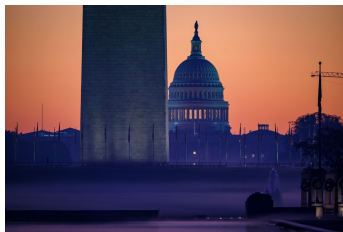


# November Economic Monthly: Navigating a sea of waves

## In this bundle



### November Economic Monthly: Navigating a sea of waves

Hopes of a 'blue wave' in the US election are giving way to concerns over a second wave of Covid-19 across several major economies. This poses...

By Carsten Brzeski, Peter Vanden Houte and 5 others



### US: Groundhog Day

Indications point to a Joe Biden presidency, absent the 'blue wave' that markets had been anticipating. Political animosity means a substantial...

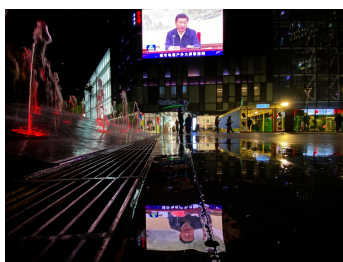
By James Knightley



### Eurozone: Second leg of the recession coming up

The second wave in Covid-19 infections has led to new lockdowns in the eurozone, most probably leading to a fall back into recession in the fourth...

By Peter Vanden Houte



### China

### China's next five-year plan starts in 2021

The Chinese government's views on technology development are the most important feature of China's 14th five-year plan, which begins in the new...



Australia | China...

### Asia escapes fresh Covid waves and remains in better shape

From Asia, the pandemic situation in Europe and the US looks bad and threatens the regions' exports. But the absence of a second wave (or third where...



United Kingdom

### UK: A turbulent November

We expect England's lockdown to trigger a sharp contraction in November GDP, albeit perhaps not as steep as we saw back in March/April. Alongside...

By James Smith



### Central and eastern Europe: Riding the second wave

The CEE region is feeling the heat of the second Covid wave. But with less severe restriction, the economic hit should be less painful too. We also think...



### Latin America: Post-pandemic challenges

As the Covid-19 crisis abates across the region, investors are eager for signs that governments will be able to transition to a more hawkish fiscal policy...



FX

### FX markets: Lowering your sights

FX markets have reacted to news of a much closer US election by selling currencies most exposed to the global recovery story and buying USD and JPY....

By Chris Turner



### Rates: You think you've seen it all? Wait for it...

Picture what many term the most important US election in living memory. Frame it within a global pandemic not seen in 100 years. Add massive supply to get...

By Padhraic Garvey, CFA



---

Report | 5 November 2020

# November Economic Monthly: Navigating a sea of waves

Hopes of a 'blue wave' in the US election are giving way to concerns over a second wave of Covid-19 across several major economies. This poses serious challenges for an economic recovery that still has a long way to go



Source: Shutterstock

**Covid-19 economic Scenarios**

Covid-19 in winter (A B C) + Vaccine rollout (I II III) = ING forecast combinations

**Phase 1: Covid-19 spread before vaccine**

	Scenario (A)	Scenario (B)	Scenario (C)
	ING Base – Moving towards B from A		
<b>United States</b>	Modest restrictions in some hotspots as hospitalisations rise, but differ between states. Focus on limiting spread rather than closing businesses	US follows Europe into tighter restrictions in a majority of states. Construction and manufacturing open, but hospitality heavily impacted	Further waves of Covid-19 push US into stricter lockdowns. Stay at home orders return. Non-essential retail shuts along with other close-contact services
	ING Base		
<b>Europe</b>	Lockdowns succeed. Case growth falls, economies reopen quickly after short-lived lockdowns. Rapid testing capability and more controllable virus growth allows contact tracing to work more effectively until a vaccine arrives	Tight restrictions remain until close to Christmas. Retail and some hospitality reopens or stay open but rules on household mixing remain stricter than before. Fears of more circuit breakers remain. Vaccine will be rolled out in H1 21.	Lockdowns persist into 2021 or get stricter in the case of light lockdowns. Case growth takes much longer to slow than in April/May. Retail reopens/stays open but strict rules on household mixing largely prevents hospitality and tourism restarting until spring
	ING Base		
<b>Asia</b>	Case numbers remain low or very low by international standards, and typically falling. Social distancing restrictions remain tight, but slowly easing, including international travel bubbles	Repeated but isolated clusters dealt with by regional test, trace and isolation measures and brought swiftly under control, though no easing in overall distancing conditions	Asia follows the rest of the world into a second or in some cases third wave and national measures re-imposed to squeeze out the virus. International travel bubbles closed

**Phase 2: Vaccine development and roll-out**

	Vaccine Scenario (I)	Vaccine Scenario (II)	Vaccine Scenario (III)
<b>Vaccine timeline</b>	Several vaccines viable. Roll-out begins in 2021. First approvals in late-2020, but sufficient rollout not achieved much before summer 2021. Social distancing measures fully-unwound from 2H21.	Handful of vaccines viable. Differential roll-out in 2021 across economies. Countries higher-up the orders list of successful vaccines see earlier roll-out and quicker emergence from social distancing rules.	Vaccine development takes longer. Disappointing phase III trials mean no vaccine candidate emerges until later in 2021. Intermittent lockdowns and social distancing continue until 2022 or later

**ING forecasts under each different scenario combinations**

	Combination (A I)	Combination (B II)	Combination (C III)
<b>Forecasts</b>	2021 GDP US: 4.6% Eurozone: 6.1%	2021 GDP US: 3.6% Eurozone: 3.5%	2021 GDP US: -1.1% Eurozone: -0.5%

Source: ING

## Author

### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

### **James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### **Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### **Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

### **Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

### **James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

---

Article | 5 November 2020

## US: Groundhog Day

Indications point to a Joe Biden presidency, absent the 'blue wave' that markets had been anticipating. Political animosity means a substantial near-term fiscal support package is less likely at a time when incomes are being squeezed and rising Covid cases mean containment measures are looking more likely. Economic risks are mounting



Source: Shutterstock  
New York

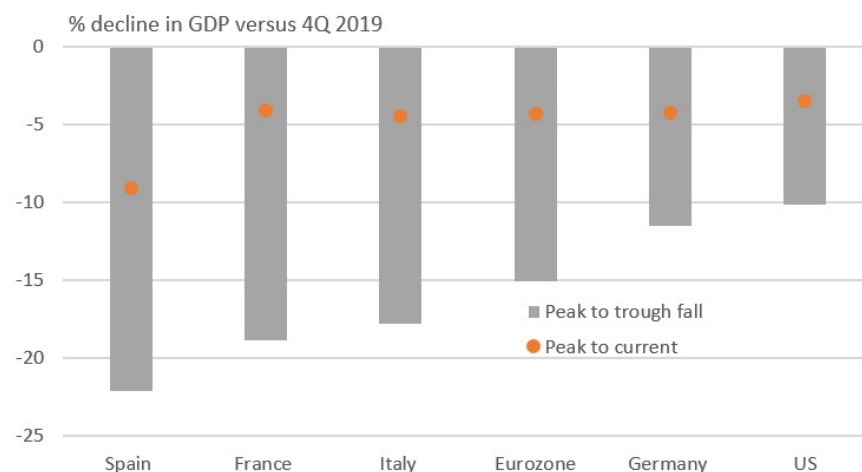
### Biden Constrained

Heading into election night there was an expectation that Joe Biden would win the presidency handsomely and this would help sweep the Democrats to an even bigger House majority and control of the Senate for the first time since 2015. While voters turned up in their millions for Biden, they did the same for Donald Trump, making it a far closer outcome than polling suggested was likely. At the time of writing, it looks as though the Republicans have just about clung onto the Senate and have weakened the Democrat House majority marginally.

Nonetheless, Donald Trump seems to be exploring all possible avenues to retain the Presidency. Recounts, legal challenges and possible court cases mean it could be a few more days or even weeks before we have a definitive outcome while a Senate seat run-off in Georgia won't happen until January.

The initial market reaction has seen the Treasury yield curve flatten at lower levels on the basis that this outcome makes an aggressive reflationary fiscal stimulus - that would have led to greater debt issuance (like the \$3.4trn package proposed by House Democrats) - less likely. Republican Senators will simply oppose it. Equities are also up strongly, likely reflecting an assumption that this outcome diminishes the prospect of major corporation tax hikes while regulations surrounding financial services, healthcare, big tech and real estate may end up being less onerous than feared. At the same time, a Biden presidency would likely mean a more predictable global trade backdrop, which is good news for businesses with international supply chains.

## US economy still 3.5% smaller than 4Q19



Source: Macrobond, ING

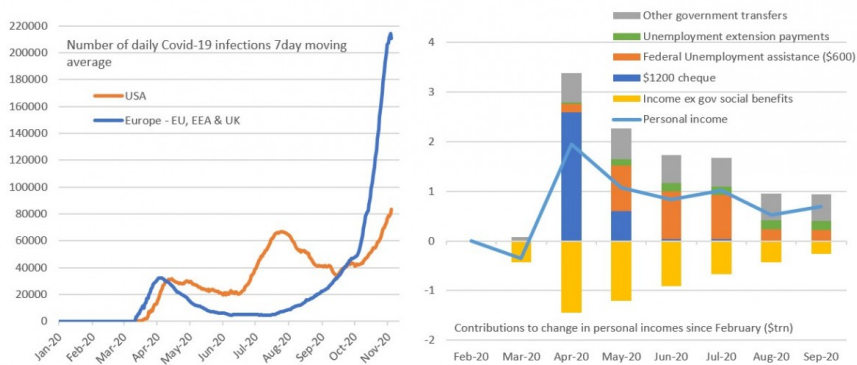
## A long time to heal...

However, this positive sentiment could swiftly dissipate. We must acknowledge the risk that political animosity between Democrats and Republicans, especially if there are lengthy legal battles over the election, scuppers the potential for another near-term fiscal support package. This would be very bad news for the economy. While the US recorded a 33.1% annualised growth rate in the third quarter, we should remember that output is still 3.5% below that of the end of the fourth quarter 2019 and there are 10 million fewer Americans in work than in February. There is a long way to go until the economy has fully healed and this process looks set to be further delayed by the headwinds from rising Covid cases and squeezed household incomes.

More than 230,000 Americans have already lost their lives to the pandemic and the fear is that the exponential growth rate in European Covid cases, followed by lockdowns, may be a prelude to what the US faces in coming weeks. Colder temperatures mean more people congregating inside and the potential for virus spread is growing - for example, Halloween parties and the Thanksgiving holiday could fuel the number of cases.

We are already seeing curfews and other restrictions re-introduced in some cities. Should hospitalisation rates rise and healthcare systems start to struggle this may necessitate the return of broader and more restrictive containment measures.

## Covid spike and income squeeze threaten the recovery



Source: Macrobond, ING

### With more pain to come...

Such action would inevitably bring economic damage. While the construction and manufacturing sectors may escape the scale of lockdown experienced earlier in the year, the service sector is unlikely to be as fortunate. Even if we see only limited action, health fears could mean consumers vote with their feet and not go to shops, restaurants and gyms. Activity would weaken in any case.

New business restrictions would mean rising worker lay-offs and weaker employee compensation at a time when unemployment benefit payments are being cut back. Remember that the \$600/week Federal payment has been tapered to \$400 (and to \$300 in many instances) while millions more have now exhausted their 26 weeks of state unemployment benefits. As such, we have to contend with the very real possibility that household incomes fall in December in the absence of another short-term government support package.

Trying to quantify the impact of this is challenging. The economy has good momentum right now and we see this continuing through November, but December is the big unknown.

Remembering back to the beginning of the year, the economy started brightly and this continued through February. However, just a couple of weeks of lockdown in March was enough to turn what was looking likely to be a 2.5%+ quarterly expansion into a 5% annualised contraction.

Pencil in a 3.5% month-on-month fall in consumer spending in December and a further 1% decline in January, with some weakness in other components of GDP, leads us to look for sub-2% growth in 4Q and an actual negative GDP reading for the first quarter of 1Q21. The more severe the restrictions, the more severe the contraction.

### Vaccine remains critical for recovery

This development would be detrimental for risk appetite with the yield curve flattening at lower levels and be supportive for the US dollar against those currencies exposed to the recovery cycle as the reflation trade gets delayed. In the event of very limited fiscal support, the Federal Reserve may feel compelled to step up asset purchases at the longer end of the yield curve.

This is a more pessimistic forecast than what we were predicting last month, but we believe the set of containment measures will be shorter lasting and less restrictive than those experienced earlier in the year.

Obviously, a vaccine would be a huge boost to sentiment and would allow businesses to plan for the post-pandemic future, with economic activity rebounding once the rollout gets underway. We also still feel there is scope for a decent stimulus package in early 2021 with President Biden at the helm, but it may end up being closer to the \$1 trillion (5% of GDP) package proposed by Senate Republicans rather than \$3 trillion House Democrat package. If we can get this, combined with a vaccine, it still gives us optimism that the economy can post robust growth through the rest of 2021 and into 2022.

## Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

---

Article | 5 November 2020

## Eurozone: Second leg of the recession coming up

The second wave in Covid-19 infections has led to new lockdowns in the eurozone, most probably leading to a fall back into recession in the fourth quarter. With inflation close to 0%, the European Central Bank has announced more policy action in December



Source: Shutterstock

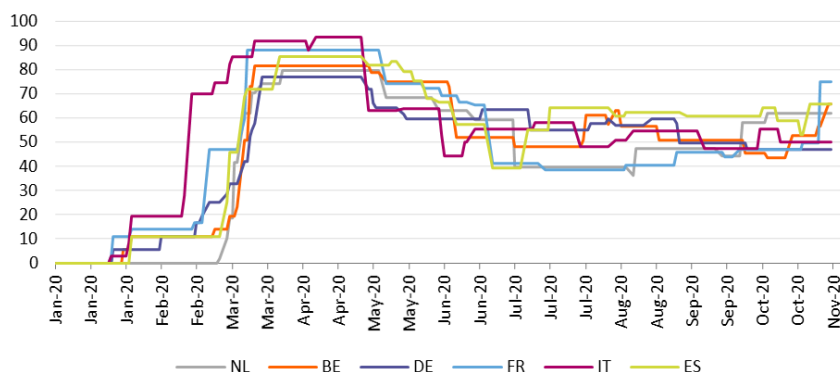
An empty Champs Elysees avenue in Paris, France

### Third quarter mirage

With the seemingly unstoppable increase in Covid-19 infections and the consequential pressure on health systems, most eurozone countries have been forced to put in place more stringent confinement measures again. While schools and companies remain mostly open, at least for the time being, bars and restaurants and non-essential stores have been closed in several of the bigger member states. Add to that a higher level of sickness-induced absenteeism and the negative impact on confidence, and negative growth in the fourth quarter seems hard to avoid.

The spectacular 12.7% non-annualised GDP growth in the third quarter was no more than a mirage, caused by the reopening of the economy after the lockdown constrained second quarter growth. Interestingly, amongst the bigger countries, the snap back has been proportional to the GDP contraction in the second quarter, meaning that most are now close to each other in terms of year-on-year contraction. Spain remains the odd one out, with a much deeper recession.

## Covid-19 government response stringency index

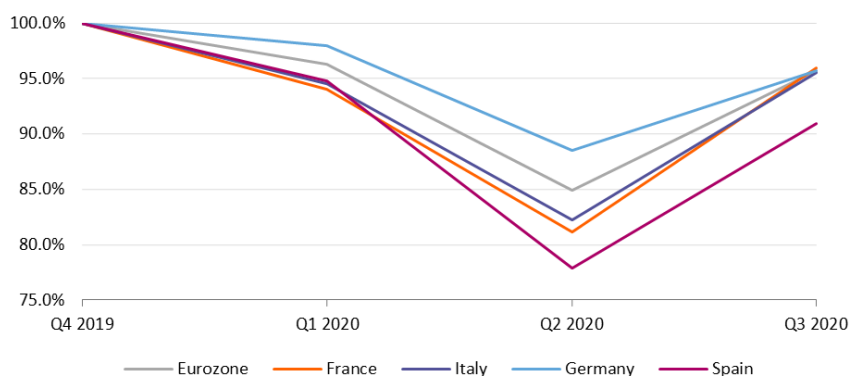


Source: Refinitiv Datastream

## 2021 growth and inflation forecast downgraded

Manufacturing started the fourth quarter on a strong footing, with PMI figures for October pointing to solid growth. However, the retail sector and services are going to be hurt again by the confinement measures, not to mention the negative effects on confidence. The fall in consumer confidence in October doesn't bode well in that regard. We now expect a 2% GDP contraction in 4Q with risks skewed to the downside. Because of the very strong 3Q growth, we had to revise our 2020 GDP growth estimate upwards to -7.1%, but at the same time we lowered our 2021 forecast to +3.5%. Indeed, this time, authorities will probably be more prudent in the loosening of confinement measures, signalling a rather weak start to the year as a result. Only from the second quarter onwards should things speed up, as this is when a vaccine will probably start to be rolled out. Meanwhile, inflation remains uncomfortably low, with core inflation still at a mere 0.2%. With German elections in 2021 and taking into account the fall back into recession, we think the German government might refrain from hiking VAT rates in January, which will probably keep average eurozone inflation below 1% next year.

## GDP evolution since the beginning of the year



Source: Refinitiv Datastream

## Fireworks in December?

While the ECB held policy steady at its October meeting, there was a clear signal from President

Christine Lagarde that fireworks are in the offing at the December meeting, with a “recalibration of its instruments”. We expect an additional €500 billion in quantitative easing, possibly announced as a monthly instalment and continuing as long as needed. To keep financing costs low, the preferential Targeted Longer-Term Refinancing Operations (TLTRO) rates (allowing the banks to fund themselves cheaply if they don’t shrink their credit portfolio) are probably going to be lengthened until the summer of 2022. An increase in the tiering for excess liquidity, exempting a bigger chunk of bank liquidity from the negative deposit rate, is also likely. Just like the Federal Reserve, the ECB might also decide to incorporate bonds of “fallen angels” (companies that lost their investment grade rating this year) into its corporate bond purchase programme. While a deposit rate cut cannot be excluded, it is probably not the most preferred policy measure at the current juncture.

## Author

### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

# China's next five-year plan starts in 2021

The Chinese government's views on technology development are the most important feature of China's 14th five-year plan, which begins in the new year



China's President, Xi Jinping, on a big screen in a Beijing shopping centre

## The 14th five-year plan draws the policy map

It is very important to read and understand the next Chinese five-year plan correctly. This is China's policy roadmap for the coming five years, and the Chinese government's track record has been to stick very firmly to these plans.

The new plan includes extending some policies from the previous five-year plan, for example, 'high-quality' growth still appears as a key theme, which is essentially an extension of China's previous objective of becoming a middle-income society. Though there is no numeric growth target, we understand that the aim is to keep income growth stable, which implies economic growth should also be the same.

The assumed growth in this plan will come from the domestic market, much of which is already middle-class. China also wants to extend the previous plan's objective of narrowing the wealth gap between the rural and urban population.

## Tech remains the key focus

The new plan has a dedicated section for technology development and the clear objective is for China to become self-reliant on tech development, create and innovate in this area and build on talent too. These goals echo the current situation that China faces from restricted US exports of technology.

---

*The new plan has a dedicated section for tech development and the clear objective is for China to become self-reliant*

---

But the plan does not mention how China could survive the technology export market when there is increasing resistance overseas to technology 'Made In China'.

Perhaps the answer is to tap the Belt and Road market as well as the big domestic market, which the plan does mention. However, we don't think this is enough. What concerns us is that the resistance to adopting Chinese technology could become a trend when other economies perceive the increasing power of China as a threat to their own economic growth.

## Green also contributes to high-quality growth

The latest plan also targets a "green" living style as part of its ambitions for high-quality growth. The plan's objective is to speed up low carbon economic development and increase efficiency in the use of resources.

The plan not only aims at protecting the environment but also restoring it, which is a new concept in Chinese policy.

## Implementation is the focus

The government has already started implementing the plan. More actionable steps will be revealed in the upcoming Two Session meetings, in March.

As we have previously written, the most difficult part will be the export of technology, which we believe the government has tried to address by persuading its Belt and Road partners to use Chinese tech products. But those partners are also under pressure to adopt technology from other big players in this market, so their support cannot be taken for granted.

### Author

#### Iris Pang

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

## Asia escapes fresh Covid waves and remains in better shape

From Asia, the pandemic situation in Europe and the US looks bad and threatens the regions' exports. But the absence of a second wave (or third where that has already happened) in most countries means domestic economies are not in such a bad shape. Our Asia-Pacific forecasts are mostly still within our base case scenario for the pandemic



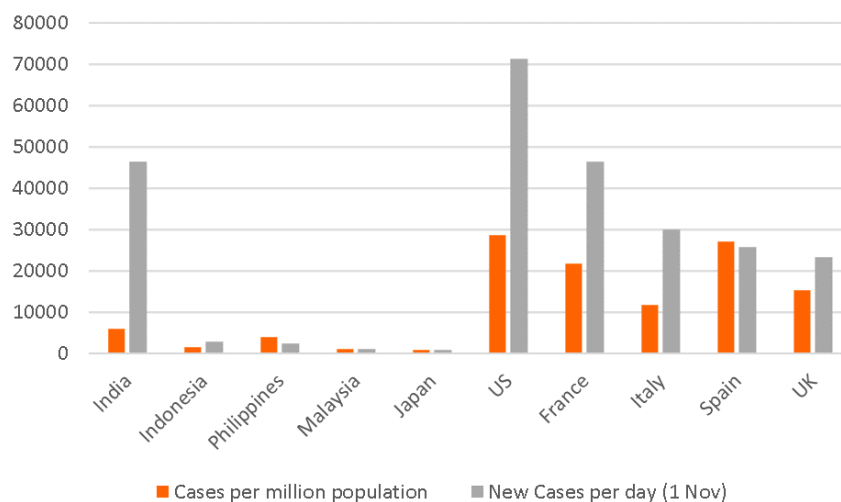
Shoppers in a market in South Korea

### Domestic demand holding up

The domestic demand backdrop in Asia remains reasonable - not great, but given the backdrop, reasonable. And in large part, this is because few countries are suffering particularly badly from Covid-19. In fact, in some cases, it is virtually absent except for the few cases cropping up in quarantined arrivals.

Even the worst affected countries in APAC don't look all that bad when viewed against the US or selected European countries. By far the worst affected country is India, with daily cases averaging between 40-50,000. That's about the same as France today. Adjusted for population, India's 5,944 cases per million of the population looks small compared to Spain's 27,042, or the UK's 15,218, though one might quibble over the comparability of the data.

## How Asia's worst Covid-19 affected economies compare internationally



Source: Worldometer

Asia Covid-19

## Asia's worst-affected economies aren't too badly hit

The two other countries in Asia that have not been having “good” pandemics are Indonesia and the Philippines. Indonesia has already had more than 400,000 confirmed cases in total and the daily case tally is still running at about 3,000. But this is down from its peak of just under 5,000. The Philippines averages something close to 2,000 cases per day, for a total of about 380,000 cases so far. Like Indonesia, although the daily case numbers remain “high”, they are well down from their earlier peaks, of over 6,000, and don’t look too bad on an international basis. Social distancing restrictions remain relatively tight in both countries on a regionally targeted basis, but should both ease this month.

---

*This has the makings of a third wave and will need close watching*

---

Japan has never had a particularly bad outbreak of Covid-19, with just over 100,000 cases in total, and a daily peak during the second wave of just under 2,000. Cases have since dropped, though are heading slowly higher again at about 750 per day. This has the markings of a third wave and will need to be watched closely particularly as its marked seasonality means Japan may have more in common with Europe than with South East Asia.

But Malaysia has also had a second wave of Covid, which is a helpful reminder for other countries in the region that a nice climate is not necessarily strong protection against the virus, though it probably does offer some advantages to colder and wetter countries in the Northern hemisphere. Average daily Covid-19 counts topped 1,200 in Malaysia in October, but are now below 1,000 and trending lower.

## For some, Covid-19 is barely a problem

Outside of these countries, the numbers remain extremely low. South Korea has a low level but fairly steady daily new case-count slightly in excess of 100. China's seven-day average of confirmed cases is less than 30, and in Singapore, Hong Kong, Thailand, Taiwan, Australia and New Zealand, average daily cases are in single digits, or virtually zero. Where they do occur, they are usually confined to imported cases for quarantined travellers and pose little or no transfer risk to the broader population.

---

*In Japan's case, the numbers never really rose high enough to merit the sort of national lockdown response that has been required in other parts of the world*

---

Where cases remain on the high side in the region, lockdowns and other restrictions have typically been put in place quite slowly and often have just chased regional outbreaks with regional mobility restrictions, in much the same way that Europe has been doing until recently. In Japan's case, the numbers never really rose high enough to merit the sort of national lockdown response that has been required in other parts of the world, though they seem to have been particularly lucky, rather than particularly skilful in stemming the tide of the virus. The national emergency Japan implemented was itself a recommendation rather than mandatory or backed by legal enforcement.

Elsewhere, no single policy seems to have been critical to a successful outcome, though a combination of strong test, trace and isolation capabilities, strict lockdowns when required, strong border controls (being an island helps) backed by effective and enforced quarantines, rapid implementation of all such policies when required, and only slow and phased relaxation seem to provide some factors that other economies might wish to emulate.

## Our forecasts remain within the base case scenario

It looks as if most of Asia-Pacific will avoid a second wave, and for those that have already had one, a third wave.

---

*GDP per capita disparities are likely to widen further over the coming few years of recovery*

---

That means that for the most part, we can stick with our original base case views for economic activity for the economies of the region. And that is for a continued gradual recovery towards 4Q19 levels somewhere between the end of 2021 and 2022. The timing of this being primarily dependent on how bad a pandemic each economy has had, how long and how weak external demand remains (the international environment), and how much and how effective local fiscal support measures are to offset the economic ravages of the pandemic.

Effective governance to stem the spread of the virus has typically been associated with the higher income-per-capita countries of the region, and so too (not surprisingly) have fiscal support measures. This implies that GDP per capita disparities are likely to widen further over the coming few years of recovery.

## A snapshot of current social distancing requirements and restrictions

**Korea** – Lowest of three-tier social distancing except for Metropolitan Seoul which remains on tier two for some elements (tier two bans indoor gatherings of 50 or more or outdoor events of 100 or more).

**Australia** – Varies by state. Melbourne, which has been the worst affected, entered stage three restrictions on 27 October, which removed restrictions on reasons for leaving your home following the strict lockdown in the city. Rules are due to be relaxed further on 8 November.

**Japan** – Largely voluntary calls for social distancing, and use of “warning levels” and appeals for limiting opening hours of Karaoke bars and restaurants.

**New Zealand** – No national or local measures since Auckland lifted its restrictions to combat a second wave in October. Restrictions on international arrivals.

**China** – Still using the health code app to scan potential Covid infections, which has been effective, so locations without any Covid cases have limited social distancing measures. Cross provincial travel allowed with a green health code.

**Hong Kong** – Maximum number of people gathering ( 6 for restaurants, 4 for bars). Longer operation hours to 2am. After the initial relaxation, the government says further relaxation is difficult. Cross border travel still faces quarantine, including to and from Mainland China.

**Taiwan** – From 24 September, a Mainland China spouse can apply for entry to Taiwan again but needs 14 days quarantine. It is more relaxed in general, but like Japan, most measures adhered to on a voluntary basis.

**India** – Restrictions vary by state depending on the severity of Covid-19. Reopening of public transport in main cities such as Delhi and Mumbai as well as colleges and entertainment places in some states. Easing of restrictions on social gatherings with up to 200 people in some states. Restaurants and bars operating at 50% seating capacity.

**Thailand** – Extended Covid-19 state of emergency until end-November even as borders are being opened for foreign visitors with the commitment of at least 30 days of stay.

**Malaysia** – Tighter restrictions in Federal territories of Kuala Lumpur and Putrajaya and states of Sabah, Selangor and Johor, which were declared “red zones” recently. The measures include banning of inter-district travel other than for work and closure of schools, public parks, recreational centres, and places of worship.

**Singapore** – Opening of borders for travellers from select countries (Australia, Brunei, China, New Zealand, and Vietnam). More people are allowed to return to their workplaces, with

staggered working hours, as well as to attend work-related gatherings. Limited pilot-programmes under consideration for the safe reopening of bars, karaoke and nightclubs.

**Indonesia** - In effect until mid-November, Jakarta, Banten and 5 other regions in West Java currently under partial lockdown. 11 identified industries (food, medical services etc) allowed to operate at 100% capacity, others encouraged to work from home or operate at 50%. Restaurants and recreational facilities may operate at 50% capacity with contact tracing conducted for in-person dining. Public transportation operating with social distancing guidelines. Frequency of trips controlled.

**The Philippines** - In effect until the end of November, General community quarantine (GCQ) is in effect in the capital region, surrounding provinces and select areas with a high density of infection. Movement for citizens aged 21 and younger and 60 and older prohibited as are gatherings of more than 10 people. Public transportation operating at 50% capacity. "Essential industries" (power, food, etc) operating at 100% capacity. Other sectors at 50% capacity. Mall operations are limited. Recreational facilities and hotels not operating except for quarantine centres.

## Author

### Olivia Grace

Editor

[olivia.grace@ing.com](mailto:olivia.grace@ing.com)

### Julian Geib

Junior Economist, Global Trade

[julian.geib@ing.de](mailto:julian.geib@ing.de)

### Zoltán Homolya

Economic research trainee

[zoltan.homolya@ing.com](mailto:zoltan.homolya@ing.com)

### Amrita Naik Nimbalkar

Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

### Mateusz Sutowicz

Senior Economist, Poland

[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

### Alissa Lefebre

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### Deepali Bhargava

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Senior Economist, Healthcare & Technology  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist  
[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

#### ING Analysts

**James Wilson**  
EM Sovereign Strategist  
[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**  
Digital Editor  
[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**  
EMEA FX & FI Strategist  
[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**  
Senior Economist, Poland  
[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**  
Senior Economist, South Korea and Japan  
[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

**Coco Zhang**  
ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Deputy Global Head of Editorial and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporate Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**  
Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**  
Senior Economist Construction & Team Lead Sectors  
[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**  
Senior Economist, Netherlands  
[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Paolo Pizzoli**  
Senior Economist, Italy, Greece  
[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**  
Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

**Rafal Benecki**

Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Chief Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**  
Writer, Group Research  
+44 20 7767 6209  
[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**  
Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**  
Chief International Economist, US  
[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)



## UK: A turbulent November

We expect England's lockdown to trigger a sharp contraction in November GDP, albeit perhaps not as steep as we saw back in March/April. Alongside fresh Bank of England stimulus, these tighter restrictions could put additional pressure on the UK and (to a lesser extent) the EU to agree a trade deal over coming days



Source: Shutterstock

November 4 2020: UK Prime Minister Boris Johnson leaves 10 Downing Street

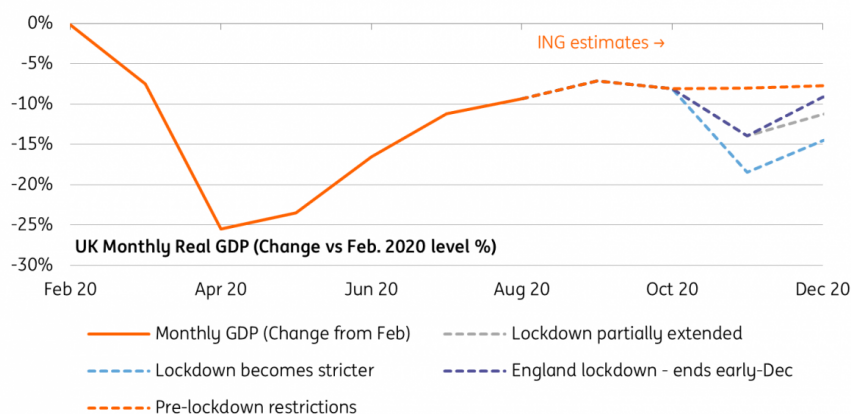
### UK GDP set to plunge, albeit not as much as in the first lockdown

By any normal measure, the 6-7% contraction we expect in November UK GDP on the back of England's month-long lockdown is a sharp decline.

But these are not normal times, and importantly, the hit to economic activity is unlikely to be quite as steep as it was in March and April, when GDP plunged by quarter in a matter of weeks. The principal reason is simple: this lockdown is less restrictive for the economy than the first, even if the rules for individuals are comparable. Manufacturing and construction will plough on, as will schools. We also know that businesses are more prepared for this lockdown - we're unlikely to see essential businesses temporarily close, as we did back in March so that they could revamp their operations to be Covid-safe. And in the hospitality and retail sectors, more businesses - particularly smaller ones - will be more geared up for online and takeaway options.

We'd also reiterate that the economy has not fully recovered from the first round of restrictions. In August the size of the economy was still 9% below February levels, and put simply that means there is 'less to be lost' this time around. We expect this lockdown will take the size of the economy some 14-15% below pre-virus levels.

## Our estimates of how the English lockdown could hit UK GDP



Source: Macrobond, ING forecasts

\*Partially extended - shops largely reopen but hospitality mostly stays closed

## Lockdown adds to economic case for a Brexit deal

All of this has piled on the pressure for the Bank of England to act, but it may also have a bearing on the direction of Brexit talks. Negotiations have appeared to make steady progress following 'intensified' meetings, with the most recent reports suggesting that a deal on fishing rights may be in the offing. If there's to be a deal, most analysts think it could come in a matter of days, given the time needed for ratification.

The return to lockdown on both sides of the Channel will inevitably boost the economic case for a free-trade agreement. Admittedly in the longer-term the difference between having a free-trade agreement and not is perhaps not huge. Both involve the UK leaving the single market and customs union, which is where the bulk of the new costs and headaches for businesses will come from.

But in the short-term, there is hope that a deal could unlock a wider array of measures to help minimise disruption at the ports early on. With Europe still likely to be in the midst of some form of tightened Covid-19 restrictions come 1 January, these sorts of measures could be even more important than they already were likely to be.

## The politics are more complicated

But while the economics are clear, the politics are unsurprisingly more complex. There are undoubtedly some political advantages for the Johnson administration to agree a deal. Entering 2021 without an agreement could leave the door open to further criticism from the Labour Party which, according to some polls, is now ahead of the Conservatives. It would also likely play into the hands of the Scottish Independence campaign, which has seen its support boosted during the pandemic, and is an outcome Prime Minister Boris Johnson is keen to avoid.

That said, the compromises required for a deal - on state aid, fishing and on the Internal Markets Bill (which the UK would need to rewrite) - will be deeply unpopular with many Conservative MPs, many of which have publicly voiced their frustration about the latest Covid-19 restrictions.

In our opinion, this does not necessarily reduce the chance of a deal being agreed (we'd unscientifically say the probability is now at around 70%), but it does mean the end-game will have to involve some careful political choreography. That suggests there could still be some dramatic twists set to come. It's not over yet.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

---

Article | 5 November 2020

## Central and eastern Europe: Riding the second wave

The CEE region is feeling the heat of the second Covid wave. But with less severe restriction, the economic hit should be less painful too. We also think there will be less pronounced fiscal and monetary support, as deflation seems unlikely. CEE FX remains a global beta, rather than a local alpha story



A protester against new lockdown measures in Prague

### Hit by Covid, but the negative impact should be more muted vs spring

Central and Eastern European countries have been hit by the second wave of the pandemic and subsequent lockdowns. While Covid cases are substantially larger than during the first wave, we expect the negative impact on the economy to be less pronounced because (a) new measures are less restrictive (b) temporary shutdowns of large factories - such as automakers seems unlikely at this point and (c) compared to the first wave, the pandemic has had a more diverse impact on global regions.

In particular, Asia's resilience may provide some breathing room to the export-oriented CEE countries, either directly or indirectly via German and eurozone exports

## Less pronounced fiscal and monetary support

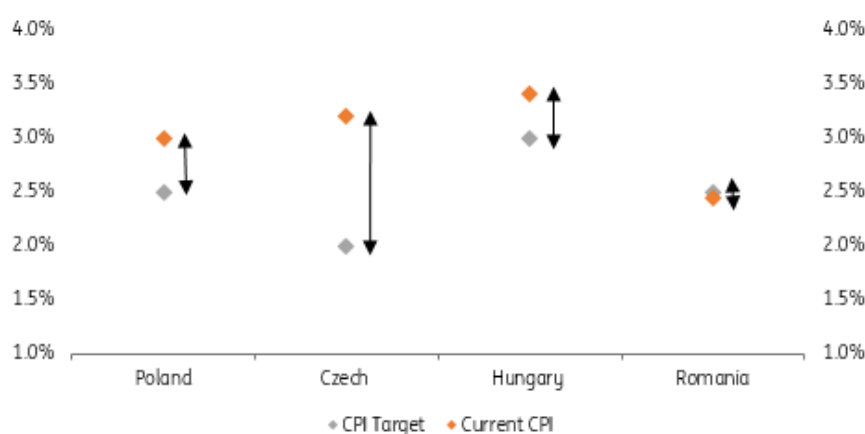
Compared to the first wave, CEE fiscal and monetary support is likely to be less pronounced.

On the fiscal side, this is due to various factors (differing from country to country) such as a move from broad-based to more targeted support measures, less negatively impacted industrial sectors (vs the first wave) and a lower willingness to increase the deficit.

On the monetary side, no urgent easing is expected either. The second wave poses a lower degree of downside risk to the domestic growth outlook and importantly, the ordinary monetary channels have now been more or less exhausted, thus raising the bar for further easing.

In Poland and the Czech Republic, interest rates are close to zero, while in Hungary the interest rate channel continues to be perceived as an FX stabilising tool (hence, limited room to cut rates). Equally, the situation isn't so urgent for local central banks to consider new unorthodox measures - with the exception of Poland's central bank, which we expect to extend its quantitative easing programme into 2021.

## Deflation risks nowhere to be found



Source: ING

## Deflation risk is not an issue

Vastly different CEE inflation dynamics are one reason why the European Central Bank is bracing itself for another large monetary stimulus (to come in December), while CEE central banks are not - at least at this point.

---

*In sharp contrast to the eurozone, the risk of deflation is not an issue in central and eastern Europe*

---

In sharp contrast to the eurozone, the risk of deflation is not an issue in central and eastern Europe (see chart above) as all countries have had some cushion of high and above-target CPI going into the crisis. In the coming months, we should continue to see more normalisation from the previous high levels towards the inflation target, with limited risk of an undershoot.

Purely from a price stability point of view, the case for more monetary stimulus just isn't there.

## CEE FX is a global beta play

CEE currencies (vs EUR) should continue to be primarily driven by their beta (sensitivity to global factors), with limited importance of alpha (domestic drivers).

---

*CEE currencies (vs EUR) should continue to be primarily driven by their beta (sensitivity to global factors), with limited importance of alpha (domestic drivers).*

---

The deterioration in the domestic and eurozone growth outlook in October led to a meaningful underperformance of local currencies, but with a lot of bad news priced in. With the US election outcome not being a negative for emerging market FX (in fact, the prospects of an end to unpredictable trade wars, a modest US fiscal stimulus and a limited scope for a sell-off in global bond markets should benefit emerging market FX next year) this should provide some breathing room to battered CEE FX too.

We continue to prefer the Czech koruna and Hungarian forint to the Polish zloty, given the larger NBP bias towards easing and higher tolerance towards currency weakness.

### Author

#### **Olivia Grace**

Editor

[olivia.grace@ing.com](mailto:olivia.grace@ing.com)

#### **Julian Geib**

Junior Economist, Global Trade

[julian.geib@ing.de](mailto:julian.geib@ing.de)

#### **Zoltán Homolya**

Economic research trainee

[zoltan.homolya@ing.com](mailto:zoltan.homolya@ing.com)

#### **Amrita Naik Nimbalkar**

Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

#### **Mateusz Sutowicz**

Senior Economist, Poland

[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

#### **Alissa Lefebre**

Economist

[alissa.lefebre@ing.com](mailto:alissa.lefebre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havlant@ing.com](mailto:david.havlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Senior Economist, Healthcare & Technology

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Deputy Global Head of Editorial and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporate Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy  
[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Chief Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**  
Chief Economist, Greater China  
[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**  
Writer, Group Research  
+44 20 7767 6209  
[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**  
Regional Head of Research, Americas  
[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**  
Chief International Economist, US  
[james.knightley@ing.com](mailto: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](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland  
[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro  
[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM  
+1 646 424 6464  
[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

---

Article | 5 November 2020

## Latin America: Post-pandemic challenges

As the Covid-19 crisis abates across the region, investors are eager for signs that governments will be able to transition to a more hawkish fiscal policy stance in 2021, amid mounting fiscal concerns



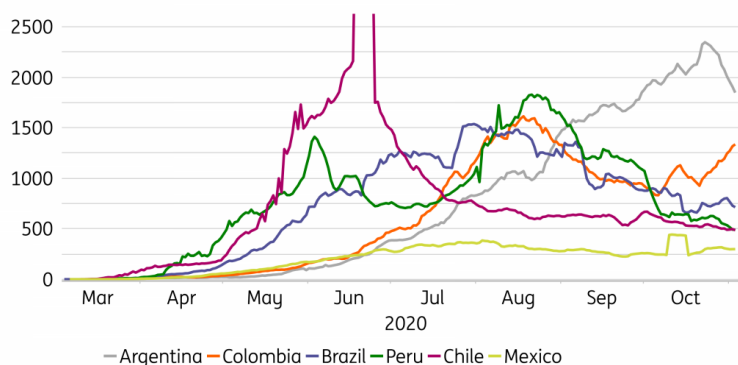
Source: Shutterstock  
Rio de Janeiro, Brazil

### Recovery should continue, but at a slower pace

Latin America has largely avoided, so far, any signs of a second-wave resurgence of Covid-19 cases, as seen in much of the Northern Hemisphere. As the region reopens, while managing to mitigate the virus's death toll through more targeted restrictions, its macro outlook should improve, especially in contrast to other emerging market regions where mobility restrictions have intensified.

## No signs of a second wave yet in LATAM

7-day increase in Covid cases/Mn People



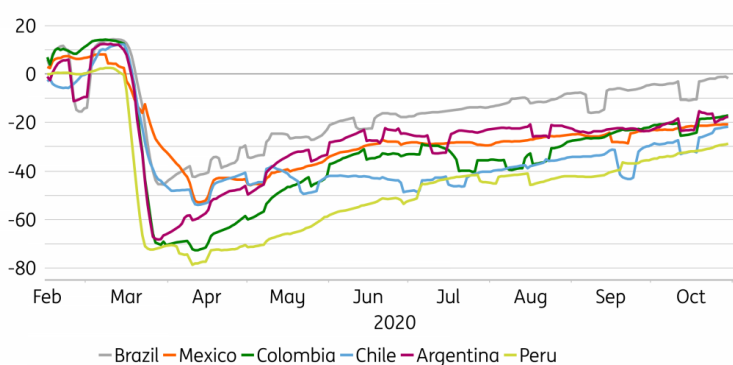
Source: Macrobond, ING

Such an inter-regional divergence would deepen if LATAM manages to avoid a second wave, and further lockdowns, until a vaccine becomes available, possibly early in 2021.

Despite the reduction in Covid cases, mobility indicators (see chart below) suggest that, apart from Brazil, where evidence of a stronger-than-expected recovery is most evident, workplace visits have plateaued somewhat since July. This suggests that the fast pace of recovery generally seen up to July, may have lost steam since then.

## Brazil's faster normalisation of workplace visits remains an outlier

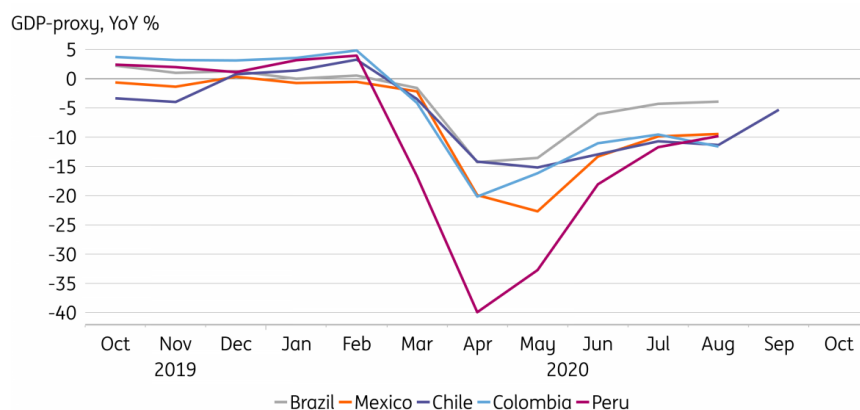
Google mobility indicator (workplace)



Source: Macrobond, ING

There's some evidence that the recovery lost steam in the third quarter, in some countries (see chart below). This would be consistent with the accumulated impact of job losses and reduced government transfers, while continued fear of Covid transmission and social distancing practices continue to depress certain activities, notably in the service sector.

## After a strong 2Q, 3Q has been marked by mixed results in some places



Source: Macrobond, ING

It's still hard to say how countries will continue to adjust but, overall, recent trends suggest that even in the absence of a second wave, the economic recovery throughout the second half of the year may be insufficient to return economic activity to pre-pandemic levels. This could last possibly until a vaccine is widely distributed.

### Coping with a challenging fiscal legacy

Regardless of whether the region surprises with a faster recovery in the second half or disappoints, macro uncertainties are unlikely to dissipate quickly for the region.

The scarring effects left behind in terms of business closures and layoffs, along with the enormous fiscal toll represented by the sharp increase in government spending and reduction in tax collection, suggest that it may take several quarters before we have a clear post-pandemic assessment of regional economies.

For now, fiscal sustainability appears to have become the primary concern for investors across the region, as it enters 2021 with much-weakened fiscal accounts.

This is best illustrated by the underperformance of Brazil's FX and FI assets relative to Mexico's, two countries that adopted vastly different strategies during the pandemic. Brazil reacted to the pandemic by announcing vigorous stimulus measures, including large fiscal transfers to households and businesses. In contrast, the Mexican administration's reaction was unusually muted, both in terms of monetary and fiscal policies.

Thanks in large part to those initiatives, Brazil's post-pandemic activity indicators are the best among major economies in the region. Mexico's recovery prospects are much weaker than Brazil's but, judging by the rally in MXN assets relative to their BRL counterparts, financial markets vastly prefer Mexico's hawkish policy stance.

## Testing LATAM's ability to adapt economic policies to a new reality

In our view, faced with the pandemic, LATAM policymakers acted correctly by implementing robust monetary and fiscal policy stimulus. That was the most adequate course of action in March, but it's clear that there's no additional scope for fiscal easing.

Mounting fiscal concerns suggest that fiscal policies must, gradually, turn more hawkish, while monetary policies remain expansionary, with the policy rate kept at or near their technical lower bounds.

In our view, the medium-term outlook for local assets should be determined, to a large extent, by each country's ability to successfully transition to a fiscally-responsible stance in the coming months, while keeping the policy mix slightly expansionary.

In other words, the extraordinary set of circumstances governments faced in 2020 justified, in our view, Brazil's forceful policy stimulus. The problem that Brazil faces now is the political reluctance to firmly commit to normalise spending and/or raise taxes to help offset 2020, and re-anchor fiscal dynamics.

This difficulty in normalising fiscal spending post-pandemic, and to bolster fiscal frameworks to return fiscal trajectories to a sustainable path, is playing out in most countries in the region, including in Chile, Peru and Colombia.

In the shorter-term, so long as fiscal uncertainties remain unaddressed, investors may continue to prefer exposure to Mexican assets while Brazil and, to a lesser extent, Chile, Peru and Colombia, continue to be avoided.

We expect relative-performances to be reversed at some point, as confirmation of a strong recovery in Brazil, for instance, helps mitigate fiscal uncertainties and reduces the risk premium incorporated into local assets. This contrasts with the more difficult prospects for the recovery in Mexico, for instance, which suggests that fiscal risks should remain elevated there, in 2021, reducing the scope for appreciation in local assets.

### Author

#### **Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

## FX markets: Lowering your sights

FX markets have reacted to news of a much closer US election by selling currencies most exposed to the global recovery story and buying USD and JPY. Certainly, the prospect of at least smaller fiscal stimulus, if not an outright contested election – combined with poor Covid-19 trends – favour more defensive positioning this month



Source: Shutterstock  
Election 2020, Tokyo, Japan - 04 Nov 2020

### Scaling back the rally

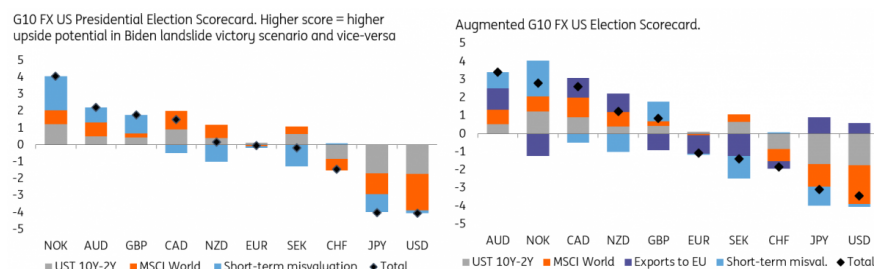
FX markets went into the election priced for a Biden clean sweep. Large fiscal stimulus expected in January, a return to the rules-based trading system, and a Federal Reserve ready to run the economy hot had all contributed to the broad dollar decline and (helped by Covid trends in Asia) generated good demand for those currencies exposed to a rebound in global activity – or the reflation trade.

Instead, it looks very much like the Democrats will struggle to grab the Senate (suggesting a smaller fiscal stimulus as parties continue to bicker) and that whichever candidate secures 270 electoral college votes, that vote could well be challenged. A contested election looks a clear negative for risk assets, recalling the 8% decline in the S&P 500 back in November 2000 as the Supreme Court spent a month deliberating over a Florida recount.

We have been highlighting FX market sensitivities to the global recovery trade in articles such as

the [G10 FX Election Scorecard](#) and these correlations have been holding up well. Further pressure on US equities and a flatter US yield curve would see Norway's krone and the Australian dollar as the most exposed, while the Japanese yen and US dollar should perform better during this uncertain environment. For choice, we would probably favour the JPY over the USD given the risk of a 'sell US' mentality emerging were the election result to be contested in the courts.

## Which currencies are most exposed to the reflation trade/Biden clean sweep?



Source: ING

## EUR: The headwinds are growing

Despite Europe heading into second wave lockdowns, EUR/USD had been holding up quite well. This was probably a function of the broad dollar decline – or effectively the global recovery story trumping the setback in Europe. After election night, the global recovery story is clearly providing less support now and instead, the European double-dip may play a greater role in EUR/USD pricing.

Here, the European Central Bank looks set to top up quantitative easing in December – [a move the ECB sees as effective in keeping a lid on the euro](#). Until the US election result is clear, we suspect that EUR/USD trades in a 1.15-1.20 range – gyrating lower on prospects of a Trump presidency (more protectionism, targeting Europe?) and higher on a Biden presidency. Into 2021, however, we still lean towards a post-Covid global recovery trade coming through next summer. An ensuing broad-based dollar decline could still see EUR/USD trade up to 1.25 – but headwinds are growing to that call.

So far, emerging market currencies have actually held up a little better than expected. That may be because both the Fed and the ECB have light-trigger fingers when it comes to supplying fresh liquidity and that low core rates continue to favour a drive out along the credit curve into high yield, emerging market FX. We like this story in 2021, but again feel that an uncertain November – including the threat of renewed US lockdowns in December – favour patience when returning to the EM growth/yield investment theme.

### Author

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

---

Article | 5 November 2020

## Rates: You think you've seen it all? Wait for it...

Picture what many term the most important US election in living memory. Frame it within a global pandemic not seen in 100 years. Add massive supply to get economies off their knees to a pervasive dusting of structurally negative rates. And then try to make sense of it all for rates - US rates still look like they want to look upwards, even if they go down first



Source: Shutterstock

Former Vice President Joe Biden, left, and President Donald Trump

### Plenty of distractions, but a clearer path emerges ahead

While there is confusion and uncertainty in the air in the US, we know far more now than we did before election day.

The outcome being baked into market price action looks beyond potential re-counts or election validity objections that can muddy things in the coming weeks. The focus is squarely on a Joe Biden administration outcome, but constrained, as the Republicans keep the Senate. And crucially, so far, markets are concentrating on the positives from this. Hence the buying of risky assets like equities.

---

*Where congress acts as a policy bloc to Biden in the coming years, some of the more extreme policies are watered down. Such gridlock gives Wall street less to stress about*

---

But what about bonds? Typically when equities are in favour, bonds are not, and yields head higher in consequence. Here, the impact effect has seen the 10-year US yield lurch lower, from 95bp to 75bp. A 20bp move is a huge move in proportion to the absolute level of yield. In the bond world, these are big valuation changes over the course of 24 hours.

Now we ask a two-pronged question, why have we had this impact, and more importantly, where do we go from here.

## **The constrained nature of the presidential outcome is key**

The rationale for the fall in yields reflects a relief factor.

An unconstrained Biden outcome had positives as it would likely come with a large stimulative package, which would then need to be financed. That combination would be good for growth, but also heavier on supply. In contrast, a constrained Biden likely means a smaller stimulus, with means less of a boost for growth and a smaller increased in supply.

This backdrop together, with an extrapolation where Congress acts as a policy bloc to Biden in the coming years, means that some of the more extreme policies are watered down.

Such gridlock gives Wall street less to stress about, which in part helps to answer the second question. The prognosis remains in place for a 2021 recovery. A boost to growth would ease supply concerns, as the economy keeps better pace with the debt. This maintains a view for a 1 handle for the US 10yr yield in 2021.

## **Despite the uncertainty, the US is still in the lead vs Europe**

While a 1 handle for the US 10yr may not appear to be an aggressive call, it is by definition a definite separation from the negative rates world that the Eurozone continues to endure. The prognosis here is for a re-widening in the spread between US and German market rates.

Pre-Covid, the 10yr spread was over 2%. Covid took it to 1%. It should be in the 1.5% to 2% area as a theme in the quarters ahead. Resumed steepening pressure will also likely come from the US, which is good as it means that the curve is discounting reflation of the economy.

There are near-term risks though. Calls for selected re-counts in the US presidential election will add some toxicity to the backdrop. Meanwhile, a Covid resurgence in Europe is acting to keep German rates hammered down in negative territory, and the remedy from the ECB is to buy more bonds - a double whammy keeping market rates hammered down.

Bottom line, the US remains in the driving seat when it comes to eventual resumed upward pressure on yields. But in the short term, expect election volatility to resume itself, and that

together with European angst is keeping core rates under wraps generally in the coming weeks.

## Author

### Padhraic Garvey, CFA

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).