What's happening in Australia and the rest of the world?

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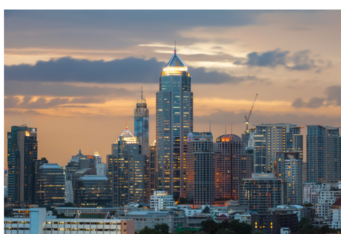

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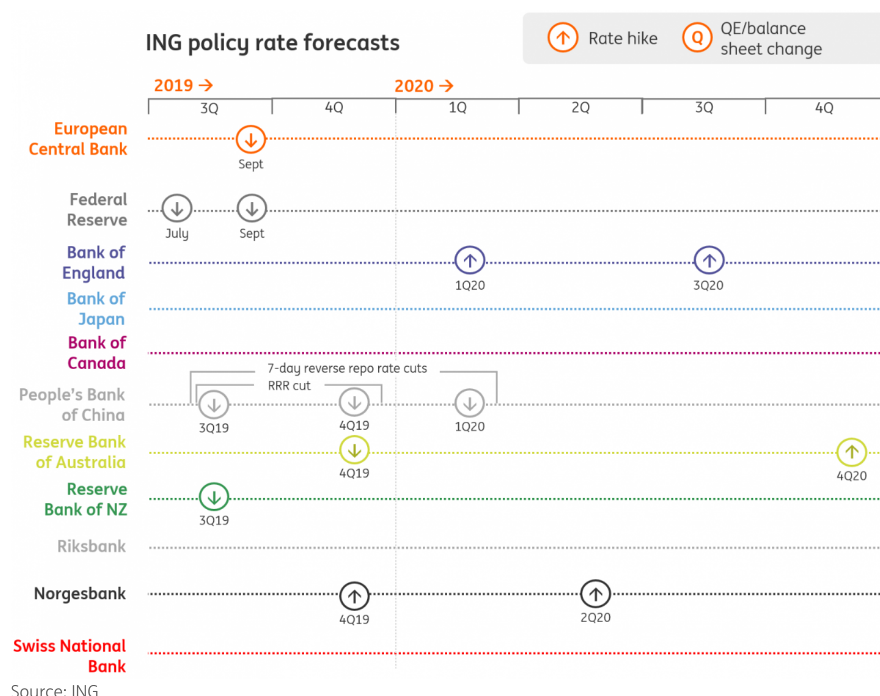
Our July guide to global central banks

Everything you need to know about central bank policy around the world over the coming months

Source: Shutterstock

US Secretary of Treasury Steve Mnuchin, Federal Reserve chairman Jerome Powell, ECB President Mario Draghi,Bank of England governor Mark Carney, IMF Managing Director Christine Lagarde, Governor of the Bank of Japan Haruhiko Kuroda

Our central bank outlook



Source: ING

Federal Reserve: Prevention versus cure

A ceasefire has been called in the US-China trade war, but we doubt the truce will hold for long given the two sides remain a long way apart on key issues such as technological transfers, intellectual property rights and the trade dispute resolution mechanism.

A new round of tariff hikes will contribute to more pronounced economic weakness by disrupting supply chains, putting up costs and hurting profit margins. Such an environment would be negative for equity markets and make US businesses more reluctant to invest and hire new workers.

Given the expectations of renewed trade tensions, we look for an early precautionary 25bp rate cut in July, followed up with another 25bp move in September

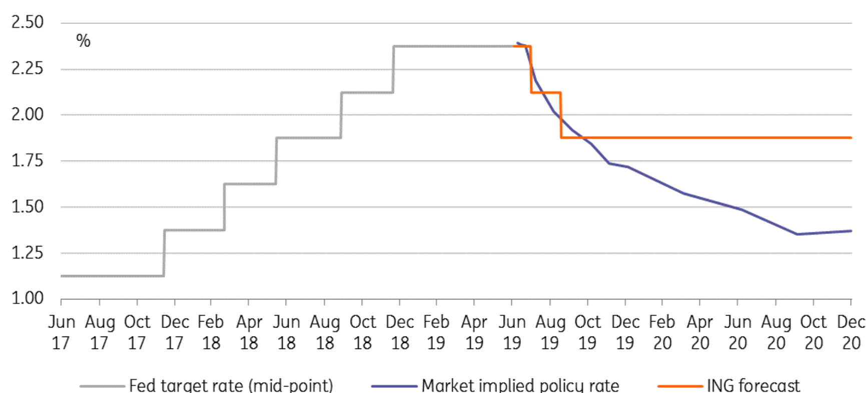
At the June FOMC meeting, the central bank talked of increased “uncertainties” about the economic outlook which they will “closely monitor”. Federal Reserve Chair Jerome Powell subsequently repeated his comment “an ounce of prevention is worth more than a pound of cure”. Given the expectations of renewed trade tensions we, therefore, look for an early, precautionary 25bp rate cut in July, followed by another 25bp move in September.

A 50bp July rate cut had been seen as a possibility at one point, but given St Louis Fed President James Bullard, who was the only Fed officials to have voted for a June rate cut, suggested such aggressive action “would be overdone”, this looks unlikely. Nonetheless, the market is pricing in three rate cuts in total this year with a further 25bp cut in early 2020.

We don't expect such aggressive action given our belief that President Trump wants to win re-election and will, therefore, be prepared to sign a trade deal, probably in 4Q, that doesn't necessarily meet all of his initial demands. A rising equity market and healthy economy gives him the best chance to succeed.

The Federal Reserve is covered by James Knightley

We think the market is overestimating Fed rate cuts



Source: Bloomberg, ING

European Central Bank: Leaving with a bang

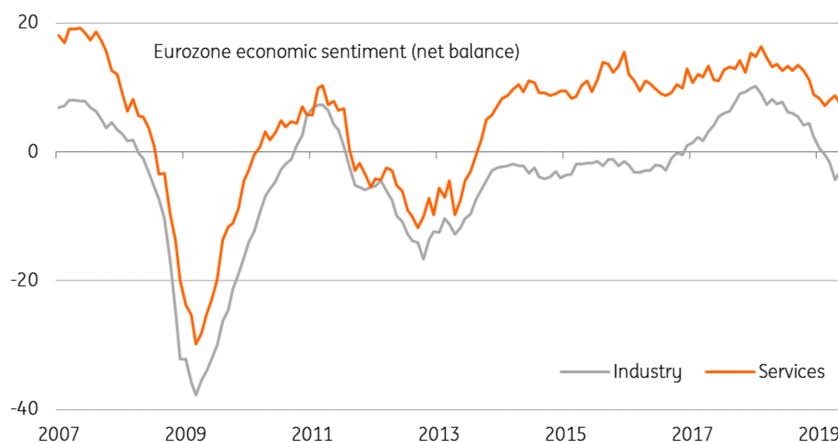
ECB president, Mario Draghi's Sintra speech has made clear that the question regarding the short-term outlook for the ECB is no longer "what negative surprise is needed for the ECB to cut rates" but rather "what positive surprise could actually prevent the ECB from cutting rates". Predicting the exact timing is more complicated though. In fact, traditional ECB watchers argue in favour of compiling more data, waiting for the release of Q2 GDP in mid-August and the next ECB staff projections and then take a decision at the September meeting. Draghi's track record in overdelivering and trying to be ahead of the curve, however, could bring a rate cut already at the ECB's July meeting.

We think the ECB will want to wait until the September meeting to deliver a 10bp rate cut in the deposit facility

It's a close call but unless the days leading up to the July meeting bring more disappointing macro data, we think the ECB will want to wait until the September meeting to deliver a 10bp rate cut in the deposit facility, combined with a clear commitment to restart QE, or if need be even actually start QE. The reason not to use all ammunition at once would be to have some policy measures left in case of a disorderly Brexit. However, chances are increasing that Draghi will leave office with a bang.

The ECB is covered by Carsten Brzeski

Eurozone sentiment has deteriorated



Source: Thomson Reuters Datastream

Bank of England: Caution creeps in as 'no deal' Brexit fears resurface

Markets are now pricing close to a 50% probability of a rate cut by the end of 2019. At the same time, Bank of England policymakers have hinted that rates could move higher again depending on how Brexit pans out. So who's right?

> *A rate hike later this year shouldn't be ruled out completely, although, given all the noise on Brexit, we think it is unlikely*

Well, for the time being, the economic outlook warrants caution. While the slowdown in second-quarter growth was exaggerated by a fall in production, the underlying momentum remains weak. Consumer spending, for instance, had a fairly bad quarter despite some modest recent improvements in real incomes. We also expect business investment to resume its decline over the summer months, as Brexit uncertainty picks up and the perceived risk of a general election later in 2019 increases.

That said, policymakers are heavily focussed on wage growth, which has been performing solidly over the past year-or-so and this was key to its rate hike rationale in 2017/18. Assuming this trend continues, a rate hike later this year shouldn't be ruled out completely, although, given all the noise on Brexit, we think it is unlikely.

The Bank of England is covered by James Smith

Our latest Brexit scenarios

	ING probability	How scenario could materialise	Article 50 extension?	Market reaction
Parliament forces a general election	35%	Parliament stops 'no deal' by passing no confidence motion. General election takes place in late Nov/early Dec	✓ At least 3 months	EUR/GBP: **0.95** GBP/USD: **1.18**
Revamped deal	25%	To avoid election at all costs, pro-Brexit MPs reluctantly back tweaked deal given there's a Brexiteer in place for next stage of trade talks	✓ Possibly (for legislation)	EUR/GBP: **0.85** GBP/USD: **1.34**
Second referendum	15%	Parliament may struggle to force a 'People's vote'. But can't fully rule out PM triggering one as "least worst" option versus an election	✓ At least 6 months	EUR/GBP: **0.82** GBP/USD: **1.40**
No deal	20%	If EU rejects further A50 extension, or a new leader pushes for a hard Brexit, Parliament may lack the legislative tools to stop it	X	EUR/GBP: **1.00** GBP/USD: **1.10**
Revoke Article 50	5%	Parliament may prefer this over a 'no deal' exit, but like a 2nd ref, MPs could lack a legislative tool to force the new PM's hand.	X	EUR/GBP: **0.78** GBP/USD: **1.47**

Source: ING

Bank of Japan: Are there any tools left?

There is almost nothing new that can be said in relation to the Bank of Japan. Each month, Governor Haruhiko Kuroda's press briefing outlines measures he claims could be utilised to help the quest for target inflation, a quest that doesn't go anywhere. Markets ignore it. Recently, however, despite the usual tired assurances, we have noticed the money stock beginning to rise again after almost a year where it peaked.

> *With no credible tools at their disposal, we suspect any policy changes by the BoJ will wait until they have absolutely no other option but to act*

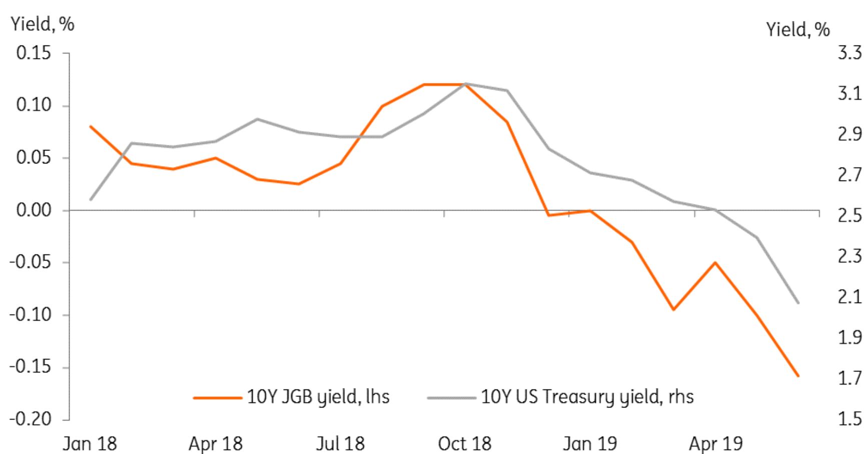
This has coincided with lower 10-year Japanese government bond (JGB) yields, though rather than attribute any causality to these movements, we think the JGB yield decline is just a reflection of low US Treasury yields, though just possibly there is some overlap between these events.

With no credible tools at their disposal, we suspect any policy changes by the BoJ will wait until they have absolutely no other option but to act. For this, we suspect we will need to see USD/JPY at 100 and threatened on the downside, at which point, lower bond yield targets and possibly more negative rates could be employed. Increased asset purchases aren't feasible with supply limited, so any announced increase would simply not happen.

If we ever get to this point, we doubt these measures would be successful. A short term reversal at best.

The Bank of Japan is covered by Rob Carnell

Japanese vs. US yields



Source: CEIC

People's Bank of China: Boosting liquidity to support stimulus

The headwinds from the trade and technology wars have inevitably affected the Chinese economy.

In the past, we have argued that the central bank may be reluctant to use the reserve requirement ratio (RRR) for major easing, given that it is one of the more rigid liquidity management tools. Once cut, the liquidity injection is long-lasting.

> *We expect the central bank to inject even more liquidity into the system, either via RRR cuts or the medium-term lending facility*

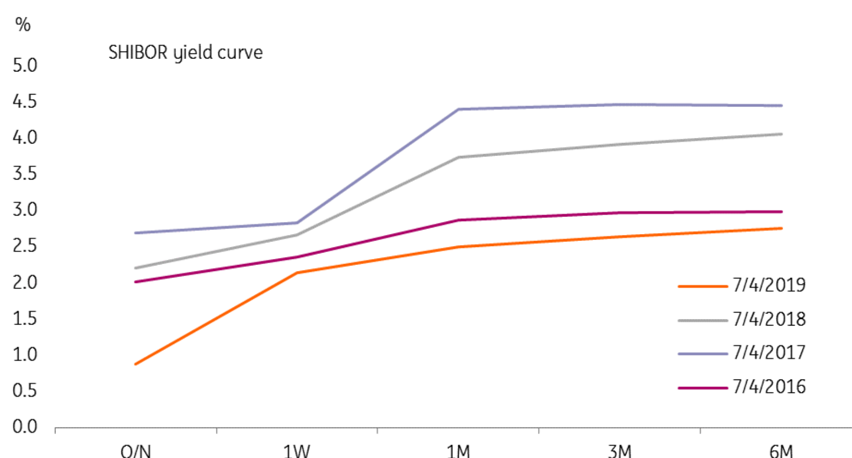
But it has been reported that the People's Bank of China is now not only considering cutting the RRR to provide liquidity, but also cutting interest rates, and this is linked to the recent fiscal stimulus. Increased infrastructure spending created demand for money, which could easily push up interest rates – something that isn't the policy's intention.

As a result, the central bank must provide liquidity big enough to suppress this upward pressure on Chinese interest rates. The PBoC has already pumped around CNY 550 billion in May and CNY107 billion in June, which saw the overnight SHIBOR edge to 0.877% on 3 July, not far off the previous low of 0.80% in March 2009.

As the economy needs more stimulus, we expect the central bank to inject even more liquidity into the system, either via RRR cuts or the medium-term lending facility (MLF). Both can be done in a targeted or broad-based manner depending on how much liquidity the economy needs.

The People's Bank of China is covered by Iris Pang

SHIBOR has edged lower following the central bank's actions



Source: Bloomberg

Swiss National Bank: We don't expect lower rates in the near-future

The Swiss central bank kept its monetary policy unchanged in June, leaving the main rate at -0.75% - the lowest policy rate in the world. It has also reiterated its willingness to intervene in the foreign exchange market if it proves necessary. Unlike some other major central banks, the SNB hasn't really hinted at an easing bias at this meeting. That said, this does not mean the SNB is in the process of normalising its monetary policy - on the contrary, we believe the key rate will not increase for years.

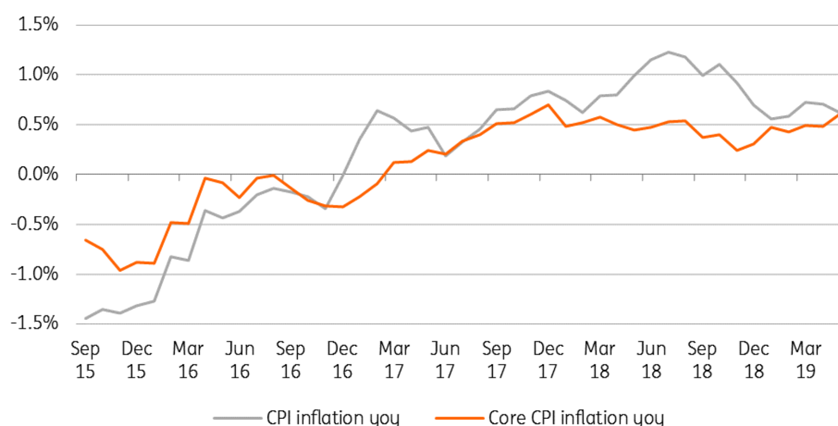
> *We believe the first thing the SNB will do when the Fed and the ECB cut rates is to intervene if necessary in the foreign exchange market to offset any appreciation in the Swiss franc*

On the other hand, we believe the SNB does not intend to lower its, already very low, rate in the near future. We believe the first thing the SNB will do when the Fed and the ECB cut their rates is to intervene if necessary in the foreign exchange market to offset any appreciation in the Swiss franc. If that's not enough and we were to see a big effect on the EUR/CHF exchange rate, the SNB may then consider loosening monetary policy further by cutting its policy rate.

After all, members of the SNB's governing board have said many times that there is still some room to cut rates further. In that case, it could increase the exemption threshold from the negative interest applied to sight deposits to lower the burden on banks. However, this would not solve the side effects linked to negative interest rates on the mortgage sector (bubble risk) and that's why we think they'll first try to avoid a rate cut.

The Swiss National Bank is covered by Charlotte de Montpellier

Swiss inflation rates



Source: Thomson Reuters Datastream

Riksbank: Resisting the ECB's dovish lure

In times gone by, fresh ECB stimulus may well have been mirrored by Swedish policymakers, keen to limit the spillover to the krona. This time, things look a little different. With EUR/SEK above 10.50, the Riksbank appears more relaxed about potential currency strength. If anything, our FX team thinks the krona could weaken further as concerns surrounding global growth outweigh the impact of the dovish ECB (which is largely priced in).

> *We don't expect the Riksbank to ease policy, although equally, we think the central bank is unlikely to follow through with its forecasted rate hikes for later this year or early 2020*

We, therefore, don't expect the Riksbank to ease policy, although equally, we think the central bank is unlikely to follow through with its forecasted rate hikes for later this year or early 2020. Domestic demand is lacklustre, as the lagged effect of earlier property price declines continues to weigh on construction and consumer activity. There are also some early signs that inflation expectations are slipping among labour organisations - another indication perhaps that the 2020 wage negotiations may not yield the kind of uplift in pay growth the Riksbank is currently forecasting.

Trade tensions could also spell bad news for Sweden's relatively open economy - in the context of possible US auto tariffs, car exports make up 7.5% of the total, and the US is the biggest customer.

The Riksbank is covered by James Smith

Riksbank relaxed about possible SEK strength following the ECB

Source: Macrobond, ING, Riksbank

ING Kix forecast calculated using our latest FX forecasts

Norges Bank: The hawkish outlier

In stark contrast to many of its developed market peers, Norges Bank took its tightening cycle a step further last month by increasing interest rates for the second time this year. What's more, the central bank expects it will "most likely" hike rates again later in 2019, and this comes as the energy sector continues to drive growth higher.

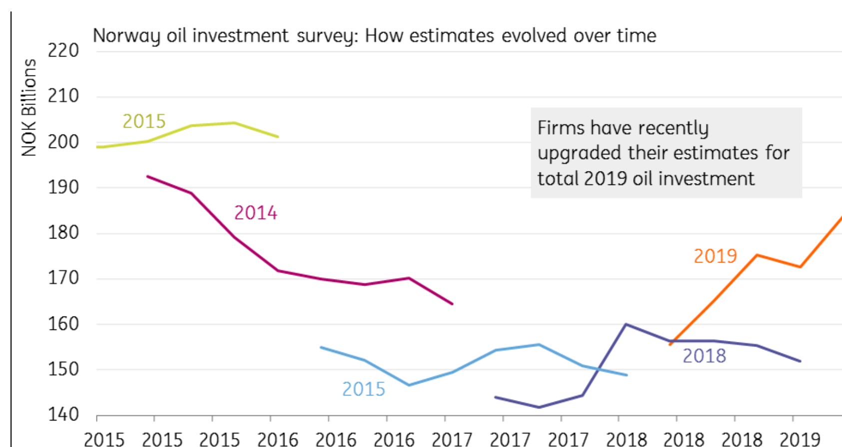
> *We expect the next rate hike in December, although we wouldn't fully rule out an earlier move at the September meeting*

While oil prices have slipped off their April highs, the breakeven cost of production in Norway stands significantly below current market pricing according to Norges Bank. This is incentivising firms to invest, and the latest oil investment survey indicates that firms will spend even more in 2019 than previously anticipated.

We expect the next rate hike in December, although we wouldn't fully rule out an earlier move at the September meeting.

Norges Bank is covered by [James Smith]

Norwegian firms have recently increased their estimates for 2019 oil investment



Source: Macrobond

Bank of Canada: Cautious optimism

Canada's temporary soft patch appears to be coming to an end with 2Q indicators suggesting a reasonable bounce-back in growth. Business sentiment has recovered while rising oil prices are clearly supportive of activity in the energy sector. Unemployment has hit a new all-time low of 5.4% and wages are responding, which is boosting consumer sentiment and spending.

We expect the BoC to keep the overnight rate unchanged at 1.75% throughout the next 18 months

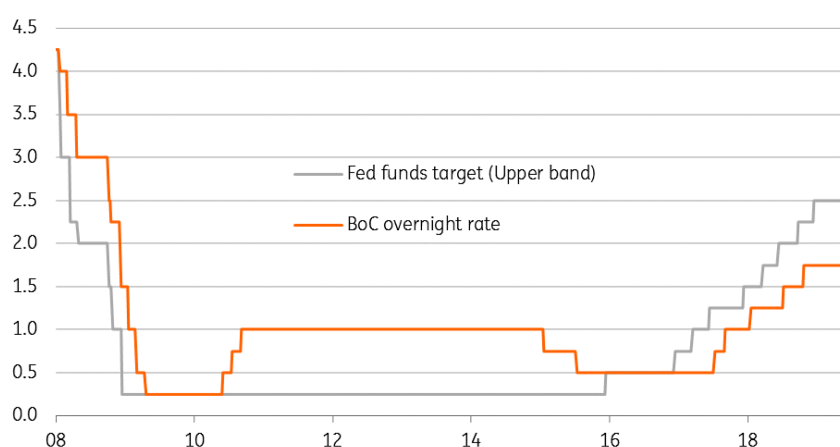
There have also been positive developments on trade with the removal of steel and aluminium tariffs while the US-Mexico-Canada trade agreement is in the process of being ratified. However, the lingering US-China trade tensions remain a threat and any re-escalation could make the Bank of Canada more cautious on the economic outlook.

For now, the economic backdrop is reasonably robust while inflation has recently surprised on the upside on all key measures. We also have to remember that the Bank of Canada didn't hike interest rates as aggressively as the Federal Reserve, hence why BoC officials continue to talk of monetary policy "accommodation". While the Fed stands ready to offer support to the US economy, there appears less need for Canada to do so.

Given our assumption that the US and China agree a trade deal later this year we expect the BoC to keep the overnight rate unchanged at 1.75% throughout the next 18 months.

The Bank of Canada is covered by James Knightley

Bank of Canada and US Federal Reserve interest rates



Source: Macrobond

Reserve Bank of Australia: Expect another cut in the fourth quarter

The Reserve Bank of Australia cut rates for the second consecutive month in July, taking the cash rate target to 1.0%. But although it is highly doubtful that 50bp will be enough to bring the unemployment rate down to the levels the RBA believes will be necessary to drive up wages and inflation (4.5% from today's 5.2% rate), Governor Philip Lowe was keen to quell expectations of even more to come, with the key phrase of his briefing later that day "...we will be closely monitoring how things evolve over the coming months. Given the circumstances, the Board is prepared to adjust interest rates again if needed to get us closer to full employment and achieve the inflation target".

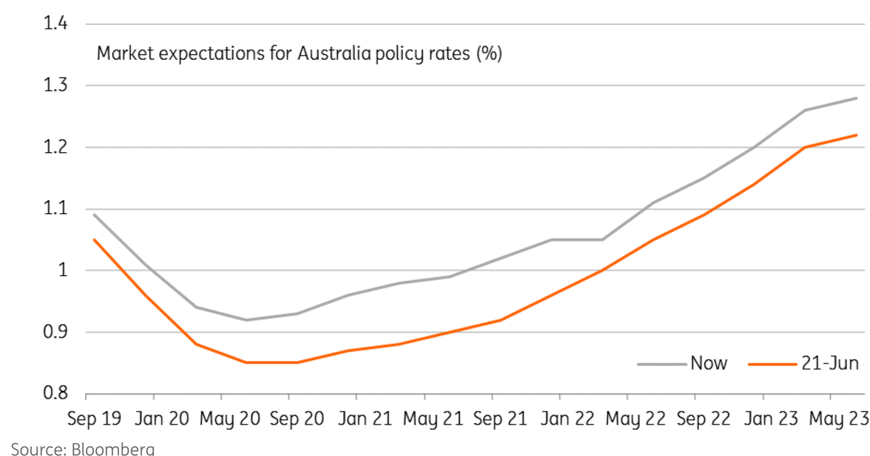
> *We now see rates troughing at 0.75% after one more rate cut in 4Q19*

What this seems to suggest is that the RBA is not going to rush the next cut and we may have quite a pause for them to digest how the first cuts are working out. We thought the RBA might take more time with their earlier cuts, so are a bit surprised at this approach, but it can be rationalised as trying to get the most out of what is a very limited supply of ammunition of questionable effectiveness.

Markets, which had been undertaking a sort of US-style aggressive pricing of easing were already scaling back on this in the aftermath of the G20 meeting and have gone further since. We now see rates troughing at 0.75% after one more rate cut in 4Q19, though this is dependent on some slightly stronger price and activity data, though we don't hold out any realistic hopes for the RBA to hit their inflation target anytime soon.

The Reserve Bank of Australia is covered by Rob Carnell

Australian policy rate expectations



Source: Bloomberg

Reserve Bank of New Zealand: August rate cut looks likely

In contrast to the Reserve Bank of Australia, where rate cuts have been met by a market paring back expectations for more, the market implied rate for Reserve Bank of New Zealand policy rates have changed little since the G20 meeting. With a meeting on 7 August, we think there is a very good chance of another rate cut, after the pause at the 26 June meeting.

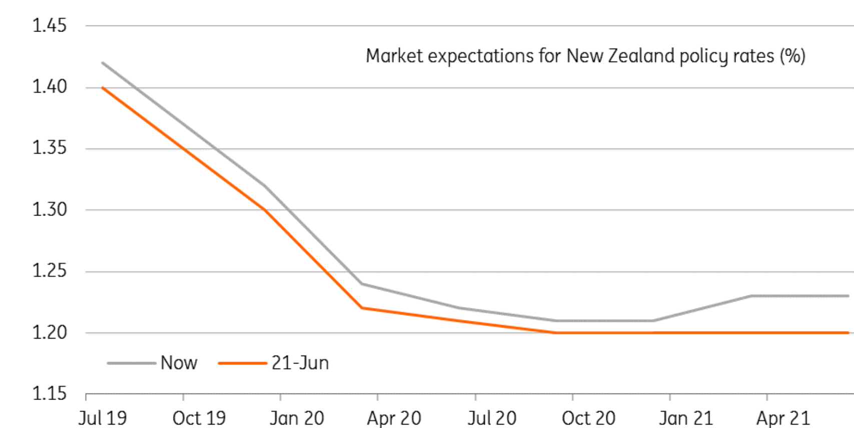
> *With a meeting on 7 August, we think there is a very good chance of another rate cut, after the pause at the 26 June meeting*

New Zealand's newsflow has not been at all supportive of a further pause in rates, and the wait-and-see stance that they took in contrast to the more proactive RBA approach, is now being tested, as signs that growth is slowing further emerge business confidence slumps, and house price growth slows further.

Markets are implying rates fall a further 25bp before troughing. But with no recovery expected by end-2021, the risk has to be that this moves to price in further easing as the RBNZ satisfies immediate market requirements for more easing. Here, a more front-loaded approach might have achieved more.

The Reserve Bank of New Zealand is covered by Rob Carnell

New Zealand policy rate expectations



Source: Bloomberg

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Article | 5 July 2019

US June jobs boom

A really encouraging jobs report that suggests the broad economy is shrugging off the US-China trade uncertainty. While the Federal Reserve is gearing up for precautionary interest rate cuts, we think the market is expecting too much

Source: Shutterstock

224k Number of US jobs added in June

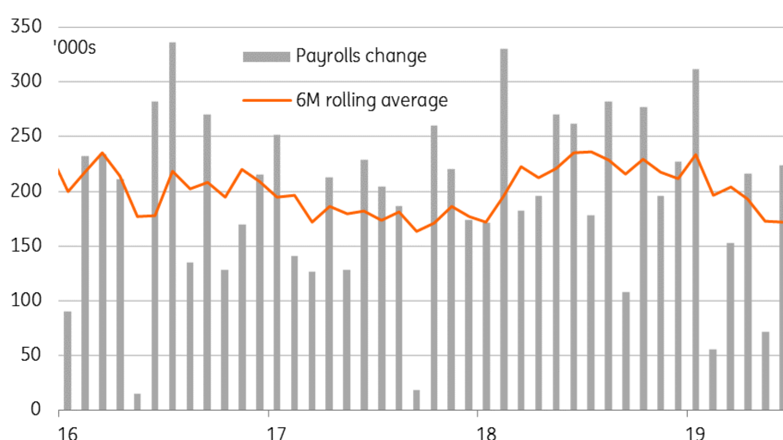
(Consensus was 160k)

Labour demand remains strong

It is a really strong US payrolls figure for June with 224,000 jobs created versus the 160,000 consensus. In fact, 224,000 is higher than all of the 75 economist estimates provided to Bloomberg! The previous two months of data saw a net downward revision of 11,000, but nothing can take away from the fact this is a surprisingly strong outcome.

Manufacturing payrolls rose 17,000 despite the struggles in the sector relating to an inventory overhang and uncertainty on the trade front. Private payrolls in total rose 191,000 versus the 150,000 expected. Service sector employment rose 154,000 led by business services and education & health, with government employment up 33,000.

Payrolls growth is resilient



Source: Bloomberg, ING

But wages and unemployment miss expectations

The unemployment rate moved up to 3.7% from 3.6% (it went to 3.67% from 3.62% for those who are sticklers for accuracy), but this reflects a rise in the participation rate – disaffected former workers being attracted back into the labour force, which should be seen as an encouraging story.

There was some softness on the wage front though. Average hourly earnings rose just 0.2% month-on-month versus 0.3% expected and our own forecast of 0.4%. Annual wage growth remains at 3.1%, which is a little disappointing given the tightness of the jobs market. However, it is well ahead of all the key inflation measures so real household disposable income growth is in great shape, which bodes well for consumer spending in the months ahead.

Payrolls growth will slow, wages can catch up

Taking it all together it is an encouraging report that suggests the broad economy is currently shrugging off the US-China trade uncertainty. We do expect employment growth to slow, but this will be more down to a lack of workers with the right skills to fill vacancies rather than any meaningful downturn in demand – remember the US is in its longest expansion period since 1854 and unemployment remains close to a 50-year low so the pool from which to find new workers is pretty small. However, there should be positive implications for wages as firms seek to recruit and retain staff. The resilience of the US jobs market is a key reason why we believe risks are skewed towards more modest Fed policy loosening relative to market expectations.

What it means for the Federal Reserve

Federal Reserve Chair Jerome Powell testifies to Congress next week and looks set to validate market expectations of precautionary interest rate cuts to head off the threat of a downturn. He may repeat yet again his view that "an ounce of prevention is worth more than a pound of cure". We look for the Fed to go with a July interest rate cut of 25 basis points followed by a 25bp move in September.

The market is looking for more - pricing in three rate cuts this year with a further 25bp cut in early 2020. However, President Trump will be well aware that pushing too hard for too long on trade risks a weaker economy and plunging asset markets, which would undoubtedly hurt his re-election

chances. As such, we would expect him to strike a deal around the turn of the year, claiming the wave of market euphoria a trade deal would generate, coupled with an environment of lower interest rates, as a personal victory that supports his case for the presidency.

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Watch: Switzerland's Brexit warning

The European Union took a tough line against Switzerland earlier this month, ending the stock exchange 'equivalence' which enabled Swiss shares to be traded within the EU. And that could have big implications for the UK and Brexit, says ING's Charlotte de Montpellier

Watch: Switzerland's possible Brexit warning

Watch video

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Political stalemate hurts Thailand’s economy

Three months after the General Election, politics still remains a key overhang on the Thai economy. With political logjams slowing the emergence of any fiscal stimulus, monetary policy will have to do all the heavy lifting to prop up growth. We now anticipate two central bank policy rate cuts before year-end

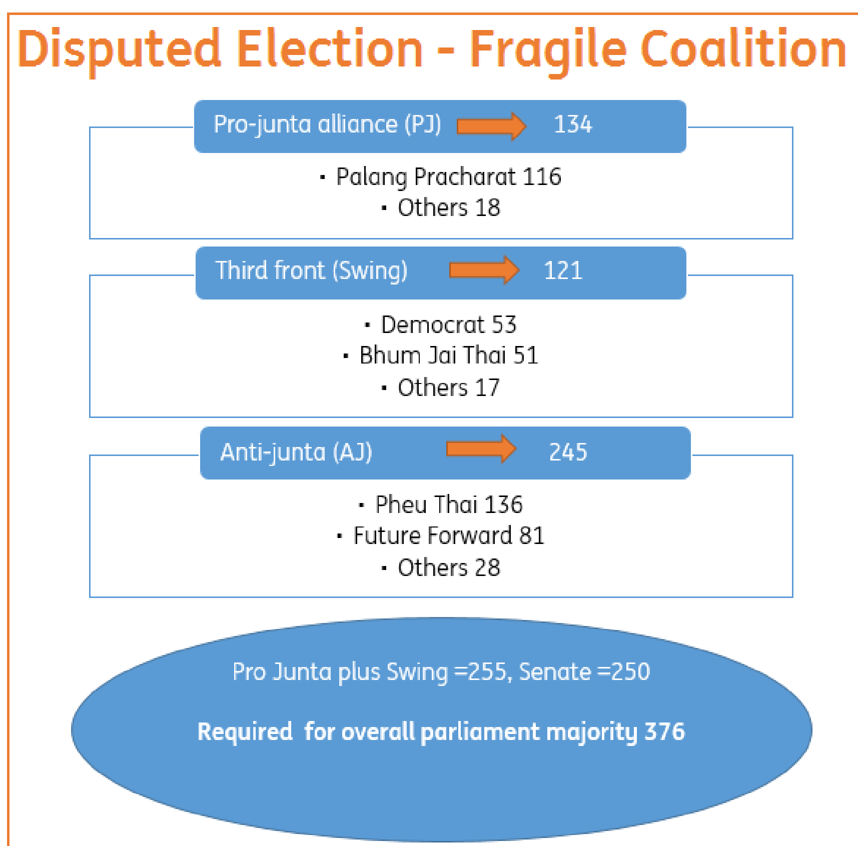
Source: Shutterstock

The political scene continues to be confused

The results of the General Election held on 24 March were widely disputed. And more than three months later, there is still no government in place.

The new parliament is comprised of the 250-seat Senate, entirely held by the military appointees, and the 500-seat lower house. Here, the pro-junta Palang Pracharath Party has managed to form a 19-party coalition holding a very slim majority of only four seats. This Parliament formally elected Prayuth Chan-Ocha as prime minister – the former military general’s second term in that office. We thought this had almost ended the long-standing political uncertainty since the 2014 coup. But we were wrong.

Disputed elections - fragile coalition



Source: ING

As the wrangling for cabinet positions and tumult with his own political circle continues to delay formation of the government, PM Prayuth has hinted at a mid-July timeline for instituting his new Cabinet. However, it doesn't look to be going well, given recent reports of a rift within Prayuth's Palang Pracharath Party, as well as the Constitutional Court's order for investigation of 32 lawmakers from the ruling coalition for violating the constitutional prohibition of shareholdings in media companies.

The Court has allowed all 32 embattled lawmakers to keep their seats until the final ruling, an implied leaning towards the junta which faced criticism from the opposition, given the Court's earlier suspension of a main opposition party leader for the same allegations. Thanathorn Juangroongruangkit, the leader of the Future Forward Party, is currently being investigated by the court for his media holdings.

I hope that everything will move forward to respond to peoples' needs as the government of all Thais. This will be a beginning for a political reform by the government and its coalition so that politics will not get back to its old problem that might require the old, unwanted solutions – PM Prayuth Chan-Ocha

These recent developments could potentially destabilise the coalition, reducing it to a minority and thus paving the way for more uncertainty ahead. The additional risk stems from factions within the military, the imminent shift of power away from the Queen's Guards, from which PM Prayuth hails, to the King's Guards led by military commander-in-chief Apirat Kongsompong. The latest story by Nikkei Asian Review will be a good read on this (may require subscription).

So, where do we go with all this? Prayuth's mid-July timeline for having the government in place may seem a bit optimistic. We aren't judging the hopes of a return to the civilian regime as being in vain. but even if it gets there, Prayuth will still be leading a very weak coalition government that would face tests during the passage of key legislation in parliament, e.g. the imminent 2020 budget. After all, with such a fragile coalition, doubts about the new government surviving its entire term will flourish.

On the other hand, if the process is dragged out beyond July, we could be in for quite an unpredictable political future, which would come as a significant dent to investor confidence in the new political machinery. We don't rule out a further spike in political risk.

Against such a backdrop, the strong rally in local financial assets – government bonds, equities and the Thai baht alike – underway since June, remains at risk of being unwound.

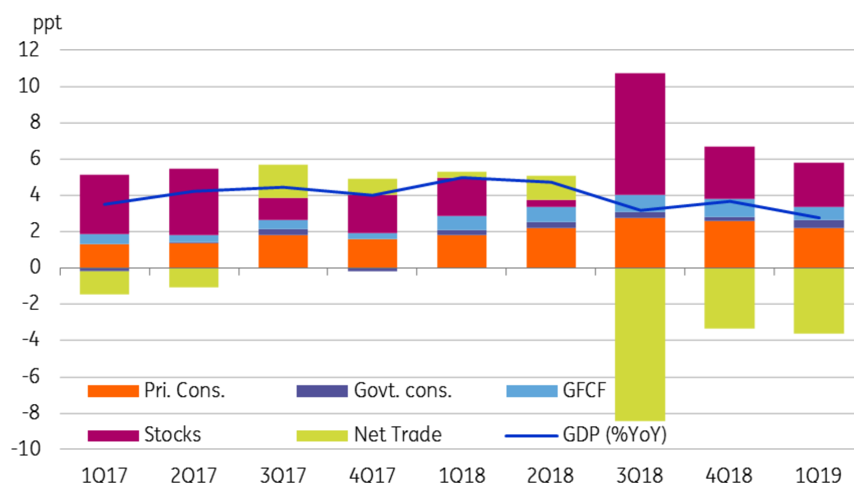
The economy isn't doing any good either

Following on the heels of an exceptionally weak first quarter this year, the economic data continues to unfold on the weaker side. GDP growth slumped to a four-year low of 2.8% in 1Q19. The political jitters during the general elections weighted on domestic demand, while global trade and the technology war continued to depress exports. Indeed, net trade remained a key drag on growth. If it weren't for a sustained inventory re-stocking, GDP growth would have been even worse.

We read the high-frequency activity data as signalling continued economic weakness in the current quarter, while the forward-looking confidence indicators show no respite from this trend over the rest of the year.

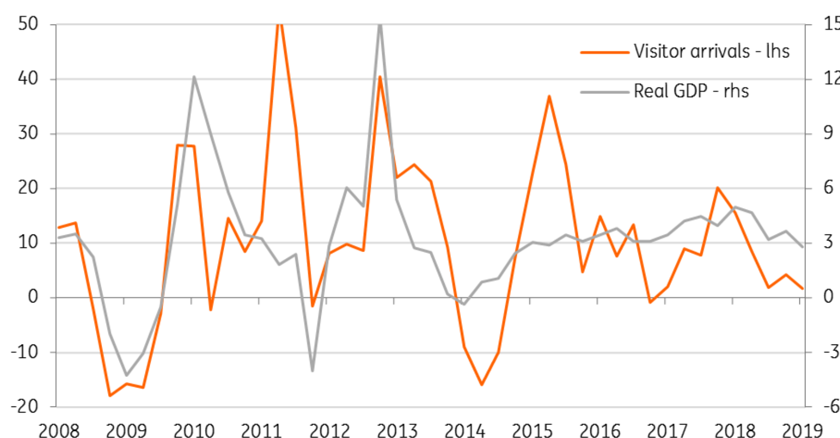
Besides weak exports, a further hit to growth comes from the fallout of the trade war on the tourism sector - the backbone of the Thai economy. This is already evident from the slowdown in Chinese visitors underway since last year. Domestic political jitters also deter tourists and GDP growth.

Sources of GDP growth



Source: CEIC, ING

Slowing tourism, slowing GDP growth (% year-on-year)



Source: Bloomberg, CEIC, ING

Cloudy prospects ahead

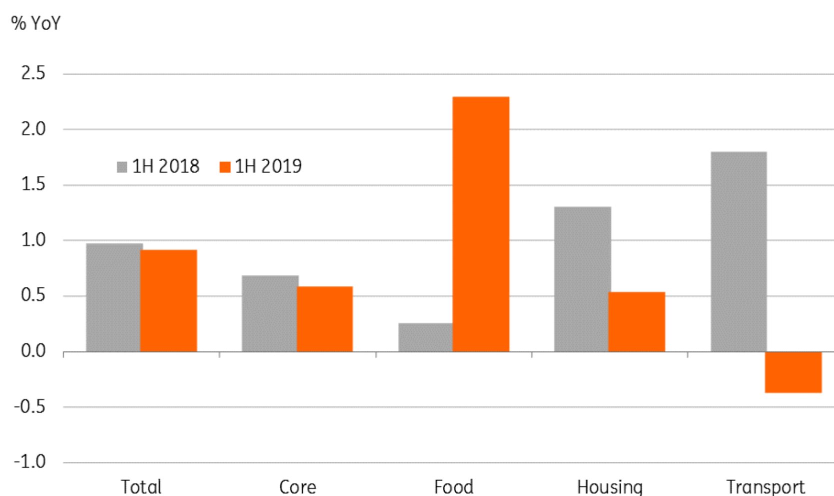
We recently revised our GDP growth forecast for 2019 to 3.1% from 3.8%, putting it below the official 3.3% forecast by both government and the central bank (the Bank of Thailand) which were scaled back from 3.8%.

Meanwhile, inflation has remained subdued, making the last rate hike seem even more unnecessary. Weak growth will sustain the low inflation trend for the foreseeable future. At an average rate of 0.9% in the first half of 2019, consumer price inflation was slightly below the 1% average in the same period last year. A sharp spike in food inflation was more than offset by a slump in housing and transport inflation, while inflation in other consumer products (core inflation) continued to be negligible, about 0.5%.

We expect the inflation outturn for the rest of the year to remain benign, especially with strong

currency appreciation this year keeping imported inflation at bay and anaemic domestic demand limiting any upside at home. The Commerce Ministry recently cut its 2019 inflation forecast to 1.0% from 1.2%, putting it on a par with the central bank's forecast. Our 1% annual inflation forecast maintained since the last revision from 1.3% in January this year, remains on track, though with the risks tilted more to the downside than to the upside.

Subdued inflation



Source: Bloomberg, CEIC, ING

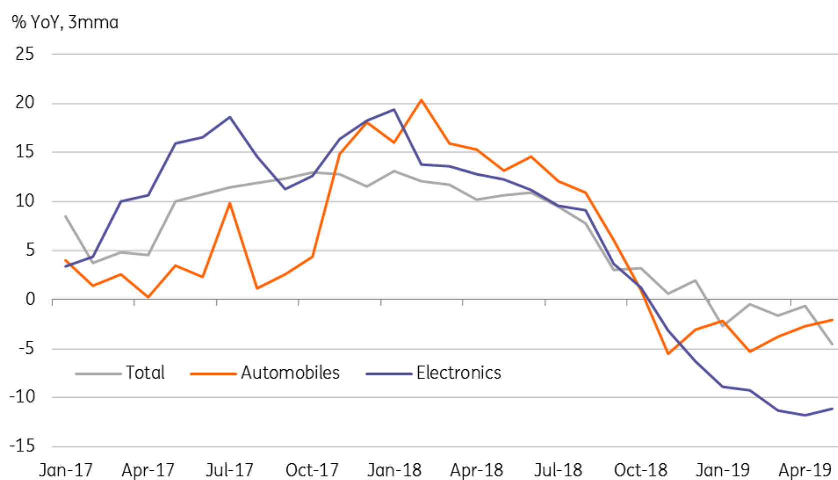
Still, healthy external payments

Thailand isn't spared from the US-China trade and technology war or the global tech slump hanging over the entire region. Exports of automobiles and electronics, together accounting for 30% of total exports, have been on a steady downward grind.

A 2.7% YoY contraction of total exports in the year through May is a significant negative swing from 12% growth a year ago. The swing is much worst for imports, - 1.0% YTD from +16%, which underscores domestic economic weakness. This is associated with a (just slightly) narrower trade and current account surplus than a year ago.

The potential negative impact on the "tourism dollar" could mean that the surplus narrows even further. We foresee the annual current surplus in 2019 to be equivalent to 4.8% of GDP, down from 6.4% in 2018. This is still large relative to most Asian countries and remains a significant support to the currency (Thai baht, or THB).

Slumping automobile and electronics exports



Source: Bloomberg, CEIC, ING

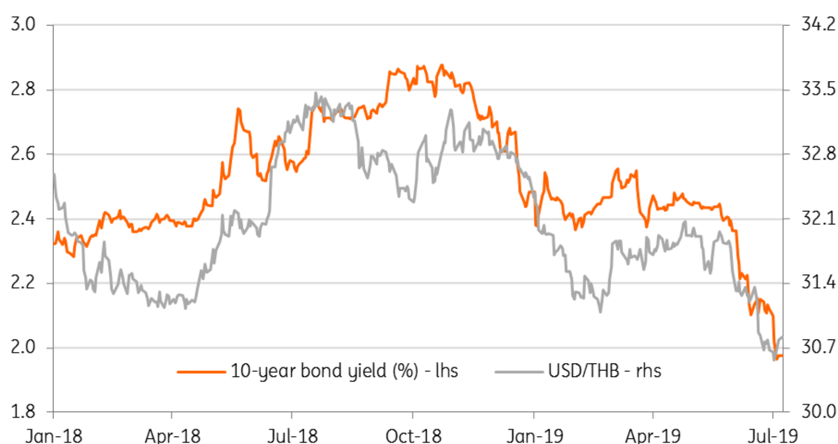
Excessive baht strength hurts more

The THB continues to be among the best performing emerging market currencies so far this year, with a more than 6% appreciation against the US dollar, taking the exchange rate to a six-year high of 30.57, even in the face of heightened global economic and geopolitical uncertainty. Clearly, the THB performance is out of sync with the underlying weak economic trends despite the fact that the currency enjoys a relatively strong backing from the large current surplus, which itself is a by-product of a significant economic imbalance – perennially weak domestic demand.

The BoT attributes recent (fast-paced) appreciation of the THB to a weakening US dollar, short-term capital inflows, and domestic factors. But the central bank also admits to it being inconsistent with economic fundamentals. It's not just inconsistent with prevailing economic fundamentals, the strong currency further dampens the prospects for exports and tourism by making them more expensive for foreigners. Thailand's status as a cheap tourist destination in Asia and perhaps the world is under threat from rapid currency strength.

Indeed, the authorities are worried about this runaway currency appreciation but there is little action to arrest it just yet, even as Thailand has now moved out of the US Treasury's radar for currency manipulators. The BoT is only 'closely' monitoring the foreign exchange market for speculative interests. We believe a policy rate cut might help in the process while the argument for easing is getting stronger and stronger with every piece of additional data.

Surging portfolio inflows



Source: Bloomberg, ING

Lack of fiscal support

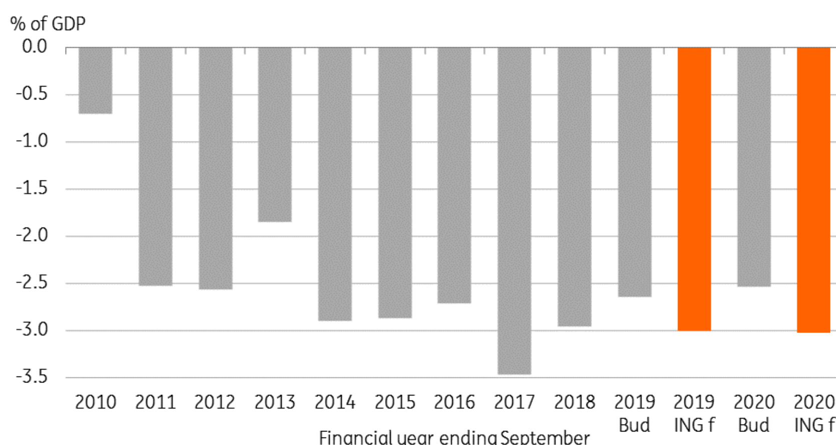
The persistent political uncertainty reduces hopes for any fiscal stimulus to revive the economy going forward, while the delayed government formation itself has been hurting routine government spending.

That said, the 4.4% year-on-year revenue growth in the first eight months of fiscal 2019 through May (fiscal year runs from October to September) was moderate but a bit slower than 4.6% in the same period of the previous year while expenditure growth of 5.6% accelerated from 0.1% a year ago.

Such trends will be associated with a significant overshoot of the fiscal deficit in the current financial year, above the government's target of THB 450 billion, or about 2.6% of GDP target. We see the deficit this year as unchanged from the 3% of GDP level it was in the last financial year.

Without a properly functioning government the fate of big infrastructure projects, like the Eastern Economic Corridor (EEC)- a $45 billion public-private partnership, hangs in the balance.

Fiscal deficit



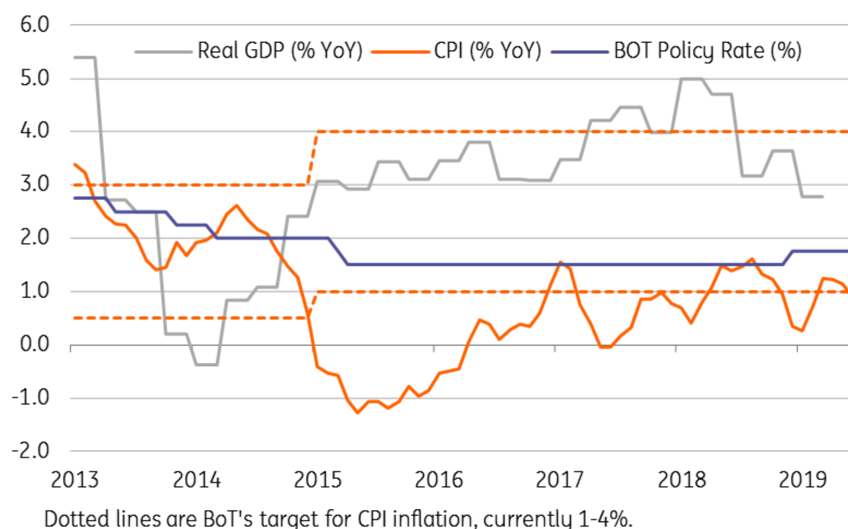
Source: CEIC, ING

Heavy-lifting for monetary policy

The BoT's last policy change was a 25 basis point increase in the one-day repurchase rate, the policy rate, to 1.75% in December 2018. We thought that policy tightening wasn't required in the first place when the external economic headwinds were already getting stronger, GDP growth was petering out, and inflation was running under the BoT's 1-4% target. Indeed, Thailand's economic environment hasn't got any better since the last policy move. Rather, it has deteriorated.

The lack of fiscal policy support means that monetary policy will have to do all the heavy lifting. Slowly but surely, the authorities are coming to terms with the need for easier monetary policy.

Growth, inflation and policy rate



Source: Bloomberg, CEIC, ING

Just recently the government added its voice to calls for monetary easing, with Deputy Prime Minister Somkid Jatusripitak saying that "It can't go against the trend if the economic situation continues to be like this". And a BoT policymaker, Somchai Jitsuchon, signalled that monetary policy would be data-dependent, with the fallout from the US-China trade war on the local economy leaving the bank "open to all possibilities". This being the case, it's hard to imagine the BoT ignoring the latest activity data, which offers no hope of recovery in economic growth in the period ahead.

The BoT's statement after the last meeting was largely dovish and it was also accompanied by a downgrade of the central bank's growth forecast for 2019 to 3.3% from 3.8%. We take this as a signal that a policy rate cut is just around the corner. We continue to expect a 25bp rate cut in the current quarter, more likely at the next meeting on 7 August rather than the 25 September meeting. However, that would still only be a reversal of the hike in late 2019, and not provide much stimulus to a sagging economy. We are adding one more 25bp rate cut to our policy forecast in the fourth quarter, taking the policy rate to 1.25% by end-2019.

Thailand: Key economic indicators and ING forecasts

Thailand	2015	2016	2017	2018	2019 f	2020 f
Real GDP (% YoY)	3.1	3.4	4.0	4.1	3.1	3.5
CPI (% YoY)	-0.9	0.2	0.7	1.1	1.0	1.4
Unemployment rate (%)	0.9	1.0	1.2	1.1	1.2	1.1
Fiscal balance (% of GDP)	-2.9	-2.7	-3.5	-3.0	-3.0	-3.0
Public debt (% of GDP)	42.1	41.1	41.2	41.6	42.9	47.4
Current account (% of GDP)	6.9	10.5	9.7	6.4	4.8	3.1
FX reserves (US$bn)	156.5	171.9	202.6	205.6	220.0	230.0
External debt (% of GDP)	32.7	32.0	34.1	31.3	32.0	33.0
Central bank policy rate	1.50	1.50	1.50	1.75	1.25	1.25
3M interbank rate (%, eop)	1.63	1.59	1.57	1.86	1.50	1.65
10Y govt. bond yield (%, eop)	2.50	2.65	2.32	2.48	2.00	2.25
THB per USD (eop)	36.08	35.84	32.58	32.33	31.00	30.50

Sources: Bloomberg, CEIC, ING forecasts

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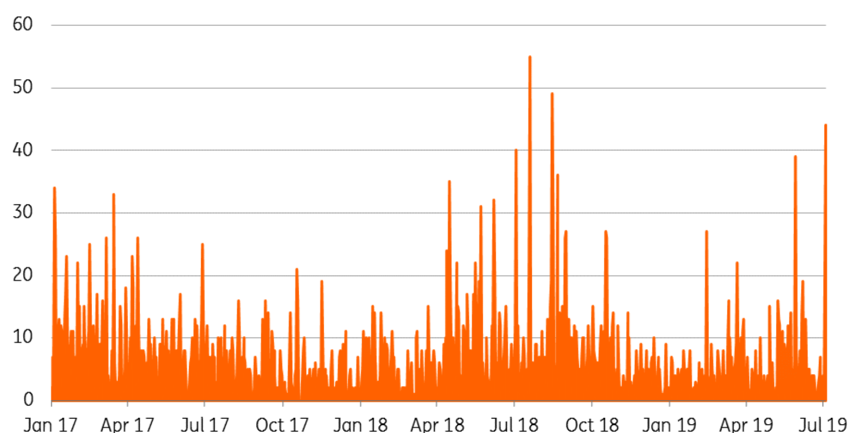
Article | 8 July 2019

FX intervention: Does President Trump have the means, motive and opportunity?

FX intervention is in the news after President Trump accused China and Europe of playing a 'big currency manipulation game' and suggesting the US should match it. Could frustration with the Fed prompt the President to take matters in his own hands and weaken the dollar?

Source: Shutterstock
US President Donald Trump and Federal Reserve Chairman Jerome Powell

FX intervention is back in the news (Bloomberg story count)



Source: Bloomberg

Beyond pressuring the Fed, how could the President weaken the dollar?

Given the overt pressure on the Federal Reserve to ease policy, it should come as no surprise that President Trump would like a weaker dollar to support the US economy. His problem is that he has few powers over domestic, let alone foreign monetary policy. He may bemoan Europe for keeping its currency weak through prior and perhaps future episodes of quantitative easing, but eurozone core inflation hasn't been near the ECB's 2% target since early 2008 and Washington can do very little to prevent another round of easing from the ECB.

It is possible, Washington may start to look at its own tools to weaken the dollar. There have been no direct suggestions from the White House so far, but tweets regarding the need to match the currency manipulation of other trading partners have the market speculating over whether President Trump would instruct the US Treasury to sell dollars and buy FX in a unilateral intervention.

> *Will the lure of a weaker dollar to support the US economy into 2020 prove to be too great for President Trump?*

The issue of US FX intervention has also gained attention after a post from ex-US Treasury official and respected blogger, Brad Setser, a senior fellow at the Council on Foreign Relations, supporting calls for countervailing currency intervention (CCI) – effectively laying the groundwork for the US Treasury to sell dollars and buy currencies of those countries having been deemed to be manipulating their currencies lower for trade gains.

Given the President's broad use of executive powers – including the obscure IEEPA law to block undocumented Mexican immigration – it is not too much of a jump for the White House to re-familiarise itself with available methods to influence FX rates. Even though, in theory, the US is still signed up, via the March 2018 G20 Communique, to refrain from competitive devaluations, but the

lure of a weaker dollar to support the US economy into 2020 may be too great.

Here we look at whether the White House has the Means, the Motive and the Opportunity to engage in direct intervention to weaken the dollar.

Read Brad Setser's blog post: Three recommended changes to US currency policy

1 The Means: Authority lies with the White House

When it comes to FX intervention, the authority to direct it certainly sits with the President. This derives through the 1934 Gold Act which established the Exchange Stabilisation Fund (ESF). This legislation gave power to the US Treasury and the President to deal in gold and FX 'for the purpose of stabilising the exchange value of the dollar'. There have been several amendments to this law over time, but none to categorically change the position that the President can direct FX intervention.

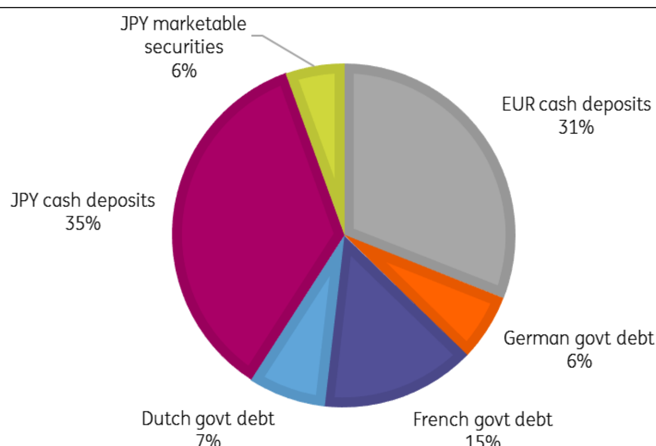
> *It seems pretty clear that the authority for FX intervention sits neither with Congress nor the Fed, but with the President*

Currently, the United States FX reserves are around USD 42bn, held exclusively in EUR and JPY. These are split equally between the Treasury's ESF and the Fed's SOMA account – effectively whenever the US Treasury instructs the Fed to intervene in FX markets, the Fed would undertake the mirror-image activity in both the ESF and SOMA accounts. Currently, FX reserves are roughly split 60:40 for EUR:JPY and 60:40 cash deposits: government securities.

Conceivably, the White House could tell the US Treasury to go out and buy several billion dollars' worth of EUR and JPY to 'stabilise the dollar'. In terms of which dollars get sold for this exercise, we presume the US$23bn worth of US government securities in the ESF may be untouchable. Instead, such activity would involve some money creation from the Fed, given that issuing Treasury debt for FX purposes (as Carter did in 1978) would probably have to go through Congress – something the White House would want to avoid.

However, in short, it seems pretty clear that the authority for FX intervention sits neither with Congress nor the Fed, but with the President.

USD 42bn of US FX reserves are in EUR and JPY



Source: US Treasury

2 The Motive: Trading partners aren't playing fairly

President Trump hasn't minced his words about currency manipulation. Europe and China are certainly in the firing line here and the White House's motives – as Brad Setser rightly points out – are that if the US economy slows and the Fed cuts rates, the US export sector should be able to benefit from a weaker dollar without trading partners preventing an adjustment in their currencies through intervention. Yet the ECB has never intervened to buy FX and the People's Bank of China has probably not done so for five years.

Currently, the US Treasury's foreign currency report is still the vehicle for assessing currency manipulation and the next report is not due until mid-October. Instead, and we're speculating here, perhaps the White House assesses the US needs larger FX reserves to maintain the stability of the dollar.

Enjoying the 'exorbitant privilege' of issuing debt in the world's most popular reserve currency, the US typically doesn't succumb to FX reserve adequacy analysis. However, if President Trump looks for opportunities to artificially dampen the value of the dollar, he may look at some international comparisons.

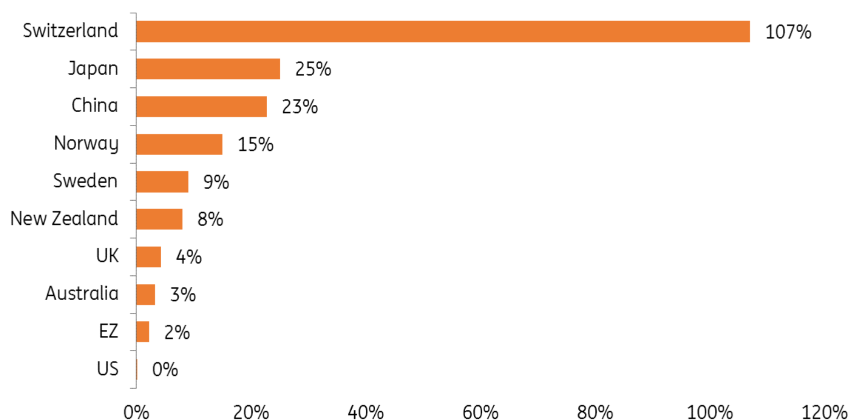
If US FX reserves were to match those of the eurozone in terms of GDP, the US would require an extra USD 400bn worth of foreign currency

In terms of size, the FX reserves-to-GDP ratio for the United States is a miniscule 0.2%. The most commonly used metrics of reserve adequacy, which take into account the short-term debt and the current account deficit, also shows the US with very small FX reserves.

The reason, of course, stems from the fact the US is itself the issuer of the dollar which accounts for most of the FX reserves worldwide. The "infinite" stockpile of USD makes it unnecessary for the US

to hold massive reserves. Nevertheless, the Trump administration might point a finger at the eurozone. Were US FX reserves to match those of the eurozone in terms of GDP, the US would require an extra USD 400bn worth of foreign currency.

FX reserves as a % of GDP (US reserves are small)



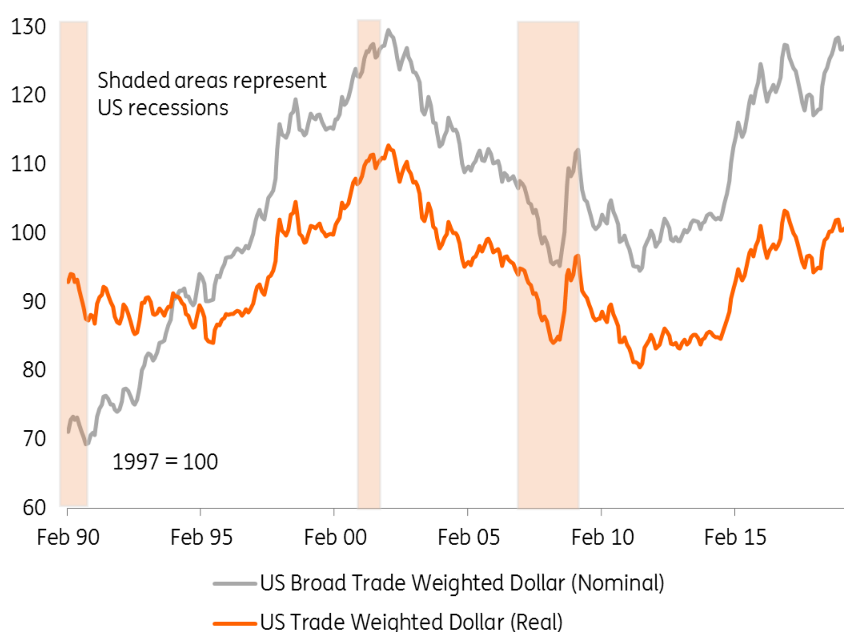
Source: ING, Macrobond

3 The Opportunity: Could ECB action trigger a Washington response?

President Trump's twitter finger has been very sensitive to the ECB policy and the EUR. Were the ECB to cut rates in late July or enact a fresh round of quantitative easing in September – such that EUR/USD comes under fresh pressure – Washington could potentially respond. At this time the trade weighted dollar could well be retesting its all-time high.

Alternatively, the US Treasury could again move the goal-posts in its currency manipulation report – next report due mid October – laying the groundwork for direct FX intervention. Under this approach, however, it is hard to see how the US could penalise Europe unless currency manipulation criteria witness wholesale changes.

US trade weighted dollar near the highs



Source: ING, Bloomberg

Intervention threat to limit the dollar's upside

Dollar strength or least the weak currencies of key trading partners of the US are certainly on Washington's radar. So far the White House has exerted indirect pressure on the dollar via the need for Fed easing. If the dollar doesn't start to fall later in the year, we suspect pressure will grow for the US Treasury to take more direct action on the dollar.

The wild-card of FX intervention is another reason why we prefer the dollar to be topping out this summer and retain year-end forecasts for EUR/USD and USD/JPY at 1.15 and 103 respectively.

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Article | 5 July 2019 India

India's FY2020 budget targets lower deficit, really

Finance minister Nirmala Sitharaman may have scored some points for fiscal consolidation with a lower deficit target of 3.3% of GDP. Whether her maiden budget revives the economy to 7% of GDP growth in the current financial year remains to be seen

Source: Shutterstock

3.3% FY2020 fiscal deficit target

Lower than expected

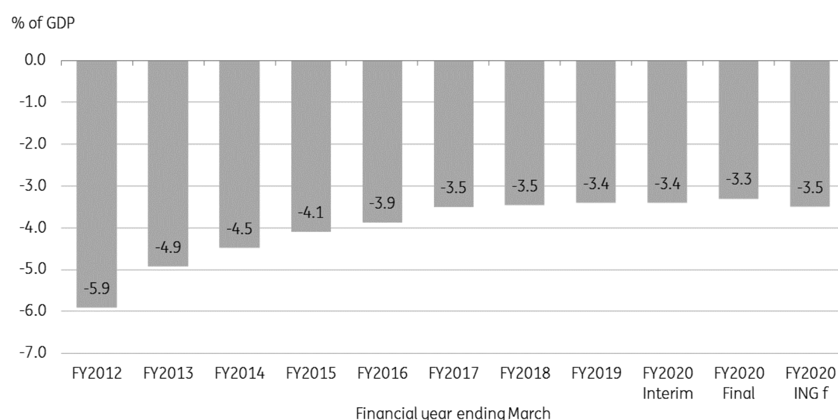
The final Budget for FY2020

To the surprise of many, new Finance Minister Nirmala Sitharaman's maiden budget for FY2020 (ending on 31 March 2020) aims for a lower fiscal deficit equivalent to 3.3% of GDP from 3.4% in

the interim budget. With persistent downside growth risk likely depressing government revenue and an infrastructure investment drive entailing more spending, the risk to the deficit target will be tilted on the upside.

We continue to expect another overshoot; we forecast the fiscal deficit at 3.5% of GDP in the current financial year, which rests on our view of much slower, 6.6% GDP growth than the government's 7% projection.

Derailed fiscal consolidation



Source: Govt. of India, ING forecast

A $5 trillion economy in five years

Besides its prevailing "Make in India" theme, the government is aiming to make India a $5 trillion economy by 2024, a near-doubling from $2.7 trillion currently. This seems to be a feasible goal on the assumption of steady GDP growth of about 7% and inflation of 4% annually.

However, the long-term potential of 7-8% growth hinges on rapid infrastructure development. On the face of it, the budget appears to be heavy on words and light on concrete action on this front, while the long-term nature of infrastructure projects also makes them prone to frequent alterations, cost overruns, and uncertainty. Moreover, boosting infrastructure investment spending in the future could be a difficult proposition if countered by the drive to improve public finances and cut down the deficit, which will be an ongoing necessity to build global investor confidence, as the government eyes the international debt market for deficit financing (see below).

Among other things, the measures to attract more foreign investment (both direct and portfolio), public-private partnership (PPP) in infrastructure projects, and reduction of corporate taxes are some of the better initiatives.

Tapping international market for funds

In an initiative aimed at broadening the debt market, the government plans to turn to the international market to meet its funding needs. Given the low level of external debt, running around 20% of GDP, the move to broaden deficit financing to overseas debt markets may not be an issue.

The success, however, depends on the kind of investor response the government receives on this front. Considering the significant growth potential of the Indian economy ahead, this could be

positive, once the cyclical slowdown currently underway has passed. Moreover, investors will also be looking at the government's record of fiscal management. Weak growth feeding into the risk of sustained deficit overruns won't go down positively in the international market as this also adds to the risk of a sovereign rating downgrade - a risk that hasn't even been discounted currently with a persistent twin-deficit (fiscal and current account deficit).

For now though, this move should ease some of the supply overhangs on the domestic bond market, and thus reduce upward pressure on yields. Meanwhile, the government has maintained its INR 7.1 trillion local borrowing target for this year.

Budget in figures

Financial year ending March 31 INR bn	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Interim	FY2020 Final
1. Revenue receipts	**11950.3**	**13759.6**	**14304.0**	**15631.7**	**19776.9**	**19627.6**
(% YoY)	**8.5**	**15.1**	**4.0**	**9.3**	**26.5**	**25.6**
2. Tax revenue (Net to Centre)	9437.7	11013.7	12424.9	13169.5	17050.5	16495.8
3. Non-tax revenue	2512.6	2745.8	1879.2	2462.2	2726.5	3131.8
4. Capital receipts a/	**5957.6**	**6033.1**	**7114.2**	**7482.5**	**8065.1**	**8235.9**
5. Recovery of loans	208.4	177.7	203.1	178.4	125.1	148.3
6. Other Recepits	421.3	477.4	1000.5	850.5	900.0	1050.0
7. Borrowing and other liabilities b/	5327.8	5378.0	5910.6	6453.7	7040.0	7037.6
8. Total Receipts (1+4)	**17907.8**	**19792.7**	**21418.2**	**23114.2**	**27842.0**	**27863.5**
9. Total expenditure (10+13)	**17907.8**	**19792.7**	**21418.2**	**23114.2**	**27842.0**	**27863.5**
(% YoY)	**7.6**	**10.5**	**8.2**	**7.9**	**20.5**	**20.5**
10. On revenue account; of which	15377.6	16929.9	18793.5	20084.6	24479.1	24477.8
11. Interest payments	4416.6	4807.1	5289.5	5826.8	6650.6	6604.7
12. Grants in aid for creation of capital assets	1317.5	1657.3	1953.5	**2003.0**	2007.4	2073.3
13. On capital account	2530.2	2862.8	2624.8	3029.6	3362.9	3385.7
14. Revenue deficit (1-10)	**-3427.4**	**-3170.3**	**-4489.4**	**-4452.9**	**-4702.1**	**-4850.2**
% of GDP	-2.5	-2.1	-2.6	-2.3	-2.3	-2.3
15. Effective revenue deficit (14-12)	**-2109.8**	**-1513.0**	**-2535.9**	**-2449.9**	**-2694.7**	**-2776.9**
% of GDP						
16. Fiscal deficit [9-(1+5+6)]	**-5327.8**	**-5378.0**	**-5910.6**	**-6453.7**	**-7040.0**	**-7037.6**
% of GDP	**-3.9**	**-3.5**	**-3.5**	**-3.4**	**-3.4**	**-3.3**
17. Primary deficit (16-11)	-911.2	-570.8	-621.1	-626.9	-389.4	-432.9
% of GDP	-0.7	-0.4	-0.4	-0.3	-0.2	-0.2

a/ Excluding receipts under Market Stabilisation Scheme
b/ Includes drawdown of Cash Balance
Source: Government Budget

Source: Govt. of India

Some of the budget initiatives

- Virtuous investment cycle with heavy infrastructure investment in national and state highways and inland waterways to facilitate the growth of internal trade. Boosting investment in suburban railroads with PPP initiatives.
- Boosting rural infrastructure with easier availability of electricity and water to farmers. Zero-budget farming (no credit, no chemical fertilizer) farming to double farmers' income.
- More support to MSMEs (micro, small, and medium enterprises) with easier credit availability. Pension plans for small businesses.
- Measures to attract foreign direct investment (FDI). Opening of aviation, insurance and media sectors to foreign investors. Labour market reforms enabling easier access for foreigners.
- Simplifying KYC (know your customer) guidelines for foreign portfolio investors (FPI) and allowing 'AA' rated bonds as investment collateral.
- INR 700 billion recapitalisation for state-owned banks. More powers to the Reserve Bank of India to regulate the non-bank financial sector, including housing finance companies.

- Increase in public stockholding limit for companies up to 35% from 25%. Rise in the target of public sector asset sales by 17% to INR 1.05 trillion in FY2020 from the interim budget. Proposed reduction in government shareholding in state-owned companies below 51%.
- Reduction of the corporate tax rate for turnover of up to INR 4 billion to 25% from 30%. Electronics assessment of personal income tax and surcharges of up to 7% for high-income earners.
- Hike in customs duty on gold and precious items and excise duty on petrol and diesel. Discouragement of cash economy with 2% tax deduction at source on over INR 10 million cash withdrawal per year.
- Tapping international market for sovereign borrowing. No change to the INR 7.1 trillion gross (4.73 trillion net) domestic borrowing target for FY2020.

India: Key economic indicators and ING forecasts

India (FYending March)	FY2016	FY2017	FY2018	FY2019	FY2020 f	FY2021 f
Real GDP (% YoY)	8.0	8.2	7.2	6.8	6.6	7.0
CPI (% YoY)	4.9	4.5	3.6	3.4	4.5	5.0
Fiscal balance (% of GDP)	-3.9	-3.5	-3.5	-3.4	-3.5	-3.5
Public debt (% of GDP)	69.9	69.0	69.8	72.5	73.0	71.0
Current account (% of GDP)	-1.1	-0.6	-1.8	-2.1	-2.5	-2.4
FX reserves (mth of imports)	10.2	10.6	10.2	8.7	7.8	7.2
External debt (% of GDP)	182.1	168.2	171.3	165.3	174.2	178.0
RBI repo rate (%, eop)	6.75	6.25	6.00	6.25	5.75	5.75
3M T-bill rate (%, eop)	7.27	5.82	6.09	6.14	6.20	6.50
10Y govt. bond yield (%, eop)	7.47	6.68	7.40	7.35	7.40	7.65
INR per USD (eop)	66.33	64.84	65.18	69.16	69.80	68.80

Sources: Bloomberg, CEIC, ING forecasts

Source: Bloomberg, CEIC, ING

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Report | 5 July 2019

July Economic Update: The Art of the Deal

Politics is increasingly driving economics, with escalating US-China trade tensions and subsequent ceasefire being a case in point. We believe a trade deal will finally be signed later this year, but not before the Federal Reserve and European Central Bank have come to the economy's aid with monetary easing.

Source: Shutterstock
President Donald Trump shakes hands with Chinese President Xi Jinping during a meeting on the sidelines of the G-20 summit in Osaka, Japan

July Economic Update: The Art of the Deal

Politics is increasingly driving economics, with escalating US-China trade tensions and subsequent ceasefire being a case in point. We doubt the truce will hold for long and Europe could yet get dragged into the conflict over the next few months. We believe a trade deal will finally be signed later this year, but not before the Federal Reserve has come to the economy's aid with interest rate cuts. The ECB is expected to offer stimulus of its own, and the nomination of Christine Lagarde as the bank's new president has added to this dovish view. Moreover, the political dealmaking in Europe, now under new leadership, looks set to be ramped up as Brexit looms large.

Despite the easing of trade tensions, the Federal Reserve is clearly indicating it is prepared to offer early support to the US economy. Activity data is showing signs of softening, inflation is benign and markets are keen for action. As such, we expect precautionary 25 basis point rate cuts in both July and September.

The market continues to look for more - a third move in 4Q19 with an additional fourth cut in 1Q20. We remain more cautious given our belief that President Trump wants to be re-elected and will therefore be prepared to sign a trade deal, probably in 4Q, that doesn't necessarily meet all of his initial demands. We assume Trump will want the optimal conditions of rising equity markets and decent economic activity going into the campaign proper, and a trade deal together with lower interest rates can deliver that.

Meanwhile, bond markets are enjoying the art of the steal. On one side of the balance sheet, core issuers are obligated to return less money than they have been lent right out to 10 years. On the other side, investors have eyed the 10yr US at 2% and concluded that that is a steal when compared with other (negative yielding) risk-free rates. Absolute yield levels are discounting all kinds of awful scenarios ahead, partly reflective of a perennial disinflation tendency, but also heavily influenced by a remarkable excess of demand over supply (which the ECB will likely augment).

The eurozone economy is still desperately seeking guidance and support. Confidence indicators have started to deteriorate again, and a rate cut is now a question of 'when' rather than 'if'. It's a close call, but barring a further deterioration in the data before the July meeting, we think the ECB is more likely to wait until September when it will have a new set of staff projections.

Concerns are growing that a new UK prime minister could pursue a 'no deal' Brexit, although we still think parliament would force a general election if there were no alternative way to stop it. All of this uncertainty is continuing to weigh on growth and a Bank of England rate hike this year looks unlikely.

Even after the China-US sideline meeting at the G20 in late June, it is still too early to say that the two sides are close to reaching an agreement. Technology is the big issue, but it seems to us little can be done. China needs more infrastructure investment, both for stimulus purposes and for achieving technology independence. The central bank needs to support these projects by adding more liquidity to the market. USD/CNY has been more affected by a weak dollar than the outcome of the G20.

The eight year dollar bull run is showing signs of fatigue – but is not giving up without a fight. We suspect that an escalation in trade tensions will prove the catalyst for a fresh bout of dollar losses – especially in USD/JPY.

ING global forecasts

	2018					2019F					2020F					2021F				
	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)	2.2	4.2	3.4	2.2	2.9	3.1	1.8	1.6	1.8	2.5	1.6	1.9	1.9	2.0	1.8	2.0	2.1	2.0	1.9	1.8
CPI headline (% YoY)	2.7	2.7	2.6	2.2	2.4	1.6	2.0	1.9	2.1	1.8	2.5	2.1	2.2	2.2	2.2	2.1	2.0	1.9	1.8	2.0
Federal funds (%, eop)[1]	1.50	1.75	2.00	2.25	2.25	2.25	2.25	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month interest rate (%, eop)	2.30	2.35	2.45	2.65	2.65	2.60	2.45	1.95	1.95	1.95	2.00	2.05	2.05	2.05	2.05	2.05	2.05	2.05	2.05	2.05
10-year interest rate (%, eop)	3.00	3.00	3.00	2.80	2.80	2.30	2.00	1.80	1.70	1.70	1.90	2.00	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
Fiscal balance (% of GDP)					-4.0					-4.6					-4.7					-4.7
Fiscal thrust (% of GDP)					1.1					1.1					0.3					0.3
Debt held by public (% of GDP)					76.7					78.9					81.3					83.8
Eurozone																				
GDP (% QoQ, ann)	2.8	1.6	0.5	1.0	1.9	1.6	0.6	0.8	1.1	1.0	0.9	1.4	1.2	1.1	1.1	1.1	0.9	0.5	0.8	0.9
CPI headline (% YoY)	1.3	1.7	2.0	2.0	1.8	1.4	1.3	1.0	1.1	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
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	-0.32	-0.32	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10-year interest rate (%, eop)	0.50	0.30	0.40	0.24	0.24	-0.07	-0.30	-0.30	-0.10	-0.10	-0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Fiscal balance (% of GDP)					-0.5					-0.8					-0.8					-0.7
Fiscal thrust (% of GDP)					-0.2					-0.1					0.2					-0.1
Gross public debt/GDP (%)					87.8					86.8					85.7					84.4
Japan																				
GDP (% QoQ, ann)	-0.3	2.2	-2.5	1.6	0.8	2.2	1.4	0.7	0.5	1.1	0.5	0.6	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8
CPI headline (% YoY)	1.3	0.6	1.1	0.9	0.9	1.0	1.1	1.2	1.0	1.1	0.8	0.6	0.8	1.0	0.8	0.8	0.6	0.8	1.0	1.0
Excess reserve rate (%)	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
3-month interest rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15
10-year interest rate (%, eop)	0.05	0.05	0.10	0.10	0.10	0.00	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20
Fiscal balance (% of GDP)					-3.0					-2.8					-2.5					-2.2
Gross public debt/GDP (%)					235.0					233.0					232.0					232.0
China																				
GDP (% YoY)	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	6.2	6.3	6.3	6.4	6.3
CPI headline (% YoY)	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	2.5	2.5	2.5	2.5	2.5
PBOC 7-day reverse repo rate (% eop)	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.50	2.45	2.45	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
10-year T-bond yield (%, eop)	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	2.85	2.90	2.95	3.00	3.00
Fiscal balance (% of GDP)					-2.6					-4.5					-4.0					
Public debt, inc local govt (% GDP)					88.0					102.0					103					
UK																				
GDP (% QoQ, ann)	0.2	1.6	2.8	0.9	1.4	2.0	0.1	1.1	1.7	1.4	1.5	1.6	1.2	1.1	1.4	1.7	1.3	0.8	0.5	1.3
CPI headline (% YoY)	2.7	2.4	2.5	2.3	2.5	1.9	2.0	1.8	1.9	1.9	2.3	2.1	2.1	2.0	2.1	1.9	1.9	1.9	2.0	2.0
BoE official bank rate (%, eop)	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	1.25	1.25	1.25	1.00	1.00
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)	0.60	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	1.35	1.35	1.35	0.95	0.95
10-year interest rate (%, eop)	1.45	1.48	1.57	1.30	1.30	1.00	0.80	0.70	0.80	0.80	1.00	1.20	1.20	1.20	1.20	1.20	1.10	1.00	1.00	1.00
Fiscal balance (% of GDP)					-1.4					-1.4					-1.2					-1.0
Gross public debt/GDP (%)					86.9					85.7					84.4					83.6
EUR/USD (eop)	1.20	1.17	1.15	1.12		1.12	1.12	1.12	1.15		1.16	1.17	1.18	1.20		1.21	1.22	1.23	1.25	
USD/JPY (eop)	107	110	114	113		112	108	105	103		102	100	100	100		98.0	95.0	93.0	90.0	
USD/CNY (eop)	6.28	6.67	6.87	6.88		6.74	6.90	6.95	6.90		6.90	6.85	6.80	6.75		6.75	6.70	6.75	6.70	
EUR/GBP (eop)	0.88	0.88	0.89	0.90		0.85	0.90	0.92	0.92		0.90	0.88	0.85	0.85		0.85	0.85	0.85	0.85	
Brent Crude (US$/bbl, avg)	67	75	76	69	72	64	68	69	73	69	70	74	76	74	74	72	77	77	74	75

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

Source: ING

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