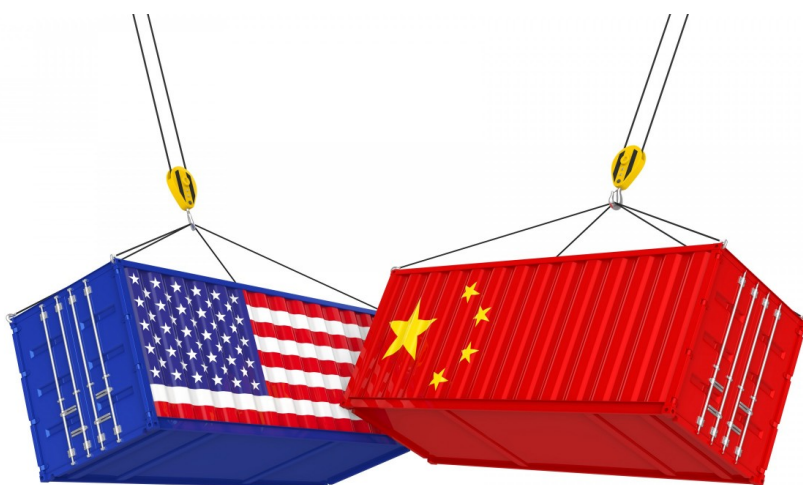


## Make your mind up time

Financial markets have been toying with breaks on both the up and downsides, without really going anywhere - that can only continue for so long



### Trade war intensification gives markets another jolt

The announcement yesterday of an additional \$200bn of tariffs on China in retaliation for *its* retaliation to the initial US tariffs seems like a mutually assured destructive (MAD) pattern of actions from both sides. A pertinent question is, 'what next?' To which the US administration has already told us, '\$500bn'. Then after that? What else? NAFTA talks break down and that arrangement falls apart? It doesn't look that improbable from where I am standing. Tariffs on EU autos followed by further retaliation from the EU? That too seems to be looking more likely than not.

Each time we take a further step into the war-zone, markets have a little wobble like the one they have just had. Equities sell off a bit, then, so long as there is no further bad news for a week or so, they begin to sit back up again. Bond yields too. Yes, they are down again in the 2.80% area when only a few months back, it looked as if we were heading for 3.5% on the 10Y US Treasury. But this still leaves them in a non-descript range that neither suggests a strong outlook, nor a catastrophe.

Asian FX also looks somewhat weak today which is not wholly surprising, but the sell-off in June has been followed by greater stability so far in July, and at the moment, ranges are largely holding. It will be interesting to see whether the FX pattern rotates to penalise the commodity currencies of the region, now that commodity prices have decided that the global demand outlook really is looking quite bleak (take a look at the price of copper, or the CRB industrial metals index). That could put the ringgit (MYR) and rupiah (IDR) under heavy downward pressure, as well as the Australian dollar (AUD), which continues to head lower on a trend basis. Next stop, USDAUD 0.70?

My point is that the movements towards protectionism are significant and lasting step changes that will reduce trade volumes and economic gains from trade. They will raise prices of goods and lower real incomes and employment across the globe. They will raise input costs and squeeze the profit margins of producers, and they will stifle innovation and productivity growth, as the opportunities to market new products profitably become curtailed. This really does not merit the occasional small temporary correction, followed by swift recovery. But instead, deeper, and prolonged selling.

For the bulls out there, who look for some respite from Fed tightening as trade wars begin to slow employment and investment...Yes, the Fed may in time be swayed to back off a little. But that would not be a big cause for celebration. If it does happen, it will be for all the wrong reasons. Markets rallied at the end of 2007 as economic bad news spurred thoughts of more radical Fed policies. These policies did arrive, but that did not prevent market collapse first.

## Asia today...BoK

The Bank of Korea (BoK) will most likely decide for another month to keep official policy rates (7-day repo rate) steady at 1.50%. Our own forecasts do not have the BoK hiking again this year, based on our expectations for some further slowdown in global growth and market weakness. But a poll of Bloomberg forecasters still shows an end of year hike. So is this idiotic? Well, the consensus is a slow moving beast, and it could just be that it is taking forecasters a long time to jettison expectations for some 2018 tightening by the BoK. Calendar year-ends do provide a very real impediment to the forecasting community, and sometimes hold up the adjustment process.

But there is a scenario in which they might not be wrong to hold onto some tightening risk, though to get there, we will need to see the won (and most likely all other Asian currencies) weaken substantially further in an environment of trade-war generated global slowdown. That would result in imported inflation and might be enough to see central banks tightening. it isn't as crazy as it sounds.

## CRB index of industrial metals prices



Source: Bloomberg

CRB index

## US CPI the main event in the G-7

Ignoring the NATO summit which is high on political grandstanding, and low on direct economic impact, the main event in G-7 markets today will be US June CPI inflation. And this will come painfully close to 3.0%YoY (consensus 2.9%) with even the core rates pushing higher. PCE and core PCE will be released at the end of the month. Both measures are already at or above the Fed's target of 2.0%YoY. So although there are voices of reason, such as Bullard and Kashkari, the majority of the Fed will likely see no reason to change their view of another couple of hikes this year and more next, at least based on the inflation picture.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto: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](http://www.ing.com).