

Good MornING Asia - 7 June, 2019

Is the USD weaker on Mexico tariff delay, or is EUR stronger on Draghi disappointment?

In this bundle



Bit of a mess

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Mess

Disentangle at your peril

The apparent market disappointment with the latest ECB package of measures - tweaked forward guidance, and details of TLTRO3 (priced at 10bp above deposit rates) is a bit perplexing. Yes, ECB economists have downgraded their forecasts for growth and inflation next year (which remains well below target), but recent Eurozone data hasn't been too bad - certainly better than the most pessimistic forecasts a few months ago and [may be turning the corner if sentiment indices are anything to go by](#).

Our economists and strategists have been very busy, I've found three separate articles on the ECB meeting on our ["Think"](#) Website this morning home page, or you can click [here](#), [here](#) and [here](#) to see them.

To summarise these, it looks as if anything short of outright rate cuts or renewed QE are proving insufficient to appease a market that is increasingly talking itself into recession mode - and that is in the US as well as Europe.

Mexican standoff

As for the possible delay to Monday's tariffs on Mexico, this is running a pattern with which I am

now becoming quite familiar. Raise market hopes for something reasonable, then dash them again. The usual market response to an apparent reduction in US trade aggression with respect to Mexico is delivering a generalized bout of USD weakness, as it should. It is also giving stocks a chance to recover, and bond yields have clawed their way back up to 2.11%.

But such moments of trade peace seem to be fleeting. I would not be at all surprised if we return to the "Not good enough" tweets that have greeted many of these episodes, and a return to falling stocks, a stronger USD and lower bond yields again. Give it a few days.

Today, Gold is a little softer, oil a little stronger. You can probably reverse that too once the "hope springs eternal" mode is replaced with "reality check" in a few days time.

Day ahead

Today will be totally dominated by the US labour report. [James Smith's piece on that is here](#). Following Wednesday's weak ADP and my comments on the usefulness of this and other surveys, James very helpfully unearthed and updated some payrolls reliability work we did years ago. And the upshot confirmed my ramblings yesterday - namely the ADP and payrolls move in the same direction (i.e. they both rise month on month, or both fall) about 62% of the time. That is better than a coin flip, but not much. The ADP has been calling direction correctly at a better rate than this recently, and James' view is that non-farm payrolls may come in a bit softer this month. We'll know soon enough, which may open a new chapter in the saga of Fed chair, Jerome Powell, versus the markets.

Asia is looking pretty quiet this morning. Currencies are steady to firm versus the USD. Bond yields are generally following US Treasuries a little higher, though not much. Like the US, an air of imminent easing hangs over the region, given another boost by yesterday's rate cut in India.

Japanese data this morning is a little disappointing - labour cash earnings beat the consensus (-0.7%), but are still down year on year (-0.1%). Aussie home loan data today will be worth a quick look, given nascent signs of stabilization in the Sydney housing market. And then after that, you can probably take yourself off the gym, or pub, depending on your preference. Sadly I have a presentation to prepare, so will be stuck at my desk - but don't let that stop you!

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

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@ing.com

Michiel Tukker
Senior UK & Eurozone 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

Senior Economist, Healthcare & Technology

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@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

Deputy Global Head of Editorial 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

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 Corporate 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

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@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, 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

Article | 7 June 2019

Asia week ahead: Data dump from China and India

We'll be watching a raft of economic releases from China and India next week for evidence about GDP growth and the impact of the trade war in the current quarter



Source: Shutterstock

➔ China: Stimulus is helping

China reports most of the economic data for May next week. The combined April-May data will be a good gauge of GDP growth in the current quarter and will be scrutinised for clues about the impact of the ongoing trade war with the US. The economy seems to be experiencing only tremors right now and growth appears to be holding up, as in the first quarter of the year.

This will probably continue to be the case for the second quarter, judging from consensus forecasts for most of the upcoming economic indicators, especially forecasts of steady to slightly better

growth of fixed asset investment, retail sales and industrial production. The money and lending data will offer clues about the fiscal stimulus efforts, which remain supportive for the domestic economy at least. Export weakness is just starting to come through but low single-digit export declines are still better than the declines seen in regional economies.

➔ India: Inflation test of latest RBI rate cut

India's trade and industrial production figures will inform our view of where India's GDP growth is heading in the current quarter after a surprisingly weak, five-year low of 5.8% in the last quarter. The weak GDP was a trigger for the Reserve Bank of India's 25 basis points RBI rate cut this week – the third this year.

Consumer price inflation will also be in the spotlight following that decision. Inflation is creeping higher as rising food prices kick in after weak farm output growth in the last quarter, while the favourable base year effect is also nearing its end. We believe the RBI easing cycle is over for now (See "[We were wrong on RBI policy, but for the right reasons](#)").

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
Sunday 9 June					
China	-	May Money Supply (M2) (YoY%)	8.5	8.6	8.5
	-	May Aggregate Finance (Yuan bn)	1933.0	1410.0	1359.2
	-	May Financial Institution Loans (Yuan bn)	1450.0	1300.0	1020.0
	-	May Loan Outstanding YoY%	13.5	-	13.5
Monday 10 June					
China	-	May Trade Balance (US\$bn)	-6.2	23.3	13.8
	-	May Exports (YoY%)	-3.8	-3.8	-2.7
	-	May Imports (YoY%)	11.4	-3.0	4.0
Indonesia	-	May CPI (YoY%)	3.1	3.2	2.8
	-	May Core CPI (YoY%)	-	3.1	3.1
Taiwan	0900	May Exports (YoY%)	-6.1	-	-3.3
	0900	May Imports (YoY%)	0.1	-	2.6
Tuesday 11 June					
Malaysia	0500	Apr Industrial production (YoY%)	2.4	2.7	3.1
	0800	May Forex Reserves, Mth-end (US\$bn)	-	-	102.8
Philippines	0200	Apr Exports (YoY%)	-1.8	-	-2.5
	0200	Apr Imports (YoY%)	0.2	-	7.8
	0200	Apr Trade Balance (US\$mn)	-3583.0	-	-3138.0
Wednesday 12 June					
China	0230	May CPI (YoY%)	2.0	2.7	2.5
	0230	May PPI (YoY%)	-0.5	0.6	0.9
India	1300	May CPI (YoY%)	3.0	-	2.9
	1300	Apr Industrial Production (YoY%)	0.5	-	-0.1
	-	May Imports (YoY%)	-5.0	-	4.5
	-	May Trade Deficit (US\$bn)	-15.2	-	-15.3
	-	May Exports (YoY%)	-8.0	-	0.6
Singapore	0600	Apr Retail Sales Value (MoM, SA/YoY%)	-/-	-/-	1.0/-1.0
South Korea	0000	May Unemployment Rate (% SA)	-	-	4.1
Friday 14 June					
China	0300	May Fixed Asset Investment, YTD (YoY%)	6.5	6.1	6.1
	0300	May Industrial Production (YoY%)	5.5	5.5	5.4
	0300	May Retail Sales (YoY%)	8.1	8.2	7.2
India	0730	May WPI (YoY%)	3.3	-	3.1

Source: ING, Bloomberg, *GMT

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

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@ing.com

Michiel Tukker

Senior UK & Eurozone 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

Senior Economist, Healthcare & Technology

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@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

Deputy Global Head of Editorial 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

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 Corporate 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

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@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, 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

We were wrong on RBI policy, but for the right reasons

The shift in Indian central bank policy stance from 'neutral' to 'accommodative' doesn't mean there will be more rate cuts. Hopefully, the central bank recognises pipeline inflation pressures and stays put in the meetings ahead



Source: Shutterstock

Reserve Bank of India's new Governor Shaktikanta Das

5.75% RBI repurchase rate
25bp cut today

Another RBI rate cut - not quite what we expected

As expected by an overwhelming majority in the Bloomberg survey, the Reserve Bank of India slashed the key policy rate by 25 basis point for the third time this year, taking the repurchase rate to 5.75% and reverse repo rate to 5.50%. The central bank also changed its monetary policy stance from 'neutral' to 'accommodative' but there was no change to the 4.00% cash reserve requirement ratio for commercial banks.

We thought the RBI would see through the latest GDP slowdown recognising pipeline inflation pressures from food and fuel prices, a weaker currency and an excessively loose fiscal policy

We were a consensus outlier in our forecast of an 'on-hold' policy, partly based on our conviction that this is what we think the central bank should be doing rather than what it would necessarily do, given that the economy has had enough stimulus - two rate cuts earlier this year, plus significant fiscal boost from government's re-election bid.

We believed the RBI would see through the latest GDP slowdown recognising pipeline inflation pressures from food and fuel prices, a weaker currency and an excessively loose fiscal policy.

Does change of policy stance matter?

We think the RBI's easing cycle is now finally over, especially after today's rate cut and despite shifting the policy stance from neutral to accommodative. Also, the previous two rate cuts in February and April were despite the 'neutral' stance, which was changed from 'calibrated tightening' stance in the February meeting (the same meeting they in fact cut rates). Another rate cut with neutral stance might not have gone down too well, which is why we view today's shift in stance as nothing more than justifying today's rate cut decision.

If risks are 'broadly/evenly balanced' in India, why has the central bank changed the policy stance from neutral to accommodative?

However, we are reading today's RBI statement as recognising some inflation risk from 'a broad-based pick-up in prices in several food items', even as the statement points to weak domestic and external demand weighing down non-food items while muted passthrough of global crude price volatility keeps domestic fuel price in check.

The RBI has nudged its inflation forecast for the first half of FY19-20 higher to 3.0 - 3.1% from 2.9 - 3.0% but cut that for the second-half to 3.4 - 3.7% from 3.5 - 3.8% with risks broadly balanced. They've also lowered the growth forecast for the current fiscal year to 7.0% from 7.2%, again with risks evenly balanced, which begs the question - why change the policy when risks are 'broadly/evenly balanced'?

In our view, the RBI easing cycle is finally over

By the time, all these rate cuts and the fiscal stimulus come through the real economy over the next two quarters, the inflation genie is most likely to be out of the bottle.

We maintain our forecast for a rate hike in the second quarter of 2020

A weak currency and increasing tariff barriers are likely to encourage imported inflation, amid risks of supply shocks from food and fuel prices. Negative growth in agriculture GDP in the last quarter of FY18-19 doesn't bode too well for food prices, for which prospects also hinge on the monsoon season.

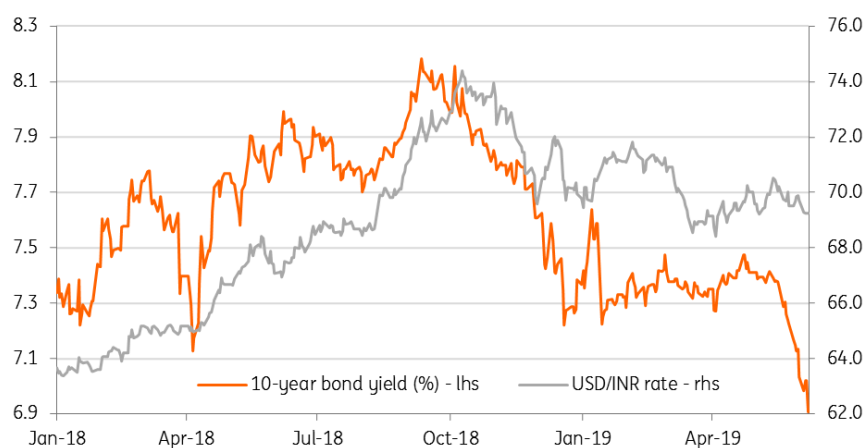
We continue to see inflation reaching the 4% mid-point of the RBI's target zone over next two quarters. Hopefully, the RBI will eventually see this as coming and leave policy on hold in the forthcoming meetings. Barring a prolonged slowdown in the economy and muted inflation in 2020, we believe the next move in the RBI policy rates would be higher.

We maintain our forecast for a rate hike in the second quarter of 2020.

What's in it for the markets?

Ideally, a widely expected policy decision should have no impact on markets, but we still think the recent strength of the government bond and the rupee is transitory. Besides potential inflation risk, the wide fiscal deficit and supply overhang from that on the bond market should make the yields sticky downward going forward.

A short-living rally in government bonds and INR



Source: Bloomberg, ING

As for the rupee, we think the market overbought the currency amid the euphoria of prime minister Narendra Modi returning to power for the second term. As for most emerging market currencies with a backdrop of twin deficits (fiscal and current account deficit), the external environment currently hasn't been friendly and it's unlikely to be so in the near-term as long as the trade war continues.

Moreover, with President Trump now shifting focus towards India, there will be more tailwind for INR depreciation going forward. We wouldn't be surprised if the currency re-asserts its recent status as an Asian underperformer in the days ahead.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

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@ing.com

Michiel Tukker

Senior UK & Eurozone 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

Senior Economist, Healthcare & Technology

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@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

Deputy Global Head of Editorial 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

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 Corporate 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

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@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, 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

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