

EUR whipped around by Merkel fears

The euro is swinging around on the spat between German Chancellor Angela Merkel's CDU party and their Bavarian CSU coalition partners - a weaker euro typically means weaker Asian FX.



Source: Shutterstock

It's miles away, but the German political tussle could be important in Asia

One of the biggest selling jobs I have is to persuade a US-focussed Asian clientele that they also need to keep an eye out on Europe. Right now would be a very good time to do that. The political argument between Germany's Chancellor, Angela Merkel, her CDU party and the coalition CSU party over immigration has reached new heights, with the CSU's Horst Seehofer (Interior Minister under the coalition) threatening to resign over the deal struck by EU leaders at the end of last week. This deal, which would facilitate the removal of immigrants back to their country of arrival in the EU, does not seem to have gone far enough for some of the CSU leadership, including Seehofer.

At the moment, the CDU are overwhelmingly backing Merkel, and that is providing the EUR with a little support. But if that shifts and the coalition looks threatened, then as well as the EUR, which would soften abruptly, at stake would be Merkel's chancellorship, the Schengen border arrangement, some might even say the future of the EU itself (though that might be going a little far).

So what? Well if that happens and the US dollar strengthens by default, then Asian FX will

be unilaterally weaker, inflation will rise, and central banks will need to take a more hawkish rate stance, weighing on domestic demand. Right now, that is the last thing the global market needs. So, don't ignore Europe!

Worth also giving the Mexican elections a quick squiz

I am going well off-piste when I say that Asian investors might want to give the Mexican elections a once-over too. With the votes not yet counted, newswires seem to believe that the left-leaning Andres Manuel Lopez Obrador will win a landslide.

Markets are anxious. Left-leaning politicians are regarded as less market-friendly than right leaning ones. Moreover, Obrador has apparently taken a tough line on US trade policy and NAFTA negotiations. Opening up trade wounds with the US at this juncture seems like pouring fuel on the already smoldering trade fire. This could provoke a more generalized risk-off sentiment in financial markets. Not good for Asian FX.

Tankan - not so cheery now

Japan's Tankan survey still commands some interest in markets, given the choppiness of the GDP data, and its message today was a modestly negative one. I say modestly because although the headline index for large manufacturers was down more than expected, the 'outlook' index for the same group of firms actually ticked up a point (not clear why). Also, the capex intentions were also stronger than had been expected, though this is typically a back-weighted index, so it was always likely to rise to some degree as we move through the year. If nothing else, this data suggests that current momentum is stronger than was previously thought, though coming off faster. Smaller firms too and the non-manufacturing sector also held up better than the headline index. Though overall GDP growth in Japan is still tightly linked to the manufacturing production cycle, and this is clearly weakening.

Asia week ahead

After last week's Bank Indonesia 50bp hike, which could provide some (though perhaps short-lived) support to the rupiah today, there isn't too much central bank action in the region this week. Australia's Reserve Bank is thought unlikely to hike rates at all this year, so we doubt we will get so much as a hint at policy direction from them, though, following last week's RBNZ suggestion that rates can go down as well as up, there is always a risk their bigger neighbour might follow suit.

The week is otherwise dominated by PMI data (today) which could indicate the degree to which trade tensions are already hurting in advance of Friday's implementation of tariffs by China and the US (Canadian levies took effect on Sunday, whisky and jam...). Inflation data is the other big print this week. Today delivers Thai and Indonesian inflation, later in the week, Taiwan, Korea and the Philippines all release their price data. A soft print on the Indonesian figure (was 3.23% in May), may help BI to persuade markets that its hikes are working...

Korean trade figures released over the weekend weren't brilliant, but they weren't too bad either. The 0.1%YoY decline in exports overstates the downside for a choppy figure that seems in levels terms to be growing slowly, after flattening out through the second half of 2017 and early 2018. Imports are rising more strongly, and the trade surplus will likely narrow over the rest of the year if this pattern continues. That isn't particularly worrying if the import story reflects stronger domestic demand. Although that story could do with a bit more support to become convincing.

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