

## MAKING SENSE OF *THIS* WORLD

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**R&R Weekly Column**  
**By Brunello Rosa**



### The IMF-World Bank Meetings: Mixed Feelings About The Global Economy

The IMF has just published its April edition of the [World Economic Outlook](#) (WEO) entitled “Growth Slowdown, Precarious Recovery”. The WEO notes that after a synchronised expansion in 2017 and the first half of 2018, the world has entered a synchronised slowdown, with all three of the world’s major markets are now facing economic headwinds. In the US, the effects of the [fiscal stimulus that was approved at the end of 2017](#) are fading, and the fist fight between Democrats and President Trump over the budget, which led to the longest government shutdown on record earlier this year, are having a negative impact on the economy. So too are trade tensions and the tightening financial conditions deriving from the Fed’s policy normalisation. China meanwhile has been affected by its [trade tensions with the US](#), as well as by what the IMF calls “regulatory tightening to rein in shadow banking.” And the Eurozone has lost momentum as two of the largest economies, Germany and Italy, have significantly slowed down. Germany’s economy, which [narrowly avoided a recession in Q4](#), has slowed because of the impact of new emission standards on car manufacturing. Italy’s, which did in fact [enter a technical recession in Q4](#), has slowed because of the higher sovereign spread’s impact on business investment and consumer confidence, and the impact of Germany’s slowdown. Elsewhere in the world, [Japan’s economy too has been affected by global trade tensions](#), as well as by natural disasters, and [emerging markets have been affected by capital outflows deriving from Fed tightening and USD strength](#).

The current narrative from the IMF and the World Bank is that these headwinds will be transitory, and that the economic outlook will improve in H2 2019. This improvement is also expected to occur because of the important contribution of central banks, almost all of which [have turned dovish since the Fed’s U-Turn](#) in January, and because of the use of some of the fiscal space that is available in certain countries. The mood prevailing among market participants and policy makers attending the IMF and World Bank Spring Meetings also seems to be aligned with this narrative. Nevertheless, some of the risks we have identified in our recent research are still present, putting the recovery in danger and making it “precarious”. First is the US trade dispute with China: while it seems that a deal is at hand, it has not been reached yet. Press reports suggest that China might be waiting to see if the US will launch another [offensive on Europe over trade in the auto sector](#) before signing anything. China knows that Trump cannot afford to open multiple fronts on trade, and so might be strategically delaying any deal to make it harder for Trump to lunch another offensive against it. Second, even the new USMCA trade deal has not been ratified yet, and the [threat of the US unilaterally withdrawing from NAFTA still exists](#). Third, the Chinese economy is stabilising thanks to policy stimulus, but new episodes of slowing activity are always possible if this stimulus proves insufficient. In Europe, Germany’s recovery is not fully secured yet, and [Italy seems on the verge of starting a new fight with Europe](#) over the introduction of further measures of fiscal easing (such as the introduction of the flat tax) it cannot afford. In the UK, Brexit has been postponed, but [lingering uncertainty continues to weigh on business investment and consumer spending](#). Thus far central banks have come to the rescue, making markets happy. There might be further room for this rally in risky asset prices to continue if the headwinds cited above dissipate over time. However [investors should be aware](#) that, if any of the risks mentioned above were to materialise, new risk-off episodes would be likely to occur in the months ahead.

#### **Our Recent Publications**

*BR* [Japan - Monetary and Fiscal Easing Space Is Available In A Downside Scenario](#), by Nouriel Roubini, 10 April 2019

*BR* [ECB Review: Assessing The Policy Stance, Ahead Of Further Possible Action](#), by Brunello Rosa, 10 April 2019

*BR* [ECB Is Mulling Reserve Tiering, But It Has Not Made Up Its Mind Yet](#), by Brunello Rosa, 8 April 2019

*BR* [Working Paper - Post Ambrosetti Forum Bullet Points on Europe](#), by B. Rosa and N. Roubini, 8 April 2019

*BR* [ECB Preview: Policy On Hold. No Tiering Yet And TLTRO Details To Be Decided Over Time](#), by B. Rosa and N. Roubini, 8 April 2019

Looking Ahead

The Week Ahead: The IMF Expects Further Growth Deceleration

**In the US**, the trade deficit is expected to widen (c: USD -53.7bn; p: USD-51.1bn).

**In China**, growth is likely to soften further (China GDP Q1, c: 6.3% y-o-y; p: 6.4).

**In the EZ**, inflation is expected to remain subdued (CPI Mar., c: 1.4%; p: 1.4).

The Quarter Ahead: Global Economy Will Continue To Decelerate, Trade Tensions To Remain High, While Geopolitical Tensions Rise

**The IMF cut its 2019 global growth forecast** from 3.5 to 3.3%—the weakest since 2009—driven by downwards revision in the US (a: 2.3%; p: 2.5%), EZ (a: 1.3%; p: 1.6%), and MENA (a: 1.3%; p: 2.2%). Globally, fiscal policy is unlikely to support growth: the IMF warned most governments about the “need to reduce debt, to create fiscal space to tackle the next downturn”.

**While US-China** officials signaled progress on an enforcement mechanism for the deal, trade tensions will continue to weigh on growth, as President Trump threatens to impose tariffs on USD 11bn of EU imports, as retaliation over the Airbus-Boeing dispute.

**In the US**, the Fed stated that policy rates “could shift in either direction, depending on the growth outlook”. The market-probability of a rate cut has decreased to 39% (p: 53%).

**In the UK**, the EU has extended the Brexit’s deadline until October 31. PM May’s position will likely come under further pressure as members of her party see the risk of “no Brexit” increasing.

**In China**, PBoC’s monetary policy will remain supportive despite the recent CPI rise, due to higher pork prices (March CPI inflation: a: 2.3%; c: 2.4%; p: 1.5%).

Last Week’s Review

Real Economy: Slower Growth Ahead, Declining Inflation, And Political Uncertainty.

**In the US**, core inflation declined (Core CPI Mar., a: 2.0% y-o-y; c: 2.1; p: 2.1) while headline inflation rose driven by rising oil prices (CPI Mar., a: 1.9% y-o-y; c: 1.8 p: 1.5).

**In Germany**, inflation remained below target (CPI Mar., a: 1.4% y-o-y; c: 1.4; p: 1.4).

**The ECB** left interest rates unchanged (p: 0%) and reiterated its commitment to keep monetary stimulus in place as long as risks remain tilted to the downside.

**In China**, the PBoC injected liquidity into the system, to support economic activity: in March, credit growth and money supply beat expectations (aggregate financing Mar., a: CNY2.86tn; c: 1.85tn; p: 0.7tn; M2 money supply Mar., a: 8.6%; c: 8.2; p: 8.0).

**In Turkey**, AKP—President Erdogan’s party—requested a new vote in Istanbul after a partial ballots recount confirmed CHP’s victory. If the request is approved, new elections will take place on June 2nd.

**In Algeria**, the appointment of A. Bensaleh as interim president fueled unrest, as protestors oppose a transition headed by insiders.

**In India**, the RBI cut its policy rate—by 25bps to 6%—for the second time in three months as a response to decelerating domestic and global activity.

Financial Markets: Stock Supported By US Bank Earnings And China’s Credit Data

Investor sentiment is being affected by macro risks, arising from: i) deteriorating growth; ii) difficult-to-read monetary policies; and iii) geopolitical uncertainties. DM stocks rose thanks to better-than-expected earnings in US banks and China’s credit growth.

**Global stocks w-o-w rose** (MSCI ACWI, +0.4%) led by the US (S&P 500, +0.5). Volatility fell (VIX S&P 500, -0.8 points to 12.0, 52w avg.: 16.2; 10y avg.: 17.6). **In the US**, after positive initial readings, Q1-2019 earnings are expected to decline for the first time since 2016, due to: a) base effect from the 2018 tax cuts; and b) a slowdown in activity.

**Fixed-income indices:** w-o-w, globally, indices registered moderate declines (BAML Global bond index, -0.1%), mostly in EMs (BAML EMs index, -0.8%). In one of the most oversubscribed debt offerings in history, Aramco issued USD12bn of bonds, with a bid-to-cover ratio above eight (~USD100bn in orders).

**Currencies:** the USD depreciated w-o-w (DXY, -0.4%) against DM (EUR/USD, +0.8% at 1.130; GBP/USD, +0.3% to 1.308) and EM currencies (MSCI EM currency index, +0.2%).

**Commodities:** Crude prices rose to a 5-month high, as supply is threatened by: i) outage risks in Libya; ii) OPEC production discipline; iii) lower US shale production growth; and iv) stronger demand prospects (Brent, +1.7% to 71.6 USD/b).

Farah Aladsani contributed to this Viewletter.

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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