

11 February 2019



PK

Looking Ahead

This week, in the US, the impact of the shutdown on government spending (p: USD -205bn) will be highlighted in the January monthly budget statement. If a deal is not reached by February 15, another shutdown is likely. The United Consumer Sentiment Index for January is expected to remain unchanged (c: 90.7, p: 90.7). In the UK, the GDP is expected to soften to 1.4 y-o-y (p: 1.5%). Still in the US, inflation is expected to decline (CPI January, c: 1.9% y-o-y; p: 2.2%).

This week, in Japan, GDP growth is expected to have rebounded from the -0.6% q/q contraction experienced in Q3 (c: 0.4%; p: -0.6%).

This week, in China, trade data are likely to reveal the impact of the recent trade tensions with the US (p: USD 57.06bn). still in China, inflation is expected to decline (CPI January, c: 2.1% y-o-y; p: 2.2%).

This week in the UK, inflation is likely to decelerate (CPI January, c: 2.0% y-o-y; p: 2.1%); according to the BoE, "the CPI may temporarily fall below 2% target".

In the UK, geopolitical risks will remain elevated in coming weeks. The Brexit deadline is set for March 29th. While a last-minute deal remains the base case, the likelihood of a no-deal continues to increase.

Next quarter, in the EU, growth is expected to remain stable at 0.2% q-o-q (p: 0.2%), while yearly growth is expected to decelerate to 1.2% y-o-y (p: 1.6%). The Brexit deadline remains set for March 29th. According to the BoE, the worst-case scenario of Brexit will bring about: a) weaker productivity growth than previously anticipated; and b) a 25% devaluation of GBP.

Next quarter, in the US, the trade war truce will end on March 1st. If no deal is reached, tariffs on USD 200bn of Chinese imports will increase to 25%. The probability of one Fed hike in 2019 remains at 97% (p: 97%), with the probability of a rate cut at 18%.

Next quarter, In Turkey, AKP's own survey suggest that "the AKP candidate leads in Istanbul whilst the CHP candidate leads in Ankara". Monetary tightening remains unlikely.

Last Week's Review

Real Economy: Global Slowdown, Monetary Tightening On Hold, EU's Growth Stalling

In the US, the trade deficit narrowed, driven by a decline in the value of imports - the first major decline since President Donald Trump placed tariffs on Chinese goods (Trade balance November USD, a: -49.3bn c: -54.0bn, p: -55.7bn).

In the EU, investor confidence dropped to the lowest level in more than four years (Sentix February; a: -3.7, c: -0.6, p: -1.5). After the release of weak growth data in Germany and Italy, the EC: 1) revised downwards its 2019 economic forecasts for the EZ (a: 1.3%, p: 1.9%); and 2) warned that: i) Brexit; and ii) China's slowdown seriously threaten the outlook.

In Germany, new manufacturing orders declined in December (Factory Orders December, a: -1.6%; m-o-m c: 0.3%, p: 0.2%), another indicator that the economy's deceleration is ongoing.

In Italy, the EC revised growth forecasts downwards to 0.2% (p: 1.2%).

In Turkey, the trade deficit has declined to USD2.5bn in January (p: USD9.1bn) - as exports increased by 6% y-o-y, and imports dropped by 27% y-o-y.

Monetary Policy: Monetary Policy Tightening Remains On Hold In DMs. RBI Cut Rates

In the UK, the BoE kept interest rates unchanged, as expected (a: 0.75%, c: 0.75%, p: 0.75%).

In India, the CB unexpectedly cut interest rates ahead of the upcoming parliamentary elections (a: 6.25%. c: 6.5%, p: 6.5%). To counter the slowdown in inflation and growth, the RBI shifted its stance from 'calibrated tightening' to 'neutral'.

Financial Markets: The "Fed Put" Is Back, Supporting Asset Performance

The rally in global equities ended as European stocks fell, and the US S&P500 stalled.

Global stocks fell w-o-w (MSCI ACWI, -0.6%) driven by a decline in the EZ (Euro Stoxx 50, -1.1%) and EMs (MSCI EMS, USD -1.3%). Volatility fell (VIX S&P 500, -0.4 points to 15.7, 52w avg.: 17.2; 10y avg.: 18.1).

Fixed-income indices rose (BAML Global bond index, +0.3%). In Italy, sovereign 10y bond yields rose by + 24bps to 2.98%, while the latest 30y bond issuance - priced at a coupon of 3.85% - enjoyed record investor demand (total offer: EUR8bn; total orders: EUR41bn). In EMs, the volume of bond issuance declined when compared to previous weeks: EM bond fund flows fell to USD1.9bn (p: USD3.7bn).

Currencies: the USD rose (DXY, X+1.1%) the EUR fell (EUR/USD, -1.1% to 1.133). The GBP fell against the USD (GBP/USD, -1% to 1.295).

Commodities: Brent prices fell by 1% to 62.1 USD/bn.

Farah Aladsani contributed to this Viewletter.



@RosaRoubini



Rosa & Roubini



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

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.

