

Good MornING Asia - 27 July 2018

Draghi re-hashes the same lines to a sun-baked Europe - rates on hold until after "summer" 2019

In this bundle



Always the Sun

Draghi re-hashes the same lines to a sun-baked Europe - rates on hold until after "summer" 2019



India

Asia week ahead: Will July data testify to trade war impact?

Korea's July trade data and central bank policy meetings in Japan and India will be the highlights next week



Japan

Japan: Policy confusion

Japan's Central Bank (BoJ) dropped any reference to meeting its inflation targets in 2019 in its April statement. Since then, pundits have been...

Opinion | 27 July 2018

Always the Sun

Draghi re-hashes the same lines to a sun-baked Europe - rates on hold until after "summer" 2019



Summertime snooze

It's summer in a sun-baked Europe, with temperatures hitting absurd records - families may be looking at cooler climes for their summer holidays. Indeed, the temperatures here in Singapore are rather cooler than in Europe right now. I too am off to cooler climes, and 2 weeks in Western Australia beckons. So there will be a fortnight's pause in this daily ramble (don't all cheer).

Actually, the temperatures in Europe are so extreme, that we could well see some severe distortions in data over the coming months. While a good summer is generally helpful for activity, spurring things like sales of seasonal clothing, when things get as extreme as this (38 Degrees C thought possible in the UK for example), then it can lead to exactly the opposite behaviour. Sure, shopping malls are air-conditioned, but you have to get there first, on a non-air conditioned bus or for Londoners, the tube (air-con will be installed by 2030!).

In non-air conditioned countries, like most of Northern Europe, such temperatures tend to lead to lassitude - watching TV in your pants (UK not US definition) while cooling down with a can of beer. Barbecues are compulsory. But eating out becomes a drag. Utility providers in the US would be cranking out the power for air-con - but that is almost non-existent in residential properties in much of Europe. Opening a window has no impact on industrial production figures. Whereas they would be spiking higher in the US.

It's not just Europe either. Closer to home, Japan has been experiencing ridiculous 40-degree plus temperatures too. These will also likely be taking their toll on the data. Food prices will be affected. Such extreme heat will be playing havoc with seasonal food production. So we should expect headline inflation to surge before falling back as Autumn looms.

OK, I know I should be talking about yesterday's ECB meeting, but the weather in Europe was frankly more interesting. [Please see my colleague's more professional approach to this subject](#), though spoiler alert, the weather also features prominently in his commentary.

Juncker-Trump deal -implications for EURUSD

You can tell I'm off on vacation as I'm just re-hashing my colleague's work today. But [the piece by Viraj Patel on the implications of the Trump / Juncker deal is worth a look](#). Price action since the note was written has been largely USD positive. Draghi did, as Viraj noted, put a glossy spin on the outlook for the Eurozone, and hitting the pause (or should that be snooze) button on the EU-US trade skirmish should reduce the downdraft on the EUR.

That said, there is a lot of bullishness about the US right now. A trade deal could equally be seen as positive for the US, and with all talk about a 4-handle on the upcoming 2Q GDP figures, US support seems to dominate any EU news right now. A continuation of the range near-term still seems a decent call. Let's see if it is still in a 1.1560-1.18 range when I get back from holiday. I have a sneaky feeling it will be, and if it breaks out, I think it is an even bet which currency benefits.

Go Large

To round off today's note, in what is frankly a very quiet and rather dull day in Asia, this is more than made up for by the 2Q18 US GDP release. And again, [James Knightley's thoughtful piece on data is probably all you need to know](#).

Frankly, such is the hype on this figure, that anything that started with a 3 would now be regarded as a disappointment.

But given the impact of Trump's fiscal reform (stimulus) on the US economy right now, the pertinent question is, not what today's GDP figure is, but when does this fiscal stimulus run out? And what happens then? What usually happens is that an economy seeing massive fiscal stimulus end, goes into a sort of arithmetical recession. A fiscal withdrawal shock. There is nothing really wrong when this happens. Activity levels are usually still quite high. But there is no growth. There may even be some pull-back in activity levels. That, in my view, is one of the bigger risks for hawkish views about the Fed in 2019. But that story, a version of Ben Bernanke's "Wile. E. Coyote theory" is a hard sell when current GDP is 4-something percent.

To be resumed in 2 weeks! Good Luck.

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

Asia week ahead: Will July data testify to trade war impact?

Korea's July trade data and central bank policy meetings in Japan and India will be the highlights next week



Some relief on the trade front, but not a whole lot

A raft of economic data for July will come as the first test of the trade war that kicked off earlier this month.

While the 'soft' data on manufacturing purchasing managers' indexes (PMIs) may show the impact on sentiment, the hard data on trade should provide some sense of the actual hit. This keeps Korean trade data for July, the first for the month from Asia and probably the world, in the spotlight.

We expect a small annual decline of 2.6% in Korean exports - the second consecutive negative print.

-2.6%

ING forecast

Korean export growth in July

However, the trade data will also be weighed against the latest positive signs of more free trade across the Atlantic, which should limit the negative impact for markets of any bad trade report.

The US-EU deal to lift all bilateral trade tariffs may be a hopeful sign of a potentially positive end to the global trade war. But the hopes may be misplaced as the next stage of US tariffs on \$16 billion of Chinese exports looms large and this will, in all likelihood, face an equal amount of retaliation from China. As such, the trade risk is here to stay in the driving seat for the market.

Central bank policy dilemma

Central banks in Japan and India will be in the spotlight for their monetary policy decisions.

Until recent reports about the Japanese central bank possibly tweaking policy, there was little to no market interest in the upcoming Bank of Japan policy decision on 31 July. The two possible tweaking options are:

- 1) Adjusting or abandoning the 2% inflation target, as might have been heralded by the BoJ when it dropped the reference to an inflation target in its April policy statement, and
- 2) Adjusting the pace of asset purchases, which too have undershot the target.

We don't think the first of this is on the table but the second might be. Here is what our Chief Economist Asia-Pacific, Rob Carnell, thinks about the [BoJ policy confusion](#).

We think the policy confusion for the Indian central bank might stem from recent developments of re-acceleration in the country's consumer price inflation above 5% in June and some stabilisation of the Indian rupee exchange rate in July. While we observed from the high-frequency data that GDP growth slowed down in the last quarter, we believe inflation and currency stability remain a strong argument for the RBI to remain on the tightening path. We forecast it will hike rates next week and again in October.

[Read why we're now looking for two rate hikes in India this year](#)

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
Friday 27 July					
China	0230	Jun Industrial Profits (YTD, YoY%)	18	-	21.1
Singapore	0330	2Q Jobless rate (Q) (%), SA)	2	2	2
Monday 30 July					
South Korea	2200	Aug BOK Business Survey Index, mfg	79	-	80
	2200	Aug BOK Business Survey Index, non-mfg	81	-	80
Tuesday 31 July					
China	0200	Jul Non-manufacturing PMI	55	-	55
	0200	Jul Manufacturing PMI	51.3	-	51.5
India	1200	Jun Fiscal Deficit (INR crore)	-	-	193526
Taiwan	0900	2Q P GDP (YoY%)	2.8	2.83	3.02
Thailand	0430	Jun Manufacturing Index (YoY%)	3	-	3.2
South Korea	0000	Jun Industrial Production (MoM/YoY%)	-1.3/0.7	-/-	1.15/0.9
Wednesday 1 August					
China	0245	Jul Caixin Manufacturing PMI	50.5	-	51
India	0600	Jul Nikkei Manufacturing PMI	51.5	-	53.1
	1000	Aug 1 RBI Policy Decision (Repo Rate, %)	6.5	-	6.25
Hong Kong	0930	Jun Retail Sales Value (YoY%)	13.4	-	12.9
	0930	Jun Retail Sales Volume (YoY%)	12.5	-	11.6
Indonesia	0500	Jul CPI core (YoY%)	-	-	2.72
	0500	Jul CPI (YoY%)	3.2	-	3.12
Taiwan	0130	Jul Nikkei Manufacturing PMI	-	-	54.5
Thailand	0030	Jul Nikkei manufacturing PMI	50.5	-	50.2
	0400	Jul CPI (YoY%)	1.4	-	1.38
	0400	Jul CPI Core (YoY%)	0.8	-	0.83
South Korea	0000	Jul CPI (MoM/YoY%)	-/-1.7	-/-	-0.2/1.5
	0100	Jul Exports (YoY%)	-2.6	-	-0.1
	0100	Jul Imports (YoY%)	-1.3	-	10.7
	0100	Jul Trade balance (US\$mn)	3214	-	6240
	0130	Jul Nikkei Manufacturing PMI	49.5	-	49.8
Malaysia	0030	Jul Nikkei manufacturing PMI	48.5	-	49.5
Thursday 2 August					
Singapore	1400	Jul Purchasing Managers Index	52.3	-	52.5
Korea	2300	Jun Current A/c Balance (US\$m)	6180	-	8680.6
Friday 3 August					
India	0600	Jul Nikkei Services PMI	50.5	-	52.6
Hong Kong	0130	Jul Nikkei PMI	-	-	47.7
Malaysia	0500	Jun Trade balance (RM bn)	9.9	-	8.12
	0500	Jun Imports (YoY%)	13	-	0.13
	0500	Jun Exports (YoY%)	15	-	3.39

Source: ING, Bloomberg

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

Japan: Policy confusion

Japan's Central Bank (BoJ) dropped any reference to meeting its inflation targets in 2019 in its April statement. Since then, pundits have been trying to figure out what is coming next. The next monthly policy meeting on July 31, for so long a complete non-event, is now moving markets. Read further to see what we think.



Is there more than meets the eye to the BoJ's inflation target tweak?

That earlier statement change has prompted some to suggest that the BoJ was going to downgrade its inflation forecast and adopt a lower target – perhaps at the forthcoming 31 July meeting.

We strongly doubt it. But there are good arguments for doing so.

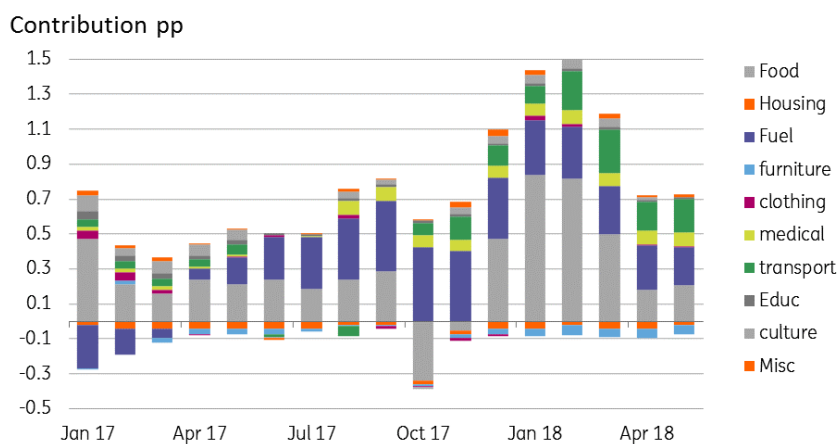
1. The likelihood of Japan ever reaching its 2.0% inflation target without either a massive devaluation of the yen, surge in consumption tax, or ballooning of oil or other energy or food prices is vanishingly small.
2. Who said 2% was a sensible number anyway? For an economy with a potential real GDP growth rate of only about 1.0%, inflation is likely to be similarly muted – perhaps 1% would be a better target to aim for, and one that the BoJ might actually hit from time to time?
3. There appears to be very little room for expanding the policy to make up the inflation shortfall - more leeway could be engineered by reducing the target to, or even below the current rate.

Probably not – it just was not a very flexible policy stance in the first place.

For all that it may tinker with other aspects of its policy, the BoJ, in our view, does not, seem to have any intention of changing its inflation target, and any changes may amount to no more than tweaking their ETF buying. Indeed, in a [supplementary paper last July](#), examining reasons for failing to achieve their inflation target, the authors put most of the blame for failure to hit 2% on external factors, such as the decline in oil prices. Not their fault then!

Since then, oil prices have risen by not far short of 100%, and Japanese inflation is only about 0.3pp higher than it was then.

Contributions to Japan's CPI inflation (pp)



The 2% target will probably not be consistently achieved - ever

Why will the BoJ never reach its target? This author believes that across the world, the relationship between economic activity and price changes has altered, perhaps for good. There are many underlying reasons for this. Some of them local (changes in labour market structure) some global (globalisation and the increasing consumption of virtual goods). Whatever the causes, a shift in relationships also implies a shift in the inflation rate trade-off with unemployment – in this case, to much lower rates for both.

A better explanation for the BoJ's abandonment of the mid-2019 calendar date for reaching its inflation target, is that date dependent policies are fine when the date is a long way away. But when it gets closer, if it does not look as if the target will be hit, your options are

1. to shift the target further out (and keep doing that as long as it takes with the ensuing loss of credibility, or
2. to get rid of the date entirely but keep the target (this is what the BoJ is doing now), or
3. scrap both date and target, and do something else (this could, in our view, deliver a more consistent policy mix for Japan, but seems off the agenda for now).

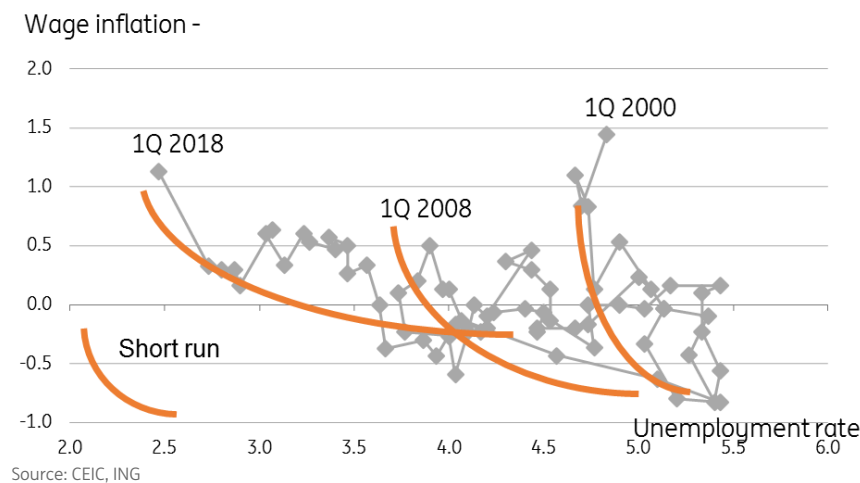
But that is not a failure by the BoJ, just a poor choice of target

By losing the date element of the target, markets should not anticipate additional easing each

time the BoJ has to push the date of normalization back, as might previously have been the case. This is probably the best excuse for cutting the date out of the target (something the ECB might want to consider given its recent hints at an end to QE after Summer 2019).

Does tweaking the BoJ's target have any other implications, for example, next year's touted consumption tax hike? In our view no. The tax hike can still go ahead. Japan's labour market is still really tight. And the downside miss on inflation does not mean that the economy is not robust enough to tolerate some fiscal tightening. However, depending on how the unfurling trade war is affecting Asian regional growth, there could be other reasons for abandoning this policy by then

Japan's Philip's curve



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.