

War is stupid

The world stands on the brink of a trade war as Donald Trump announces severe tariffs on steel and aluminium - forget the yield curve - this is how recessions start.



War

The biggest threat to global growth is a trade war

At the beginning of each year, economists are often asked to list the biggest threats to their forecasts. This year was no different to most, and though my prognosis was generally favourable, my biggest risk was trade - namely, that US President Trump would unleash a trade war. Other analysts have been scrutinising speeches from the Federal Reserve about rate policy, still others, analysing the slope of the yield curve to gauge recession risk. In my opinion, these are all second order to a global ramping up of tariffs on trade.

Trade is just about the only thing economists are agreed on - more is better. You might ask, better for whom? That would be a fair criticism of recent trade deals, gains from which seem to have accrued to a narrow and already privileged group. But even if such criticisms have merit, it doesn't mean that less trade is good - for anyone. If it were, then we imagine the Dow Jones would be up 400 points today, not down 400 points on the back of Trump's announcement of "severe tariffs" on steel and aluminium. Even the USD seems to be in agreement, giving back some of the gains against the EUR of the last few days, though that may reflect the sharp drop in bond yields and slight flattening of the curve.

If Trump does indeed announce tariffs of 25% on imported steel and 10% on imported aluminium, then retaliation seems inevitable. And though we may worry about China's reaction (so far they have been very patient), Canada and Europe seem particularly vexed - not unreasonably given that national security will probably be used as the excuse for tariffs. Korea and Japan are also big steel exporters to the US, and Australia a big exporter of the raw materials that third parties (mainly China) use to make steel. If these US "allies" take the lead with retaliatory tariffs, it will open the door for China to respond too.

Korean production - difficult to disentangle

Korean production for January came in stronger than the consensus view, recording a 4.6%YoY gain (consensus 1.7%, ING f 4.4%). But we aren't sure whether to be happy or concerned. The data are in all likelihood affected heavily by the Chinese New Year distortions- as all data in this region are at this time of the year. The stronger year-on-year increase seems to have been boosted by downward revisions to historical data, whilst the January month on month gain missed slightly on the downside and was subsumed by a bigger downward revision to the prior month's gain, leaving production in the December-to-January period essentially unchanged.

We certainly need to see more data to work out exactly what the production momentum is for Korea. Yesterday's trade data were encouraging, so for now, we prefer to err on the optimistic side, though not so much that we can envisage any BoK action until much later this year.

Italian elections -just when you thought European politics looked safe

Europe managed to dodge a number of political bullets last year - the Dutch elections passed uneventfully, France did not vote for extremism, and Germany's election, though inconclusive, at least did not usher in a far-right party. With the exception of Germany's CDU/SPD negotiations, which are still an interesting backstory, the main event risk for Europe this year is the Italian elections this weekend. Having sounded highly Eurosceptic at times, the popular five-star movement has been sounding a little more mainstream recently. But polls suggest that we may come in on Monday morning to another German-style inconclusive poll. Protracted negotiations will then follow and quite possibly, new elections later on. This probably isn't a substantial negative to the EUR. Time and again, European countries have proved that they operate quite well without a government (Netherlands, Belgium...).

May scrambles for unity on Brexit - tough ask

With a wide spectrum of views to appease, today's speech by UK PM Theresa May will attempt to please everyone, and in the process, will probably please no-one. The current state of affairs is that the EU has put forward a framework which crosses many of the UK's red lines for Brexit, whilst May has put forward a plan which can fairly be described as "cherry picking", and therefore unacceptable to the EU.

This doesn't mean that the UK is hurtling towards crashing out of the EU without a deal, This is a negotiation, and it would be odd if the opening offers were acceptable to either party. But the gulf seems as wide as ever, and the clock is ticking. Not surprisingly, GBP looks a little vulnerable right now.

Author

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