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Source: Shutterstock
ECB President, Mari Draghi

Draghi delivers punchy message

Draghi will likely be missed when he does step down later this year. His ability to both read markets, and then to deliver what they want to hear, and usually a bit more, has been unrivaled in the ECB's short history. Yesterday, in Sintra, Portugal, Draghi outlined that further stimulus measures would now follow if the economy did not show some signs of improvement. In other words, this is the base expectation. Nothing needs to happen for more stimulus to happen. Rather, something needs to not happen.

As ever, [our Eurozone economists are all over this in a note from yesterday](#). The big question remains what form of additional action this will take. My view, for what it is worth, is that it won't be forward guidance alone. That is far too weak, and actually requires the market to be overly hawkish (which it isn't) to have any meaningful impact. So further rate cuts, or asset purchases

would be the more likely direction of travel. My colleagues also offer some thoughts too on the timing. Of course, this remains somewhat speculative, but they are not ruling out something as early as July.

One other very interesting snippet of the conference, was the hint that the ECB might consider hitting its inflation target "on average", which makes it far more like a price level target. It also means that having been so far below target for so long, monetary policy might not need to be tightened for a very long time following a return, or even overshoot of the target.

Eurozone government bond yields are lower today. I count four offering negative yields on the 10Y government benchmark (Germany, Netherlands, Austria, and Finland). French 10Y Government bond yields are virtually zero. In contrast, in pre-Brexit-Britain, yields are 0.80%.

Trump unhappy with Draghi

Not everyone is impressed with Mario Draghi. US President Trump isn't and sees this as an unfair attempt to undermine US competitiveness. The EURUSD is a bit weaker at just under 1.12 on the back of the Draghi comments, and might have weakened a bit more but for President Trump's intervention.

Meanwhile, one day ahead of the FOMC meeting, I can't see any tweets exhorting the Fed to cut rates from the US President. Though there is an interesting story doing the rounds on newswires that the White House is considering demoting Jerome Powell. [Here is a link to one of the many articles covering this subject.](#)

It seems a bit unfair to consider what the FOMC will do tomorrow with this existential threat hanging over them, and over Powell in particular. Our US economist team has been looking at this, and [in particular what a down-shift in the dot-plot diagram might mean](#). Their conclusion, this would be pretty negative for the USD, even if, as they suspect, rates were not actually cut this time round.

Trump, Xi, to hold "extended" talks in Osaka.

The dollar might also be softer on the more positive language emerging on trade, as US President Trump and President Xi agree to hold "extended" talks in Osaka on the Trade conflict. Given recent downbeat comments from the US Trade Representative and the fact that China and the US are still poles apart on some pretty serious issues, we are not getting our hopes up for any meaningful resolution on this. We have been here many times before, as has the market, and so such "good" trade news usually seems to front-run "bad".

Brexit - if you still care (I do, but it is beginning to bore me)

The UK Conservative Party leadership campaign has eliminated some further candidates overnight, including the former Brexit Minister, Dominic Raab. Boris Johnson remains at the top of the polls, but Rory Stewart, an interesting candidate who has taken the rare step of not letting his comments be dominated by dogma, has pushed up the rankings. Stewart, it has to be said, will be a difficult choice for the rank and file Tory membership, for whom a hard Brexit might well be the preferred option - and hang the consequences.

[I've included a link to the left-of-centre Guardian today](#), though there are heaps of other stories

you can read on this. I would regard any sterling strength on the back of Stewart's ascendancy as transient.

I'm a Libran (no really, I am)

And finally, I don't understand cryptocurrencies, I suspect I will never really feel confident talking about them. But here at ING we are not all dinosaurs like me. Two of my colleagues do understand this stuff and [have written about Facebook's new digital currency, Libra here](#). This is well worth a read if you, like me, regard these near-money substitutes with inherent suspicion.

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EM Space: Dovish ECB and positive headway on trade war may spur bargain hunting

- **General Asia:** Reports of President Trump and President Xi having an "extended meeting" at the sidelines of the G-20 and the possibility of more ECB monetary stimulus to invigorate the struggling Eurozone economy are likely to spur bargain hunting in Asia today. However, gains will likely be capped with the market still waiting on the Fed.
- **Philippines:** The Bankgo Sentral ng Pilipinas (BSP) Governor Diokno downplayed concerns about the widening current account deficit, indicating that the Philippines has "idle" Dollars and that there was "no problem in terms of supply". He highlighted portfolio flows, remittances and tourist receipts as steady sources of foreign currency, which could help offset the projected increase in the USD demand in the 2H as the import season kicks into high gear. Despite these comments, we expect the BSP to keep rates unchanged on Thursday as they await more data points to validate the resumption of inflation's downward trajectory.

What to look out for: Central bank super Thursday

- Hong Kong composite interest rates (19 June)

- FOMC meeting (19 June)
- BoJ meeting (20 June)
- Bank Indonesia meeting (20 June)
- Taiwan central bank meeting (20 June)
- Bangko Sentral Pilipinas meeting (20 June)
- BoE meeting (20 June)

Australia's central bank hints at more rate cuts

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Source: Shutterstock
Reserve Bank of Australia Governor Philip Lowe

Key phrases of the minutes

If you've never had to comment on the minutes of a central bank before, the trick is to start at the end, with the discussion on the actual decision. The rest is usually fluff and padding. In the June meeting minutes, two key phrases in the last paragraph are:

1. Given the amount of spare capacity in the labour market and the economy more broadly, members agreed that it was more likely than not that a further easing in monetary policy would be appropriate in the period ahead. And:
2. However, lower interest rates were not the only policy option available to assist in lowering the rate of unemployment, consistent with the medium-term inflation target.

The final sentence went on to say that developments in the labour market would be of particular importance in determining future policy.

More rate cuts to come...but how much, and when?

The Australian central bank uses market rates in its modelling, and these are aggressively priced currently to show rates falling in total by somewhere between 50 and 75 basis points, which would at its extreme take the cash rate to 0.5%, which many have suggested marks the practical lower bound for the RBA.

Although we've only pencilled in a 25bp rate cut in August, we're certainly not ruling out more rate cuts in 2020, and this is where the risk to our forecast clearly lies

Even with these market rates plugged into their models (they use the market - not forecasts), the RBA's models point to only a small decline in the unemployment rate. As the RBA believes full employment now lies somewhere close to 4.5%, which implies that even aggressive easing won't enable them to meet their inflation target.

This can be interpreted in two ways. Either:

1. The only reasonable conclusion is that the RBA will have to cut quickly to 0.5% and hope that fiscal policy provides the shortfall of stimulus needed to get the unemployment rate to 4.5% and inflation moving back to target, or, and we prefer this,
2. Given rate cuts won't enable them to reach their target, and that they don't help everyone (savers for example, and pensioners on fixed interest incomes), a more cautious approach would be warranted - both slower, but also not cutting as far, whilst still looking for other policy measures (e.g. fiscal, macroprudential) to do more of the heavy lifting.

We think this interpretation is more consistent with the second key phrase we've mentioned in the RBA minutes. The text of the minutes elsewhere notes the mixed impact of rate cuts on different sections of the economy, backing up this view.

No change to our forecast for now

We have been a little less aggressive than the market with respect to our forecast over the rest of this year and next, looking only for a further 25bp of easing, probably in August after the next "Statement on Monetary Policy", which would take the cash rate to 1.0%.

The Australian economy is still in "reasonable" shape, with "mixed" rather than outright bad newsflow according to this latest assessment, so anything further would take policy into the emergency territory, and we clearly aren't in an emergency mode yet and nor do we expect to be, unless the trade war escalates another couple of notches.

That said, as 50bp of easing in total is unlikely to do more than have a very negligible impact on the unemployment rate, and hence wages and price inflation, we certainly aren't ruling out more cuts in 2020, and this is where the risk to our forecast clearly lies.

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