are not enough – they may slow down hikes, but that doesn't make them go away. Market rates therefore remain under upward pressure

Key market rates are thinking about falling, but it's too soon. There's still upward pressure

The US 10yr Treasury yield has settled at around 4% and the Euribor 10yr at 3%. Breaks below these levels have been seen in the past week or so, and are generally premised on market talk of a slowdown in hikes. That has also helped buoy risk assets. Market participants are terming this a pivot, but we'd say it's an adjustment or a modification-type pivot at best, rather than a hard pivot where the direction is materially changed.

The fact remains that central banks are still hiking, and slower hikes can still result in elevated terminal rates. This is especially true given the stickiness of inflation, and we've seen examples of this from both the US and the eurozone in the past week or so. So, the pressure remains on central banks to do something about inflation, and there is only one thing they can do – ensure financial conditions are tight and constraining on the economy.

> *"Any material fall in market rates loosens financial conditions. Not ideal yet"*

A material fall in market rates and/or a precipitouas narrowing in credit spreads is not what central banks want to see at this juncture, as it frustrates their purpose. Indeed, if there were to be a material fall in market rates ahead, it would most likely need to be countered by a stronger reaction from central banks. It might be verbal to begin with but will ultimately signal an ambition to target higher terminal rates where necessary.

We are therefore reluctant to join the bandwagon for lower market rates. We will get to that point eventually, but we think it's still too early. Upward yield pressure remains a call for the coming month.

There is a mild creaking in the system

There is one important caveat to this though, and that is a slow uptick in system pressure. One measure of this is where banks print (3-month) commercial paper, and in particular the spread over the risk-free rate. In USD that spread has crept out to the 30bp area, and European banks are printing in the 50-60bp range. That's not awfully wide, but it is much wider than it was.

> *"System pressure presents a more credible risk for a hard pivot"*

This type of widening is a more credible reason for a "pivot" than mere recessionary fears. After all, tighter policies from central banks are designed to slow growth, and such policies accept the risk of consequent recession. But what central banks can't accept is any threat to the functioning of the system. There's no need to panic yet, but this is what we really need to be cognisant of.

Any material fall in market rates from here will only make sense if the system is really creaking. Here we've outlined the risks and note that they are there. But we are not at a point yet where it can cause central banks to abort what they are up to. Therefore, the upward pressure on market rates remains.

GDP forecasts

%YoY	3Q22F	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
World (USD)	2.6	1.4	1.2	1.1	1.5	2.1	2.9	1.9	3.1	3.4
US	1.8	0.3	0.2	-0.1	-0.9	-0.7	1.9	-0.4	1.7	2.0
Japan	2.4	1.8	1.8	1.1	0.8	0.6	1.6	1.1	1.0	1.5
Germany	1.2	0.6	-1.3	-1.3	-1.8	-1.9	1.7	-1.5	0.5	1.8
France	1.0	0.1	0.0	-0.5	-0.5	0.0	2.5	-0.3	1.1	1.4
UK	2.1	0.2	-1.3	-1.8	-1.1	-0.6	0.2	-1.2	1.1	1.5
Italy	2.4	1.1	0.6	-0.2	-0.3	0.7	3.6	0.2	1.6	1.7
Canada	3.6	2.3	1.0	-0.3	-0.6	-0.6	3.3	-0.1	1.7	2.2
Australia	6.6	3.3	3.3	3.0	2.7	2.7	4.2	3.0	2.7	3.0
Eurozone	2.1	0.8	-0.5	-1.1	-1.1	0.0	3.1	-0.7	1.3	1.4
Austria	1.8	0.7	-1.4	-2.3	-1.6	1.5	4.7	-0.9	1.9	2.0
Spain	3.8	1.0	0.9	0.4	0.2	0.9	4.3	0.3	1.8	2.1
Netherlands	3.2	2.1	1.8	-0.2	0.6	1.7	4.2	0.9	2.1	1.8
Belgium	1.2	0.4	-0.5	-0.7	-0.5	0.2	2.4	-0.4	1.2	1.5
Ireland	6.7	9.1	2.8	1.2	1.0	1.2	9.4	1.5	1.8	2.3
Greece	4.3	2.2	-0.9	-1.6	0.0	1.7	5.5	-0.2	2.0	2.2
Portugal	3.8	1.6	-1.0	-0.8	0.0	1.0	5.9	-0.2	1.7	2.4
Switzerland	0.9	0.6	0.1	-0.1	0.0	0.5	2.0	0.1	1.2	1.4
Sweden	3.1	1.3	0.5	-0.5	-0.9	-0.1	3.1	-0.3	1.2	1.5
Norway	1.5	0.0	0.5	0.1	0.8	1.2	2.7	0.6	1.6	2.0
Bulgaria	2.9	1.5	0.8	0.8	1.8	2.6	3.0	1.6	3.3	3.0
Croatia	6.2	4.9	2.3	1.1	1.8	2.6	6.4	1.9	2.9	2.5
Czech Republic	1.6	-0.4	-0.9	0.0	1.9	3.9	2.4	1.2	3.8	2.5
Hungary	3.5	-0.2	-1.5	-2.0	1.5	3.7	4.5	0.4	3.4	3.5
Poland	3.5	0.0	-1.0	2.1	2.3	2.5	4.1	1.5	3.3	3.5
Romania	9.1	6.5	1.5	0.3	2.1	3.0	6.5	1.8	3.7	3.5
Turkey	4.5	1.3	-2.6	3.0	3.9	4.8	5.0	2.5	4.0	4.0
Serbia	1.1	0.2	1.3	1.6	3.9	3.5	2.3	2.9	3.9	3.7
Russia	-6.5	-13.0	-15.0	-8.0	-2.0	5.0	-5.0	-5.0	-2.0	0.0
Kazakhstan	2.0	3.0	3.5	4.0	4.1	4.1	2.8	3.8	3.5	3.0
Azerbaijan	3.8	2.5	2.5	2.8	3.2	3.4	4.8	3.0	2.5	2.5
China	3.9	4.2	4.0	7.0	5.1	5.2	3.3	5.3	5.1	5.5
India	3.5	2.5	6.5	-3.9	3	3.2	6.3	6.8	8	7.5
Indonesia	5.5	4.9	4.2	4.1	4.6	4.5	5.2	4.4	4.7	4.5
Korea	3.0	1.3	0.2	0.3	0.4	1.4	2.6	0.6	2.3	2.3
Philippines	5.2	3.2	3.1	4.2	4.8	4.9	5.9	4.4	5.0	5.2
Singapore	3.1	3.0	3.3	3.1	3.2	3.4	3.5	3.4	3.3	3.0
Taiwan	4.1	2.1	2.4	2.0	3.8	4.3	3.2	3.1	4.9	4.6

Source: ING estimates

CPI Forecasts (pa)

%YoY	3Q22F	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
World (USD)	8.8	8.5	7.0	4.4	4.8	4.1	6.4	5.3	3.4	3.1
US	8.3	7.6	6.2	4.0	3.2	2.3	8.1	3.9	1.7	2.1
Japan	2.8	3.4	3.2	2.5	2.0	1.5	2.4	2.3	1.2	1.5
Germany	9.4	12.0	10.7	8.0	7.0	3.6	9.0	7.2	2.2	1.9
France	6.5	6.9	7.0	6.2	5.5	4.4	5.9	5.8	2.9	2.4
UK	10.0	10.2	9.5	6.2	4.7	3.1	8.9	5.9	2.3	1.9
Italy	8.9	12.7	10.7	8.3	5.5	1.6	8.7	6.5	2.2	2.1
Canada	7.2	6.6	5.2	2.6	2.2	2.3	6.7	3.1	1.9	2.2
Australia	7.3	7.2	5.8	4.8	3.6	3.0	2.9	6.4	4.3	2.6
Eurozone	9.3	10.4	9.1	6.4	4.4	2.6	8.40	5.6	2.1	2.1
Austria	9.9	11.0	9.3	6.3	4.1	2.4	8.60	5.5	2.1	2.0
Spain	10.1	7.1	6.2	4.5	3.6	3.1	8.7	4.4	2.2	2.1
Netherlands	14.1	10.2	7.4	6.9	3.5	4.6	10.9	5.5	5.5	0.8
Belgium	10.3	10.6	8.2	6.4	5.7	4.3	9.5	6.2	2.1	2.0
Ireland	9.1	9.5	8.2	6.1	4.1	2.6	8.70	5.3	2.1	2.1
Greece	11.5	11.9	10.2	6.6	4.5	2.6	10.1	5.9	2.0	2.1
Portugal	9.1	8.0	6.0	4.6	2.8	2.3	7.3	3.9	2.7	1.9
Switzerland	3.4	3.2	2.9	2.6	2.2	1.9	2.9	2.4	1.5	1.5
Sweden	8.9	9.5	8.5	6.4	4.6	3.3	8.1	5.4	2.1	1.8
Norway	6.7	6.6	6.4	4.8	3.6	3.2	5.8	4.5	2.5	2.0
Bulgaria	17.8	16.8	14.2	10.0	8.9	8.5	15.2	10.3	4.5	4.5
Croatia	12.5	11.7	9.9	5.8	3.8	3.5	10.5	5.8	3.7	3.5
Czech Republic	17.6	17.8	15.4	12.0	9.8	8.7	15.6	11.5	5.5	3.5
Hungary	20.1	22.2	21.4	17.7	10.5	8.3	14.2	15.7	5.6	3.2
Poland	16.3	18.0	19.3	14.6	12.3	9.2	14.5	14.1	11.6	6.5
Romania	15.4	16.0	14.6	10.7	10.1	8.2	13.7	10.9	5.1	4.0
Turkey	83.5	69.0	49.7	40.7	40.6	40.0	73.1	43.8	28.2	17.3
Serbia	13.3	13.4	12.5	10.1	7.1	5.3	11.5	8.8	4.2	4.5
Russia	13.7	12.4	4.5	4.3	5.6	6.0	13.8	6.1	6.1	5.0
Kazakhstan	17.7	18.6	15.2	11.2	7.5	7.7	14.3	12.0	7.5	6.8
Azerbaijan	15.6	15.4	13.5	11.4	7.8	5.0	13.8	10.6	5.0	4.6
China	2.5	2.6	2.8	2.6	2.6	2.6	2.10	2.1	2.3	3.0
India	7	6.8	6.5	4.6	5	4.9	6.9	5.2	4.3	4.5
Indonesia	5.1	6.4	5.5	5.1	4.2	4.1	4.4	4.7	3.5	3.5
Korea	5.9	5.5	4.8	3.4	2.7	2.3	5.2	3.3	1.7	2.2
Philippines	6.6	7.0	6.5	5.6	4.6	3.5	5.6	4.9	3.9	3.5
Singapore	6.8	5.7	4.8	4.5	3.6	3.5	5.8	4.0	3.4	3.0
Taiwan	2.9	3.2	2.3	2.0	1.5	1.5	3.1	1.8	2.2	2.8

Source: ING estimates

Oil Forecasts (avg)

$/bbl	3Q22F	4Q22F	1Q23F	2Q23F	3Q23F	4Q23F	2022F	2023F	2024F	2025F
Brent	98.0	97.0	100.0	100.0	105.0	110.0	101.0	104.0	90.0	75.0

Source: ING estimates

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