

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa




Key Deadlines Are Pushed Back This Week


Two crucial deadlines were looming this week: US-China trade talks on March 1st and the second meaningful vote on Brexit on February 28th. Regarding US-China trade talks, Donald Trump said the US could [extend the negotiations \(perhaps by 30 or 60 days\)](#) from the March 1st deadline and meet with President Xi Jinping at Mar-a-Lago after the National People's Congress on March 5th, given the progress made. Negotiators are preparing six *Memorandums of Understanding* (MoUs) on key structural issues such as: forced technology transfer and cyber theft; intellectual property rights; services; currency manipulation; agriculture; and non-tariff trade barriers. Later, in April, the Department of the Treasury will issue its semiannual report to Congress of its reviews of developments in international economic and exchange rate policies across the United States' major trading partners. In its latest issue of [October 2018](#), the US refrained from labelling China as a "currency manipulator" (as it did between 1992 and 1994), while reiterating that China's foreign-exchange practices deserved close monitoring, especially in light of the recent weakening of the renminbi. If sufficient progress is not made in the US-China trade talks, it is likely that the US will start branding China as a currency manipulator again, thereby justifying a series of retaliatory actions. Interestingly, also in the list of countries deserving close monitoring is Germany (for its large CA surplus), confirming that Germany might be the target for the US' next round of trade wars (as discussed in [last week's column](#)).


Regarding Brexit, Theresa May announced on Sunday that a second meaningful vote by parliament [will be held on March 12th](#), instead of February 28th; in other words, just a couple of weeks before the official Brexit deadline on March 29th. Scheduling the second vote so close to the deadline is clearly intended to put pressure on MPs to accept Theresa May's revised deal, or else face a no-deal Brexit. MPs are getting increasingly nervous from this approach by the PM and are openly rebelling against it, with [three cabinet ministers threatening to vote against a proposal that allows a no-deal Brexit to occur](#). Meanwhile, a new [Independent Group of MPs](#) was created in the House of Commons, formed by nine former Labour party members and three Tories. This group is already larger than the delegation of Lib-Dems and of the DUP (which props up May's majority) in the Commons and might end up holding the balance of power in the final vote, especially if it grows further. Theresa May is convinced that, in the end, a last-minute deal relaxing the terms of the Irish backstop (either with a time limit, or with the possibility of unilateral withdrawal, or with an additional legal document making clear that the UK would not be kept permanently in the arrangement) will be made with the EU. In Brussels, the sentiment is less sanguine. [We believe an agreement will eventually be found](#) – perhaps after an extension of Article 50 by three months, but the risk of a "Br-accident" is increasing.

This protracted uncertainty regarding key issues, together with the global economic slowdown, is weighing on investor sentiment and pushing an increasing number of central banks to dilute their normalization plans. After the [Fed](#), the [ECB](#), and other major central banks, the [RBA has also now dropped its hiking bias](#) and has a neutral stance, joining the RBNZ in such a position. Among G10 economies, the only central bank that still has not made any move is the [Swiss National Bank](#), which risks having to fight increasing domestic and international risks with little policy ammunition.

OUR RECENT PUBLICATIONS:

 [ECB PREVIEW: Change In Forward Guidance and New \(T\)LTRO Coming, Given Downside Risks](#), by Nouriel Roubini and Brunello Rosa, 21 February 2019

 [MONETARY AFFAIRS - SNB: Rising Global and Domestic Risks To Fight With Little Policy Ammunition](#), by Alex Waters and Brunello Rosa, 20 February 2019

 [MONETARY AFFAIRS: RBA Jumps on The Dovish Bandwagon, While RBNZ Still Sits On The Fence](#), by Brunello Rosa and Nouriel Roubini, 19 February 2019



Looking Ahead

The Week Ahead: Global Slowdown To Continue, Inflation Stable

In the US, economic data signal a slowdown: an unexpected inflation spike appears unlikely; pending home sales for January - likely to further decline m-o-m (p: -2.2%) - will show a weak housing market, hampered by higher mortgage rates. Markit February PMIs are expected at the current level of 54.9. Yet, despite last month's retail-sales decline, consumer confidence might show strength.

If a **US-China** trade deal becomes likely, US President Trump may: *i*) extend by 60 days the March 1st deadline; and *ii*) meet President Xi Jinping after the National People's Congress on March 5th.

In the EZ, the economic slowdown continues: consumer confidence is expected to decline further m-o-m (c: -7.4; p:-7.9). The February flash reading of the headline inflation rate is expected at 1.5%, versus 1.4% in January.

In the UK, PM Theresa May will allow MPs a further day of Brexit debate, as senior EU politicians declined to "reopen the negotiated legal text of the Brexit withdrawal agreement".

The Quarter Ahead: Further Trade Tensions, Political Uncertainty

In the US, the probability of: *i*) no Fed hikes in 2019 declined to 95% (p: 98%); and *ii*) a rate cut declined to 6% (p: 10%).

The possible imposition of a 25% tariff on autos and parts imported **into the US** is concerning **Germany and Japan**, as their economies could tip into recession.

In the EU, political risks are rising, and - were EZ recession risks to resurface - the ECB could consider liquidity support via TLTROs. The European parliamentary elections are due between May 23rd and May 26th.

In the UK, the probability of no-deal Brexit is rising. Further possibilities - that would require an extension of Article 50 - are: *i*) a complete renegotiation; *ii*) another referendum; and *iii*) an early general election, to secure a political mandate for a deal.

In China, rising real interest rates can intensify financial distress, weakening firms' debt repayment ability.

In Turkey, the recovery from the current downturn is likely to be slower-than-expected.

Last Week's Review

Real Economy: Global Slowdown, Geopolitical Risks Improve But Remain Elevated

In the US, the Fed January minutes reaffirmed the "patient approach to further rate hikes", and a likely "end to B.S. reduction" this year. According to NY Fed President, further rate hikes would require an improvement of the growth or inflation outlook.

As US-China trade-talks progress, negotiators are preparing six MoUs on key structural issues, such as: a) forced technology transfer and cyber theft; b) intellectual property rights; c) services; d) currency manipulation; e) agriculture; and f) non-tariff barriers to trade.

In the EZ, the 'economic sentiment survey' exceeded expectations (EZ Feb. ZEW: a: -1.66; c: -18.2; p: -20.9) and PMIs declined below the 50 benchmark (EZ Feb. PMI: a: 49.2; c: 50.3; p: 50.5). Inflation softened (CPI Jan.: a: 1.4%; c: 1.4%; p: 1.5%).

In Germany, 'economic sentiment' was better than expected, but still in bear territory (Germany Feb. ZEW: a: -13.4 c: -13.7; p: -15.0).

In Japan, exports suffered the largest decline in two years in January (a: -8.4% y-o-y; c: -5.5%; p: -3.9), further widening the trade deficit (a: JPY -1,415.2bn; c: -1,011.0bn, p: -56.7bn). Inflation inched lower to 0.2% y-o-y (CPI Jan.; c: 0.2%; p: 0.3%).

Financial Markets: Lower Risks And Dovish FOMC Minutes Supported The Markets

The Fed's cautious tone and US-China trade-progress increased confidence; EMs recorded inflows and EM FX volatility declined to the lowest in 9 months.

Global stocks rose w-o-w (MSCI ACWI, +1.7%) driven by the US (S&P 500, +1.4%) and the EZ (Euro Stoxx 50, +2.4%). EM indices rose (MSCI EMs, +1.0%). Volatility is below historical averages (VIX S&P 500: 14.1, 52w avg.: 16.9; 10y avg.: 18.0).

Fixed-income indices: negative-yielding government bonds rose to USD11tn, or by 21% since October; w-o-w, the BAML Global bond index rose +0.1%.

Currencies: USD's net long positions declined to USD20.2bn (vs.USD32.0bn at end-2018), and w-o-w the USD fell (DXY, -0.4%); EUR net short positions (against USD) fell to USD6.7bn (vs.USD30.5bn in 2015) and the EUR rose (EUR/USD, +0.3% to 1.133). The GBP rose against the USD (GBP/USD, 2.0% to 1.307).

Commodities: (Brent) was up by 3.6% w-o-w, to 66.9 USD/b.

Farah Aladsani contributed to this Viewsletter.

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



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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		



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