

## Setting the tone for markets from Asia

US data support the case for more aggressive Fed tightening while ECB moves closer to ending QE



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### US data fuel expectations of aggressive Fed hike

Lower gasoline prices drove the headline CPI inflation in the US lower to 2.1% YoY in December from 2.2% in November, in line with expectations, but core measures unexpectedly rose up 1.8% from 1.7% over the same month as a result of higher housing and healthcare prices. At the same time, rising household incomes and strong consumer spending supported the strength in retail sales in December albeit some moderation in growth, which was offset by upward revisions to previous month's figures. ING expects the dip in total inflation to be transitory on the grounds of sustained strong growth, rising wages, higher oil prices and a weak US dollar. The risk to Fed policy seems biased toward more aggressive tightening this year than ING's forecast of three rate hikes. Upcoming US data this week on industrial production, housing starts, Empire and Philadelphia Fed activity indices and Univ. of Michigan Confidence index are likely to reinforce the message.

### Breakthrough of German politics

The US dollar continued its weakening streak as reduced political risk in Germany and Brexit risks strengthened the EUR. Germany's CDU and SPD parties have finally moved closer to forming a coalition government. [Click here for more on German politics.](#) Looking ahead this week, ECB

speakers -- Weidmann and Coeure – may add to the debate on whether or not to stop QE in September.

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## North-South Korea dialogue

In Asia, optimism on the peace dialogue between North and South Korea got some setback as North Korea criticised South Korea's welcoming of US involvement in the dialogue as 'ill-boding'. We do not consider the setback strong enough to reignite tensions between two countries as they meet today to discuss the North's participation in the Winter Olympic Games. Dialogue has replaced missile testing as a plausible way of resolving tensions on the Korean peninsula, the most positive for the Asian and global markets in 2018.

## Asia week ahead

GDP, central bank policy meetings and trade data crowd this week's Asian economic calendar. China releases GDP data for 4Q17 and full-year 2017, with our forecast of 6.7% growth in both periods. Central banks in Korea and Indonesia meet this week. These may be non-events as both central banks are expected to keep policies on hold. We will look for clues on future policy course. Singapore's trade data will inform on continuation of electronics export strength.