

Fussing about the edges

GBP rises on May cabinet support, but the real battle is ahead. European data generally poor - ECB plans questionable. US core inflation falls, should have been better news for risk assets. ASEAN central banks toy with rate hikes...why? All this and more...



Theresa May, UK Prime Minister

Source: Shutterstock

But first, your daily Brexit update...

I can do no better this morning than steer you to [this article by Chris Turner and James Smith on Brexit and the pound](#) published overnight. All I would add is that when I came into work this morning, having read on my phone that overnight, UK cabinet "approval" for the draft Brexit deal had been achieved, (grudging acquiescence would be a better way to put it), sterling might have been a little stronger than it was. With cable still under 1.30 and EURGBP a shade over 0.87, this is a miniscule recovery.

This might tell you that the market remains unconvinced that this draft will pass UK Parliament. I share their misgivings. According to Turner and Smith, a vote on this could happen in mid-December, before Parliament breaks for Christmas. That means lots more jawboning to push sterling around in the meantime. Our house view remains that deal gets done, but reading between the lines, our conviction on this call is very low. More of a wish than a forecast perhaps?

A bad day for the hawks in Europe

For the ECB, which famously never "pre-commits", the policy path has been fairly clearly mapped out over the next 15 months, with an end to quantitative easing (QE) and then eventual restoration of negative deposit rates to zero by end 2019.

So it must be somewhat awkward when the bloc's largest economy, Germany, posts a 0.2% GDP contraction in the third quarter. Sure, [as Carsten Brzeski points out](#), there were some one-offs and other aberrations, but when aren't there? And it wasn't just Germany. The Eurozone as a whole also grew only a [dismal \(as Bert Colijn puts it\) 0.2% QoQ](#) in 3Q18.

And still, the EUR managed to claw back a little ground from the USD, which just goes to show that the competition amongst the majors for the bottom spot is currently very strong.

Fed Chair Powell - balanced view, December still on

Not that anyone is seriously questioning the December Fed hike, but let's get that out of the way first. Nothing Powell said yesterday indicates that the Fed will not hike again in December. Now with that out of the way, his comments (given in a discussion with Robert Kaplan at the Dallas Fed) suggest the following:

1. Powell is very happy with the real economy
2. The Fed is trying to balance the pace of tightening to avoid policy errors in both directions.
3. Powell is concerned about slowing global growth (see earlier comments about Europe, though also note Japan also contracted in 3Q18)
4. He is mainly focussed on the real economy but is not ignoring financial conditions (for which, read the stock market)
5. The trade dispute may push up inflation

In the background yesterday, headline US October CPI inflation rose to 2.5%YoY, but the core rate, which is possibly more important to the Fed than the headline (though headline is their actual target measure) fell back a little to 2.1%.

For those who have been worrying about a slowdown in US growth in 2019 coupled with a lagged rise in inflation, creating a toxic stagflationary backdrop for risk assets, this should have been some relief. It reduces the chances that the Fed has to accelerate its tightening. Equities fell anyway, as the tech market suffered further losses as smartphone component suppliers provided further fuel for selling, even as crude oil managed to stabilize for a day, helping the energy companies.

ASEAN Central bank action today - Thailand yesterday was a clue

With central banks for Indonesia (BI) and the Philippines (BSP) meeting today, what can we expect? Well if yesterday's Bank of Thailand meeting is any guide, then at the least, some hawkishness, and possibly even a hike. Our house call is no change from either bank, but Bank of Thailand yesterday voted by 4:3 to leave rates unchanged, saying that the time for extremely low policy rates was nearing an end, signaling very clearly their intention to hike next month. That seems at odds with the slowdown in GDP growth we saw in 3Q18 and weakness in manufacturing, and tourism inflows, but that is the message they are sending.

And it could be similar for BSP today (less so BI) even if they don't hike, with a clear message to markets that further tightening is on its way. Consensus actually is now positioned for a hike from BSP. Our Manila team are in the minority looking for no change today.

Following oil's recent plunge, and the likely improvement in both current accounts and inflation positions, coupled with some recovery in exchange rates, I find it hard to summon up much enthusiasm for this policy stance, which seems to be predicated on the notion of hiking rates "because you can" not because you "should". Creating room for future easing is another argument, which I find baffling. It's probably a good thing I don't work for a central bank. I clearly lack the mindset.

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