

14 August 2018  
Article

## Temporary reprieve for emerging markets

Emerging markets have stabilised amid a rebound in the Turkish lira. But further pressure on EM looks likely

### Contents

- USD: Strong dollar and tariffs dampen RoW growth prospects
- EUR: German GDP bounce-back provides a temporary lift
- GBP: Focus on earnings today
- MXN : Domestic honeymoon challenged by positioning

### USD: Strong dollar and tariffs dampen RoW growth prospects

Notwithstanding a slightly better than expected German 2Q18 GDP release today it seems fair to say that President Trump's set of policies (fiscally-pumped growth and protectionism) are driving a wedge between growth in the US and the Rest of the World (RoW). The strong dollar means that the RoW is having to run tighter monetary policy to protect its currencies and, when combined with Washington's aggressive trade tariffs, are leading to lower growth rates. ([We've cut our China growth forecast today.](#)) There has been some suggestion that Trump wants it all including a weaker dollar – and of course you never know with Trump – but intervention from the US Treasury to weaken the dollar looks unlikely. Financial markets look set for a quieter day today, but further pressure on emerging markets looks likely given: i) another US deadline for Turkey to release Pastor Brunson tomorrow, ii) the US likely confirming plans to apply 25% tariffs on a whopping \$200 billion of Chinese imports over coming weeks and iii) more sanctions coming through against Russia over coming months. Were that to be the case we think some of the better emerging market stories (Mexico and Poland) could be at risk purely as a result of heavy positioning. Support at 95.50/60 should hold any near-term DXY pull-back.

### EUR: German GDP bounce-back provides a temporary lift

German 2Q18 GDP did bounce back after all (to 0.5% quarter-on-quarter from an upwardly revised 0.4% in 1Q18) and has provided a temporary lift to the euro. That should mean upside risks to eurozone growth at 11CET, where consensus is 0.3% QoQ. However, given so many unsettled issues in emerging markets and unpredictable US policy, we imagine sellers would return were EUR/USD to make it anywhere near the 1.1500/1520 area. We'll also see German ZEW today (investor sentiment compiled by analysts) with presumably downside risk to consensus.

### GBP: Focus on earnings today

The pound has been overshadowed by EM events recently, but fears of a 'no-deal' Brexit remain very real and GBP remains fragile – especially against the dollar. Focus today on the UK wages data, where base effects could see wages (ex bonus) slip to 2.6% YoY and the employment data soften. GBP/USD upside looks limited to the 1.2820/50 area before a retest of the 1.2720 lows.

### MXN : Domestic honeymoon challenged by positioning

Gustavo Rangel notes that new Mexican President AMLO is enjoying [a domestic honeymoon](#) after

July's election victory. The Mexican peso could hold gains if the emerging market environment settles – but long MXN positioning is a worry if EM deteriorates.

**Chris Turner**

Global Head of Strategy and Head of EMEA and LATAM Research

+44 20 7767 1610

[chris.turner@ing.com](mailto:chris.turner@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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.