

## What's happening in Australia and around the world?

Inflation is nowhere to be seen in Australia, which is why we think the Reserve Bank of Australia is likely to cut rates at their next meeting on 4 June. ING's Asian chief economist Rob Carnell thinks we'll see two 25 basis point rate cuts in 2019, simply because, if the argument is strong enough for one, then it's probably strong enough for at least two as well

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## Reserve Bank of Australia's Lowe talks up rate cuts

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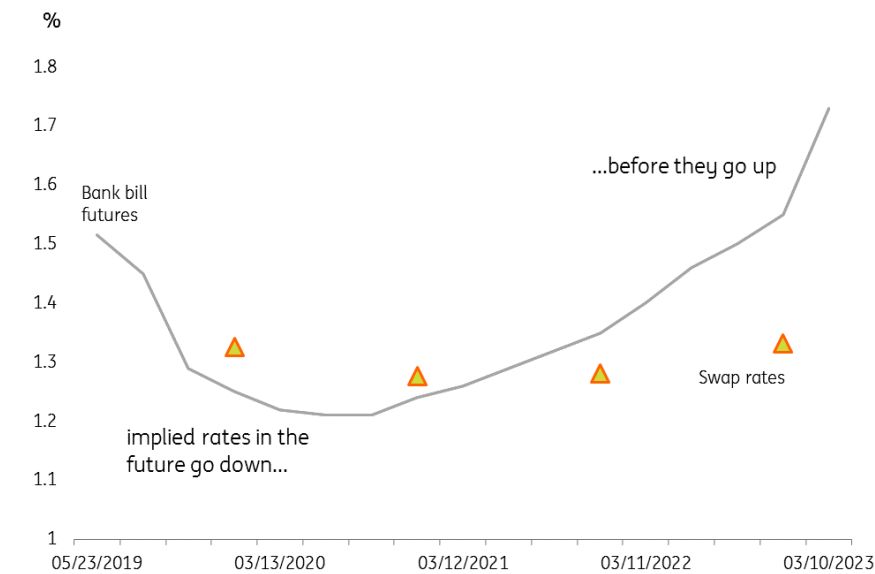


### We are already looking for 2 cuts this year

We penciled in two 25bp rate cuts by the RBA this year at [our last forecast update](#), following on from the very weak 1Q19 inflation figures (1.3%YoY). RBA Governor, Lowe seems to agree, noting at his speech on Tuesday that inflation would not likely reach its 2-3% target range without further falls in the unemployment rate, and that achieving this would be easier with some additional monetary support.

"Given this assessment, at our meeting in two weeks time, we will consider the case for lower interest rates".

## Implied future policy rates from bank bill futures



Source: Bloomberg  
Bank bill futures

## RBA now has a clear easing bias

Why two 25bp cuts? Well, if the argument is strong enough for one, then we figure it is probably strong enough for at least two. There are some in the market now calling for a total of 100bp of easing, though we don't believe things have come to that just yet.

Our 2Q19 forecast of AUD/USD 0.69 has already been achieved, and now exceeded, with the AUD trading below 0.69 today. We clearly have to re-look at that forecast with a view to a lower trough should we get the two rate cuts we now expect. That said, markets are already aggressively pricing easing, so the additional AUD weakening may not be substantial.

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# China industrial profits falling, hurt by the technology war

China industrial profits fell in April. Details show that industries that showed falling profits are those experiencing structural changes, including from...



Workers at an electronic factory in Eastern China

## China industrial profits shrank in April

Industrial profits fell 3.4% YoY YTD in April. The fall in profits has continued since November 2018, except for in March (13.9%YoY YTD). We believe this falling profit trend will continue for most of 2019.

## Structural changes are the reason behind profit changes

Examining the details by industry over several months, we find that the falls in profits in some sectors are structural.

1. Automobiles has seen a fall in profits of 25.9% YoY YTD, in an industry that is disrupted by technology. Ride hailing apps mean less demand for private cars. If this meets with an economic downturn (possible in 2019) then the sector will experience an even bigger shrinkage in its profits.
2. Damage from the trade war and the technology war between China and US could further

extend to other economies, so putting the high-tech industry's profits at risk. Computer, telecommunication and other electronic equipment manufacturers have seen a 15.3% YoY YTD fall in profits. This category is often linked with the production of chemicals and products, which saw a 16.0% YoY profit fall in April. The technology war is brewing even faster in May 2019, and could continue for the rest of the year. We therefore expect the technology war to put pressure on industrial profits for the whole of 2019.

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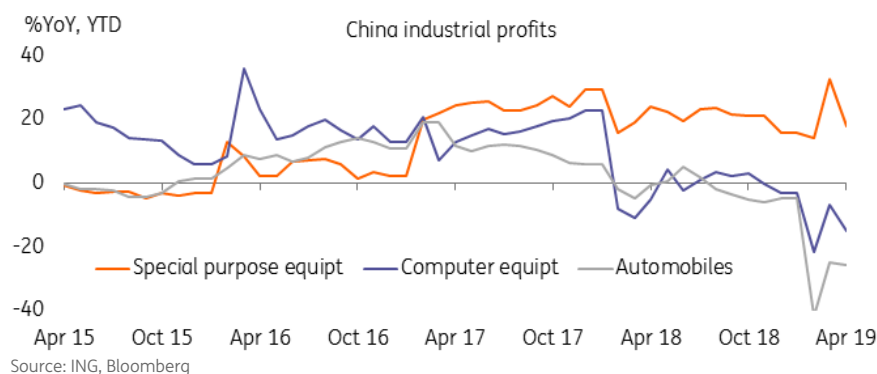
## Stimulus measures supporting some manufacturers

Stimulus measures and therefore infrastructure projects support manufacturing.

Infrastructure projects are mostly in metro line construction. We see that this category had profit growth of 67.6% YoY YTD in April, suggesting stimulus measures have been in place.

As this is the early stage of infrastructure project construction, these projects also benefit the upstream miners. This was reflected in the profit growth of ferrous metal mining at 185.2% YoY YTD in April and also led to profit growth of 17.9% in specialised equipment, which can be used in mining.

## Different sectors suffer from different levels of profit change



## We expect stimulus measures to speed up to stabilise GDP growth

With falling business opportunities from other countries in the technology sector, industrial profits in May 2019 could drop to 5.0% YoY YTD. Looking forward, industrial profits face drags on the economy from lower technology exports, countering pulls from stimulus measures. Overall, we still expect profit shrinkage for 2019.

With China's technology manufacturers facing intensifying headwinds from other economies, the



domestic economy needs to grow faster to offset some of these headwinds. We expect construction of infrastructure projects to speed up, and liquidity easing to match the funding needs from infrastructure projects so that GDP growth can reach at least 6.0% in 2019.

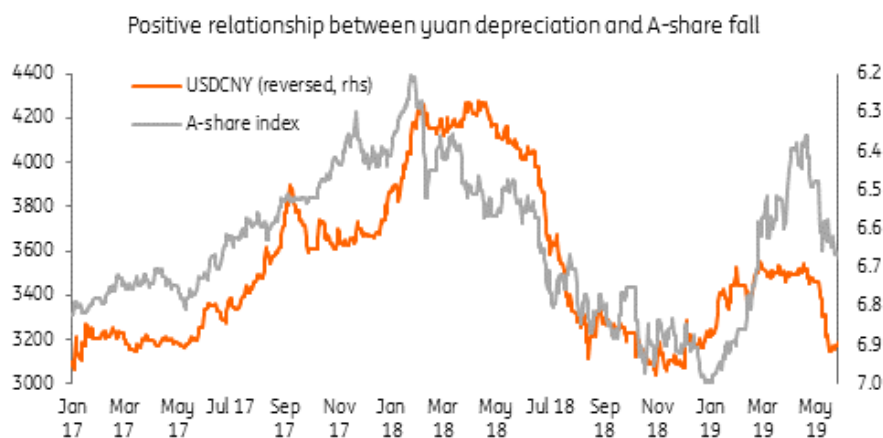
## Yuan to appreciate

We also believe that USD/CNY and USD/CNH will continue to stabilise, with gradual slight appreciation, so that the yuan market can shake off substantial pressure from investors betting on yuan depreciation.

Another reason for our call for an appreciating yuan is that when the yuan is stable the onshore asset market is also stable- important during a technology war that can affect asset markets worldwide because of the interlinked global supply chain.

Based on the above reasons, we believe that the yuan can appreciate back to the 6.75 level, a level seen back in the first week of May, by the end of 2Q19.

## Stabilising yuan helps stabilising the Chinese onshore stock market



Source: ING, Bloomberg

# India: Way forward under Prime Minister Modi

Prime Minister Modi's General Election win puts to rest long-standing political uncertainty for markets. After a strong rally this week,...



Source: Shutterstock

~300

Parliamentary seats for BJP out of 543

A landslide win

Higher than expected

## Surprisingly strong voter mandate for Modi

Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) swept back to power, stronger than before. The vote counting yesterday kicked off with a strong, 300-seat lead for the BJP in the 543 seat Lok Sabha (lower house of parliament). The final tally due any time now, is expected to put the BJP ahead with over 300 seats, surpassing the 282-seat majority in the 2014 election and absolutely on course to form the government single-handedly. The result contrasts with the pre-election polls predicting the BJP's return with a significantly thinner margin.

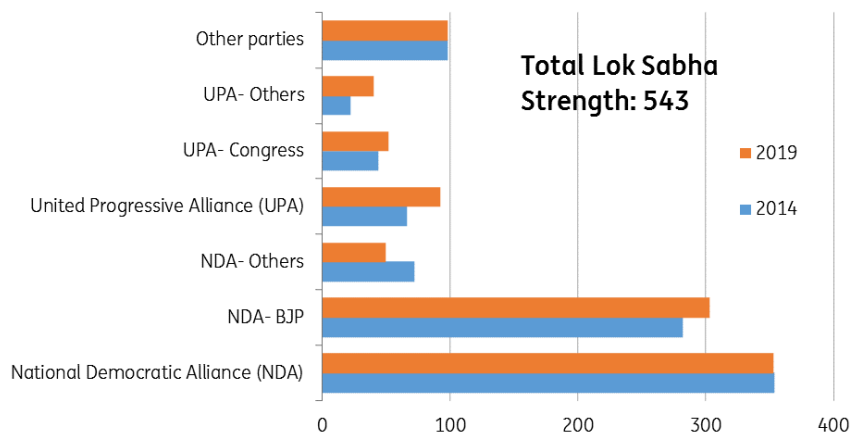
The BJP retained its stronghold in the states – Gujarat, Madhya Pradesh, Rajasthan, Karnataka, and



Chhattisgarh – despite its poor showing in assembly elections there. It gained some ground against dominant local parties in some other states – Assam, though failed to make in-roads in the southern states -- Kerala and Tamil Nadu. The BJP's main rival, the Congress Party, improved on its 2014 performance slightly but is nowhere close to being a threat to the incumbents.

As things stand, close to the final results, the BJP-led National Democratic Alliance (NDA) looks set to win about 350 seats, the Congress-led United Progressive Alliance about 90, and other parties taking the remaining parliamentary seats.

## Yet another landslide victory for BJP



Source: Wikipedia, Election Commission of India, Local media, ING

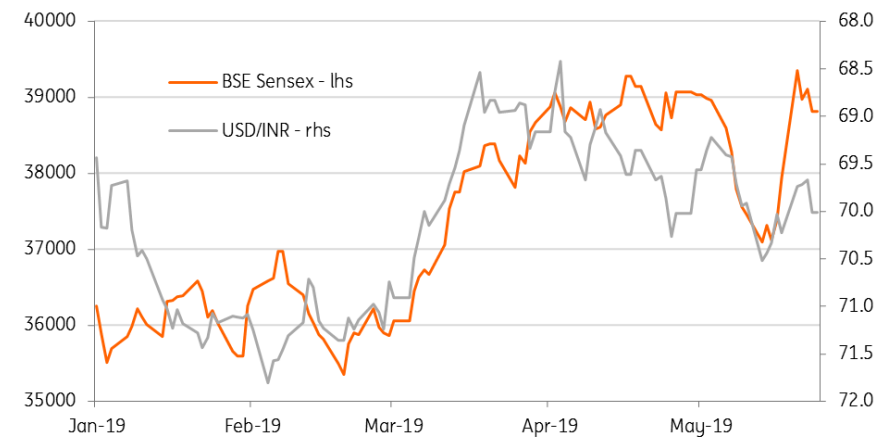
## Best of election-related market rally is behind

The odds of Prime Minister Modi winning the elections with an absolute majority cheered markets most of this week. We believe markets had factored in Modi's win but not yet another landslide surge back to power.

The BJP's strong lead right at the start of vote counting came as an added boost for markets in the early hours of trading yesterday. However, as the initial euphoria died down, the profit-taking ensued and most gains were pared off towards the end of the trading session. Pretty much the same can be expected about trading today.

We believe the best of the election rally is behind us, and the economy will be back to re-assert its influence on the markets - mainly negatively amid the prevailing risk-off sentiment globally.

## Markets likely to be back in profit-taking mode



Source: Bloomberg, ING

## Near-term economic reality remains grim

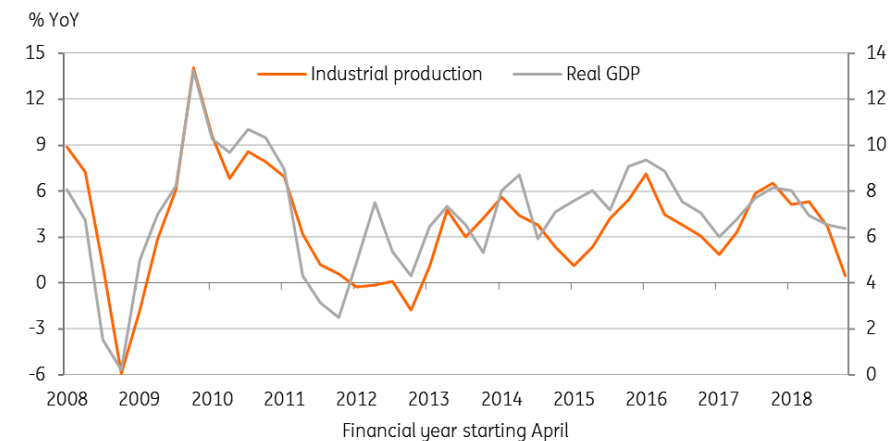
The forthcoming activity data should reinforce that despite its relatively small export base, the Indian economy isn't fully shielded from the potential global slump stemming from the trade war.

Just as in other Asian countries, the economic slowdown here has accelerated in the final quarter of the financial year 2018-19 (ended in March), for which GDP data arrives next week (31 May). If true, our forecast of a slowdown of growth to 6.0% from 6.6% in the previous quarter will make it the slowest quarterly growth in two years. We continue to expect GDP growth staying at this level in the current quarter before the pre-election boost to government spending boosts the economy.

But with growing global headwinds from weak exports and higher oil prices, sustaining growth at or above 7% will be a challenge in the current financial year (ING forecast 6.8% average for the year). Adding to the cyclical economic woes are the structural bottlenecks of persistent twin deficits (the current account and budget deficit) weighing on investor sentiment.

While the cyclical growth slowdown validates the Reserve Bank of India's two rate cuts this year, we believe the risk of potentially higher inflation will keep the central bank from easing again at the next meeting in early June. With this, we consider the RBI easing cycle over for now.

## Weak manufacturing, weak GDP



Source: CEIC, ING

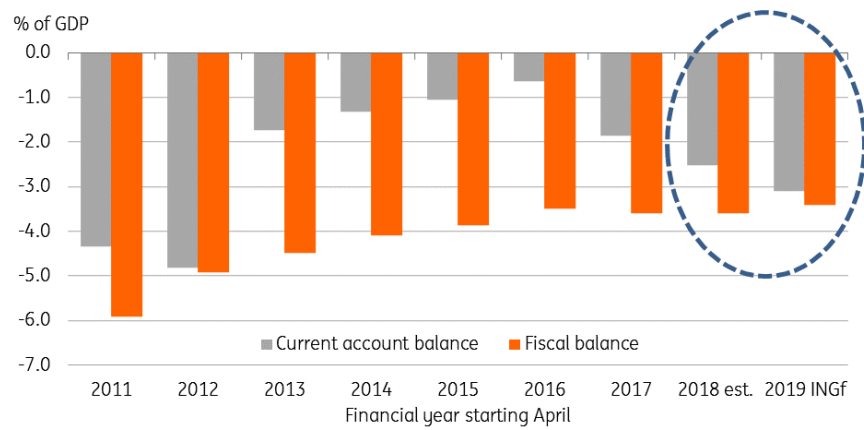
## What to expect in Modi's second term

The return of the Modi government assures investors of economic policy continuity in the foreseeable future. Moreover, the strong mandate reinforces voters' confidence in the current policies. That said, this is also a chance for the government to mend discontent instilled in people by the harsh policy steps of demonetization, and alleviate concerns about the prevailing high level of unemployment.

We think the government's focus will continue on sustaining the "Make in India" theme of boosting growth. Further structural reforms towards curbing the currently wide budget and current account deficits and consolidating the beleaguered public sector banks will likely gain prominence. This is important for attracting more foreign investment, especially now that the intensified US-China trade war might accelerate supply chain re-location away from the "conflict zone". Capitalizing this fully will require further labour market reforms, easier land acquisition policies for companies and reduced red-tape.

Such a reform thrust ought to enable the Indian economy to achieve a 7-8% pace of growth. But with the likelihood that the global economic environment will continue to be marred by more and higher barriers to trade, such measures will probably only allow for GDP growth around 7%, while keeping consumer price inflation in check around 4%.

## The twin-deficit - a key structural headwind to economy



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Snap | 26 May 2019

# European Parliament Elections: Key takeaways

A huge democratic exercise over four days has come to a close. Here are our first key takeaways, based on the last official projections as of 11:15 pm CET



Source: Shutterstock

## European voters do care (more than before)

After decades of declining turnout, Europeans cared a little more about the elections this time around. An overall turnout of just over 50% for the EU 27 – the UK elections being an odd one out for obvious reasons – is the best since 1994. However, it is still shy of turnouts in national elections.

## Mixed results for EU-skeptical parties

Eurosceptic parties are set to take less than 30% of the seats according to early results. The three big Eurosceptic political groups are currently at just over 22% of the votes, which is a small gain over the 20% of seats they have now. At the same time, small, independent and often one to three seat parties gained some 20 seats. Here, it will depend on whether any of these some 40 seats will be able to join existing political groups. However, don't forget that the Brexit Party took a significant amount of the EU-skeptical votes. Assuming that Brexit will still happen, eventually,

these seats should disappear again.

In our view, this means that the often-feared rise of EU-skeptical parties has not materialized. The gains are simply too small and it does not look like the parties are set to unite themselves more than they did in the previous parliament. Deep cooperation between these EU-skeptical parties will be undermined by the fact that there is disagreement on how to deal with the migration crisis, how to deal with Russia or China. While the gains provide a signal that Eurosceptic parties are here to stay, it looks as if the only possibly significant impact of EU-skeptical parties can be found locally.

## Possible national implications

In France, while Marine Le Pen's National Rally party has celebrated beating President Macron's Renaissance party as a win, the party did lose slightly compared to the Front National result of 2014 and will actually get as many seats in the EP as Macron's party. Nevertheless, these results will put pressure on President Macron at home.

In Greece, the ruling Syriza took a large loss today and Prime Minister Tsipras just called snap elections, set for end-June/beginning of July. This might sound bigger than it is. The regular next elections had been scheduled for October this year.

In Italy, exit polls suggest that Lega may have fallen short of 30% of the vote and that it's uncertain whether the Five Star Movement has received above 20% of the vote. With Lega gaining less than expected, new elections in the short term have become somewhat less likely, although tensions around the budget remain.

In Germany, another defeat for the SPD, a loss for the CDU, strong gains for the Greens and losses for the AfD show that the structural change of the political landscape continues. See also <https://think.ing.com/snaps/germany-double-elections-day/>

## Political fragmentation continues

The European Parliament (EP) follows the trend observed in many national parliaments, namely the end of a two-party majority as the Christian Democrats (EPP) and Social Democrats (S&D) lost their majority. This fragmentation will make decision-making more complex in the years ahead. The large majority of the new European Parliament remains pro-European but there will probably be more different coalitions on different issues, including ALDE and the Greens. This is not necessarily a bad thing but possibly a chance for more colour and diversity.

Looking at the other parties, the most likely option to find majorities is the Liberals (ALDE), which has seen French President Macron's Renaissance list added to its ranks today. That makes them the clear third-ranking political group in the EP. They have already voted along with a large amount of the Juncker Commission initiatives anyway, so it seems to be an obvious choice.

Another political group that could deliver a narrow majority is the Greens/EFA. With quite a few upset results across Europe, they are set to gain significantly in the EP. The gains were significant as climate change ended up being a key theme in many of the election campaigns. In the previous parliament, appetite for a quick energy transition was lukewarm at times, which could change if the Greens are going to be more important to vote through the next Commission's agenda. As a small majority is often not enough in the EP as individual MEPs do not always vote along party



lines, either a coalition with both the Liberals and Greens is required, or deal-making on individual issues will have to happen.

## What does this mean for the game of European musical chairs?

No flipping of the coin, yet. While the EPP has remained the largest party, it does not feel like the case for Manfred Weber as Commission president has become stronger nor weaker. It will now depend on coalition building in the new Parliament. The Greens, for example, are a strong supporter of the Spitzenkandidaten concept (lead candidate of a party), while Macron has frequently hinted at letting this concept go. The entire concept is not enshrined in any laws and in the end it is government leaders calling the shots. However, diverting from the Spitzenkandidaten concept would be a clear blow for European Parliament and could lead to a long approval process as the EP officially has to approve the management of the next European Commission. Today's results have not flipped the coin in any direction. In fact, this musical chairs game could be a very long game with the only caveat that the current president of the European Commission could stay on as a caretaker. This is something that the European Treaties clearly does not allow for the ECB presidency. European leaders will meet on Tuesday. Expect high phone invoices in many European capitals until then.

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Article | 24 May 2019

## Asia week ahead: Bank of Korea - will it, or won't it?

China's purchasing manager's index, India's GDP and Korea's central bank meeting- where we expect a 25 basis point rate cut - are the key...



Source: Shutterstock

### ➔ China: Trade war impact is coming through

The week kicks off with China's industrial profits for April. Keeping in line with the trend of slowing exports and production, industrial profits have been shrinking. As such, surprisingly strong 13.9% annual industrial profit growth in March appears to be an aberration from a weak trend, while the cumulative profits in the first three months were still down 3.3% from a year ago. Both exports and industrial production growth slowed sharply in April, pushing the profits growth back to negative territory.

China's economic downtrend will undoubtedly exacerbate further with the escalation of the trade tensions this month. The upcoming data on purchasing manager index for manufacturing and non-manufacturing sectors will shed light on this.

## ➔ Korea: Mixed market signals on BoK policy

The market isn't pricing a Bank of Korea rate cut next week and neither is the latest Bloomberg poll suggesting anything of sorts. But the Korean Won's (KRW) recent underperformance, with close to 5% depreciation against US dollar since the central bank's last meeting on 18 April, seems to suggest that a rate cut is just around the corner.

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*What this economy needs is some fiscal support, some economic reforms, and the end of the global tech slump. The BoK can't perform miracles. – Rob Carnell, ING Asia chief economist*

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We believe the poor trade environment and ongoing tech slump will continue to depress Korea's growth, making it difficult for the central bank to defy easing. The 1.8% YoY GDP growth in 1Q19 was the lowest since the global financial crisis. This combined with negligible inflation, running well below 1% currently, underpins our outlier view of a 25bp BoK rate cut.

## ➔ India: The best of election-related market rally is behind

The odds of prime minister Narendra Modi winning the elections in India cheered the markets this week. Indeed, his Bharatiya Janata Party is leading with an absolute majority in the vote count, still going on at the time of writing this piece, and it looks set to form the government with existing coalition partners. We believe the best of election rally is behind and the economy will be back to re-assert its influence on the markets - almost negatively amid prevailing risk-off sentiments globally.

India's economic slowdown gained speed in the final quarter of the financial year 2018-19 ended in March, for which GDP data is due next week (31 May). If true, our forecast of a slowdown of growth to 6.0% from 6.6% in the previous quarter will make it the slowest growth quarter in two years. While this will validate the Reserve Bank of India's two rate cuts this year, we expect the potentially higher inflation will keep it from easing again at the next meeting in early June.

## Asia Economic Calendar

Country	Time*	Data/event	ING	Survey	Prev.
<b>Monday 27 May</b>					
China	0230	Apr Industrial Profits (YoY%, YTD)	-3.3	-	13.9
Hong Kong	0930	Apr Exports (YoY%)	-1.5	-	-1.2
	0930	Apr Imports (YoY%)	-0.5	-	-0.1
	0930	Apr Trade Balance (HK\$ bn)	-50.0	-	-59.2
South Korea	2200	May BOK Consumer Sentiment Index	102.4	-	101.6
<b>Tuesday 28 May</b>					
South Korea	2200	Jun BOK Business Survey Index, Mfg	76.0	-	77.0
	2200	Jun BOK Business Survey Index, Non-mfg	76.0	-	77.0
<b>Thursday 30 May</b>					
Thailand	-	Apr Manufacturing Index (YoY%)	-1.5	-	-2.5
<b>Friday 31 May</b>					
China	0200	May Manufacturing PMI	50.2	-	50.1
	0200	May Non-manufacturing PMI	50.1	-	54.3
India	1300	1Q GDP (Q) (YoY%)	6.0	-	6.6
	1300	2019 GDP Annual (YoY%)	7.0	-	7.0
	-	Mar Fiscal Deficit (INR crore)	-	-	80654.0
Hong Kong	0930	Apr Retail sales Value (YoY%)	-0.5	-	-0.2
	0930	Apr Retail sales Volume (YoY%)	-1.2	-	-0.8
South Korea	0000	Apr Industrial Production (MoM, SA/YoY%)	1.0/-2.8	-/-	1.4/-2.8
	-	7-Day Repo Rate	1.5	-	1.75
Thailand	0730	Apr Current Account Balance (US\$bn)	2.2	-	6.1

Source: ING, Bloomberg, \*GMT

Opinion | 24 May 2019

## US: Trump & Trade - getting the deal

Trade tensions are high, but President Trump has shown he can be flexible. A deal remains probable, but there are risks of renewed flare-ups



Source: Shutterstock

### A deal, but June may be too soon

President Trump is in an ebullient mood, talking up the resilience of the US economy and its ability to withstand any negative fallout from US-China trade tensions. He also speaks of the boost to Treasury coffers from the tariffs imposed on Chinese imports. Yet markets aren't convinced. Bond yields are plumbing new lows, equities have dipped and two Federal Reserve interest rate cuts are now priced in for the next twelve months. More tellingly, the recent economic data appears to be feeling the strain with a massive build-up in inventory levels in recent quarters now being unwound and new orders drying up.

We still think a deal on trade will be done. President Trump continues to offer words of encouragement, talking yesterday of the "good possibility" of a trade deal, one that could include an agreement regarding the "very dangerous" Huawei. Donald Trump has also highlighted his willingness to compromise with the recent decision to de-escalate trade tensions with Mexico, Canada and Turkey. However, we are sceptical that an agreement with China will be signed and sealed at the G20 summit in Osaka in late June as some analysts and clients believe.

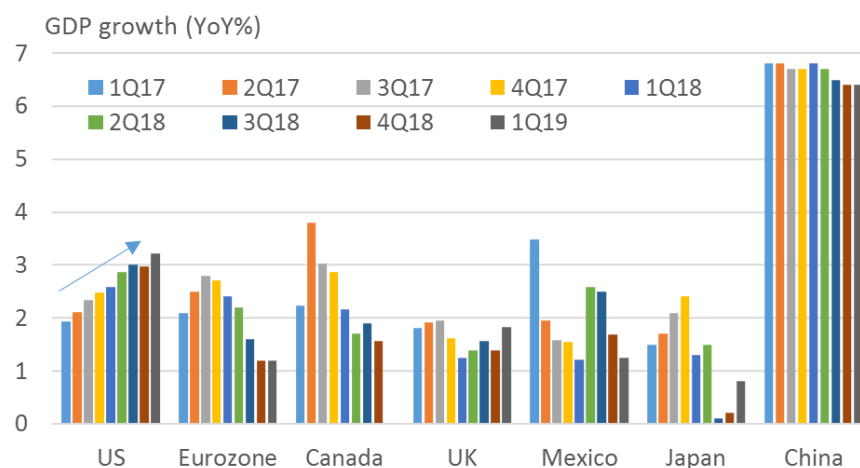
## The US has a position of strength

While there are signs of a slowdown in business surveys and the manufacturing sector, the labour market is performing well with unemployment at 50-year lows with workers increasingly experiencing higher pay. Consumer confidence is holding up so Donald Trump's narrative that the economy is doing well and domestic strength can offset some concerns on trade can still hold sway in some quarters.

While many corporates worry about the higher costs, the impact to their supply chains and the uncertainty that trade tensions create, there are plenty that also appreciate and like the fact that he is trying to "level the playing field". Opening up Chinese markets and doing something to deal with the long complained about appropriation of intellectual property would clearly benefit US firms and many European corporates are delighted too.

The US is in a good position to extract concessions from China. As the chart below shows the US economy has been moving in the right direction while all other major economies are experiencing slower growth. The US is coming at this from a position of relative strength. President Trump may also feel there isn't much domestic pressure with the Democratic Presidential candidates increasingly focusing on each other in the battle for their party's nomination.

## US has the momentum as the rest of the world slows



## But is time running out?

However, time may be starting to run out to get extra concessions from China. Growth is set to slow in 2Q19 with the Atlanta Fed GDPNow model pointing to growth around the 1.3% annualised rate after the latest disappointing manufacturing and housing numbers. There is obviously the risk that extending the trade conflict beyond June leads US corporates to become more anxious about supply chains and rising input costs (and exports to China) with the uncertainty perhaps dampening appetite to hire new workers and invest. Equity markets are also likely to come under intensifying pressure for similar reasons.

Indeed, the often repeated suggestion that equity markets are a better barometer of his success than opinion polls means that President Trump will need to be wary that pushing too far for too long runs the risk of weakening his re-election campaign. A weakening economy and plunging



equity markets is an easy attack line for a Democratic challenger and would be a massive vulnerability in the election campaign.

The China hawks in his camp who are more focused on restraining China's global political ambitions will also be wary as if Trump loses the election they are out of the Administration and will not be able to influence the debate to anywhere near the same extent. As such, I still think President Trump will make compromises to get a deal done. He can then bring the electorate another "win", but it's more likely in late 3Q or 4Q rather than June. Such a date would also coincide with efforts getting auto concessions with Japan and Europe, which means nothing can be taken for granted.

## Trade tensions will persist

Even if this goes smoothly and tensions dissipate, this won't be the end of the trade conflict. If President Trump wins re-election, but the Democrats retain control of the House of Representatives it means his domestic legislative agenda will be constrained. It will be immensely challenging to get additional tax or healthcare changes through given steadfast Democratic opposition. He may get something on infrastructure, but it will likely be limited in scope and scale. I would expect a flaring up of trade tensions once again in 2021-2022 as he seeks more from China and probably the EU. He will want something to cement his legacy as President.

Even if a Democrat were to win we are unlikely to see a return to the internationalist approach under Barack Obama. Centrist Democrats are being forced to talk a tougher line on trade with China given Trump warning a Democrat president will be "weak" regarding the situation - Joe Biden has already been heavily criticised. The protectionist situation could even be intensified if we get a populist Democrat who is keen to protect blue collar jobs.

The implication of this is that things "won't go back to the way they once were" and corporates will need to be wary about relying on global supply chains. US-China tensions will persist and we could see more facilities moved to the likes of Vietnam, Taiwan and Malaysia to try and circumvent the issue. We may also see some companies shrinking their international supply chains and on-shoring operations back to the US. This may reinforce the recent trend of global trade volumes underperforming global growth.

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Snap | 24 May 2019

# Is Facebook's digital currency worth the hype?

Launching platform currencies is nothing new in itself. Yet the sheer scale that a Facebook coin could achieve should give businesses, competition...













## What is GlobalCoin?

When Bitcoin was launched in 2009, it was heralded as the digital currency that would make banks and other traditional intermediaries obsolete. But lately, it's been established behemoths that have been announcing their own coins. Earlier this year, JPMorgan announced its "JPM Coin" for wholesale purposes, and today brought more news on Facebook's project to [launch](#) its own "GlobalCoin". What to make of this?

It is important to clear up two misunderstandings.

- Firstly, coining a nice name for a platform currency sounds like clever marketing, which is well understood in some corporate boardrooms. Establish vague associations with cryptocurrency, and headlines are guaranteed. But, strictly speaking, cryptocurrencies are decentralised. This means that the money supply and the infrastructure are managed by the collective userbase, which in practice is represented by interest groups such as miners, developers and exchanges. On the other hand, with Facebook's coin, there is one centralised party which issues and manages the coin on its own platform. Facebook could also manage the exchange rate of its coin to traditional fiat currencies, such as the euro and the dollar. So referring to GlobalCoin as a cryptocurrency is wrong, or at best irrelevant. How Facebook implements the coin at a technical level, on a blockchain or otherwise, is not

- relevant from an economic or monetary perspective.
- Secondly, GlobalCoin as a currency issued on a platform, is nothing new. Many games have had their own virtual currencies for a long time. Prepaid telephone cards are another example. We know such currencies from the non-digital world as well. At a concert, you often need to buy custom coins to pay for beer. So nothing really new here. And because virtual currencies are not a new phenomenon, they are subject to well-established existing regulations. Indeed, Facebook acquired an “electronic money institution” license in Ireland in late 2016 and is allowed to issue and manage virtual currencies throughout the EU using that license.

Platform	License	Issuer
	E-money institution	 Ireland
	E-money institution	 Lithuania
	E-money institution	 Luxembourg
	Payment institution	 Luxembourg
	None	
	None	
	None	

## “Nothing to see here people, please move on”?

Not quite. Even though Facebook’s currency project is nothing new in itself, the scale that a coin on Facebook’s platform could achieve is something to reckon with. It is clear where Facebook is getting its inspiration from. The Chinese WeChat app has been dubbed an “app for everything”. It includes a pay functionality, which means users can basically do everything on the platform and in the app. For Facebook, adding its own currency would provide a powerful incentive for its users to stay on the platform and to transact with suppliers there, paying them in Facebook’s virtual currency. This, in turn, would incentivise business suppliers to be present on Facebook’s platform and accept its coins, to avoid losing a significant chunk of their customers.

So while banks may find themselves disintermediated, business suppliers may in contrast be bound to Facebook’s platform. Competition authorities around the world are therefore probably watching Facebook’s moves closely. Central banks are probably watching, too. Launching virtual currencies on a modest scale has a negligible impact on monetary policy and financial stability. But if a lot of transactions end up being handled by what is, in effect, a foreign currency (insofar as its exchange rate is managed vis-à-vis a basket of currencies), central banks might want to think again.

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