

Euro problems

Euro takes a beating as coalition talks suggest an anti-European government could emerge in Italy



Source: istock

Never a dull moment in the Eurozone!

After suggesting yesterday that Italy's prospective government might not be much less market-friendly than previous ones, we feel we owe our readers a swift retraction. It is hard to say exactly what the latest state of play is, there have been so many allegations and denials. This is a fast-moving event. Full details of the Northern League / Five Star (North-Star?) coalition manifesto should be out within a few days, But despite suggestions to the contrary, it will apparently **not** contain a demand for Italy's debt held by the ECB to be cancelled, or a mechanism for countries to leave the Eurozone. It may, however, ask for some treaty changes. Whatever it contains, it is hardly going to support the Macron-Merkel (Mackerel?) plans for reform of the Eurozone, and the Euro (EUR) is caught in the cross-fire. EURUSD was down below 1.18 last night, before staging a modest recovery this morning. Asian FX might stage a modest rally as the EUR momentum shifts back in the EUR's favour in the short-term.

This story will doubtless deliver more entertainment over the coming days. But it is hard to see how it will be particularly Euro supportive. That said, there are plenty of factors on the other side of FX crosses to please all sides of the market, not least, what is happening in terms of the US-China trade talks.

Sterling has been a surprise gainer against the EUR (not the USD though). Our feeling is that trouble with Italy will make the Europeans even less likely to throw a lifeline to the UK in Brexit negotiations. It will be all hands to the pump to secure and save the single currency project. So there may be some room for a reversal here, with the USD probably the most likely way to play this if it begins to turn ugly.

Not too boring in the US and UK either

Whilst the allegations over who paid whom for what in the US continue to provide news channels a steady stream of pap to dull the senses of their viewers, the fallout from the US-Korea air-drills this week has still not fully settled. N Korea is allegedly announcing it is not going to trade in its nukes for an economic boost. As that's all that Trump wants, the June 12 talks in Singapore may be a little less constructive than was initially hoped for.

We haven't talked about Brexit here for some weeks - deliberately, as we assume that tolerance for this is limited. But according to stories running in the British Press, PM Theresa May will set out to the EU her clarification on Brexit this week before they meet in June to discuss how to proceed. The latest reports suggest a combination of sliding extensions to the Customs Union post-2019 to enable the UK to come up with effective border controls and a feasible solution to the Irish border. Sounds a bit feeble to me. But anything that postpones the plunge into the abyss of life outside the EU seems welcome right now - that is if the EU decides to accept this proposal, which they may not.

Run of G-7 economic data supports the geopolitical bias

Yesterday's data flow confirmed that core inflation in the Eurozone remains way off target and heading in the wrong direction. Oil price rises will in due course feed into core figures through second round channels like airfares. And with summer approaching in Europe, that probably won't take too many more months to become apparent. The US dataflow held few surprises yesterday. With April 2018 one of the coldest April's on record since 1895, it wasn't too surprising to see the housing starts and permits figures undershooting expectations - but not by much, so all in all, not a bad result. April industrial production was also pretty good - probably also helped by low temperatures.

Today's data flow from the G-7 can probably be mainly ignored. Japan's Machine orders data is mainly noise (-3.9%MoM), though the US Philly Fed survey may be worth half a glance when it is out later.

Asia today - the fallout from EM concerns should see BI hiking

Today, another Asian central bank will likely have to respond to international capital outflows by hiking rates. First it was the Philippine Central bank, now it is Bank Indonesia. We expect a 25bp hike from them today, taking the policy 7-Day Repo rate to 4.50%. The real question is, will this be enough? For either them or the Philippines? The only sensible answer is that it will be sufficient once current account deficits generated by overstimulated economies start to respond. This may require further hikes, a slowdown in growth, and perhaps some winding back of fiscal stimulus. None of this will be easy, or popular. A stronger USD makes it harder still. Governments have fallen over less. The political calendar hots up from this August before national elections next year.

Malaysian GDP for 1Q18 should come in in-line with consensus at 5.6%, a little slower than the 5.9%. A little slowdown here won't hurt from these rates, and in any case, Malaysia does not have the current account issues of the other two SE Asian economies mentioned.

Singapore's April NODX was stronger than expected, rising 6.5%MoM, which was a good bounce back from March weakness, even when you take downward revisions for March into account. There was, however, another negative electronics element to these numbers, with electronics falling 6.9%YoY, so we will be poring through the data when more detail is released to get to the bottom of this.

Finally, Australian labour market data. Yesterday, wage cost indices were no better and perhaps even a little bit softer than the consensus view. I wouldn't be surprised to see whatever the headline employment figure is, to be dominated by part-time jobs. That could mean a decent headline, but a poor Full-time equivalence.

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 Klokk

Senior Economist, Netherlands
marcel.klokk@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