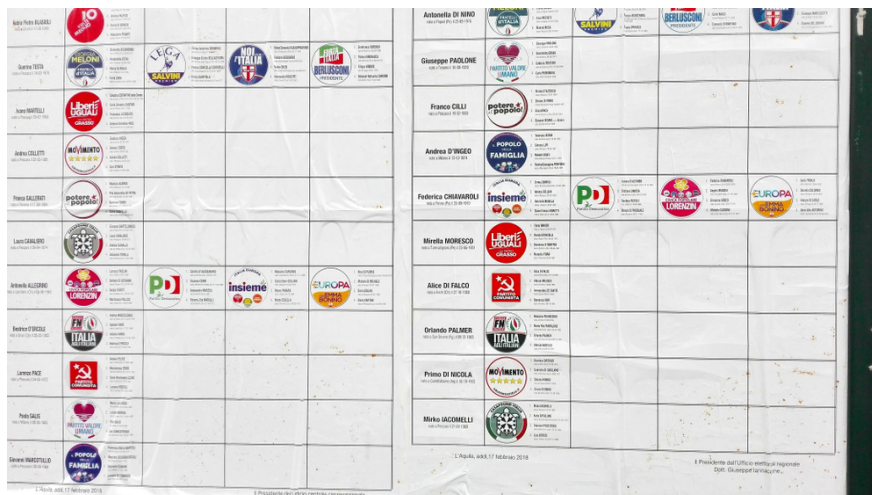


Gridlock, war and progress

If Italian exit polls can be trusted (they have been wrong in the past) Italy is headed for political gridlock, or perhaps eventually new elections after Sunday's voting. Trump's tariff announcement last week seems to be heading towards global trade wars, with apparently no exemptions. But Germany has solved its political indecision, with an SPD / CDU coalition now agreed



Italian voting slip

Italy's polls provide no answers

According to exit polls, about 50% of Italian votes over the weekend went to Eurosceptic parties, though in terms of seats, it doesn't look as if a centre right bloc, or the far-left 5-star movement will come close to the 316 seats needed for majority in the lower house. What happens next? Well a protracted period of negotiations will now ensue as political leaders try to stitch together a workable coalition government. If that fails, then more elections seem a distinct possibility. In some ways, a hung parliament, if that is what we are left with, is not a disaster. Though Italy is not a Belgium or Netherlands - recent examples of European countries that have failed to quickly form a government following elections. And as one of the worst performing (and big) European economies, a hung parliament eliminates the possibility of beneficial economic reforms that could help make up the growth shortfall with the rest of Europe.

Donald where's yer troosers?

US President Donald Trump's announcement last week of tariffs on steel and aluminium are still

standing this side of the weekend, though we still wait for an official announcement. From what we hear, there will be no exemptions despite big protests from Canada, the EU, UK, Japan and Australia.

According to Trump, Trade Wars are "good", and "easy to win". This is a statement that is hard to back up either empirically or theoretically (editorial policy precludes me from saying anything stronger). We'll see if he still agrees when the EU puts tariffs on his US jeans ("troosers" in case you were wondering), bourbon (shame, but all wars have casualties, this will be mine) and Harley Davidson motorcycles.

Retaliating to the theoretical retaliation, Trump has already suggested adding European cars to the list of tariffed goods. In all seriousness, this is shaping up to get ugly quickly, and trade wars are in my opinion the biggest threat to global growth and financial market strength over the coming 12 months. Moreover, such actions further isolate the US economically and geopolitically. This is an opportunity, if they want it, for Europe to forge greater economic and political ties with Asia, and especially China, as the world seems to be uniting against the belligerent policymaking of the current US administration.

Merkel gets SPD backing

Angela Merkel can begin her fourth term as Chancellor of Germany this week, following the comfortable backing of the SPD membership for a coalition with her CDU party. One of Merkel's most pressing decisions will be the appointment of a finance minister from the SPD ranks. This morning, France's President Macron will be pleased, he wants to pursue bold reforms in Europe, only possible with Germany's (Merkel's) backing. And the UK government should also be breathing a sigh of relief. Merkel is seen as the only politician with enough clout to force a decision on a Brexit deal when the March 2019 deadline approaches.

Week ahead

The week ahead offers more insights into President Xi's vision for China, with the outcomes of the national sessions of parliament, the language on growth targets (or not, which would be equally interesting) and key appointments just some of the things to watch out for. So far, comments from China on the US tariff announcements have been extremely patient and measured, though we may also hear more detail on what China means when they say that they will "not allow its interests to be harmed". There is talk from China of a new trade dialogue with the US. That could be helpful, but we won't hold our breath.

This week also sees inflation data released across a lot of the region, with Korean, Taiwanese, Philippine and Chinese and inflation numbers all due. Consensus forecasts anticipate some moderate increases in headline inflation rates in all of the reporting countries this week. Taiwan, Malaysia, China and the Philippines also release trade data this week. Better than expected Korean trade data last week set a more positive tone for these countries.

The Reserve Bank of Australia (RBA) also meets this week though it seems as far from any hike as ever. Most pundits, when asked, are looking at a combination of good growth (4Q 17 GDP out this week too) but no inflation or wages growth, coupled with high levels of household debt as a reason to forecast no RBA rate hikes until later this year. Whilst this is a kind of lazy forecasting, always pushing action out into the future, we can't say we are any better, and until wages or inflation start to respond more clearly, that seems a sensible holding pattern for RBA rate forecasts.

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 www.ing.com.