In Case You Missed It: Why June's the month to watch

The ECB meets, OPEC evaluates its production cuts, Greece holds final bailout talks with Europe and the Swiss vote in a referendum that could upend the global banking system. It's all happening in June and we've got the lowdown on what to expect

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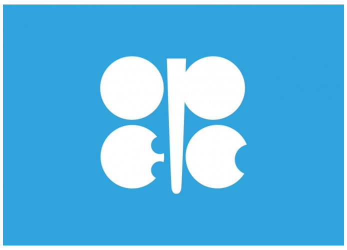

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Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

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OPEC oil cuts: To continue or not to continue, that is the question

The oil market has rallied on the back of US sanctions on Iran, and Venezuelan production declines. We believe OPEC will formulate an exit strategy at its June meeting given the growing risk of demand destruction at current prices, along with increased pressure from key importers

It is fair to say that OPEC and its allies have achieved their job in bringing global crude oil inventories more in line with the historical average and, in the process, pushing ICE Brent back up to US$80/bbl. Not all of this credit can go to OPEC, however, with US sanctions on Iran and Venezuelan production declines clearly providing a helping hand.

Regardless, the question everyone wants answered is whether OPEC will scrap its current production cut deal. Uncertainty around Iranian and Venezuelan supply does offer OPEC a good opportunity to start implementing an exit strategy.

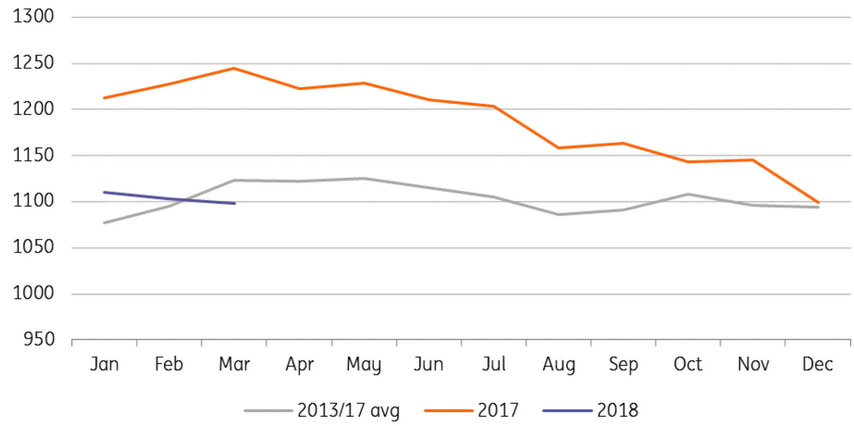
What has OPEC achieved?

Credit has to be given where credit is due, OPEC has done a great job in complying with its production cuts. The group has exceeded expectations and in fact, compliance amongst members has averaged almost 115% since the deal was introduced. Over-compliance has only increased since the start of this year, exceeding 160% in April. This has meant that OECD crude oil inventories have finally fallen below the five-year average, and inventories have declined by almost 120MMbbls since the inception of the deal.

However, as we have mentioned in previous reports, Venezuela has boosted OPEC compliance, with production in the country continuing to decline. Venezuela's compliance in April was over 660%, with cuts for the month larger than those made by OPEC's largest member, Saudi Arabia.

There are reports that OPEC will look to ease production cuts as early as June, with the matter set to be discussed in St. Petersburg this week. However, we believe any final decision will only be made at the semi-annual OPEC meeting on 22 June. We think OPEC will put in motion an exit strategy of some form, and failing to do so would require us to re-examine our current price forecasts, given Venezuelan and Iranian developments.

OECD crude oil inventories (MMbbls)



Source: IEA, ING Research

What will be the impact from US sanctions on Iran?

It was largely thought that the risk of US sanctions on Iran was priced into the market, however since President Trump pulled out of the Iranian nuclear deal, the front-month ICE Brent contract has rallied almost 7%. Uncertainty around the impact on supply clearly continues to offer support to the market.

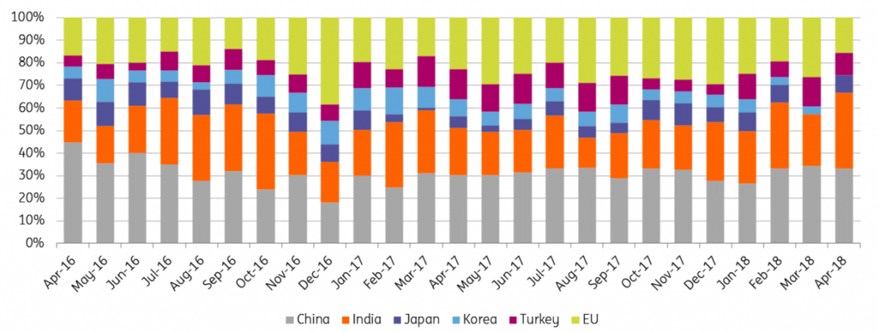
The US does not have much support for pulling out of the Iranian nuclear deal, and as a result, it is unknown how effective sanctions will be in reducing Iranian crude oil exports. The US has given buyers 180 days to fulfil outstanding contracts, after which buyers are expected to start reducing purchases.

China and India are the largest buyers of Iranian crude oil, making up more than 60% of total exports, and we are of the view that this supply will continue largely unaffected. We believe that the supply which is most at risk is Iranian crude oil making its way into Europe. This could see up to 500Mbbls/d of Iranian exports disrupted. However, the EU is looking for a way around these sanctions by imposing a blocking statute. How effective such action would be is questionable, especially for European businesses which have a large interest in the US.

Assuming that EU flows from Iran do decline, we question the severity of this impact on total Iranian exports, given the potential for Chinese and Indian buyers to step in as even larger buyers of Iranian crude oil, taking advantage of potential discounts.

In our base case scenario, we are assuming that we will see 500Mbbls/d of Iranian supply lost by the end of this year. In our worst-case scenario, this increases to 800Mbbls/d, pushing the global market into deeper deficit over 4Q18, and the need for other OPEC nations and Russia to step in to meet this additional shortfall.

Iranian crude oil export destinations (%)



Source: Bloomberg, ING Research

Is there any stopping Venezuela's decline?

Whilst there is still a lot of uncertainty around potential supply losses from Iran as a result of sanctions, what is clearer is that Venezuelan oil output is likely to continue trending lower. The country has seen a spectacular decline in output, falling from a little over 2MMbbls/d in early 2017 to below 1.5MMbbls/d in April 2018. We do not expect any improvement in production prospects for the country in the near term, and expect output to fall towards 1.2MMbbls/d by the end of this year. A clear case of underinvestment in the domestic industry supports this decline.

In fact, we would stress that there is the potential for even greater supply losses from Venezuela, with the US appearing to move ever closer to enforcing stricter sanctions, which could further disrupt oil flows for the country.

Is OPEC shooting itself in the foot?

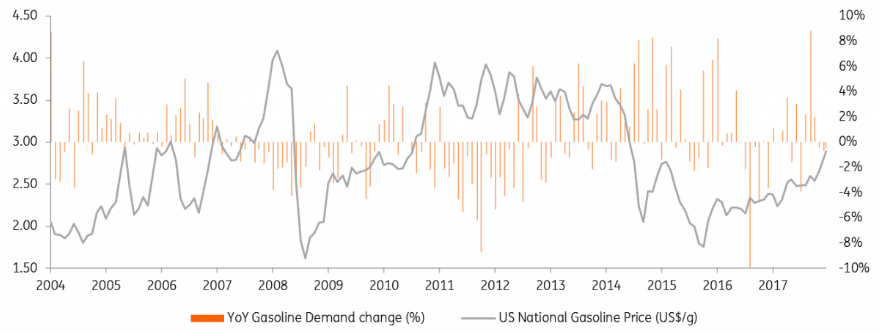
There is growing concern amongst consumers about rising oil prices. In the US, gasoline prices at the pump are approaching US$3/g, just as we move into the driving season. These are levels last seen back in 2014, and may make motorists think twice before filling up.

Meanwhile, India has become very vocal over recent weeks about the strength in the oil market, and is looking at measures to deal with rising domestic fuel prices. For many importing nations, the strength in the crude oil market, along with the strength in the US dollar has meant that the price impact has been even more severe in domestic currency terms.

In Brazil, truck drivers are currently on strike over higher fuel prices. Previously, consumers were largely protected from international price increases, due to Petrobras's fuel price policy. However, in late 2016, Petrobras decided to link domestic prices more closely to the international market, due to the financial pressure from selling into the domestic market at a discount to the world market.

In its latest report, the IEA revised down its global demand growth estimates for 2018 from 1.5MMbbls/d to 1.4MMbbls/d as a result of stronger prices. If OPEC continues to hold supply from the market, it risks further demand destruction, along with a continued pickup in US drilling activity.

US average gasoline price vs. YoY gasoline demand change



Source: EIA, Bloomberg, ING Research

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Article | 23 May 2018

ECB pre-preview: New complications on the road to taper

Even though we still have three more weeks to go before the next ECB meeting, recent developments clearly signal doing nothing and buying time in June is the best and most risk-free option

Source: Shutterstock

On 14 June, the ECB will hold its next monetary policy meeting.

Until now, the ECB has been very tight-lipped about the next steps for monetary policy, particularly quantitative easing (QE) beyond September this year. With a fresh update of staff projections, the ECB could have sufficient substantial input to unveil first details of the next QE steps at the June meeting or so many market participants at least say. The reality, however, could look differently. In our view, new uncertainty on the back of weaker economic data, higher oil prices and Italian politics argue in favour of buying more time.

Three main challenges for the ECB

A quick look at the three main economic challenges the ECB will be facing at the June meeting.

1 Soft patch vs downswing

At face value, the growth slowdown in the first quarter was mild enough to be filed away as a "soft patch" instead of a "downswing". Economic fundamentals have also not changed over the last few months. However, soft indicators have not yet recovered, the fading eu(ro)phoria could dent further optimism, and the external environment has become a risk rather than an opportunity.

The problem ECB forecasters are currently facing is that very little new hard data will become available between now and the cut-off date of the forecasts or the June meeting. In fact, except for soft indicators for May and hard data for a couple of Eurozone countries for April, no other guidance will be available. Probably too little for the ECB to take a clear position in the soft patch versus downswing discussion. Consequently, we expect the ECB to stick to its positive take on the Eurozone recovery, but at the same time stressing increased uncertainty and the need for more evidence.

2 The double-edged sword called oil

The surge in oil prices since the beginning of the year is probably the single biggest problem for the ECB. Since February, oil prices have increased by more than 20%. Add the effect of the weaker euro exchange rate, oil prices denominated in euro have increased by almost 30%. As so often in the past, higher oil prices are a double-edged sword for the ECB.

On the one hand, higher oil prices could dent the recovery (according to our back-of-the-envelope estimates, higher oil prices could allow one-third of the wage increases in Germany evaporate in thin air). On the other hand, they should push up the ECB's inflation projections. The ECB uses future prices as a technical assumption. If oil (and their respective future) prices were to stay at their current levels, headline inflation could come to 0.4 percentage points higher in 2019, from 1.4% in the March projections. At the same time, GDP growth forecast could be revised downwards by some 0.2 percentage points. All of this means that only due to changes in the technical assumptions, a benign outlook for headline inflation could quickly become a close-to-target forecast.

Normally, the ECB tends to look through energy-driven volatility in headline inflation and instead focus on core inflation measures as higher oil prices have a disinflationary impact on the recovery. This is why we expect the ECB to stress the reflation process will only be over once inflation has sustainably converged towards a target and that it would only react to possible second-round effects. Still, an upward revision in headline inflation could make a few hawks at the ECB and some market participants slightly uncomfortable.

3 Italian politics

Obviously, Italian politics is the new kid on the block when it comes to challenges for the ECB so don't expect ECB president Mario Draghi to comment on this. At best, he could give some very general remarks on how the ECB looks at the idea of mini-BoTs.

However, it seems clear that in a situation with new tensions in financial markets and speculations about a potential new euro crisis and maybe even some contagion in bond markets, the benefits of doing nothing clearly outweigh the potential costs of giving misleading hints.

Buying time in June looks like the most risk-free option

In our view, the unconcluded debate on soft patch versus downswing, the surge in oil prices and recent political developments in Italy clearly suggest doing nothing at the June meeting is the best and most risk-free option for the ECB. The only thing Draghi could do is to reconfirm his earlier statement that he does not expect an abrupt end to QE in September, opening the door for an extension.

The discussion behind closed doors will clearly be about how long QE should be extended for, at which amounts and whether or not an end date should be communicated, but not on the "if". This discussion is very likely to continue until the July meeting. Then, we expect an extension of QE at a reduced amount at least until December 2018. Until then, buying time looks like the best option.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Greece: Moving towards the exit

Greece will rush to implement reforms and negotiate debt relief over the next few weeks, as it prepares for the Eurogroup's next meeting on 21 June, and the end of its third bailout programme in August

Source: Shutterstock

Final rush of reforms to exit the rescue programme

Thursday's Eurogroup meeting shed some light on the staff-level agreement (SLA) that was reached between Greece and institutions in the fourth review of the third bailout programme. This will involve an additional package of reforms, which will be implemented in the coming weeks. As confirmed by the EU Commissioner Pierre Moscovici in the press conference, the aim is to form an agreement on the terms of Greece's rescue-plan exit when the Eurogroup next convenes on 21 June.

Negotiations on debt relief to accelerate, trying to bring the IMF onboard

The rush to implement the last bout of actions will run in parallel with negotiations on debt relief, which will hopefully be implemented at the end of the programme. Mario Centeno, the head of the Eurogroup, announced that institutions have been mandated to produce a Debt Sustainability Analysis (DSA), which will help to fine-tune possible debt measures within the boundaries defined in June 2017. A new DSA, in principle, should help to set common ground and bridge the gap between the IMF and Berlin, which have been divided over debt relief. The G7 leaders' summit early in June is seen as an opportunity to reach an agreement before the late June Eurogroup meeting.

Obligations for Greece will extend beyond the end of the programme

The draft supplemental Memorandum of Understanding (sMoU), also published on Thursday by the EU Commission, shows unambiguously that the end of the third Greek rescue programme (at the end of August) will not mark the end of external constraints, even though Greece will not benefit from the relevant funding. The Greek government committed to meet at least another 20 post-programme obligations by 2022.

The reform agenda sketched in the sMoU builds on four pillars:

- the restoration of fiscal sustainability
- the safeguard of financial stability
- growth competitiveness and investment
- the creation of a modern state and public administration.

As far as fiscal sustainability is concerned, Greece confirms its commitment to deliver a primary surplus of 3.5% of GDP over the next five years. In order to meet this objective, a continuous effort will be made to improve tax compliance, fight tax evasion and manage public finances. This effort will be accompanied by measures meant to protect vulnerable groups. The aforementioned actions will be essential as the 2017 fiscal over-performance (a primary surplus of 4.2% of GDP) was also helped by the payment of tax arrears via the Voluntary Disclosure initiative and by underspending in investment, ie by non-recurring items. The list of fiscally-relevant measures includes a reduction of pensions (worth 1% of GDP) from 2019, the full abolition of the EKAS benefit for people on low pensions, progress on privatisations, the completion of the national cadaster by June 2021, and ceilings on civil servant employment and wages.

The principle inspiring future budget adjustments will be to introduce more growth-friendly policies while assuring fairer distribution and burden-sharing through compensating measures. Planned pension cuts will be offset by spending on specific welfare benefits, by high-quality infrastructure investment and by active labour market policies.

A post-programme ECCL remains an attractive backstop

Greece continues to move towards the end of its bailout programme. No reference has been made to how “clean” the exit will be, but the additional set of measures that the Greek government committed to in the supplemental MoU make the “clean” option less valuable from a political point of view. The Enhanced Conditions Credit Line (ECCL), with its implicit access to ECB funding, remains in our view a valuable backstop solution for a country whose actual growth prospects are yet unknown.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Article | 23 May 2018 FX | Turkey

300bp emergency hike from Turkey

The Central Bank of Turkey (CBT) has responded to today's 5% fall in the Lira with an emergency 300bp hike in the Late Liquidity Window rate. Earlier, investors had feared policy paralysis ahead of June 24th elections and that Ankara was in no mood to break the vicious spiral of a weaker Lira and higher inflation. Expect some temporary stability in the Lira.

Source: istock

CBT responds to market pressure.

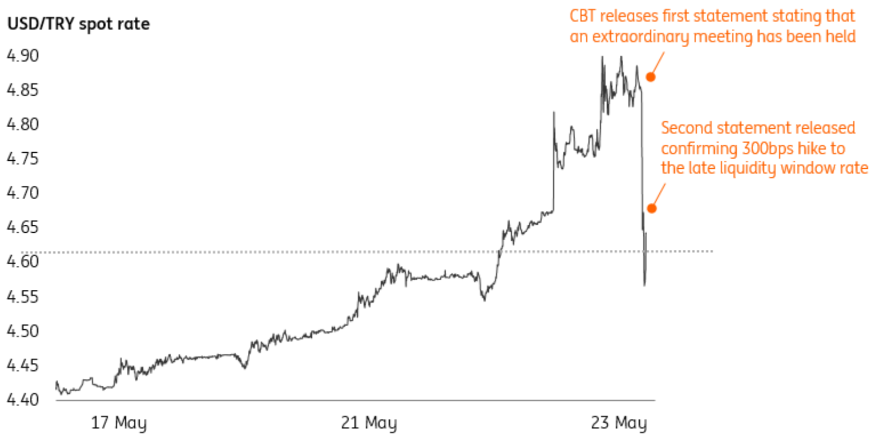
The CBT has surprised the market with an aggressive 300bp hike in the Late Liquidity Window (LLW) taking the LLW rate to 16.50%. Most liquidity is provided through that window currently, such that the effective cost of funding should also rise by around 300bp. In the accompanying statement the CBT said:

'Current elevated levels of inflation and inflation expectations continue to pose risks on the pricing behavior. Accordingly, the Committee decided to implement a strong monetary tightening to support price stability. Tight stance in monetary policy will be maintained decisively until inflation outlook displays a significant improvement.'

In fairness, the market had been expecting this (albeit a smaller) move several weeks ago and the delay has probably caused the CBT to deliver a larger hike. Clearly, external conditions have also deteriorated over recent weeks, with Turkey suffering from: i) the stronger dollar and higher US interest rates impacting the FX borrowing costs of corporates and ii) higher energy costs exposing Turkish energy dependencies.

The timing of today's move comes on the back of the near free-fall in the Lira, initially in Tokyo as Japanese retail traders exited and then through Europe when no policy response was forthcoming.

USD/TRY looking to stabilise around 4.60 level after emergency rate hike



Source: Bloomberg, ING

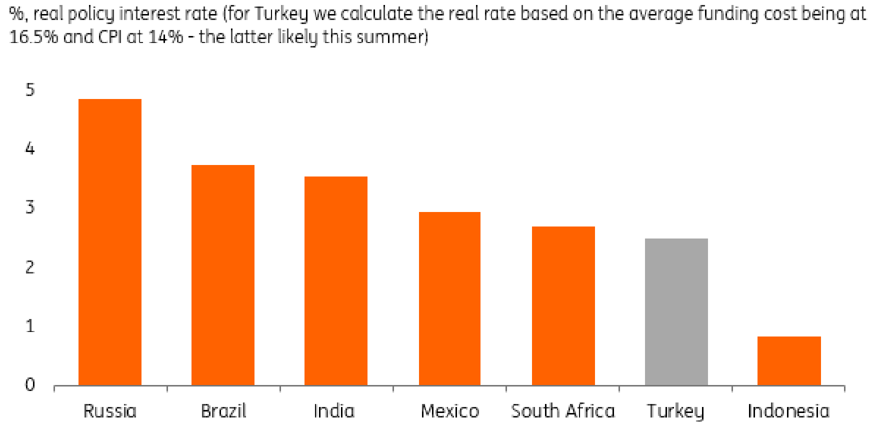
Is the tightening enough?

The 300bp rate hike is clearly an effort to break the inflation/FX spiral. Will it be enough to stabilise the TRY? Amongst the EM high yielders, real interest rates are mostly in the 3-4% area. With Turkish CPI potentially moving to 14% this summer, today's emergency hike in the LLW takes Turkey's real policy rate to around 2.5%

Some would argue that's not enough for an economy running a 5% current account deficit and the exposure to FX borrowing and energy as highlighted above. We would say at least this shows policymakers are prepared to act decisively and that there is a limit to CBT tolerance of TRY weakness.

Were the external environment to improve somewhat - e.g. were momentum to build behind a possible OPEC output increase in June - we think today's move should deliver more orderly conditions to the TRY market.

Real policy interest rates amongst EM high yielders



Source: Bloomberg, ING

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Article | 24 May 2018 Italy

Italy: Conte gets a challenging mandate

After 80 days of stalemate, President Sergio Mattarella has mandated Giuseppe Conte to form a government. But the choice of the finance minister will tell us more about how challenging the 5SM/League alliance will be for Europe

Source: Shutterstock

On Wednesday evening, President Sergio Mattarella gave Giuseppe Conte, a professor of law and a civic lawyer the mandate to form a new government backed by the anti-establishment Five Star Movement and the right-wing League. Professor Conte, who had been confirmed earlier in the day by Luigi di Maio, the Five Star leader and Matteo Salvini, the head of the League as their preferred candidate, accepted with reservation.

An attempt to strike a balance between incompatible objectives

In a brief press statement, professor Conte made his debut saying he was conscious of having to confirm Italy's European and international position. He clarified that his government would be a government of change, as the country is expecting answers and proposed to be the defence attorney of the Italian people. He added that he would submit a programme based on the agreement reached between the 5SM and the League and concluded that over the next few days he would prepare the list of ministers for President Mattarella's approval.

The extent to which Conte will have a say in the choice of ministers will be somewhat revealing of whether he will be an executioner of the 5SM/League program or a leader of the future government

Unsurprisingly, Conte's short speech wanted to strike a difficult balance between the need to reassure the role of Italy on the international stage and that of reiterating the message that Italy and Italians will come first.

As meeting both goals completely looks almost impossible, a mid-way solution would call for compromises that the two leaders of the 5SM and the League have so far been unwilling to make. The full implementation of the program (AKA contract) that they agreed upon would push the Italian deficit/GDP ratio easily to the 5-6% area violating European rules and is likely to be met with stern opposition from both the EU Commission and European partners.

Special focus on the choice of finance minister

The next step in the process of forming a new government will be a list of proposed ministers.

Here, the choice of the finance minister will be of paramount importance. According to the Italian constitution, this task should be a matter for the candidate PM, but following the local debate, it seems that choice is very much in the hands of the leaders of the two parties supporting the government. The extent to which Conte will have a say in this will be somewhat revealing of whether he will be an executioner of the 5SM/League program or a leader of the future government.

Over the last few days, the League has strongly backed Paolo Savona for the role of the finance minister, an experienced economist with an impressive CV that boasts being a minister of industry in the Ciampi government, working at the Bank of Italy and being a university professor.

Savona was initially pro-euro but soon turned into a harsh critic of the euro and the constraints that EU membership imposes on Italy. Over time he has been notably critical of the hegemonic role of Germany in European governance since the birth of the euro. He would surely be a technically qualified candidate but at the same time a strong statement that the 5SM/Lega ticket government want to start in a challenging mood.

EU Commission sits on the fence, waiting for a budget draft

For the time being, European institutions have kept away from the domestic political debate. In the country recommendations released yesterday, the EU Commission took a neutral stance on public finance developments, preferring not to add to the additional short-term pressure.

While not deemed in breach of the debt rule in 2017, Italy was reminded that a 0.3% structural adjustment is needed in 2018, with no possible delay, and that a 0.6% additional adjustment will be required in 2019. The Commission recommends Italy to complete judicial, public administration, and labour market reforms and given Italian demographics, more pension savings should be sought.

This will be food for thought for the next government, whose real test will be the next budget law, which will be presumably sketched soon in a reworked DEF and drafted after the summer.

Installation likely a fast process

The timeline for government formation foresees Conte running a round of consultations with the parties to check whether a majority can be reached in parliament. If so, Conte will complete the list of proposed ministers and will submit it to president Mattarella while definitively accepting the mandate. The president will then have to issue three decrees, marking the official nomination of the prime minister, the nomination of ministers, and the acceptance of the resignation of the outgoing caretaker Gentiloni government.

After these, the new government will be sworn in and will officially take office. Within ten days of installation, the new government will have to undergo the confidence vote in both branches of the parliament.

In our view, the installation part will be quick, possibly by the weekend.

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Article | 22 May 2018

Why markets could be massively underpricing US rate hikes

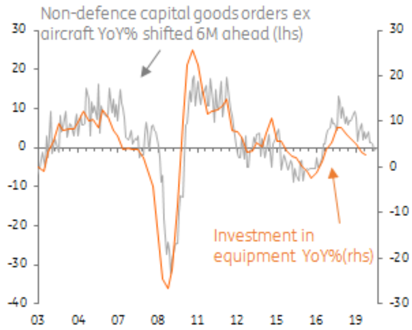
Just who's telling the truth, business and consumer surveys or actual activity data? Since Trump's victory, they've diverged dramatically. If we're wrong and the real data starts to reflect the surveys, the path of rate hikes is being massively underpriced

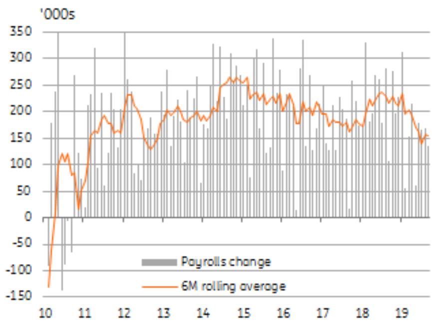
Relationship breakdown

President Trump's promises of tax cuts and reduced regulations with a broad "America First" agenda buoyed both business and consumer sentiment in the wake of his November 2016 election victory. Unfortunately, while actual growth numbers have been very respectable, the situation hasn't been quite as good as the surveys would have historically suggested.

For example, the ISM manufacturing report has been a great guide to the likely pace of overall US economic activity for much of the past 60 years. However, GDP growth is nowhere near the 6% rates the ISM was suggesting possible. Both GDP growth and the ISM survey have moved lower recently, but even so, the US is growing at less than half that rate the ISM survey historically would have suggested.

Since Trump's victory US growth is running at half the rate surveys would have historically suggested





The same phenomenon can be seen in consumer confidence surveys. Since President Trump's election victory rising equity markets, optimism about tax cuts and strong jobs growth have all buoyed sentiment to the extent that the Conference board measure is at levels historically consistent with real consumer spending growth of nearly 6%. However, households have been reluctant to put their money where their mouth is (so far) with spending rising a more pedestrian 2-3%.

If surveys are right, watch out for boom-bust!

The obvious point here is that if the "hard" economic data rebounds to match the optimism in surveys the path for Federal Reserve interest rate hikes is being hugely underpriced by markets. An economy growing at 6% risks generating massive inflation pressures with the Federal Reserve needing to respond in dramatic fashion. Rather than four hikes as is currently priced for the next couple of years, we could be talking upwards of ten. The margin for error would be wafer thin with the odds favouring an inverted yield curve as markets anticipate a boom-bust recession.

> *The broad assumption is that the surveys are wrong*

However, the broad assumption we, the Federal Reserve and financial markets all share is that the surveys are wrong. There has been a break in the series and the relationship has been reset. As such, surveys may not fall back to reflect the actual economic data. Nonetheless, that does not mean that following surveys is a redundant task. They can still tell us which way momentum is swinging, which remains critical in determining how the economy is likely to perform in the future.

Where are the surveys pointing?

The ISM remains the premier manufacturing survey and regional purchasing managers' surveys suggest we should be looking for a bounce in the ISM index next month. There have been strong gains in the Philly Fed index, Richmond Fed and the Empire manufacturing survey already in May while rising oil prices are a boon for the US shale industry. Global growth is in good shape and even though the US dollar has appreciated over the past couple of months it remains relatively competitive. At the same time, tax cuts are boosting profitability, order books are strong and if President trump can make headway on his plans for $1.5 trillion dollars of infrastructure spending then that will act as a further boost to US industry.

Consumer confidence hits an oil slick

Next week we will get consumer confidence numbers from the Conference board and here we are looking a little more nervously. The tax cuts that were passed in December equated on average to around $900 per household, but a significant chunk of this is being eaten into by rising gasoline prices.

Simple calculations suggest, on average, each car driver consumed 685 gallons of gasoline last year (The Energy Information Administration reported 143.85bn gallons of gasoline were purchased in 2017 divided by the Federal Highway Administrations estimate of 210 million licensed drivers). Based on the price of gasoline at the time of the tax cut ($2.42/gallon) this worked out as an annualised spend of $1658. However, at today's price of $2.93/gallon that is $349 more at $2007. For a two-car household that is $700, meaning only $200 of the tax cut is left, massively eroding the fiscal stimulus.

$349 How much more it will cost to fill up with gasoline in 2018

Another issue for households is rising mortgage costs. Both 15Y and 30Y fixed rate mortgage rates are at a 7-year high of 4.2% and 4.8% respectively while interest rates charged on adjustable rate mortgages have moved rapidly higher in recent weeks as government borrowing costs push upwards. This is going to be a more marginal headwind to consumer confidence than gasoline prices, but if it contributes to a slowing real estate market, it could become more of a negative over the next 18 months

Federal Reserve risks still skewed to the upside

While the relationship between the surveys and official activity data has broken down, they still tell us that corporates and households are feeling in great shape. With fears over a trade war having abated given the recent US-China agreement and China's decision to lower tariffs on imported cars, this has further improved the economic environment. While acknowledging

US corporates and households are in great shape

the risks that higher gasoline prices eat up a significant chunk of the income tax cuts given to households we continue to believe wages will respond to the tight jobs market and consumer fundamentals remain strong. At the same time, corporation tax cuts and stronger global demand will keep US industry performing robustly.

Moreover, with the US being such a prolific oil producer these days, a higher oil price is no longer such an unambiguous negative for the economy. Even so, it will be interesting to see whether OPEC chooses to loosen its production cut targets at the semi-annual OPEC meeting at the end of June given how successfully it has supported prices.

We have been more upbeat on the US than consensus for quite some time and currently predict 2018 growth of 3%. We see no reason to change that, nor our call for three further Federal Reserve interest rate hikes this year, but the path of consumer spending is critical. Here we still feel consumer confidence surveys have value.

Of course, while we are more aggressive than the market, no one is really expecting up to ten US rate hikes! Debt levels are high and the economy is late cycle meaning that the transmission between rate increases and slower growth could happen quickly. In any case, there are already clear supply bottlenecks in the US economy that make achieving 6% growth nigh on impossible – for example, where is the labour to do the work going to come from? As such, ongoing “gradual” hikes remain our base case with the Fed funds rate hitting 3% next year.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com

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The weaponization of trade - review

"International trade is about more than just economics, and not only for the US administration. Trade is about coercion and strategic influence." So begins this short, thoughtful and timely book by Rebecca Harding and Jack Harding

Source: London Publishing Partnership

Few can have missed the change over the past two or so years in the language used to describe international trade. Words such as 'unfair', 'national security' and 'protection' are now regularly used when describing international trade. This occurs not only in the US. The UK government has linked defence issues to the BREXIT negotiations.

Bad language

The authors are clear this change in language is undesirable. They write "there are no circumstances under which this rhetorical weaponization can be seen as a good thing." The authors, a trade economist and specialist in security, draw on arguments from several fields of study to support their case. At least three dangers are identified:

1. **The language is aggressive.** It feeds excessive nationalism. It promotes the idea that trade can and should be used to coerce and influence other nations and encourages the view that other nations are enemies.
2. **It undermines** the institutions and agreements built since the Second World War, such as

GATT and the World Trade Organisation. These were designed to encourage multilateral rather than bilateral agreement as the best way to foster peace and economic stability.

3. **It diverts attention** from issues in domestic economies, such as the imbalance between savings and investment that lead to trade surpluses and deficits. It's easier to blame a foreigner than think about how, for example, a low savings rate in one's own country necessarily requires an offset that typically leads to trade and current account deficits. The authors call this "trade attention deficit disorder". It is also related to the rise of popularism as easy answers are suggested to more complex problems.

From an implicit to an explicit trade-off

The idea that trade and foreign policy are related is not new. The authors acknowledge this, noting the work of Paul Krugman on strategic trade and Albert Hirschman's 1945 book "National Power and the Structure of Foreign Trade". However, the book argues this relationship has become a principle point of trade policy. Indeed the subtitle of the book "the great unbalancing of politics and economics" suggests a movement away from a previous implicit trade-off between the politics and economics of trade to an explicit favouring of the political dimension. Analysis of a novel database reveals increased trade in military and dual-use goods – and interestingly unreported trade - over the past 10 years. This supports the weaponisation argument. Comments from interviews with unnamed diplomats, politicians and business people with long experience in trade and trade negotiations add to the evidence. Reading Twitter streams on trade supports the argument, too.

A longer-term view

The book helps place current discussion of trade in current context but could do more to recognise a longer-run narrative. Support for a continued expansion of international trade and for the institutions that support it has been waning for a long time and certainly before the global financial crisis of 2007-2008. The works of authors such as Dani Rodrik, Joseph Stiglitz and Michael Pettis do not seem to be referenced. People such as these have been questioning the distributional effects of trade liberalisation for many years. They have also warned of the dangers excessive globalisation brings, leaving some people feeling they have little political power. These people feel multinational companies and unelected technocrats, central banks and international trade bodies have too much power. This problem is summarised in Rodrik's globalisation trilemma. It is not that the authors ignore these issues – President Dwight Eisenhower's 1961 farewell speech warning of a growing class of technical experts in a democratic society is cited – but more could have been done to place the latest deterioration in context.

These criticisms are quibbles. This is a well-written book with a solid argument that both specialists in trade and generalists wishing to understand the world better will benefit from reading.

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

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

Jeroen van den Broek

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

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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

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

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

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

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

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

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@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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