DUKASCOPY
RESEARCH PRODUCTS

27/11/2015

Expert Commentary

Peter Vanden Houten, Chief Economist at ING Belgium SA/NV, on Euro zone economy

If you are looking at the inflation rate at this moment in the Euro zone, the lower level due to the fall in energy prices to a large extent.

Peter Vanden Houten
Chief Economist
ING Belgium SA/NV
Belgium

Industrial output in the Euro zone fell for a 2nd straight month in September, as German manufacturers felt the pinch from weakening demand in China and other large developing economies. Some economists mention that this on manufacturing production is another reason to expect the ECB to follow through with further easing at its December decision. What is your thought on the matter?

Indeed we have seen that over the last few months, the manufacturing sector in particular saw some weakening on the back of the slowing growth in emerging countries. However, that was to some extend compensated by the stronger activity in the services sector, which is more domestically led.

As a matter of fact, consumers in the Euro zone did get more purchasing power due to the falling energy prices that has translated to more consumption and stimulated the domestic demand, which benefits services a bit more than manufacturing. Nevertheless, I would say that the Euro zone recovery is still continuing, but at a subdued pace, which indeed, might be a reason for the ECB in the view of the very low inflation to do some more at its' next meeting.

It seems that inflation returned to the Euro zone in October, although the rate at which consumer prices rose fell well short of the European Central Bank's target. Are you optimistic on the inflation in the foreseeable future?

If you are looking at the inflation rate at this moment in the Euro zone, the lower level due to the fall in energy prices to a large extent. Also, in case we strip out the mentioned fall in energy prices, we would actually have a positive inflation rate, which remains quite low. Hence, the underlying inflation rate or the core is at 1.1%, which is still below the target of the ECB.

I believe that the inflation rate is gripping high very slowly and would expect that in 2016 we will have something, which is at least above 1 %, yet below the 2% threshold. Therefore, I think the ECB will want to be sure that we shift away from 0% or negative inflation rate, and they will try to do a bit more to avoid it falling back. However, in my view the underlying inflation rate is going up, but at an extremely low level.

Peter Vanden Houten, Chief Economist at ING Belgium SA/NV, on Euro zone economy

I do not see how Finland even given the continuous recession, setting its' own monetary policy would do otherwise, since they are already benefiting from the ECB's very loose monetary policy.

Peter Vanden Houten
Chief Economist
ING Belgium SA/NV
Belgium

Finland's parliament announced that it will debate next year whether to quit the Euro. The country has suffered three years of economic contraction and is currently performing worse than any other Euro zone member. Do you believe that Finland's prospects would improve, if it returned to the Markka and regain the ability to set its own interest rates, as it in Sweden? What potential impact could it bring to other single currency members'?

I would say that Finland has a disadvantage, being hit by a number of shocks, such as the low prices in the paper industry, and troubles with Nokia that has gone through over the last few years. On top of that we have the difficult relationship with Russia at the moment and the sanctions against it. Hence, all of that has impacted the Finnish economy much more strongly than any other Euro zone economy.

Hence, I do not see how Finland even given the continuous recession, setting its' own monetary policy would do otherwise, since they are already benefiting from the ECB's very loose monetary policy. The only difference that one could imagine is the reintroduction of its own currency that could lead to its depreciation, whilst, therefore, the Finnish industry could become a bit more competitive, which could be an advantage. However, you have to remember that one should counter balance this by the disadvantages that arise from leaving the Euro, given that the banking system in Finland is very exposed to the Euro, which could lead to a lot of financial issues. Therefore, I do not think that if you take the arguments in favor or against leaving the Euro zone that for a country like Finland would make much sense to leave the Euro zone at the current moment.

What will be the major drivers for Euro by year and what are your forecasts for EUR/USD and EUR/GBP for Q1 of 2016?

We still expect some weakening of the Euro against major currencies in the coming months, especially against the Greenback and this has to do with diverging monetary policy in both the US and Europe, whereas the ECB will further cut rates and probably extend QE further into time and broaden the programme. While as in the US it now looks quite probable that in December the rates will start to go up, and in general, this will have to benefit the US Dollar against the Euro. Having said that, it is not as if the EUR will crush, since a lot of the arguments are already priced in the current exchange rate, while we see that most investors are holding long positions in the US Dollar.

Peter Vanden Houten, Chief Economist at ING Belgium SA/NV, on Euro zone economy

"The GBP/EUR is showing a pretty similar pattern as the EUR/USD, so a stronger Dollar in normal circumstance would lead also to a somewhat stronger GBP against the Euro.

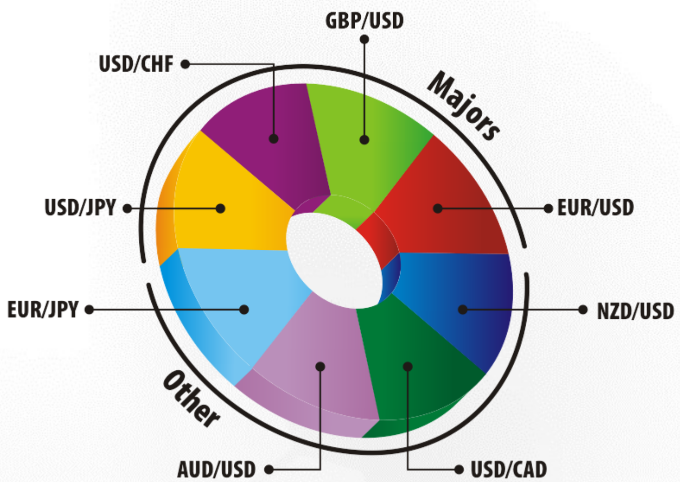
Peter Vanden Houten
Chief Economist
ING Belgium SA/NV
Belgium

To the disadvantage of the Euro, I would perhaps signal the fact that there will be a number of elections coming up in Europe at the end of this year (Spain), and in 2016 in France and Germany also. We might see political uncertainty increase on the back of the terrorism threat we have witnessed recently. Hence, there might be additional arguments to still expect further weakening of the Euro. Perhaps there is some additional potential of the Euro depreciation, but it will not grow much beyond parity against the Greenback. Thus, we could still see parity, but that will probably be the best we can expect for the USD investors and as more likelihood that in the course of 2016, perhaps the trend will already be reversing.

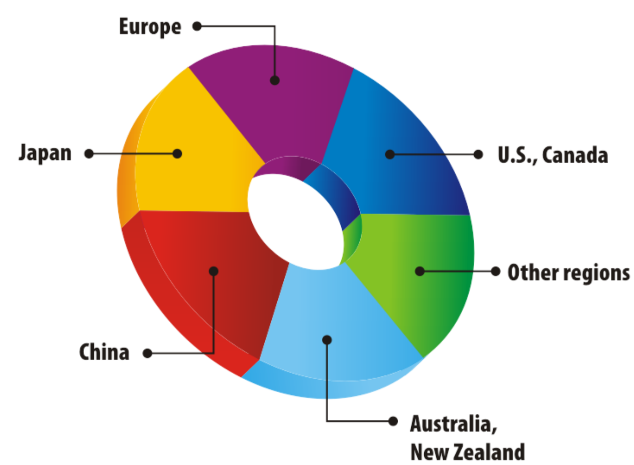
Against the Sterling it is slightly more difficult, given the fact that in general, the GBP/EUR is showing a pretty similar pattern as the EUR/USD, so a stronger Dollar in normal circumstance would lead also to a somewhat stronger GBP against the Euro. Nevertheless, there is one unknown thing for next year – the uncertainties around the referendum on the Brexit question, which could lead to some weakening of the EUR/GBP. Hence, we got two quite opposing forces: the one induced by the ECB, causing the Euro weakness and political uncertainty in the UK on the other hand. Thus, most probably the Pound might appreciate a bit, but definitely not much against the Euro, given the fact that we also would see in the course of the year political uncertainties surrounding the referendum.

Recent Expert Commentary on...

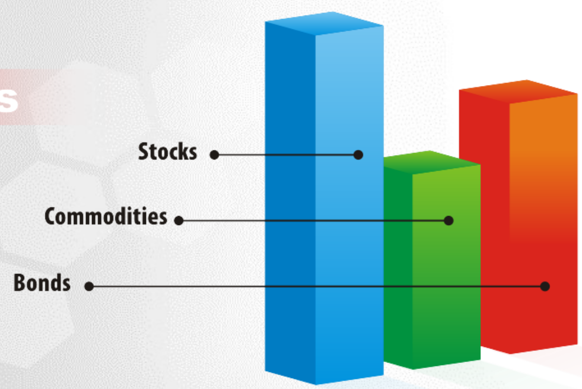
...FX Pairs



...Economics



...Other asset classes



Just click on a subject you are interested in and see what experts have to say

Newest releases and archive:

Fundamental Analysis
Technical Analysis
Press Review
Market Research
Expert Commentary
Dukascopy Sentiment Index
Trade Pattern Ideas
Global Stock Market Review
Commodity Overview
Economic Research
Quarterly Report
Aggregate Technical Indicator

Additional information:

Dukascopy Group Home Page
Market News & Research
FXSpider
Live Webinars
Dukascopy TV
Daily Pivot Point Levels
Economic Calendar
Daily Highs/Lows
SWFX Sentiment Index
Movers & Shakers FX
Forex Calculators
Currency Converter
Currency Index
CoT Charts

Social networks: