

From profits, all else follows...

On a quiet day in markets, perhaps dig a little deeper into today's US 2Q18 GDP revision (yawn), where profits data can hide nasty surprises - we aren't expecting any



Source: Shutterstock

Every silver lining has a cloud

I have never been asked what chart I would take to a desert island if I was allowed only one, and still had to do my job. But that has never stopped me from sharing my choice, which would be the US GDP-based profits data. You see, in a very simple mental model of how the global economy works, profits are the feedstock that determines almost everything else. Higher profits mean more investment. More investment means rising employment. Rising employment means higher wages, and so on all the way to consumer spending, inflation, and central bank rates etc.

It is a simple model, and the world is far more complicated than this. But I find it has served me pretty well as a starting point over the last quarter century or so. The profits figures are released only with the first revision of the US GDP figures (out today), and they are often overlooked.

What is particularly helpful about US GDP-based corporate profits (choose the domestic-only series to avoid imported volatility), is that they are derived from corporate tax returns. That is important. Official earnings guidance from firms, even earnings announcements, are run through the mangle of accountancy tricks and fudges. Only when these are exhausted, does the grim reality emerge. On the other hand, when earnings really take a nose-dive, most firms will be pretty quick to tell the tax authorities. No one wants to pay more tax than they need to - especially in

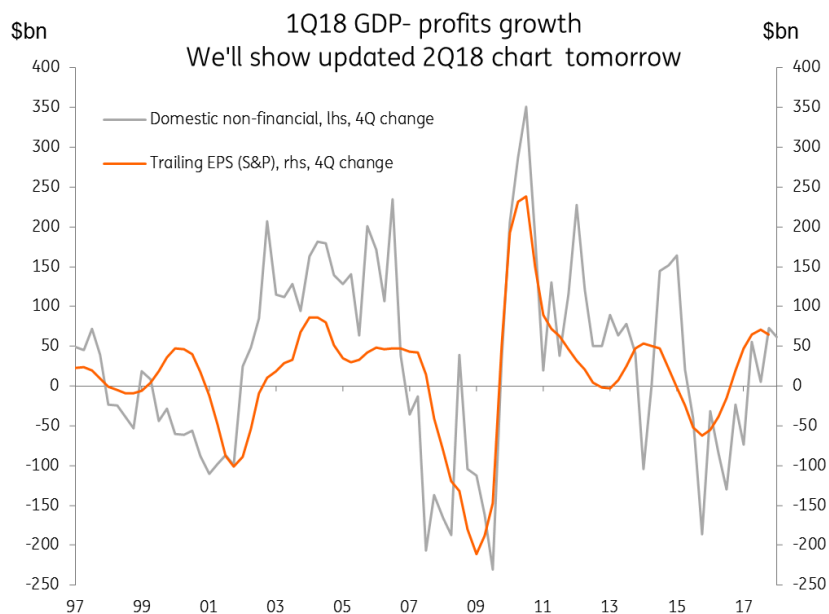
corporate America.

So what we find is that the GDP-based measure of corporate profits, despite the reporting lags, can offer a lead to bad news (not good, only bad). This makes it a useful, albeit limited indicator for economic slowdowns. You can keep your yield curve slope and recession charts This one works because it really does get to the heart of what drives the business cycle.

Now I am not saying that we should expect any alarming signals from the data later today. But as people fret about the new highs reached in the S&P500, or the dip in copper prices, or Treasury curve inversion, this is the only one you need to consult to see if you should keep your head, or head for the hills.

Other than this, today looks as if it is searching for direction. Yesterday's Mexico trade deal is already today's fish and chip wrapping, there is nothing new on China trade or Canada. Asian equity futures seem mixed as do Asian FX, and bonds.

US GDP-based Profits up to 1Q18



Financial stability, or prudence?

I am continuously grateful for the comments and offerings of others with which I can vehemently disagree, providing me with (usually) something to rant about in this not-quite daily note. Today's vote of thanks goes to ECB Chief Economist, Peter Praet. He is quoted in a story today saying that financial stability is not the primary responsibility of central banks, rather "...Patient, prudent and persistent monetary policy is still needed".

I don't have the context, and so apologies Peter if this is unfair (I'm reasonably sure he doesn't read my stuff). But if you had to choose between financial market **instability**, or prudent, patient and persistent monetary policy, wouldn't you choose to avoid financial instability? Because to ignore it would undermine all the other goals. Isn't that what the GFC taught us? Have no lessons been learned in the ten years since then? I think I know the answer to this one, but I am saving that for another thin news day.

Thanks also to US Treasury Secretary Steven Mnuchin (certainly doesn't read me) for saying that China's support for the yuan isn't manipulation, but allowing it to weaken would be. I really don't need to say anything here do I?

Asia day-ahead

We covered the G-7 releases earlier, and Asia is just about closed for the day as far as economic data releases go. If you are interested, take a look at Vietnamese data out today. We don't formally cover this very interesting economy, but the August inflation, trade, production and retail sales data released today could provide an early litmus test for the rest of the region. Vietnam strikes us as having huge potential as one of the few remaining genuinely cost competitive economies in the region. It offers what China once had, before it priced itself out of the manufacturing sector.

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

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