G-7...Trumped

Canada's Trudeau comes in for the brunt of Trump's Ire, as US distances itself from the G-7 communique

G-7...as Merkel puts it - "depressing".

OK, so no-one really believes these leaders meetings of the rich and powerful nations deliver a lot of substance. But the reality is that at the margin, they probably set the tone for positive policy changes. Topics under discussion were not frivolous - gender equality, global security and peace, climate change and clean energy, economic growth, jobs and inclusivity and two sessions on oceans including plastic waste. What jumps out immediately is that there is little on this agenda that would have appealed to Donald Trump.

What was surprising is that even though Trump had to jet off early to Singapore, he was initially prepared to put his name to the joint communique, having previously threatened 1) that he would not attend the G-7 at all and 2) concerns that no agreement would be possible with Trump such that no communique could be agreed.

Trump has now, famously, tweeted that he will not be endorsing the joint statement, blaming Canadian PM Justin Trudeau for his comments following the summit.

"Based on Justin's false statements at his news conference, and the fact that Canada is charging massive Tariffs to our U.S. farmers, workers and companies, I have instructed our U.S. Reps not to endorse the Communique as we look at Tariffs on automobiles flooding the U.S. Market!"

and..."PM Justin Trudeau of Canada acted so meek and mild during our @G7 meetings only to give a news conference after I left saying that, "US Tariffs were kind of insulting" and he "will not be pushed around." Very dishonest & weak. Our Tariffs are in response to his of 270% on dairy!" Angry much Donald?

The market implications of all this are relatively minor, though the Canadian dollar has taken a slight beating, and risk sentiment would no doubt be a little higher if by some miracle Trump had begun to back-pedal from his global growth-damaging trade tariffs. That was never on the cards though.

The summit further highlights how isolated the US has now become. Critics of the meeting calling it the G6+1 are not far off the mark. It is also bizarre that the US President, at a time when Russian influence of the last election is still under scrutiny, should suggest bringing President Putin back into the picture. Timing Donald, timing!

I think Germany's Chancellor sums it up just right when she describes the outcome as "...a bit depressing".

Sanity in Switzerland

Still, things could be worse, and the Swiss have injected a much-needed sanity jab over the weekend, by overwhelmingly rejecting the "Vollgeld" referendum, which would have stopped fractional reserve banking (modern-day banking) in Switzerland. Although this is all in the past now, interested readers might want to read this thoughtful piece from our colleagues on the matter. The EURCHF exchange rate seems pretty unfazed by the result. Though stranger things have happened at recent referendums and elections, so we tend to keep an open mind to such outcomes these days.

More optimism from the Donald / Kim show in Singapore

A little closer to home, in fact, here in Singapore today, we have both Donald Trump and Kim Jong-Un. Trump stepped off the plane at Changi airport in a better mood than when he had left, saying he was optimistic about a deal. We'll see. A positive outcome, including a formal announcement of the end of the Korean war, and encouraging signs of denuclearisation, could see Korea's sovereign debt rating improve a notch - not immediately, but after substantial progress towards peace on the peninsula appeared to be irreversible. That should see Korean sovereign bonds rally and CDS spreads narrow. Korean banks would also likely benefit by extension of any sovereign bond gains. Korean 10Y KTBs are trading about 23bp under 10Y US Treasuries, so that spread could widen on positive sentiment from this week's talks.

Shanghai co-operation organisation - the real G-7?

I enclose a link to the Shanghai cooperation organization, the Beijing-led alternative to the G-7, not to score any political points, but to show how disunity in the west is easily capitalized on by the East. In contrast to the G-7 meeting, agreement looks to have been made on various issues, including opening up trade. With something like a third of the global population represented (China and India get this off to a good start) and more GDP represented that the G-7 combined, is this becoming the real G-7? All I would say is, they need to work on their group photo for the next summit.

G-3 Central banks - ECB is probably the most interesting of the pack

There is a great piece from James Knightley on this week's FOMC decision on June 13. But in the end, this meeting is as much of a "shoo-in" as they come. A 25bp hike from the Fed is on its way, despite the moaning from the EM world. Its "America First" at the Fed.

In contrast, this week's ECB meeting is a little more nuanced. Following Peter Praet's commentary last week, the Governing Council will certainly at least talk about the taper and its timing. What they will announce, however, is less clear. They may feel it is enough to admit that they are now talking about it. Perhaps they will leave any formal announcement of a reduced pace of bond buying until the July meeting, giving a clearer steer that this is coming in September. Either way, I suspect that they will not propose a hard end date for QE - date dependent policy is rightly not in vogue anymore. These various outcomes offer differing degrees of support to the EUR, which keeps it interesting.

Of least interest this week, but still probably worth a quick look, is the BoJ. I have always felt that the BoJ would use the distraction of the ECB as the cover needed to tweak its own QQE policy, so the likelihood of something here is slowly creeping higher.

Sterling in the spotlight as May tries to pass Brexit bill

This Tuesday, Theresa May runs the gauntlet of the House of Commons as she tries to pass her Brexit bill. With the opposition Labour party wanting a clear commitment to staying in the single market, and Tory rebels wanting a faster and deeper split with the EU, scope for this to go wrong is substantial. Another excellent note by our very own James Smith, looks at how failure might impact on the future of Theresa May, and indeed the current government. Either way, sterling could be rocked by the results.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group* *(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.