

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.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

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

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com