



R&R Weekly Column
By Brunello Rosa



Major Central Banks Will Start Becoming More Accommodative This Week


This week, the long-awaited period in which G10 central banks start becoming more accommodative will begin, starting with the ECB's Governing Council meeting on Thursday. [As we wrote in our preview](#), the ECB will mostly just be laying the groundwork for more significant easing measures to be adopted in September, when a new set of staff forecasts will also be provided. It may, however, also give something of an appetizer in July, in terms of beginning the process of accommodation immediately to a certain extent. Currently markets remain buoyant about the arrival of Christine Lagarde at the helm of the ECB, as she is expected to provide continuity with Mario Draghi's era. Additionally, [press reports](#) revealed that the ECB is looking at the appropriateness of its official goal (to keep inflation "below, but close to 2%") to achieve its price-stability mandate. These reports suggest that a more "symmetrical" approach would provide less of a disinflationary bias and more headroom for an easier policy stance.


Similar thinking seems to be underway in the US, where the Fed (whose FOMC meets next week) appears to be on the verge of moving *de facto* to [some form of average inflation-targeting regime](#), suggesting that after a prolonged period of target under-shooting, monetary policy could be kept more accommodative than is justified by the stage of the business cycle alone, in order to make up at least part of the miss in the price level. As a result of these considerations, the [recent testimony by Chair Jay Powell](#) before the US Congress, and [a speech by the President of the New York Fed John Williams](#) (which [required an unusual clarification](#)), market expectations about the size of the rate cut in July have swung wildly in the last few weeks, between 25bps and 50bps. After this period of volatility in expectations (amounting to "confusion," according to some [press reports](#)), [they seem to have stabilised at 25bps](#). We will discuss all of this in greater detail in our upcoming preview for the FOMC meeting.

The same week as the Fed meeting, the BOJ and the BOE will also hold policy meetings. As discussed in our [recent overview of the policy stances of the G10 central banks](#), the BOJ could start making the first changes in its language as early as July, whereas the BOE will remain mostly reactive, with [the change in the British government and Brexit developments dominating the macroeconomic environment](#). Other G10 central banks, such as the [RBA](#), [RBNZ](#), and [BOC](#), have already acted or adjusted their rhetoric in response to these developments. But some other central banks, such as the [Riksbank](#), have expressed more caution, in consideration of the more limited easing space available to them. On the other side of the spectrum, [Norges Banks has, so far, remained fiercely hawkish](#).

G10 central banks tend to set the pattern for all other central banks in the developed world (e.g. in South Korea, the central bank cut its policy rate for the first time in three years), but also in Emerging Markets. An easier stance in the G10 reduces the pressure on EM central banks to keep rates high to sustain their currencies and contain inflation. A number of EM central banks have already cut rates in recent months as a result of this changed landscape, including in China, India, Russia, the Philippines, and Malaysia. Now the time seems ripe for even the embattled Central Bank of Turkey to cut rates, after [the defenestration of its Governor by President Erdogan](#). At its meeting on Thursday 25 July, the TCMB is expected to cut rates by a whopping 250bps, from 24% to 21.5%, in a supposed sign of normalisation after the defensive hikes it adopted at the height of the [Turkish Lira crisis during the summer of 2018](#).

Our Recent Publications

 [ECB PREVIEW: Getting Ready To Deliver More Easing In September](#), by Brunello Rosa, Alex Waters and Francesca Panelli, 19 July 2019

 [RUSSIA: Monetary Stabilisation, Economic Stagnation and Geopolitics Create A Mixed Political Picture](#), by Rémi Bourgeot and Brunello Rosa, 17 July 2019

 [Brexit and BoE Update: Brace For Political Turmoil In Coming Months](#), by Brunello Rosa and Nouriel Roubini, 12 July 2019

 [GEOPOLITICAL CORNER: The West's Folly In Libya May Come Back To Haunt It](#), by John Hulsman, 16 July 2019

Looking Ahead

The Week Ahead: Growth To Decline In The US And Recovery Of Durable Goods

In the US, GDP growth is likely show a decline in Q2-2019 (GDP annualized, c: 1.9%; p: 3.2%), while June's durable goods orders are expected in recovery (c: 0.5%; p: -1.3%).

In the EZ, ECB's refi and deposit rates are expected to remain unchanged (refi rate, c: 0.0%; p: 0.0%; Deposit rate, c: -0.4%; p: -0.4%).

The Quarter Ahead: Global Trade Tensions To Remain High

In the US, ahead of Fed's July meeting, market expectations of: i) "two rate cuts" remain at 22.5; and ii) "one rate cut" at 77.5. Were the ECB to signal asset purchases at its next meeting on July 25, the EUR will likely trade into 1.05-1.15 post-QE range.

China's government has been reducing its UST holdings at the fastest pace in two years – by USD 20.5bn, down to a total of USD1.12 trillion – and stated it "will not use its Treasury holdings as a weapon against the US in the trade war".

In the EZ, the economy's outlook is hindered by Germany, where the 'ZEW current situation index' turned negative in July, the first time since June 2010. In a rare win for free trade, EU members met with Mercosur bloc leaders to fast-track their trade deal.

In the UK, Brexit-driven uncertainties remain high, as David Lidington –UK Cabinet Office Minister– revealed the EU offered "to put Brexit on ice for 5 years, to come up with new deal for Europe" while Boris Johnson and Jeremy Hunt stated they "can secure a brand-new Brexit deal"

In Iran, risks of shipping disruption in the Strait of Hormuz are on the rise, as Iranian forces seized a British-flagged oil tanker. Iran's foreign minister stated, "the US is waging war against my country (...) as economic sanctions make civilians the primary targets" but added "Iran will never start a war" and all parties should work to avoid one.

In Turkey, following the delivery of the Russian S-400 air defense system, the US has removed the Turkish government from the F-35 fighter program. If enacted, sanctions would have a mild economic effect, but a significant impact on investor sentiment. The CBT is expected to cut the policy rate by 250bps in Q3-2019 and by 300-450bps in Q4.

Last Week's Review

Real Economy: Geopolitical Risks Hamper Global Supply Chains And Economic Activity

In the US, industrial production fell below expectations, and retail sales stalled (IP Jun., a: 0.0% m-o-m; c: 0.2%; p: 0.4%; Retail sales Jun., a: 0.4% m-o-m; c: 0.1%; p: 0.4%).

In China, Q2-2019 growth slowed down (GDP, a: 6.2% y-o-y; c: 6.2% p: 6.4%) but economic activity picked up in June (IP Jun., a: 6.3% y-o-y; c: 5.2%; p: 5.0; Retail sales Jun., a: 9.8% y-o-y; c: 8.3%; p: 8.6).

In the EZ, inflation rose slightly in June (CPI Jun., a: 1.3% y-o-y; c: 1.2%; p: 1.2%; core CPI, c: 0.8; p: 1.1).

In Turkey, after the dismissal of CBT Governor Cetinkaya, Fitch downgraded: i) the country's sovereign debt to BB-, with negative outlook; and ii) fourteen banks, citing risk of: 1) reduced independence and policy coherence; and 2) government intervention in the banking sector. Inflation remains flat in DMs.

In Japan, inflation stalled, remaining well below the BoJ's 2% target (National CPI Jun., a: 0.7% y-o-y; c: 0.7%; p: 0.7%; National core CPI, a: 0.5%; c: 0.6%; p: 0.5%). CBs continue to ease.

In South Korea, for the first time in three years the CB cut its policy rate (a: 1.50%; p: 1.75%) to support a faltering economy, at risk from a: i) trade dispute with Japan; ii) tech sector downturn; and iii) property market slowdown.

Financial Markets: Expectations Of Fed And ECB Easing Strengthens Fixed Income

Market drivers: market expectations of Fed and ECB easing to cushion downside risks improved bond investor sentiment.

Stocks: w-o-w, global stocks fell (MSCI ACWI, -0.6%). Volatility rose (VIX S&P 500, +2.1 points to 14.5, 52w avg.: 16.4; 10y avg.: 17.2) Equity markets fell in the US (S&P 500, -1.2%) and EZ (Eurostoxx, -0.5%).

Bonds: w-o-w, globally, indices rose (BAML Global bond index, +0.5%).

FX: the USD appreciated (DXY, +0.4%) against a basket of currencies, despite widespread expectations of an imminent rate cut. EM FX rose (MSCI EMs, +0.2% at 1,655). Concerns about a no-deal Brexit weighed on GBP, as it depreciated by 0.6% to 1.25, towards its post-referendum low. Going forward, escalations of US-China trade tensions could trigger CNY volatility and spillover onto other EM FX.

Commodities: Oil prices fell, the largest weekly decline since May, amid slowing growth prospects and fears of oversupply (Brent, -6.4% to 62.5 USD/b). Gold continued its rally (+0.7% to 1,425 USD/Oz.).



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



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