

Article | 30 October 2018

FX

## EUR: Macro support

Readings on eurozone GDP and German inflation will set the tone for the beleaguered euro today



Source: Shutterstock

### ➔ EUR: Limited fallout if macro data stays solid in the face of political noise

The euro remains under pressure – with German politics adding to the sequence of bad news for the single currency ([see ING's take here](#)). The focus today shifts to macro data – with 3Q advanced eurozone GDP (1100 CET) and German CPI to watch out for. Our economists note that the near-term risks to eurozone growth have shifted to the downside – with both slower cyclical forces and political uncertainty both at play. Look for growth to print at the cruising speed of +0.4% quarter-on-quarter – although any miss here would only add to the short-term bearish EUR sentiment. As for German CPI, our team expects a +0.3% month-on-month reading (slightly stronger than the +0.1% MoM consensus). Investors should focus on the interplay between short-term macro data releases and politics; if the former remains resilient in the face of the latter, then any EUR/USD downside will likely to be short-lived – with the cross offering good fundamental value at these depressed levels (below 1.15). We'll also hear from a range of ECB speakers today – including chief economist Peter Praet. As a side note, with eurozone government budgets a hot topic right now (Italy and Spain) – the Portuguese Parliament will hold an initial vote on its 2019 budget today.

### ➔ **USD: Still some way from a ‘great trade deal’ between the US and China**

Whether it's a bit of stock market damage control or genuine intent, President Trump's remark that he wants a 'great trade deal' with China may have partly helped to ease the pain in risky assets. It may be wishful thinking to believe that a US-China trade resolution could be this easy – and the reality is that full tariffs on Chinese imports remain an equally likely, if not more probable, outcome.

### ➔ **GBP: Political weakness looks out of sync with short-term UK fundamentals**

Despite the Chancellor's best 'banter', the pound was overall unmoved by the 2018 Budget. Indeed, there weren't any game-changing fiscal announcements to distract GBP markets from the obvious near-term Brexit risks (although it will be interesting to monitor the new 'Tech Tax' to see if it discourages any future inward investment). In terms of market reactions, the tame post-Budget move in sterling is what one should expect from the Super Thursday November Bank of England meeting (the other GBP event risk this week). With Brexit the big issue hanging over the UK economy, our economists do not envisage any further BoE rate hikes before May 2019 at the very earliest. Plus, it's difficult to envisage the Monetary Policy Committee sending any strong and credible hawkish signals in the near-term given the nature of Brexit uncertainties. Any fall in GBP/USD towards 1.26-1.27 would look strange to us.

### ➔ **JPY: Fade the weakness ahead of the BoJ meeting and US tech stock earnings**

Attention turns to the crucial October Bank of Japan meeting (early Wednesday) and our team in Asia are slightly more excited than usual given that Governor Kuroda has been dropping hints of late about changes to policy. Kuroda has been sounding more positive about inflation – with core (ex-fresh food) inflation at 1.0%. The elusive 2% level might be the official target, but there is a sense that a more pragmatic good enough rate of about 1% could pave the way for the BoJ to start tweaking its policy stance. If we were to see more stealth tightening steps to come this week, this could be mildly supportive for the yen. The soggy outlook for US tech stocks (Facebook report earnings today) may also keep a lid on USD/JPY and we see value in fading rallies in the pair given the fragile global economic backdrop.

## Author

### Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).