

Tick tock, tick tock...

More Brexit tension - more dot diagram anxiety - can anything break markets out of their current ranges? It's not obvious...

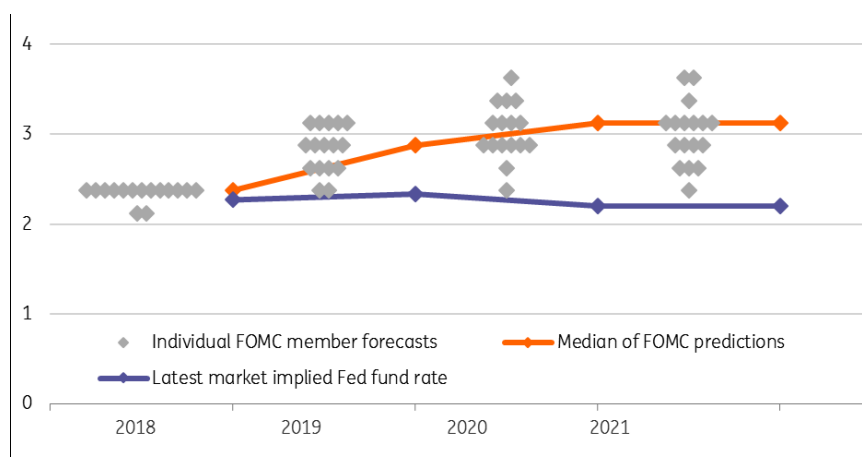


9 days to go, or is it 3 months, 9 months, 2 years?

With just 9 days to go until the technical ejection of the UK from the EU, we still have no idea what the UK government is up to. Will PM May opt to get her now thoroughly discredited draft bill through parliament a third time, using the cliff-edge as leverage, and noting the alternative for a long Brexit delay as the alternative? Does she do this merely to avoid the anger of some of her cabinet, who would prefer no deal to no Brexit? Or will she try to find ground which has more support, a softer Brexit perhaps, or go back to the people in a second referendum?

Short answer...we don't know. We don't know if PM May knows. That's worrying. EURGBP seems oddly becalmed at about 0.855. Something's gotta give. My patience with all of this most likely.

Fed's December Dot Plot



A nasty does of the dot-plots

As well as some trade tension creeping into the US-China trade talks, which is giving markets a few jitters today, concern is mounting over what will happen to the Fed's dot-plot diagram due out after Thursday's FOMC meeting. With markets pricing in some chance of cuts in 2019, will squeezing out only one hike in the 2019 dots be enough? Would removing the implied hikes altogether look as if the Fed were throwing in the towel and spark a panic?

There are a number of possibilities here. But remember, markets price based on weighted probabilities, so what's priced in currently in Fed funds futures isn't so different to the dot plots, allowing for some low outliers. I think the market can cope with a conservative shift down in the Fed member projections that still leaves one hike in place. After all, they would look pretty silly if they took out all hikes this year, only to have their hand forced later in the year by some pick up in growth or inflation.

Asia Day ahead

There isn't all that much going on today in Asia, except for the Bank of Thailand. With an uninspiring growth backdrop, very low inflation, a huge current account surplus, and one of the strongest currencies in Asia, the prospects of a further hike from the BoT look close to zero. They should be. The upcoming election is another reason for the BoT to do nothing. It is quite simply beyond comprehension why two members of the monetary policy committee were reportedly calling for a further hike at the February meeting. This isn't a question of justifying "wait-and-see". There simply is no compelling argument for a rate hike. Central bankers ought to be made to adhere to a financial version of the Hippocratic oath. "First, do no harm!"

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>.