



Making the World Great Again?

Global Monthly Economic Update

Financial and Economic Analysis

November 2016

Photo source: Getty Images

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In November's Edition...



Global Monthly Economic Update Making the world great again?

The topsy turvey world of politics is providing plenty of room for confusion. Donald Trump has won the US Presidential Election. Financial Markets are nervous given their lack of insight into what Trump will actually deliver. In Europe, the Trump victory puts the spotlight again on European political populism with a heavy European political calendar over coming months. And Brexit possibilities remain confusing, now that the UK Parliament could have its say on the triggering of Article 50.



US: As clear as mud?

Donald Trump took the 2016 Presidential Election with 301 electoral college votes to Hillary Clinton's 237 (including assumptions about undeclared states). This was a different and a far closer result than many political pundits and pollsters were suggesting.

[More on slides 3-4](#)

UK: A third way for May?

The British Prime Minister Theresa May isn't winning many friends in Europe but her perceived stance of favouring controls on immigration over single market access is being well received by the British public.

[More on slide 6](#)

Eurozone: Gimmer of hope

Forget Brexit, political instability and other potential sources of mayhem: the Eurozone economy is on the mend.

[More on slide 5](#)

Japan: BOJ to take a step back

The BoJ will increasingly look to take a back seat after its September revamp.

[More on slide 9](#)

FX: Election Complacency

The Trump win was a surprise, but after the expected knee-jerk reaction, FX markets are starting to re-interpret Trump

[More on slide 10](#)

Rates: No Bund trantrum 2.0 yet

10-year benchmark rates have moved up further in the wake of the Trump win

[More on slide 11](#)

China: Policy Inflection

GDP grew by 6.7% for a third consecutive quarter in 3Q, confirming a soft landing from the double whammy of 2015

[More on slide 8](#)

ING Global Forecasts

[Slides 12-13](#)

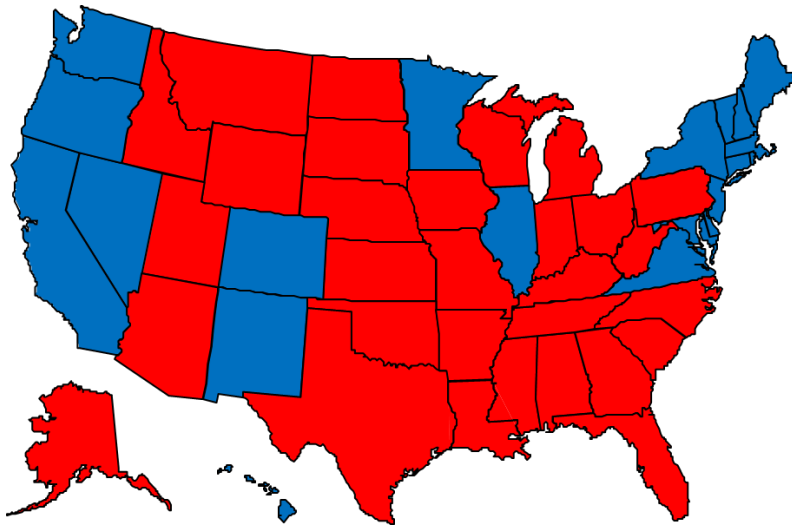


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US: Radical change wins

- Donald Trump has won the US presidential election
- Financial markets first fell, but have since rebounded. But the battle between the “reflation trade” and geopolitical uncertainty is not over
- The Republican Party held onto the Senate and the House, giving them a clean sweep
- The policy stances Trump actually takes remain the great unknown

State	2012	2016
Florida (FL)	Dem (+1)	Repub (+1)
Ohio (OH)	Dem (+3)	Repub (+9)
Penns. (PA)	Dem (+5)	Repub (+1)
Iowa (IA)	Dem (+6)	Repub (+10)
Wisconsin (WI)	Dem (+7)	Repub (+1)
Michigan (MI)	Dem (+10)	Repub (+0.5)



The main take aways from this election...

- US politics has changed radically and for good
- A Trump victory represents a vote for change, but exactly what is unsure
- Markets hate uncertainty, and the near term represents a potential period of heightened risk aversion
- The election result is not the end of the process, but the beginning

US: The election and markets

	Watered down Trump	Unfettered Trump
GDP short term	=	-
GDP long term	+	- - -
Inflation short term	=	+++
Inflation long term	+	- - -
Bond yields short term	-	- -
Bond yields long term	+	- - -
USD short term	-	- -
USD long term	=	- - -
Risk assets short term	- -	- -
Risk assets long term	+	- - -

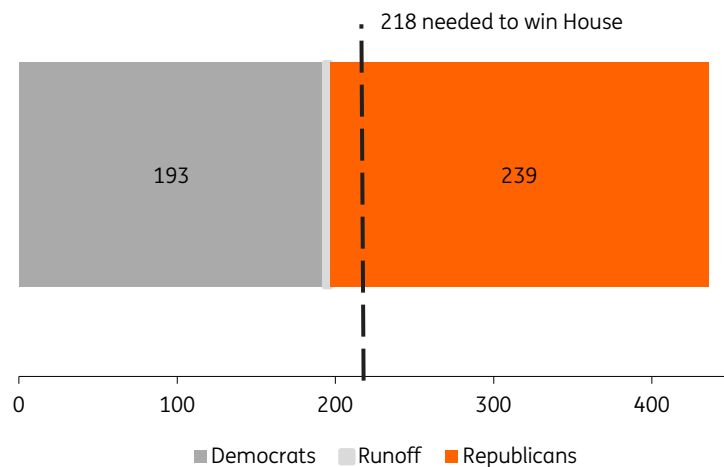
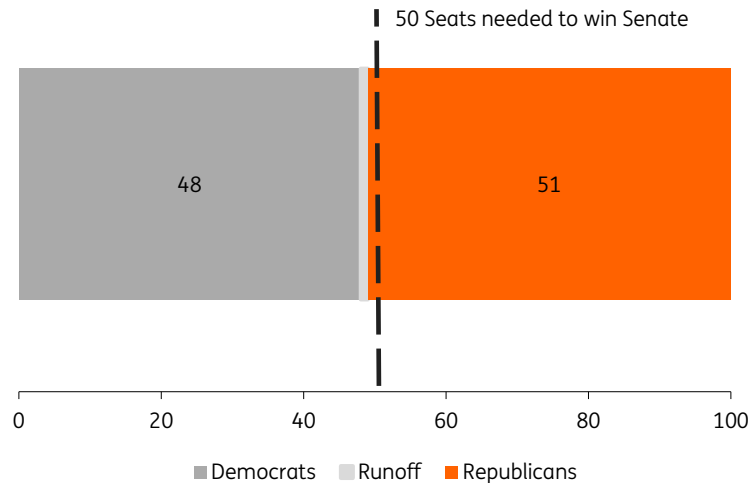
Trump and risk attitudes...

- Equities and currencies (such as the Mexican peso) faced heavy selling pressure, but stocks have recovered
- Treasury yields initially fell 10bp, but have since bounced
- This volatility will persist in the near term

...dependent on what Trump now says and does

- Fiscal stimulus and tax cuts could boost domestic growth and generate significant inflation pressures
- An aggressively protectionist Trump could spell a global trade war, with very damaging consequences for growth

US: The Senate and House

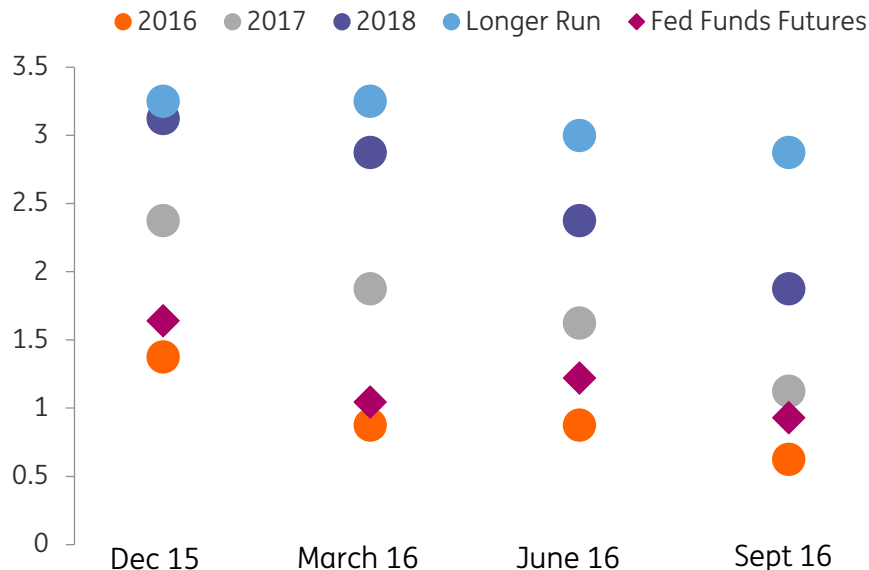


A Republican clean sweep...

- Trump's victory and Republican control of Congress helps side-step one political concern that could have been a problem for Clinton...
- ...The end of the debt ceiling suspension on 16th March 2017
- With a clean sweep across government, re-setting the debt ceiling and agreeing a budget should not be a substantial problem
- We should avoid a repeat of the damaging 2013 debt crisis and government shutdowns
- Therefore debt ceiling concerns should be less of an issue under Trump

US: The election and the Fed

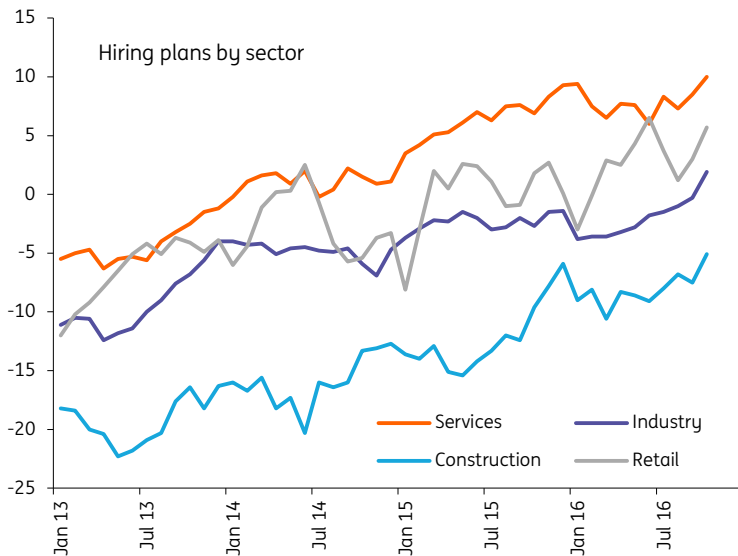
- Prior to Trump's win, there was a strong expectation of a December rate hike
- This is now more uncertain – Trump's exact policies are unknown
- Fiscal stimulus and tax cuts could generate inflationary pressure
- However, a protectionist approach could damage growth and call for further easing



“Run a little hot”...

- Janet Yellen has clouded the issue of a Fed hike
- Her suggestion that the Fed might be prepared to let the economy run a little hot has added some uncertainty
- The logic behind this is that modest overheating elevates inflation expectations
- The prospect of a Dec hike rests solely on near term market performance

Eurozone: Glimmer of Hope

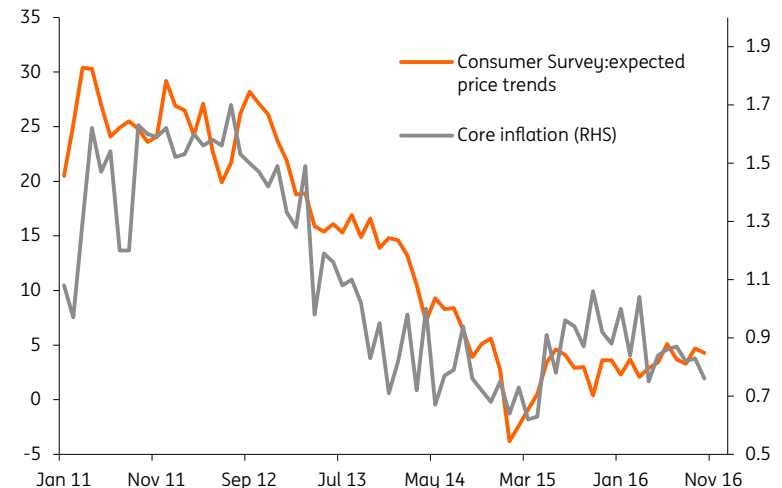


A growing economy, but uncertainty remains...

- Amid Brexit and the US election, the Eurozone economy appears to be on the mend
- Sentiment indications for October have all come in above consensus, pointing to accelerating growth
- The 4th Dec constitutional referendum in Italy is likely to be a cliff-hanger
- Spain's political stalemate has come to an end, but the minority gov't is still unstable

Inflation is slowly creeping up...

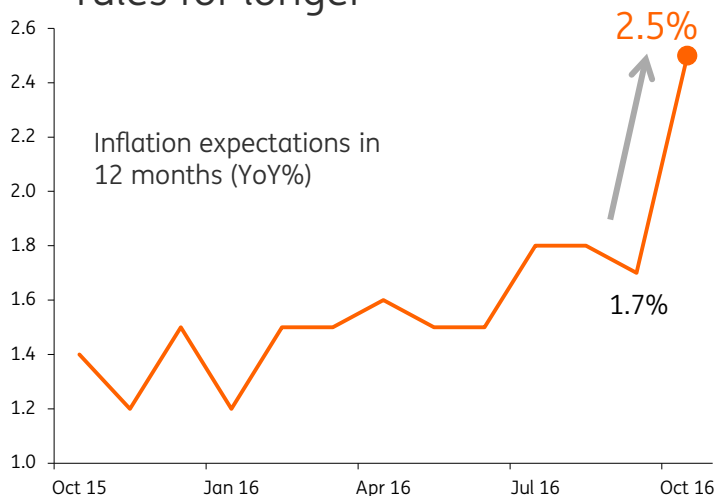
- We're still some time away from inflation returning to the ECB's target, but it appears to have troughed
- The ECB are becoming increasingly aware of negative side effects to its monetary policy...
- ...Although a 3 to 6 month extension of QE is still likely



UK: A Third Way for May?

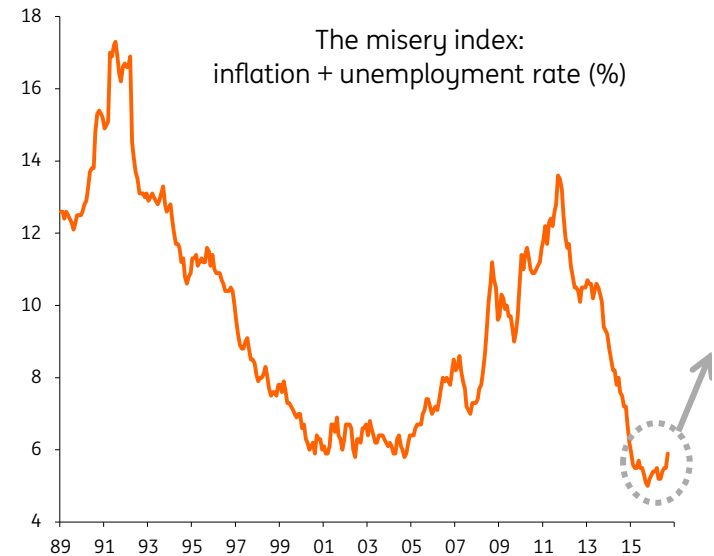
The latest on Brexit

- The government lost the vote regarding Parliament voting on triggering Article 50
- With many MP's saying they'll "respect the will of the people", we still think it'll happen
- PM May appears to be favouring a sector by sector approach: this could fall foul of the EU's refusal to allow "cherry picking"
- The UK may need a longer transition period...But that would mean accepting the single market rules for longer

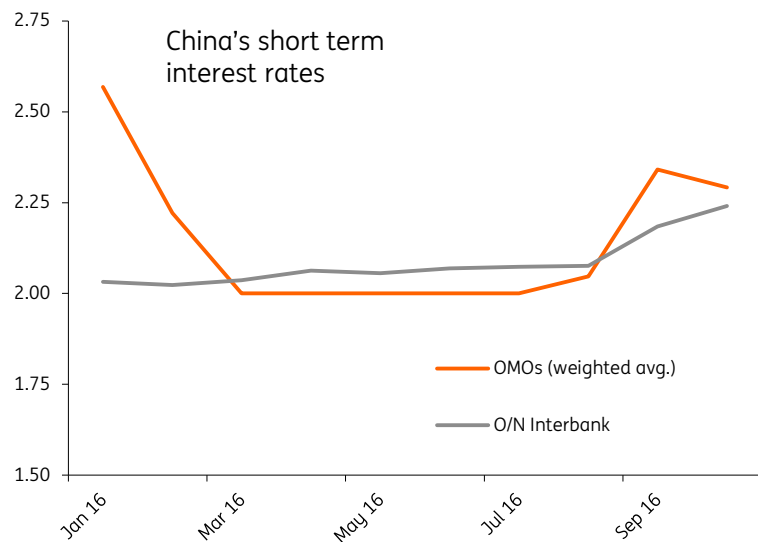


Healthy growth keeps BoE on hold (for now)...

- Expectations for further rate cuts have been dampened by rising inflation and unfazed growth
- Chancellor Hammond will reveal fiscal plans at the 23rd November Autumn Statement
- However, more BoE action may be required in the future given the likely squeeze on households



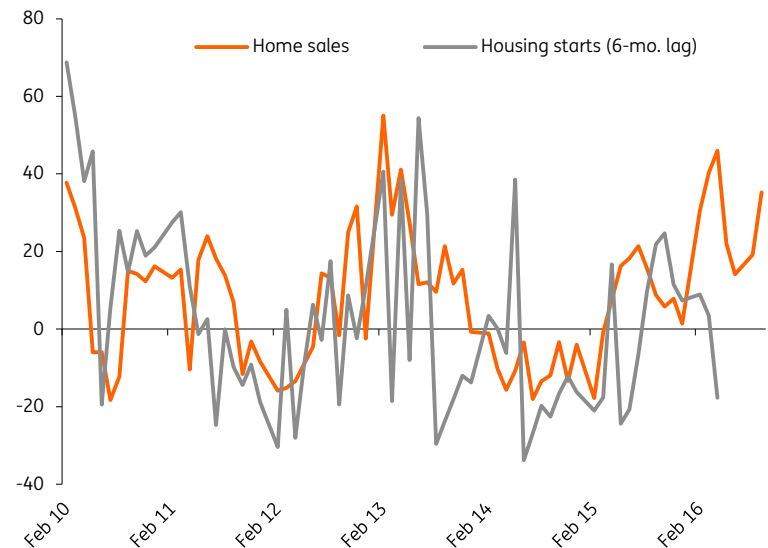
China: Policy Inflection



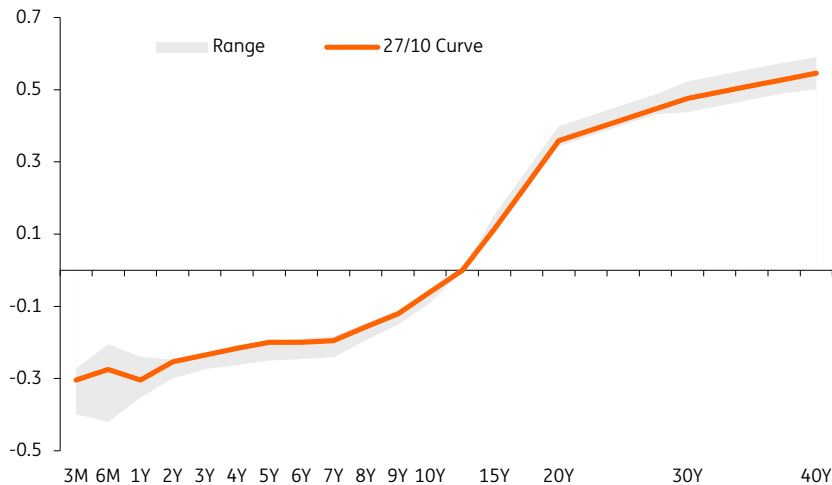
- The PBOC signalled that monetary easing is off the table by the rise in short term interest rates
- President Xi's ability to pursue economic reforms has been strengthened
- Our forecast for 4Q GDP growth is now 6.6% (down from 6.8%) due to the shift in policy
- Our 7-day repo rate forecast has been revised to 2.75% from 2.5% due to the PBOC's move
- We now see USDCNY hitting 7.00 in 2Q17

Another quarter of strong growth...

- ...As GDP grows by 6.7% for a third consecutive quarter in 3Q
- This confirms a 'soft landing' from 2015's housing correction and export shock
- We think policy has now shifted from growth to economic reform
- Property market overheating is now a real concern; home sales were up 35% in Sept

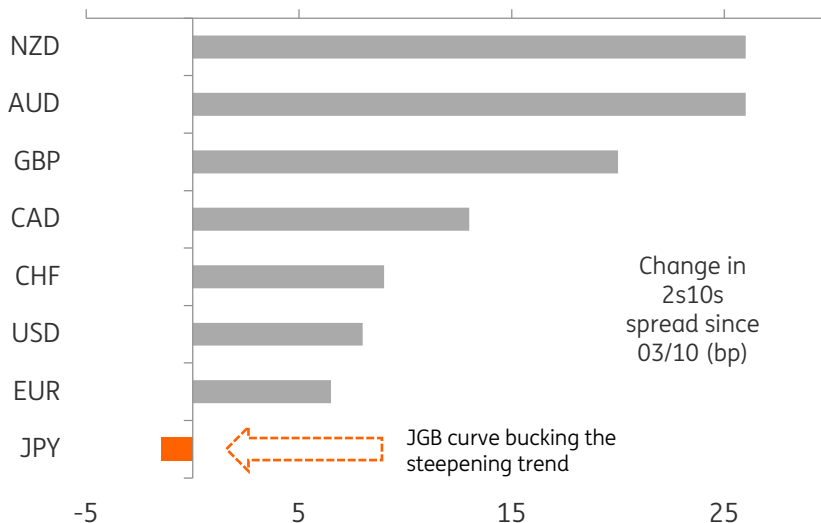


Japan: BoJ to Take a Step Back

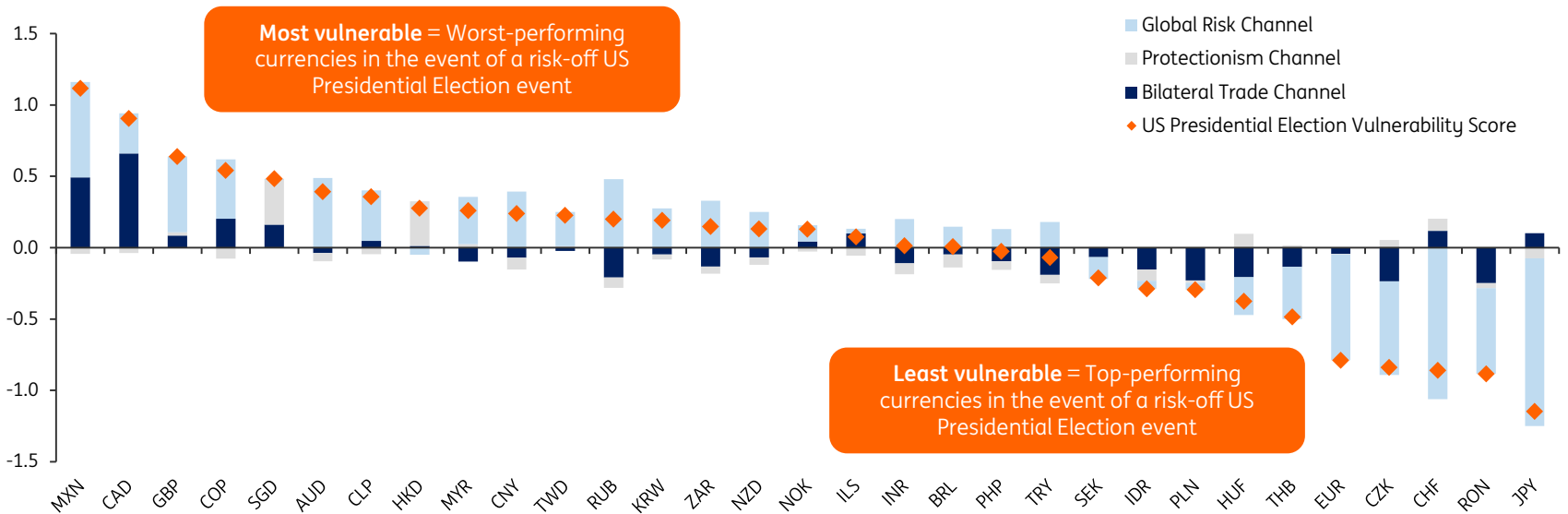


After September's revamp, BoJ opt for a back seat

- We suspect that yield curve control will lay the foundations for another big fiscal impulse
- The BoJ has effectively committed itself to buying an unlimited quantity of JGBs
- This removes some fiscal constraints
- “Synergies” with government policy were mentioned by the BoJ in September
- A bold fiscal package is highly likely
- Passive monetary policy means the days of trying to weaken the Yen may be over
- We expect neither a policy rate cut, nor a cut in the 10Y yield target in the near-term
- One change that we do expect is some clarity on the BoJ's QQE quantity target
- The YCC (yield curve control) policy may face a real test if and when there is a global bond market shock



FX: Election complacency, re-assessing Trump



Market complacency is being exposed

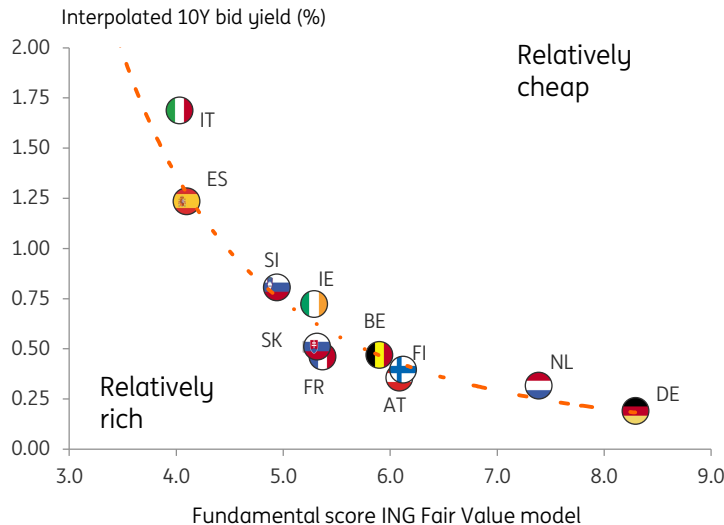
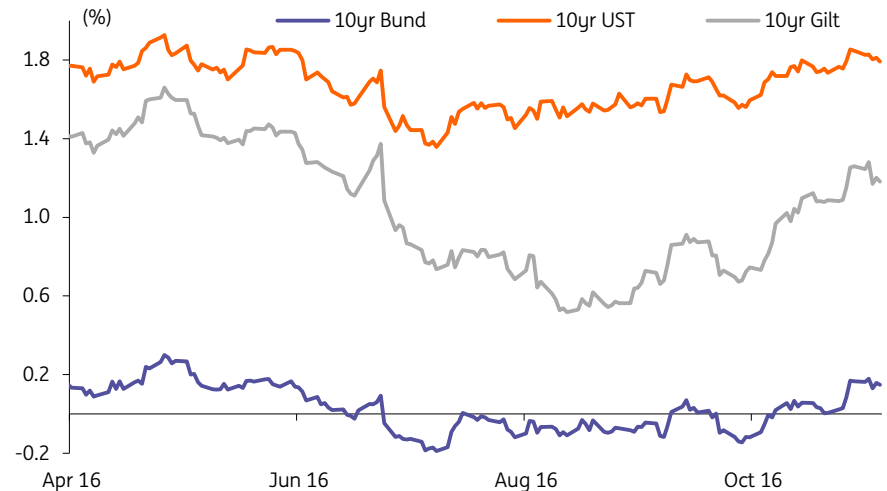
- Trump win was a surprise, but after the expected knee-jerk reaction, FX markets starting to re-interpret Trump
- Clean Republican sweep has raised expectations of a loose fiscal/tight monetary US policy mix
- This policy mix has typically been positive for the dollar & recalls Reagan

Trump policy mix will be key for dollar

- Yet hard to reconcile the policy mix with Trump's protectionist views
- A Republican US Treasury has typically favoured a weak dollar, which will help the manufacturing sector and growth
- Until we hear more about Trump's trade agenda, fiscal stimulus and attitudes to the Fed, \$ strength is uncertain

Rates Strategy: No Bund Tantrum 2.0 Yet

- 10-year benchmark rates have moved up further in the wake of the Trump win, reaching their highest levels since January
- The rally that followed the Brexit vote has now been more than reversed
- Looking ahead, we expect Trump reflation pressures to fade given uncertainty about his exact policies and ongoing QE outside the US.



- We see a case for higher yields in the Eurozone, but not until inflationary pressures build and ECB QE tapering becomes imminent
- Indeed, political risk events including Italy's referendum plus increased speculation about an extension of ECB QE in December should keep a lid on any further sell-off pressures.
- The political risk premium embedded in Italian government bond yields has increased further, as the yes-camp lags behind in the polls

ING global forecasts*

	2016F					2017F				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
United States										
GDP (%QoQ, ann)	0.8	1.4	2.6	1.6	1.5	2.6	3.0	2.6	2.6	2.5
CPI headline (% YoY)	1.1	1.1	1.1	1.7	1.3	1.8	2.0	1.9	2.0	1.9
Federal funds (% eop)	0.25	0.25	0.25	0.25		0.50	0.50	0.50	0.75	
3-month interest rate (% eop)	0.62	0.65	0.83	0.93		0.95	0.90	0.91	1.05	
10-year interest rate (% eop)	1.77	1.47	1.60	1.60		1.70	1.80	1.90	1.90	
Eurozone										
GDP (% QoQ, ann)	2.1	1.2	1.1	1.1	1.6	0.5	1.4	1.8	1.8	1.2
CPI headline (% YoY)	0.0	0.0	0.3	0.6	0.2	1.1	0.8	0.9	1.2	1.0
Refi minimum bid rate (% eop)	0.05	0.00	0.00	0.00		0.00	0.00	0.00	0.00	
3-month interest rate (% eop)	-0.22	-0.26	-0.30	-0.31		-0.31	-0.32	-0.33	-0.33	
10-year interest rate (% eop)	0.15	-0.13	-0.05	0.00		0.05	0.10	0.20	0.40	
Japan										
GDP (% QoQ, ann)	2.1	0.7	0.9	0.8	0.6	0.7	0.5	0.7	0.9	0.7
CPI headline (% YoY)	0.1	-0.4	-0.3	0.0		0.3	0.5	0.8	0.9	
Excess reserve rate (%)	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1	
3-month interest rate (% eop)	0.09	0.06	0.04	0.02		0.05	0.05	0.05	0.05	
10-year interest rate (% eop)	-0.09	-0.01	0.00	0.00		0.00	0.00	0.00	0.00	

*Please note, the forecasts were compiled pre-election, and given the uncertainty surrounding Trump's policies, no revisions have yet been made

ING global forecasts*

	2016F					2017F				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
China										
GDP (% YoY)	6.7	6.7	6.7	6.6	6.7	6.6	6.5	6.4	6.4	6.5
CPI headline (% YoY)	2.1	2.1	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0
PBOC 1yr deposit rate (% eop)	1.50	1.50	1.50	1.50		1.50	1.50	1.50	1.50	
PBOC 1yr best lending rate (% eop)	4.35	4.35	4.35	4.35		4.35	4.35	4.35	4.35	
7-day repo rate (% eop)	2.90	2.71	2.60	2.50		2.50	2.50	2.50	2.50	
10-year T-bond yield (% eop)	2.89	2.88	2.75	2.70		2.70	2.70	2.70	2.70	
UK										
GDP (% QoQ, ann)	1.7	2.7	2.0	1.4	2.0	0.4	-0.6	0.4	1.3	0.8
CPI headline (% YoY)	0.3	0.4	0.7	1.4	0.7	2.4	3.0	3.1	3.0	2.8
BoE official bank rate (% eop)	0.50	0.50	0.25	0.25		0.25	0.10	0.10	0.10	
BoE Quantitative Easing (£bn)	375	375	435	435		435	500	500	500	
3-month interest rate (% eop)	0.60	0.60	0.30	0.40		0.35	0.20	0.20	0.20	
10-year interest rate (% eop)	1.50	1.60	0.65	1.20		1.00	0.80	0.80	0.80	
FX & Oil										
EUR/USD (eop)	1.10	1.11	1.12	1.10		1.12	1.15	1.18	1.20	
USD/JPY (eop)	112	103	101	102		102	102	105	105	
USD/CNY (eop)	6.45	6.65	6.67	6.73		6.75	6.76	6.77	6.80	
EUR/GBP (eop)	0.80	0.84	0.88	0.91		0.92	0.92	0.90	0.88	
Brent Crude (\$/bbl, avg)	35	47	47	42		40	40	45	45	

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