

Monthly Economic Update

Winter is coming

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9 October 2020



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US: Decision time

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Eurozone: Second wave balancing act

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UK: Economic challenges mount as Covid-19 and Brexit collide

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Central and Eastern Europe: No hiding from the slower growth pace

- *Restrictions are back as Covid-19 cases are on the rise. But as measures will be less draconian than in the first half of the year, we look for a slower pace of recovery in the fourth quarter without dipping back into recession.*
-

China's "internal circulation" is working

- *With internal tourism at its heart, President Xi's promotion of "internal circulation" is quickly delivering a recovery in Chinese GDP growth*
-

Asia: 50 shades of swoosh

- *The recovery continues in Asia, but it certainly cannot be described as a "V"-shaped recovery, more of a Nike swoosh, with the depth of the drop and speed of subsequent uptick largely determined by the extent of the pandemic within each country*
-

FX markets: Betting on Biden

- *With less than a month to go until the US presidential election, it is fair to say that FX markets are starting to behold a vision of a Joe Biden presidency. That has seen FX volatility levels fall and the dollar soften against those currencies driven by global activity*

Rates: Born in the USA

- *While the Covid-19 drama surrounding the White House presented a distracting background, in the foreground the rates market is sniffing an eventual stimulus bill, and week-by-week seeing macro data that has had a shinier-than-expected veneer on it. The consequent uptick in core market rates globally has a clear US stamp on it. This is good for Europe too*

Central banks: What's left in the toolbox?

- *The resurgence of Covid-19 across Europe and elsewhere is sparking fears of a reversal in the global recovery over the winter. While fiscal policy will continue to do much of the heavy lifting, economic uncertainty is putting renewed pressure on central banks to act. Here's what we expect from them over the coming months*

Eurozone: A second wave - a wake-up call for policymakers?

- *The rise of new Covid-19 cases has led to concerns about an early end to the rebound of the eurozone economy. While we don't see much of an impact in terms of mobility data just yet, the risk of a double-dip recession in 4Q should not be underestimated.*

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Winter is coming



As the days grow colder and darker in the northern hemisphere, so too, does the economic outlook

The economic season has changed as quickly as the weather. With lightning speed, an almost endless summer has morphed into a grey and wet autumn. In turn, the global economy has switched from relief-and-surge mode, after the lifting of the lockdown measures, to slowing activity, with renewed fears of a double-dip recession amid rising infections and new restrictions. The surge in the third quarter was the easy part, to get to a sustainable recovery will be much harder.

We haven't changed our base case scenario, still assuming local lockdowns during the winter months and the rolling out of a vaccine in the course of the first half of 2021. However, we have to admit that the risk of moving to our first risk scenario, i.e. somewhat tighter lockdowns and a much lengthier process for the rollout of a vaccine, has increased in recent weeks. In fact, some countries are already moving in that direction.

The coming months should finally reveal more about the structural face of this crisis. In particular, people-oriented services in the northern hemisphere could be hit by the change in season as the capacity to host and entertain people will be much more restrained indoors than outdoors. With an increasing lack of demand, questions will be asked about how long government support schemes can actually keep businesses and the economy afloat.

As a result of the above, expect new calls for additional stimulus, both from fiscal and monetary policy. In this regard, the forthcoming presidential election in the US will be a key event, not only for the US economy but for global growth as well. It could pave the way for a new round of fiscal stimulus and determine the type of stimulus that global policymakers pursue; either purely short-term orientated or with a view to guiding and managing structural changes in the economy. In case of the latter, we could see a new push for greening all economies.

Fiscal policy should continue to be the number one game in town, even if financial market participants still listen carefully to central bankers. However, with interest rates at the lower bound and ballooning balance sheets, central banks can (and probably will) do more of the same. This will demonstrate determination and ability to act but will hardly be a game-changer. The best central banks can currently do is to back up additional fiscal stimulus.

If you want to know about all of this, please enjoy our latest Monthly Update and watch the video below.



October Economic Update: Winter is coming

When we look at the global economy, it feels as if it's changing as quickly as the seasons. All the backward-looking indicators show that it surged in the third quarter. But looking ahead, it's clear things started to slow again in September. ING's Carsten Brzeski says we're at risk of a global double-dip recession as governments once again increase their restrictions in the wake of more Covid-19 infections. He outlines our thinking for our new monthly economic update which you can find on our [THINK website](#).

Carsten Brzeski, Frankfurt +49 69 27 222 64455

Mapping the next phase of the recovery: ING's new economic scenarios

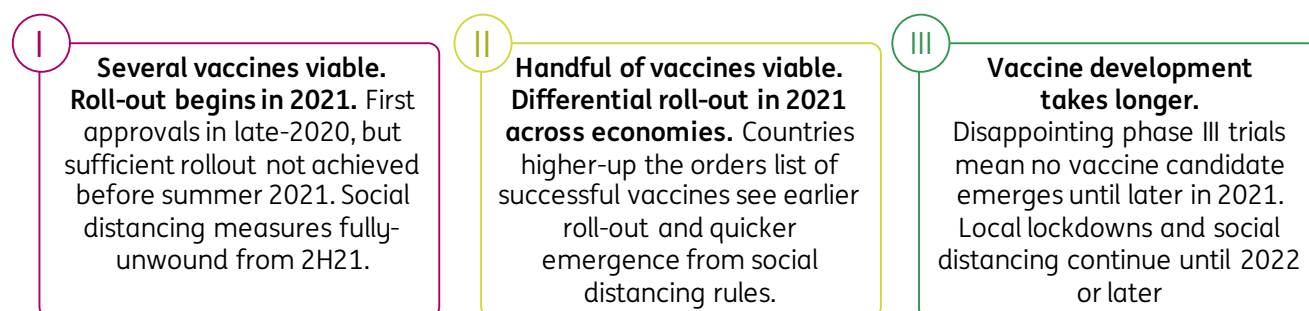
Mapping the next phase of the recovery: ING's new economic scenarios



Phase 1: Covid-19 spread before vaccine



Phase 2: Vaccine development and roll-out



Possible scenarios

Assumptions	Economic impact	Forecasts
ING base case Scenario 1 (A) + (I) Local lockdowns used as vaccines rolled out during 1H21.	Our Nike swoosh scenario. Governments could decide to extend some of the stimulus measures until mid-2021. Somewhat stronger recovery in 2H21	2020 GDP US: -3.4% Eurozone: -8.0% Markets (end 2020): EUR/USD: 1.20 US 10-year: 0.75%
Scenario 2 (B) + (II) Restrictions tightened but full lockdown avoided. Some vaccines rolled out in 1H21.	A variation of our W-shaped scenario with the new dip lasting longer (4Q20-1Q21). Government stimulus extended. 2Q21/3Q21 still subdued.	2020 GDP US: -4.2% Eurozone: -9.3% Markets (end 2020): EUR/USD: 1.12 US 10-year: 0.25%
Scenario 3 (C) + (III) National lockdowns return, while vaccine development takes longer than hoped	Our L-shaped scenario but for even longer. Sharp drop in activity in 4Q20, more or less stagnation throughout 2021 and sharp rebound mid-2022	2020 GDP US: -4.6% Eurozone: -9.7% Markets (end 2020): EUR/USD: 1.10 US 10-year: 0.0%

ING base case – Update

While scenario one remains our main base case, it's clear that divergence is opening up across economies. The UK and France, for instance, are now floating between our first and second scenarios as social spending venues to begin to, or are at risk of, temporary closure as Covid-19 cases rise. Other countries could follow in coming weeks.

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US: Decision time

The US economy has responded well to the reopening with output likely expanding at a 30%+ annualised rate in the third quarter, but challenges remain and there is evidence that the vigorous momentum is fading. The case for more fiscal stimulus is strong, with the 3 November election critical to determining how quickly a full recovery comes



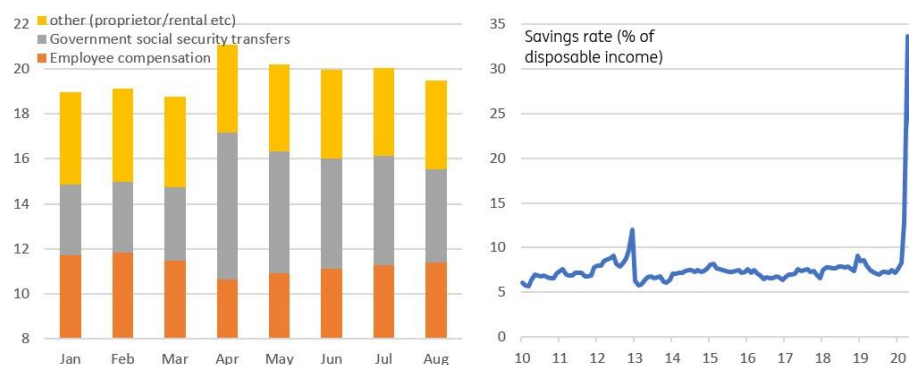
Source: Shutterstock

A strong start

The US economy contracted 10% through the first half of the year according to the GDP report, but high frequency data suggests the peak to trough fall through March and April was significantly greater. The US reopened relatively early in May with activity bouncing strongly as a combination of pent-up demand and generous unemployment support programmes fuelled growth.

Government social security transfers more than doubled between March and April as government cheques and the additional \$600 per week Federal unemployment benefit payment more than offset the 10% fall in employee compensation resulting from worker layoffs. Initially, this led to a spike in the savings ratio as Covid-19 containment measures limited the opportunity to spend the income gains, but reopening has gone well with the consumer leading the recovery.

US personal income (\$tr) and the household savings ratio



Source: Macrobond, ING

Low income households have led the recovery

As the chart below shows, it is low-income households buying physical “things” that have been the key driver behind the rapid recovery in spending. Higher income

households, who typically spend more of their income on “experiences” and services such as leisure, entertainment and restaurants, continue to lag behind.

Consumer spending on credit and debit cards by income group

In the United States, as of September 20 2020, total spending by all consumers decreased by **3.8%** compared to January 2020.

DOWNLOAD CHART

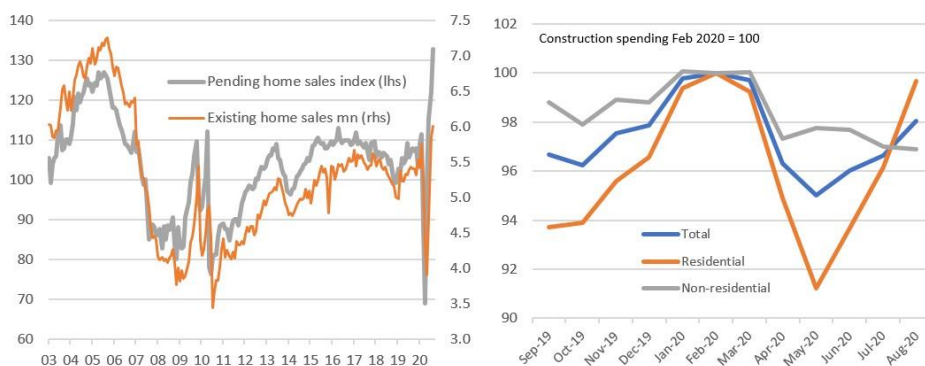


Residential investment a big boost for growth

Nonetheless, higher income households are seemingly spending money on property. Record low mortgage rates and a sense that “working from home” will become a long-term structural change to working practices has led transactions to reach levels not seen for nearly 15 years. Construction is already surging back to pre-pandemic levels and with pending home sales at all time highs, residential investment looks set to remain a key growth driver over coming quarters.

Throw in the fact that business surveys look very robust, inventories are being rebuilt and decent durable goods orders suggest investment has stabilised and we now expect to see 3Q GDP growth at a record 34.5%.

Property transactions and construction



More support needed

However, there are increasing signs that the vigorous upward momentum is fading. Payrolls growth is slowing at a time when employment is still 10.7 million lower than February. There is also evidence of a plateau in hotel stays, travel and restaurant bookings while we know income growth is also dropping as unemployment benefits are trimmed lower.

Covid-19 will continue to present challenges for the economy for many more months, while election tensions could also weigh on sentiment. The bruising election battle isn't helpful for the recovery as it limits the scope for another fiscal stimulus in the near-term with President Trump having told Republicans to pull out of talks on a new package. Nonetheless we are forecasting 4Q GDP growth of 4.5% annualised, which would leave 2020 output around 2.2 percentage points below 2019.

2021 - all about the election

The outlook for 2021 is all about the election. The first Presidential debate failed to give Donald Trump a much needed boost in the polls and his admittance to hospital following a positive Covid-19 test hasn't generated much of a sympathy vote. Indeed, opinion polls suggest a growing likelihood of a Democrat clean sweep which could pave the way for a massive fiscal stimulus in early 2021, focusing on income support and front-loaded energy infrastructure investment projects.

While such a development should boost the outlook for growth, jobs and corporate profitability, markets remain wary of a higher tax, more highly regulated economic environment under Joe Biden. Offsetting this to some extent would be a more internationalist approach that could lessen the prospect of additional trade barriers and tariffs.

The conventional view is that a Trump victory would be good for risk assets and Biden would be bad. However, the Senate and House outcomes are critical to the passing of legislation and while that may indeed be the initial knee-jerk reaction, the medium to longer term implications will be more nuanced.

Eurozone: Second wave balancing act

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With coronavirus measures being tightened again, the eurozone recovery is likely to lose steam. At the same time, inflation remains stubbornly low, increasing the pressure on the European Central Bank to act again

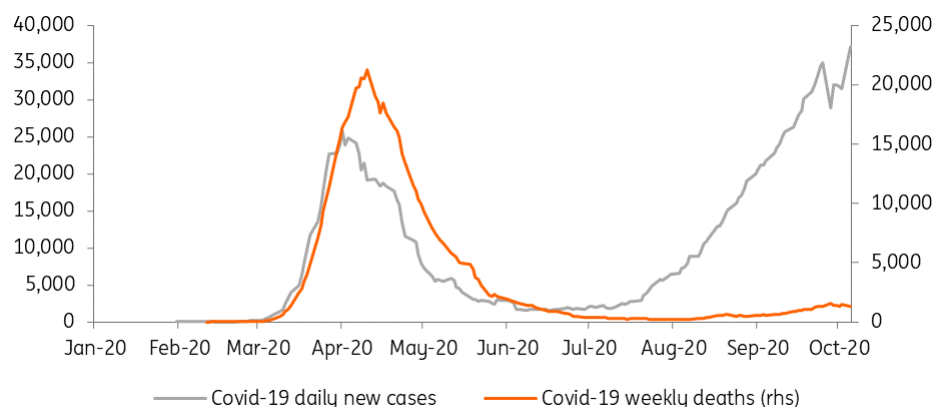


Source: Shutterstock

The return of Covid-19

The dreaded second Covid-19 wave seems to be materialising in Europe, though a repeat of the scenes of overcrowded hospitals, like we saw in March/April, can probably still be avoided. That is basically the reason why several European governments (Spain, France, the Netherlands, Belgium,...) have announced a tightening of Covid-19 measures as well as return to targeted lockdowns. This might raise the spectre of a double-dip recession. The PMI indicator already fell in September on the back of a weakening services sector. While the European Commission's economic sentiment indicator still saw progress in the services sector last month, expectations deteriorated.

Covid-19 in the 6 biggest eurozone countries



Source: Refinitiv Datastream

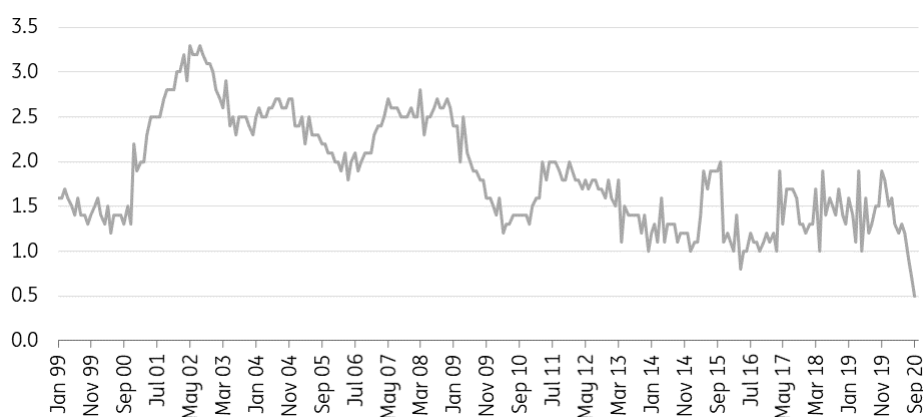
Second round effects and structural disruption

To be sure, the third quarter will likely show stellar growth: we pencil in a 9% non-annualised quarter-on-quarter GDP growth rate. Very strong retail sales in August seem to confirm that the opening of the economy boosted consumption over the summer months. But a number of factors are likely to lead to much weaker growth over the next two quarters. Apart from the tightening of Covid-19 measures, there is the risk that second round effects will manifest themselves in a more pronounced way: companies that refrained from lay offs until now, might be forced to reduce manpower in the wake of renewed confinement measures, especially as temporary unemployment schemes will gradually peter out in most countries. On top of that, we mustn't forget that the corona crisis seems to have accelerated a number of structural trends (like digitisation) that might have a disruptive effect on the European economy. For example, the shift to home working and electric cars is leading to an important restructuring in the German car industry (even though Germany is coping better than most other countries on the back of massive fiscal stimulus). Finally, the European recovery fund seems to be in for some delay, while the Brexit negotiations will, at best, deliver a limited trade agreement, which both blur the outlook for 1Q growth. While we maintain our -8% forecast for 2020, we have reduced our 2021 forecast to +4%, with the risks still skewed to the downside.

Deflationary pressures strengthen

HICP inflation surprised to the downside again, with headline falling to -0.3% and core inflation printing a mere 0.2% in September, the lowest level since the start of the monetary union. While changes in the sales period over the summer months have distorted inflation figures, the unrelated fall of services inflation to 0.5% clearly demonstrates the deflationary impact of the Covid-19 crisis. Hence, we have revised our inflation forecast down to 0.3% for this year and 1.1% for 2021.

Service inflation falls to very low levels



Source: Refinitiv Datastream

The ball is in the ECB's camp

With the ECB in the midst of its strategy review, it is not yet clear how the bank will redefine its inflation target. In some preliminary considerations, ECB President Christine Lagarde opened the door to a more symmetric inflation target, not discarding the possibility of a Fed-like average inflation aim. In any case, the Governing Council cannot ignore the current trends and will have to add stimulus. We still consider a rate cut as a low probability outcome (though not impossible), but stick to our forecast of an additional €400 billion in asset purchases to be announced before the end of the year. It is likely that these purchases would be made under the Public Sector Purchase Programme to give the impression of more permanency, as the Pandemic Emergency Purchase Programme was set up as a temporary tool to fight the crisis.

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UK: Economic challenges mount as Covid-19 and Brexit collide

A renewed spike in Covid-19 cases and the growing likelihood of new restrictions suggests the economy will have a difficult winter. A 'no deal' Brexit scenario would only add further challenges, and that's putting pressure on the UK government to reach an agreement with the EU



Britain's prime minister Boris Johnson departs his official residence at 10 Downing Street in London

Source: Shutterstock

Further restrictions could send the recovery into reverse

Having experienced one of the sharpest economic contractions in the developed world over the first half of the year, the UK economy has recovered some ground through the summer. The reopening of the majority of sectors, combined with relatively stable Covid-19 cases, had contributed to a more predictable operating environment for businesses. We're expecting to see a bumper 16-17% growth figure for the third quarter.

But like many parts of Europe, things are starting to change. The recovery looks set to stall in the fourth quarter and in fact, has the potential to go into reverse. Covid-19 cases have spiked, particularly in parts of Northern England where the weekly growth is now over 500 cases per 100,000 people. And as we've seen in parts of France, there are a growing number of reports suggesting the government could close parts of the hospitality industry again, initially in hotspots, but ultimately perhaps at a national level.

"We've calculated that a two-week shutdown of 'social spending' venues could see a hit to monthly GDP in the region of 3%, and if these closures became national, 4Q GDP could easily come in negative"

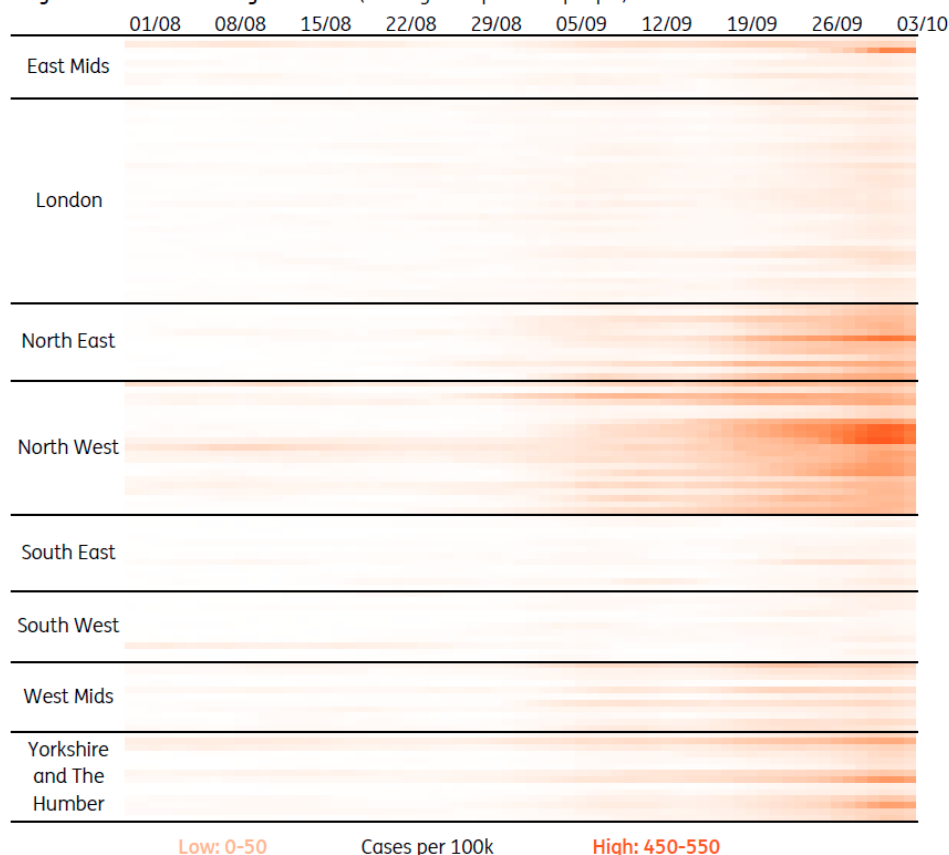
We've calculated that a two-week shutdown of 'social spending' venues could see a hit to monthly GDP in the region of 3%. If these closures were to become national, and semi-permanent over the winter, overall fourth-quarter growth could easily then come in negative.

All of this looks likely to compound the strains in the jobs market. Unlike other parts of Europe, the UK has opted against extending the Job Retention Scheme into

next year. The replacement Job Support Scheme, which adds some state support for workers only able to work part of their normal hours, is unlikely to fully prevent a wave of redundancies once the existing furlough scheme ends in October.

Northern England has seen a sharp spike in cases

England Covid-19 cases by local area (Weekly total per 100k people)



Source: Macrobond, ONS

Cases are broken down by UK unitary authority, adjusted by the 2019 population estimate published by the ONS.

Pressure is mounting on the UK government to agree and EU deal

One side effect of all of this economic turbulence is that it may increase the probability of a UK-EU trade deal being agreed after all.

Disruption in early 2021 in a 'no deal' scenario, combined with the current spike in Covid-19 cases, would not be a good combination (although it's worth saying there will be some, albeit less, disruption even if there is a deal agreed). The ruling Conservative party has also slipped behind in the polls, which has added another layer of political pressure to secure a 'win'.

“A deal is undoubtedly becoming more likely, and remains our base case, but there's still plenty of scope for things to go wrong. A month is a long time in politics”

This seems to have contributed to a cautiously optimistic air surrounding Brexit talks over recent weeks. Intensified negotiations are ongoing, and the stage has been tentatively set for a deal in late October or early November.

But as has been the case all along, the ball remains in the UK's court. A deal will require some heavy compromises from Prime Minister Boris Johnson, particularly on the issue of state aid - a move that is unlikely to go down well in the eurosceptic corners of his party. And while the government has a strong majority in the House of Commons, ministers have been increasingly forced to strike deals with Conservative MPs to secure their ongoing support, most recently on certain aspects of Covid-19 legislation.

The upshot is that while a deal is undoubtedly becoming more likely, and remains our base case, there's still plenty of scope for things to go wrong. A month is a long time in politics.

Central and Eastern Europe: No hiding from the slower growth pace

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Restrictions are back as Covid-19 cases are on the rise. But as measures will be less draconian than in the first half of the year, we look for a slower pace of recovery in the fourth quarter without dipping back into recession.



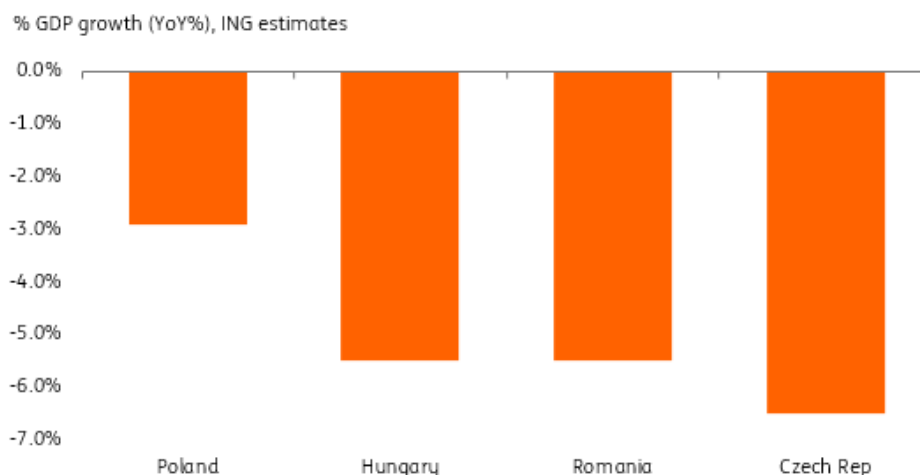
Source: Shutterstock

Slower pace of recovery but no recession

Growth dynamics in Central and Eastern Europe are not dissimilar to those seen in developed markets in Europe. After the poor first and second quarters, we have seen a meaningful rebound in the third quarter. Within the region, Poland stands out, as a strong fiscal and monetary response helped to soften the blow, allowing the country to contract 'by 'only' 3% this year. This contrasts to around a 6% decline for the other CEE countries (Fig 1).

As is the case in the EU, after the calm summer, the rise in Covid-19 cases is now taking centre stage and CEE governments have re-introduced restrictive measures. Compared to the first half of the year, we see a differentiation in the Covid-19 dynamics in relative terms, with the Czech Republic being hit particularly hard (the worst country in the EU, in terms of new cases per 100,000 people) largely because of the full easing of restrictions in summer and the failure to pre-emptively respond.

While restrictive measures are on the rise in the CEE (Hungary closed its borders except to V4 countries), these are not and should not be as draconian as during the first lockdown, which should soften the blow. But nonetheless, we expect a slowdown in the pace of the recovery in 4Q as restrictions dampen confidence and consumer spending. However, the slowdown should not equate to a recession.

Figure 1: Poland weathered the Covid-19 crisis better

Source: ING

The two inflation laggards – the Czech Republic and Hungary

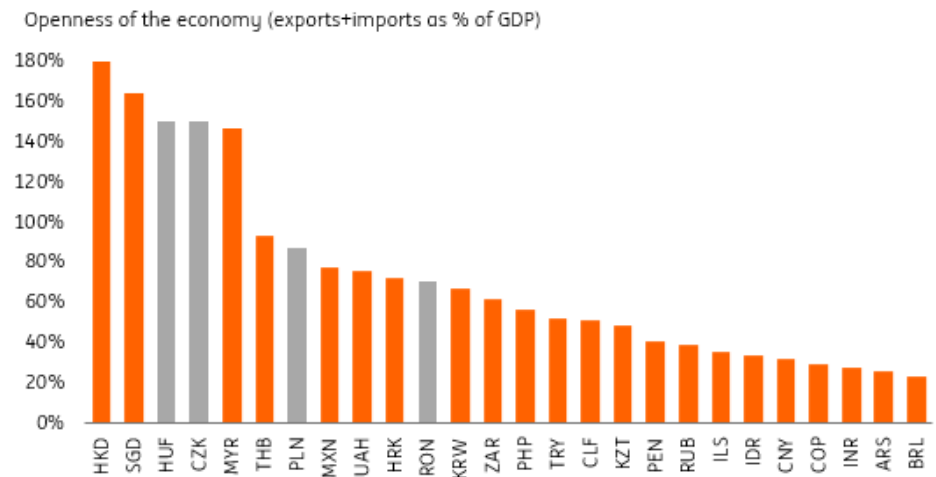
Within the CEE region and Europe, both the Czech Republic and Hungary have both been outliers in terms of inflation, generally with price pressures just peaking / about to peak.

The former has been the case in Hungary, but the latest correction in price pressures lower (September CPI surprised meaningfully on the downside) came one month too late, with the National Bank of Hungary being forced, in the meantime, to deliver a 15 basis point hike in the 1-week deposit rate late last month to end the forint's underperformance (which threatened the inflation outlook).

As the worst is behind us, the Hungarian central bank should now stay cautiously on hold. As for the Czech Republic, the peak should be the September CPI reading due on Monday, but with koruna weakness seen by the Czech National Bank more as an automatic stabiliser for monetary conditions rather than a threat to the CPI outlook, the CNB should remain firmly on hold.

Varying tolerance levels for currency weakness

The extent to which local authorities are willing to tolerate further currency weakness is one of the regional themes emerging for the coming months. In Hungary, the NBH is now clearly leaning against the wind, in Romania, FX intervention is the daily bread and butter and in the Czech Republic, the CNB's Governor has been clear that the central bank is not willing to tolerate meaningful koruna weakness. In contrast, the Polish authorities appear the least concerned about currency weakness at this point. In its last statement, the National Bank of Poland mentioned that the pace of economic recovery could be limited by the lack of a marked adjustment in the PLN exchange rate despite the global shock caused by the pandemic and a loosening of NBP monetary policy. This underlines our view that the zloty currently looks like the least attractive currency in the region (particularly since the NBH has stabilised the forint and more quantitative easing from the National Bank of Poland is on cards for 2021).

Figure 2: CEE defined by small open economies

Source: IMF

CEE asset prices primarily driven by global factors

In general, as the CEE region is defined by small open economies levered to global (Fig 2) and European growth, and this is the way many investors form their expectations, external factors have clearly been spilling over into local asset markets. The rise in FX volatility among local currencies since the re-rating of the global growth outlook last month and the evident underperformance of local currencies provides a case in point, as well as the flattening of local curves.

Global factors are heavily determining local markets at this point with only limited domestic idiosyncratic drivers. We thus prefer relative value positions rather than outright bets.

China's "internal circulation" is working

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With internal tourism at its heart, President Xi's promotion of "internal circulation" is quickly delivering a recovery in Chinese GDP growth



Chinese President Xi Jinping, centre, in the village of Shazhou, Rucheng County, central China's Hunan Province

Source: Shutterstock

What is dual circulation?

China's President Xi Jinping advocates dual circulation of economic growth. One part of this is "internal circulation", the other is "external circulation".

The source of growth for internal circulation is domestic demand from domestic consumption, new-infra and traditional infrastructure investment. Policies are planned to boost internal circulation. The idea is that this source of growth will drive the job market and with more people returning to work following redundancies due to Covid-19, they will spend more and drive growth faster.

The basis of external circulation is export demand, which is still weak and isn't under the control of the Chinese government.

Tourism policies are the start of internal circulation

The central government has promoted cross-provincial travel within Mainland China during the summer holidays. This has successfully supported service sectors, especially in scenic areas and resorts. Hainan Island was full of local visitors this summer.

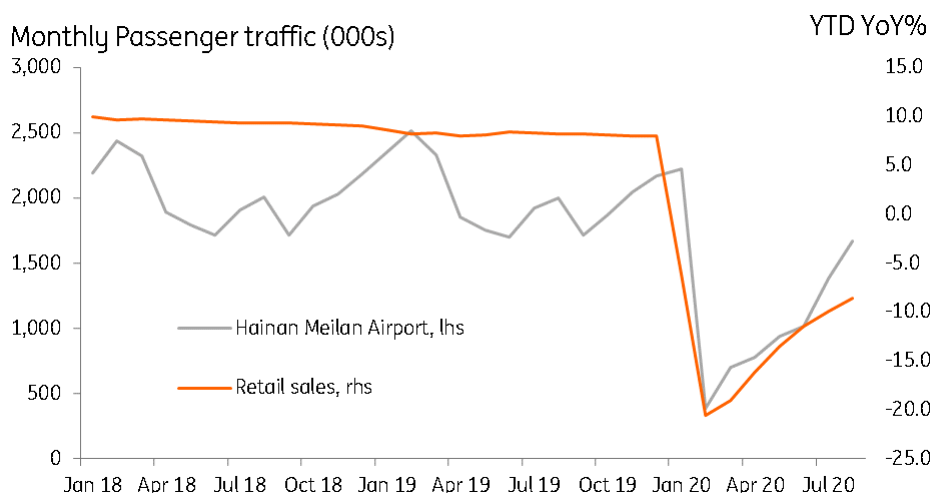
"So far, internal circulation has been successful as retail sales in August have returned to positive growth"

More jobs have been created in the service sector as a result, enabling more people to spend. It is the lower-income classes that power the massive consumer market. If they are employed, China's consumption should

increase. So far, internal circulation has been successful as retail sales in August have returned to positive growth.

The government has taken note of this successful measure and is promoting even more internal tourism. Given China's big geographical area, we expect more local governments to propose such tourism measures to the central government.

Chinese tourism and retail sales are linked



Source: CEIC, ING

Monthly passenger Traffic Hainan airport and retail sales

Tech policy moves towards self-reliance

Apart from tourism, the central government has pushed hard to set up more free trade zones.

Nowadays, free trade zones are not really about international trade, in fact, they are a small area within a local government to experiment with different policies.

Recently, there have been new free trade zones targeted at technological advancement. We think that the aim is to reduce and eventually eliminate China's reliance on advanced technology from the rest of the world. It is probably only a matter of time before China becomes largely self-sufficient in terms of advanced technology.

Forecasts

We revised our GDP growth last month for the third quarter from 0.5% year-on-year to 2.5% year-on-year, and the full-year forecasts from 0.5% YoY to 0.7% YoY. These sets of forecasts remain valid as economic indicators continue to improve.

On the USD/CNY, this has moved very closely with the dollar index in September. The correlation increased from August.

We believe that this echoes the Chinese central bank governor's recent comment that China is in the process of exchange rate and interest rate liberalisation.

Our USD/CNY forecast is 6.70 by the end of 2020.

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Asia: 50 shades of swoosh

The recovery continues in Asia, but it certainly cannot be described as a "V"-shaped recovery, more of a Nike swoosh, with the depth of the drop and speed of subsequent uptick largely determined by the extent of the pandemic within each country



Source: Shutterstock

Covid-19 still calling the shots for the economy

Asian countries, excluding China, continue to show signs of improvement, but there are still problems. For such an open trade-dependent region, lingering global weakness continues to weigh on manufacturing production with exports remaining soft even where domestic demand has recovered more strongly.

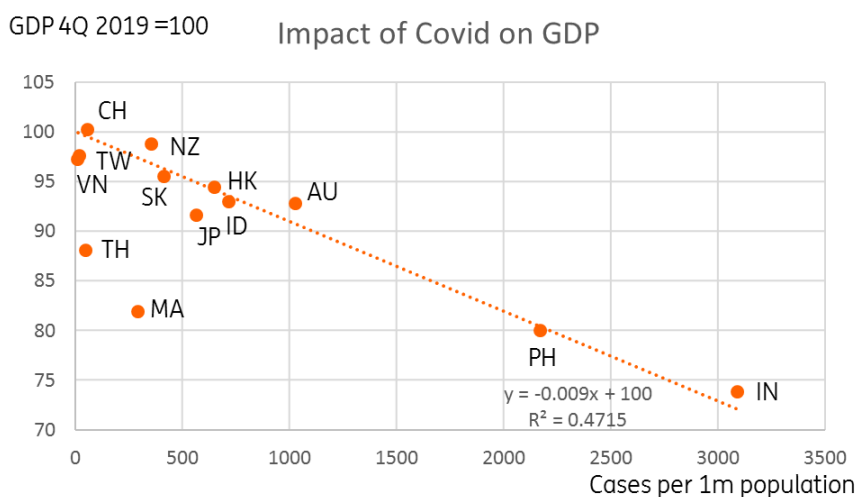
“For every 1000 cases per million of the population in Asia, GDP has declined by about 10 percentage points”

The pandemic is also clearly still a problem for some economies – Indonesia, Philippines, India, where lockdowns persist despite many months of preventative measures. And the recent flare-ups in Korea, Australia and New Zealand

remind us that Asia is not likely to be able to fully normalise until vaccines become widely distributed.

The first chart below shows how important the virus has been for Asia, with the drop in GDP strongly correlated to the extent of the outbreak. For every 1000 cases per million of population, GDP has declined by about 10 percentage points.

Impact of Covid-19 on cumulative GDP loss (1Q-2Q20)



Source: CEIC, ING

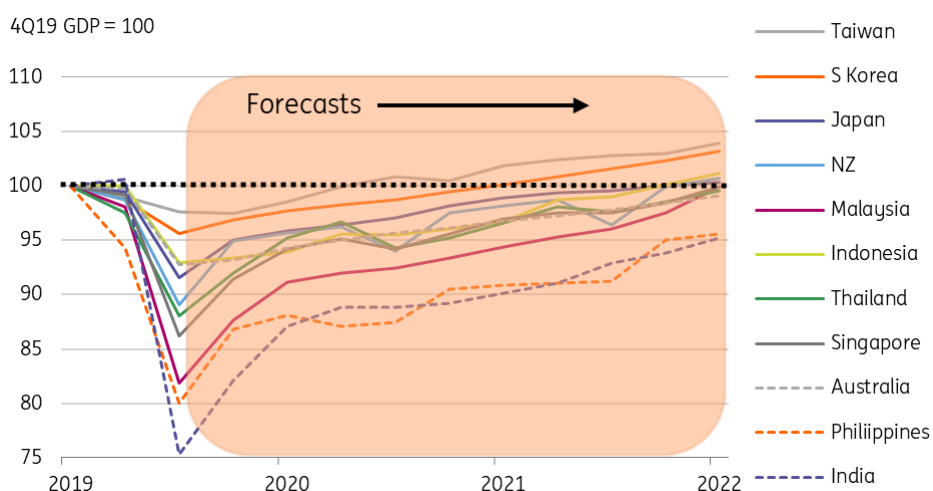
Recovery to pre-Covid-19 levels of GDP could take years

The next chart shows how seasonally adjusted GDP looks like an index where 4Q19 (BC - Before Covid-19) = 100.

Both the drop in GDP, and our projection of the subsequent rate of recovery are closely linked to the economies' experience with the virus. For example, South Korea and Taiwan, both see shallow declines and recover pre-Covid-19 levels of GDP earlier than say, India, or the Philippines, where the virus has hit harder and proved tougher to eradicate.

But in all cases, the recovery profile resembles more of the so-called Nike swoosh rather than a V-shape, and for about half of all the economies in the region, GDP remains below pre-Covid-19 levels still by the end of 2022, with only a few pushing above these levels by end-2021.

Asia GDP (seasonally adjusted) profile



Source: CEIC, ING

It would be worse without a tech upturn

There is also some evidence that the region's semiconductor sales are driving most of the pick-up in production and exports, though it is less obvious that this is fuelling an increase in unit prices against the backdrop of weak global demand, and non-tech sectors remain weak.

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FX markets: Betting on Biden

With less than a month to go until the US presidential election, it is fair to say that FX markets are starting to behold a vision of a Joe Biden presidency. That has seen FX volatility levels fall and the dollar soften against those currencies driven by global activity



Source: Shutterstock

The falling cost of insuring Presidential election risk

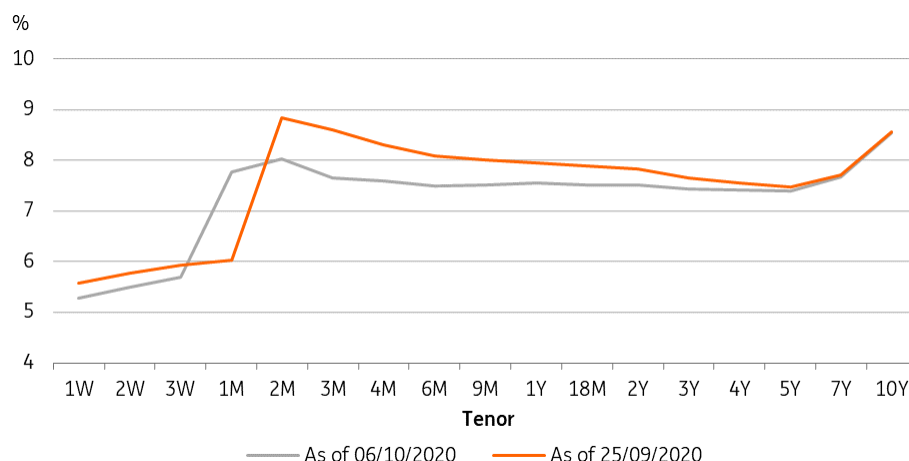
The USD/JPY derivative market – typically one of the most significant vehicles to express uncertainty – seemed to breathe a sigh of relief after the first presidential TV debate. The view here seems to be that Biden pulling away in the opinion polls reduces the risk of a contested election.

We show that reduced pricing of risk in what is called the term structure of the USD/JPY FX options market. Our chart below shows the pricing of the USD/JPY volatility curve on two specific dates. The first being 25 September, a few days before the first debate, when Joe Biden was running about nine points ahead of President Trump in opinion polls. The second on 6 October, when Biden's lead in the polls had extended to 20+ points.

While these two volatility curves show a clear kink around the timing of the election – i.e. now captured by the one-month tenor on the chart – it is noticeable that the volatility curve priced on 6 October is substantially lower. In other words, investors now attach a lower pricing to risk – or the cost of insurance – around the US election.

This reduction in perceived risk has seen US equities reclaiming half of their September sell-off and the dollar unwinding around 70% of September's corrective rally. We think this price action represents important clues to post-election market developments. Despite fears of a tax and spend Biden administration being negative for risk assets, it actually seems investors can live with an alternative (probably centrist) administration – especially should it secure Congress.

USD/JPY volatility curve sinks post presidential debate



Source: ING

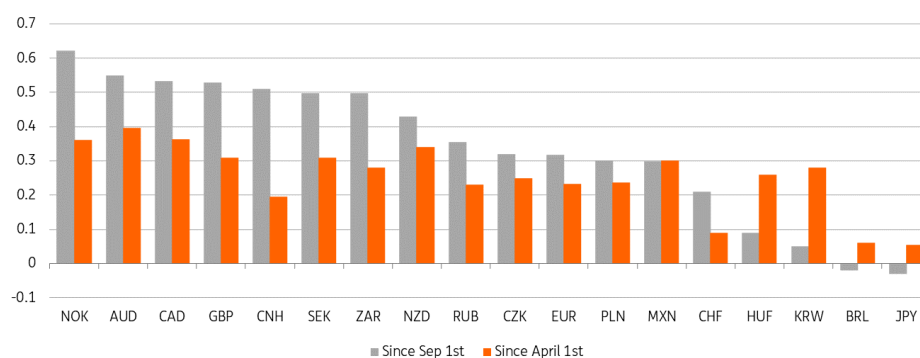
Releasing the reflation trade in FX

Barring events that could derail recovery hopes, (such as more aggressive lockdowns or Washington gridlock on a contested US election), we are expecting reflation trades to continue to play out in FX markets. Most recently the global reflation trade has extended beyond the asset classes of equities, commodities, and FX into the bond market, where the US 10-30 year Treasury curve is now at its steepest levels of the year.

Our chart below shows how key currency performance against the dollar has been correlated with the shape of the US 10-30 year curve this year. No surprise to see the commodity currencies with the strongest correlation here, but a surprise to see the CNH coming up on the rails as the People's Bank of China allows a little more flexibility in the renminbi.

We largely expect these trends to continue and favour the dollar decline extending throughout 2021. The euro, and European currencies in general, also have to battle with local challenges of: a) Brexit and b) the progress and implementation of the EU Recovery Fund. Clarity on both should emerge by year-end and allow EUR/USD to start building a path to 1.25.

Daily currency correlations (via USD) with changes in US 10-30 year Treasury Curve



Source: ING

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Rates: Born in the USA

While the Covid-19 drama surrounding the White House presented a distracting background, in the foreground the rates market is sniffing an eventual stimulus bill, and week-by-week seeing macro data that has had a shinier-than-expected veneer on it. The consequent uptick in core market rates globally has a clear US stamp on it. This is good for Europe too



Source: Shutterstock

A month ago we enunciated the parameters that could steepen the US yield curve, and why steeper curves generally would be a good thing. They signal a reflationary tendency, which is what you want to see in the wake of the potentially massive deflationary hit that Covid-19 has been.

Put simply, Covid-19 generated significant output gaps, globally. These correlate with weak labour markets and through a collapse in demand imply minimal medium-term inflation pressure. Hence the collapse in both official and market rates. As we come full circle, the subsequent rise in market rates and steeper curves is a good thing, as it signals some unwinding of pain.

“As we come full circle, the subsequent rise in market rates and steeper curves is a good thing, as it signals some unwinding of pain. And it has been made in America so far; the widening in the spread between USD and EUR market rates confirms this”

And it has been made in America so far; the widening in the spread between USD and EUR market rates confirms this. Before Covid-19, the US 10yr Treasury yield typically traded in excess of 200bp over Germany. Covid-19 took that spread down to 100bp, partly as most of the rate-cutting came from the Federal Reserve. It is now back up to 130bp. It is still closer to crisis levels than to more

normal levels, but the path that the spread is on is an auspicious one. What we want to see here is a classic US recovery that helps to lift the likes of Europe in the same direction. The bond market is in the early phase of pricing in that exact likelihood.

But we still have some way to go. Macro angst remains elevated in absolute terms. That is dominating the supply risk coming from stimulus packages, on both sides of the Atlantic.

Risks remain elevated. Default probabilities are likely underestimated by current high yield spreads, masked by a myriad of government schemes to keep things afloat. The

US election outcome still has the potential to stoke considerable volatility and uncertainty. And Covid-19 itself has clearly not gone away.

A still relatively elevated VIX index is a good barometer of many of these unknowns, warning market participants to be on their guard.

European data has also begun to disappoint. German data is the best prism through which to assess wider Europe, and the evidence there had improved but has more recently lurched back.

“German data is the best prism through which to assess wider Europe, but recently, data has lurched back. At times like these, as has often been the case in recent decades, the global economy needs to see some oomph out of the US”

At times like these, as has often been the case in recent decades, the global economy needs to see some oomph out of the US.

There has been some of this. While the macro data has not been a pleasant read in absolute terms, the dynamics post the 2Q collapse have been a net positive. Moreover, the actual data released has tended to be almost consistently firmer than

expected. That has been enough to ultimately feed through to higher market rates.

There are many obstacles ahead, and no doubt there will be setbacks. But we continue to eye a 1-handle for the 10yr US as a theme for 2021.

With the 10yr currently at 75bp that may not seem very aggressive, but it is some way from the -50bp seen on the German equivalent. If we are to get back to a 200bp spread, it will likely come from US rates ratcheting higher.

Slowly, but higher. That steepens the curve as central banks have parked official rates at current levels. It is also the clearest means to tempting 10yr Germany back up towards that holy grail of positive rates.

Central banks: What's left in the toolbox?

The resurgence of Covid-19 across Europe and elsewhere is sparking fears of a reversal in the global recovery over the winter. While fiscal policy will continue to do much of the heavy lifting, economic uncertainty is putting renewed pressure on central banks to act. Here's what we expect from them over the coming months

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Source: Shutterstock

Our view on what central banks will do next

European Central Bank

Inflation is dividing the ECB once more. The hawks argue that negative inflation will prove temporary, while the doves argue that, like in 2014, low inflation combined with uncertainty and increasing unemployment is a real danger. In our view, the doves should win this fight, particularly given the risk of a double dip towards the end of the year; something that is not included in the ECB's projections. We therefore expect the ECB to increase QE, focusing on PSPP instead of continuing PEPP.

Federal Reserve

Rising Covid-19 cases and the November 3rd election means there are near-term headwinds for the economy, while structural changes from the pandemic will also create challenges over the medium term. Fed officials suggest a rate rise may not come before the end of 2023. Officials also suggest they can do little more to stimulate demand, with the chances negative interest rates looking slim, although they could of course implement more QE.

Bank of Japan

Expect the pace of asset purchases to remain high to counter an upward drift in 10Y rates. New PM Suga, is unlikely to push for any radical changes in BoJ policy or leadership, so the future beckons towards varying degrees of "more of the same".

Bank of England

QE remains the preferred tool and is likely to be expanded again in Nov. Negative rates are in the toolbox but operational planning means it's unlikely to happen in 2020. They could be introduced in 2021 although not all MPC voters seem keen on using them.

China (PBoC)

With Covid-19 under control in China, the economy is continuing to recover, partly thanks to cross-provincial travel that is helping to boost spending and jobs. We don't expect any policy changes from the PBoC.

Bank of Canada

The recovery has come more quickly than expected, but inflation is low and the BoC believe "uncertainty" will remain a constraint. They are unlikely to adjust their QE program of "at least" C\$5bn of government bonds/week before year-end.

Reserve Bank of Australia

The RBA has kept both the cash rate and 3-yr yield target at 0.25%. 3-year yields have fallen steadily since early-Sept, requiring no additional asset purchases. A falling unemployment rate removes pressure for further incremental easing. We see no further easing this year.

Reserve Bank of New Zealand

The RBNZ is considering new tools including funding for lending (FFL), negative cash rate, and purchase of foreign assets. Of these, the FFL is likely to be ready to deploy first, and is more likely to be utilised either now or in the future compared to the other policies.

Riksbank

Milder virus restrictions and more stable Covid-19 case growth in Sweden's major trading partners have reduced the need for further stimulus. This implies a return to negative rates, for the time being, looks unlikely.

Swiss National Bank

The SNB is expected to keep its rates unchanged at -0.75% and continues to use foreign exchange market intervention as its main monetary policy instrument.

Norges Bank

With rates at 0%, there's not much left policymakers can do. Neither QE nor negative rates are seen as viable. In any case, Norway remains a hawkish outlier, in that policymakers are pencilling in some tightening for 2022.

Source: ING

Federal Reserve: We *really* aren't raising rates any time soon...

Officials have been encouraged by the recovery so far, but there is still significant slack in the economy.

Millions of people remain out of work and the Federal Reserve's switch to an "average" 2% inflation target implies interest rates will remain lower for longer than under the

previous framework. A pick-up in Covid-19 cases and the 3 November election mean there are near-term headwinds for the economy, while structural changes for many industries resulting from the pandemic will also create challenges over the medium-term.

“Fed officials suggest a rate rise may not come before the end of 2023”

Fed officials suggest a rate rise may not come before the end of 2023. Officials also suggest they can do little more to stimulate demand with the chances of negative interest rates looking slim,

although they could, of course, implement more quantitative easing.

Fiscal policy is the better tool to drive the recovery forward in their minds, but this may not come until after the election.

European Central Bank: The old fight returns

After months of speaking with one voice, the old controversies between hawks and doves have returned to centre stage.

With plummeting inflation rates, increased uncertainty and higher unemployment, the risk of outright deflation has increased. This brings back memories of 2014 and the Draghi era divisions. On the one side, hawks are arguing that negative inflation is only temporary and will reverse in the course of 2021, hence doing nothing is the preferred option. On the other side, doves liken the situation to 2014 and argue that negative inflation, combined with uncertainty and increasing unemployment, is a real danger, hence more action is needed.

“We expect the doves to win the fight at the ECB and increase quantitative easing under PSPP instead of continuing the PEPP programme”

In our view, the doves should win this fight given that there is a risk of a double-dip recession in the eurozone towards the end of the year; something that is not included in the European Central Bank's base projections. As a result, we expect the ECB to increase quantitative easing, focusing on the Public Sector

Purchase Programme (PSPP) instead of continuing the Pandemic Emergency Purchase Programme (PEPP).

Bank of England: Expect more QE in November, but negative rates on the back burner

Despite the hype about negative rates, the real story of the summer has been Governor Andrew Bailey's endorsement of quantitative easing as his favoured marginal policy tool - an apparent divergence from the Mark Carney-era. And with Covid-19 cases rising, new containment measures coming in, and the threat of new UK-EU trading terms looming, it's highly likely that more QE is on the way, most likely in November. An extra £100bn expansion would allow policymakers to continue buying bonds at the current pace into the spring.

“We could see the Bank of England using negative interest rates in 2021 if the outlook doesn't improve”

Will this be coupled with negative rates? The Bank of England has signalled they are in the toolbox, but that operational planning will take time, effectively ruling out their usage this year. We could instead see the tool employed in 2021 if the

outlook doesn't improve, although the jury's out on just how useful policymakers think negative rates would be in practice.

Bank of Japan: More of the same

The last time the Bank of Japan made any meaningful change to its monetary policy was at its 27 April meeting, when it voted to expand purchases of commercial paper and corporate bonds, to expand the scope of eligible collateral it would accept in exchange

for funds as part of its special funds supplying operations in response to Covid-19, and to expand purchases of Japanese government bonds to offset the additional issuance expected as a result of government fiscal support (no upper limit to amounts, but yield curve target unchanged at 0%).

The result of this has been a sharp increase in base money from March/April onwards, though the pace of this increase has slowed a little since. JGB yields have remained anchored at roughly 0%, though there has been some minor upwards drift, while short term (3-month Libor) rates have fallen further into negative territory, though remain essentially at their target rate of -0.1%.

Base money growth stepped up in September, presumably to offset the drift upwards in bond yields, and we can expect the pace of asset purchases to remain high until bond yields move lower and approach zero again. New Prime Minister Yoshihide Suga, is unlikely to push for any radical changes in BoJ policy or leadership, so the future beckons towards varying degrees of “more of the same”.

Eurozone: A second wave - a wake-up call for policymakers?

The rise of new Covid-19 cases has led to concerns about an early end to the rebound of the eurozone economy. While we don't see much of an impact in terms of mobility data just yet, the risk of a double-dip recession in 4Q should not be underestimated.

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Source: Shutterstock

Despite the second-wave, 3Q GDP growth will be whopper

In this fast-developing crisis, traditional economic data is inevitably always a bit behind the curve.

While concerns about growth are resurfacing, data releases on the summer months still show strong rebound effects. Thanks to base effects from the rebound in May, June and July, 3Q growth in industrial production, retail sales, new car registrations and exports will be massive.

Taking available data for July and August, where possible and leaving that stable for the rest of the quarter yields quarterly growth of 10.9% for retail sales, 14.6% for industrial production, 16.7% for exports in goods and a whopping 106.9% for new car registrations.

Our forecast for 3Q GDP growth in the eurozone is therefore around 10% quarter-on-quarter.

Brightest before dusk?

Looking beyond the third quarter, recent confidence indicators have fuelled fears of a double-dip recession.

Eurozone services PMI even dropped below 50, indicating that the sector is experiencing contraction. While we believe that this may overstate the decline in September and that moderately paced growth is more realistic, this is concerning.

According to the survey, the decline was related to the surge in Covid-19 cases impacting business and this should come as an early warning sign for policymakers. While the reversal of reopening measures has thus far been limited, it is worrying that businesses are already noticing a decline in activity.

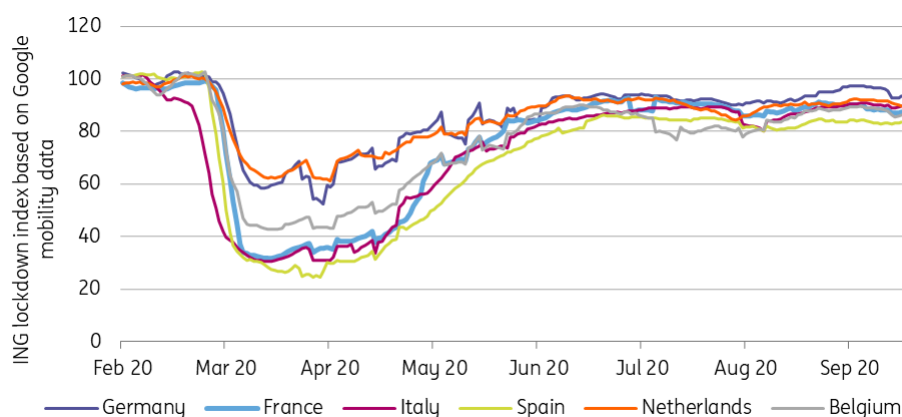
Google data points to a small tick down in activity towards the end of September

Latest Google mobility data also shows some small indications of a turnaround in mobility, possibly on the back of the increase in new infections and new local lockdowns.

From mid-August to mid-September, there has been a steady increase in Covid-19 cases, notably in most large eurozone economies, consistent with a continued recovery in activity. However, from mid-to-late September, cautious declines in mobility can be seen. The impact is still small, even though cases have been surging for quite some time. It has to be said that new restrictive measures have been far less impactful than during the first wave, but still more of an effect was to be expected.

We think that the recent decline in mobility together with concerns in the services sector indicated by the PMIs should act as a wakeup call for policymakers that it's not necessarily all smooth sailing from here.

Mobility data has fallen slightly in the second half of September



Source: ING Research, Google COVID-19 Community Mobility Reports

Note: index of activity since 15 Feb for retail & recreation, groceries & pharmacies and workplaces using Google Covid19 Community Mobility Reports with data through 11 September. 100=baseline of activity between 3 Jan and 9 Feb

Concerns about a double-dip are more for 4Q than 3Q

The boost of reopening economies has already made clear that GDP growth in 3Q will be massive, but this could mask another dip or at least a slowing of economic activity.

Similar or even stricter social distancing measures, combined with the winter season could actually suppress consumption and all kinds of leisure activities. Dealing with Covid-19 out in the open in the summer month was much easier than it will be indoors. Also, some sectors have started to show the first structural effects from the crisis as job redundancies are announced.

There is a possibility that the eurozone recovery could come to an abrupt halt towards the end of the year. It will take a vaccine before the recovery can be fully sustainable. And even then, the longer-term impact from social distancing as well as the structural transition in some sectors (which Covid-19 didn't start but did accelerate) is likely to continue weighing on growth in 2021 and beyond.

ING global forecasts

	1Q20	2Q20	2020 3Q20	4Q20	FY	1Q21	2Q21	2021 3Q21	4Q21	FY	1Q22	2Q22	2022 3Q22	4Q22	FY
United States															
GDP (% QoQ, ann)	-5.0	-31.4	34.5	4.5	-3.4	3.5	3.0	3.0	3.0	4.2	3.0	2.9	2.7	2.7	2.9
CPI headline (% YoY)	2.1	0.4	1.3	1.3	1.3	1.7	3.2	2.4	2.3	2.4	2.2	2.1	2.0	2.0	2.1
Federal funds (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-month interest rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-year interest rate (% eop)	0.67	0.68	0.68	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.50	1.50	1.50
Fiscal balance (% of GDP)					-20					-9.9					-5.5
Gross public debt / GDP					101.3					105					105.3
Eurozone															
GDP (% QoQ, ann)	-14.1	-39.4	40.8	3.0	-8.0	2.2	5.1	5.2	3.9	4.0	2.5	2.6	1.8	1.6	3.1
CPI headline (% YoY)	1.1	0.2	-0.1	-0.1	0.3	0.6	1.2	1.3	1.3	1.1	1.3	1.3	1.3	1.3	1.3
Refi minimum bid rate (% eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (% eop)	-0.4	-0.45	-0.49	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.4	-0.40
10-year interest rate (% eop)	-0.47	-0.45	-0.55	-0.50	-0.50	-0.35	-0.25	-0.20	-0.20	-0.20	-0.20	-0.15	-0.10	-0.10	-0.10
Fiscal balance (% of GDP)					-9.5					-4.6					-2.7
Gross public debt/GDP					104.5					102.8					101
Japan															
GDP (% QoQ, ann)	-2.3	-28.1	13.5	3.7	-5.9	2.3	2.9	4.3	3.1	1.6	1.6	1.4	1.5	1.4	2.2
CPI headline (% YoY)	0.5	0.1	0.2	0.0	0.2	0.3	0.7	0.8	0.7	0.7	0.8	0.8	0.6	0.6	0.7
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
3-month interest rate (% eop)	0.00	0.00	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10-year interest rate (% eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-17.0					-9.8					-8.9
Gross public debt/GDP					223.0					229.0					233.0
China															
GDP (% YoY)	-6.8	3.2	2.5	4.0	0.7	6.0	2.0	4.0	2.0	3.5	2.5	3.5	4.5	5.0	3.9
CPI headline (% YoY)	5.0	2.7	2.4	1.9	3.0	2.0	2.5	2.5	2.9	2.5	2.8	2.6	2.4	2.5	2.5
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	1.95	2.13	2.67	3.00	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.70	3.70
10-year T-bond yield (% eop)	2.59	2.87	3.10	3.10	3.10	3.15	3.20	3.25	3.30	3.30	3.35	3.40	3.45	3.50	3.50
Fiscal balance (% of GDP)					-6.0					-6.0					-4.0
Public debt (% of GDP), incl. local govt.					110.0					115.0					118.0
UK															
GDP (% QoQ, ann)	-9.7	-58.7	84.9	9.1	-9.8	3.8	2.1	1.7	2.6	5.3	2.5	1.7	2.2	2.3	2.2
CPI headline (% YoY)	1.7	0.6	0.6	0.7	0.9	0.9	1.4	1.3	1.3	1.2	1.1	1.3	1.5	1.6	1.3
BoE official bank rate (% eop)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-month interest rate (% eop)	0.60	0.20	0.10	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.25	0.30	0.30
10-year interest rate (% eop)	0.30	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.70	0.70	0.70	0.80	1.00	1.10	1.10
Fiscal balance (% of GDP)					-15.0					-7.0					-3.5
Gross public debt/GDP					112.0					110.5					110.5
EUR/USD (eop)															
	1.10	1.13	1.17	1.20	1.20	1.20	1.22	1.23	1.25	1.25	1.25	1.25	1.23	1.20	1.2
USD/JPY (eop)															
	107.0	107.0	105.0	102.0	102.0	102.0	102.0	102.0	102.0	102.0	102.0	103.0	104.0	105.0	105.0
USD/CNY (eop)															
	7.082	7.065	6.78	6.7	6.7	6.65	6.68	6.7	6.73	6.73	6.73	6.73	6.75	6.7	6.7
EUR/GBP (eop)															
	0.89	0.91	0.91	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88

Source: ING forecasts

ING's forecasts under three different scenarios

	2020					2021					2022				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Scenario 1 - Local lockdowns used as vaccines rolled out during 1H21 (base case)															
Real GDP growth (QoQ% annualised)															
United States	-5.0	-31.4	34.5	4.5	-3.4	3.5	3.0	3.0	3.0	4.2	3.0	2.9	2.7	2.7	2.9
Eurozone	-14.1	-39.4	40.8	3.0	-8.0	2.2	5.1	5.2	3.9	4.0	2.5	2.6	1.8	1.6	3.1
China (YoY%)	-6.8	3.2	2.5	6.0	1.2	4.0	5.8	5.0	4.0	3.9	4.5	4.5	4.0	4.0	4.6
Japan	-2.3	-28.1	13.5	3.7	-5.9	2.3	2.9	4.3	3.1	2.0	1.6	1.4	1.5	1.4	2.2
United Kingdom	-9.7	-58.7	84.9	9.1	-9.8	3.8	2.1	1.7	2.6	5.3	2.5	1.7	2.2	2.3	2.2
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.76	97.83		98.67	99.41	100.14	100.89		101.64	102.36	103.05	103.74	
Eurozone	96.27	84.94	92.53	93.21		93.72	94.89	96.10	97.03		97.63	98.26	98.70	99.09	
China (YoY%)	98.25	99.03	99.64	100.63		102.10	102.61	103.62	104.14		104.78	105.69	106.85	108.17	
Japan	99.42	91.55	94.49	95.36		95.90	96.59	97.61	98.36		98.75	99.09	99.46	99.81	
United Kingdom	97.48	78.15	91.13	93.13		94.00	94.49	94.89	95.50		96.10	96.50	97.03	97.58	
EUR/USD	1.10	1.13	1.17	1.20		1.20	1.22	1.23	1.25		1.25	1.25	1.23	1.20	
US 10-year yield (%)	0.67	0.68	0.68	0.75		1.00	1.00	1.00	1.25		1.25	1.25	1.50	1.50	
Scenario 2 - Restrictions tightened but full lockdown avoided. Some vaccines rolled out in 1H21															
Real GDP growth (QoQ% annualised)															
United States	-5.0	-31.4	34.5	-8.9	-4.2	-3.6	10.0	7.5	4.7	1.6	4.0	3.1	2.8	2.6	4.5
Eurozone	-14.1	-39.4	40.8	-16.0	-9.3	0.5	9.5	7.0	4.5	0.7	3.7	3.0	2.3	2.0	4.2
China (YoY%)	-6.8	3.2	2.5	4.0	0.7	6.0	2.0	4.0	2.0	3.5	2.5	3.5	4.5	5.0	3.9
Japan	-2.3	-28.1	6.9	0.5	-6.8	1.1	0.8	3.4	1.6	-0.2	0.5	1.1	1.1	2.7	1.4
United Kingdom	-8.5	-59.8	85.5	-12.4	-11.2	2.9	10.0	9.5	4.2	3.2	1.9	1.2	1.2	1.8	3.5
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.76	94.53		93.67	95.93	97.68	98.80		99.78	100.54	101.24	101.89	
Eurozone	96.27	84.94	92.53	88.58		88.69	90.73	92.27	93.29		94.15	94.84	95.38	95.86	
China (YoY%)	98.25	99.03	99.64	100.63		102.10	102.61	103.62	104.14		104.78	105.69	106.85	108.17	
Japan	99.42	91.55	93.09	93.21		93.46	93.65	94.43	94.81		94.93	95.19	95.45	96.09	
United Kingdom	97.48	78.15	91.20	88.23		88.86	91.01	93.10	94.06		94.50	94.78	95.07	95.49	
EUR/USD	1.10	1.13	1.17	1.12		1.15	1.18	1.18	1.20		1.22	1.23	1.24	1.25	
US 10-year yield (%)	0.67	0.68	0.68	0.25		0.50	0.75	0.75	1.00		1.00	1.00	1.25	1.25	
Scenario 3 - National lockdowns return, while vaccine development takes longer than hoped															
Real GDP growth (QoQ% annualised)															
United States	-5.0	-31.4	34.5	-15.4	-4.6	-10.4	4.0	2.8	3.3	-3.2	5.8	9.1	12.7	7.8	6.4
Eurozone	-14.1	-39.4	40.8	-22.0	-9.7	-3.5	2.8	2.6	2.4	-3.5	4.3	8.3	10.3	9.3	5.4
China (YoY%)	-6.8	3.2	2.5	0.0	-0.3	2.0	4.0	3.0	1.0	1.9	5.0	5.5	6.0	6.0	2.1
Japan	-2.3	-28.1	6.7	-1.0	-6.9	-0.7	-0.8	1.2	1.2	-1.6	0.8	1.4	5.3	4.2	1.7
United Kingdom	-8.5	-59.8	85.5	-26.8	-12.1	2.3	2.5	4.0	3.5	-2.4	4.2	14.5	12.3	7.6	7.1
Real GDP level (Indexed at 4Q19=100)															
United States	98.73	89.85	96.76	92.80		90.28	91.17	91.81	92.55		93.87	95.93	98.84	100.72	
Eurozone	96.27	84.94	92.53	86.95		86.18	86.78	87.34	87.86		88.79	90.58	92.82	94.91	
China (YoY%)	98.25	99.03	99.64	99.64		100.14	101.13	101.88	102.13		103.38	104.78	106.31	107.87	
Japan	99.42	91.55	93.05	92.81		92.65	92.46	92.74	93.02		93.20	93.53	94.74	95.72	
United Kingdom	97.48	78.15	91.20	84.36		84.84	85.36	86.20	86.95		87.85	90.87	93.55	95.28	
EUR/USD	1.10	1.13	1.17	1.10		1.10	1.10	1.12	1.15		1.15	1.18	1.20	1.20	
US 10-year yield (%)	0.07	0.68	0.68	0.00		0.00	0.25	0.25	0.25		0.50	0.50	0.50	0.50	

Source: ING

Note most growth forecasts rounded to nearest whole or half number)

*Scenario two is our current base case for China

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