

Always the Sun

Draghi re-hashes the same lines to a sun-baked Europe - rates on hold until after "summer" 2019



Summertime snooze

It's summer in a sun-baked Europe, with temperatures hitting absurd records - families may be looking at cooler climes for their summer holidays. Indeed, the temperatures here in Singapore are rather cooler than in Europe right now. I too am off to cooler climes, and 2 weeks in Western Australia beckons. So there will be a fortnight's pause in this daily ramble (don't all cheer).

Actually, the temperatures in Europe are so extreme, that we could well see some severe distortions in data over the coming months. While a good summer is generally helpful for activity, spurring things like sales of seasonal clothing, when things get as extreme as this (38 Degrees C thought possible in the UK for example), then it can lead to exactly the opposite behaviour. Sure, shopping malls are air-conditioned, but you have to get there first, on a non-air conditioned bus or for Londoners, the tube (air-con will be installed by 2030!).

In non-air conditioned countries, like most of Northern Europe, such temperatures tend to lead to lassitude - watching TV in your pants (UK not US definition) while cooling down with a can of beer. Barbecues are compulsory. But eating out becomes a drag. Utility providers in the US would be cranking out the power for air-con - but that is almost non-existent in residential properties in much of Europe. Opening a window has no impact on industrial production figures. Whereas they

would be spiking higher in the US.

It's not just Europe either. Closer to home, Japan has been experiencing ridiculous 40-degree plus temperatures too. These will also likely be taking their toll on the data. Food prices will be affected. Such extreme heat will be playing havoc with seasonal food production. So we should expect headline inflation to surge before falling back as Autumn looms.

OK, I know I should be talking about yesterday's ECB meeting, but the weather in Europe was frankly more interesting. [Please see my colleague's more professional approach to this subject](#), though spoiler alert, the weather also features prominently in his commentary.

Juncker-Trump deal -implications for EURUSD

You can tell I'm off on vacation as I'm just re-hashing my colleague's work today. But [the piece by Viraj Patel on the implications of the Trump / Juncker deal is worth a look](#). Price action since the note was written has been largely USD positive. Draghi did, as Viraj noted, put a glossy spin on the outlook for the Eurozone, and hitting the pause (or should that be snooze) button on the EU-US trade skirmish should reduce the downdraft on the EUR.

That said, there is a lot of bullishness about the US right now. A trade deal could equally be seen as positive for the US, and with all talk about a 4-handle on the upcoming 2Q GDP figures, US support seems to dominate any EU news right now. A continuation of the range near-term still seems a decent call. Let's see if it is still in a 1.1560-1.18 range when I get back from holiday. I have a sneaky feeling it will be, and if it breaks out, I think it is an even bet which currency benefits.

Go Large

To round off today's note, in what is frankly a very quiet and rather dull day in Asia, this is more than made up for by the 2Q18 US GDP release. And again, [James Knightley's thoughtful piece on data is probably all you need to know](#).

Frankly, such is the hype on this figure, that anything that started with a 3 would now be regarded as a disappointment.

But given the impact of Trump's fiscal reform (stimulus) on the US economy right now, the pertinent question is, not what today's GDP figure is, but when does this fiscal stimulus run out? And what happens then? What usually happens is that an economy seeing massive fiscal stimulus end, goes into a sort of arithmetical recession. A fiscal withdrawal shock. There is nothing really wrong when this happens. Activity levels are usually still quite high. But there is no growth. There may even be some pull-back in activity levels. That, in my view, is one of the bigger risks for hawkish views about the Fed in 2019. But that story, a version of Ben Bernanke's "Wile. E. Coyote theory" is a hard sell when current GDP is 4-something percent.

To be resumed in 2 weeks! Good Luck.

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