

Covid-19: Who's coming to the rescue?

Stagflation to the debt rescue? Rob Carnell thinks not. The EU to the rescue? Plenty of horse-trading ahead. Here's your roundup of this week's biggest stories from ING Research as the fight to bring the Covid-19 crisis under control continues

In this bundle

Video

Rob Carnell: 'Sadly, we're not going to get stagflation'

Stagflation will not be a consequence of the Covid-19 crisis. So says ING's Rob Carnell who thinks it could be a solution to the huge debt problems...



Revealed: The EU's massive recovery fund

The European Commission has finally revealed its plan for an EU recovery fund, and it's €750bn, larger than the French-German proposal. If...

By Bert Colijn and Carsten Brzeski



Germany

Germany: This is not a 'v'

The just released Ifo index adds to evidence that the worst should be behind us. However, the route to normality will be long.

By Carsten Brzeski



ECB preview: More

We expect the European Central Bank to announce that it will increase its Pandemic Emergency Purchase Programme at next week's meeting

By Carsten Brzeski



FX

EUR/USD: Playing catch-up with \$ crosses

The euro is enjoying a rally today as investors gauge the viability of plans for a €750 billion recovery fund created out of the EU's long-term...

By Chris Turner



FX | FX Talking

FX Talking: Blind optimism

Over the last month we have seen a wave of confidence lift the high beta, commodity currency bloc. Concerns over a resumption in the US-China trade...

By Chris Turner and Francesco Pesole



Polish central bank cuts rates close to zero as the zloty appreciates

The Polish policy response to battle the economic fallout from Covid-19 has been large but even then the central bank slashed rates close to zero in spite...

By Rafal Benecki



Malaysia

Malaysia macro update – It's downtime

First the political jitters, then the pandemic and related controls on movement and then an oil price crash – all have borne down on the Malaysian...

Rob Carnell: 'Sadly, we're not going to get stagflation'

Stagflation will not be a consequence of the Covid-19 crisis. So says ING's Rob Carnell who thinks it could be a solution to the huge debt problems the world is encountering, but we couldn't make it happen if we tried



Bottom line: We're not going to get stagflation

High unemployment, high inflation, low growth - many economists think that's what we're going to get as the world emerges from the Covid-19 crisis. But ING's Rob Carnell is not one of them. Unlike the last time stagflation was a major feature around the world in the 1970s, he says manufacturing has been in terminal decline and there's no mechanism to drive prices ever higher through inflated wages.

[Watch video](#)

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

Snap | 27 May 2020

Revealed: The EU's massive recovery fund

The European Commission has finally revealed its plan for an EU recovery fund, and it's €750bn, larger than the French-German proposal. If implemented, this fund would be massive, not only supporting the European recovery but it would also demonstrate solidarity. However, expect plenty of horse-trading in the coming weeks



EU Commission President Ursula Von Der Leyen, pictured in April

The European Commission plans for a recovery fund do not lack ambition, just look at the proposal's name: "Next Generation EU". The plan is to borrow €750bn from the markets with plans to repay it within in a three-decade window from 2028 to 2058 through the EU budget. The EU plan to repay also includes raising own resources through taxing large corporates, emission trading schemes and a carbon border adjustment mechanism. It intends to use €560bn of the raised money for support to member states of which €310bn would be in grants and €250bn in loans.

Also, there is a plan to top-up cohesion support by €55bn, a solvency support instrument which should use €31bn to unlock more than €300bn from the private sector to support companies with liquidity problems, some €15bn in a Strategic Investment Facility to unlock some €150bn, the traditional European instruments to leverage public money with private money.

Fierce negotiations ahead before a deal is reached

The Commission presents this ambitious plan but does not have the final say in the matter. It looks quite a bit like the French-German proposal but seems to be more ambitious in total size and raising EU taxes as part of the repayment plan, an answer to the long-standing discussion about own resources for the EU. As member states have to unanimously agree to a recovery fund, it is important to keep in mind that the Netherlands, Austria, Sweden and Denmark have been very sceptical of the French-German plan and raised their own proposal for a recovery fund including just conditional loans. That suggests that there are fierce negotiations ahead before a deal is reached. The fact that the European Commission's proposal includes 'loans' is a clear opening for a compromise. However, let's be clear, this kind of horse-trading is never exclusively played on one topic. Instead, expect the bargaining to be extended to other policy areas; just think of state aid rules.

The proposal is like an expensive bottle of wine...

Given that unanimity is needed and there are diverging views on the fund, the Commission's proposal will be more of a starting point to the negotiations than something that will be rubber-stamped by EU leaders at the next summit. To us, it is more relevant for a substantial recovery fund to see the light of day if we can see a softening of the stance taken by those member states which oppose burden-sharing. There is some time left before the EU summit on 18/19 June when the fund is back on the EU leaders' agenda, but it could well be that more summits are needed before a final compromise is agreed on. Interestingly, Germany will hold the rotating EU presidency starting 1 July. It could very well be that one of Angela Merkel's last stunts in Europe will be to lead the way to more integration.

All in all, the European Commission proposal is a lot like the expensive bottle of wine on the supermarket shelves: it would be a real pleasure, not to say sensational, to savour it, but very often it is only there to make the lower-priced ones look reasonable. Let the negotiations begin.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Germany: This is not a 'v'

The just released Ifo index adds to evidence that the worst should be behind us. However, the route to normality will be long.



Source: Shutterstock

Walks a bit like a 'v', talks a bit like a 'v' but this is not a 'v'. Germany's most prominent leading indicator just staged a strong comeback but the route to normalcy remains long. The Ifo index posted the strongest monthly increase in May, after two record-sized drops, and stood at 79,5 from 74.3 in April. This is still the second weakest reading since reunification. The increase was mainly driven by a strongest monthly improvement ever in the expectations component. The current assessment component actually dropped again but still remains slightly above the record lows seen during the 2008/9 recession.

Today's Ifo index echoes more real-time signals that economic and social activity has started to pick up significantly since the first lifting of the lockdown measures in late April. Just to be clear, it is currently still impossible to measure the more permanent damage the crisis has caused and what its impact will be on future growth. Reviving economic activity and returning optimism are highly welcome but are definitely no reason for complacency or even hubris. The fact that capacity utilization in the industry has dropped to its lowest level since 2009 as well as that access to finance is a much bigger impediment to production than during the financial crisis illustrate the depth of the crisis. Even in a more benign scenario, with more gradual lifting of the lockdown measures and no second wave of the virus, the German economy is unlikely to return to its pre-crisis level before 2022.

In short, the low point of the slump should now be behind us and there even is the chance for a short-lived strong rebound in the coming months. However, given the absolute low level of the Ifo index and the fact that the damage of the last two months is likely to weigh on growth going

ahead, don't be mistaken: this is not a 'v'.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Article | 28 May 2020

ECB preview: More

We expect the European Central Bank to announce that it will increase its Pandemic Emergency Purchase Programme at next week's meeting



Source: Shutterstock

Working from home has given us all the opportunity to listen to our favourite music without disturbing colleagues. A treasure from the basement could be the soundtrack to next week's ECB meeting: the song ["More" from The Sisters of Mercy](#).

'Too much just ain't enough' could be ringing out of Christine Lagarde's office next week, as we expect the ECB to increase the size of its PEPP.

ECB will present its latest macro projections

At the core of next week's meeting will be the newest set of staff forecasts. Needless to say that the March projections, which predicted GDP growth to come in at 0.8% this year, are heavily outdated. For the April meeting, ECB staff had prepared three different scenarios, with real GDP dropping by around 5%, 8% and 12% under the mild, medium and severe scenarios, respectively, in 2020.

We still expect the eurozone economy to shrink by around 8% this year, the European Commission had -7.7% in its latest

forecasts

According to recent statements by ECB President Christine Lagarde and other ECB officials, the mild scenario has also become highly unrealistic and next week's forecasts could be somewhere between the medium and the severe scenario. For comparison, we still expect the eurozone economy to shrink by around 8% this year, the European Commission had -7.7% in its latest forecasts.

To be clear, given the unprecedented nature of the current crisis, no single model, no matter how sophisticated, is able to fully capture what is going on in the economy.

What is it that we know?

Judging from 1Q growth, the stricter the lockdown measures, the more severe the hit to the economy. There is no hard data available yet for the second quarter.

Soft indicators suggest that April was the lowest point and that May saw some rebound in activity. Google mobility data shows that some eurozone countries have already returned to more than 80% of their January activity levels, while others are only back to some 60%. Looking beyond the second quarter, the shape of the recovery highly depends on assumptions of the epidemiology of the virus, the effectiveness of the containment measures and the lifting of these measures as well as the more permanent damage caused by the containment measures. We will have to see whether the ECB adds any new insights to the existing forecasts.

Even more interesting than the growth forecasts could be the inflation projections.

The ECB did not present any inflation projections in its scenario analysis in the 30 April meeting. In March, the ECB still expected a gradual acceleration of headline inflation from 1.1% in 2020 to 1.4% in 2021 and 1.6% in 2022.

Earlier this week, Executive Board member Isabel Schnabel said that “one number of particular interest is the evolution of the medium-term inflation outlook.” With the drop in energy prices, increasing unemployment and a widening output gap, it is hard to see how this medium-term outlook cannot have deteriorated in the new forecasts. Still, judging from the minutes of the April meeting, not all Governing Council members seemed to be convinced, as some members pointed to potential upward pressure on prices from supply disruptions, weaker market competition and changes to supply chains.

We think that this will be a minority view in next week's inflation projections.

What to expect from next week's meeting

There will be more to discuss than just the macroeconomic backdrop. The ruling of the German Constitutional court, as well as the possible exhaustion of the 750 billion 'envelope' of the PEPP programme by September or October, will demand an intense discussion on a possible increase to the programme. The ECB will also investigate possible scenarios around how to continue with the Public Sector Purchase Programme without Bundesbank participation.

The longer we think about it, the stronger the arguments are for the ECB to decide on a significant

increase to the PEPP at next week's meeting. Sure, they could wait until September, when hopefully the real shape of the recovery will be clearer. However, the fact that the PEPP will be exhausted by October, at least at its current pace, could quickly lead to unwarranted speculation in financial markets. Pre-emptively denting such speculation would argue for a June decision.

Also, PEPP is currently the easiest way to keep the Bundesbank on board, despite the German court's ruling and the deviation from the capital key could be easily tackled by increasing the overall size of the programme. Finally, the ruling of the German Constitutional court gives the ECB freedom in any tailor-made or event-related action but not so much in a more general "the economy still needs monetary stimulus" sense. Consequently, the court's ruling could actually motivate the ECB to increase the size of the PEPP while the eurozone is still in the middle of the pandemic rather than when the worst might already be over.

Strike while the iron is hot.

Given all of the above, we expect the ECB to increase the PEPP by some €500 billion at next week's meeting to extend the programme to mid-2021. Also, following the principle of the earlier collateral easing, the ECB could also decide to include so-called 'fallen angels' into the programme, announce that the proceeds from PEPP will be reinvested and could take another look at the tiering system. In the end, the ECB will have to balance doing more now (perhaps with one last big push) with continuing speculation about its ability and willingness to do more in the future.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

EUR/USD: Playing catch-up with \$ crosses

The euro is enjoying a rally today as investors gauge the viability of plans for a €750 billion recovery fund created out of the EU's long-term budget. This EUR/USD move effectively sees the EUR playing catch-up with some other big rallies against the dollar. It's too early to say this is the start of a trend to 1.18/20, but it could turn into a 1.12 story for June



Source: Shutterstock

German Chancellor Angela Merkel, European Central Bank President Christine Lagarde, and European Council President Ursula von der Leyen

EUR plays catch-up

As we note in our [latest FX Talking](#), we've seen pockets of strength against the dollar over the last month. These have largely been confined to the high beta, pro-cyclical currencies. Those are NOK, SEK, AUD & NZD in the G10 space, and in the emerging markets space are currencies like MXN, COP, ZAR, BRL, and RUB. Clearly here the equity rally has helped – very much supported by the turnaround in energy markets. The low-yielding EUR, JPY, CHF have done little against the dollar, while Asian FX has taken on a fragile tone (e.g. USD/CNH at its highs) as Washington assesses its next steps against China.

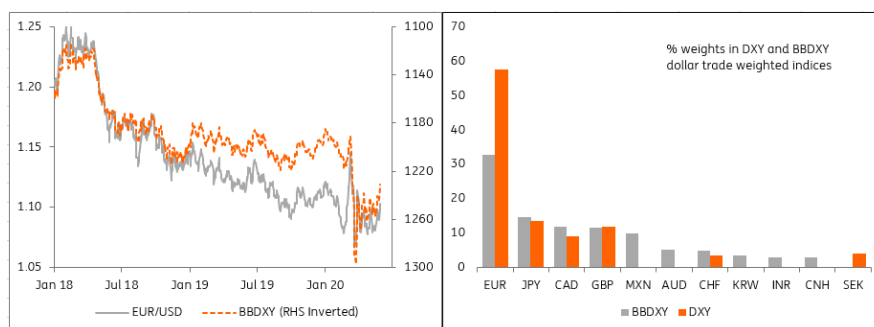
It is probably too early to say that today's rally in the EUR is the start of a major re-rating of

European risk. Certainly, the European Commission and its 'Next Generation EU' proposal would like that to be the case, but the path to getting a €750 billion recovery fund carved out of the long term EU budget will be a bumpy one, especially with EUR500bn of that fund allocated to grants. EU leaders will meet on 18/19 June to discuss these proposals in more detail and just like news on Covid-19 vaccines, there will be many highs and lows along the way. Thus it is hard to make the case that EUR/USD moves higher in a straight line from current levels.

We would say, however, if EUR/USD enjoys even a modicum of the re-rating stories enjoyed by some of the high beta currencies, 1.12 is achievable over coming weeks. This assumes that US-China does not completely derail the risk environment. We note as we write this that the AUD is under pressure on reports that China may impose coal import restrictions against Australia - again a risk our team highlighted in FX Talking.

In effect EUR/USD would just be catching up with the range breakout seen by one of the broader measures of the trade-weighted dollar, the Bloomberg Dollar Index (BBDXY). Unlike the heavily European weighted DXY dollar index, the BBDXY uses a broader number of trade weights based on trade and FX liquidity patterns. The big recoveries in currencies, like AUD, CAD, and MXN have seen the BBDXY decisively break lower and a modest EUR/USD rally would not be a surprise.

EUR/USD plays catch-up with weaker dollar index



Source: ING, Bloomberg

Broader dollar turn requires more confidence in EM

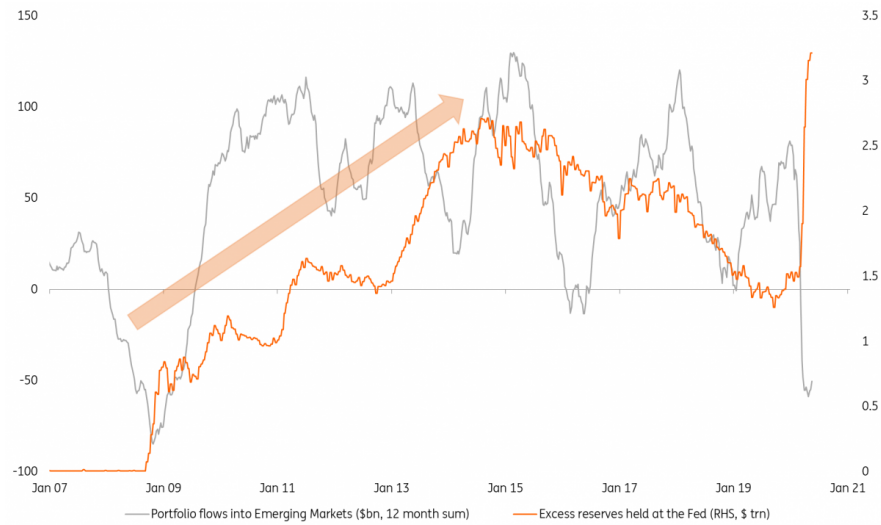
As noted above, this looks to be more of a series of re-rating stories, e.g. commodities and now Europe, as opposed to a broad turn in the dollar per se. What we would like to see is much more appetite for EM assets in general, which would help to dislodge conservative capital parked in the dollar and usher in a broader dollar decline.

We think that will happen – but it will take time. After Lehman's failure in September 2008, we did not see sustained portfolio inflows back into emerging markets until March 2009. And emerging markets, in general, were seen to be less affected by a financial crisis than they are by the global standstill in activity now.

Yet the flood of liquidity unleashed by the Fed, as we show below now in the form of excess USD reserves US banks have parked at the Fed, should mean that EM portfolio flows re-build again later this year. This benign environment, characterised by recovery and confidence rather than trade wars and division, should allow a broader dollar bear trend to emerge and is an integral part of our call for EUR/USD to end the year at 1.20.

There are many challenges to such a scenario, but at least the threat of an immediate rise in eurozone break-up risk is probably not one of them.

EM portfolio flows versus excess dollars held at Fed



Source: ING, IIF, Bloomberg

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

FX Talking: Blind optimism

Over the last month we have seen a wave of confidence lift the high beta, commodity currency bloc. Concerns over a resumption in the US-China trade conflict has seen Asian FX underperform. What we have not seen, yet, are signs of a clear dollar bear trend emerging. That is still our call for 2H20 – but several factors will need to fall into place first



Source: Shutterstock

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Snap | 28 May 2020

Polish central bank cuts rates close to zero as the zloty appreciates

The Polish policy response to battle the economic fallout from Covid-19 has been large but even then the central bank slashed rates close to zero in spite of the potential negative side effects. The recent PLN appreciation has forced the central bank to follow the Hungarian approach despite many committee members calls for flat rates



Today, the Polish central bank slashed the reference rate by 40 basis points to 0.10%, the lombard rate by 50bp to 0.5%, the rediscount rate by 0.44bp to 0.11% and the discount rate by 0.48bp to 0.12%. The deposit rate was unchanged at zero. This is in contrast to consensus expectations and many MPC members' calls for flat rates.

So far, the government and the central bank have delivered strong easing as the base rate has been reduced by 140bp while the required reserve rate by 300bp.

The central bank has also launched a large asset purchase program, which we believe amounts to 8-10% of GDP and is already 40-46% implemented.

The Polish quantitative easing program allowed the government to launch a very large anti-crisis program - direct support without loans and guarantees amounts to 6.5% of GDP, making it the largest program in the EU. But if you take into account loans and guarantees, Germany has a

much larger program - about 30% of GDP against a total of about 11% of GDP in Poland.

So why were rates slashed to zero?

The mood of the press release is rather grim.

The central bank flags the severe slowdown of GDP in 2Q20, and warns that return to the pre-crisis level of economic activity will take a long time. Also, it believes there may be a risk of CPI undershooting the inflation target, which partly explains the bold action.

We also think the recent strengthening of PLN was an important factor behind the cut. It seems the central bank has adopted the Hungarian approach.

The Hungarian central bank reduced rates to this level and increased its balance sheet by running various non-standard easing programs. On the one hand, they aimed to revive credit for small-medium-enterprises and provide local financing for the budget deficit. On the other hand, they aimed at maintaining a weak forint to support the Hungarian economy, which was losing competitiveness significantly. We think the argument to prevent further PLN appreciation is quite important here.

Our view

We think this rate cut has entered the area of increasing side effects of low rates, mainly threatening the stability of the financial sector. Also, the experiences of other countries show that near-zero rates likely result in credit availability deteriorating rather than improving. So we don't expect the central bank to test negative interest rates.

The press release highlights that the central bank will maintain asset purchases, which in our view should reach 8-10% of GDP, and 40-46% have already been delivered.

In the coming days, the zloty may ease somewhat, as €/PLN recorded a major decline recently, so profit-taking is possible after such a big move. However, the global risk-on mood should largely offset domestic events.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Malaysia macro update – It's downtime

First the political jitters, then the pandemic and related controls on movement and then an oil price crash – all have borne down on the Malaysian economy, setting this year up to be the worst since the 1998 Asian financial crisis



Source: Pexels

Key takeaways

Covid-19: The outbreak is one of the less severe in Asia and the recovery rate is among the highest in the region. But the infection curve is yet to flatten, while the prospect of a surge in infections among migrant workers is looming large.

Growth: With the key economic drivers of trade, tourism, and oil taking a beating from Covid-19, 2020 will be the worst year for growth since the 1998 Asian financial crisis. We expect GDP to fall by more than 8% in 2Q and by about 4% for the entire year.

Inflation: High unemployment and weak spending should keep CPI inflation on a steady downward path, prompting a further cut to our 2020 forecast to -2.5% from -1.0%.

External sector: Weak global demand, low commodity prices, reduced prospects of an electronics upturn, and halted tourism are likely to move the current account surplus down.

Policy stimulus: Tight public finances constrain any fiscal stimulus, though about 3% of GDP real fiscal thrust isn't at all bad. Falling inflation and high real interest rates call for more

central bank policy rate cuts. We expect an additional 100 basis point cut in this cycle.

Post-Covid recovery: We look for a deeper downturn to be followed by a prolonged recovery. Permanent demand destruction in some sectors could force potential growth lower. We see 3-4% as the new normal for GDP growth.

Politics: The last thing the economy and the financial markets need is another bout of political risk. The current fragile coalition could offer such a risk, suggesting the MYR will remain an underperformer in Asia throughout the rest of the year.

It's downtime!

Covid-19 – curve is yet to flatten

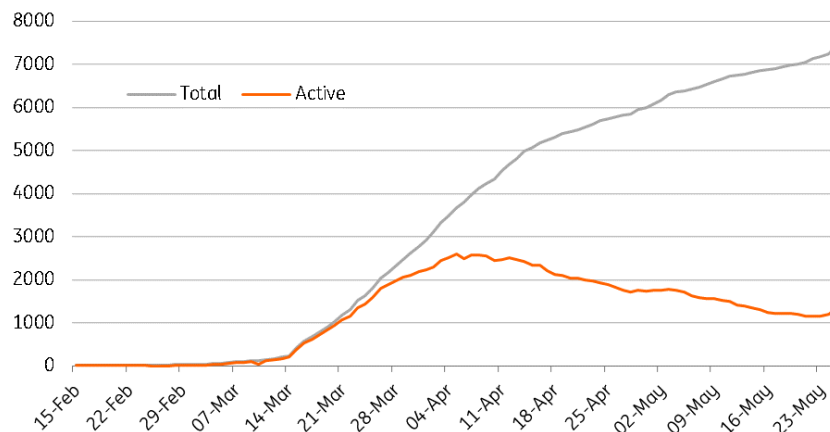
The total number of Covid-19 infections as of 25 May stood at 7,417 with 115 deaths. This puts Malaysia among the Asian countries not so badly affected by the crisis so far. Of the total, 81% of cases are recovered, a relatively better recovery rate compared with some of the worst affected Southeast Asian neighbours (Singapore 46%, Indonesia 25%, Philippines 23%).

The faster recovery may be attributed to early containment measures. Malaysia was among the first Asian countries to put in place a nationwide movement control order (MCO) on 18 March. Initially started for two weeks the MCO was extended four times with the latest extension to 9 June, albeit with some relaxation recently. As the strain showed signs of abating the authorities decided to ease restrictions starting 4 May and allowed some industries such as manufacturing and construction to resume operations at their normal capacity.

We won't call it over nonetheless. The relaxed movement restrictions coupled with the continued rise in new infections sustain the risk of a second wave. The daily new infections so far in May have averaged at 56. This compares with 630 average in neighbouring Singapore, though the number here is skewed by the rapid rate of infections among migrant workers. As in Singapore, the threat of a surge in infections among this group in Malaysia is on the rise. Most of them are illegal migrants and refugees from neighbouring countries, packed into large dormitories.

The government has already begun a crackdown of illegal migrants and detaining and testing this entire community. The biggest single-day spike in infections in more than a month over the last two days -- by 172 on 25 May and 187 on 26 May, most of which were migrants in detentions centres, reinforces the persistent Covid-19 risk.

Covid-19 spread



Source: Worldometers

Note: Data as of 25 May 2020

0.7%

1Q20 GDP growth

Year-on-year

Higher than expected

The economy is battered - growth

GDP growth remained in positive territory in 1Q20. A 0.7% rise over a year was a better outcome than the consensus of a 1% fall, and it also compares with steeper GDP declines elsewhere in the region. Yet it was a sharp dip from 3.6% YoY growth in 4Q19, and the slowest quarterly growth in over a decade, since the 1.1% fall in 3Q09 induced by the global financial crisis. Moreover, a 2% quarter-on-quarter (seasonally adjusted) GDP fall set the economy on the path of a recession, probably deeper than during the GFC.

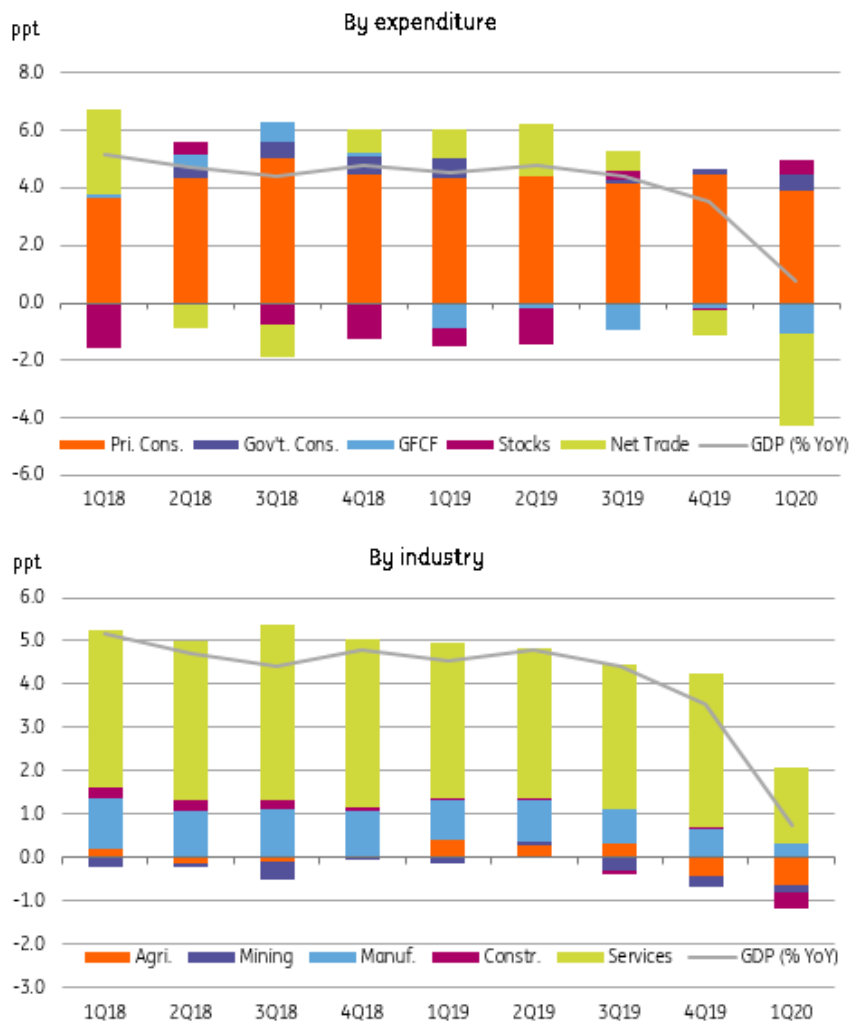
A better 1Q GDP performance comes against an adverse economic and political backdrop. First, the political turmoil leading to the end of the Mahathir government in late February depressed economic confidence. Just as the Muhyiddin administration assumed power, it was forced to implement the Covid-19 lockdown in mid-March, bringing the economy to a near-standstill state. As if all this wasn't enough, a crash in the global oil price in March made matters worse for this net oil-exporter country.

Even so, manufacturing growth held in positive territory, albeit a slowdown to 1.5% YoY from 3.0% in the previous quarter. Agriculture and construction were badly hit with -8.7% and -7.9% YoY growth, while services growth halved to 3.1% from the previous quarter.

Private consumption remained the spending side GDP driver with a 3.9 percentage point contribution to headline growth, though smaller than 4.5ppt in 4Q19. Government consumption helped with another 0.6ppt (we doubt it was due to stimulus). Exports of goods and services turned out to be the bigger drag, shaving off 4.7ppt from GDP growth, but it was mainly due to weak services rather than goods exports. Imports subtracted 1.4ppt from GDP growth and the fixed

capital formation got it down by another 1.1 ppt.

Sources of GDP growth



Source: CEIC, ING

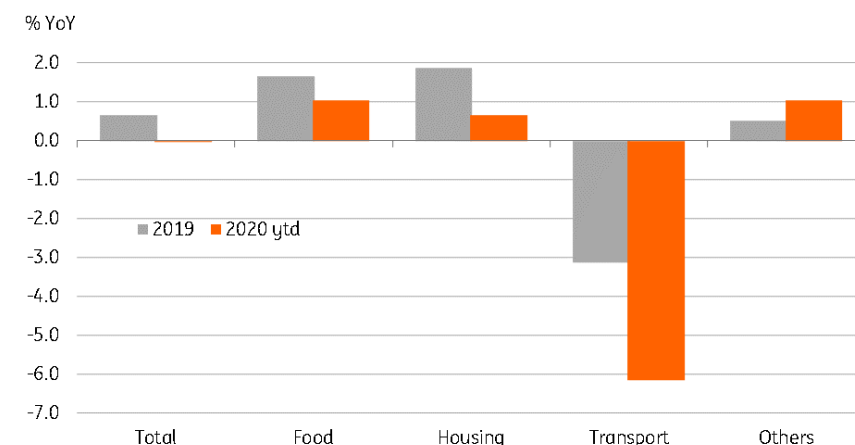
The economy is battered - other indicators

Among other economic indicators, CPI inflation posted the steepest fall in April since the GFC to -2.9% YoY. Lower food, housing and transport prices were responsible. The year-to-date inflation was zero, down from 0.7% in 2019.

The customs-basis goods trade was relatively firm. Exports eked out a 1.1% YoY rise in 1Q, while imports posted a mild drop by 2.6% and the cumulative trade surplus of MYR 37 billion was little changed from a year ago. Despite downward price pressure, oil and gas exports advanced 10% on the year. And, after an outperformance in 2019, electrical and electronics exports have been a weak spot, with an 8% fall in the first three months. The demand in key trade partners also held up well despite the Covid-19 outbreak. Shipments to the US rose 9.5% in 1Q, those to Japan were flat, and to China were down only 1.3% on the year. An outlier 14% fall in exports to Europe, the worst-affected region by the pandemic so far, provides a sense of what to expect about demand from the rest of the world with intensified disease spread in this quarter.

A strong merchandise trade surplus was supportive of the current account surplus, but not enough to mitigate outflows on the services side. The result was a sharp dent to the current account to MYR 9.5 billion from MYR 17 billion a year ago, pushing the ringgit to be among Asia's weakest currencies with an over 6% year-to-date depreciation against the USD.

CPI inflation - key components



Source: CEIC, ING

More pain ahead - trade, tourism, oil

The economic data released so far doesn't capture the full impact of Covid-19, which will mainly impact the current quarter due to the movement control orders in place for much of this quarter. Although the restrictions have started to ease from early May, the broader control measures continue until 9 June. The extended lockdown means a virtually entire quarter of significantly sub-normal economic activity. The impact stands to be compounded by similar restrictions in the rest of the world, depressing the outlook for an economy heavily dependent on trade, tourism, and commodities.

The Covid-19 situation in all major trade partners – the US, Europe, China and Japan together absorbing 40% of total exports, has been bad. The same is true about the rest of Asia, the destination for almost half of Malaysia's exports. Besides weak global demand, the domestic supply chain disruptions caused by movement restrictions will be an ongoing overhang, making this a year of exceptionally weak trade flows – not just for Malaysia but for the rest of the world as well.

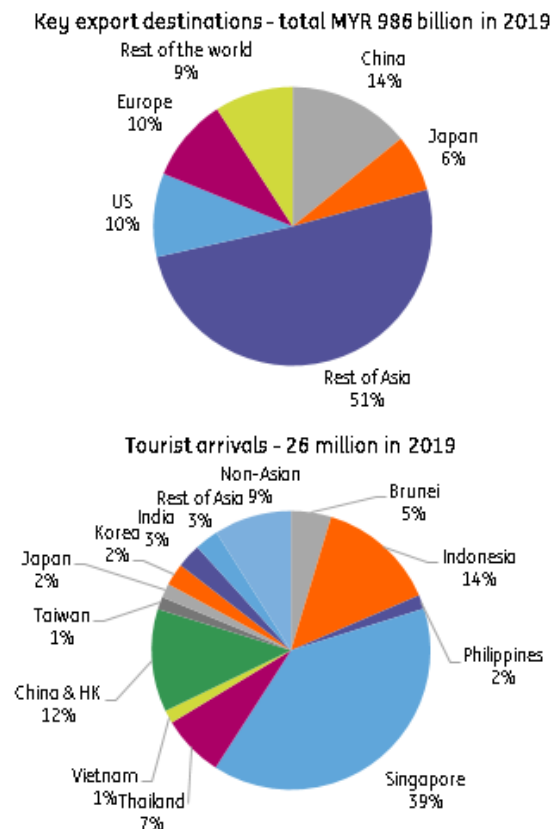
Malaysia is the second-most favourite tourist destination in Asia after Thailand. About 26 million visitors annually, nearly 90% of whom are from within Asia, bring over MYR 86 billion in revenue (5.7% of GDP). The disease has brought the sector to a standstill. Even as cross-border travel resumes after the outbreak, tourists are unlikely to flock back to their favourite destinations. Some permanent demand loss for the sector may not be an overstatement in the post-Covid era.

The supply glut in the global oil market and nosediving prices add to the pain of already weak oil and gas exports (make up for about 13% of total exports). Having briefly turned negative in April, WTI has bounced back quickly above \$30/barrel, thanks to production cuts by major oil producers and the gradual opening of economies bringing back some demand. Still, a significant loss of demand in the transport sector globally will be a strong headwind for a return to what we view as

the optimal level for crude oil price (in the \$55-65/barrel range in recent years) anytime soon. It will need a complete normalisation of the situation after Covid-19, something hard to imagine in the rest of the year and well beyond. However, as the new normal we could imagine some permanent loss of demand (for example, a new normal of 'work from home' depressing demand for transport).

What does negative oil mean for Asia?

Exports and tourism by main destinations



Source: CEIC, ING

Sufficiently loose fiscal policy

The new government spared no time in rolling out a sizable stimulus, equivalent to about 17% through three packages since late February (including the first MYR 20 billion package by Mahathir Mohamad just days before he was ousted). However, this largely included monetary support via easier credits, loan moratoriums, and bank guarantees, etc. which don't qualify as real spending, nor do measures like early withdrawals of retirement savings and deferrals of employer contributions to these schemes.

Leaving all the monetary measures out, we estimate a real fiscal thrust of only 3.3% of GDP. This is still not bad given the already tight fiscal position. While the extra-budgetary spending should nearly double the fiscal deficit this year from the 3.2% of GDP target in the original budget (announced in October 2019 by the previous government), the revised fiscal deficit estimate of

4.7% from finance minister Zafrul Azis was a further letdown, indicating much lower real stimulus.

It is not only the extra spending that will swell the fiscal deficit. Government revenue is also poised for a hit from weak growth as well as slumping oil revenue. Even as Malaysia has diversified away from the petroleum sector over the last few years, tax and royalties from state-owned companies in the sector still make up 10% of total government revenue. The local industry body estimates that a US\$1 change in Brent price causes MYR 300 million change in the government's revenue. Of course, there will be some saving in spending on fuel subsidies, but on balance it's going to be negative.

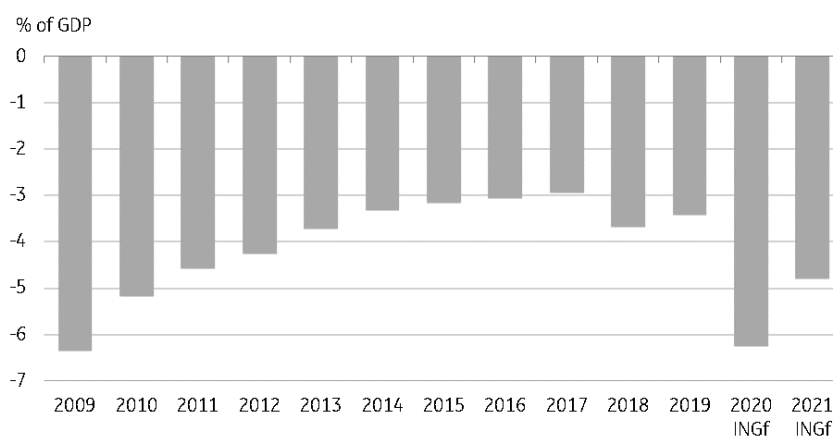
We expect the fiscal deficit this year to be well above 6% of GDP. It is what is needed right now, even if it wipes out all the consolidation in public finances since 2009.

Stimulus - where the money is going?

MYR billion	Three govt. stimulus packages and BNM easing					
	First 27-Feb	Second 29-Mar	Third 6-Apr	BNM	Total	% of GDP
Total	20.0	220.0	10.0	58.0	308.0	20.4
Real spending	20.0	20.0	10.0		50.0	3.3
Wage subsidy, grants, rent rebates		6.0	7.9		13.9	0.9
Cash handouts, tax reliefs	16.0	11.0	2.1		29.1	1.9
Other spending	4.0	3.0			7.0	0.5
Monetary support		200.0		58.0	258.0	17.1
SME Credit		9.0			9.0	0.6
Early access to pensions		41.0			41.0	2.7
Loan moratorium to banks		100.0			100.0	6.6
Government credit guarantees		50.0			50.0	3.3
BNM liquidity boost				58.0	58.0	3.8
50bp BNM policy rate cut						
Others (EPF deferral, not really a spending)		10.0			10.0	

Source: Newswires, Bank Negara Malaysia

A decade high fiscal deficit



Source: CEIC, ING

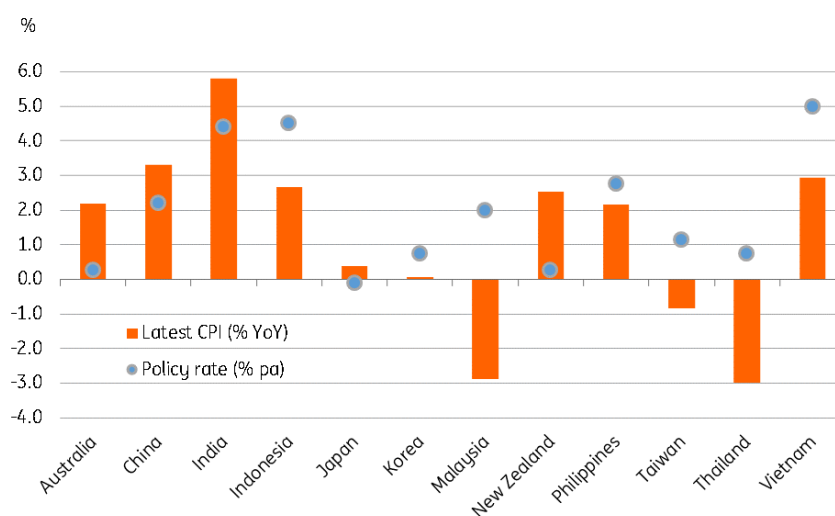
Monetary easing follows suit

Bank Negara Malaysia (BNM), the central bank, has also accelerated its monetary easing with a 50 basis point cut to the overnight policy rate (OPR) to 2.00% at its last meeting on 5 May. This followed two 25bp cuts in the first two meetings of the year in January (this was not really Covid-related) and in March. The BNM also lowered banks' Statutory Reserve Requirement (SRR) by 100bp to 2.0% on 19 March, releasing MYR 46 billion into the banking system. The aggregate liquidity support so far, including repo operations and outright purchases of government securities, comes to MYR 58 billion or 3.8% of GDP.

While already stretched public finances limit the scope for more fiscal stimulus, falling inflation is making more room for BNM monetary easing. The BNM doesn't particularly target inflation in setting monetary policy. But the economy, staring at a deep downturn ahead, is demanding more policy accommodation. Cutting interest rates remains an important option at the central bank's disposal, while there is space to do so.

The current 2% OPR against a -3% CPI inflation implies a real interest rate of 5.0%, the highest among Asian countries. We don't see any reason why the policy rate couldn't fall further. We expect another 100bp cut in this cycle, to be delivered over the next two scheduled meetings in July and September and taking the OPR to an all-time low of 1.00%.

Highest real interest rate in Asia



Source: CEIC, ING

Lingering political risk

Events in February demonstrated persistently uncertain Malaysian politics ([see: Has Malaysia's political standoff really ended?](#)). The fall of one fragile coalition government of Dr Mahathir Mohamad gave way to another shaky one of Prime Minister Muhyiddin Yassin.

With the King's approval and backing from the formerly dominant UMNO party (United Malays National Organisation), Muhyiddin grabbed power on 1 March. The pandemic gave him breathing space to prove his majority in parliament, but the outbreak also put to the test the ability of the fledgling administration to handle the unprecedented crisis. The speedy implementation of measures to combat the disease and support measures to avert the economic fallout deserve

some credit. However, these don't guarantee lasting power for the ruling administration.

The issue of the legitimacy of the new government is still hanging in the balance. So is the sword of a no-confidence motion hanging over Muhyiddin, given the long-time rival-turned-allies, Mahathir Mohamad and Anwar Ibrahim, are driven to regain the popular mandate they won in the general election two years ago.

The ruling administration needs 112 seats in the 222 member parliament to remain in power. With its undeclared slim majority at risk of aggressive horse-trading, anything could happen if the no-confidence vote eventually takes place. The failure of the new government to prove its strength in parliament could mean a snap election on the horizon, before the next scheduled general election in 2023. Such a political turn could be more painful for the financial markets than the pandemic.

Parliament had its single-day sitting on 18 May, the first since the Muhyiddin administration came to power. There was no political business aside from the King's speech, which was carried out on the pretext of Covid-19 infection risk. The next parliament sitting won't be until July, when we might have some more clarity about the fate of the current government.

We believe political uncertainty is far from over and it could be an ongoing threat to the economic recovery post-Covid-19.

[Has Malaysia's political standoff really ended?](#)

Painfully slow post-Covid recovery

The entire world is bracing for the worst economic recession in decades. Malaysia is no exception despite the economy's relatively resilient performance so far this year. We remain sceptical that aggressive fiscal and monetary stimulus will be effective in arresting the economic slump until confidence returns, which won't be until the outbreak ends.

As such, 2020 is shaping up to be the worst year for the economy since the 1998 Asian crisis. We anticipate an over 8% YoY GDP fall in 2Q and 3.9% fall in the entire year. As elsewhere in the world, the recovery from such a deep slump is going to be lacklustre, with growth probably never returning to its 5-6% potential. Instead, permanent demand destruction in some sectors raises the prospect of the growth potential nudging down to what we see as a new normal of 3-4%. Our GDP growth forecast for 2021 remains at 3.6%.

We forecast CPI inflation this year falling to -2.5% as low commodity prices and weak demand keep prices on a downward trend. We should see a return to positive inflation in 2021, though it's still going to be anaemic, at our 0.8% forecast for next year.

Lower commodity prices coupled with weak exports and tourism mean a continued narrowing of the current account surplus. We expect a sharp fall in the current surplus from 3.4% of GDP in 2019 to 1.5% of GDP, followed by a modest pick up to 1.9% in 2021. Meanwhile, weak investor sentiment will remain a strain on capital inflows and the overall balance of payments, resulting in some reserve losses.

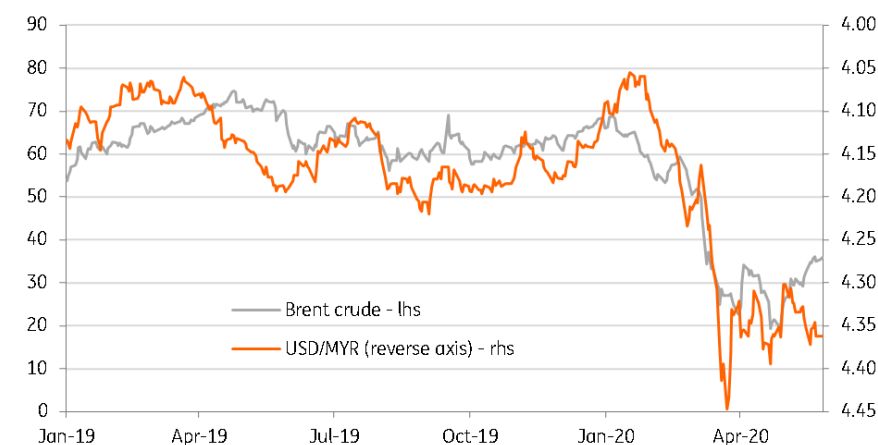
Negative sovereign actions drawn from deteriorating public finances will be an added drag on investor confidence. Moody's and S&P have so far maintained 'Stable' outlooks on their 'A3/A-'

ratings of Malaysian sovereign debt, but Fitch Ratings recently cut its 'A-' rating outlook to 'Negative' from 'Stable'. Unfortunately, it's hard to justify such negative actions in these bad times when economies require aggressive policy support. That said, exceptionally weak public finances and rising public sector debt are unlikely to fade from being an overhang on external creditworthiness for the next couple of years. We expect the government budget deficit to widen to 6.3% of GDP in 2020, nearly double the 3.4% gap in the last year. With anaemic growth, fiscal consolidation will remain a painfully slow process over the coming years. We do pencil in some narrowing in the deficit below 5% next year.

The last thing the Malaysian economy and financial markets need is another bout of political anxiety. We think the markets have taken in their stride the dismal state of the economy in the near-term due to the global health crisis. But, in such a weak economic backdrop, renewed political jitters could prove to be a highly significant dent to investor sentiment in our view. As noted earlier, we won't discount such political risk on the horizon and local financial assets succumbing to increased selling pressure as a result.

Uncertain politics and an adverse terms of trade shock from weak commodity prices should keep the MYR as an Asian underperformer in the rest of the year. Our end-2020 USD/MYR forecast is 4.35 (spot rate 4.36).

Crude oil price drives USD/MYR exchange rate



Source: Bloomberg, ING

Malaysia - Key economic indicators and ING forecast

Malaysia	2018	2019 f	2020 f	2021 f
Real GDP (% YoY)	4.8	4.3	-3.9	3.6
CPI (% YoY)	1.0	0.7	-2.5	0.8
Unemployment rate (%)	3.3	3.2	4.3	3.9
Fiscal balance (% of GDP)	-3.7	-3.4	-6.3	-4.8
Public debt (% of GDP)	51.2	52.5	62.4	63.3
Current account (% of GDP)	2.2	3.4	1.5	1.9
FX reserves (US\$bn)	101.4	103.6	98.0	101.0
External debt (% of GDP)	64.0	65.8	74.4	71.7
Central bank policy rate	3.25	3.00	1.00	1.25
3M interbank rate (% eop)	3.69	3.35	1.30	1.60
10Y govt. bond yield (% eop)	4.08	3.31	2.40	2.80
MYR per USD (eop)	4.13	4.09	4.35	4.30

Source: Bloomberg, CEIC, ING

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@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.