

MAKING SENSE OF *THIS* WORLD

26 November 2018



R&R Weekly Column
By Brunello Rosa



G20 Meeting Unlikely to Result in Anything More Than Merely Cosmetic Agreements

The G20 meeting scheduled to take place on [November 30th and December 1st in Buenos Aires](#) could be an occasion for US President Trump and Chinese President Xi Jinping to try to resolve trade tensions that have been [escalating for months](#), when the two meet privately on the sidelines of the event.


As we discussed in [our report earlier this year](#), this G20 meeting in Argentina was already going to be quite an odd affair, considering it is going to be hosted by a country that had intended to show to the world that it was open for business again thanks to the [reforms introduced by the liberal-conservative government of Mauricio Macri](#), but instead has rapidly fallen back to being an economic “problem child,” given its mis-management of the economy, monetary policy, and public relations (with heavy consequences for financial markets as a result). These have forced Argentina to yet again seek the help of the IMF, an organization that is much-hated in the country. The usual themes will be [on the agenda](#) at the G20 meeting, including finance, economic sustainability, “digital divide,” agriculture, energy, and – above all – [trade and investment](#).

The attention of all investors, business leaders and international policy makers will however be devoted to the meeting between Trump and Xi, which will be held just a few weeks before the threatened increase in tariffs, from 10% to 25% on \$250bn worth of Chinese exports to the US, is scheduled to take place on January 1st, 2019. As we discussed in our [recent travel notes from China](#), we do not expect Trump and Xi to discuss, much less to agree upon, tedious and detailed trade agreement terms. Rather, the best one can hope for is that a cosmetic agreement to continue trade negotiations will be reached in principle. Whether or not the planned increase in tariffs would then be suspended is currently unclear. But the chances of Trump and Xi reaching a deal are still small for the time being, as the two sides are still very far apart in terms of what they are willing to compromise on.

The Chinese economy [has been hit hard by the increase in tariffs](#) adopted by the US earlier this year (as have Chinese equity markets), so China might be inclined to offer more than it has done so far in terms of opening up its economic system. At the same time, there are limits on what the Chinese are willing to give up in order to keep world trade relatively freer. As for the US, as we discussed in our [recent review of the US mid-term elections](#), the hardline position on China has bipartisan support in Washington, as it remains popular among the US electorate. As such, the space for a compromise between the two countries is limited. In addition, there is a much deeper, underlying confrontation taking place between the US and China within the technological and geo-strategic battlefields, one that may be on the verge of becoming a new “cold war”.

What this means is that, behind the handshakes, pats on shoulders, and pompous declarations that occur at summits like the G20 meetings, any agreement of substance reached there is likely to remain limited. That will continue to weigh on investor sentiment in weeks, months, and likely even years to come.

Our Recent Publications

 [TRAVEL NOTES: CHINA: Preparing for A Potentially Full-Scale Economic and Geopolitical Cold War](#), by Nouriel Roubini,
20 November 2018

 [Policy Compass: US 2018 Mid-Terms: An Election That Settled Nothing](#), by John Hulsman, 20 November 2018



The Week Ahead

In the US, Q3-2018 GDP growth is expected to remain at 3.5% (c: 3.5% q-o-q ann.; p: 3.5%).

In the US and the EZ, inflation is likely to remain in line with CBs 2% target. In the US, both headline (PCE October, c: 2.0% y-o-y; p: 2.0%) and core prices (Core PCE October, c: 2.0% y-o-y; p: 2.0%) are expected to be flat and aligned with the Fed's inflation target. In the EZ, the CPI is likely to remain around the ECB's 2% target (CPI October, c: 2.1% y-o-y; p: 2.2%), helped by declining energy prices (Core CPI August, c: 1.1% y-o-y; p: 1.1%).

The Quarter Ahead

The global economy will keep softening. Last week, the OECD lowered its 2019 global growth forecast by 0.2 pps to 3.5%—revising all major economies except the US—and warned that governments should stand ready to coordinate a fiscal stimulus.

The US will show resilience. Consumption will remain strong—e.g.: online sales in the first half of November were up 17% y-o-y—setting the stage for further Fed tightening. Last week, the probability of a December hike rose to 74.1% (pw: 65.8%). Next week, the minutes of the last FOMC meeting will provide additional guidance.

In Japan, inflation has softened. Core inflation remained well below its 2% target (October, y-o-y, a: 0.4%; c: 0.4%; p: 0.4%).

In the EZ, growth will likely decelerate further... Last week, the EZ composite PMI fell to its lowest level in four years (November, a: 52.4; c: 53.0; p: 53.1), dragged by Germany (PMI Composite, November, a: 52.2; c: 53.2; p: 53.4)

... While political risks remain high. In the UK, the Brexit pre-agreement—sealed in the Nov. 25-26 Special EU summit—was only approved by Spain at the last minute, creating tension throughout the week. In Italy, last week: *i)* the sale of 4y inflation-linked bonds was poorly subscribed (only EUR2.2bn sold, compared to an average of 7.0-8.0bn), but—as investors considered most risks as already priced in—Italy's 10y yield fell by -8bps to 3.41%; and *ii)* the Italian CB warned about the deterioration of capital and liquidity ratios in the banking sector. Rising uncertainties hit the EUR (-1.9% w-o-w to EUR/USD 1.132) and added easing pressures on the ECB.

US-China trade tensions will continue. At the upcoming G20 meeting, an agreement seems unlikely—after US trade representative Robert Lighthizer accused China of “state-backed intellectual property theft”.

Demand for EM fixed income will likely remain stable ... Last week, for the 6th consecutive week, EM bond funds suffered outflows (-USD436m last week, +USD19.0bn y-t-d). However, Russia's Gazprom issued a EUR1bn 5y bond that was 1.4 times oversubscribed, yielding 2.95%, lower than the initial guidance of 3.125%

... but EMs issuance will likely decline. In MENA, the y-t-d supply of bonds has reached USD 74.6bn, around 86% of 2017's issuance.

Oil prices will likely remain subdued ... as: *a)* President Trump will keep supporting the KSA, making further sanctions unlikely; *b)* the US announced new pipelines, able to distribute an additional 2mb/d in 2019; and *c)* KSA announced a new record-high production. As a result, the price of Brent crude dropped to its lowest level since October 2017 (-11.9% w-o-w to 58.8 USD/b, -31% since October). In December, to support prices, Opec is expected to announce an output cut of at least 1mb/d.

... But most GCC economies are unlikely to suffer. So far, the price decline started caused an annual loss of USD130bn (9% of GDP) in export revenues. Inevitably, C/A balances will deteriorate, but currency pegs will not go under stress.

Last Week's Review

As uncertainty rose, global stocks fell (MSCI ACWI, -2.7%), driven by: *a)* lower expectations about global (and Europe's) growth; *b)* the slump in oil prices; *c)* trade tensions; and *d)* the ongoing correction in the tech sector. The US markets lost the most (S&P 500, -3.8% w-o-w) but all markets were affected (Eurostoxx 50, -1.5%; MSCI EMs, -1.7%). Volatility rose above its long-term average (VIX, +3.4 to 21.5; 52w avg.: 15.2; 10y avg.: 18.7).

The demand for safer assets remained stable. Yields on safer bonds fell (UST 10y yield, -2bps to 3.04%; Germany 10y yield, -3bps to 0.34%) and the S&P DM bond index rose by 0.2%.

The USD rose against a basket of currencies (DXY, +0.5%) mostly due to capital outflows from the euro area.

Francisco Quintana contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan	pps	Percentage points
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia		



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

