

Towards a new financial and economic crisis? Myth or reality?

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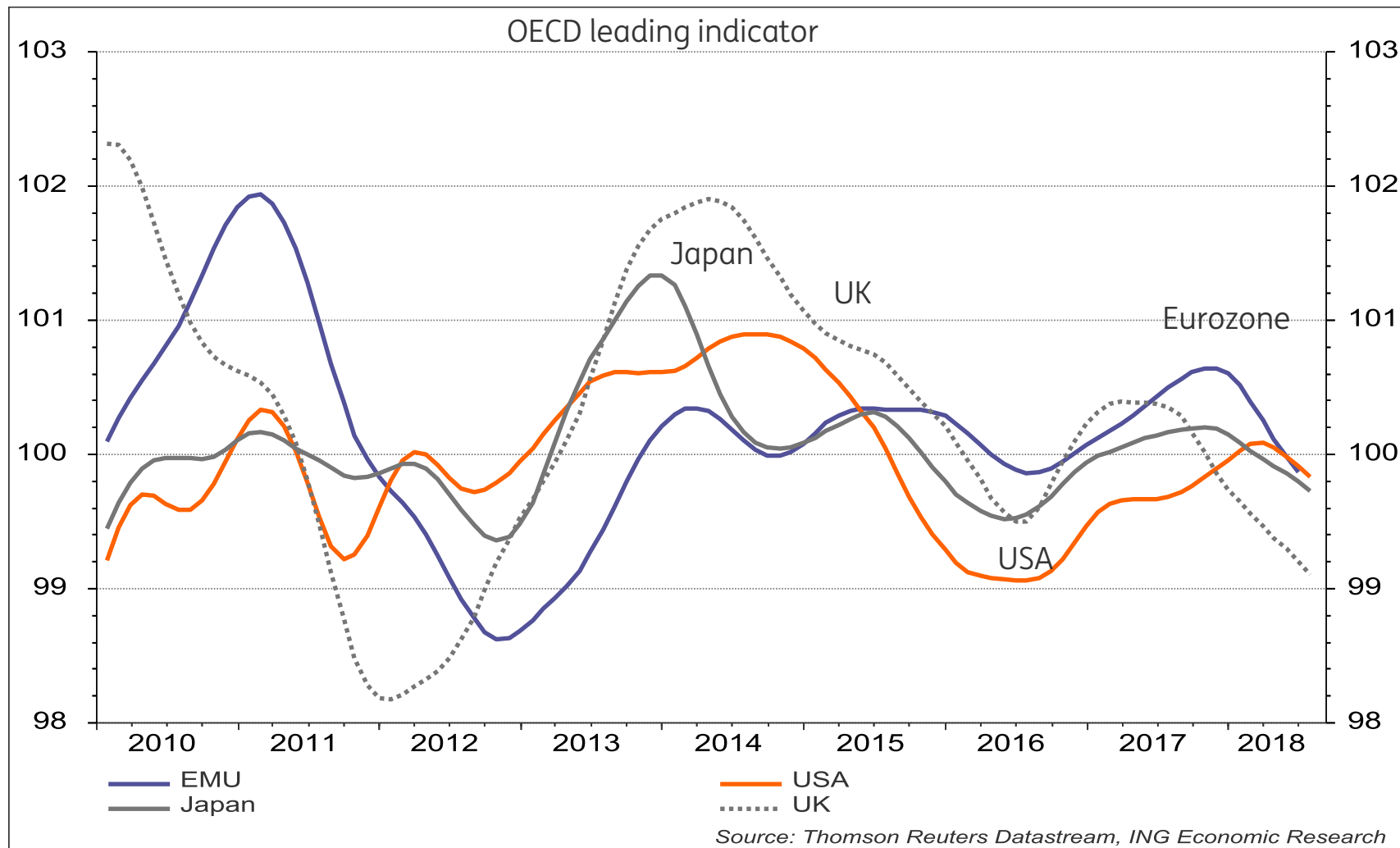
thinkforward



Economic sentiment is over the top



Leading indicators offer mixed picture



Temporary soft patch...

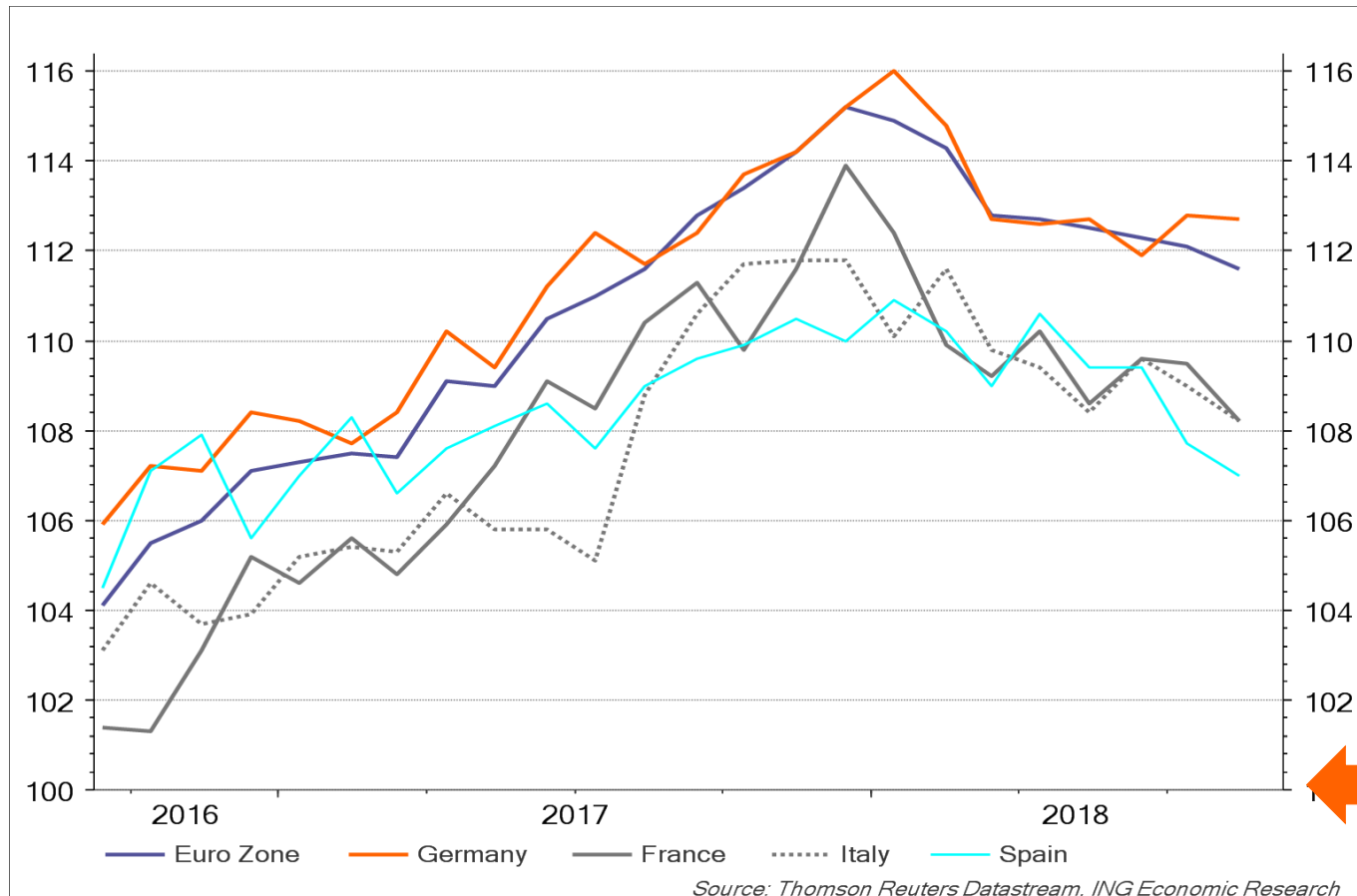


...or signs of
looming recession ?



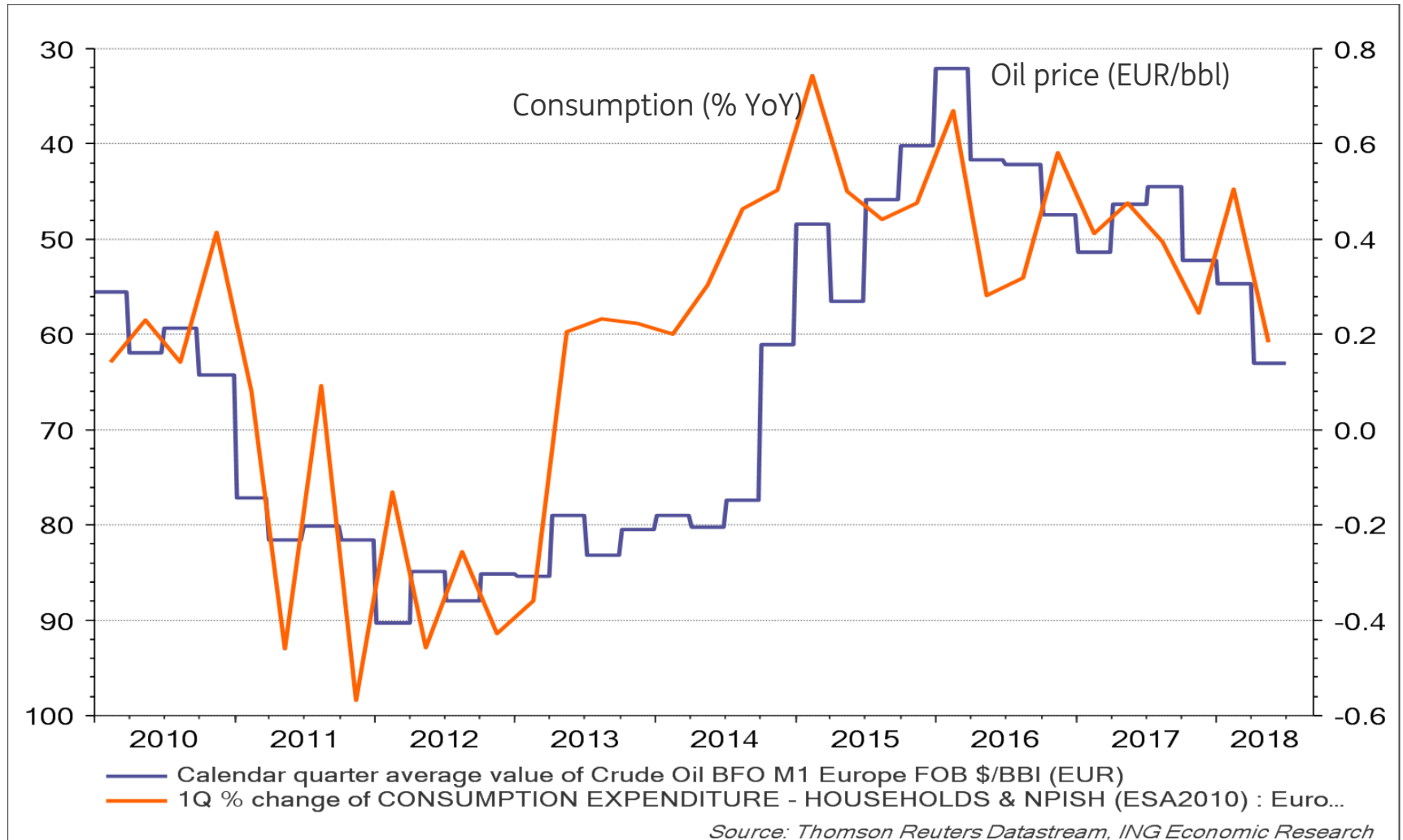
In Europe, there is a clear deceleration...

Economic sentiment (European commission)

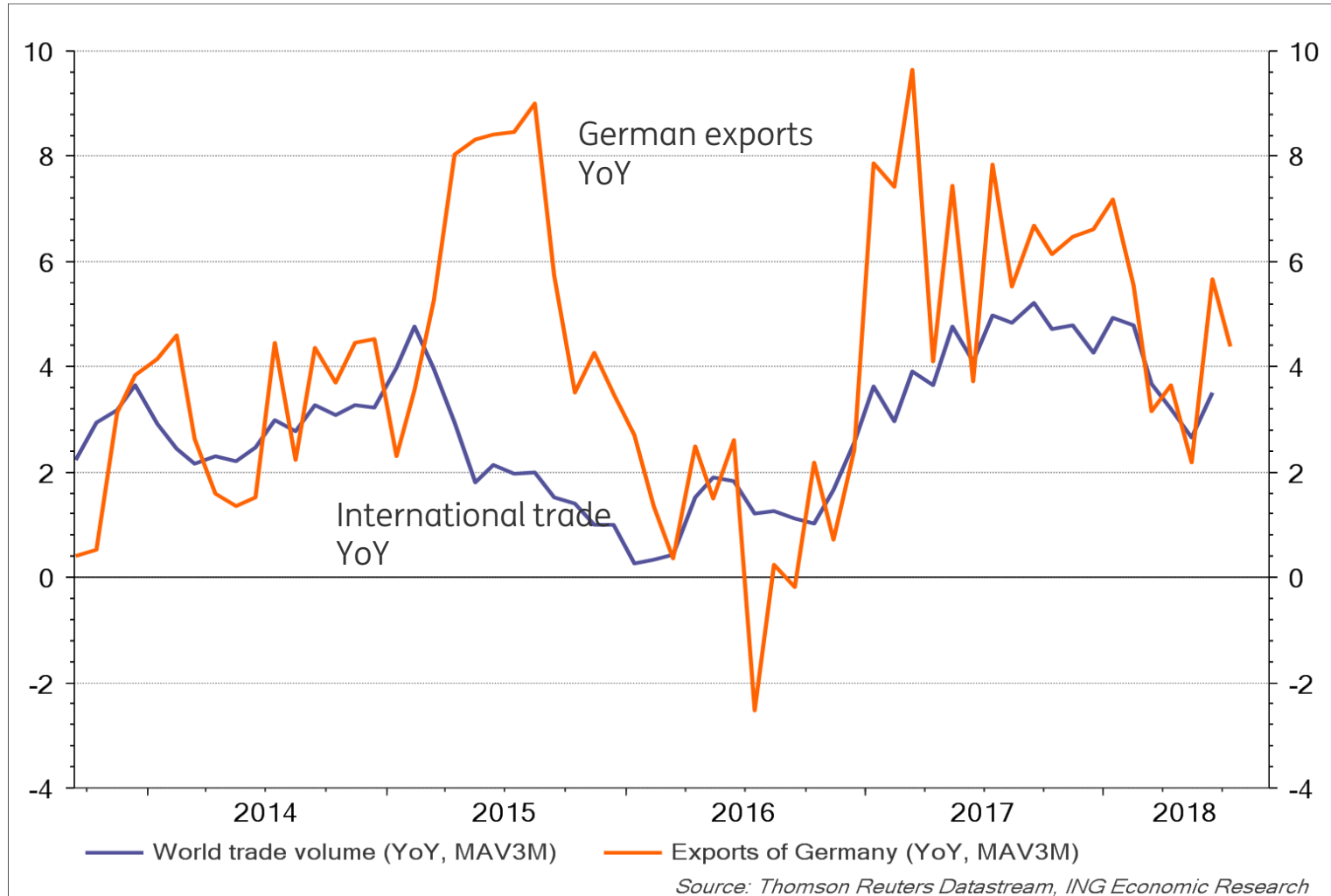


← Critical level!

Explanation: (1) Oil price



Explanation: (2) Decelerating world trade



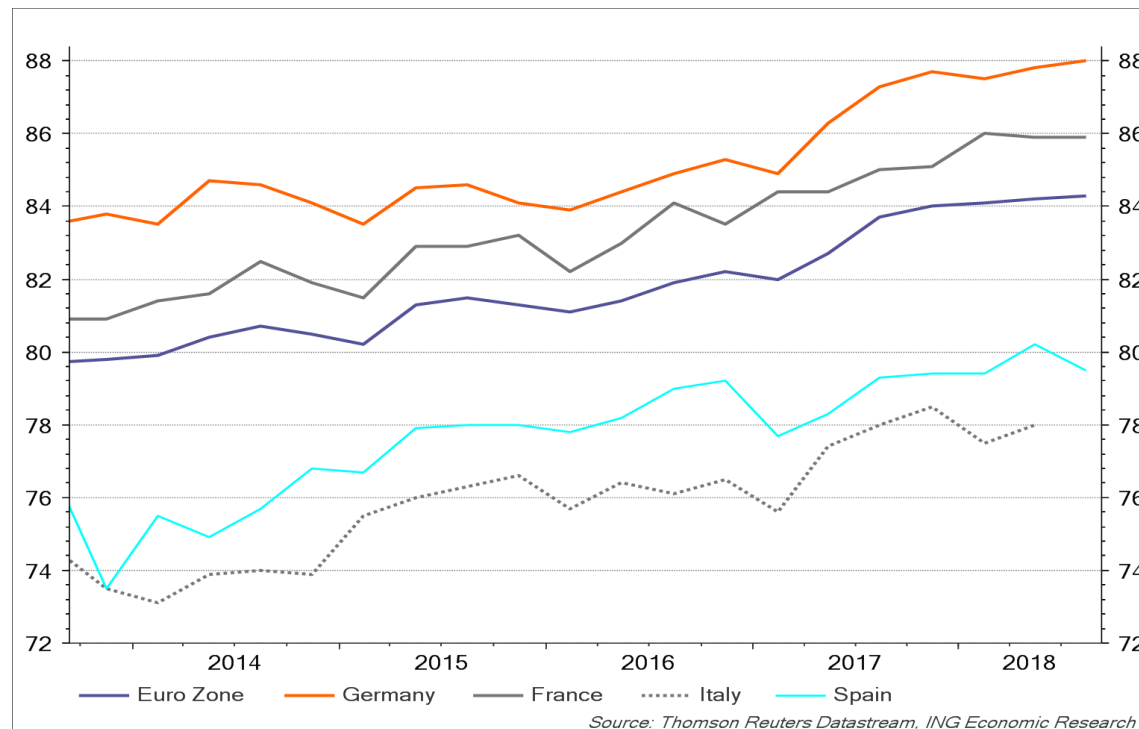
Explanation: (3) Lower potential growth



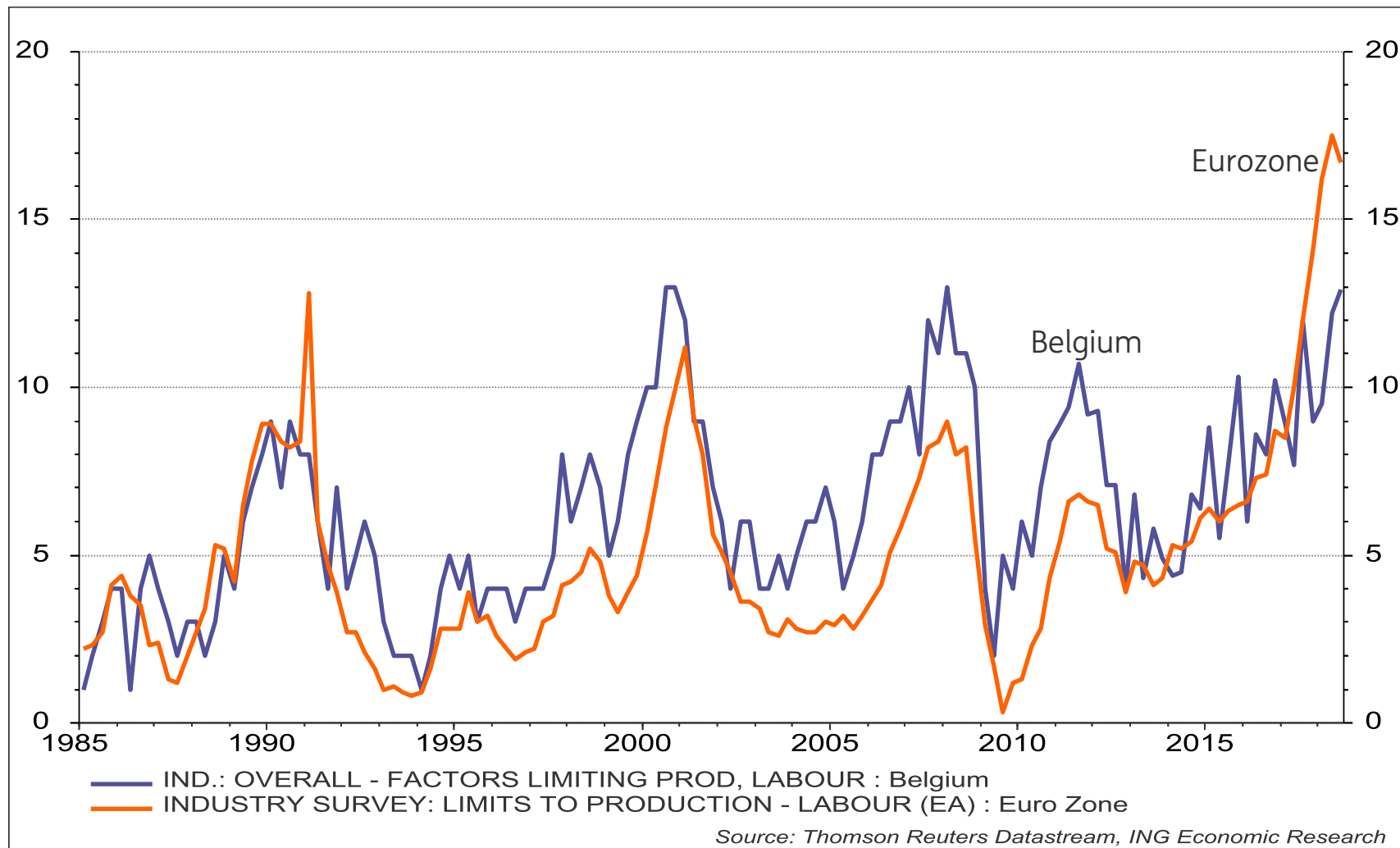
Euro area is maybe just not able to deliver higher growth numbers....

- Reasons to hope: (1) Still strong labor market
(2) Need to invest
(3) Still very low financing cost
(4) There is some (very small) room for fiscal stimulus

Capacity utilization rate in Industry sector (%)



Internal risk (1) Scarcity of qualified labour might hamper growth



Internal risk (2) Italy can create tensions within the eurozone

- Budget plans would amount to approximately 7% of GDP deficit. Italian Finance Minister Tria : "It is not just that we do not want to leave the eurozone: we will act in such a way that conditions are not met that could call into question our presence in the euro."
- Introduction of mini-BOTs?
- Will the European Commission agree to the proposed budget? (Draft budget to be submitted on 15 October)
- Salvini (Lega) might have an interest in calling new elections. Opinion polls would give coalition with Fdl & 5SM a 2/3 (constitutional) majority.
 - Polls: Lega: 29.2 (from 17.4)
 - 5SM: 29.0 (from 32.7)
 - Fdl: 4.1 (from 4.4)



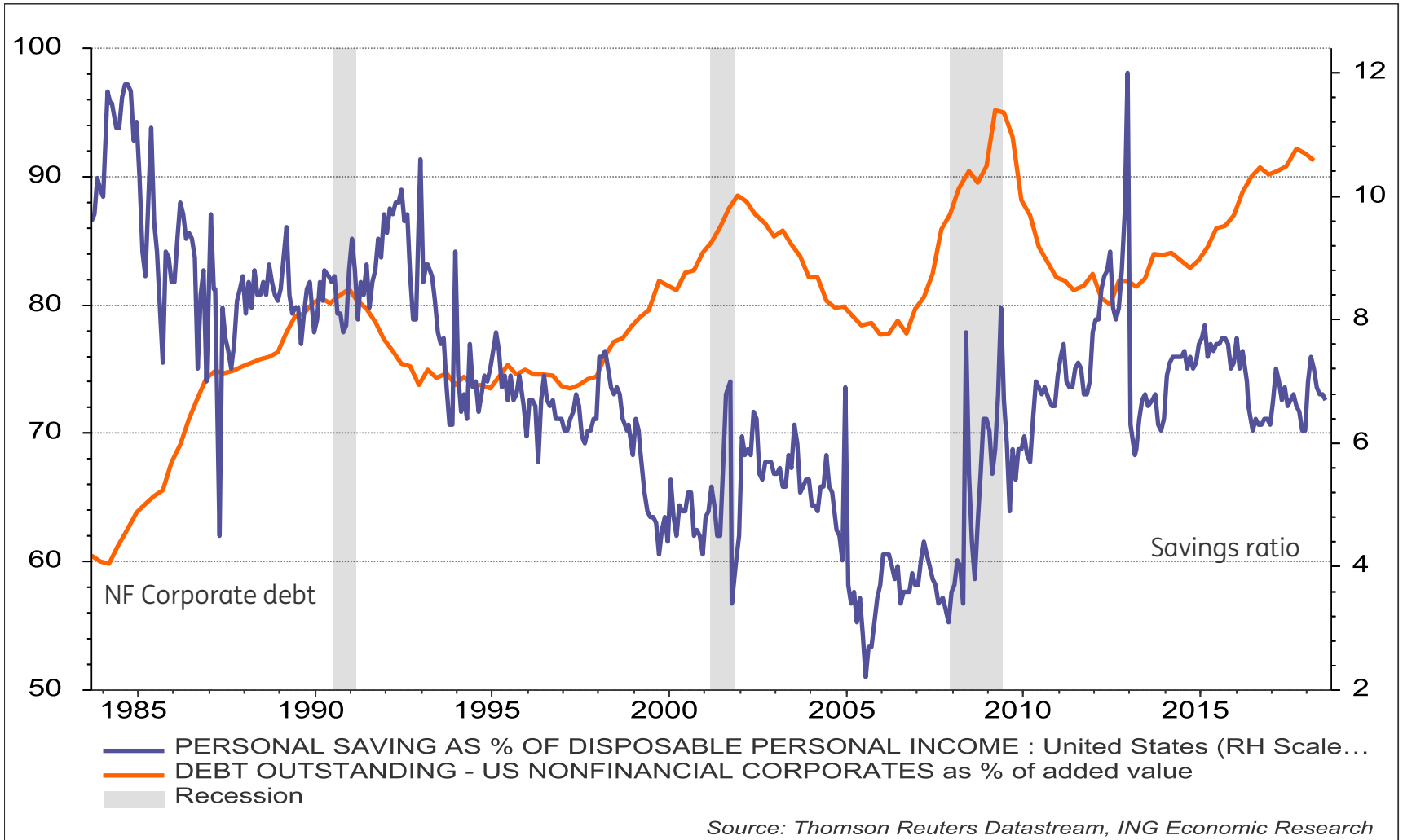
Fourth quarter 2018 could see tensions rising

Internal risk (3) Brexit: a crucial fourth quarter

- **18 October 2018:** EU summit. Both sides hope to agree on an outline of future relations to allow time for the UK parliament and EU parliament to ratify a deal by 29 March 2019
- **13 December 2018:** EU summit. If no deal is done by October, this is the fall back option if the two sides still want to reach an agreement
- **If there is no deal on all parts of the withdrawal act, there is no deal and a de facto hard Brexit** (with transition period until December 2020 falling away). However, both sides could decide to extend negotiations
- Deal on the Irish border seems to be key

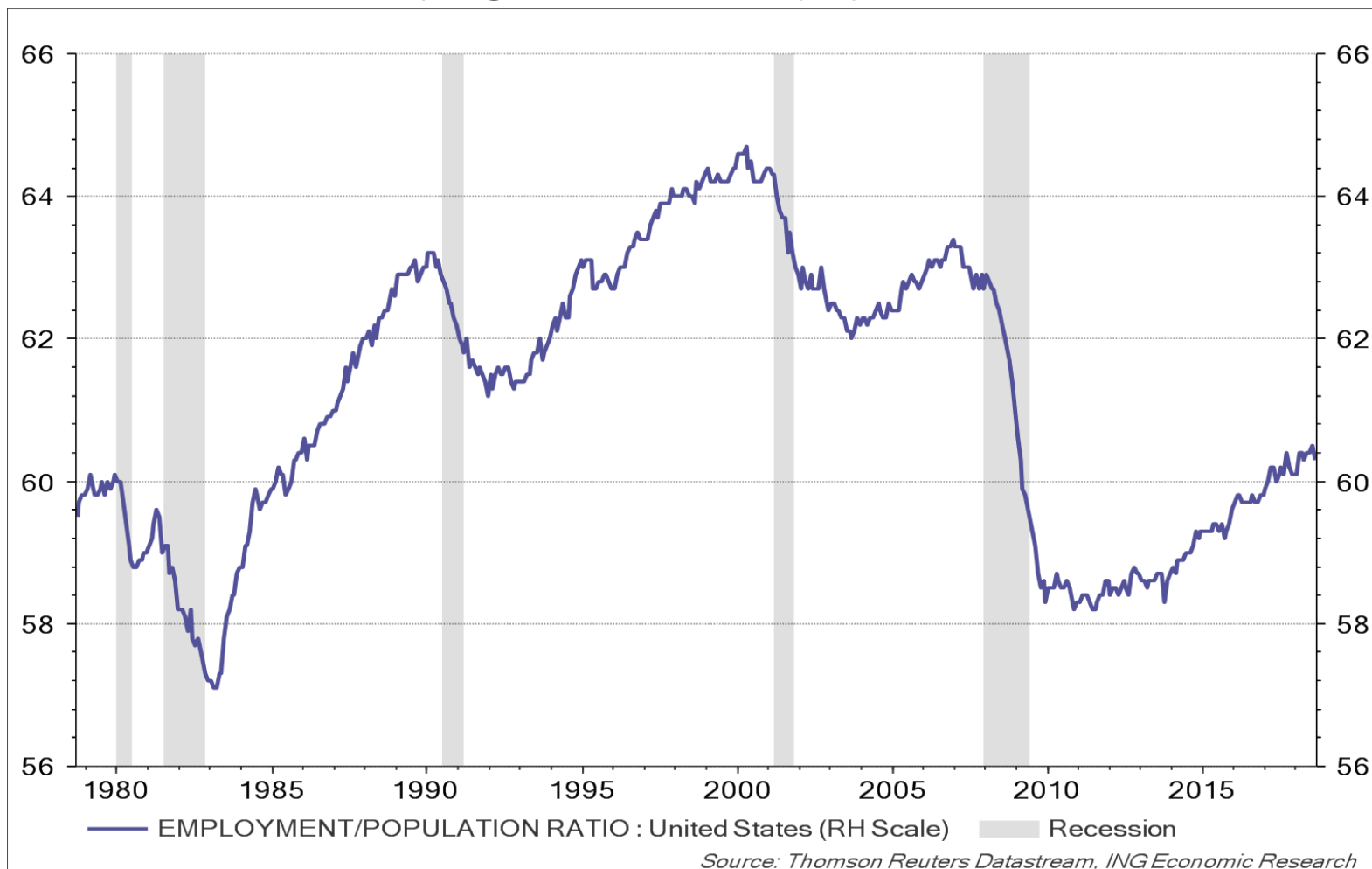


External risk: US in late cycle (leverage has increased)



...but there are still some spare capacity

Employment rate (% population)



Trump & Trade: only muted impact on US growth at this moment



“Trade wars are good, and easy to win”

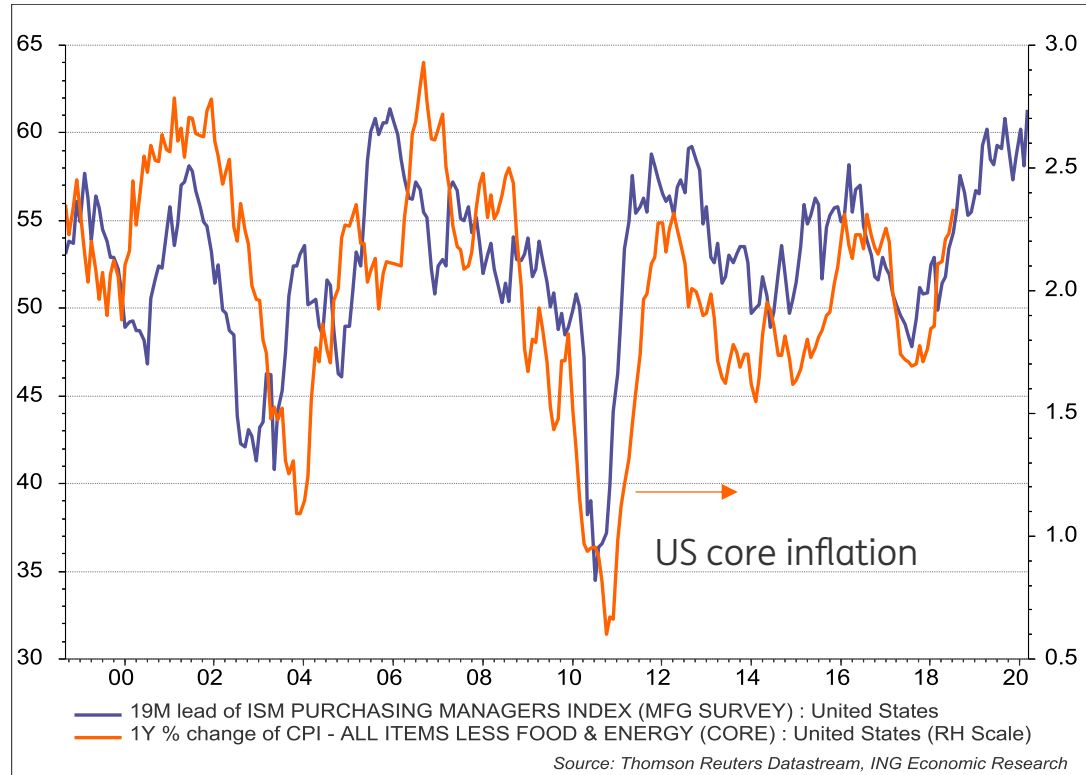
If the EU wants to further increase their already massive tariffs and barriers on US companies doing business there, **we will simply apply a Tax on their Cars which freely pour into the US** They make it impossible for our cars (and more) to sell there. Big trade imbalance!”

“We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S. Now we have a Trade Deficit of \$500 Billion a year, with Intellectual Property Theft of another \$300 Billion. **We cannot let this continue!**”

“IF YOU DON'T HAVE STEEL, YOU DON'T HAVE A COUNTRY”

"Trade talks going on with numerous countries that, for many years, have not treated the United States fairly. **In the end, all will be happy!**"

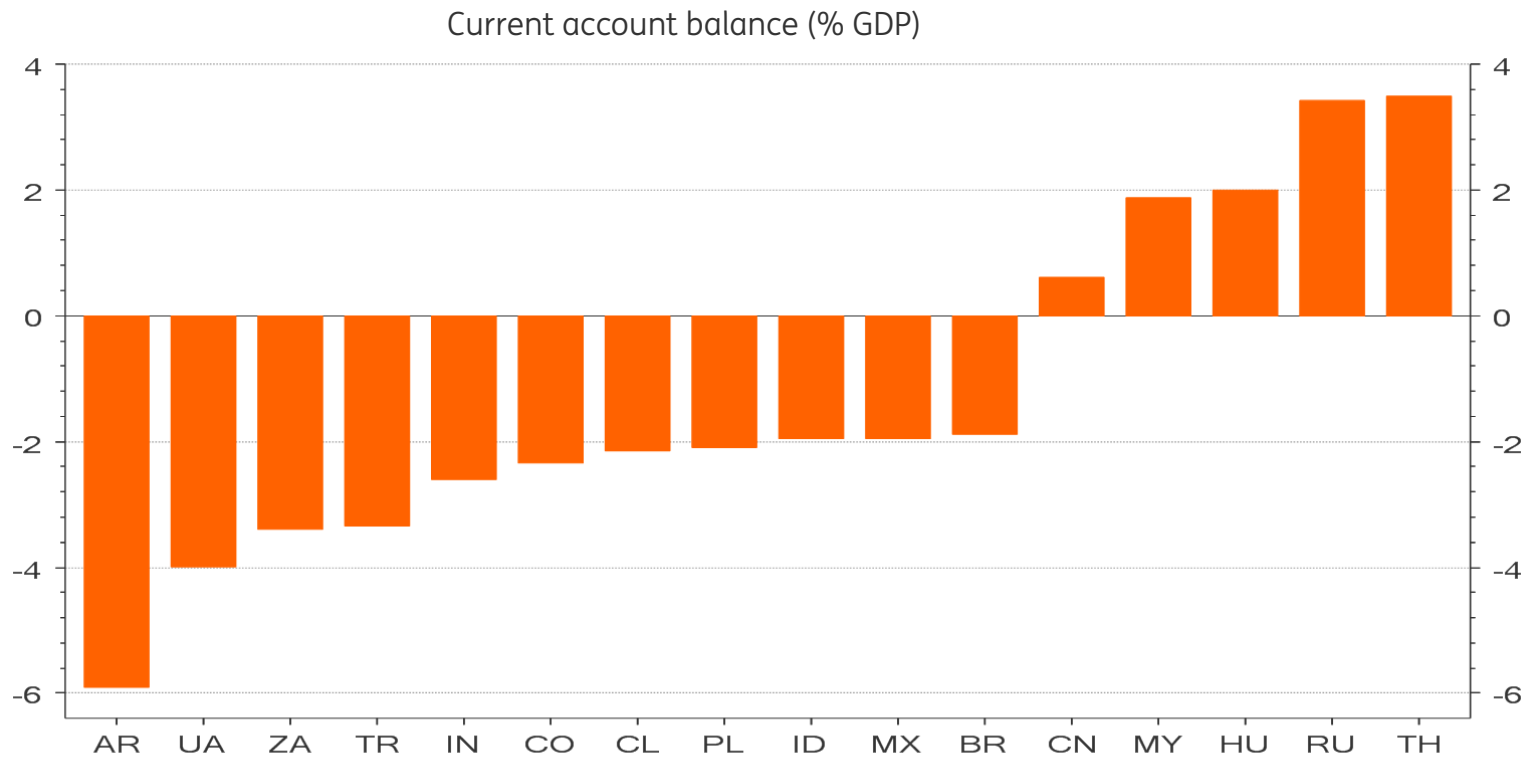
US core inflation likely to hit highest level since 2007



Emerging markets face rising turmoil

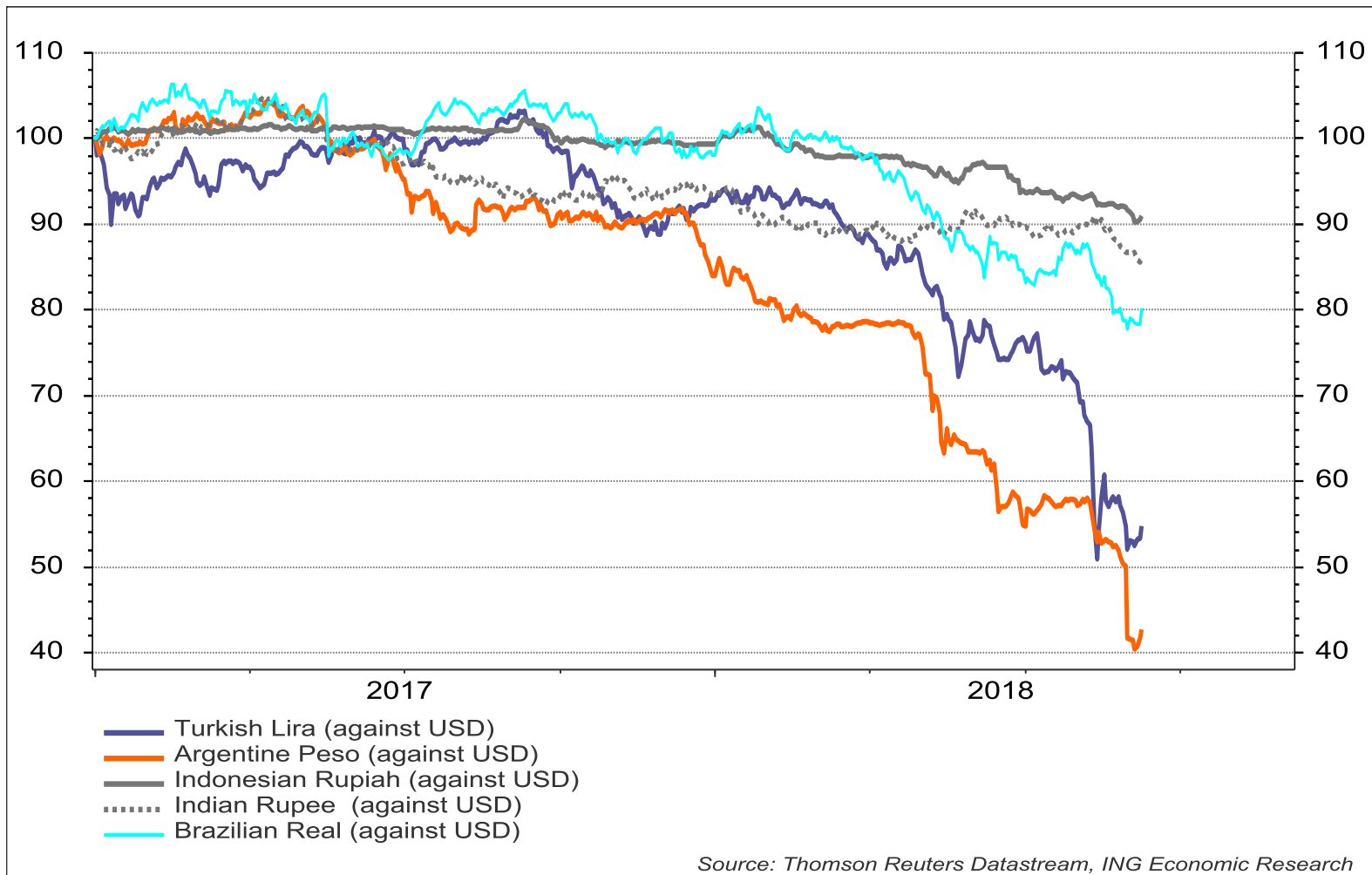


Emerging markets vulnerable to capital flight



Source: Thomson Reuters Datastream, ING Economic research

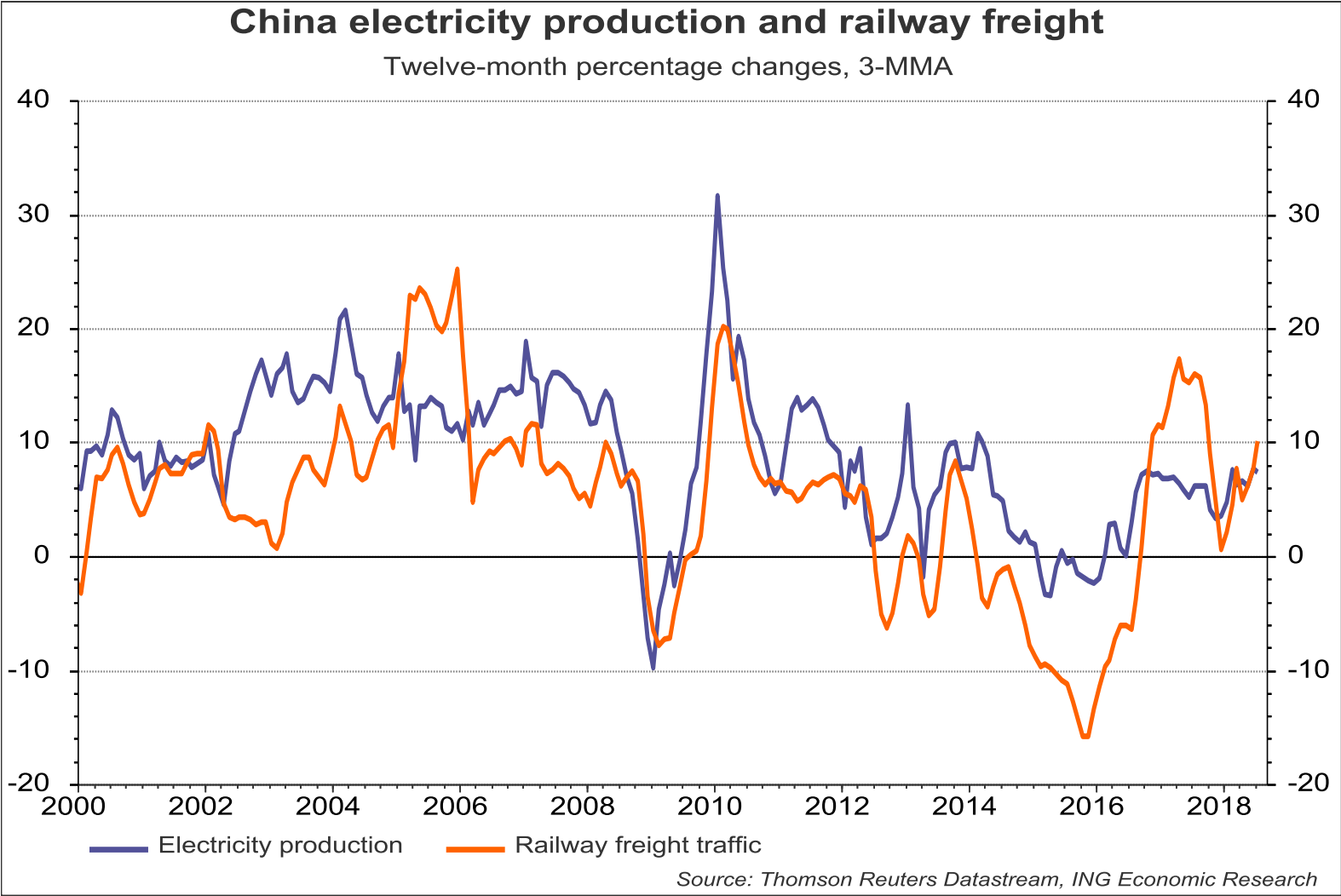
Falling exchange rates will result in tighter monetary policy



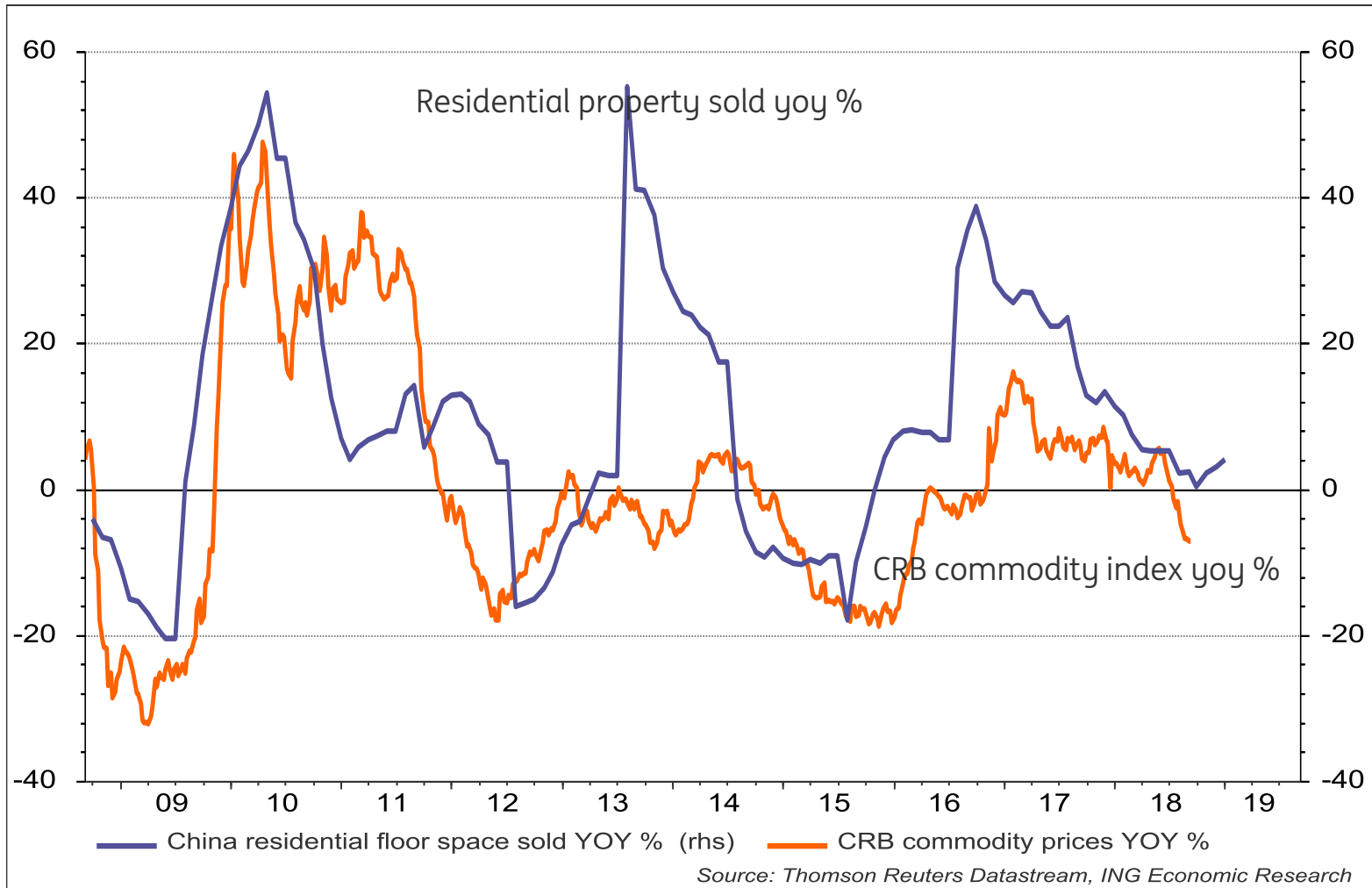
China seeks stimulus, despite wish to deleverage



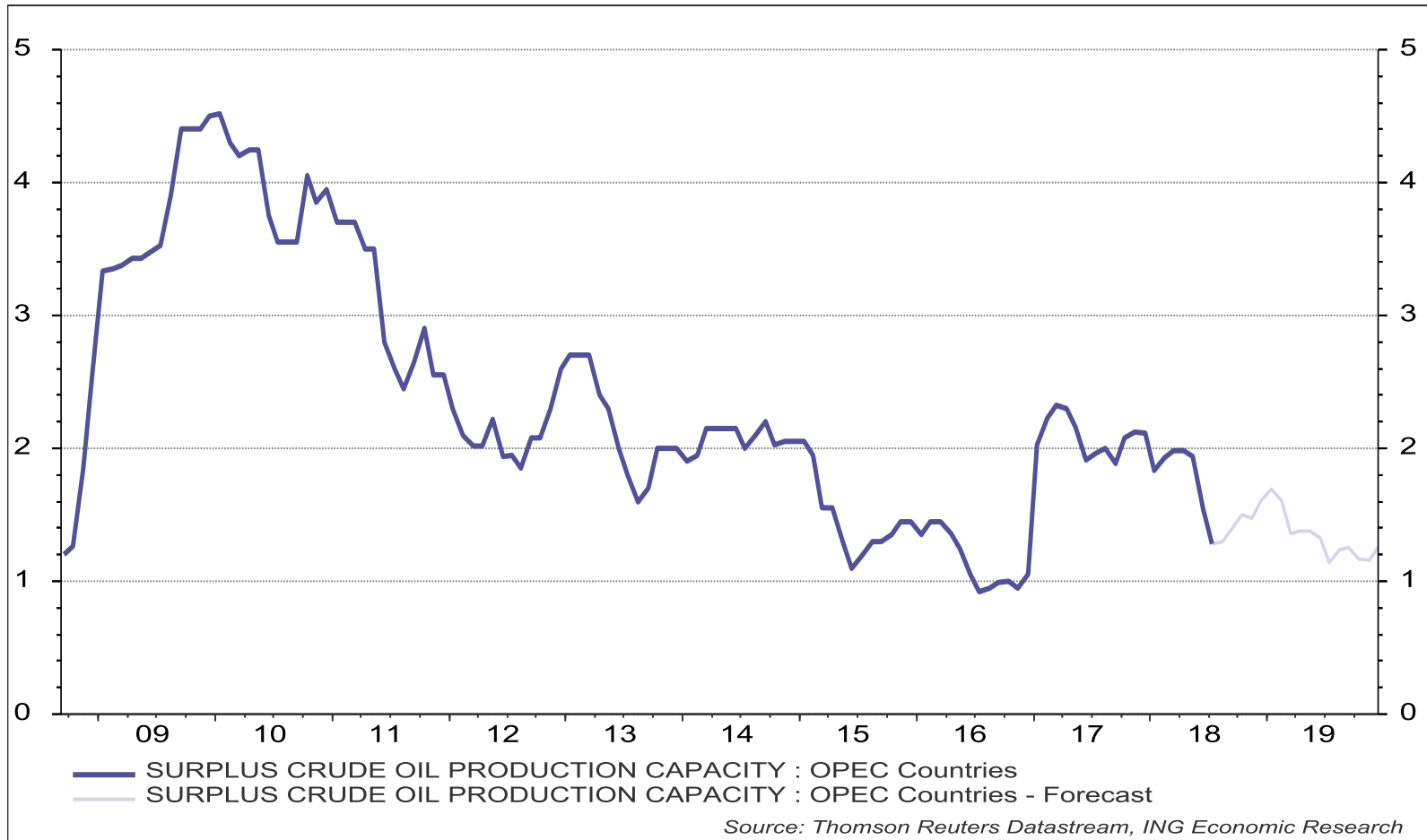
First signs of improvement



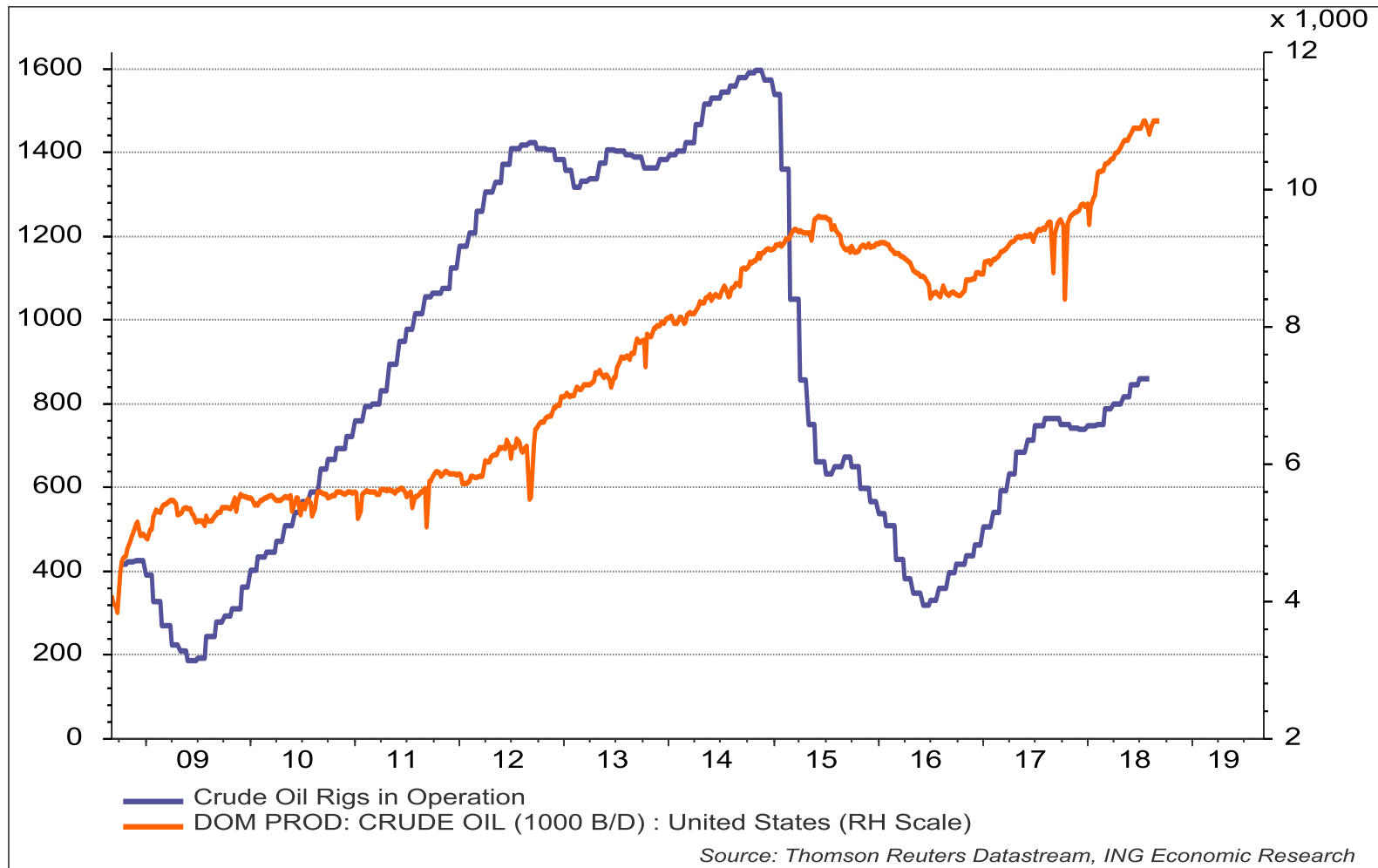
Chinese stimulus could support commodity prices



Spare oil production capacity in OPEC decreases...















...but US shale oil producers keep a lid on price increase



Monetary policies

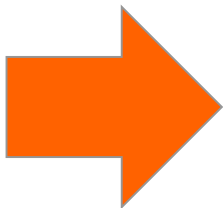


	Expected rate change in the next 12 months	QE	Other measures	Date of next meeting
	 + 75 bp		Balance sheet reduction	26/09 08/11
			15Bn/month → DEC 2018 + reinvestment afterward	13/09 25/10
	 + 50 bp		Target 10Bn GBP private and 435Bn GBP public	13/09 01/11
			80 trillion JPY/year	19/09 31/10

What to expect from the ECB?



- “We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of **December 2018 and then end net purchases.**
- We intend to maintain our policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases
- We decided to keep the key ECB **interest rates** unchanged and we expect them to **remain at their present levels at least through the summer of 2019**”



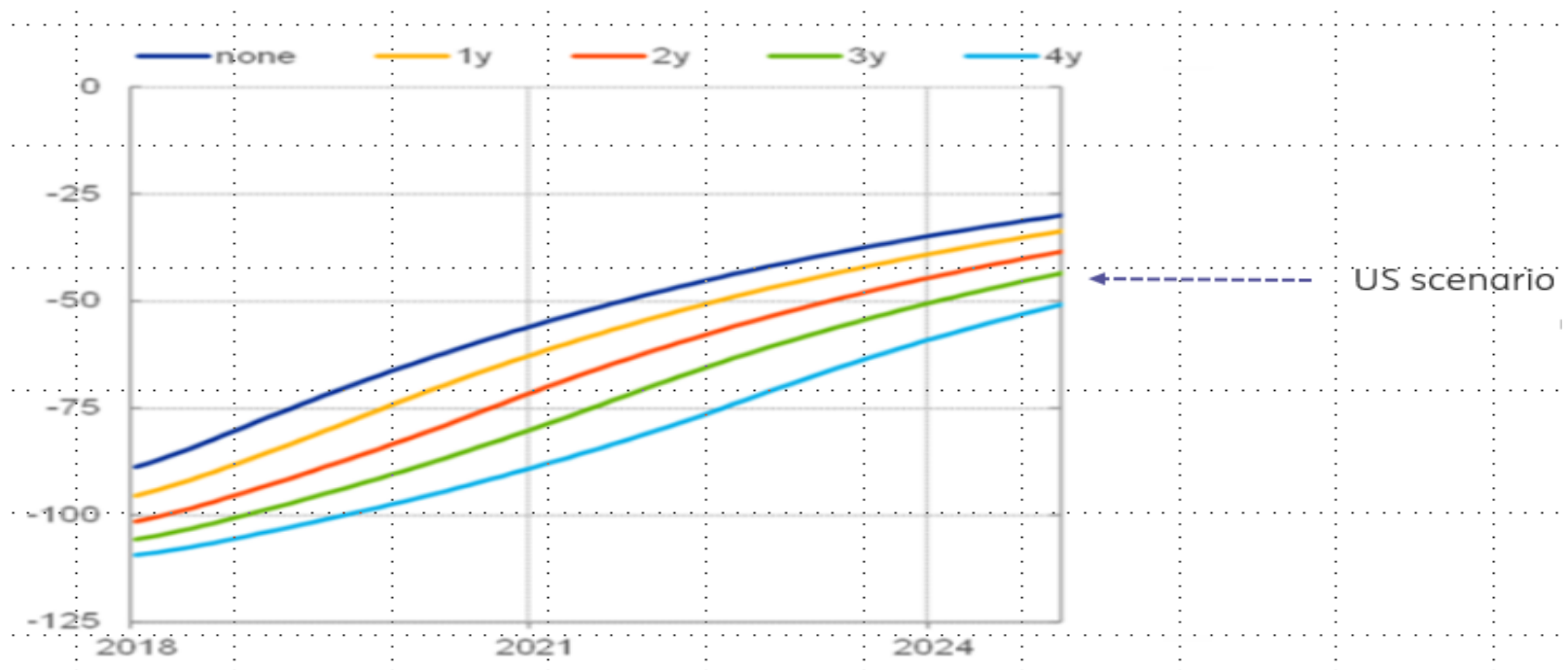
Euribor 3M likely to remain around -0.30% until Q3 2019 . Then gradual increase to 0.00% at the end of 2019.



An economic deceleration in the US will limit the ECB's room to increase rates

Downward impact of QE on bond yields will ease only gradually

Impact QE ECB on 10yr yields, taking into account the number of years the ECB will reinvest the proceeds of bonds reaching maturity



Source: ECB

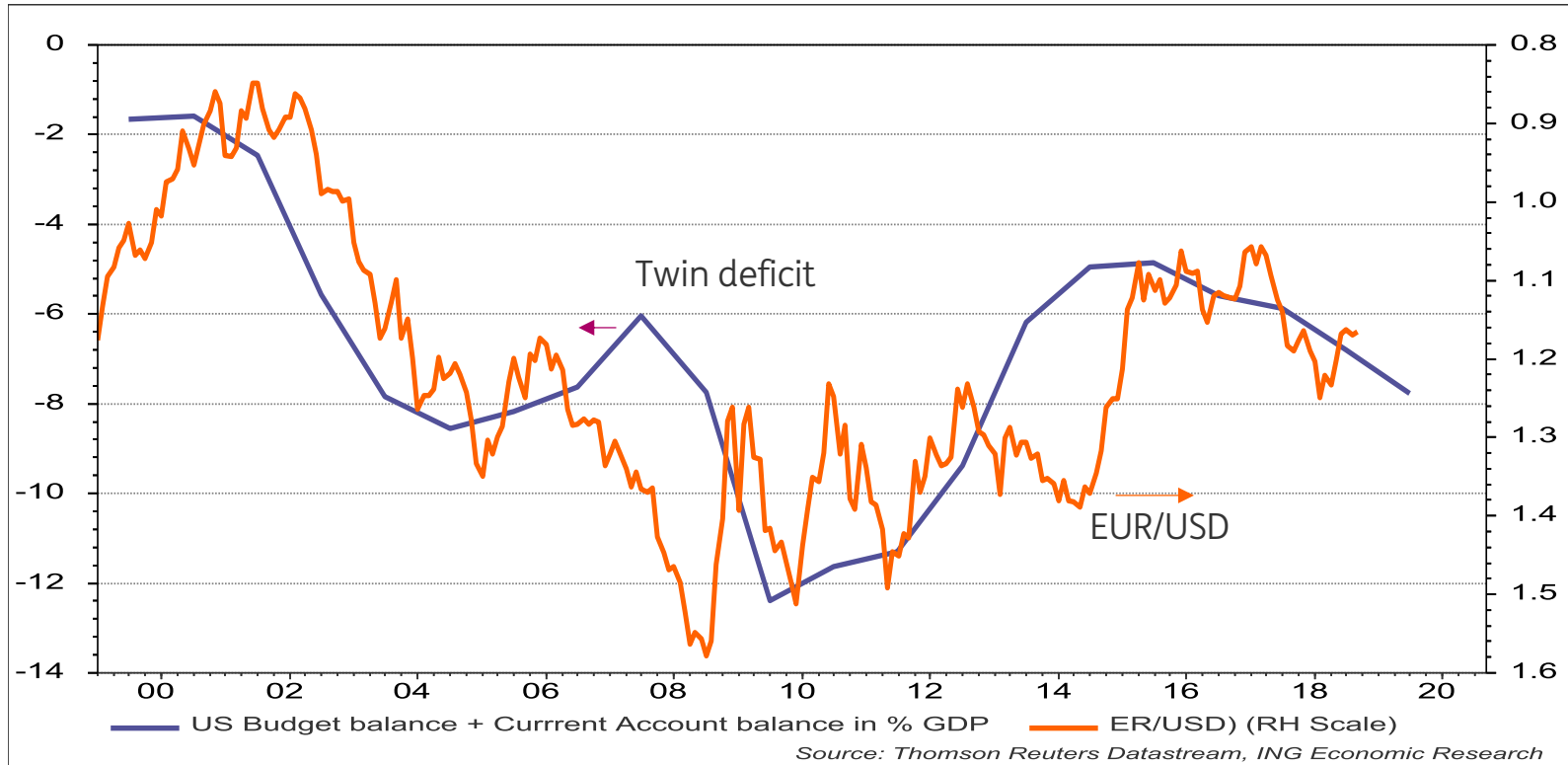
Will the dollar rally continue?



Unwinding of speculative long positions has put downward pressure on the euro exchange rate



The growing twin deficit might hurt the dollar, once the economy starts to slow



The next financial crisis?



	High Private Debt	Higher interest rates	Slowing growth
USA	Orange	Orange	Green
Eurozone	Orange	Green	Light Orange
China	Orange	Green	Light Orange

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