

Risk appetite returns

How long will it last this time? My guess, not long.



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What's the latest bounce due to?

It's hard to pin down exactly why markets are in such ebullient mood currently. Most of the focus yesterday was on a story we briefly mentioned in this note, on the likelihood of the ECB hinting at a change in policy at their upcoming (June 14) policy meeting. The consensus now is that they will announce that the QE programme will start winding down in September, though the jury is still out on whether they will announce a firm date for the end (my guess, they won't), or leave it open-ended (I don't get a sense that date-dependent policy setting has many adherents, and for good reason).

How a prospective tightening of monetary policy in Europe is helping risk sentiment is an odd one to wrestle with, though I suppose it does indicate a degree of confidence in the Eurozone growth story to be able to finally pull away from emergency measures. Moreover, I have strong doubts as to the alleged benefits of either QE or for that matter negative interest rates, for which the writing is also on the wall (though not probably until late 2019). Still, everything now seems to be moving in the right direction, and that is perhaps all that matters.

There remain the occasional snippets of information on trade (details on retaliatory tariffs in Europe) and hints that the US may take a less restrictive view on Chinese investment. But nothing more concrete. US trade data were also pretty good on Wednesday, with the third month of rising

exports and muted imports helping the deficit on trade to narrow to \$46.2bn from \$47.2bn in March and \$55.2bn in February. It is probably too optimistic to see this as a trend. But if the figures had gone the other way, they would have likely inflamed trade tensions further. So we can at least view these numbers with some relief as they avoided doing that.

We have also got confirmation of the Singapore venue for the Trump / Kim summit, the Capella hotel on Sentosa. As a result, I'm now struggling to dispel mental images of the two leaders after successful talks enjoying the "one ride is never enough" Sentosa luge run, which I took with my kids a week ago. I assume they won't have to queue as long as we did. The June 12th date still seems to be holding, though comments from Trump's Attorney-General about Kim coming to the meeting on his hands and knees were unfortunate in terms of timing. So far, they don't appear to have set off any response, which is also positive.

6.0% India's Reverse Repo rate
Up 25bp

Higher than expected

Reserve Bank of India hikes

A good call from our colleague, Prakash Sakpal, on the Reserve Bank of India (RBI), which did indeed hike the reverse repo rate to 6.0% on Wednesday, against a considerable consensus view for no change. The decision was a unanimous one, but the board kept its assessment as neutral, which dampened the negative tone of the decision, and helped equities to see the bright side and stay positive. The rupee on balance was slightly stronger following the decision, though with the dollar index generally a little softer yesterday, it is not clear how much the rate decision played a part in this. Whether we get further hikes later this year (August is a possibility) seems, based on the accompanying statement to the rate decision, to be dependent on the evolution of global energy prices, and domestic food prices, so the weather is going to play a part in what happens next.

It is a quiet day in both the G-7 and Asia-Pacific regions in terms of data releases, with German factory orders, considerably weaker in recent months, the main item to watch.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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