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Asia week ahead: Tariffed!

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Source: Shutterstock

Tariffs, tariffs, and tariffs

All was going well on the trade talks front until the weekend bombshell by President Trump of a further hike in tariffs on Chinese goods. The news spooked investors and resulted in a heavy sell-off of risk assets, and a flight to safe-haven Treasuries ensued.

The heat continued to rise, but reconciliatory talks are ongoing too. The good news is that both sides still want a deal - as President Trump still thinks a deal is possible and China's vice-premier Liu He is going to attend trade talks this week.

25%

New rate of US tariff on $200bn of Chinese goods

Up from 10%, effective Friday 12.01 am ET

No relief for 'tariffed' markets

As such, the trade war will likely remain an ongoing theme driving the markets next week, and probably beyond. Alas, we see nothing in next week's economic calendar capable of providing a breather for 'tariffed' markets. Not even China's remaining April indicators on industrial production, fixed asset investment, retail sales, or new home prices -- the consensus estimates are pointing to softer growth for most.

India, Indonesia, and Singapore report trade figures for April, which will indeed be gleaned in the light of the ongoing trade war. No prizes for guessing a sustained slowdown in exports from these countries. An additional whammy from a downturn in the global tech cycle is exacerbating the weakening trend.

Indonesia's central bank prefers stability over growth

Indonesia's central bank doesn't seem ready to join in the easing cycle just yet. With GDP growth steady at around 5% year-on-year pace, as what the data for the first quarter of 2019 revealed this week, BI's policy focus remains on financial market stability. And the market stability matters more now than ever as escalated trade and geopolitical risk sour investor sentiment toward emerging markets.

In the not too distant past, the financial crisis in Turkey and Argentina less than a year ago exposed Indonesia's vulnerability to the emerging market contagion. What lies beneath the vulnerability is a wide current account deficit, which is equivalent to 3% of GDP in 2018 - nearly double from the previous year. As noted above, the April trade figures should reinforce the deficit widening trend.

Our baseline for BI policy is no change to the 6.0% policy rate throughout 2019.

6.00%

Bank Indonesia policy rate

No change expected this year

Malaysia's GDP growth bottoms out

Malaysia's GDP data for 1Q19 will support the central bank's rate cut at the last meeting. The GDP slowdown is obvious from the high-frequency economic activity, and our estimate of 4.2%, down from 4.7% in 4Q18, remains on track.

Even as growth slides below the central bank's forecast of 4.3% to 4.8% this year, we believe the timely policy boost together with the favourable base effects will shore it up in the rest of the year towards the top end of the central bank's forecast range, eliminating the need for anymore rate cuts.

4.2%

ING forecast

Malaysia GDP growth in 1Q19

Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
		Monday 13 May			
India	1300	Apr CPI (YoY%)	3.0	-	2.9
		Tuesday 14 May			
India	0730	Apr WPI (YoY%)	3.1	-	3.2
		Wednesday 15 May			
China	0300	Apr Fixed Asset Investment (YTD, YoY%)	6.3	6.4	6.3
	0300	Apr Industrial Production (YoY%)	7.0	6.5	8.5
	0300	Apr Retail Sales (YoY%)	9.4	8.6	8.7
India	-	Apr Imports (YoY%)	2.0	-	1.4
	-	Apr Trade Deficit (US$bn)	-14.2	-	-10.9
	-	Apr Exports (YoY%)	2.5	-	11.0
Indonesia	0500	Apr Exports (YoY%)	-8.0	-	-10.0
	0500	Apr Imports (YoY%)	-15.0	-	-6.8
	0500	Apr Trade Balance (US$mn)	-364.0	-	540.2
Philippines	-	Mar OCW Remittances (YoY%)	6.0	-	1.5
Singapore	-	Apr Non-oil Domestic Exports (MoM%, SA)	3.9	-	-14.3
South Korea	0000	Apr Unemployment Rate (%, SA)	-	-	3.8
		Thursday 16 May			
Malaysia	0500	1Q GDP (QoQ/YoY%)	0.7/4.2	-/-	1.4/4.7
	0500	1Q Current Account (Q) (MYR bn)	15.7	-	10.8
Indonesia	-	May BI Policy Decision (7-day Reverse Repo, %)	6.0	-	6.0
		Friday 17 May			
Hong Kong	0930	1Q F GDP (QoQ/YoY%)	-/-	-/-	1.2/0.5
Singapore	0130	Apr Non-oil Domestic Exports (YoY%)	-	-	-11.7
	-	1Q F GDP (QoQ /YoY%)	-/-	-/-	2.0/1.3

Source: ING, Bloomberg, *GMT

Article | 10 May 2019

Think Forward Initiative

Fairness in consumer credit markets

Making sure you are treated fairly when applying for credit is becoming much more reliant on data that shows what you do, rather than who you are, writes...

As a borrower, you are only as good as your credit score. But what makes up a credit score and what can influence it is often an opaque matter. With the proliferation of machine learning and big data, algorithms are playing a larger role in decisions by financial institutions to grant a mortgage or loan. In theory, this should increase transparency and remove biases associated with things such as gender, race, or even postal code. But does it?

This was the subject of a discussion among experts at a Think Forward Initiative event in Sweden on Thursday. Stefania Albanesi, Professor of Economics at the University of Pittsburgh, opened the discussion by noting that, on the surface, certain characteristics such as gender and religion shouldn't affect access to credit. However, simply excluding these factors is no guarantee that they won't ultimately affect access to credit because the data behind the models may implicitly include these. Indeed models need to be tested to ensure this is not happening.

This is especially important as evidence suggests several groups face difficulty accessing credit. The young, those on low incomes and minority groups seem particularly disadvantaged. The panel generally agreed that a more data-intensive approach to credit scoring can play a role in reducing the disadvantage that these groups face.

But Chuck Robida from consumer credit reporting company Experian said consumers won't be protected fully from a biased system, as there can be an inherent bias in the data and models used in those algorithms. His organisation looks at what he terms “credit behaviour” to determine credit performance, which brings in the need for data beyond merely a name, which in itself could reveal a borrower’s likely ethnicity or location, for example.

How you spend and save

Jan Dodion, head of risk at ING, agrees. In any traditional credit report, it will be a consumer’s socio-demographic information that will be the most relevant, followed usually by information from a credit bureau, which more often than not, typically only reflects negative events, such as a default, rather than positive ones, such as regularity and reliability in paying household bills. “The moment we start incorporating ‘transactional data … the way in which you use your daily banking products, not credit, but your saving account, your current account and sometimes your credit cards, it starts ruling out the social demographic drivers,” he told the audience. A financial institution’s models can contribute to making decisions based on what you do with your money, rather than who you are.

But is it fair?

Brian Bucks, from the Consumer Financial Protection Bureau in the United States, says deciding what criteria to use when establishing fairness in lending is an important choice. One of the challenges that a regulator faces is that of availability of data, even so-called alternative, behavioural data. If a particular type of data is not universally available, but rather, available only to a certain sector of the population, then fairness becomes even harder to ensure. In lending terms, many consumers are “invisible”, meaning that they either have no credit record, which in turn makes them more likely to be turned down for a loan and excluded altogether. Bucks said some of the bureau’s research has shown that access to high-speed internet has a far tighter link to a borrower’s “credit visibility” than their physical proximity to a bank. So if a lender’s algorithm were incorporating digital, or behavioural, data into its traditional scoring models to determine a borrower’s creditworthiness, anyone without a mobile phone could potentially find themselves rejected.

Digital footprints

Bucks sees cases of lenders that are using data such as education or employment history as part of their models. By looking at an organisation’s credit applications and associated outcomes, Bucks can see how alternative data is working “in the real world”. Tarun Ramadorai, from Imperial College Business School and the Centre for Economic Policy Research, a think tank, has similar concerns with regards to how inclusive this newer data is. A consumer is more likely to want to hand over their “digital footprint” to their lender if that footprint is good, which in turn creates what Ramadorai calls a “massive censoring issue”.

No surprises

ING’s Dodion says application of new data sources, modelling methods and technologies are crucial to developing better risk models, which holds clear potential advantages for consumers. He explained that more focus on transactions-based models can result in less bias and broader access to credit. The greater the amount of automation, the more efficient a bank becomes, which then allows it to offer more affordable terms to a wider range of customers. The more you automate, the more you can ensure you have priced your products correctly and remove the scope for any nasty surprises, such as a default. “Surprises are never good,” he says, “not for a bank, not for a consumer and not for society."

The discussion was part of the Think Forward Initiative event "Fairness In Consumer Credit Markets" held on 9 May in Lund, Sweden. This was organised by Stefania Albanesi from the University of Pittsburgh and Tarun Ramadorai from Imperial College Business School.

The Think Forward Initiative seeks to bring together global experts to find out how and why people make financial decisions. Stefan van Woelderen, research lead of TFI, gave the audience an update on its latest achievements and expectations for the next few months. The Think Forward Initiative's goal is to find out how people make certain choices as individuals in their social and macro context, and help them make better ones. Its main partners are ING, the Centre for Economic Policy Research (CEPR), Deloitte, Dell EMC, Dimension Data and Amazon Web Services. The wider TFI network consists of more than 200 different organisations (including universities, NGOs, companies, etc.) and more than 1,500 individuals, of which almost half are researchers.

Article | 10 May 2019 Japan

Japan: Mixed messages

In Japan, the macro picture paints a bit of a muddy picture. Both investment and net trade don't really help us much with the outlook for the rest of...

No questions answered

From a purely macro perspective, the last month has answered no questions about the trajectory of Japan's economy. Indeed, to the contrary, the picture is less clear than it has been for some time.

We are approaching the release of 1Q19 GDP data, which means that we have near-complete, and semi-complete high-frequency data for most of the subcomponents of GDP, as well as for inflation. The story is as follows:

1Q19 GDP may not look too bad at first glance; we are looking for something around 1.1% at a seasonally adjusted annualised rate. That would follow a 1.9% rate in 4Q18, so looks decent, albeit perhaps indicative of a slight moderation in pace.

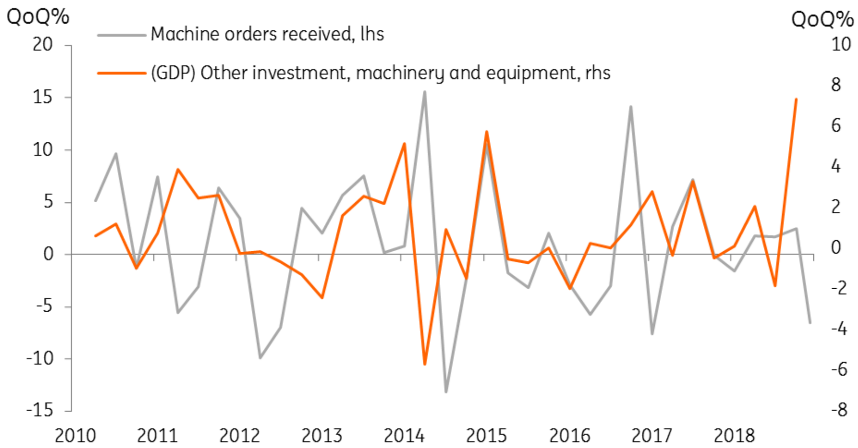
But Japanese GDP can't really be taken so literally, and is also prone to huge revisions, so aside from saying it is likely to be slower in 1Q19 than 4Q18, we can't confidently say much more at this stage.

Many mixed signals

Within this total are some real "head-scratchers". For example, private consumer spending looks as if it could register a healthy 2% pace. But cash earnings, which had been providing some lift to the household sector, have recently crashed to low sub-1% levels, and this does not look sustainable.

On the investment side, residential investment seems to be undergoing something of a boom, prompting questions about the Bank of Japan's purchasing of real estate investment trusts (JREITS). Business investment in plant, machinery and non-residential construction looks terrible in contrast, so the net investment picture will be determined by a largely unforecastable horse race between these two components.

Business investment (in GDP) and machine orders



Source: CEIC, ING

Don't expect any big economic rebound

Net trade is another source of considerable uncertainty. We know that exports have been badly hit by the slowdown in global trade, the US-China trade war and the global tech slump, not to mention the slump in the auto sector. What we can't say with any precision is how this plays off against what also looks to have been a very weak quarter for imports, and whether this has led to a surge in inventories, or has been accompanied by destocking from previous inventory accumulation. We have opted for the latter, but inventories are often calculated residually by statistical agencies, so we have no confidence that this will actually turn out as forecast.

> *Exports are very weak, but net trade is harder to call, or how this impacts inventories*

Putting this all together, it is very hard to characterise whether 1.1% is a good or a bad result for Japan, even if this is close to the figure that eventually gets published. It certainly doesn't set the economy up for a big rebound in 2Q19, but it isn't particularly worrying either.

Inflation did nudge a little higher in March, though this coincided with a further tweak to Bank of

Japan (BoJ) forward guidance that to paraphrase, guarantees no tightening of policy until at least Spring 2020, and probably not then either. This, according to BoJ was to offset misperceptions about their intentions. We don't believe there were any. But in any case, it won't help the BoJ achieve their inflation target, and even they seem to have given up on it if recent economic projections are to be taken at face value.

This article forms part of our Monthly Economic Update which you can find here

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Snap | 10 May 2019 United States

Fed rate cuts unlikely despite US inflation miss

The latest downside surprise on US inflation won't help resolve market pessimism towards the Fed policy outlook. But with wage pressures continuing to...

Source: Shutterstock

US inflation back to target, but it won't help market pessimism

US headline CPI has nudged back up to the 2% target for the first time since November, helped along by the 30% rise in gasoline prices since the low at the start of the year. But the fact that this data came in below expectations will do little to assuage ongoing market concerns about inflation. That said, there are a few key reasons why we think market pessimism on the Fed rate outlook is misplaced.

Firstly, as Chair Jerome Powell noted in his recent press conference, there are a few CPI components that are temporarily keeping a lid on overall inflation. For instance, apparel alone is knocking almost 0.1ppt off the headline rate, which is partly down to some recent methodology changes. Financial services costs have also been a bit of a drag. While the collective of all of this isn't massive, it's enough to keep both core and headline inflation around 0.2-0.3ppts lower than they might otherwise have been.

A rate cut is less likely than markets are pricing

More broadly, we expect the strength in wage growth to gradually exert upward pressure on core inflation over coming months. Tightness in the jobs market is causing firms to lift pay more rapidly to retain/attract staff, and according to the Fed's Beige Book, corporates are increasingly looking at other non-wage benefits too (extra vacation, pension/health benefits, sign-on bonuses etc).

To us, all of this suggests that the market may be a little too relaxed when it comes to inflation. Investors are currently pricing at least one rate cut over the next 12 months, but despite the latest increase in trade uncertainty, we think this is unlikely to materialise as things stand. Given the robust activity story, inflation backdrop and recent improvement in financial conditions, we think it is more likely that the Fed remains on hold for the foreseeable future.

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Opinion | 9 May 2019 United States

If it’s just the economy, stupid, Trump’s in a good position for 2020

Swing States win elections, and given the strong economic performance of the big 5, any challenger is immediately going to be on the defensive

President Donald Trump at a rally in Florida, 8 May

The economy, stupid?

In our US Politics Watch: Presidential election 2020 and beyond report, we highlighted what we felt were the five key swing states that will determine who wins the Presidency - all of which went to President Trump in 2016. Michigan, Wisconsin, Pennsylvania, Florida and Arizona in total have 86 electoral college votes (out of 538) and for Donald Trump to win re-election we think he would need 50 of those 86, assuming the states accounting for the other 452 vote as widely expected. We believe the Democratic candidate would need to pick up 38 of the 86 for victory. Bearing in mind the campaign mantra "it's the economy, stupid", first coined by Bill Clinton's strategist, James Carville, this will be a tough challenge for the Democrats.

> *Donald Trump has a strong platform for his re-election campaign*

Of course, economic performance is not the only factor that determines how people vote, but looking at the numbers for these key swing states, it gives Donald Trump a strong platform for his re-election campaign. All five of these swing states were in the top half of the 2018 growth league. If better-than-median GDP growth was what purely drove the Presidential election result, carrying Arizona, Florida and Michigan would give President Trump the electoral college votes needed, even if he lost Pennsylvania and Wisconsin to the Democratic candidate.

As for employment, all 50 states have experienced job gains since President Trump's inauguration. Arizona and Florida are both in the top 10 states for employment growth, but while Pennsylvania, Michigan and Wisconsin lag well behind this can largely be explained by slower population growth. Importantly, all five have seen sizeable declines in their unemployment rates.

We are still a long way from 3 November 2020 and the situation could change, but given the strong economic performance of these swing states and the fact that equity markets are at all-time highs any challenger to Trump is going to start their campaign on the defensive. As such a challenger may need to focus more of their initial campaigning on healthcare, environmental policy, regulation of big tech and identity politics to convince the electorate that political change is required.

The Five swing states that hold the key to the 2020 election

Source: ING Oxford Analytica

Swing States are key

The President is not technically elected by voters, but by what is called the Electoral College. Each state is allocated a number of members based on how many members are in its Congressional delegation with each state deciding for itself how its votes are apportioned in the Electoral College.

The majority of states use a winner takes all approach. For example, this means that although Donald Trump won 49% of the vote in Florida at the 2016 election while Hillary Clinton won 47.8%, all of Florida's 29 votes in the Electoral College (the same as the 27 House members plus the two Senators) went to Trump.

Although Clinton received three million more votes than Trump across the country, Trump won in the Electoral College by 306 votes to 232. Therefore, the election is ultimately not determined by national trends, but by the trends that are most salient in the 'swing states', those that can swing back and forth between the parties and deliver the election.

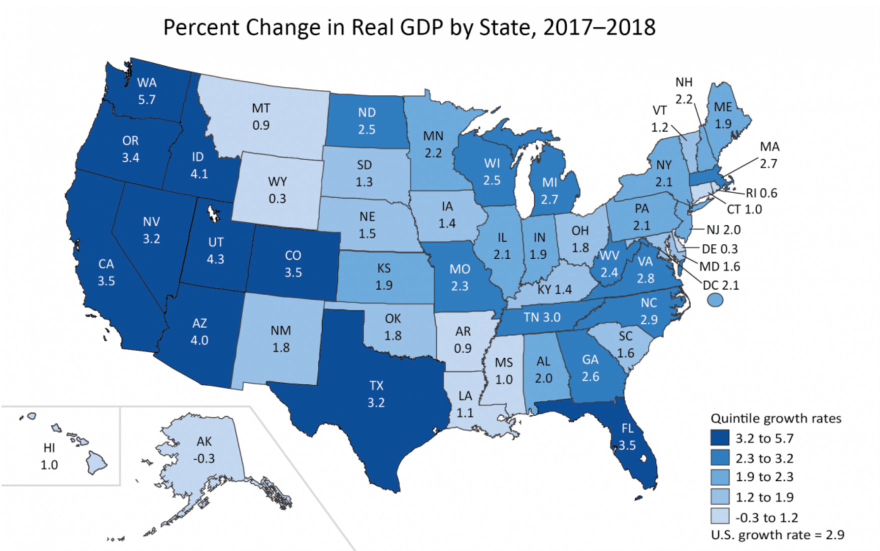
Swing states outperform

The US economy expanded 2.9% last year and as the illustration from the Bureau of Economic Analysis below shows, western states clearly outperformed. Only one state saw an economic contraction and that was Alaska, reflecting a lagged response to the oil price slump. But given Alaska last backed a Democrat Presidential candidate at the 1964 electoral college and oil prices have risen sharply in recent months it would be difficult to bet against it going to the Republicans again in 2020.

Only one state saw an economic contraction and that was Alaska

Washington was the best performer, growing 5.7%, well ahead of second place Utah on 4.3%, but looking at the swing states the news is rather mixed at first glance. Arizona and Florida were two of the top performing states ranking 4th and 5th out of the 50 states with growth of 4% and 3.5% respectively. Michigan is broadly in line with the national average, having grown 2.7%, but Wisconsin (2.5%) and Pennsylvania (2.1%) were a little weaker. Nonetheless, Wisconsin still came in as the 17th fastest growing state while Pennsylvania scraped into the top half of the table by being ranked 24th. The New England states, the Mideast states and the Plains all underperformed, averaging 2% growth.

US GDP growth by State

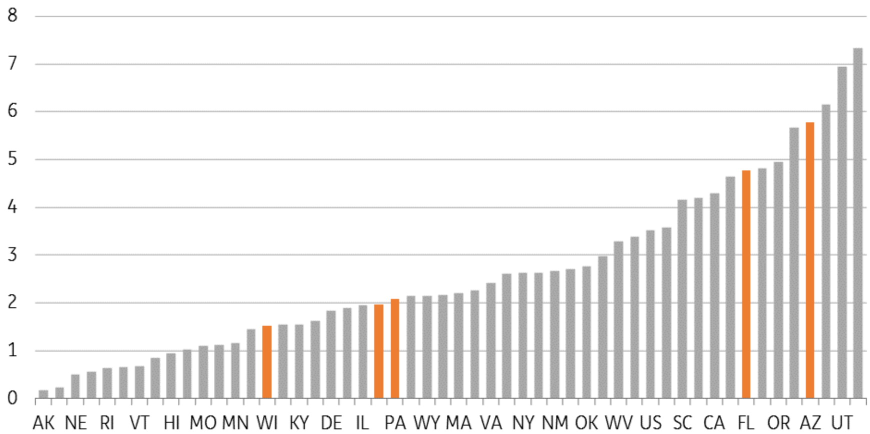


Source: Bureau of Economic Analysis

Jobs: everyone is a winner

In terms of employment, every single state has seen job gains since President Trump's inauguration in 2017. As the chart below shows, Arizona and Florida are near the top of the list for performance once again, which is understandable given the robust growth seen in those states, but Pennsylvania, Michigan and Wisconsin lag well behind. Nonetheless, it is important to point out that these are still strong performances by historical standards, especially when we look at population changes in US states. Arizona and Florida have seen large inward migration which is creating more economic activity while also generating a greater pool of labour - Arizona's population increased 1.7% last year and Florida's rose 1.45%, whereas Pennsylvania's population increased 0.1%, Michigan's grew just 0.2% and Wisconsin grew 0.4%, according to the Census Bureau.

Employment growth since January 2017



Source: Macrobond, ING

Therefore to get a more complete picture of the dynamics within the local labour markets we also need to look at the unemployment rates. These show that Arizona' unemployment rate fell 0.2 percentage points since President Trump came to power, while Wisconsin's fell 0.7 percentage points, Michigan 0.9pp, Florida's dropped 1.1pp and Pennsylvania's fell 1.3pp versus a national decline of 0.9pp.

Key economic performance indicators of the swing states

Swing State	Electoral College Votes	2018 GDP growth %	'17-19 Employment growth %	'17-19 unemployment rate change ppt
Arizona	11	4.0	5.8	-0.2
Florida	29	3.5	4.8	-1.1
Michigan	16	2.7	2.0	-1.0
Pennsylvania	20	2.1	2.1	-1.3
Wisconsin	10	2.5	1.5	-0.7
USA	538	2.9	3.5	-0.9

Source: ING, BEA, BLS

Trump in the driving seat... for now...

While obviously recognising there are a number of factors that determine how people vote, the economic backdrop right now in the key swing states offers good news for President Trump. All five key swing states are growing faster than the median (if not the national average of 2.9%) and all five have seen employment grow and unemployment fall since President Trump took office. Pennsylvania, Wisconsin and Michigan have all seen slower employment growth than the US as a whole, but they have also experienced slower population growth, meaning that unemployment rates have clearly fallen.

Wisconsin appears to be the weakest performing economically of the five. It accounts for 10 electoral college votes and is clearly going to be a primary target for the Democrats, but they will need another 28 electoral college votes. Florida on its own will give them 29, but they would likely have to focus on non-economic issues given the rapid GDP growth and the strong jobs' performance. Pennsylvania and Michigan have not been as strong economically, but again they are better than average and barring a downturn, the Democrats will likely need to make a broader case for political change.

Given the importance of the economy to election outcomes we will be providing regular updates on these state-by-state figures in addition to other updates in partnership with Oxford Analytica.

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FX Talking: Trading blows

The re-opening of the US-China trade war has come as a surprise. We suspect a deal will be concluded in 3Q19, but until then, investors look set to play...

Source: Shutterstock

Yen in favour

The uncertain risk backdrop should see the Japanese yen outperform across the board and we expect a continuation of the dovish re-pricing in open economies. It looks too early to re-buy into emerging markets FX. The motives for the Chinese reneging on its part of the trade deal are uncertain at this stage. Are they prompted by a little 'fine-tuning' or a more fundamental re-assessment of Trump's tolerance for a total trade war? Until this becomes clearer we expect investors, who have so far enjoyed a strong year of returns, to turn more cautious. With its negative correlation to equities and its lack of correlation with the renminbi, we expect the Japanese yen to perform well over the near term. We favour the JPY over the dollar, as the latter could prove a little vulnerable if US equity markets were to correct.

Risks to the euro

We still think there is a window for EUR/USD to trade to 1.10 this summer. The renewed trade conflict risks stamping on the green shoots of the eurozone recovery. US tariffs on auto imports and European elections pose two further risks to the euro in May.

Central and eastern Europe re-assessed

Elsewhere, we expect positive trends in CE4 FX to be re-assessed. A poor performance by the ruling PiS in European elections could raise fears of fiscal profligacy in Poland. Hungarian rates look far too low given near 4% CPI. We think the bull trend in the Czech koruna will reverse now that the hiking cycle is over. And the Romanian leu looks to be living on borrowed time.

You can read the full report here.

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.11	↓	108	↓	1.28	↓
3M	1.10	↓	110	↑	1.26	↓
6M	1.15	↑	108	→	1.31	↓
12M	1.17	↑	105	↓	1.38	↑
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.87	↑	25.70	↑	4.32	↑
3M	0.87	↑	25.80	↑	4.28	↓
6M	0.88	↑	25.90	↓	4.31	↓
12M	0.85	↓	26.30	↑	4.34	↓
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.75	→	19.00	↓	4.00	↑
3M	6.80	→	18.80	↓	3.70	↓
6M	6.75	↓	19.00	↓	3.40	↓
12M	6.60	↓	19.50	↓	3.70	↓

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-0.1	-1.6	0.4	2.0	-2.4	0.7
%YoY	-5.4	0.2	-1.7	2.5	-5.4	4.5
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	-2.7	0.2	2.9	4.7	2.2	7.5
%YoY	-0.5	15.7	11.0	98.5	8.0	42.1

Source: Bloomberg, ING

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Report | 10 May 2019

May economic update: Just when things were looking up

Just as pockets of optimism had begun to emerge in the global economy, trade tensions are back, though we still think a US-China trade deal remains...

Trade tensions return

Just as pockets of optimism had begun to emerge in the global economy, trade tensions are back. President Trump has taken the trade war a step further with the imposition of fresh tariffs on China, which also raises questions about the possibility of auto tariffs. We still think a US-China deal remains likely, not least because President Trump will not want a damaged economy and stock market as he heads into a key election year. But in the meantime, trade uncertainty, as well as risks relating to forthcoming European elections and Brexit, suggest that financial market caution is likely to stay with us for a little while longer.

The re-emergence of US-China trade tensions has spooked financial markets, but ultimately we still think a deal is likely. Failure to get a deal, perhaps coupled with further tit-for-tat tariff hikes, would be harmful to both economies and would hit equities. Such an environment would be deeply damaging for President Trump's chances of re-election in

2020, so we suspect the latest move is designed to extract last-minute concessions from China, rather than a serious effort to trigger a larger global trade war.

However, stronger-than-expected growth in China following earlier fiscal and monetary stimulus provides its government with some extra chips when it comes to renegotiating. The negotiations concern much more besides trade – China's ability to export its 5G network, coupled with geopolitical tensions in the South China Sea, also matter.

The US economy

Despite the ongoing uncertainty, the US economy continues to prove the doubters wrong, following another robust GDP growth figure for 1Q19. The economy is adding jobs in significant numbers, while financial conditions continue to improve thanks to rising equity markets, a strong and stable dollar and falling mortgage rates. Inflation could rise more quickly than the market anticipates given rising fuel costs and wage pressures emanating from the labour market. While financial markets continue to price in interest rate cuts, the Federal Reserve is maintaining a cautiously upbeat tone that signals stable monetary policy through 2019.

The Eurozone also saw stronger-than-expected first quarter growth, which was probably helped along by a normalisation of the exceptional factors that had held back growth in the second half of last year. But while a recession certainly doesn't look imminent, a growth acceleration also seems unlikely. The rise in April inflation was caused largely by calendar effects so there's not much sign of an upward trend. All this suggests the ECB will stay put for the time being.

The UK's ongoing dilemmas

In the UK, there are good reasons to think that the Brexit deadlock won't be broken before the new October Article 50 deadline. Cross-party talks don't appear to be making much headway, while there remains a risk of a summer Conservative Party leadership battle. A further extension to the Article 50 period is perhaps more likely than not. But while we think a 'no deal' exit will be avoided, firms will have to continue making preparations and this will keep a lid on economic growth over the summer months.

May is typically a bad month for EUR/USD. 1.10 looks the target this summer as US data holds up well and the ECB contemplates the signals it wants to send with the TLTRO III in June. A surprise decline in the Renminbi would also shake up the low volatility mood.

While risk assets have rallied off earlier lows, the US 10-year yield has not managed to budge much from the 2.5% area. However, the positive macro-story in the US, coupled with the fact that a Fed rate cut remains some way off, suggests the balance of risks are slowly swinging back in the direction of a test higher for market rates.

ING global forecasts

	2017					2018F					2019F					2020F				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
United States																				
GDP (% QoQ, ann)	1.8	3.0	2.8	2.3	2.2	2.2	4.2	3.4	2.6	2.9	3.2	1.8	1.7	1.8	2.5	1.8	1.8	1.7	1.6	1.8
CPI headline (% YoY)	2.6	1.9	2.0	2.1	2.1	2.7	2.7	2.6	2.2	2.4	1.6	2.2	2.2	2.4	2.1	2.8	2.2	2.2	2.2	2.4
Federal funds (%, eop)[1]	0.75	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
3-month interest rate (%, eop)	1.15	1.30	1.35	1.55	1.55	2.30	2.35	2.45	2.65	2.65	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.40	2.40
10-year interest rate (%, eop)	2.40	2.30	2.30	2.40	2.40	3.00	3.00	3.00	2.80	2.80	2.30	2.50	2.60	2.45	2.45	2.35	2.30	2.25	2.20	2.20
Fiscal balance (% of GDP)					-3.5					-4.0					-4.5					-4.6
Fiscal thrust (% of GDP)					0.0					1.1					0.4					0.0
Debt held by public (% of GDP)					76.1					76.7					78.5					80.8
Eurozone																				
GDP (% QoQ, ann)	2.7	2.7	2.7	2.7	2.5	2.8	1.7	0.6	0.9	1.8	1.5	1.2	1.6	1.4	1.2	0.9	1.2	1.0	1.0	1.2
CPI headline (% YoY)	1.5	1.3	1.5	1.4	1.4	1.3	1.7	2.0	2.0	1.8	1.4	1.3	1.2	1.3	1.3	1.5	1.5	1.6	1.6	1.6
Refi minimum bid rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (%, eop)	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	-0.32	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
10-year interest rate (%, eop)	0.45	0.40	0.45	0.42	0.42	0.50	0.30	0.40	0.24	0.24	-0.07	0.10	0.20	0.20	0.20	0.20	0.20	0.15	0.15	0.15
Fiscal balance (% of GDP)					-0.9					-0.5					-0.9					-0.8
Fiscal thrust (% of GDP)					0.2					-0.2					0.2					-0.2
Gross public debt/GDP (%)					89.2					87.8					86.6					85.4
Japan																				
GDP (% QoQ, ann)	1.9	2.3	1.6	1.3	1.9	-0.4	1.9	-2.4	1.9	0.8	1.1	0.8	-0.1	1.0	0.6	0.8	0.6	0.7	0.8	0.7
CPI headline (% YoY)	0.2	0.4	0.6	0.6	0.5	1.3	0.6	1.1	0.9	1.0	0.3	0.8	0.4	0.1	0.4	0.6	0.6	0.8	1.0	0.8
Excess reserve rate (%)	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0
3-month interest rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	-0.05	-0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.10	0.10	0.10	0.10
10-year interest rate (%, eop)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-4.8					-4.1					-3.6					-3.0
Gross public debt/GDP (%)					221					223					224					226
China																				
GDP (% YoY)	6.9	6.9	6.8	6.8	6.9	6.8	6.7	6.5	6.3	6.6	6.4	6.2	6.3	6.3	6.3	6.3	6.2	6.2	6.2	6.2
CPI headline (% YoY)	1.4	1.4	1.6	1.8	1.6	2.2	1.8	2.3	2.5	2.2	1.8	2.5	2.6	2.6	2.4	2.6	2.6	2.5	2.4	2.5
PBOC 7-day reverse repo rate (% eop)	2.45	2.45	2.45	2.50	2.50	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55
10-year T-bond yield (%, eop)	3.30	3.55	3.60	3.90	3.90	3.75	3.50	3.65	3.30	3.30	3.05	3.20	3.00	2.95	2.95	2.95	2.90	2.90	2.85	2.85
Fiscal balance (% of GDP)					-3.7					-2.6					-4.5					-4.0
Public debt, inc local govt (% GDP)					50.0					88.0					102					103
UK																				
GDP (% QoQ, ann)	1.3	1.0	1.9	1.6	1.5	0.2	1.6	2.8	0.9	1.4	2.0	0.9	1.2	1.8	1.5	1.5	1.7	1.2	1.1	1.5
CPI headline (% YoY)	2.1	2.7	2.8	3.0	2.7	2.7	2.4	2.5	2.3	2.5	1.9	2.1	1.9	2.0	2.0	2.4	2.1	2.1	2.0	2.2
BoE official bank rate (%, eop)	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25
BoE Quantitative Easing (£bn)	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445	445
3-month interest rate (%, eop)	0.35	0.35	0.35	0.50	0.50	0.60	0.80	0.80	0.80	0.80	0.85	0.85	0.85	0.85	0.85	1.05	1.10	1.30	1.35	1.35
10-year interest rate (%, eop)	1.15	1.10	1.35	1.20	1.20	1.45	1.48	1.57	1.30	1.30	1.00	1.20	1.35	1.40	1.40	1.50	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-2.5					-1.4					-1.5					-1.5
Fiscal thrust (% of GDP)					-0.5					-0.4					-0.4					-0.3
Gross public debt/GDP (%)					87.0					84.0					83.0					81.5
EUR/USD (eop)	1.08	1.12	1.20	1.20	1.20	1.20	1.17	1.15	1.12	1.12	1.12	1.10	1.12	1.15	1.15	1.16	1.17	1.18	1.20	1.20
USD/JPY (eop)	112	115	110	113	113	107	110	114	113	113	112	113	110	108	108	105	103	102	100	100
USD/CNY (eop)	6.89	6.78	6.65	6.51	6.51	6.28	6.67	6.87	6.88	6.88	6.74	6.75	6.80	6.75	6.75	6.70	6.60	6.70	6.70	6.70
EUR/GBP (eop)	0.87	0.88	0.94	0.89	0.89	0.88	0.88	0.89	0.90	0.90	0.85	0.86	0.88	0.86	0.86	0.85	0.85	0.85	0.85	0.85
Brent Crude (US$/bbl, avg)	55	51	52	61	55	67	75	76	69	72	64	68	69	73	69	70	74	76	74	74

[1]Lower level of 25bp range; 3-month interest rate forecast based on interbank rates

Source: ING forecasts

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