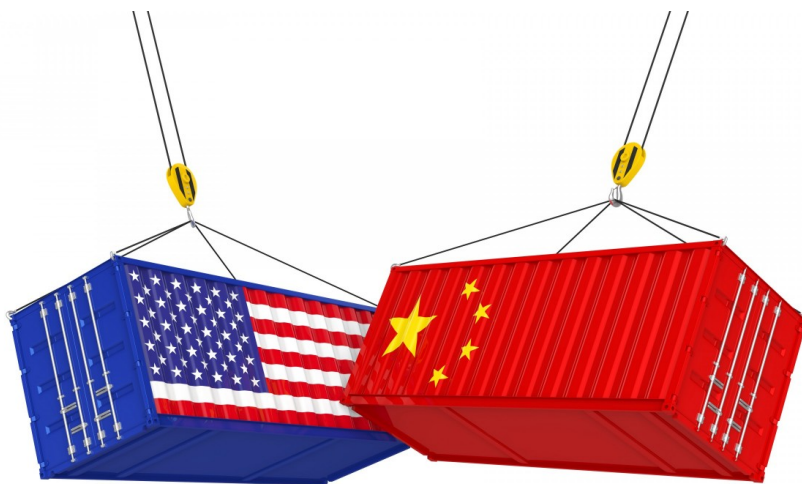


Make your mind up time

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

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

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