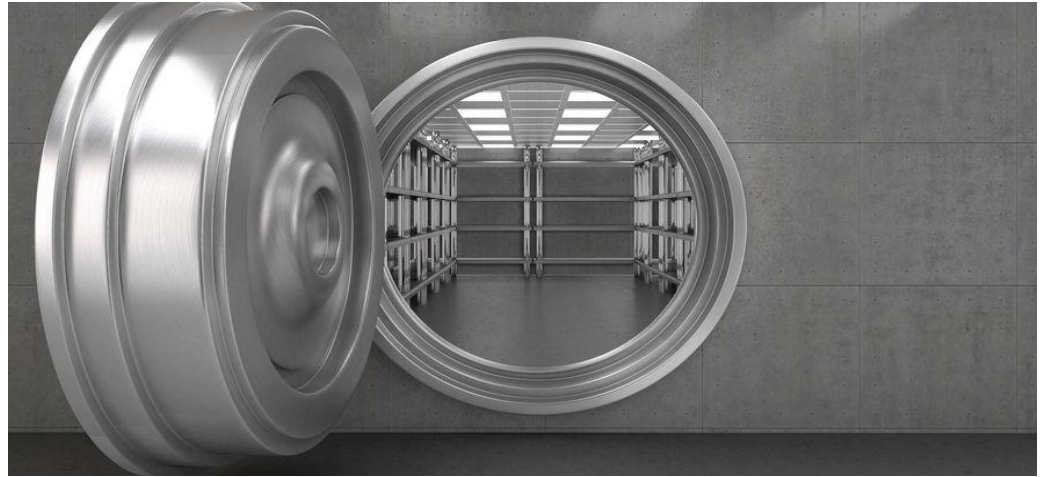


MAKING SENSE OF *THIS* WORLD

8 April 2019



R&R Weekly Column
By Brunello Rosa



G10 Central Banks Have All Turned Dovish Since The Fed's U-Turn – Except Norges Bank

Since the Fed's sudden U-turn at the [January 2019 FOMC meeting](#), when the institution led by Jay Powell delivered a surprisingly dovish statement suggesting that it could enter a prolonged pause in its tightening cycle, all of the G10 central banks have followed the Fed's lead, modifying their policy stances and becoming more dovish. The only exception to this has been Norway's Norges Bank.

Within the G4, the Bank of England, in coincidence the release of its February Inflation Report, mimicked the Fed by indicating its own shallower tightening cycle, with potentially longer intervals likely to take place between successive rate hikes. In any case, the BOE will have to wait for the result of [Brexit negotiations before doing anything](#). The ECB even overtook the Fed in terms of dovishness, in a sense. Instead of simply indicating that there will be a longer period before it can start increasing rates, it decided to [add policy stimulus](#) by modifying its forward guidance and announcing a new round of TLTROs. This week the [ECB will hold the April meeting of its Governing Council](#), which could shed more light on the details of its current policy stance. The decision to provide more policy stimulus moved the ECB closer to what [the BOJ's policy stance has been. The BOJ remains extremely accommodative](#) – and there is as yet no end in sight to such a stance, so long as core-core inflation remains this low.

Moving now to the smaller central banks in Europe, the Swiss National Bank (SNB) is the one that is most closely following the ECB. It [might have a hard time if more monetary stimulus is needed](#) to counter a new downturn. The [Danish National Bank shadows the ECB via the currency peg](#), and so far has not changed its policy stance. The Scandinavian central banks have been among the most hawkish recently. The Riksbank slotted in a rate hike in December ([somehow unexpectedly](#)), a hike which seemed to be ill-timed and is probably now regretted by the Executive Board. The SEK has remained weaker than it would have been in the past, but the renewed ECB accommodation might result in lower EUR/SEK, with an impact on inflation. The Riksbank has suggested that a new hike could come in H2 this year, but we see an increasing chance that this might not happen. As mentioned above, [Norges Bank is the most hawkish among G10 central banks](#) and is the only one that has not changed its stance towards a more dovish position. It recently delivered a rate hike and, in line with our view, indicated that more tightening is coming in H2.

Moving to Oceania, in February (following the Fed) [the RBA altered its policy stance and moved from a tightening bias to a neutral position](#), joining the RBNZ which had instead decided to stay put on that occasion. In March, the RBNZ altered its position in line with the Fed and indicated that [its next move is likely to be a rate cut](#). In our view, this move put pressure on the RBA to also shift the balance of risks of its neutral stance to the downside. Indeed this is what happened in April, when central bank governor Philip Lowe changed a few words of the policy statement accompanying the decision to keep rate unchanged, to suggest that [the RBA could be considering rate cuts much more closely than it has done so far](#).

The Fed's move has also had an impact on EM central banks. As we discussed in our recent [Strategic Asset Allocation update](#), the more dovish stance taken by the Fed opens up policy space for shallower tightening cycles or even rate cuts by central banks that are less concerned about their currencies weakening relative to the USD. The recent decision by the Reserve Bank of India to cut its policy rate from 6.25% to 6% (the second cut in three months) is an example of this already beginning to take place.

Our Recent Publications

 [Spain: Steady Economic Growth Threatened By Political Uncertainty](#), by Lapo Fioretti and Brunello Rosa
3 April 2019

 [EU-US Auto Trade Dispute: Negotiations Before A War](#)
by Alex Waters, Brunello Rosa, and Nouriel Roubini
2 April 2019



Looking Ahead

The Week Ahead: Global Growth To Be Revised Down, Lower Trade Tensions

With 70% of the world's economy decelerating, **the IMF is likely to downgrade global growth**—currently forecasted at 3.5% in 2019 and 3.6 in 2020—in its April release of the “World Economic Outlook”.

In the US, CPI is expected to remain subdued (c: 0.3% m-o-m; p: 0.2%; c: 1.8% y-o-y; p: 1.5%).

At this week's **ECB meeting** no policy changes are likely.

The Quarter Ahead: Decline In Trade Tensions

In the US, the administration will keep pressuring the Fed towards a more accommodative monetary policy stance. The market-probability of a) no Fed hikes in 2019 remains at 100%; and b) a rate cut has come down to 53% (p: 65%).

According to US and China officials “the trade deal is progressing”; President Trump branded the upcoming agreement as “very monumental”, but it might take a few weeks to crystallize.

In the EZ, following dovish comments by ECB officials, the markets are expecting the overall cost of the new round of TLTROs to settle below the main refinancing rate (median estimate: -20bps, including the “premium” granted for increased lending). The ECB will provide long-term TLTRO funds to credit institutions, to: *i*) stimulate bank lending to the real economy; and *ii*) provide banks with a reliable source to refinance around EUR 800bn of maturing liabilities.

In the UK, PM May will ask the EU for “an extension to the Brexit deadline, to break the logjam” in Parliament. If no agreement is reached, the UK could exit on April 12.

In Algeria, while President Bouteflika resigned after 20 years as president, protests are expected to continue as citizens demand a removal of “all elements of the previous regime”.

Last Week's Review

Real Economy: Growth And Inflation Remain Weak, Lower Geopolitical Uncertainties

In the US, weaker-than-expected consumption expenditures (retail sales Feb., a: -0.2% m-o-m; c: 0.3%; p: 0.7%) and manufacturing activity (in March, the Markit manufacturing PMI reached its lowest level since June 2016; a: 52.4; c: 52.5; p: 53.0) reinforced the Fed's view that the economy is decelerating. In the labour market, nonfarm payrolls rebounded, helped by improved weather conditions (nonfarm payroll Mar., a: 196k; c: 190k; p: 33k), but remain below the 2018 average (220k).

In the EZ, inflation dropped below expectations, to the lowest level in two years (CPI Mar., a: 1.4% y-o-y; c: 1.5%; p: 1.5).

In Turkey, the AKP-led alliance won the local elections with more than 50% of the votes (but 2% less than in the previous election); the opposition claimed victory in several large cities, such as Ankara and Istanbul. With no further elections until 2023, President Erdogan committed to focus on growth by “addressing the country's economic challenges”.

In EMs, the Fed's dovish stance allows for monetary easing. For example, **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. **In Turkey**, TRY volatility rose, as investors reacted to declining CBT reserves and lower TRY liquidity.

Financial Markets: Stock Prices Lifted By US Labour Data, Progress On US-China Deal

Better-than-expected US jobs data and progress on the US-China negotiations provided investors reassurance about an upcoming “Goldilocks era” of non-inflationary growth. Stocks posted their second consecutive weekly rise.

Global stocks w-o-w rose (MSCI ACWI, +2.1%) driven by the US (S&P 500, +2.1%) and the EZ (Euro Stoxx 50, +2.9%). Volatility fell (VIX S&P 500, -0.9 points to 12.8, 52w avg.: 16.3; 10y avg.: 17.7).

Fixed-income indices: w-o-w, the 10y UST yields rose (+9bps to 2.50%) as a result of an increased risk appetite. Most bond indices registered losses (BAML Global bond index, -0.3%), led by DMs (S&P Global DMs, -0.5%). Y-t-d, bonds issuance in MENA has reached USD33.2bn, 75% above its 2018 level (USD18.9bn, same period).

Currencies: the USD was flat w-o-w (DXY, 0.1%), with the EUR and GBP (EUR/USD, 0% at 1.121; GBP/USD, 0% to 1.304). EM currencies rose (MSCI EM currency index, +0.4%) on account of better-than-expected global liquidity conditions.

Commodities: crude prices rose to a 5-month high, driven by Opec supply cuts and rising tensions in Libya (Brent, +2.9% to 70.3 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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