

## In case you missed it: A war of words

After the shakeout in equity markets, next week should be all about the choice of words with currency manipulation threats looming for China, a somewhat vague political statement that sets the vision for the trading relationship between the UK and the EU and hopefully a softening of the heated spat between Italy and Brussels over the three-year budget plan

### In this bundle

#### US Treasury FX Report Preview: From trade war to currency war?

The US Treasury is set to release its FX report anytime now. While no major US trading partner meets the technical criteria to be labelled a currency...



#### United Kingdom

##### Brexit blog: Just how close is a deal?

Headlines suggest the EU and UK are getting closer to a deal – but finding the right words for the political declaration on a future trading...

By James Smith



#### World trade: from boom to bust

Trade growth looks set to almost halve in 2018 to 2.6% and could drop to 1.3% in 2019, the lowest level since the trade collapse of 2009. The current...



#### Italy

##### Italy: Temporary fiscal push next year but what then?

The stated unwillingness to resume the structural adjustment path and very optimistic growth assumptions raise doubts about debt/GDP developments. A more...

By Paolo Pizzoli

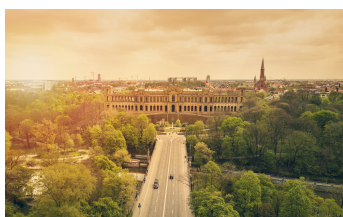


## United States

### A test for the Fed

The combination of rising borrowing costs, trade tensions and geopolitical threats are stressing financial markets, but with US growth looking strong and...

By James Knightley



## Germany

### Germany: Warning - political landslide in Bavaria ahead

Sunday's regional elections in Bavaria could become an important milestone, either imminently or in the future

By Carsten Brzeski



## FX | China | India...

### Have emerging markets reached an inflection point?

This was one of the many questions we asked the attendees of the Emerging Markets Traders Association meetings in Hong Kong and Singapore. Although there...

By Robert Carnell



## ECB: Auto pilot confirmed

The minutes of the ECB's September meeting underline the Governing Council is very comfortable with the autopilot of a gradual quantitative easing...

By Carsten Brzeski



## Switzerland

### Switzerland: The sun is shining but clouds loom

Low core inflation, high GDP growth, a super cautious central bank and arduous negotiations with the EU: the Swiss economy is doing well but uncertainty...

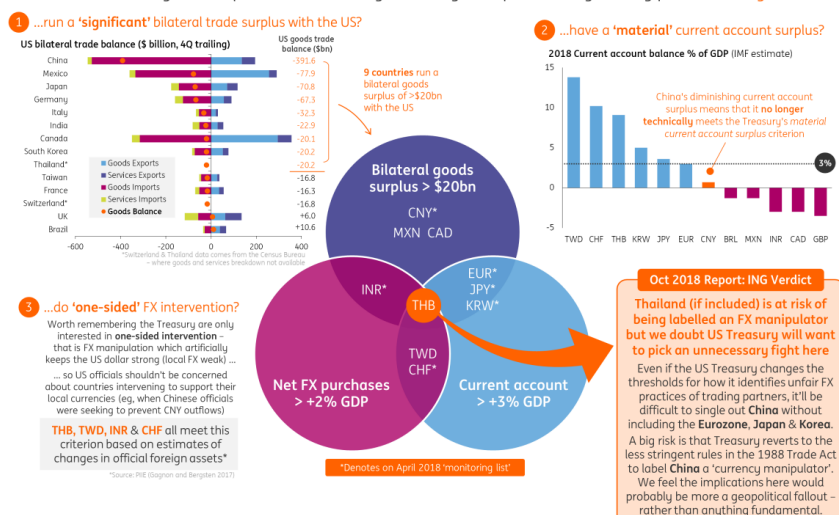
By Charlotte de Montpellier

# US Treasury FX Report Preview: From trade war to currency war?

The US Treasury is set to release its FX report anytime now. While no major US trading partner meets the technical criteria to be labelled a currency war...

## Who's on the US Treasury's currency manipulation hit list?

The US Treasury asks 3 questions to identify 'currency manipulation' by trading partners: Do you...



Source: ING FX Strategy, US Bureau of Economic Analysis, US Census Trade, Macrobond

## No 'major trading partner' of the US currently meets all of Congress's 'currency manipulator' criteria

Despite speculation that the FX report could be released this week, the general consensus is that it will likely be out next week after Treasury Secretary Steve Mnuchin returns from the IMF meetings. Here are some of our quick thoughts:

- Currently, no major currency meets all three criteria to be labelled a currency manipulator based on the 'formula' (as President Trump referred to it) outlined in the 2015 Trade Act. But **Thailand** and **Switzerland** are the closest to being labelled a currency manipulator.
- **Thailand** hasn't ever been part of the assessment - but could well be considered a 'major US trading partner' in this report given the net bilateral goods deficit is greater than \$20 billion based on the US census data. Our economists in Asia argue that this figure is debatable - with the official Thai data putting the bilateral deficit at around \$12 billion. If it is included in

the assessment – then we note that it ticks the other two boxes (material current account surplus and one-sided FX intervention) and the Treasury will have no choice but to label Thailand a 'currency manipulator'. However, besides making an example of Thailand – we think there's no geopolitical reason to bring a small country like Thailand into the current US administration's clampdown on global trade imbalances. Hence, we put a trivial risk on Thailand being labelled a currency manipulator.

- **Switzerland's** bilateral goods trade with the US doesn't quite meet the \$20 billion deficit threshold – currently a \$16 billion deficit – which basically saves it for now.
- So our base case is that the US Treasury retains the same monitoring list: **China, Japan, Korea, Germany, Switzerland and India.**

## But the less strict 1988 Trade Act could give the US Treasury Secretary the discretionary power to label any country a 'currency manipulator'

There are risks that the White House may bend the rules for the Treasury and invoke old US trade law to label China a 'currency manipulator'. There is also the 1988 Omnibus Trade and Competitiveness Act which has less stringent rules for labelling any country a currency manipulator.

- Reading through Section 3004 of the act – it states that the *“The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations”.*
- **That's quite a loose definition so, in effect, Mnuchin could make the discretionary judgement that China's large bilateral trade surplus with the US + current account surplus (albeit diminishing rapidly) + a long history of FX intervention (even though in recent times Beijing has been intervening to prevent the yuan from falling further - so not one-sided) = grounds for labelling China a currency manipulator.**
- It seems like an implausible outcome – but one that we can't fully rule out given the significant protectionist shift in US trade policy that we've seen in 2018.
- In terms of implications, we feel that it would probably cause more of geopolitical outrage than any practical action – particularly if the US singles out China without also labelling any other countries that have far bigger overall current account surpluses.
- Moreover, it would put a serious dent in the ability of Congress to place checks and balances on US trade and foreign policy – which is arguably the more worrying outcome for global markets.

## FX market implications: Reserve currencies like EUR and JPY would rally if China was branded a currency manipulator

Should any country – in particular China – be branded an FX manipulator by the Trump administration, we think the initial market reaction would be positive for non-USD major reserve

currencies (the Japanese yen and euro) – while possibly initiating a broad-based sell-off in the USD given the extreme long dollar positioning in FX markets. Certainly, the uncertainty over US trade and foreign policy may command a greater risk premium in USD assets. Our preferred way to play the tail risk of the US taking the trade war into the currency arena would be via USD/JPY downside – with outside risks of a move to below 110 if global risk aversion remains as high as it currently is.

Either way, expect greater risks of Trump ‘currency manipulation’ cries in and around the release of the US Treasury’s semi-annual FX report. Our base case of China staying on the monitoring list could see Beijing opting to provide greater stability to the yuan ahead of possible trade talks – then a stable USD/CNY would take a major source of recent USD-EM FX appreciation pressure off the table.

## **A history of the Trump administration's dollar talk**

## Brexit blog: Just how close is a deal?

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Source: iStock

### Finally, some progress on the Irish border issue

Over the past week or so, UK headlines have been dominated by reports that both sides are inching closer to a deal. But so far there have been mixed messages on exactly what could be agreed, and when it might happen. To get a better handle of what's going on, let's break it down into the two things that need to be resolved between the UK and EU.

Firstly, there's the so-called Irish backstop, where discussions are beginning to get very technical. We dived into this in [more detail last week](#), but ITV's [Robert Peston reports](#) that the EU could be prepared to accept British demands for an all-UK customs union to be built into the Irish backstop solution. In exchange, the UK would need to accept that regulatory checks could arise between Northern Ireland and the British mainland if they leave the single market in future.

[Some reports indicate](#) this could be settled in time for the EU Council meeting next week, but as ever the challenge is 'wording' it in such a way that will convince MPs to vote in favour of the agreement. That's where the second part of the agreement comes in - the political declaration on future trade - and this is where there seems to be more disagreement on the way forward.

## Disagreement on how vague the 'wording' on future trade should be

The idea is that this declaration will set out a vision for what the future trading relationship might look like.

Bear in mind; this is simply a political statement of intent – the nitty gritty details will be negotiated during the transition period after March 2019. And being a political statement, none of it will be legally binding. In other words, it's going to be vague - but deciding exactly *how vague* seems to be proving a bit of a dilemma.

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*The political statement (which isn't legally binding) is going to be vague. But exactly how vague seems to be proving a bit of a dilemma*

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Plan A - at least from the EU's perspective - is to make this as vague as possible, with reports suggesting a draft version originally due for release this week could contain as few as four pages and will be little more than a series of "[annotated headlines](#)". The recent optimistic tone struck by the EU - including in the run-up to the recent Salzburg summit gives us a flavour of the sort of language the document is likely to contain. It's likely to be heavy on words like 'ambitious' and 'unprecedented', but short on details on exactly what this means in practice.

[Reports](#) also indicate the EU is open to an 'evolution clause' that would leave Brussels open to an improved offer if the UK changes its mind on what it wants. The hope is that all of this will be enough to convince MPs from across the Brexit divide that whatever the declaration ends up saying is not set in stone, and that their own aspirations for the future agreement are still alive.

However, the UK government appears concerned that this vague approach will not be enough to win over lawmakers from the Northern Irish Democratic Unionist Party (DUP). DUP leaders are concerned about reports that [the government now accepts the backstop would lead to regulatory barriers](#) between Northern Ireland and the British mainland, and the party is reportedly considering voting against the forthcoming budget if the Prime Minister doesn't change course.

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*We still expect the UK and EU to reach an agreement, be it at next week's meeting or more likely, at a summit in November. But of course, we won't know for sure if the 'no deal' scenario has been avoided until MPs have had their say*

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With that in mind, a government spokesman said on Monday that the UK is looking for more "precise" wording on future trade in the declaration, presumably in a bid to reassure DUP MPs that the Irish backstop will never be needed.

But there are two issues with making the declaration more detailed. Firstly, the UK's Chequers proposal for post-Brexit trade is disliked by the EU, so Brussels will be very reluctant to make the document more specific in the way the British government would like. Secondly, because there is no majority in Parliament for any kind of Brexit trade model, adding extra detail might please some MPs, but risks alienating many others with different views on how the future relationship should look.

## **A deal is still likely - but it's a tough balancing act**

In short, the choice of words employed in the political declaration will be an extreme balancing act - and the fact that Brussels has delayed the publication of a draft, originally due earlier this week, highlights how difficult this part of the deal is proving to be.

Nonetheless, we still expect the UK and EU to reach an agreement, be it at next week's meeting or more likely, at a summit in November. But of course, we won't know for sure that 'no deal' has been avoided until MPs have had their say, which is unlikely to happen until mid-December at the very earliest.

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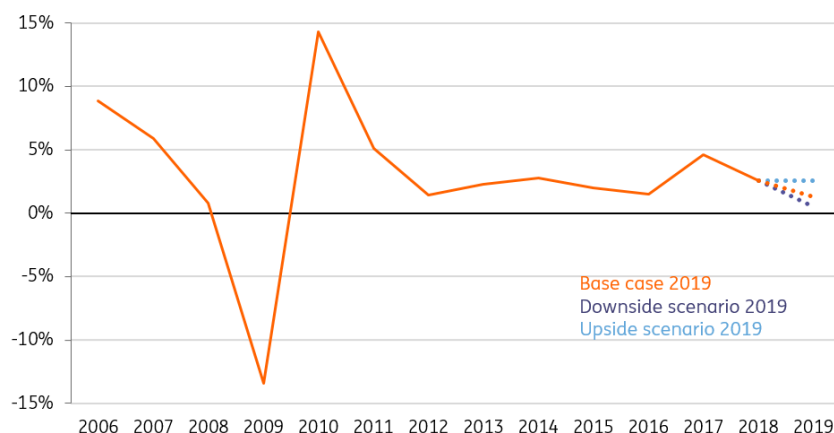
Article | 8 October 2018

# World trade: from boom to bust

Trade growth looks set to almost halve in 2018 to 2.6% and could drop to 1.3% in 2019, the lowest level since the trade collapse of 2009. The current...



**Fig 1: Growth of world trade in goods 2006- 2018 and 3 scenarios for 2019, (%)**



Source: CPB

## 2018: Protectionism kicks in slowly

The global economy is flourishing. ING expects 3.9% GDP growth for 2018, significantly higher than 2017. But this positive development has failed to translate into an acceleration of trade growth. On the contrary, the average monthly growth rate for world trade in the first half of this year has been just 0.07%, a fifth of the average monthly rate in 2017.

### Trade war

Given all the attention on President Trump's stance on trade, you could be forgiven for thinking that US protectionist measures and the retaliation of the country's trade partners are the main reason for the setback in the global trade in goods but these measures apply to no more than 0.4% of world trade and were only imposed from the end of March; around half came into effect in June.

Of course, there are spillover effects from rising tariffs due to cross-border supply chains. Based on [external research](#) and ING's calculations, we estimate that the total effect of these elevated tariffs, including spillover effects, is two to three times higher than the direct impact on trade. This brings the impact of the tariff hikes for the first six months of this year to around -0.1%, which is rather small.

### Slowdown of manufacturing

If the direct effect of trade protectionism explains only a small part of the total decline in trade growth during the first half of 2018, what else is going on? Well, industrial production growth, which is much more correlated with trade than GDP, has been slowing down. In 2017, industrial production grew 0.3% per month, on average. During the first half of 2018, this growth rate was cut in half.

It is possible that the trade conflict partially explains the lower growth for industry. In the eurozone, indicators of business confidence have deteriorated since the start of the trade tensions in 1Q. Returns on investment in traded goods have become less certain as tariffs lead to higher prices, which reduce demand. Alternatively, if exporting companies compensate for tariffs by lowering prices, it affects profit margins. Companies with plans to start exporting to the US might have put these plans on hold until there is more certainty about the outcome of the trade dispute.

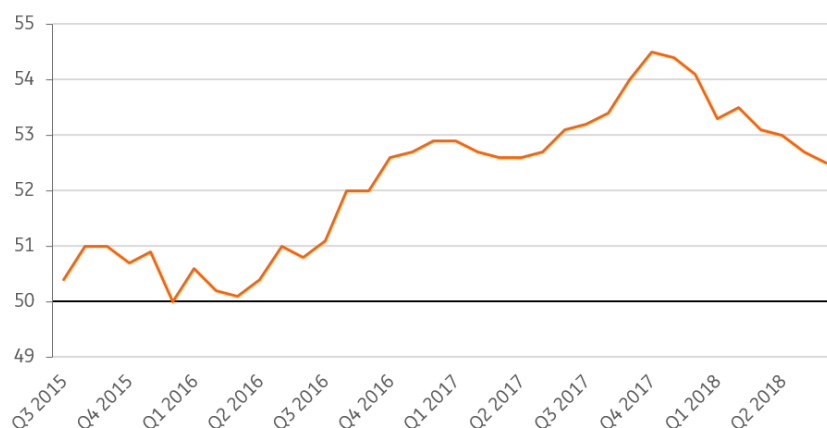
The slowdown in industry, especially manufacturing, weighs on trade growth because industrial goods make up almost 70% of world trade. The slowdown is mainly driven by advanced economies that are, on average, more trade intensive than emerging economies; the decline of industrial production in the EU, in particular, hurts trade. The EU is the largest trader in the world, not only because of the size of its economy but also because EU economies are relatively trade-intensive. Japan also saw industrial production decline in 1H2018.

### What to expect for 2H 2018?

Although the preliminary trade figure for July was upbeat (1.1% month-on-month growth), we don't consider this to be a sign of recovery because we don't expect much support from the manufacturing cycle in the last five months of the year. Global manufacturing PMI scores have become less positive since the start of the year (fig. 2). We assume that industrial production will deliver the same growth rate as during the first six months of this year, suggesting a 2.7% rate for

2018 overall. Since 2012, yearly world trade growth (measured by world imports) has grown 1.1 times faster than industrial production, on average, implying that global trade will grow by 3% in 2018.

**Fig 2: Global PMI Manufacturing**



Source: Markit data

While the growth of industrial production is pushing up trade in 2H 2018, spillover effects from the trade conflict are at play as well. And they will increase during the second half of this year.

The US administration has imposed a 10% higher tariff on \$200 billion of imports from China on top of the \$34 and \$16 billion that were already subject to higher tariffs since the beginning of July. China has taken retaliatory measures.

The recent escalation of the trade conflict between the US and China means that 2 to 2.5% of world goods' trade are now subject to higher duties. We calculate a negative effect on world trade of 0.4%, both from the direct effects of higher tariffs and spillover effects to other products because of global value chains.

The positive effect of growth in industrial production together with the negative effect of higher tariffs suggests world trade will grow by 2.6% this year. This is significantly lower than the 4.5% trade growth for 2017 and is at odds with the acceleration of world GDP growth since 2017.

## Outlook for 2019: Trump will step up trade war with China

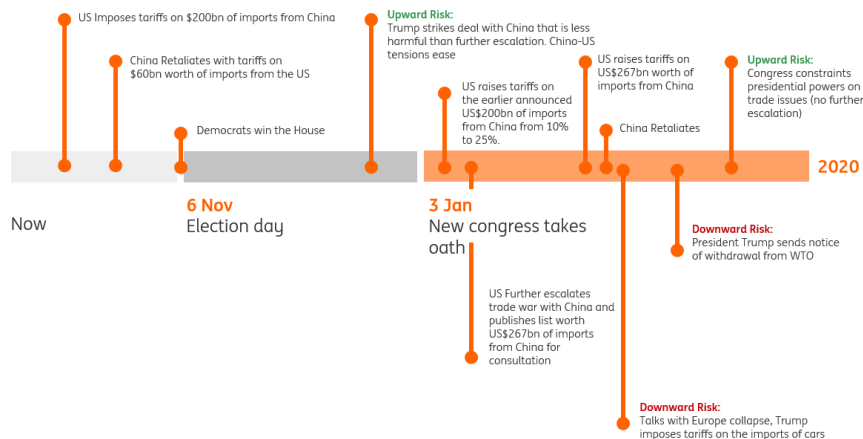
We forecast a weak year for trade in 2019. Global GDP growth is expected to have peaked. We forecast a slowdown from 3.9% this year to 3.6% next.

Since 2012, industrial production has grown by a little less than 60% of world GDP growth, on average. So normally, industrial growth should be 2.1%. This implies 2.3% growth of world trade in 2019.

But, just as in 2018, next year will not be a normal one for trade. The effects of the trade conflict are increasingly kicking in and a further escalation seems to be ahead. The severity of the dispute depends on the approach of the US administration. As long as US Congress doesn't interfere, we expect President Trump to continue putting pressure on US trading partners by raising

tariffs. Nevertheless, the result of the mid-term elections could influence the president's approach. We see three scenarios.

Fig 3: Timeline (click to enlarge)



### Base case scenario

In our base scenario, we assume that after the mid-term elections, independent of the result, the president wants to show the electorate that he continues to work on his election promise to change the terms of trade for the US, but he will focus his attacks mainly on China.

We think the Republicans will lose the majority in the House of Representatives. In this scenario, we assume the Democrats will not support a trade war with traditional allies such as the EU and that a withdrawal from the WTO is not likely to get a lot of support from Democrats either. Trump could encounter more resistance from Congress to his trade policy than he has up until now but we do expect that Congress will agree to the overhaul of Nafta.

We assume that a majority in Congress will not seek new legislation to take away the president's discretionary powers as long as Trump focuses on trade with China. We currently don't see any sign of a compromise between the US and China and expect the dispute to escalate well into 2019. In our base case, the US-administration will raise tariffs on \$200 billion of goods from China from the current 10% to 25% in 1Q 2019. And, because we think China is not going to give in (enough) to Trump's demands, we foresee the president following up on his threat to hike tariffs on the remaining \$267 billion of US imports of Chinese goods that have not yet been hit by tariff rises (implementation in 2Q). We assume a tariff hike of 10%.

China will retaliate by putting a 10% tariff on the \$20 billion of imports from the US that have not been hit by higher duties. It's possible that China will increase non-tariff barriers to come closer to equalising the US policy step. But unfortunately, we cannot quantify non-tariff barriers in value, meaning that we cannot calculate the effect of these kinds of steps on world trade.

The conflict between the US and the EU is on hold and given the fact that President Trump could use some support from the EU in his fight with China, and in his attempt to reform the WTO, he has a motive to take a step back in his fight with Europe. An escalation of the conflict with the EU is a risk but not part of our base case.

In this base case, the trade dispute will affect approximately 4% to 5% of world trade by the end of 2019. The downward effect of the tariffs on world trade will be a little over 0.4 percentage points, twice the direct effect of tariffs in 2018. Including the indirect effect through global value chains and the continuation of the negative structural trend at the pace of 2018, the trade conflict has a downward effect on trade growth of -1 percentage point. Taking into account the positive impulse from the growth of industrial production, trade growth in 2019 will be 1.3%, the lowest growth since the collapse of world trade in 2009.

## Downward scenario

In the downward scenario, the trade dispute escalates more acutely. Not only does the conflict with China escalate, but talks with the EU yield no results. This would mean that in the third quarter, the president imposes a 25% tariff on automobile imports from the EU and the rest of the world worth \$265 billion. Most trade partners would retaliate in kind; we assume up to a level of 75% (\$200 billion).

In this scenario, Congress does not or cannot restrain Trump from raising tariffs on foreign cars. These developments would bring the negative effect of tariffs to **-1.8 percentage points**. If we take the positive influence of the cycle into account, growth of world trade slows to just 0.5% in 2019.

In this downside risk scenario, the percentage of world trade that is directly affected by the trade conflict is 8%, though ultimately, a quarter of world trade is affected. And this potentially increases if the US were to step out of the WTO. However, we think the US administration is likely to give WTO reform a chance for at least half a year. Given the six months notice period, the potential effects on tariffs from a WTO withdrawal would not kick in before 2020.

## Upward scenario

We see two possible upward risks for world trade. The first is that we assume that Congress passes legislation that makes it possible to undo the tariff measures taken by the president. But it could take quite some time for such a law to be drawn up and be put into practice. We assume that undoing the tariff hikes by Trump could only become effective in 2020 meaning that they will stay in place in 2019.

The other upward risk is a deal between China and the US, which cannot be ruled out. Since President Trump decided earlier this year that reducing the trade deficit by a fifth was not enough (China offered to import an additional \$70 billion of American goods and commodities), a potential deal has to be more advantageous for the US to get the president to agree. Trump has demanded that the trade deficit be cut in half by 2020, implying a reduction of \$190 billion.

In this upward scenario, we assume that the US and China meet each other halfway, reducing the US trade deficit with China by \$130 billion. This would be made up of \$65 billion in Chinese imports of US goods and a voluntary export restraint by China of \$65 billion and we think a deal could be agreed before the end of 2018. In that case, the net effect on world trade is zero, but undoing the damage of the earlier imposed tariffs for US-China trade would be an impulse for trade in 2019 of +0.1%. We assume that the US steel and aluminium tariffs continue (just as in the deal with Mexico) along with retaliatory effects.

Taking into account the (in this case positive) spillover through value chains and the negative carry over from 2018 of the tariffs on US imports from other countries, the net effect of these two things

is a positive for world trade of 0.25%. Together with the positive impulse on trade from the cycle, trade growth in 2019 would be 2.6% in this scenario.

# Italy: Temporary fiscal push next year but what then?

The stated unwillingness to resume the structural adjustment path and very optimistic growth assumptions raise doubts about debt/GDP developments. A more...



Source: Shutterstock

## NADEF marks a break with the past

The update to the Economic and Financial Document (NADEF), published last Friday, with a one-week delay, has shed some light on the policy stance of the 5SM/League government. For obvious political reasons the new 5SM/League government had to mark a break with the past, and the NADEF was the first available official vehicle. As we know, it had a complicated formation, which left observers hostage to volatile and not always reliable sources of information.

## A temporarily expansionary budget for 2019, with no plan to adjust afterwards

After pre-announcing a projected deficit of 2.4% all across the 2019-2021 period, the government was confronted with the market reaction and with warnings from senior officials from the EU Commission. It then decided to amend the proposal, trimming deficit projections for 2020 to 2.1% and for 2021 to 1.8%. The NADEF shows that the government concentrated its projected fiscal

expansion in 2019, when the structural deficit is meant to widen from an estimated 0.9% of GDP in 2018 to 1.7%, with an ex-ante fiscal push of 0.8% of GDP. In the two following years, the projected structural deficit is stable at 1.7%, implying fiscal neutrality. As explicitly stated in an ancillary document, the government sounds unwilling to resume convergence towards the MTO path before economic growth has consolidated. This challenging attitude to the EU solicited an unconventionally quick reaction from Commissioner Pierre Moscovici who, in a letter, expressed his concern for the deliberate deviation from the adjustment path.

## Focus on programme strongholds, but flat tax dwarfed

Unsurprisingly, the NADEF shows that, concerning 2019, the government focused very much on the strongholds of their programme: the so-called citizenship income for the 5SM and the loosening of existing pension rules for the League. Together they should absorb about €17 billion from the 2019 budget. The much-hyped introduction of a flat tax system will boil down to a diminished intervention devoted to a limited business audience, which is expected to cost some €2 billion. Approximately €4 billion of fresh public investment is included and other planned measures are expected to cost cumulatively some €2.5 billion.

## Very optimistic on growth

The NADEF sounds clearly optimistic on growth perspectives. On the back of the fiscal push, the government projects growth to accelerate to 1.5% in 2019, to 1.6% in 2020 and to slow down to 1.4% in 2021. Given the nature of deficit-generating expenditure, mostly in the form of higher pension expenditure and transfers and, in part by public investment, the implicit multipliers look exceedingly high. At this stage, there is little evidence of measures meant to increase potential output. Additionally, the positive potential impact of the fiscal push on demand could be partially compensated by the negative impact of the transmission of higher interest rates on public debt to the private sector. In a hearing at the Italian parliament earlier today, Finance Minister Giovanni Tria deemed the growth projections included in the NADEF as prudent. We tend to disagree, also on the back of our forecast of softer growth in the US and the eurozone, which will limit the scope for any positive contribution of net exports to Italian GDP growth in 2019.

## Debt-to-GDP decline also at risk in 2019

Should growth turn out slower than the NADEF projects, the risk would be that the ex-post deficit-to-GDP ratio might turn out higher than the planned 2.4%, with almost inevitable consequences on the expected declining path of the debt/GDP ratio. Should the net effect of the fiscal push in 2019 turn out only marginally positive, as we suspect, the debt-to-GDP ratio would more likely stabilise at around 131% in 2019 rather than falling by 0.9% as the NADEF foresees.

## With May 2019 European elections in sight, little willingness to compromise, but there are faint signs of a more constructive approach

The neutral fiscal stance planned by the NADEF for 2010 and 2021 is likely a reason of concern for both the Commission and eurozone peer members. Over the weekend, in an interview, minister Luigi Di Maio reaffirmed his determination not to amend his plan, but it is not clear whether he referred only to 2019 or also to the following years. We believe that the government will sternly defend its 2019 plans, but might eventually prove willing to tweak those for 2020 and 2021 to



allow for a minor structural adjustment then. We do not expect substantial U-turns, but a stronger effort from the Italian government side to better qualify and improve the content of the next budget, whose draft will have to be submitted to the EU Commission by 15 October. With a conciliatory move, Di Maio met the German labour minister yesterday, reportedly announcing that his citizenship income plan would be inspired, with some amendments, by the Hartz IV German plan. Re-opening a constructive communication channel with eurozone partners might help, but something will likely have to be done on the EU Commission front as well. Delegitimizing the current Commission as irrelevant in anticipation of a possible May 2019 European election earthquake, as done by both Matteo Salvini and Di Maio over the past weekend, does not seem the best way to prepare the ground for the Commission's budget evaluation period.

## A full agenda ahead

The agenda for the next few weeks is particularly full. The draft budget will be examined by the Commission starting 15 October, and the Commission might issue a first negative opinion on it within two weeks. The Italian government would then have three weeks to submit a reworked version. If it decided not to amend it the commission could recommend the opening of an excessive deficit procedure. The second half of October will also see S&P and Moody's reassessing the Italian Republic credit rating: after the publication of the NADEF, the risk of a downgrade from Moody's has increased substantially, in our view.

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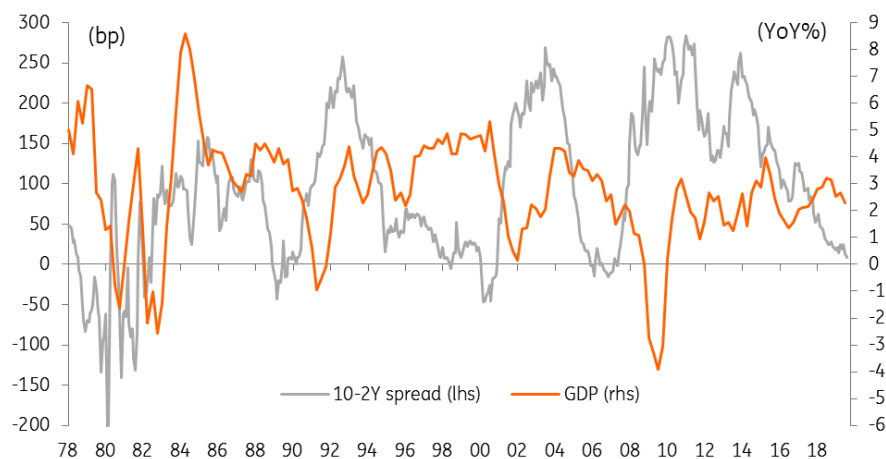
## A test for the Fed

The combination of rising borrowing costs, trade tensions and geopolitical threats are stressing financial markets, but with US growth looking strong and...



Source: Shutterstock

It wasn't long ago when the big story in bond markets was the potential for an inverted yield curve. However, a 40 basis point rise in the 10-year Treasury yield over the past six weeks has put pay to that for now. The strong US growth and jobs story, combined with rising inflation has led the Federal Reserve to take a bolder position on the likely path for interest rates with officials clearly signalling a strong likelihood for four more rate rises over the next 15 months.



Source: Macrobond

However, this hasn't gone down well with equity markets who are deep in the red again today. There is a sense that higher borrowing costs combined with escalating trade tensions, (which disrupt supply chains and increase costs) and ongoing external events such as emerging market problems and Italian budget woes, could exacerbate the downside risks for US activity. An equity market correction could then in turn compound the problems by hurting consumer and business sentiment and result in slower spending growth more broadly in the economy.

*The S&P 500 is down “only” 138 points versus the 291 point drop seen in January/February this year. Until there are clear signs that the economy is weakening, the Fed will probably continue raising interest rates “gradually”*

We will have to wait and see whether these issues start feeding back into the Fed's thinking. If so, this could point to a slower path of rate hikes than the Fed are currently signalling. Certainly, today's US inflation numbers were softer than expected with the annual rate of consumer price inflation slowing to 2.3% from 2.7% while the core (ex-food and energy) remained at 2.2% rather than rise to 2.3% as was expected. The problem though is that pipeline wage pressures, the effects of tariffs and higher energy costs are likely to push inflation higher in coming quarters.

4.2%

Atlanta Fed GDPNOW 3Q18

Annualised growth forecast

At the same time, economic activity is very strong with the Atlanta Federal Reserve's GDPNow model suggesting the economy expanded at a 4.2% annualised rate in 3Q18. We see little reason to see a significant slowing in the fourth quarter, given the ongoing support from fiscal stimulus and the strength of the US jobs market.

Furthermore, the S&P 500 is down “only” 138 points versus the 291 point drop seen in January/February this year. Until there are clear signs that the economy is weakening, the Federal Reserve will probably continue raising interest rates “gradually”. As such, we continue to predict a December rate rise with three more hikes next year.

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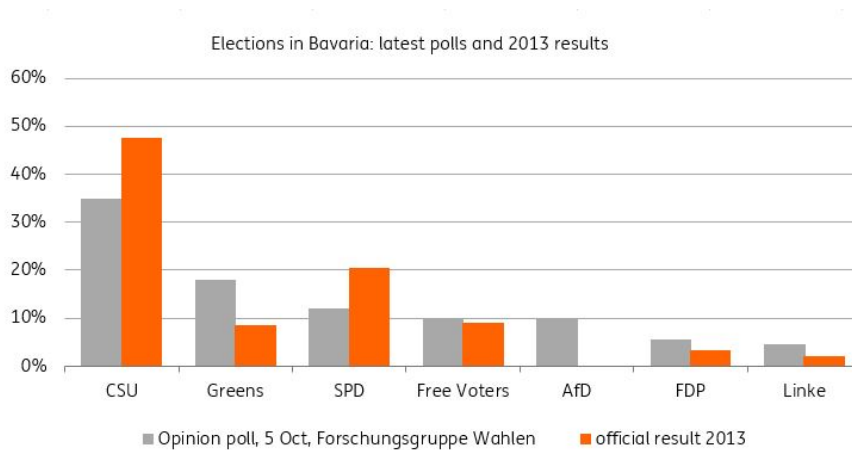
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# Germany: Warning - political landslide in Bavaria ahead

Sunday's regional elections in Bavaria could become an important milestone, either imminently or in the future



Since the start of the new government in March this year, German politics have been hijacked by the forthcoming regional elections in Bavaria. In a bid to defend its absolute majority in Bavaria, the CSU (the sister party and coalition partner of Angela Merkel's CDU) has been openly criticising Merkel, starting several inner-coalition conflicts which almost led to a collapse of the government. In June, the CSU and CDU clashed bitterly over the issue of whether or not German police should be allowed to turn back refugees at the German-Austrian border, even forcing Chancellor Merkel to convene a special European Summit. For much of September, both parties were in an almost permanent fight over the fate of the head of the domestic intelligence service. When Bavarians go to the polls this Sunday, many observers hope that political tensions in Berlin will ease. They could be wrong.



## National politics are often hijacked by regional elections

Regional elections in Germany often leave a mark on national and international politics. Just think of the election in North-Rhine Westphalia back in 2010, which led to a rule-changing delay of the very first Greek bailout package or the series of SPD defeats at the start of last year, which turned Merkel contender Martin Schulz from party saviour to disappointing failure within only a couple of weeks. Regional elections can always be a kind of confidence vote on national politics, a vote on pure regional issues, parties and the main actors or a combination of both. Very often the interpretation of what drove the election results only comes after Election Day.

## CSU tried to score by being trouble-maker at federal level

In the case of the coming elections in Bavaria, however, the question of what drove the election result seems to have been answered already. While the CSU tried to make the election a kind of referendum on Merkel's stance on refugees, the continuous nagging and trouble-seeking in Berlin, initiated by the CSU, has completely turned this around. According to the trend of latest opinion polls, the CSU's strategy to distance itself from Merkel in order to prevent a rise of the AfD in Bavaria seems to have been a double failure. With less than 40% of the votes, the CSU is on track to come in with the worst result since 1954. The AfD is currently polling at 10%, as are the Free Voters, an EU-sceptical group that wants to return political power to local authorities. The Greens could come in a surprisingly strong second, currently polling at 18%, while the SPD stands at 12% and the liberal FDP at 5%.

## Impact on national politics

Bavaria matters. The Bavarian elections are not only important due to the sheer size of the state, with some 16% of the total German population and more than 18% of German GDP. They also matter because the CSU's dominance – 12 absolute majorities in the last 13 elections – has been an integral part of the success of the CDU/CSU bloc in federal elections. Currently, some 20% of the CDU/CSU seats on German parliament come from Bavaria.

Looking ahead, the most important aspect for national politics will be the CSU's performance in Sunday's elections. In this regard, two scenarios look plausible: current polls are right and the CSU suffers a historic defeat, garnering less than 40% of the votes, or it sees an unexpected comeback, with the party coming close to or even above the absolute majority of seats in Bavarian parliament.

- **Historic defeat:** The CSU would probably still lead the next Bavarian government with one or two coalition partners. There would be no significant shift in the federal upper house. Instead, Chancellor Merkel would emerge as the real winner of the election. The CSU would need some time to digest such an election defeat, focusing on inner-party issues and wasting less energy on conflicts with Merkel. As a result, the coalition in Berlin could again focus on implementing the substance of its coalition agreement. At the same time, however, a historic CSU defeat could be a worrying sign for Merkel, marking a new chapter in the deterioration of the conservative bloc. A significant loss would simultaneously fuel the AfD's position as a strong opposition party, illustrating the increasing frustration of some voters with established parties, a trend which would definitely complicate coalition-building at the next federal election.
- **Unexpected comeback:** In this scenario, expect many CSU politicians to experience a testosterone boost. The CSU would be emboldened in its criticism of Merkel, continuing to be a permanent thorn in her side and pushing the federal government coalition closer to the edge of the cliff. As the SPD is also in a kind of existential crisis, the chances of the federal government coalition collapsing before the 2021 elections would clearly increase. In this scenario, any bigger and far-reaching European or international projects will probably be further hampered by German national politics.

## Political landslide – one way or the other

Regardless of the outcome of Sunday's elections in Bavaria, be prepared for a political landslide with a long-term impact on German national politics. A dramatic defeat of the CSU would first lead to an earthquake in Bavaria, foreshadowing future political developments and structural shifts at the national level. An unexpected comeback of the CSU would probably prompt a political landslide in Berlin. German politics continue to be anything but boring.

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## Have emerging markets reached an inflection point?

This was one of the many questions we asked the attendees of the Emerging Markets Traders Association meetings in Hong Kong and Singapore. Although there...



Source: istock

### A poor outlook for emerging markets

The Emerging Markets Traders Association (EMTA) meetings in Singapore and Hong Kong took place against the backdrop of the escalating trade war, emerging market sell-off and contagion, Chinese central bank policy action and Indian central bank policy inaction this year.

The event was hosted by ING, and there was plenty to talk about, not least, where last year's panel went wrong. Last year the panel had agreed that although an inflection point for emerging markets was near, it wasn't imminent. Clearly, that inflection point has now been reached, so we asked whether it had further to go, or whether the more battered parts of emerging markets were starting to look good value?

*The consensus was that EM still has a place, but needs careful differentiation - a blanket tracking approach was unlikely to*



*deliver superior performance*

There was some divergence in terms of the Singapore and the Hong Kong panel, with Singapore more open to the idea that EM assets were nearing (but hadn't yet reached) good value, but the Hong Kong panel was more reluctant to call a buying opportunity just yet.

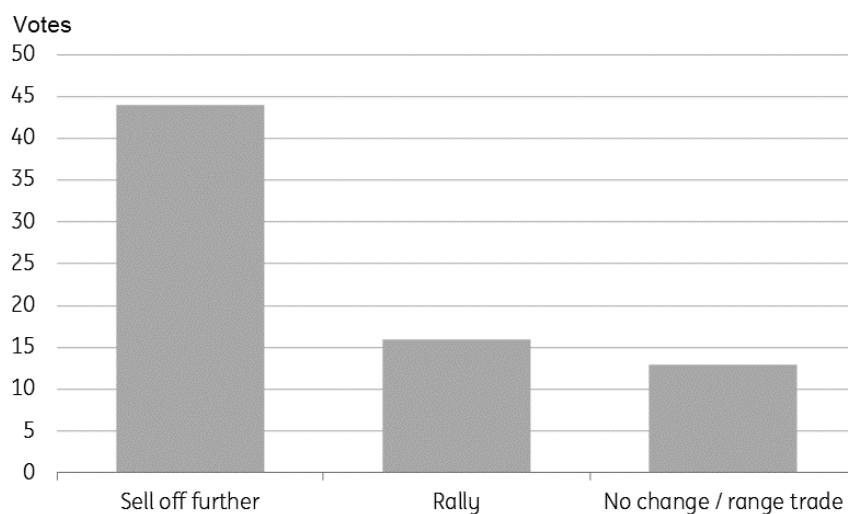
The panelists discussed whether there was a place for EM in portfolios, given that the S&P 500 had returned better returns for lower risk profiles since the Lehman crash. The consensus was that EM still has a place, but needs careful differentiation - a blanket tracking approach was unlikely to deliver superior performance. Another observation was that recent market weakness had reflected more a lack of buying, than any substantial fund outflows. This has been a somewhat orderly re-pricing rather than a wholesale rejection of the EM universe.

*The biggest negative shock that could make for an even bleaker outlook would be an acceleration in US inflation, coupled with a slowdown in the US and/or Chinese growth*

The audiences in both settings were still negative, with 38% more votes by the audience in Singapore for a further sell-off over the coming 12- months than for a rally (see chart below) and a 40% margin in Hong Kong favouring more selling.

The biggest negative shock that could make for an even bleaker outlook would be an acceleration in US inflation, coupled with a slowdown in the US and/or Chinese growth. That was seen as combining all the most negative components that would result in a much more aggressive EM sell-off, dashing hopes for a rally.

**The market outlook for EM on a 12-month horizon**



## What's changed? The USD for one...

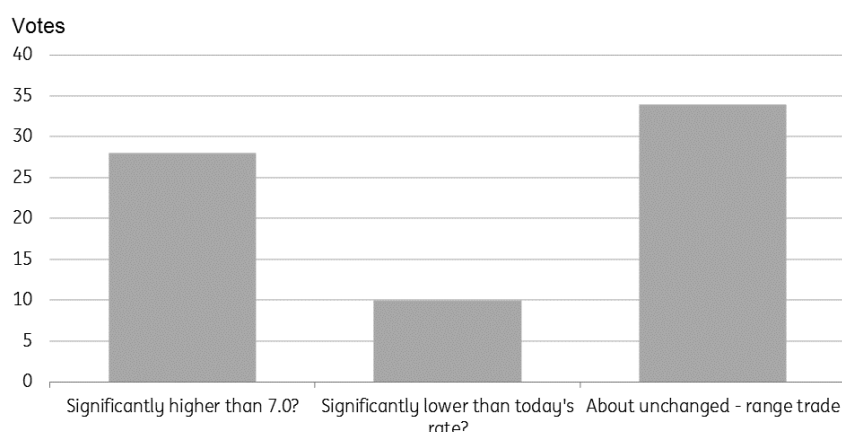
One of the main reasons for the worse emerging market outturn than expected by the panel last year was the appreciation of the US dollar. It was felt that this was mainly a function of the market capitulation to fall in line with the Fed dot diagram, and had been driven by recent Federal Reserve speaker comments, in particular, Jerome Powell and also the strength of recent US data flows. Whereas last year, there was maybe a sense of "Fed fatigue", which clearly has been shaken off.

Looking to the future, many panelists felt that the USD would weaken next year, though there was also a fairly uniform sense that the CNY would weaken further too, and in all likelihood, push through USD/CNY 7.0. All the panelists tended to argue that if USD/CNY did push through 7.0, it wouldn't be by so by much. A couple of panelists still had a low conviction feeling 7.0 would be held, mainly as to see further weakening raised problems of:

1. Limited effective depreciation as other regional currencies follow
2. Increased pressure for outflows
3. Currency manipulation concerns

Even the softer USD view was tempered with risks, including the uncertain outlook for Eurozone and the euro, given the Brexit uncertainty, the ongoing Italian budget saga and EU elections.

## Where do you see USD/CNY in 12 months?



## What else? Oil hasn't helped

Another factor worsening the outlook for externally challenged economies and especially those for whom inflation was already on the verge of being a problem, is the price of oil. According to panel members, this was definitely a contributing factor to the worsening positions of Indonesia, India and the Philippines.

One of the factors that had gone wrong was that the "safety valve" of shale gas from the US had failed to respond as it had previously, as pipeline capacity constraints had prevented oil getting from where it was drilled to where it was needed. Addressing these logistical issues would happen in time, but it might be well into 2019 before this starts to alleviate pressure.

So although there was a widespread sense that oil prices would moderate over the coming 12 months, there seemed to be little conviction this would happen imminently.

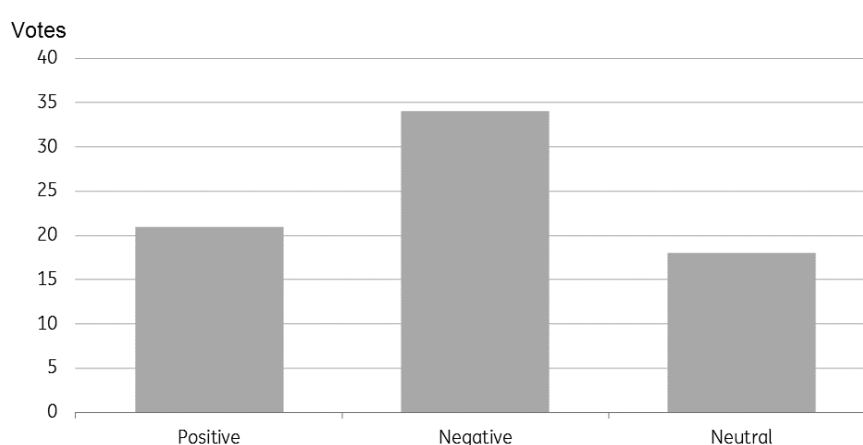
## Some old favourites remain; think Indonesia

Panelists have for years cited Indonesia as one of their favourite markets. But in spite of market developments this year, they still see Indonesia as closing in on some value, and while they are not quite ready to take the plunge just yet, the Indonesian market is still viewed favourably.

Factors in Indonesia's favour aside from the fact that yields have risen and the rupiah has plunged include a positive and proactive central bank approach and ongoing infrastructure investment. Negatives include next year's Presidential elections.

The Singapore audience wasn't so positive, with a net negative to the positive outlook of about 18 percent.

## What is the 12-month market outlook for Indonesia?



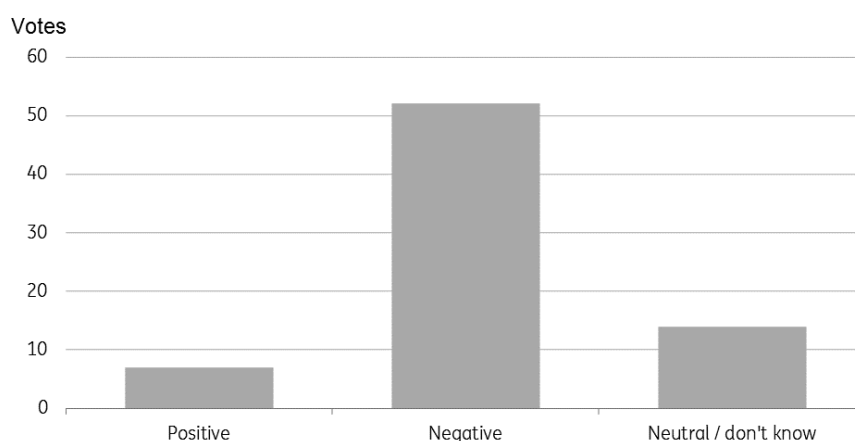
## Others...not so much

However, India didn't get such a glowing review, and was definitely off the favourites list this year and firmly on the most disliked list. Foot-dragging by the Reserve Bank of India in the face of the rupee's plunge and likely imminent reversal of currently favourable inflation prints, plus some unimpressive market restrictions to curb the external deficit has led to this change of view.

One panelist drew similarities between the RBI's recent policy inaction and that of the Sri Lankan central bank, though to be fair, in Sri Lanka's case, the growth outlook was admittedly much weaker, making their inaction somewhat more understandable. One panelist referred to the Sri Lankan situation as toxic, referring to the additional complication of elections in 2020.

The audience in Singapore had an even more unfavourable view of India relative to Indonesia, with a net negative to a positive spread of almost 62%.

## What is the 12-month market outlook for India?



### Trade - getting worse

With worsening US-China trade relations at the back of many investors' minds, we also asked the audience whether they saw a resolution to the trade war within a 12-month window. The vast majority, by more than 34%, thought that it would get worse, rather than better.

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*Some panelists felt that US trade protectionism could actually intensify after a poor mid-term result for President Trump*

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One highly interesting observation by panelists was that the previous received wisdom that a poor Republican mid-term election result would lead to some pull back on the trade aggression no longer held. Recent comments by Vice President Mike Pence, the microchip scandal, election meddling allegations and a naval 'game of chicken' seemed to have taken the trade dispute to new and much more hostile levels. Few could see a positive scenario emerging and some felt that US trade protectionism could actually intensify after a poor mid-term result for President Trump.

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*The trade war is unlikely to deliver any absolute benefits to economies in the Asia region, some thought that the relative winners of this trade war would be Vietnam, Malaysia and Thailand*

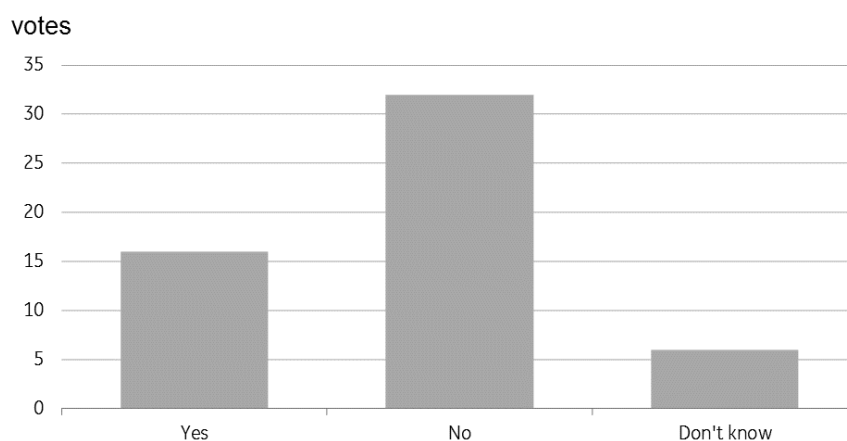
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Another interesting remark was that any future change in the US executive would not necessarily result in a reversal of the trade aggression. One panelist indicated that this policy was winning support from supporters of both parties, with the main bone of contention being the approach taken, rather than the goal. The goal is to reduce non-trade barriers and eliminate coerced technology transfer. Losing the tariff revenue was likely to be a bitter pill to swallow for any future President of either party looking to overturn current trade policy shifts.

Although the trade wars were not likely to deliver any absolute benefits to economies in the Asia region, panelists thought that the relative winners of this trade war (in order of their relative gains), would be Vietnam, Malaysia and Thailand.

## Do you see a resolution to the US-China trade war

(12-month horizon)



## Likes and dislikes

In both Singapore and Hong Kong, market favourites included:

- Thailand
- Vietnam
- Malaysia
- Indonesia (still and with reservations)
- Singapore

Making it onto the disliked list were:

- India
- Sri Lanka

And the two with mixed sentiments were:

- Korea, but some panelists felt the Bank of Korea's threats to hike in response to household debt were counterproductive, though this wasn't a unanimous view.
- China (in the thick of the trade war, but with considerable government and central bank support).

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Snap | 11 October 2018

## ECB: Auto pilot confirmed

The minutes of the ECB's September meeting underline the Governing Council is very comfortable with the autopilot of a gradual quantitative easing...



Source: Andrej Klizan

### Three main take-aways from the minutes

The just-released minutes of the European Central Bank's September meeting give a good grasp of the discussion behind closed doors. Remember that the ECB had announced the expected and so-called anticipated reduction of monthly quantitative easing (QE) purchases from 30 billion euro to 15 billion euro, starting 1 October.

For the rest, the forward guidance on an end of net asset purchases (end of this year) and interest rates (unchanged at least through the summer of 2019) had remained unchanged.

In the minutes, the following three issues stood out:

- During the meeting, there had been an extensive discussion on the growth outlook and the potential impact from trade and emerging markets. As already illustrated by ECB president Mario Draghi's comments at the press conference after the September meeting, the ECB had become a bit more cautious about potential risks to what is still regarded as a solid recovery. One member of the Governing Council even remarked that due to trade tensions and global risks, risks to activity could be characterised as being tilted to the downside.
- The other important issue was the discussion on core inflation. Here, the ongoing

discrepancy between low actual numbers and the ECB's expectation of a pick-up still remain. It is obvious that the ECB still believes that supply-side constraints should translate into higher core inflation. However, the discussion also stressed that evidence of this materialising is still very scarce. There also seems to be some doubt within the ECB on whether higher wages would actually lead to higher inflation as an increase in labour productivity could mitigate any inflationary effect.

- Finally, the word “vigorous” was missing in the minutes. Two weeks ago, Draghi's comments at European Parliament about a “relatively vigorous” pick-up in underlying inflation in the coming years led to some excitement in financial markets. The fact that this wording is not in the minutes, as well as the fact that the ECB staff had actually lowered its core inflation projections for 2019 and 2020 at the September meeting, are in our view reason enough to believe that “vigorous” was one of the very rare slips of the tongue by the ECB president.

## Little reason to doubt the ECB's auto pilot

Still, financial market participants keep on speculating about the timing of a first rate hike by the ECB. Every time, headline inflation picks up, or a hawkish member of the Governing Council makes a slightly misleading statement, market participants seem to get nervous.

But, in our view, there is very little reason to doubt the ECB's autopilot. The communication and the forward-guidance of the ECB since June has been very consistent and straightforward. The essence of the ECB's strategy is a gradual end of the net asset purchases of QE by the end of the year and possibly a first rate in September or October next year.

The only unanswered questions are for how long the ECB would be willing to continue reinvesting maturing assets, whether the ECB would first hike the deposit rate and then the refi rate or both together and what the size of the rate hike will be.

However, it is currently far too early to answer these questions. Why should the ECB unnecessarily commit itself? As illustrated by the current market turmoil and doubts about the strength of the global economy, too much can happen between now and the end of summer 2019.

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# Switzerland: The sun is shining but clouds loom

Low core inflation, high GDP growth, a super cautious central bank and arduous negotiations with the EU: the Swiss economy is doing well but uncertainty...

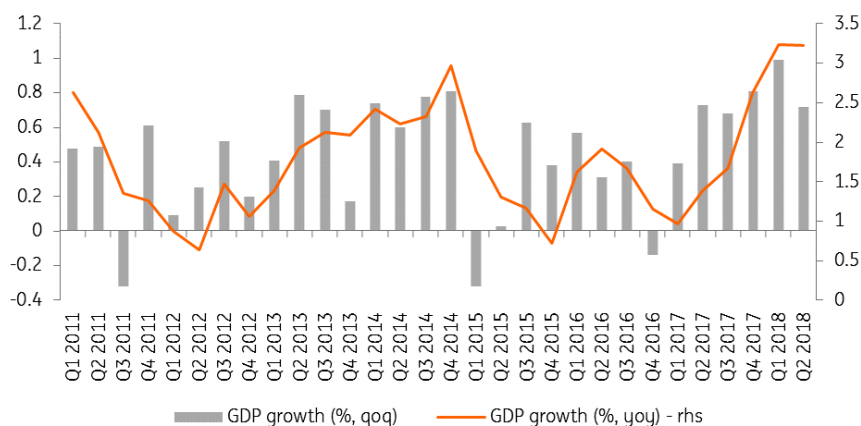


Source: iStock

## Super strong growth in the first half

The Swiss economy is doing really well. It grew at a fast pace in the first half, with GDP growth reaching 1% and 0.7% quarter-on-quarter in the first and the second quarters, respectively, thanks to a robust foreign demand. The Swiss economy has recorded a QoQ growth rate of more than 0.7% for five straight quarters, something that has not happened since the beginning of 2015 when the exchange rate floor against the euro was abolished. The main driver of growth in 2Q18 was manufacturing (+1.5% QoQ), which benefited from robust foreign demand and the depreciation of the Swiss franc. Note, however, that part of this growth (0.2 percentage points) is somewhat artificial due to license income generated by the marketing of major international sports associations based in Switzerland. The World Cup and the Winter Olympic Games both took place in 2018, which had an impact on GDP data. With no sporting events planned for 2019, however, this effect will disappear.



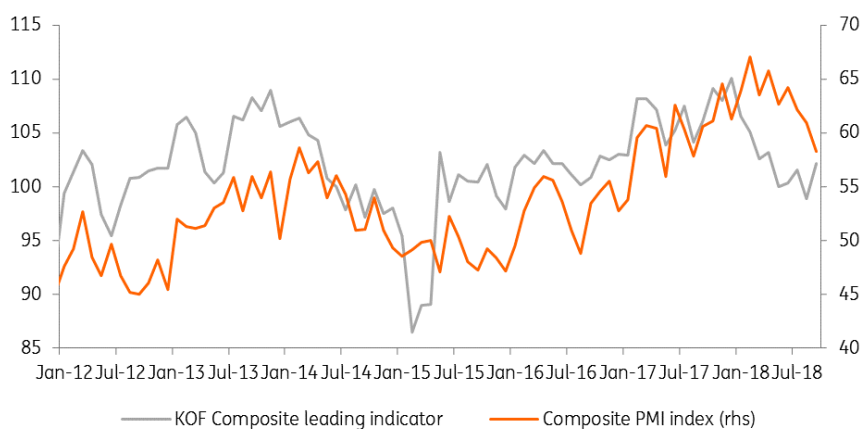


Source: Thomson Reuters Datastream, ING Economic Research

## A positive outlook with some clouds

Switzerland's leading indicator, the KOF economic barometer, rebounded in September to 102.2, after a weak 98.9 in August, but it is still far from its peak level of 110 in December 2017. A level of 100 indicates that the economy is expected to grow at the average pace of the last 10 years. PMI indicators are also on a downward trend as the composite index reached 58.3 in September versus 60.9 in August and 67 in February. We believe GDP growth will stay robust but won't speed up in the coming quarters. After a strong first half of the year, GDP growth is likely to approach 3% in 2018. With the fading effect of sporting events, a strong labour market but also a strong Swiss Franc, we expect GDP growth of 1.9% in 2019.

Risks to our forecasts are clearly biased to the downside and come mainly from the international environment. Increased trade tensions could hit Swiss exporting companies hard, with the result that investment and recruitment would likely decrease, leading to lower growth. Political uncertainties, mainly in Europe, with tensions related to the Italian budget and Brexit negotiations, could increase uncertainty in Switzerland and reduce business and consumer confidence, resulting in lower growth. In addition, these tensions, as well as turbulence in emerging countries and repercussions on the foreign exchange market, could induce an appreciation of the Swiss Franc. This would weigh on foreign trade and economic growth in Switzerland.



Source: Thomson Reuters Datastream, ING Economic Research

## Arduous negotiations with the EU

Difficulties in negotiations with the EU are also a risk. Indeed, Switzerland and the European Union are currently negotiating a framework agreement (or "institutional framework") that would replace the 120 different treaties that exist right now and put a lasting framework on the relations between the two blocs. Currently, Switzerland has access to the European common market and adheres to the principle of free movement of people. However, it can still negotiate its own trade agreements, as it did a year ago with China. In practice, it is estimated that more than 33% of current Swiss legislation derives from European law, even though no agreement currently obliges Switzerland to transpose European rules onto its own law books. A framework agreement would make the process more automatic by forcing Swiss rules to automatically align with European rules in the areas specified in the agreement (legal developments, supervision, interpretation and dispute settlement). In addition, an arbitration panel would settle disputes between Switzerland and the European Union, and the EU Court of Justice would have a crucial role to play.

Negotiations for the framework agreement began more than four years ago, but the EU wants them to end as soon as possible. A victory for those campaigning "against mass immigration" in a 2014 referendum (a contradiction to the free movement of people principle) worried the EU. The Swiss government succeeded in avoiding a confrontation over the issue, however, by pretending to respect the vote without really implementing it at all. Still, Brexit and the difficult negotiations that have ensued have made the EU even more determined to negotiate this framework agreement as soon as possible.

To force Switzerland to negotiate, the EU has tried to put the government's back against the wall. It decided that, without an agreement, Switzerland would no longer have access to the European research programme and existing treaties will no longer exist. Also, without an agreement, the recognition of the equivalence of the Swiss stock exchange would no longer be extended. This recognition is essential so that European banks and investors can continue to buy and sell Swiss-listed equities. In order to speed up the discussion process and pile more pressure on Switzerland, the EU surprised everyone in December last year by extending the recognition of the Swiss stock exchange by just 12 months. This implies that in December 2018, without sufficient progress in the negotiations, European access to the Swiss stock exchange and Swiss-listed equities will be strongly threatened. Without equivalence, Switzerland could apply the same measure and no longer recognise European stock exchanges. It goes without saying that this threat is extremely serious for a global financial centre such as Switzerland. Without this access, the Swiss financial system would face great difficulty. The Swiss finance minister said last month that, without this equivalence, the very survival of the Swiss stock exchange would be put at risk.

## A hostile domestic climate

The problem for the Swiss government is that negotiations with the EU are taking place in a hostile domestic climate. On the one hand, in line with its system of participatory democracy, the country will hold a series of referendums that could dramatically affect its relations with the EU. The ultra-nationalist Swiss People's Party (SVP) - the most powerful political movement in the country - is campaigning against European agreements. In November, the Swiss will vote on a proposal stating the supremacy of the Swiss Constitution on international treaties. This goes against a framework agreement with the EU. The People's Party is also calling for a referendum to revoke the free movement of people. Although it is far from certain that these referendums will find widespread support, some Swiss negotiators want to wait for the results before continuing

discussions with the EU.

Meanwhile, in recent months, Swiss unions have been strongly opposed to a loosening of the national regulation protecting wages - the "accompanying measures". These measures force foreign employers who send workers to Switzerland to meet the country's minimum wage and labour conditions. They help keep Swiss wages much higher than in the EU. The EU wants these measures abolished because it believes they penalise foreign companies and are discriminatory. A framework agreement without a modification of these accompanying measures hardly seems acceptable for the EU. The opposition of trade unions thus greatly complicates the negotiations between the Swiss and European authorities.

## A pesky double resignation

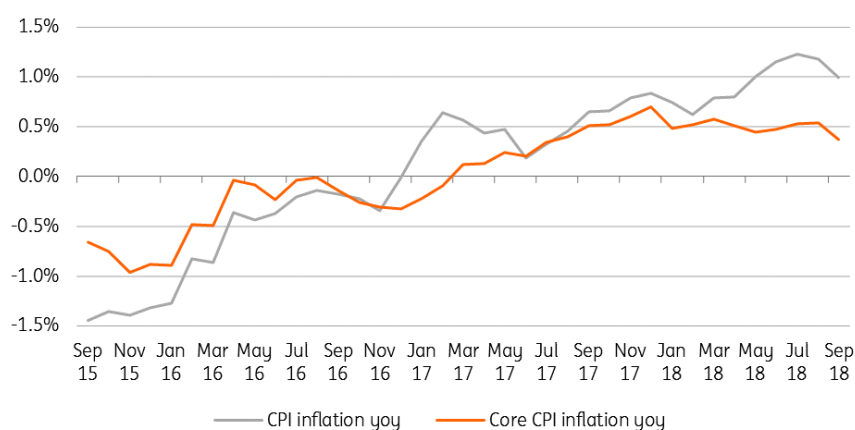
The negotiation of the framework agreement could also encounter severe difficulties due to the resignation of two pro-Europe federal ministers. Johann Schneider-Ammann, Swiss Minister of Economy from the pro-business liberal party (PLR), has been a defender of close relations with the EU but announced his resignation late last month. Just two days later, Doris Leuthard, the Minister of Transport and Energy and an ultra-popular figure of the Christian Democratic People's Party (centre-right), announced that she was also quitting the Federal Council (the Swiss Federal Government). She repeatedly stated that there is no alternative to good bilateral relations with the EU, which accounts for two-thirds of Switzerland's annual trade volume.

This leaves two vacant seats on the Federal Council, which should be filled by the end of the year with a secret ballot vote of the Federal Assembly. As always in Switzerland, it is the search for consensus that will dictate the two appointments. Indeed, the system is built so that all parties are represented in the Federal Council through the "magic formula", which is a way of dividing the seats between parties based on their election results. In practice, the distribution of seats between parties does not change much over time, even when the composition of parliament changes. A balance in the appointment of ministers is sought to represent different languages, different regions and the gender balance. Normally, the two new ministers would belong to the parties of the resigning ministers, who are in favour of the EU. But, pending these appointments, the places remain vacant, making it more difficult to find a consensus on the content of a future treaty with the EU. In addition, the federal elections of October 2019 are already in sight. The eurosceptic party, SVP, is counting on the fight against a framework agreement in order to grab even more seats in parliament.

These difficult negotiations could lead to uncertainty in the outlook for the Swiss economy, which could impact economic growth.

## Low inflation

After a long deflationary period, CPI inflation has been in positive territory since January 2017. From 0.6% year-on-year in February 2018, inflation has gradually increased, reaching 1.2% in July and August. In September, inflation decelerated again to just 1%. At the same time, core inflation which excludes prices of volatile components, has remained low at around 0.4%. The relative appreciation of the Swiss Franc since May is likely to diminish import prices for the rest of the year, adding to downward pressures. But, at the same time, oil prices and higher American and European tariffs on global imported goods could push import prices higher. After having reached a level of 0.5% in 2017, CPI inflation is expected to climb to a modest 0.9% in 2018 and 1% in 2019.

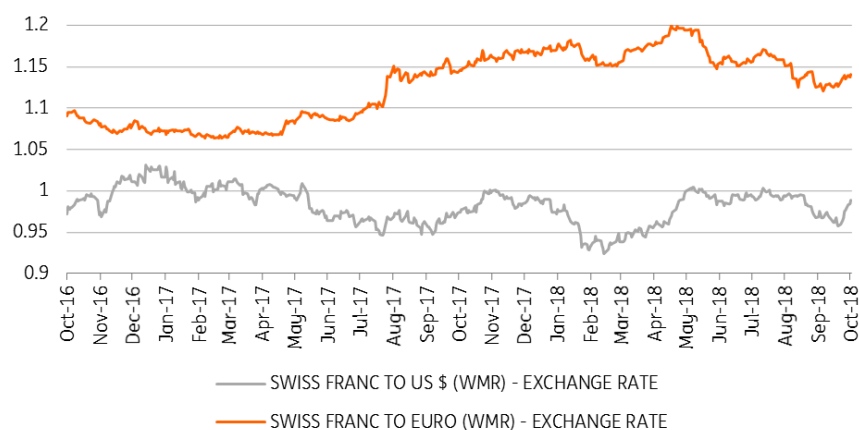


Source: Thomson Reuters Datastream, ING Economic Research

## Extremely cautious SNB

The Swiss National Bank has maintained an ultra-loose monetary policy stance. At its September meeting, the SNB left its main policy rates unchanged in negative territory. The target range for the three-month Libor was maintained at between -1.25% and -0.25% and the interest rate on sight deposits remained set at -0.75%. The SNB still believes the Swiss Franc is “highly valued”. It highlighted the recent appreciation of the Swiss Franc and believes the situation in the foreign exchange market is still fragile. Indeed, worries in emerging countries, discussions on the Italian budget and uncertainties surrounding Brexit have pushed the Swiss Franc, a currency considered to be a safe-haven, sharply higher against the euro. On average, the value of the Euro/Swiss franc rate amounted to 1.15 during the third quarter, compared to the average of 1.17 in the second and first quarter. The Swiss economy is a small, open economy that relies heavily on international trade for growth. The appreciation of the Swiss franc may be a drag on exports and therefore reduce growth momentum in the coming months.

At its September meeting, the SNB revised downwards its conditional inflation forecast (i.e. if monetary policy remains the same) for 2019 and 2020, signalling a dovish stance. It probably means that monetary policy will remain very accommodative in the coming years and much longer than previously expected. We don’t expect any rate hike before the ECB starts raising its own rates. Given that the ECB is not expecting to hike before the end of the summer of 2019, we think the SNB won’t hike interest rates before December 2019. Moreover, given the increased risk environment expected for next year, it is even possible that the first rate increase will be postponed to 2020.



Source: Thomson Reuters Datastream, ING Economic Research

## The economy in a nutshell (% yoy)

	2016	2017	2018F	2019F	2020F
Real GDP	1.6%	1.7%	3.0%	1.9%	1.6%
Consumption	1.5%	1.2%	1.3%	1.7%	1.6%
Investment	3.4%	3.3%	2.9%	2.3%	1.6%
Exports*	7.0%	3.8%	3.0%	3.1%	3.5%
Imports*	4.7%	4.2%	3.2%	3.3%	3.7%
Unemployment rate (% annual average)	3.3	3.2	2.7	2.5	2.5
CPI headline (% YoY, annual average)	-0.4%	0.5%	0.9%	1.0%	1.3%
SNB 3M Libor Target (end of year)	-0.75	-0.75	-0.75	-0.5	-0.25
CHF/EUR (end of year)	1.07	1.17	1.15	1.25	1.25

\*Excluding non-monetary gold and valuables

Source: Thomson Reuters Datastream, ING Economic Research

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