

Anxiety mounts over trade

Concern that no trade deal between the US and China may be struck ahead of the March 1 trade truce deadline means only one thing in currency terms - a stronger dollar.



Possibility of no deal boosting the USD

It's hard to spot against the EUR, but against the CNY and KRW, the recent playing down of optimism about a trade deal between the US and China is playing out, as it should, through a stronger USD (weaker Asian FX).

This could become more evident if recent hesitancy about the progress made towards a deal grows, and yes, the CNY and KRW are the two currencies that will probably see the greatest impact: CNY because, well, this is all about China. And the KRW because it is the regional trading powerhouse and liquid currency.

This is playing out in a modified version of what we imagined would be the case at the beginning of the year, except that we felt that there would be some semblance of a positive announcement first, before everything fell apart. This could still happen, in which case, there could become final modest relief rally in Asian FX and in particular, the CNY and KRW, before the USD comes crawling back through late 1Q19 / 2Q19. Something to keep watching!

RBA monetary policy statement

Governor Lowe admitted yesterday what we have been saying for some time now, and bank bill futures markets recently began to echo: Namely, that there is two-way risk around Australian rates, and that the next move, whichever direction it is, would be some way off. We concur with all of that. Today's monetary policy statement will merely repeat this message, with some bells and whistles.

The AUD is looking weaker again, as if should also if trade worries are well founded. But it probably won't lose much further ground on today's statement. This is becoming old news now. But we still like an AUD/USD sub-0.70 figure in the near-term. The trade story might deliver it before a weaker domestic demand story in Australia does.

Nothing much wrong with Japan's wages...

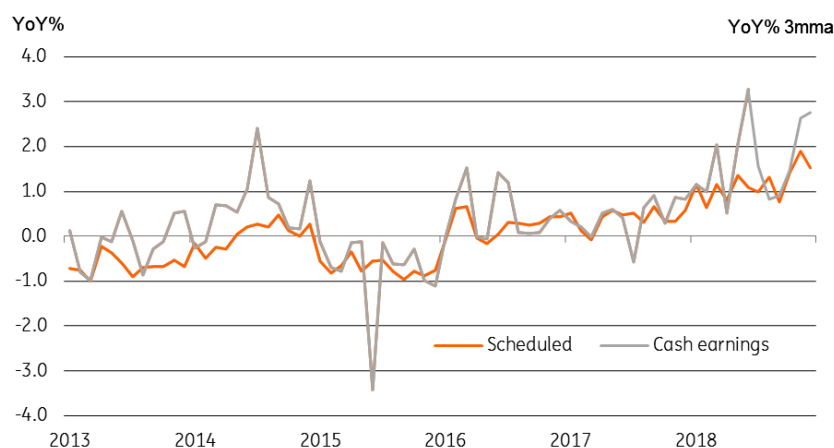
...but where is the spending?

Japan's wage growth became one of Abe's main targets during his Abenomics project, about which we hear relatively little these days. And we have to say that on this, he has actually managed to pull off quite a victory. Wages growth, for the longest time virtually zero, has picked up since mid-2017 and is now running at a 1.8%YoY pace. Even in real terms, this is 1.4%.

While this is a good result, it should also have spurred some stronger household spending. In contrast, this remains pathetically weak. The latest read of (real) 0.1%YoY is not markedly different from recent years, though perhaps it was in a slight trend decline before, and is now merely flat. It may just take more time for workers to view wage increases as permanent before they spend them, rather than saving them.

But one thing we would suggest, the BoJ's current extension of unorthodox monetary policy probably isn't helping. It may not actually be making things worse (discuss...), but as the increasing rate of Japanese pensioners committing petty crimes to get shelter and food in jail shows, for parts of the population, zero yields are actively hurting.

Japanese wages growth



Where India goes...

(From Prakash Sakpal) India's central bank (RBI) has ignored the inflationary consequences of their fiscal splurge and eased policy in support of the government's drive to boost growth before the elections. The 25bp 'election cut', a somewhat surprising move (though we did warn about the risks to this last week), was done on the grounds of inflation continuing to be "benign". We aren't expecting inflation is to hit the RBI's 4% policy mid-point anytime soon but we believe the underlying pressure remains upward. As such, we consider the policy move premature and the rupee will be the main victim of such a policy [\(India: RBI's surprise rate cut appears premature\)](#). In separate announcements yesterday, the RBI is also planning to ease restrictions on foreign investment in corporate debt by removing a 20% limit on investment in a single company. Relaxation of guidelines for borrowing for bankruptcies is also in the pipeline. We remain sceptical of these measures bringing any support to the beleaguered currency when the broader investor sentiment is likely to remain fragile.

...others may follow

We also noted last week that there were other central banks in Asia that might also take advantage of 1) a weaker USD and 2) low inflation stemming from low oil prices, to undo some of the arguably unwarranted tightenings from 2018. Bank of Thailand ranks amongst those on our list, as well as the Philippine Central Bank (BSP), and Bank Indonesia (BI). We could even squeeze the Bank of Korea (BoK) on to this list.

Time may be running out though if trade anxiety comes back with force and the USD with it. So this window is open now but is closing. BI meets the week after next...

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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