



R&R Weekly Column
By Brunello Rosa



In this Hot Summer Season, Policy Events Are in Full Swing

In spite of the hot weather and the summer holiday season, policy events are in full swing. In the US, the traditional summer meeting of central bankers in Jackson Hole was closely watched, observers attempting to detect signs that would indicate whether the Fed's insurance cuts could become the beginning of a more prolonged and deeper easing cycle. The words of the Fed's Chair Jerome Powell were scrutinised, the prevailing impression of them being that Powell remained cautious about providing precise indications as to what the Fed would do [in September and beyond](#). [President Trump](#), considering these words not dovish enough, even asked on Twitter, "who is our bigger enemy, Jay Powell or Chairman Xi?".

This question was motivated by the intensification of the trade war between the US and China, with China first announcing tariffs on USD 75bn of imports from the US (itself a retaliation to Trump's decision to [impose additional tariffs starting from September 1st](#)), to which the US responded with a further retaliation. [President Trump tweeted](#) that tariffs on the USD 250 billion of imports already in place would be raised to 30% from 25% on October 1, and that the remaining USD 300 billion of imports set to become effective on September 1st would be taxed at 15%, rather than 10% as had initially been announced.


Another front of the [many US confrontations now taking place is Iran](#). On this front, there might be marginally positive news coming from the recently concluded G7 meeting in Biarritz. [Iran's Foreign Minister Javad Zarif was invited to the side-lines of that meeting](#). Though President Trump did not meet with Zarif, we can consider it positive news that a channel of communication was opened between the two sides (thanks to French President Macron, who organised the meeting).

Other items on the agenda of the G7 meeting besides trade wars and tension with Iran included the digital tax that Macron wants to impose on US tech giants in France, and emergency measures to combat the fires in the Amazon forest. The Amazon represents another very sensitive front in international relations, of course. Brazil's President Jair Bolsonaro is insisting that Brazil's portion of the rainforest belongs unequivocally to Brazil – but the rest of the world is claiming that the forest is the "global lungs".

Around the table in Biarritz there were key players in two other critical political developments that were cited by Powell as global risks; namely, "the collapse of the Italian government and Brexit". Italy's PM Conte – [who resigned last week](#) – is waiting to see whether he will be reconfirmed as prime minister in a new coalition government between Five Star and the Democratic Party. Italy's President Mattarella will hold a second round of consultations on Tuesday and Wednesday this week. If at the end of this round the possibility of forming a new government is not clear, the President will dissolve parliament to hold early elections, which will most likely take place on November 3rd or November 10th.

UK PM Boris Johnson made his debut at the G7 in Biarritz meanwhile, and there had the chance to meet again with French President Macron and German Chancellor Merkel, together with EU President Donald Tusk. Johnson re-affirmed his tough stance on Brexit, threatening not to pay the GBP 39bn Theresa May had pledged to pay as part of the Withdrawal Agreement. He is facing a tough return to Britain. When parliament re-opens, he will have to face a no-confidence vote, which could bring down his newly formed government and allow for the formation of a caretaker government that would postpone Brexit and prevent a no-deal scenario from materialising. In response to this threat, Johnson has [asked legal advice on whether he can shut down](#) parliament (or, technically speaking obtain a "prorogation") for five weeks, so as to make sure that no-deal Brexit cannot be blocked by parliament. The EU partners have given the UK the onus to come back to the negotiating table within 30 days with examples of "alternative arrangements" to the Irish backstop, for a deal to be signed. We are clearly going to have to wait until the last moment to find out whether or not a deal is reached.

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Looking Ahead

The Week Ahead: US Inflation and Italy's Government Formation

In Italy, the center-left 'Democrats' and the anti-establishment 'Five Star Movement' have until August 27 to form a new parliamentary coalition, or the country will face snap elections.

In the US, inflation is expected to remain flat (Core PCE Jul., c: 1.6% y-o-y; p: 1.6).

The Quarter Ahead: Geopolitical Tensions Escalate, Hampering Global Growth

Following **Beijing's move** to place "additional tariffs of 5-10% on USD 75bn of imports", **the US** will: i) raise from 25 to 30% tariffs already in place on USD 250bn of Chinese goods, as of October 1; and ii) increase from 10 to 15% planned tariffs on another USD 300bn worth of imports, as of September 1. After these moves, negotiators are unlikely to meet next month, delaying the prospect of a trade resolution. Importantly, the **US-China trade-dispute** is exposing the global economy to the risk of stagflationary shocks: prices of imports are likely to rise, while the output is likely to be reduced by the disruption of global supply chains.

In Hong Kong, political anti-government protests have entered their 12th consecutive week. Protestors were sparked by Chief Executive Carrie Lam's plan to introduce a law allowing extradition to foreign countries, including China.

In the US, at the Fed's Jackson Hole annual CB symposium, Chairman Jerome Powell signaled that "more rate cuts are possible", as "the US is in a favorable place, but faces significant risks, such as trade policy uncertainty" - which adds to: i) the ongoing global economic slowdown; and ii) weak manufacturing and capital spending in the US. Market expectations for "one rate cut" at the Fed's September reached 95% (p: 78.8), with the remaining 5% is anticipating a 50-bps cut (i.e.: "two rate cuts" of 25 bps each).

Last Week's Review

Real Economy: Manufacturing Continues To Soften While Geopolitical Risks Keep Rising

On August 24-26, the **G7 leaders' summit** was held in France; President Macron proposed an agenda based on issues such as climate change and inequality, but the global economy and trade attracted most of the attention. President Macron tried to preserve the '2015 nuclear deal with Iran', by proposing to allow Iran to export oil for a limited period of time.

In the US, business activity in the manufacturing sector declined into contractionary territory, against expectations (Markit Manuf. PMI Aug., a: 49.9; c: 50.5; p: 50.4).

In the EZ, manufacturing remains weak as PMI indicators entered their 7th month of contraction (Markit Manuf. PMI Aug., a: 47.0; c: 46.3; p: 46.5). The headline German composite PMI—which also covers services—rose above expectations (a: 51.4; c: 50.5; p: 50.9), but the outlook for German manufacturing remains weak, with PMIs well below the 50-benchmark (Markit Manuf. PMI, a: 43.6; c: 43.0; p: 43.2).

In Japan, manufacturing activity is expected to contract for a 4th consecutive month (Nikkei Manuf. PMI Aug., a: 49.5; c: 49.8; p: 49.4). Inflation decelerated **in the EZ** (CPI Jul., a: 1.0% y-o-y; c: 1.1%; p: 1.3; Core CPI, a: 0.9% y-o-y; c: 0.9; p: 1.1) and **in Japan** (National CPI Jul., a: 0.5% y-o-y; c: 0.5; p: 0.7).

In Indonesia, the CB unexpectedly delivered a second rate cut as a "preemptive measure to push the economic growth momentum" (a: 5.5%; c: 5.75; p: 5.75).

Financial Markets: Escalating Trade Tensions Hit Most Asset Classes

Market drivers: Equity markets fell after: i) China's tariff announcement; ii) Fed Chair Powell's speech at Jackson Hole; and, above all iii) President Trump's escalation in trade tensions.

Stocks: w-o-w, global stocks fell (MSCI ACWI, -0.5%) driven by the US (S&P500, -1.4% to 2,847). Volatility rose above historical averages (VIX S&P 500, +1.4 points to 19.9, 52w avg.: 16.8; 10y avg.: 17.1).

Bonds: w-o-w, global indices remained flat (BAML Global bond index, -0.1%). The 10y UST yield remained low, at 1.5%. Across Europe, negative yields are starting to take a toll on demand: Germany's latest bond auction of '30y zero-coupon bund', yielding -0.11%, failed to reach its EUR 2bn target.

FX: the USD weakened against a basket of currencies (DXY, -0.5% to 97.650). Both the EUR and the GBP strengthened (EUR/USD, 0.5% to 1.114; GBP/USD, 0.9% to 1.228).

Commodities: Brent prices rose (Brent, 1.2% to 59.3 USD/b) while WTI crude fell (-1.3% to 54.2) as China—for the first time—announced tariffs on US oil. Gold rose (0.8% to 1,526 USD/Oz.).



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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	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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