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Keynote speech

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Chief Economist ING Belgium

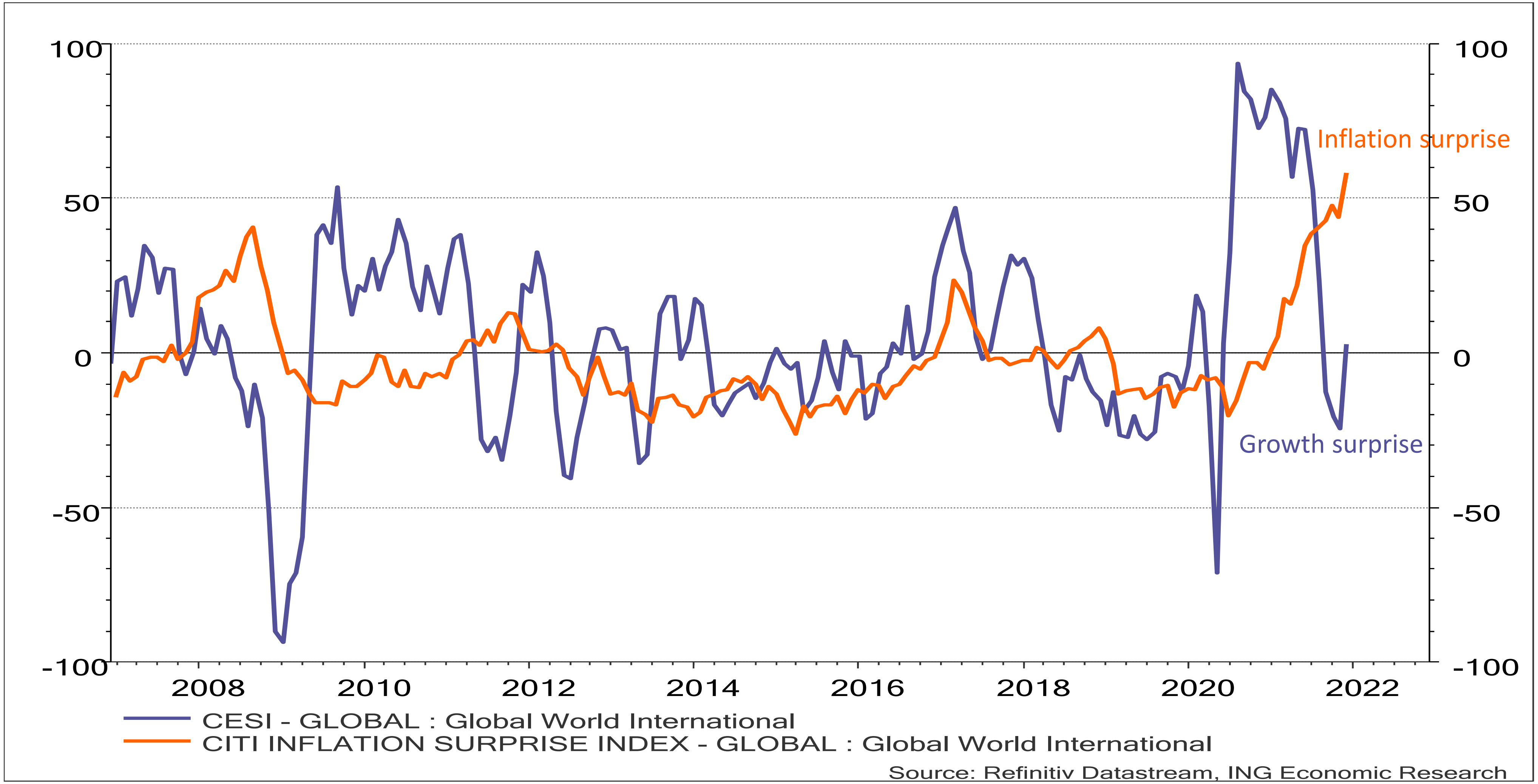
The end of easy money?

Peter Vanden Houte
Chief Economist

December 2021

do your thing

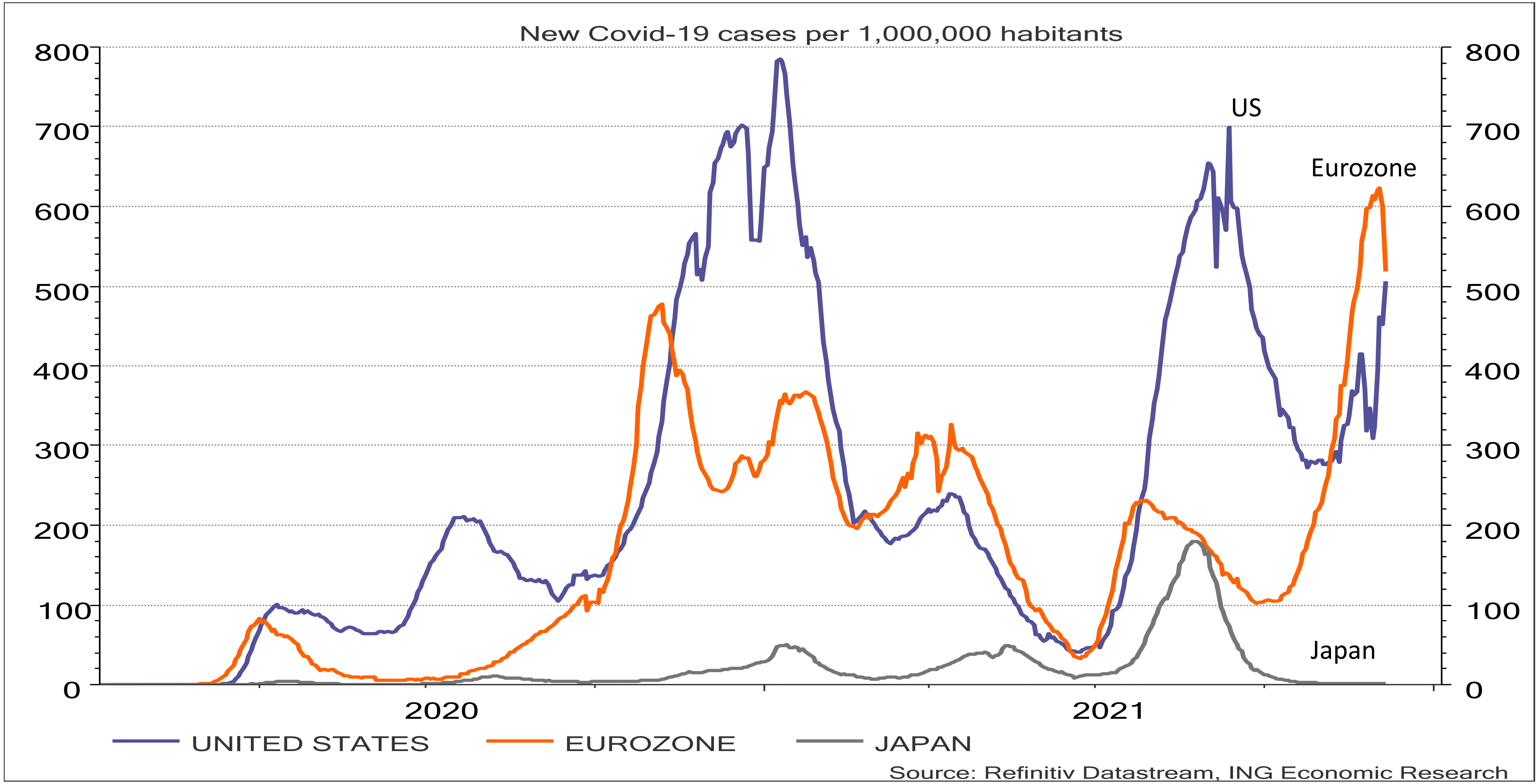
Growth surprise now fading, while inflation surprises to the upside



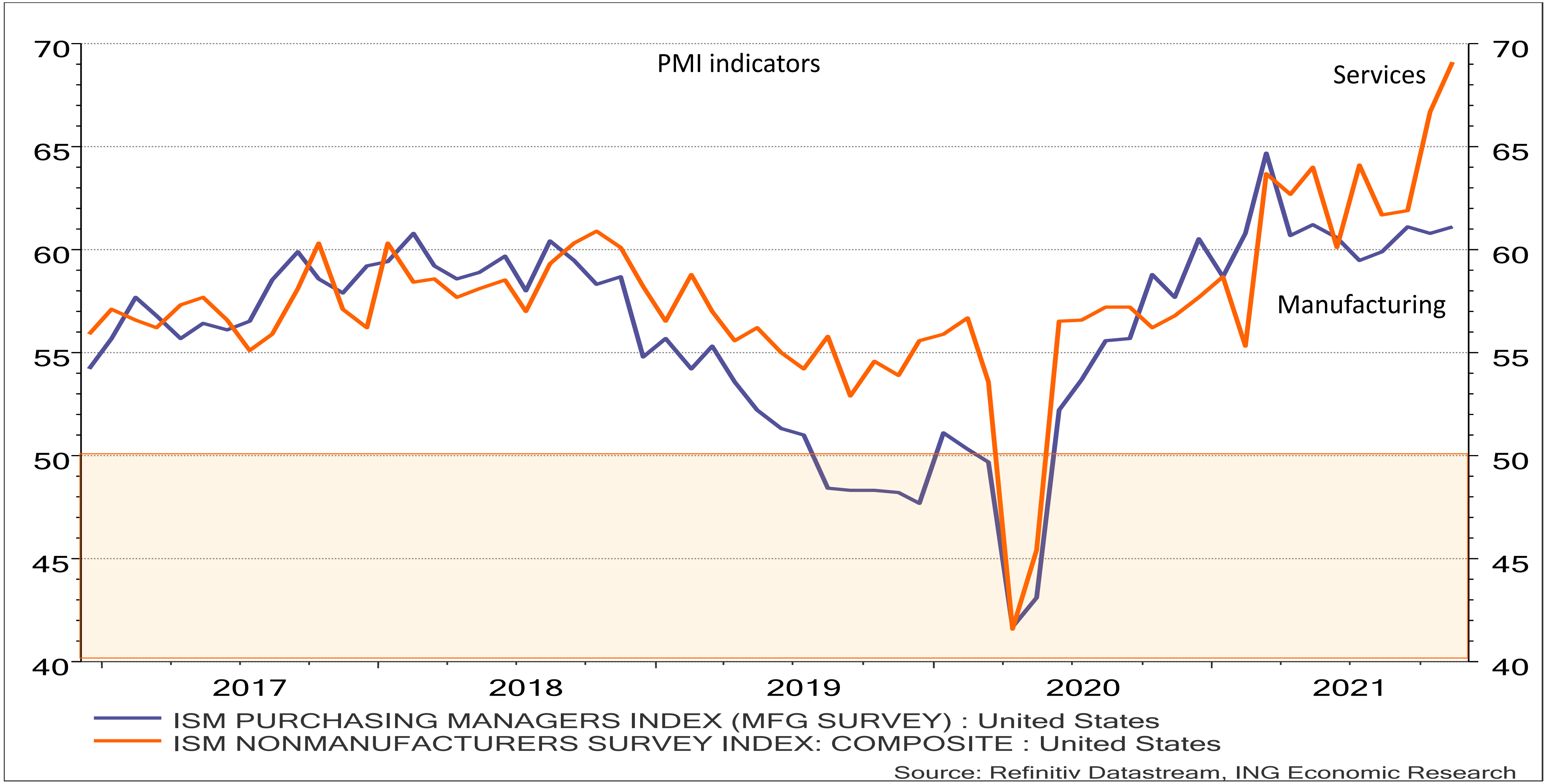
Important challenges

- Covid-19
- Disruptions in the supply chain
- Soaring energy prices (energy transition?)
- Inflation (=> tighter monetary policy?)

New Covid-19 infections

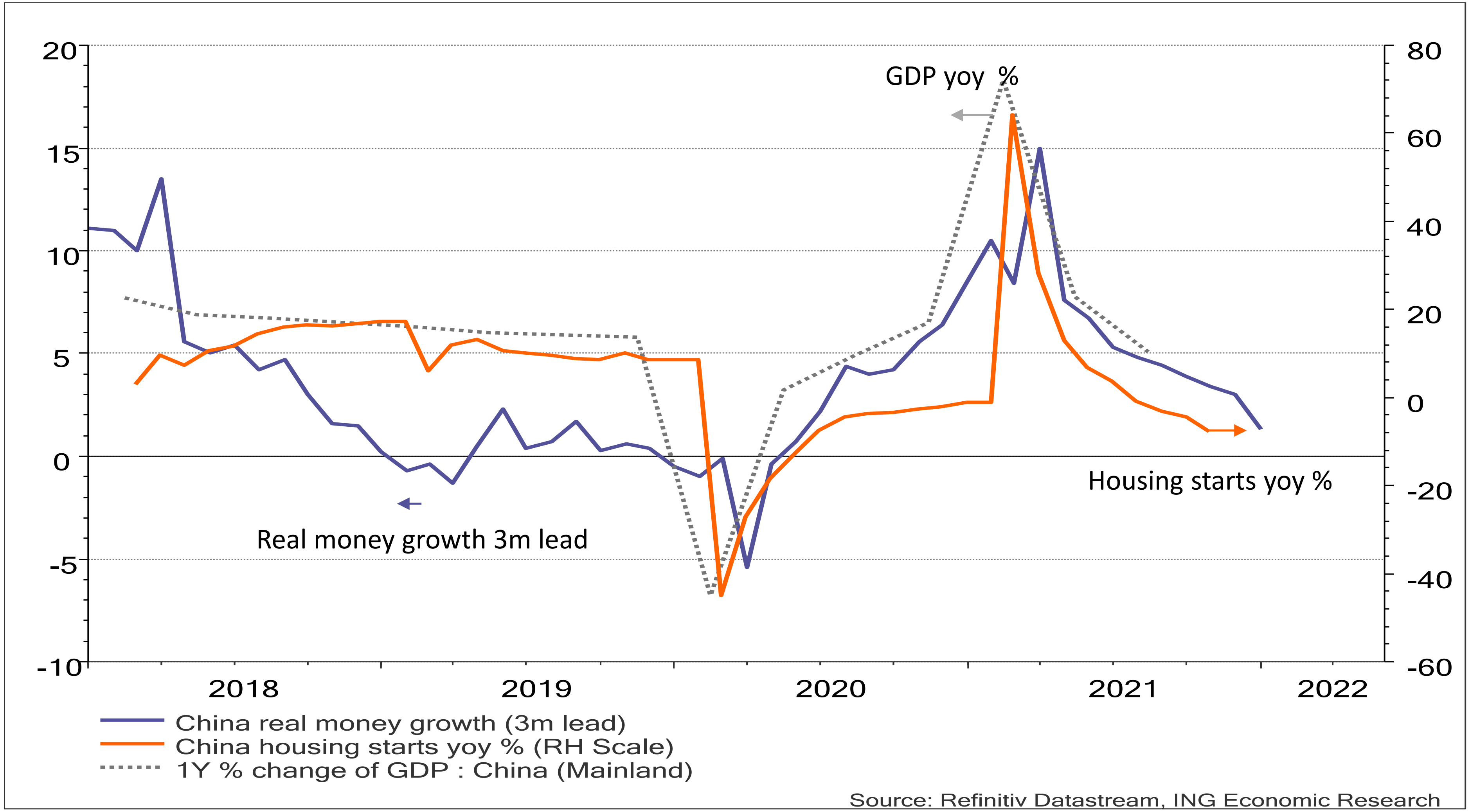


After a soft patch in Q3 US growth is accelerating again (for the time being)

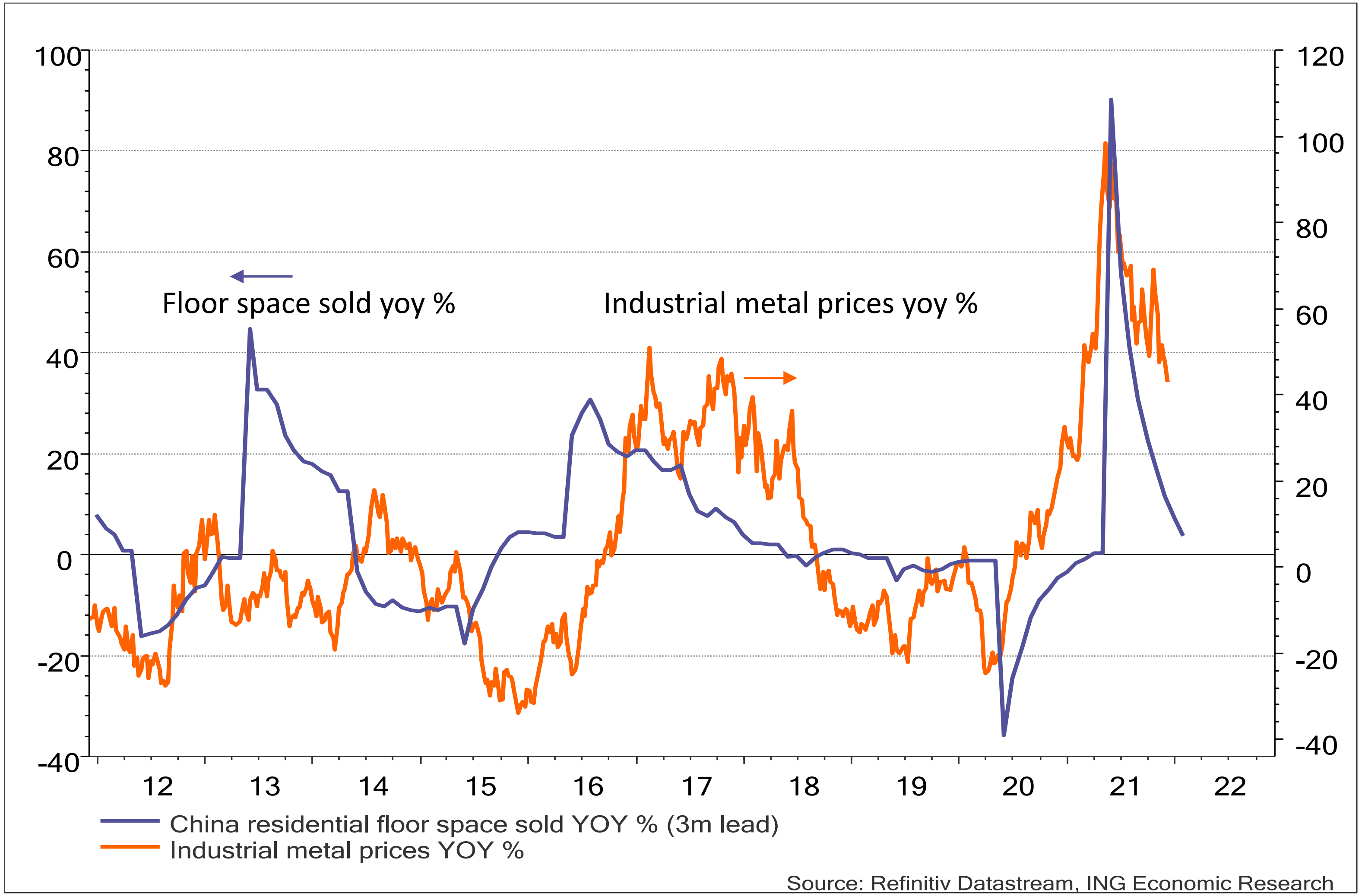


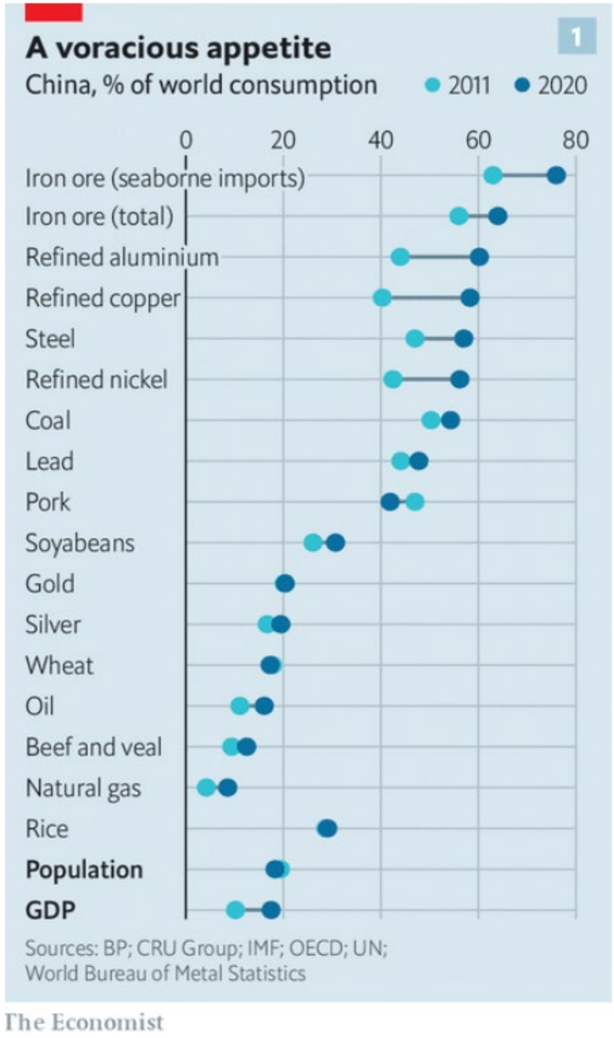
China’s zero-Covid policy

Chinese real estate companies squeeze is hurting growth



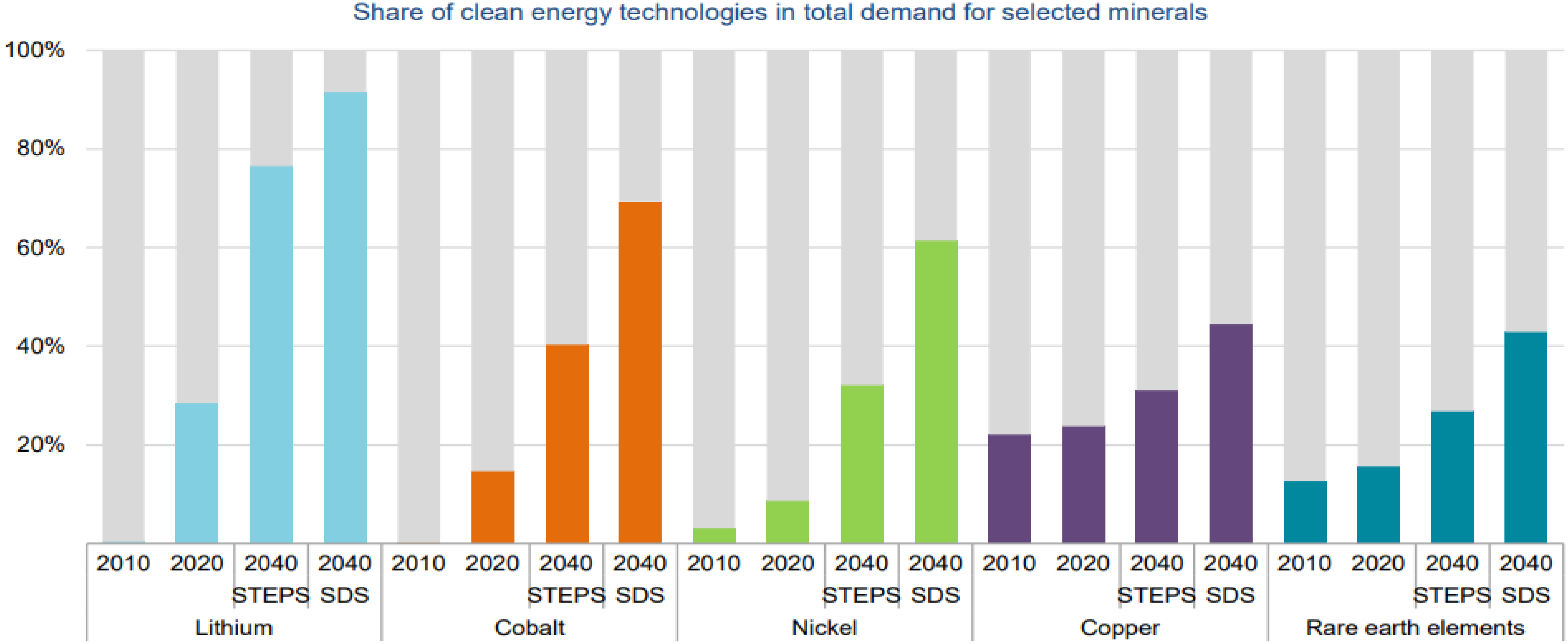
Real estate doldrums in China could weigh on (some) commodity prices…





…though greening of the economy increases demand for a number of commodities

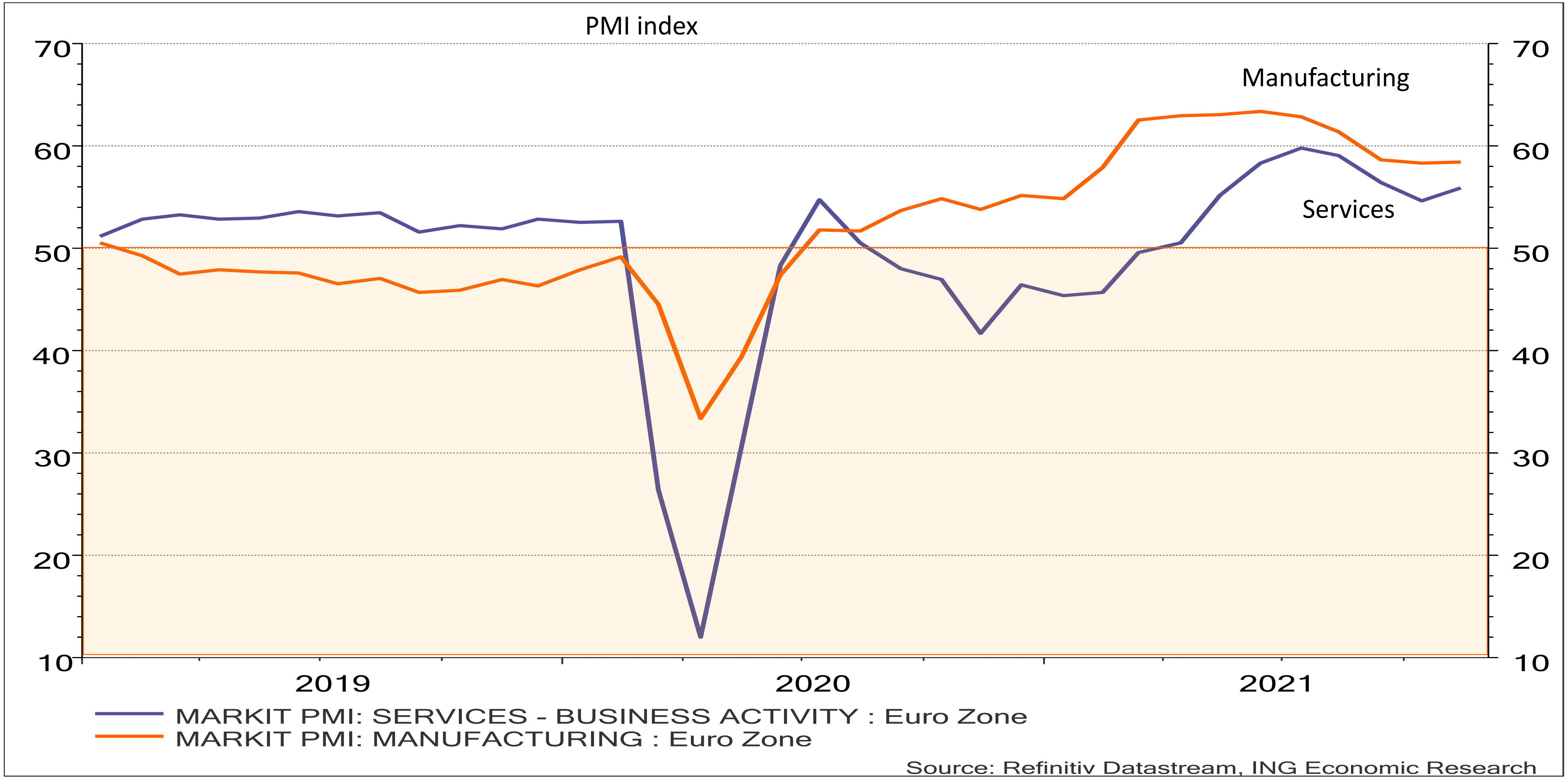
The energy sector becomes a leading consumer of minerals as energy transitions accelerate



Notes: Demand from other sectors was assessed using historical consumption, relevant activity drivers and the derived material intensity. Neodymium demand is used as indicative for rare earth elements. STEPS = Stated Policies Scenario, an indication of where the energy system is heading based on a sector-by-sector analysis of today's policies and policy announcements; SDS = Sustainable Development Scenario, indicating what would be required in a trajectory consistent with meeting the Paris Agreement goals.

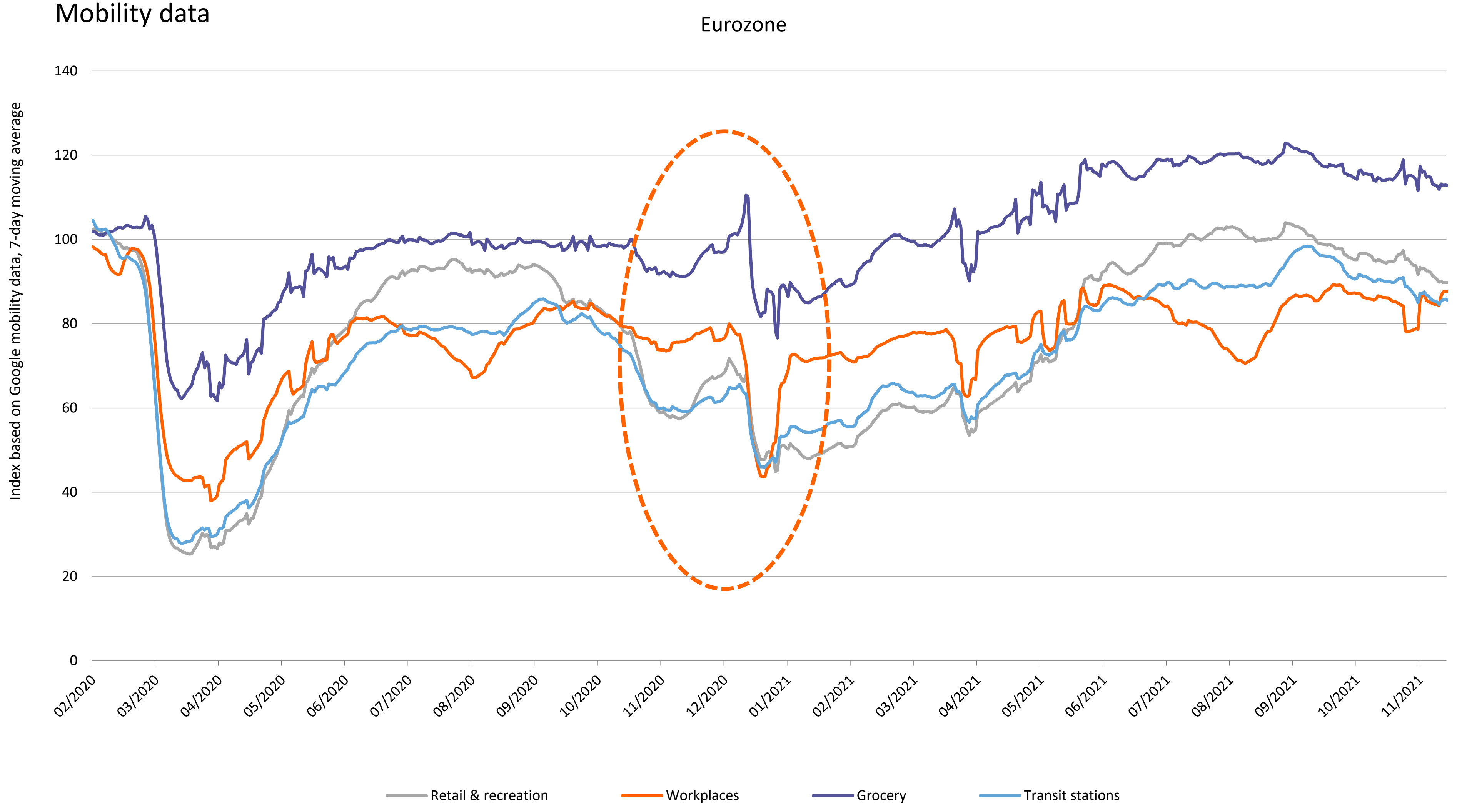
Source: IEA

Eurozone growth is still quite strong, but decelerating

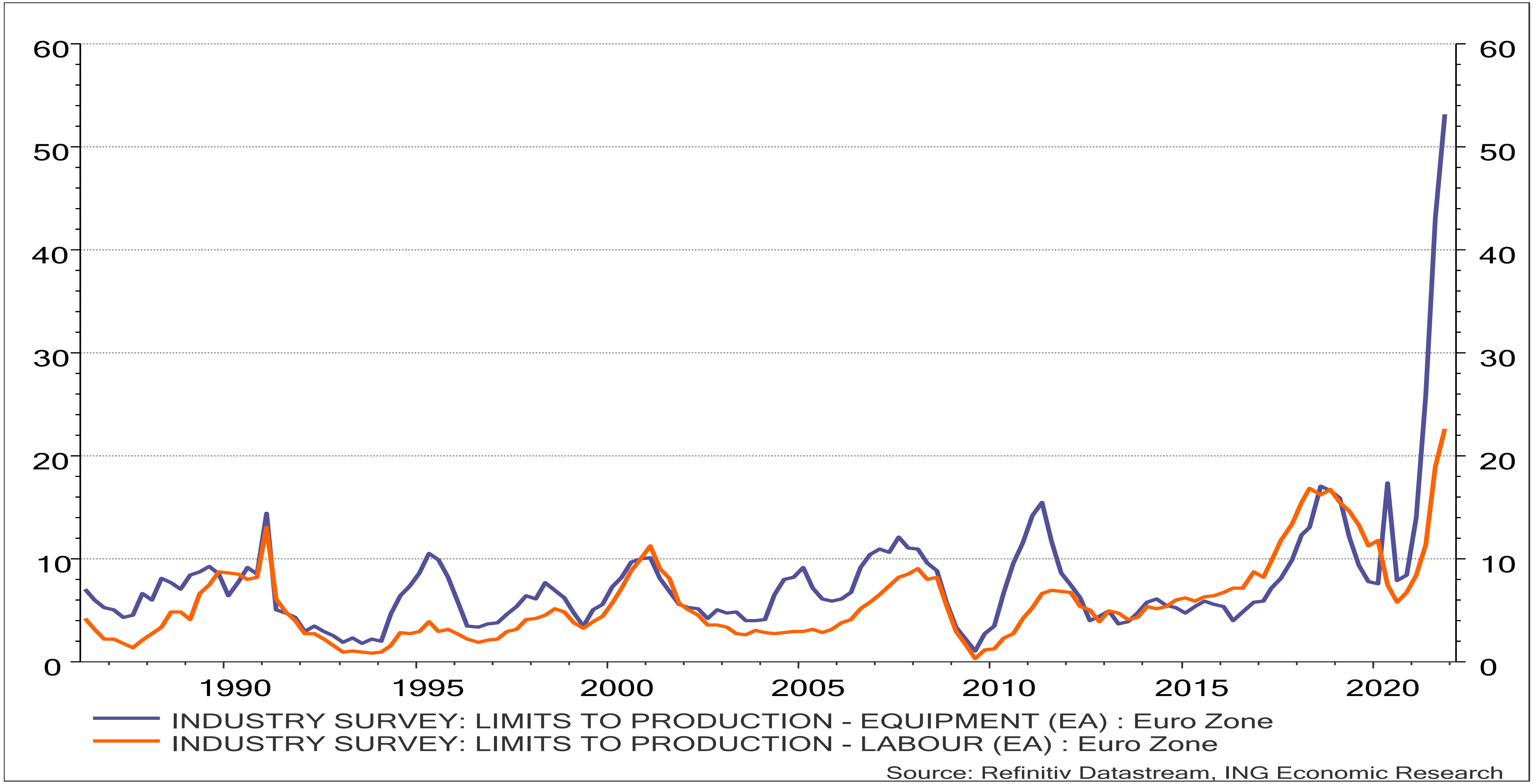


The 4th wave of the virus and the Omicron variant less impactful than in the winter of 2020-21 (for the time being)

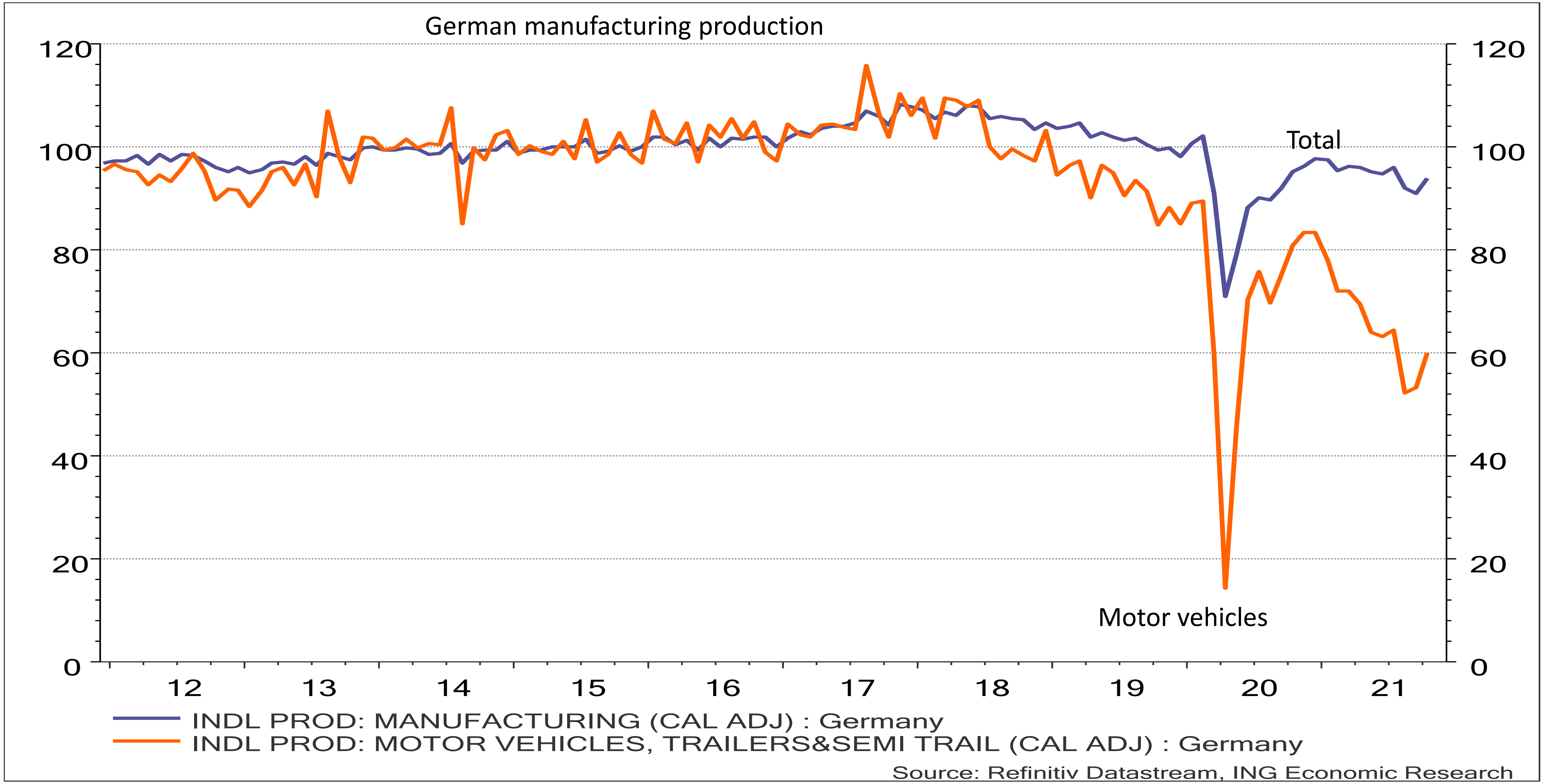
Mobility data



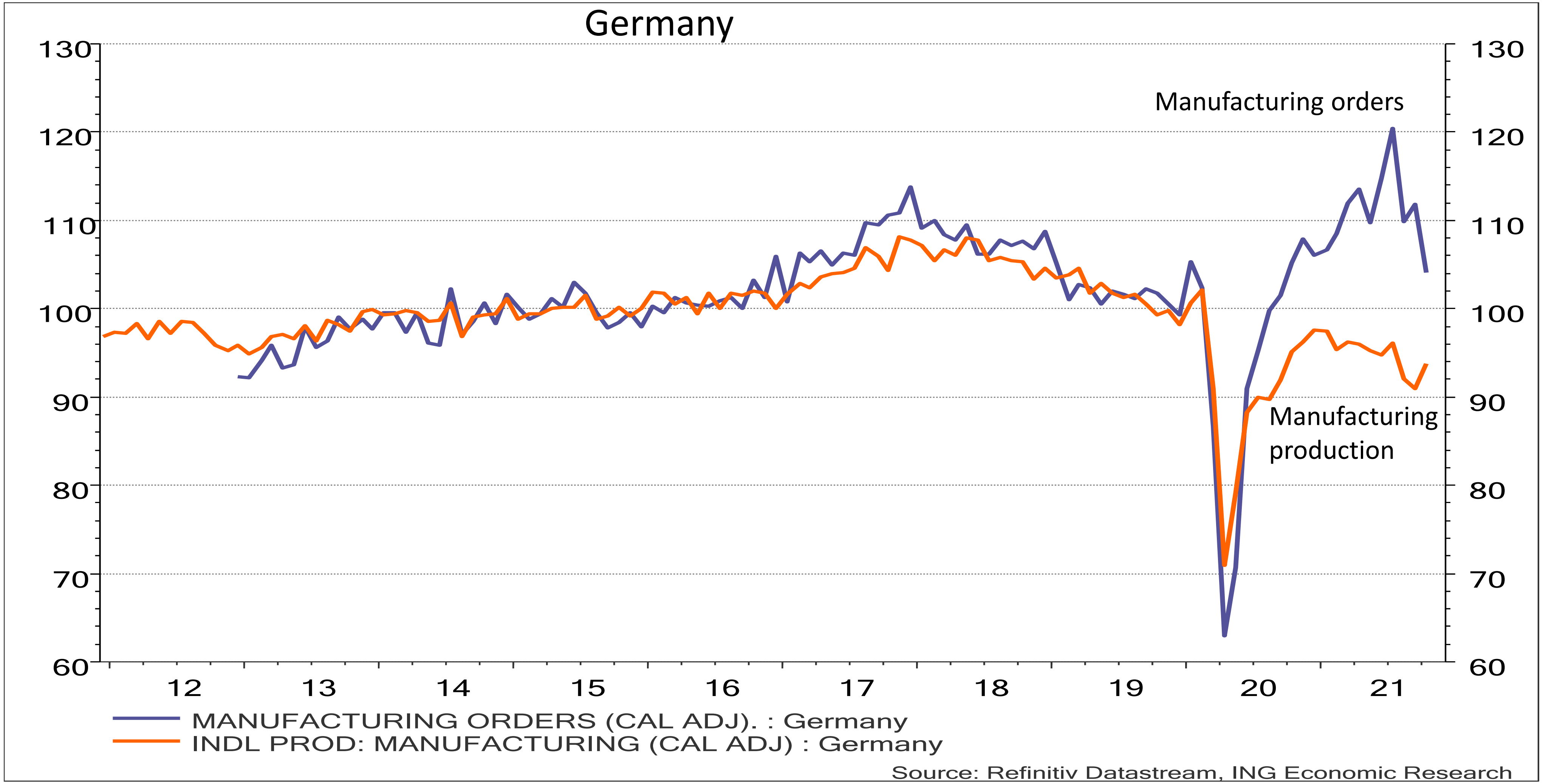
Supply-chain troubles hurt production in the Eurozone



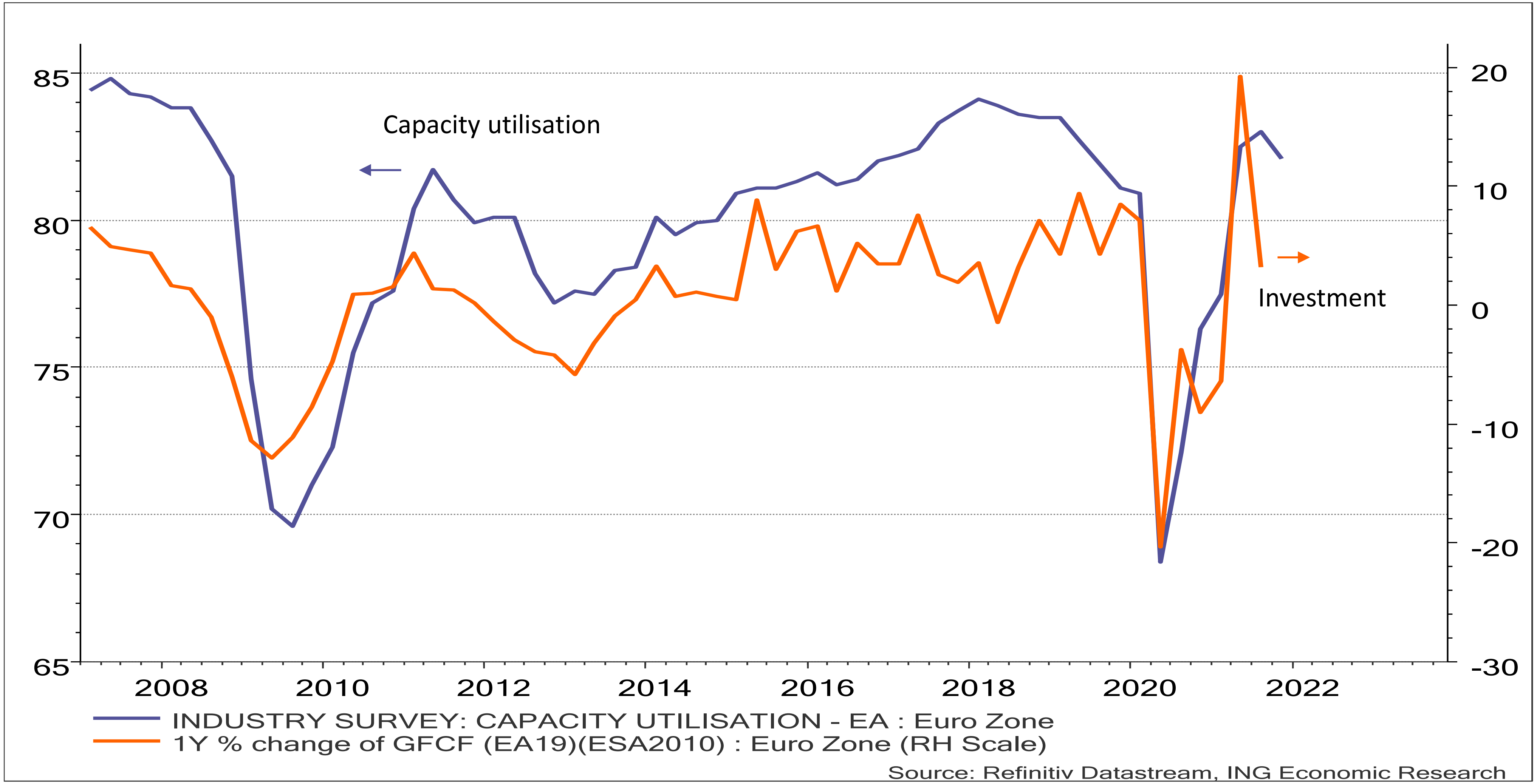
Car industry badly hurt by semiconductor shortages



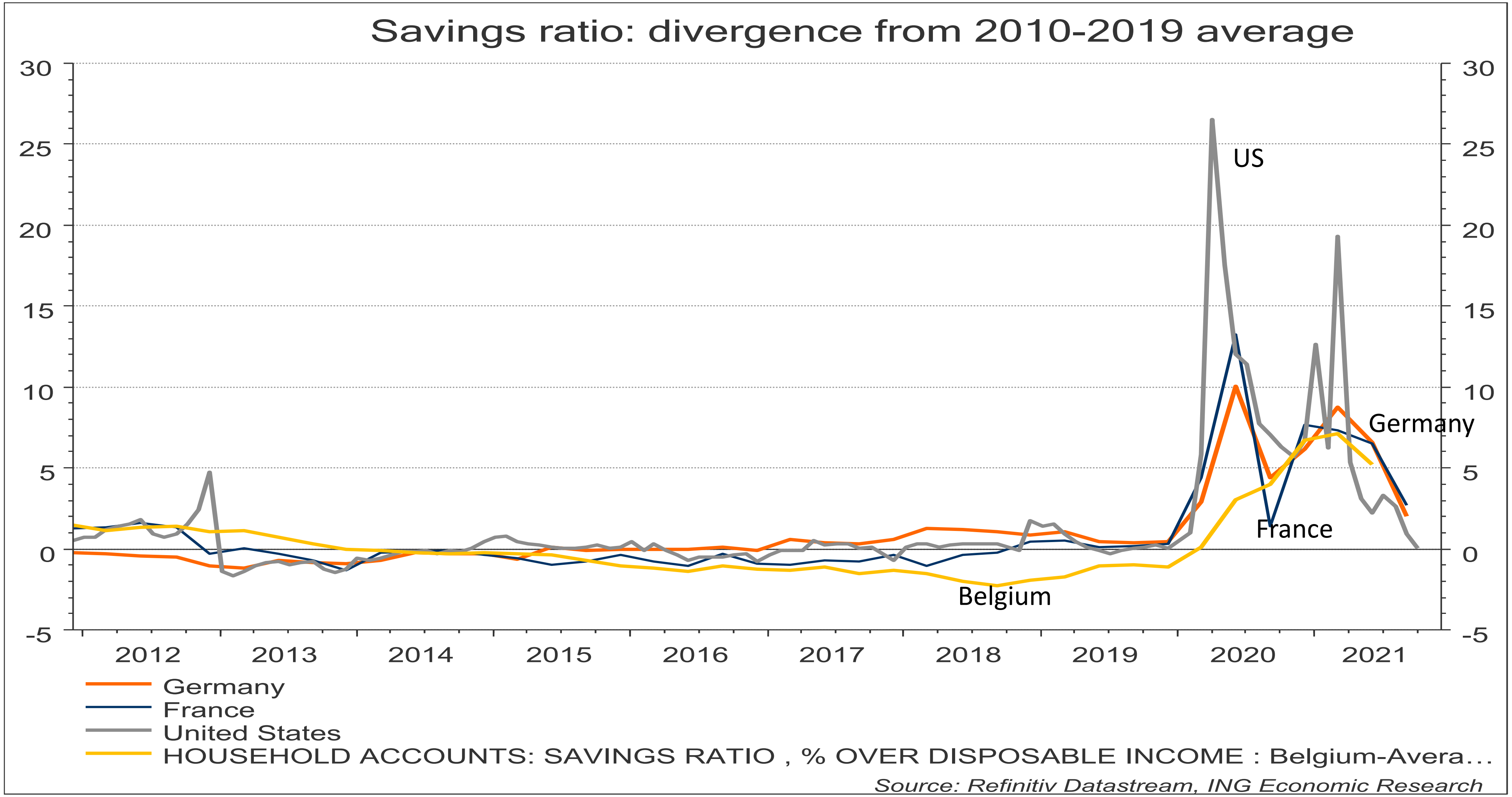
Growth drivers 2022 (1): Catch up production



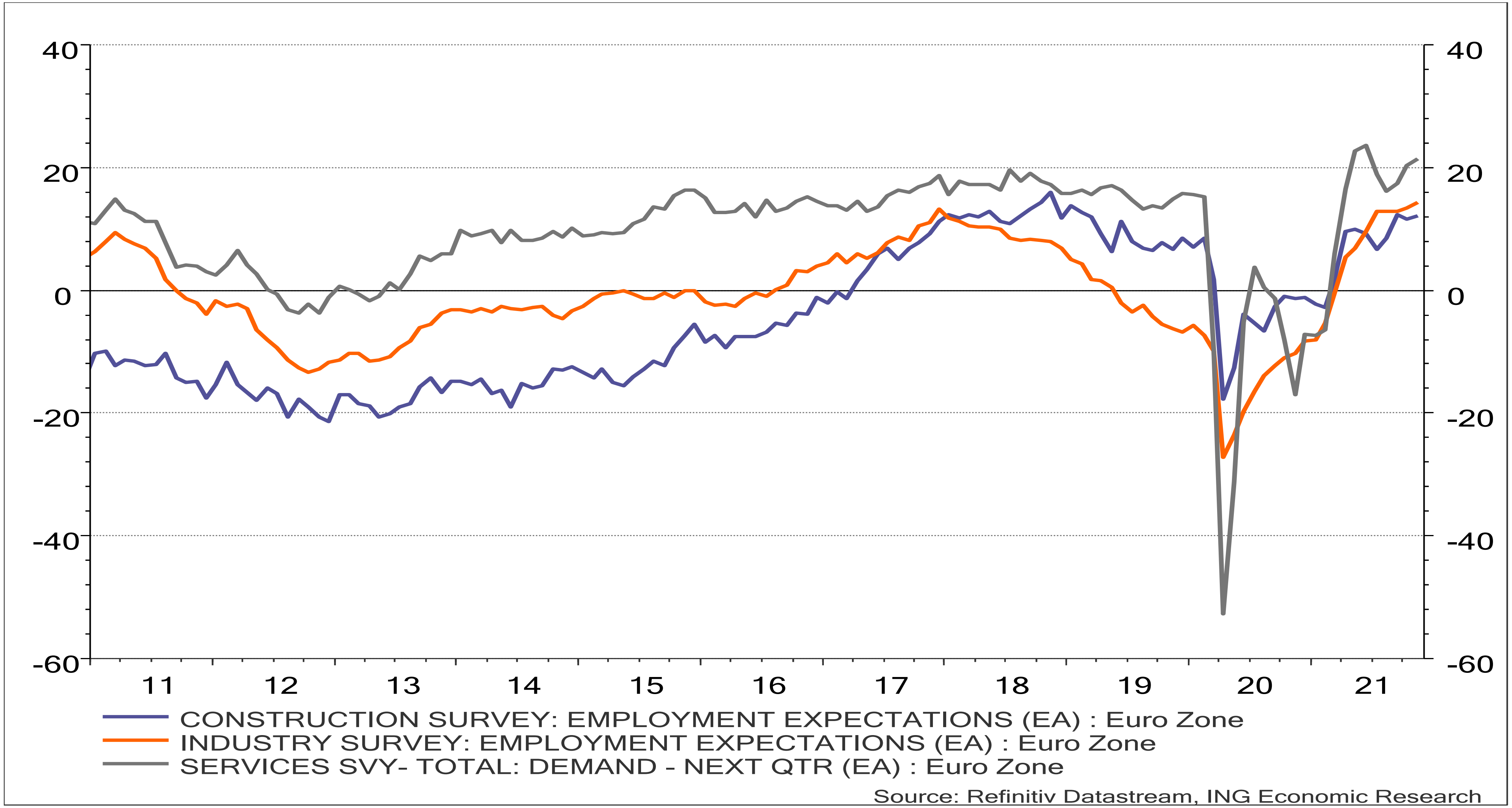
Growth drivers for 2022 (2): Investment



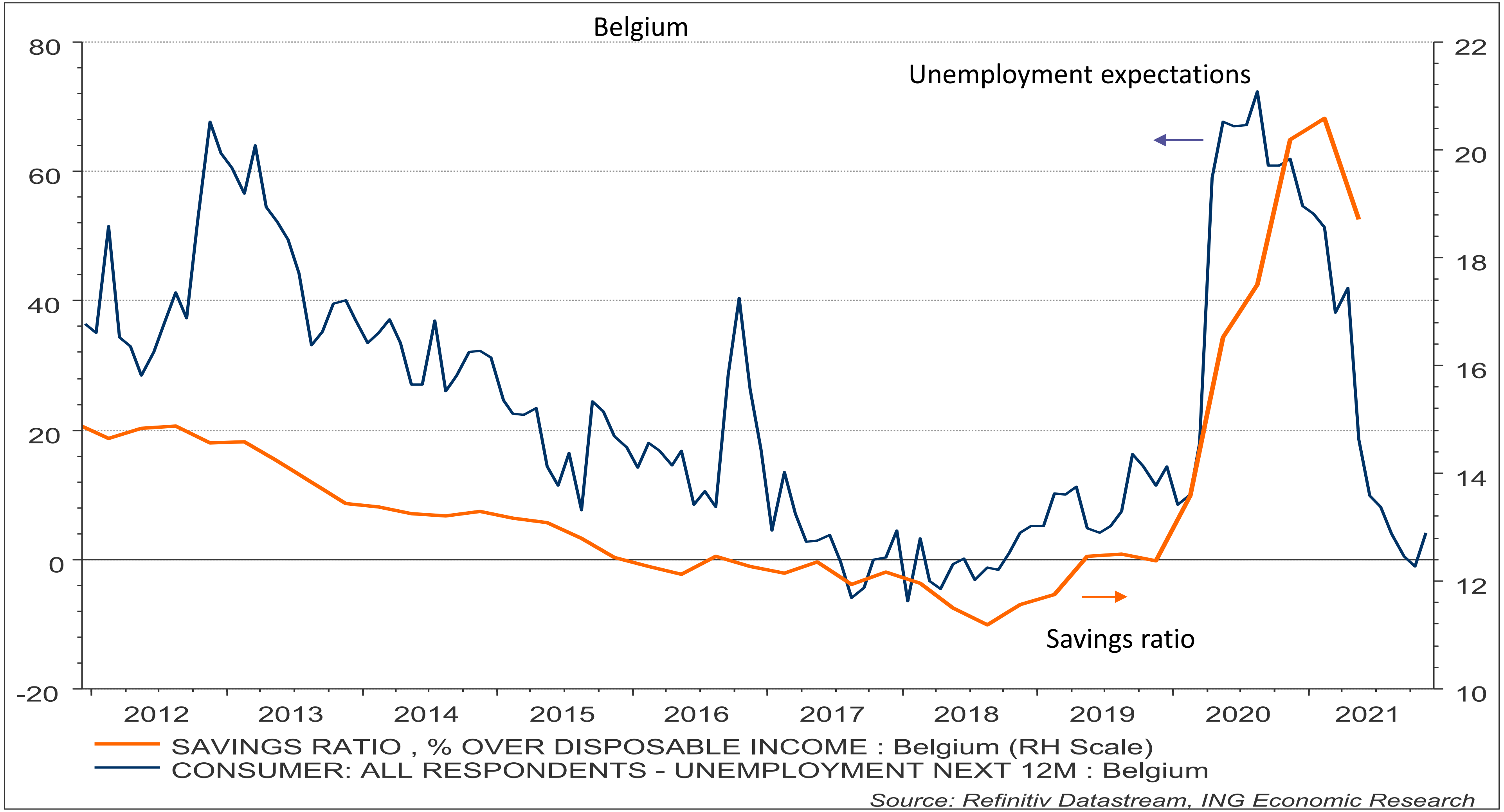
Growth drivers 2022 (3): Consumers still have a “wall of savings”



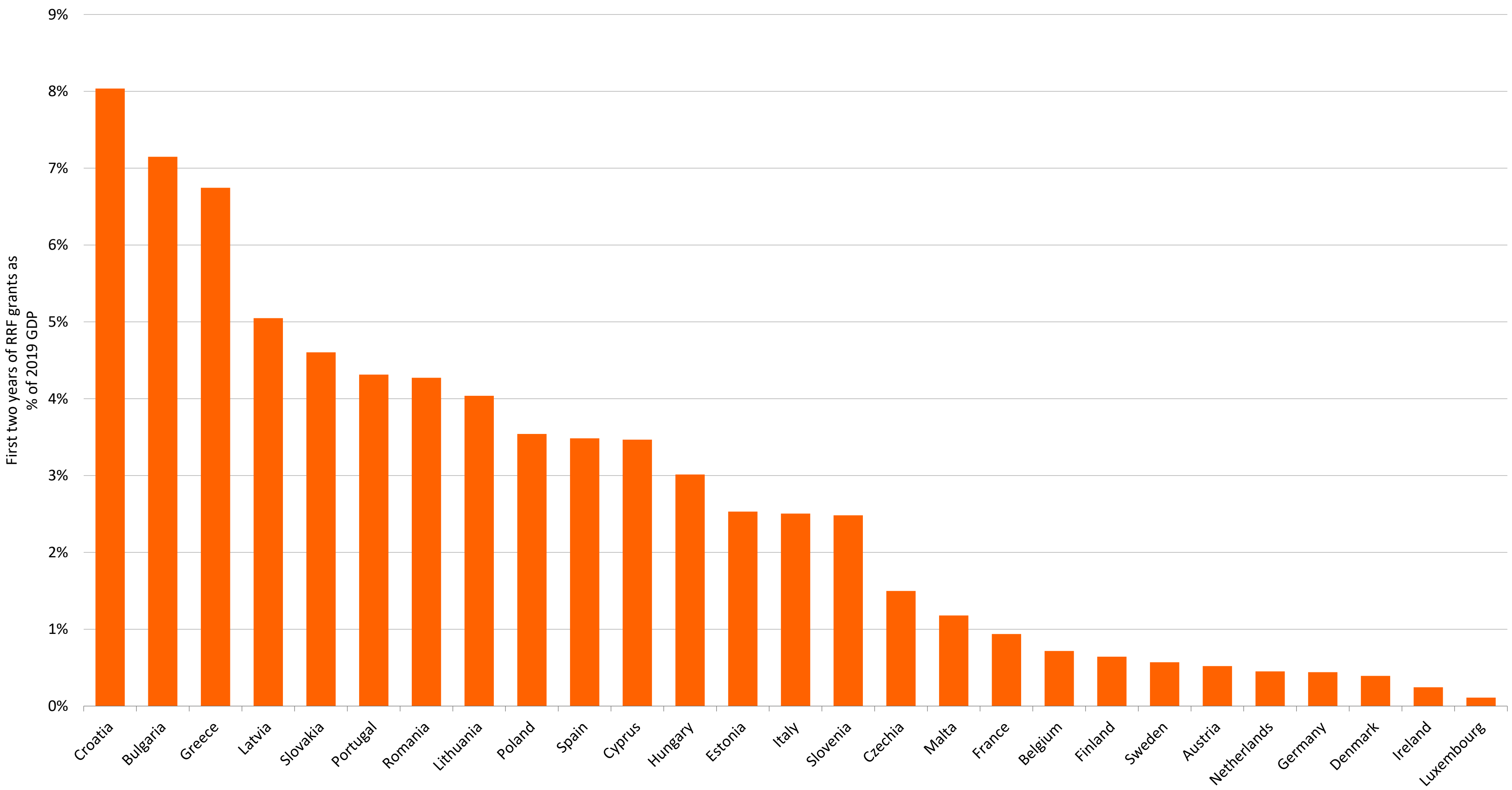
Hiring intentions are improving rapidly in the Eurozone



Declining fear of unemployment will reduce savings ratio



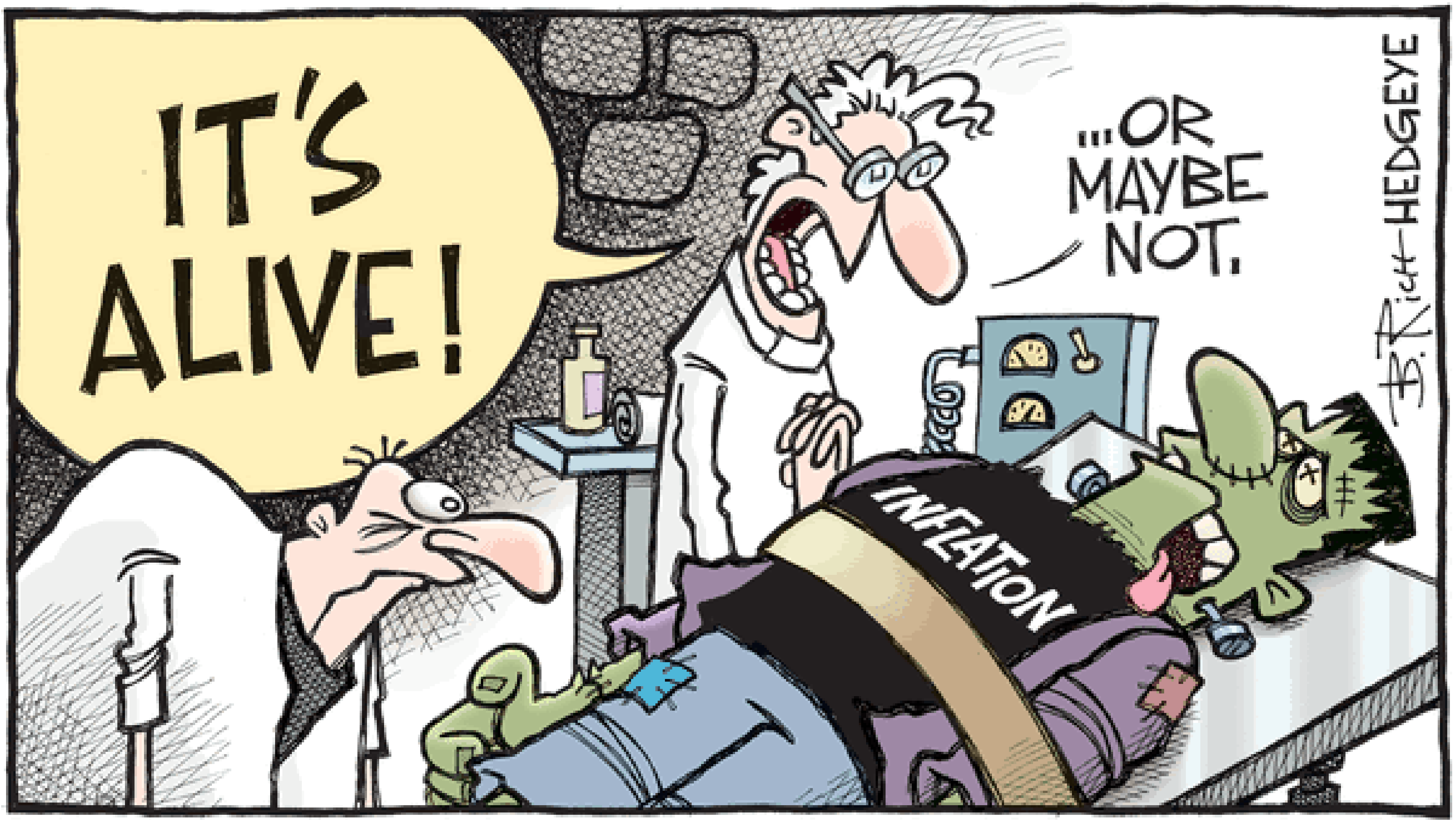
European recovery fund: stimulus 2021-2022



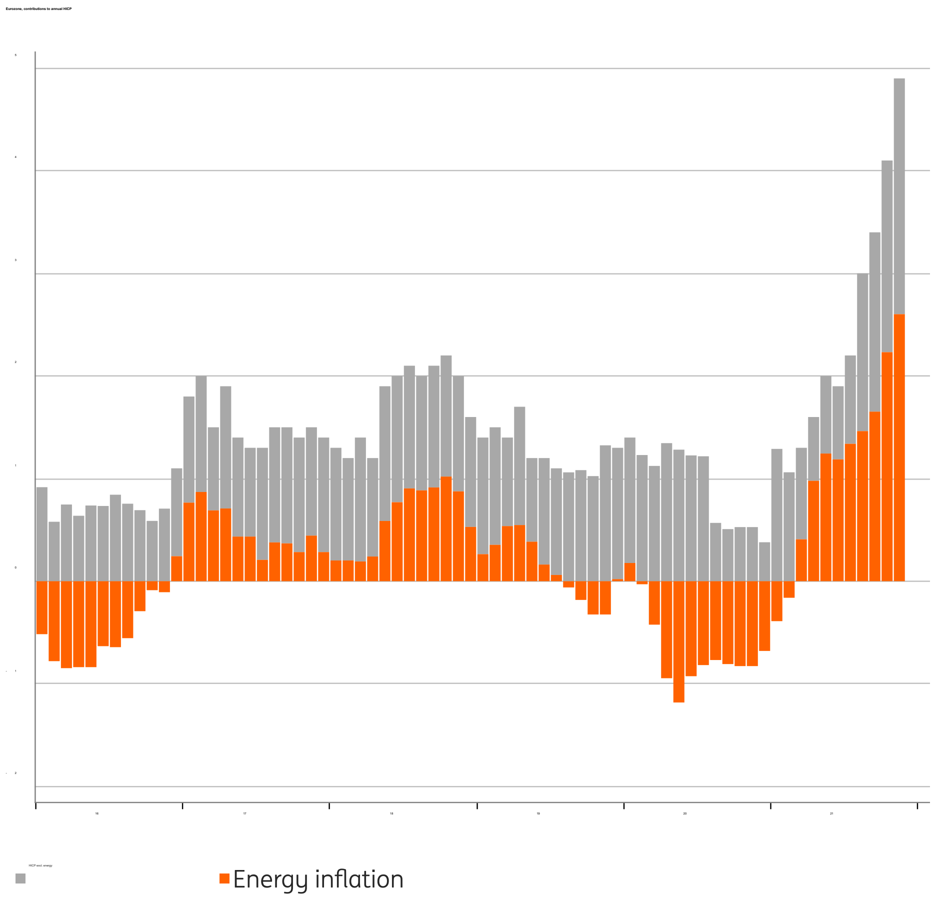
Growth outlook

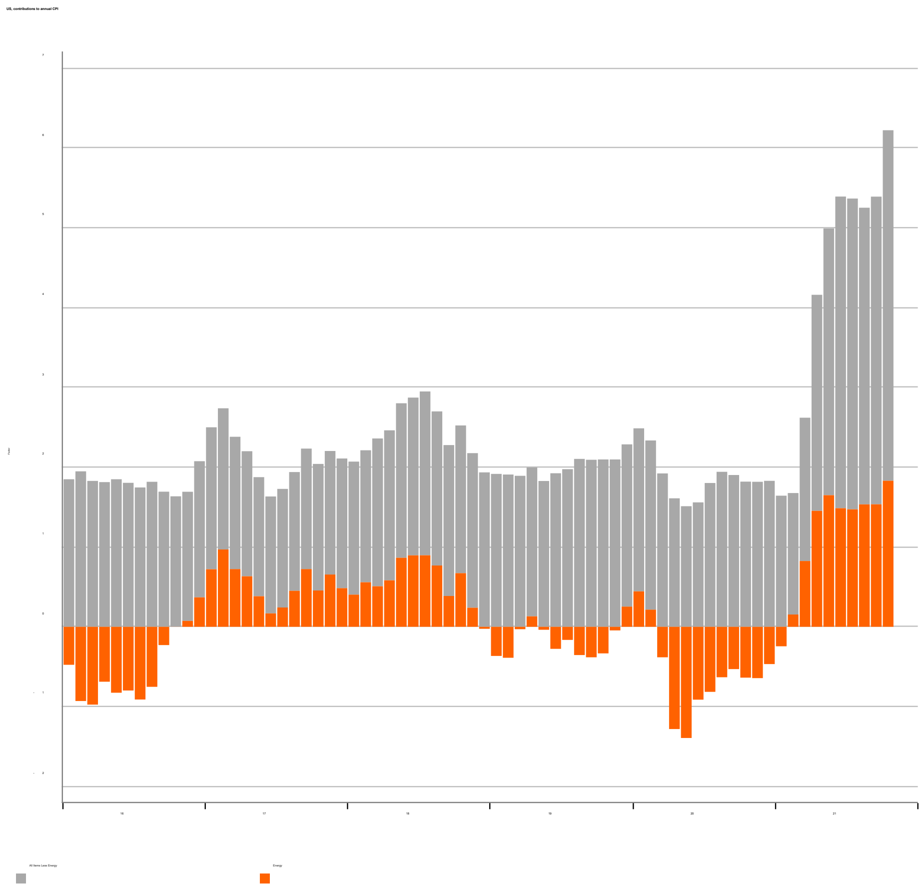
	2019	2020	2021	2022
USA	2.3	-3.5	5.6	4.4
Eurozone	1.3	-6.8	5.0	3.8
UK	1.4	-9.9	6.9	4.3
Belgium	1.4	-6.2	6.0	2.9
Japan	0.7	-4.9	1.8	2.2
China	6.1	2.4	8.9	5.4

How sticky will inflation be?

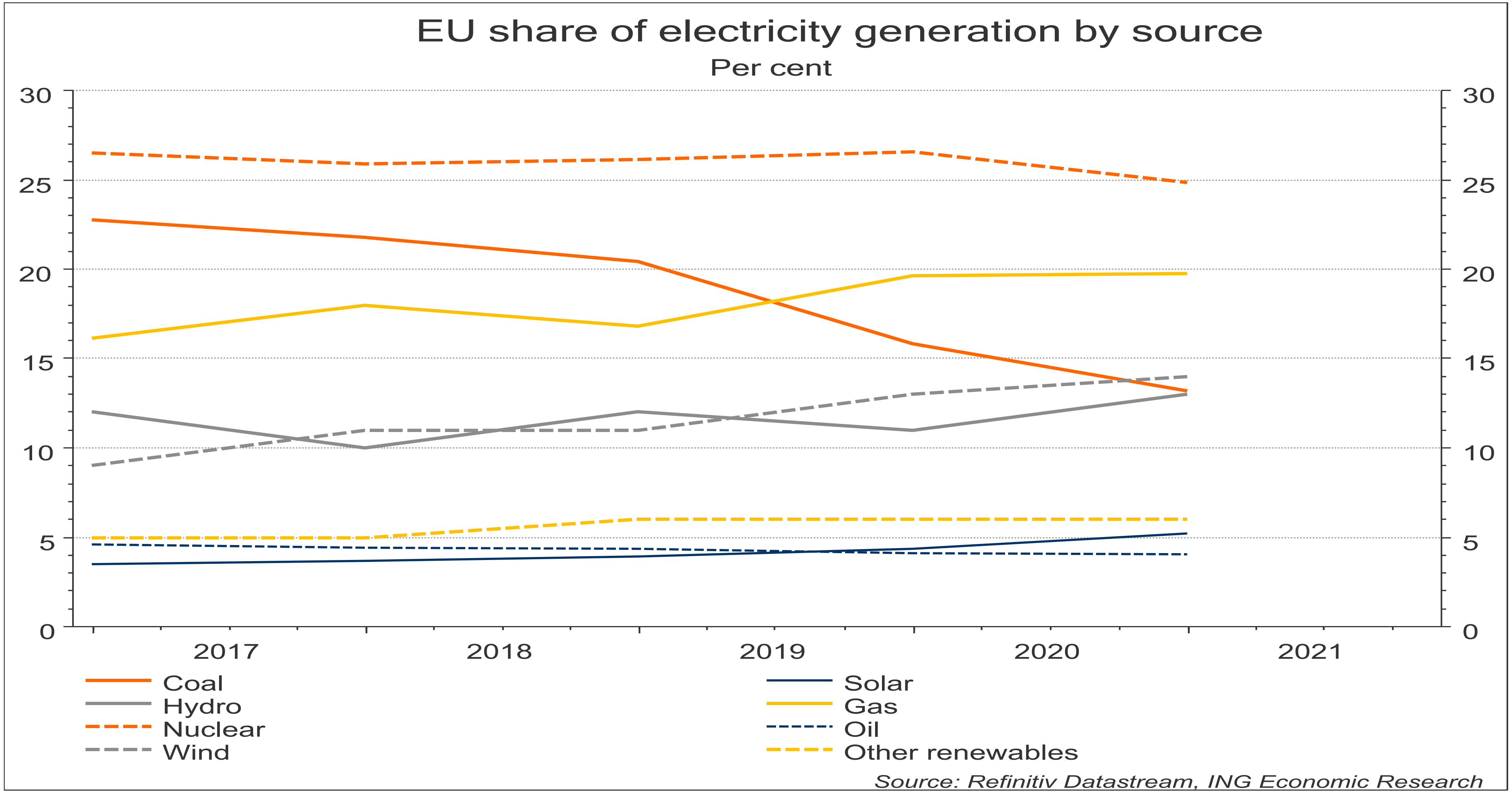


Energy: the big inflation driver

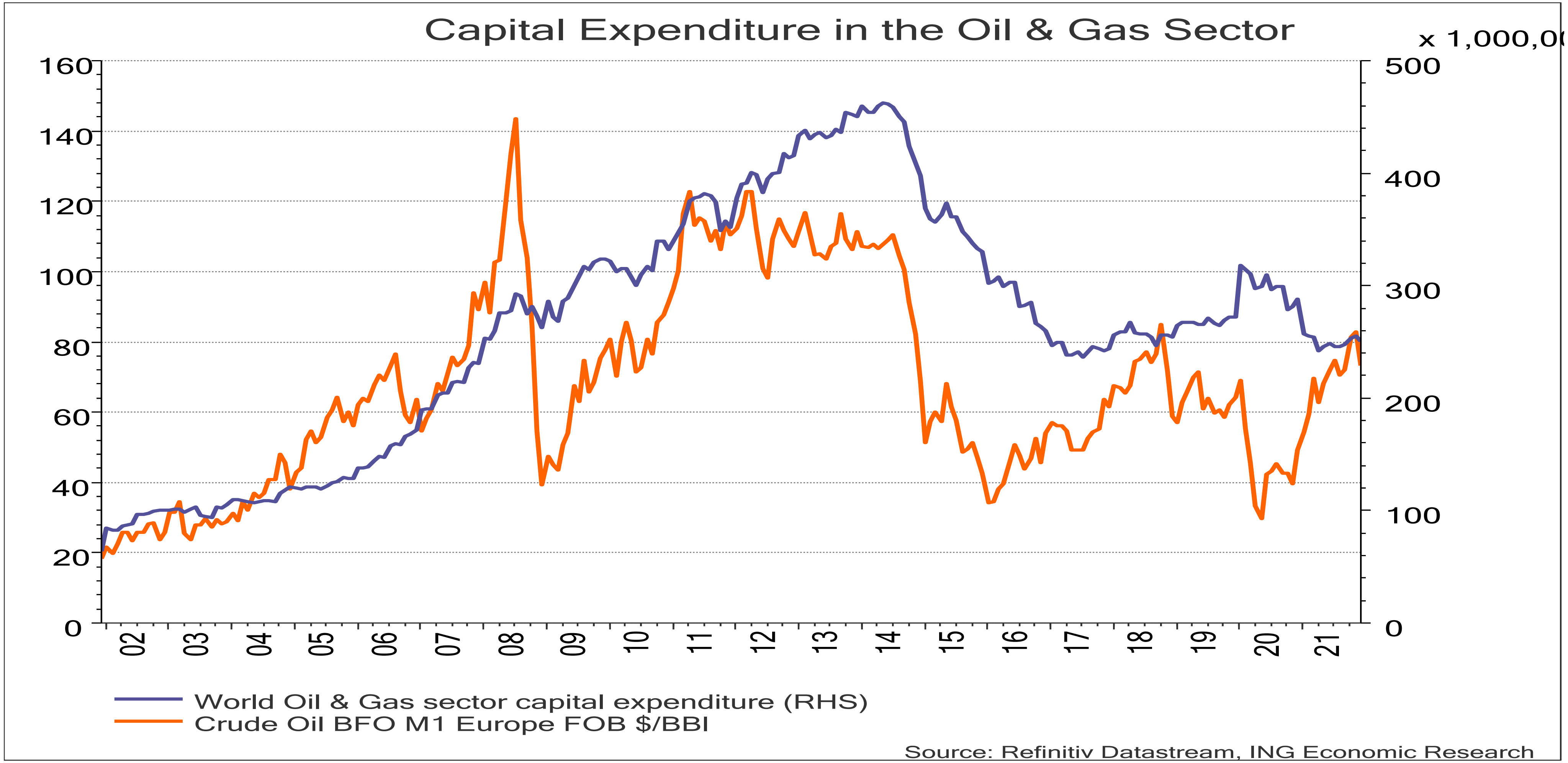




Natural gas demand is rising in the EU (and in the rest of the world)



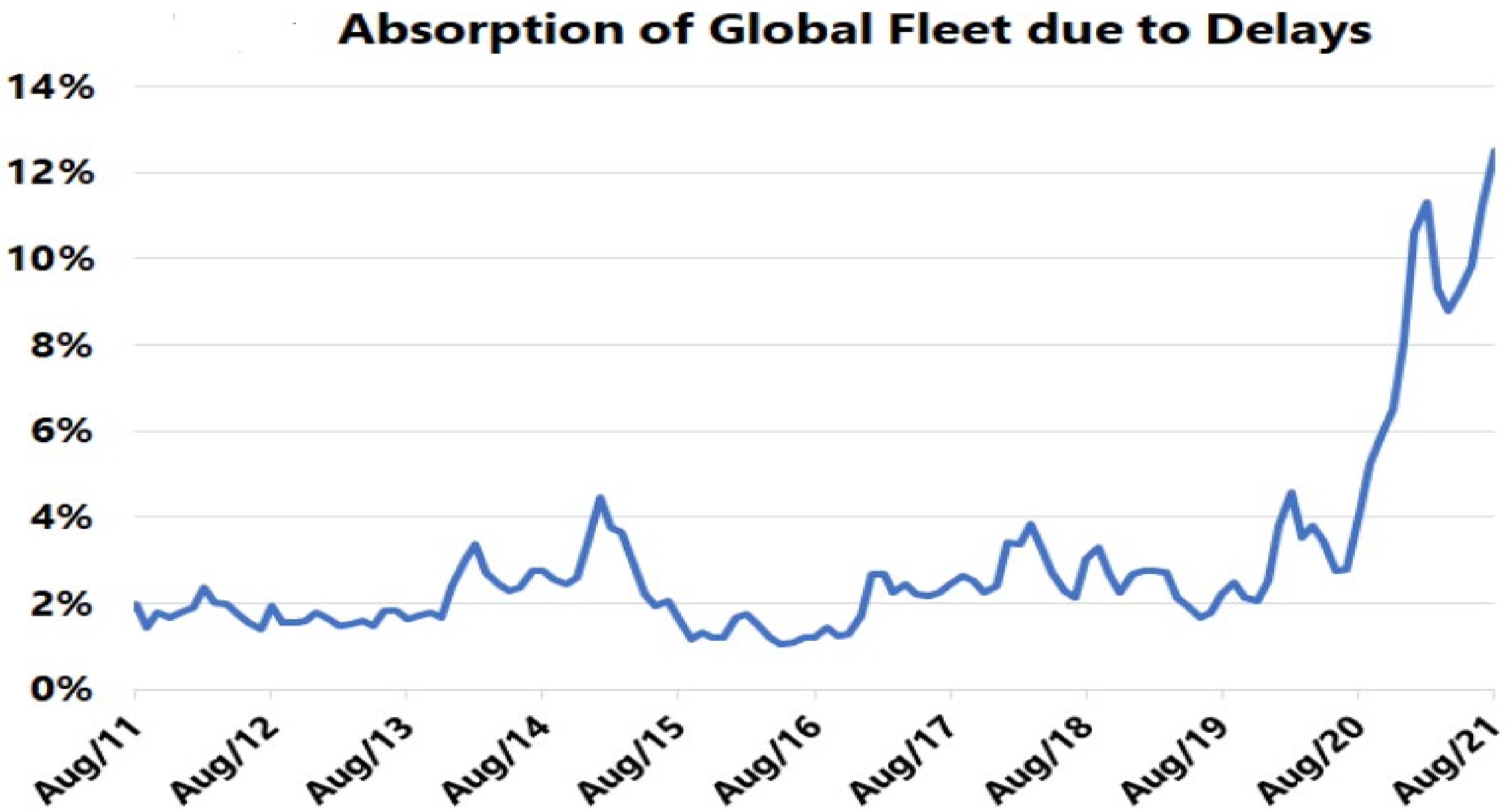
Capital expenditure in fossil fuel already declining (too soon?)



Peak oil demand around 2030, peak natural gas demand around 2040

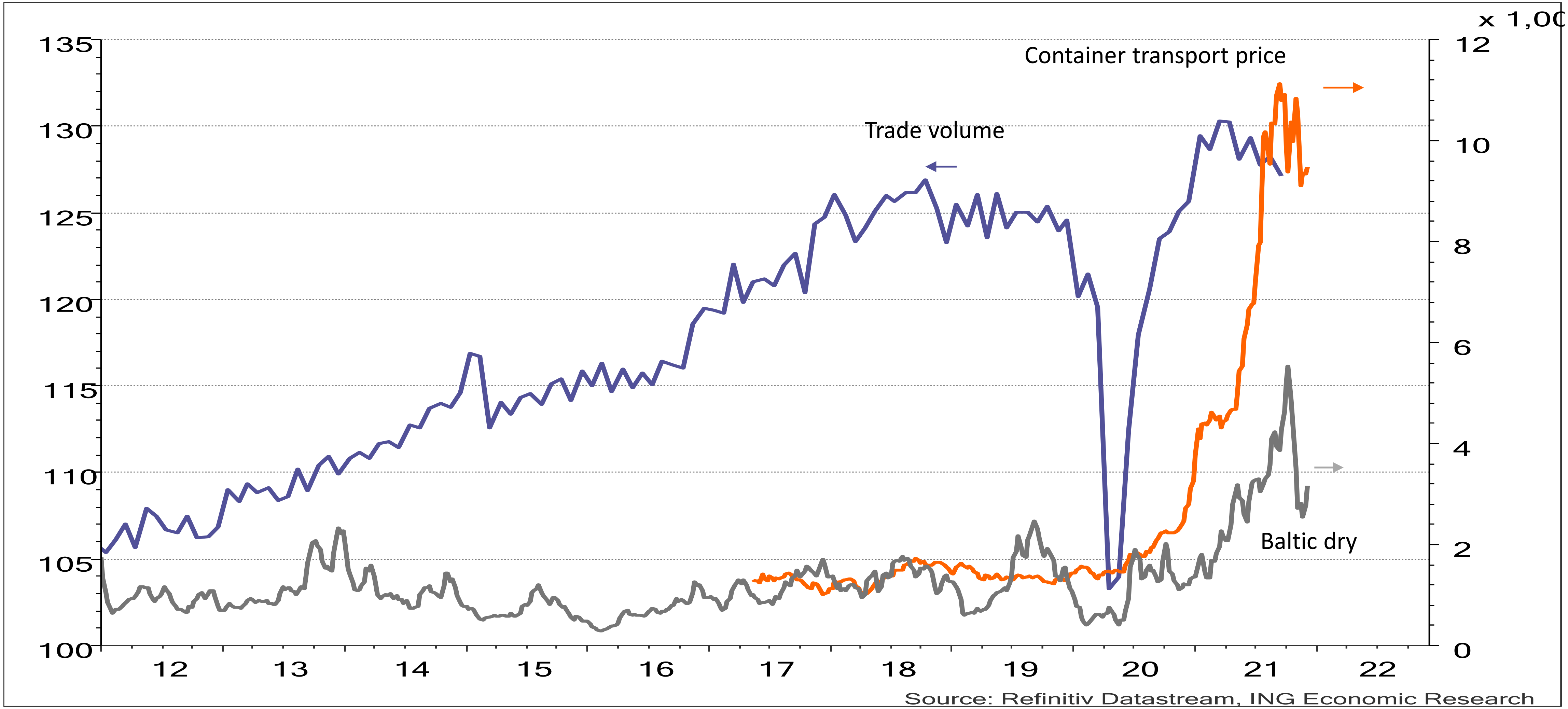
Emission rights are not going to get cheaper with fit for 55

Delays in maritime transport caused capacity shortages and higher transport prices

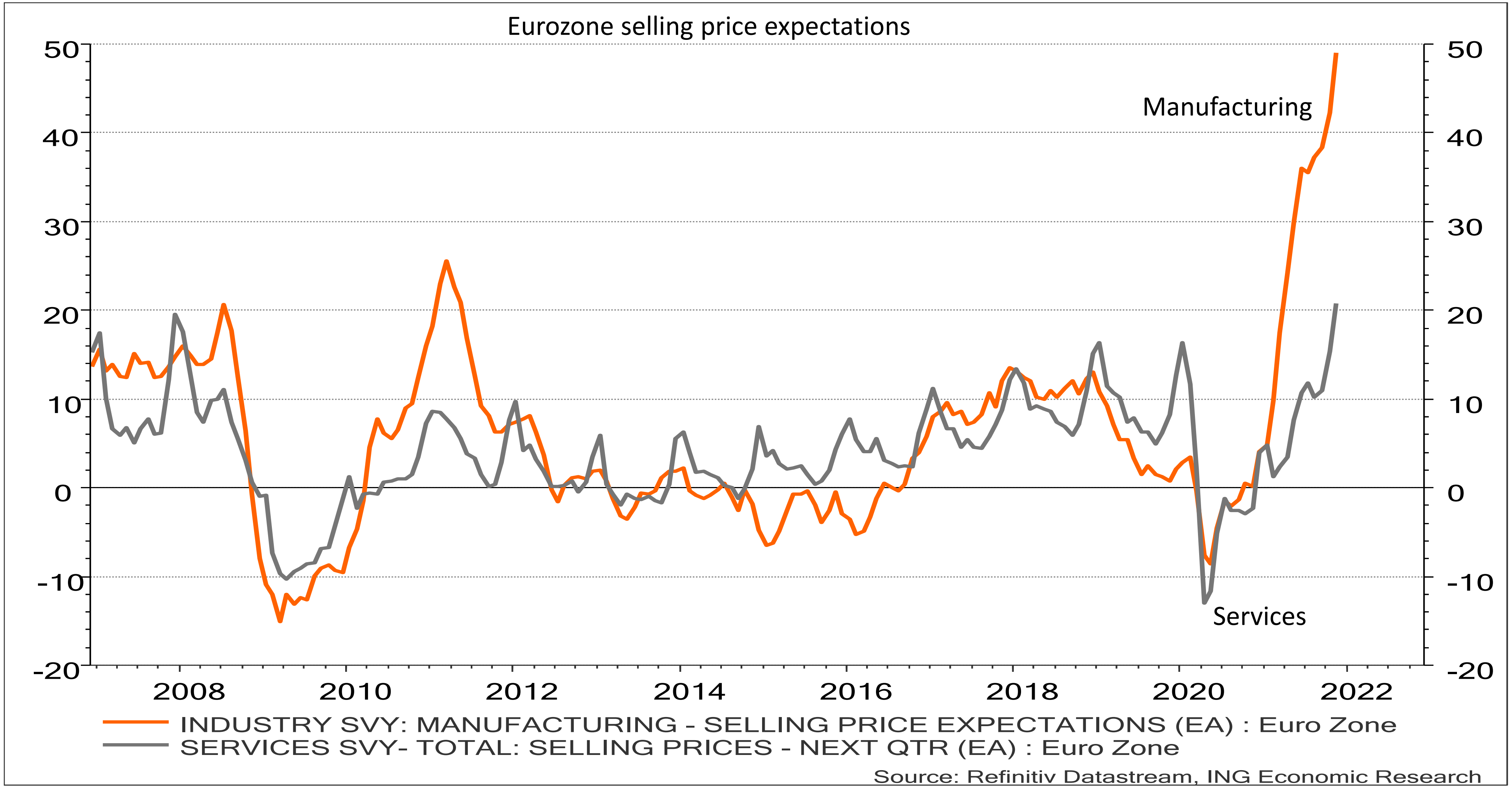


Source: Sea Intelligence

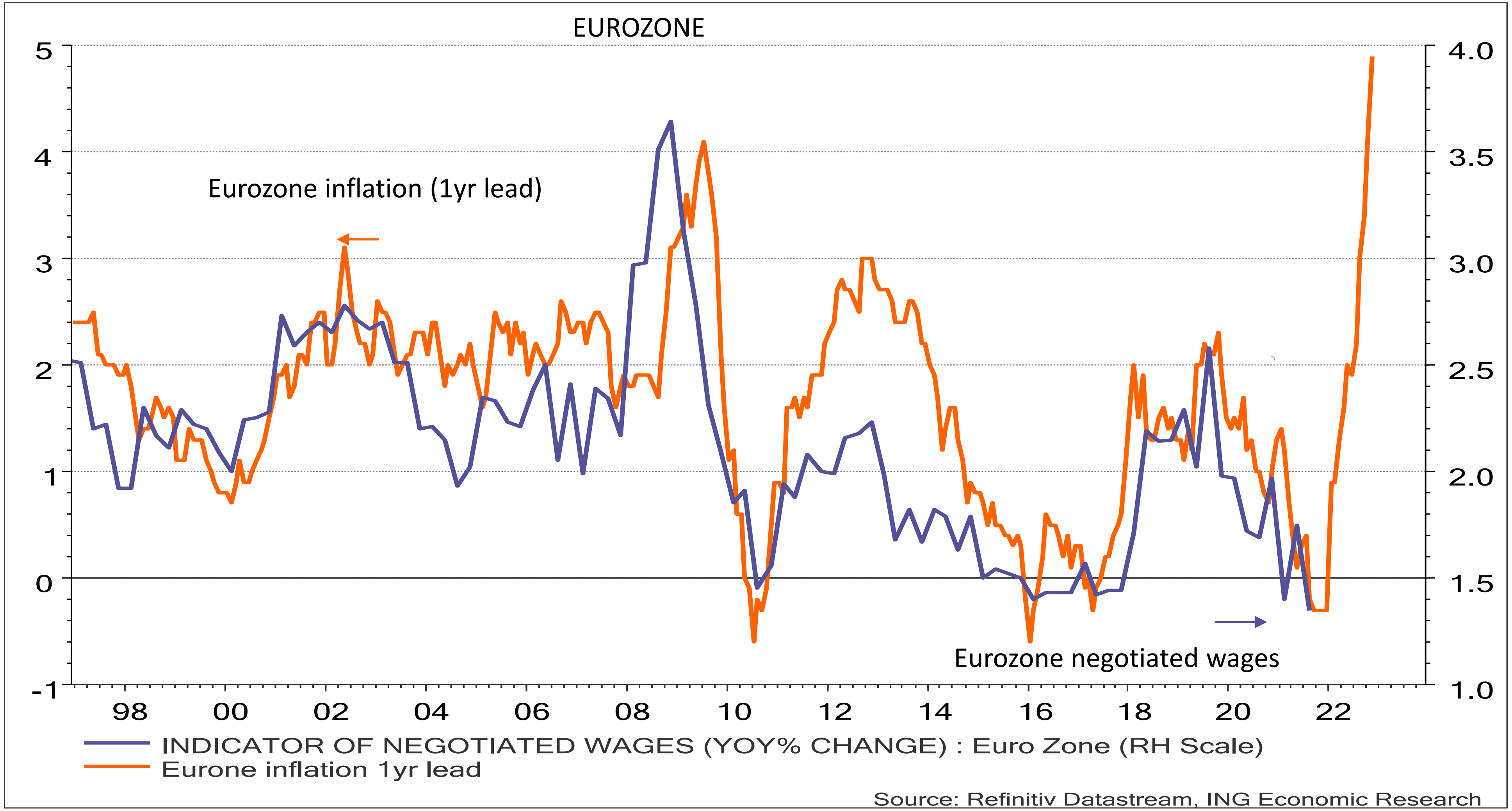
Have maritime transport prices peaked?



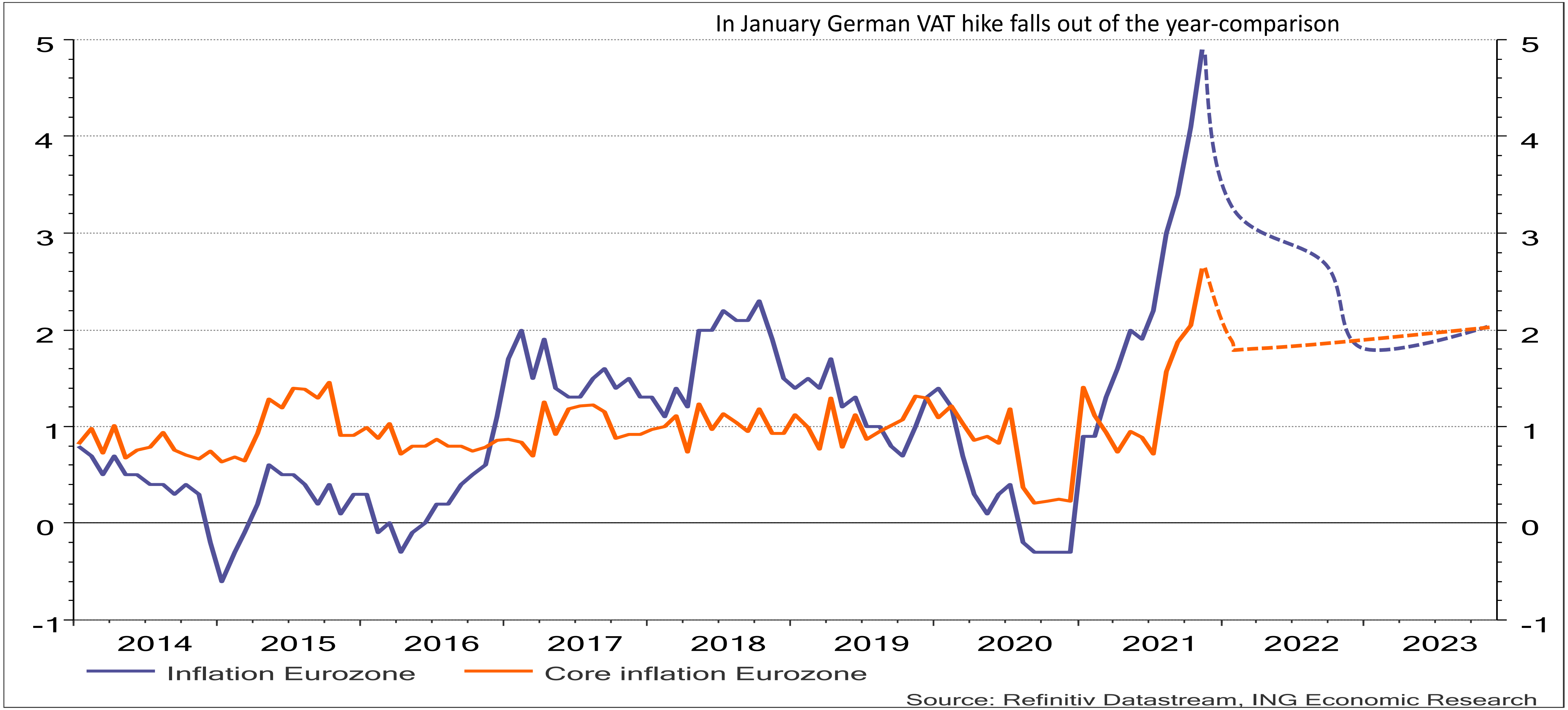
Second round effects: still some price increases in the pipeline



Some spill-over from higher inflation into wages looks likely in the Eurozone



Eurozone inflation profile 2022



Central banks move from “easy” to “risk management approach”

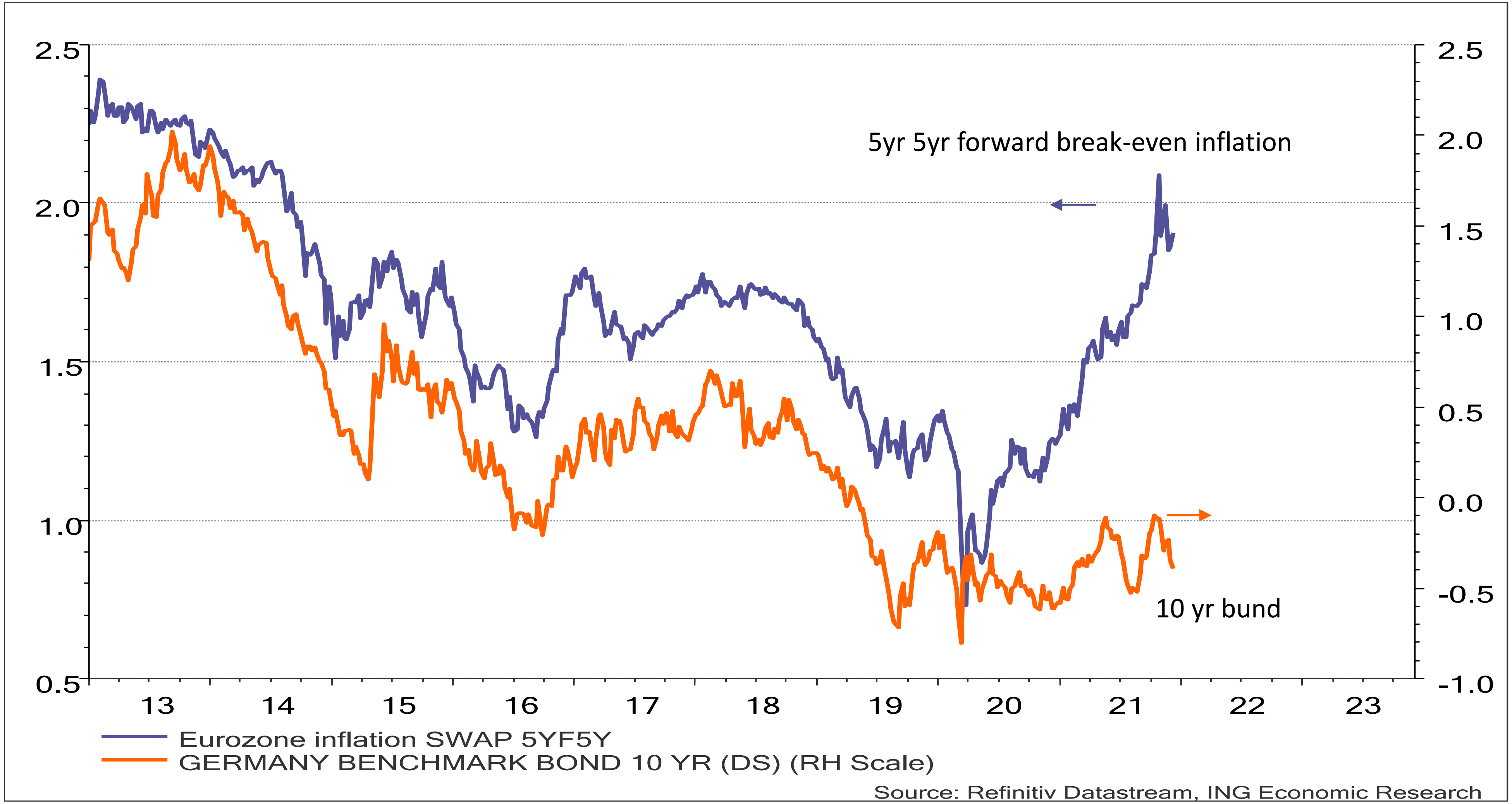
Alan Greenspan “risk-management approach” to monetary policy

At its core, this approach builds on the notion that central banks should not only consider the most likely future path of the economy, but also the entire distribution of risks around that path with a view to keeping sufficient optionality to address all inflation contingencies. (Isabel Schnabel)

⇒ Federal Reserve will end bond purchases in H1, 2 rate hikes in H2 2022

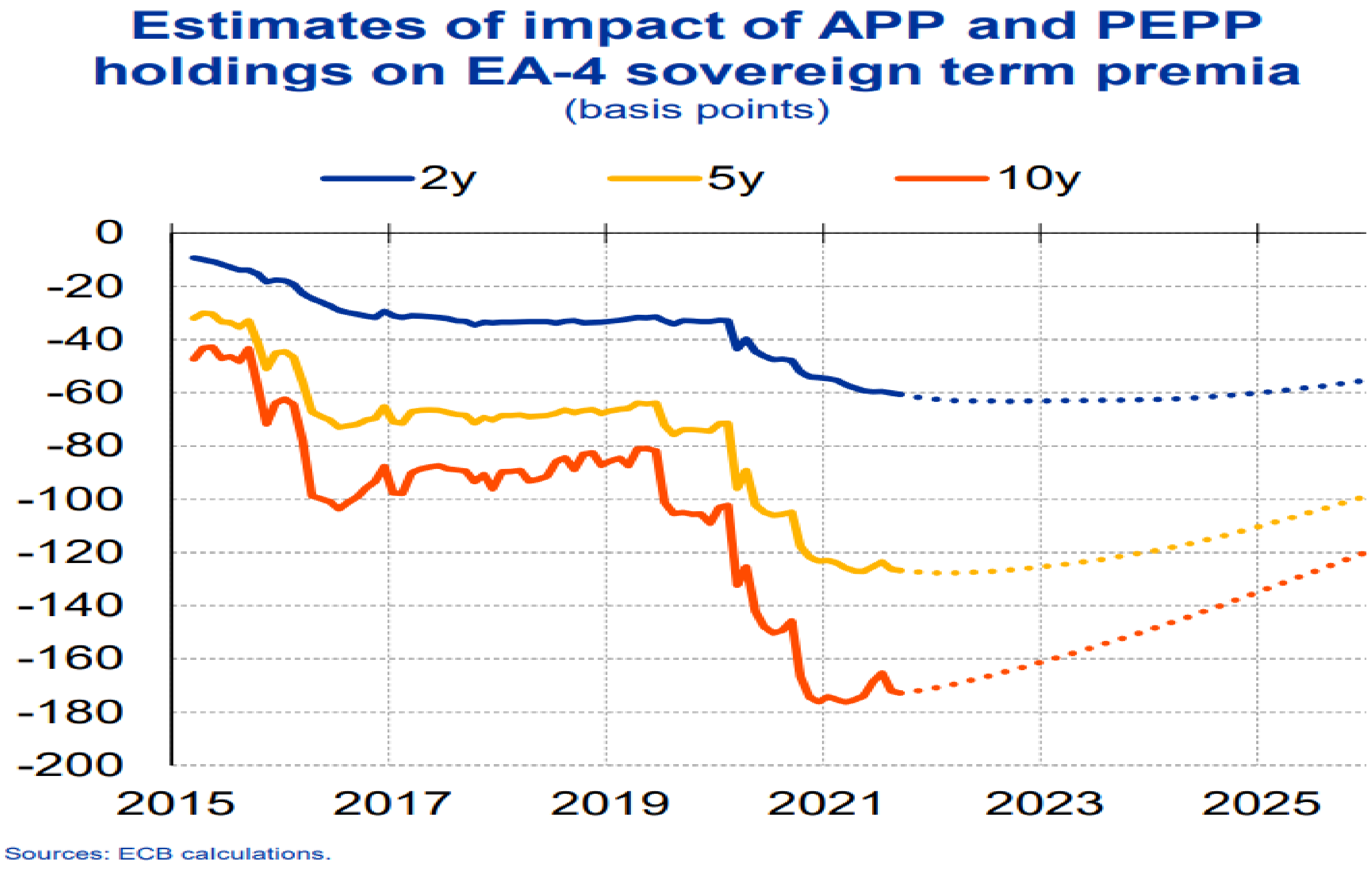
⇒ ECB will reduce bond purchases (but remain net buyer in 2022), first rate hike March 2023

Bond yields too low in the wake of rising inflation expectations

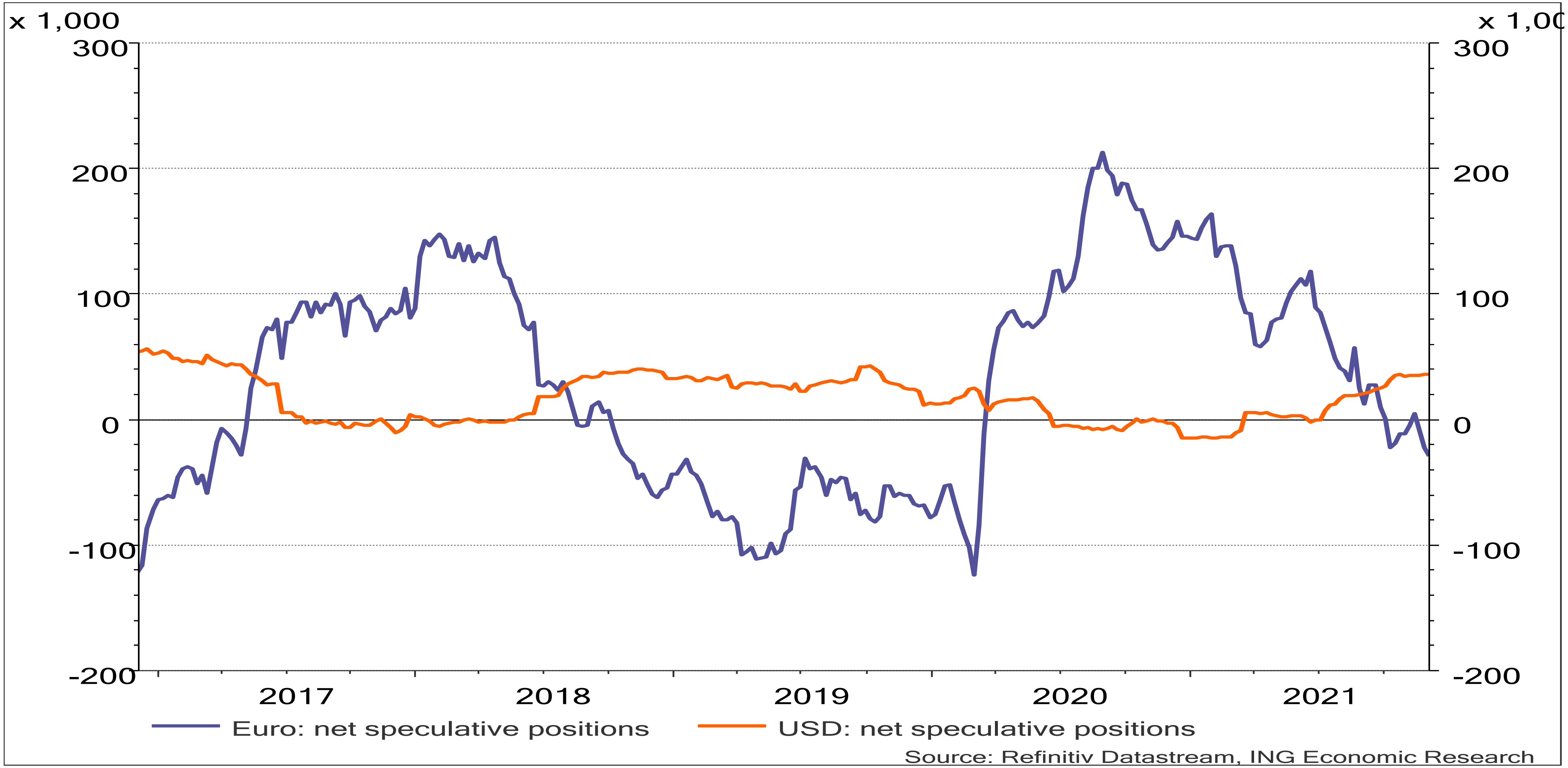


ECB purchases limit the upward potential of bond yields

Impact Bond purchase programs ECB on yields



Speculators are now long dollar



Conclusions

- Recovery remains on track, though Omicron could cause some (temporary) deceleration
- Pipeline price pressures to persist for the time being, though some of the supply disruptions should soften in the course of 2022
- Current inflation figures have been distorted by base-effects, but some of the increase will be sticky
- Federal Reserve likely to increase rates in H2 2022. ECB will keep short rates in negative territory until 2023. But QE will slowly peter out before.
- Some limited upward pressure on bond yields
- Dollar already strongly bought, limiting upward potential (though the greenback remains a safe haven in times of market turmoil)