



R&R Weekly Column
By Brunello Rosa



WTO Opens Up A European Front In The Trade Wars

Following a number of warning signals, a European front in the global trade wars has now been opened by the World Trade Organisation (WTO). In a recent ruling on a 15-year old dispute, [the WTO ruled](#) that the US is authorised to apply tariffs worth USD 7.5 billion annually on the UK, France, Germany, and Spain (the “Airbus nations”), as well as on the wider EU, as a compensation for the subsidies that the EU has allegedly given to Airbus, providing the company with an unfair advantage against its US rival Boeing. Similarly, [in a separate ruling that is expected in the months ahead](#), the EU is likely to be authorised to impose tariffs (likely billions of dollars worth) on EU imports of US goods, due to the subsidies that the US government has provided to Boeing. This could mark the beginning of a tit-for-tat escalation between the EU and US, which could prove damaging for both sides.

Ironically, it is the WTO, an international body devoted to the resolution of trade disputes, that is risking opening this new front in the ongoing international trade wars. [As discussed in our previous analysis](#), US President Trump has opened a number of fronts for his country’s trade wars: he began by withdrawing the US from the TPP, then continued with a worldwide tariff increase on steel and aluminum (even imposing such tariffs on its close allies Canada, Europe and Japan, albeit with selective exemptions), then moved to the re-write of NAFTA with [Canada](#) and [Mexico](#), and finally finished *in style* [with China](#), subjecting it to several rounds of tariff increases as well as technological disputes. When it seemed that on the Chinese front a deal could finally be reached, Trump was ready to wage war to Europe and the European car industry. The procrastination of the negotiations with the Chinese therefore meant that this European leg of the dispute has repeatedly been postponed. Now, however, the European front is officially open.

The [list of goods impacted as a result is very large](#): [French wine, Italian cheese and olives, whisky, and cashmere sweaters, among other items](#). This cannot be good for Europe: its economy is already in stagnation, with some of its largest economies (such as [Germany](#) and [Italy](#)) flirting with a recession. In particular, while [France](#) and Germany have at least benefited from the positive impact of the aerospace industry to their economies, Italy, which does not belong to the Airbus consortium, would be hit by new tariffs without ever having directly or greatly benefited from the subsidies the company is alleged to have received.

Neither will the US economy remain immune from the expected counter-ruling by the WTO, nor from any retaliatory tariffs that the EU might decide to implement. The American economy is decelerating as the effects of tax cuts are fading out, and [the Fed is not following Trump’s game](#) of forcing the central bank to provide monetary stimulus as an (imperfect) offset of the tariffs on various countries that the US government has imposed.

This new European chapter of the American trade war is unlikely to have a happy ending, especially as the most likely outcome for the US-China front of the trade war is not a fully-fledged deal or a total breakdown in negotiations, but rather a [continuation of the “controlled escalation” that has been taking place](#). Unfortunately, the world economy will have to deal with the effects of these disputes for years to come, forcing policy makers to provide fiscal and monetary stimulus, and [keeping markets unnecessarily volatile](#).

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Looking Ahead

The Week Ahead: German Manufacturing Picks Up And Inflation Remains Below Target In US And Germany

In the US, inflation is likely to remain unchanged (CPI Sep., c: 1.7%; p: 1.7%), below the Fed's 2% target. US-China trade negotiators will meet in Washington for the 13th round of high-level negotiations.

In the EZ, German factory orders (Aug., c: -4.6% y-o-y; p: -5.6%) and IP (Aug., c: -2.7% y-o-y; p: -4.2%) are expected to improve, while remaining in contractionary territory. German inflation is expected to slightly rise (CPI Sep., c: 1.7% y-o-y; p: 1.4%).

In China, the services sector is expected to strengthen (Caixin Services PMI Sep., c: 52.9; p: 52.1).

The Quarter Ahead: Global Growth To Slow, Trade Tensions And Brexit Risks To Remain Elevated, Potential Impeachment Of Trump

The global economy is likely to weaken further, hampered by: *i*) the prolonged contraction in manufacturing, due to the unpredictability of trade disputes; *ii*) reduced consumer spending and, as a result, deferred orders; *iii*) capital flow volatility; *iv*) rising geopolitical risks.

In the US, business activity is likely to suffer a weak manufacturing sector. The Trump administration will implement tariffs on USD 7.5bn of imports from the EU following a WTO decision authorizing tariffs "due to EU subsidies of Airbus". House committees conducting the investigation for President's Trump impeachment will schedule hearings and subpoena documents, but the Trump administration is unlikely to cooperate. On October 15, the House, currently in recess, will be back in session and the Democratic presidential candidates will hold a debate. The market probability of a Fed cut in December stands at 89% (p: 69%).

In the UK, talks will resume after the EU put Brexit negotiations on hold over the Irish border, as "the UK proposed alternative to the Irish backstop creates a customs border and hence cannot not be the basis for a legally-binding treaty". PM Boris Johnson emphasized "the only options are a 'new deal' or 'no deal'".

In the EU, the ECB launched a new lending benchmark called €STR – intended to replace Eonia – a daily reference rate that reflects "unsecured" overnight lending between EU banks – which prices about EUR 24tn (USD 26.3tn) of derivatives deals. The ECB set the €STR rate at -0.549%.

Last Week's Review

Real Economy: Global Economic Outlook Keeps Deteriorating, Market Sentiment Remains Fragile

In the US, *i*) the manufacturing sector suffered a stronger-than-expected contraction (ISM manuf. PMI Sep., a: 47.8; c: 50.1; p: 49.1); and *ii*) the services sector grew at its slowest pace in three years (ISM non-manuf. Sep., a: 52.6; c: 55.0; p: 56.4). Labour market data were mixed: *i*) payrolls grew below-consensus, at a decelerating pace (Nonfarm Payrolls Sep., a: 136K; c: 145K; p: 168K); *ii*) the unemployment rate fell to 3.5% (p: 3.7%); while *iii*) earnings declined (Avg. hourly earnings, a: 2.9% y-o-y; c: 3.2; p: 3.2), hampering the outlook for US consumption. House Speaker Pelosi (D.) formally launched an impeachment inquiry aimed at President Trump's July 25 phone call with Ukrainian President Zelensky.

In the EZ, inflation was weaker-than-expected (CPI Sep., a: 0.9% y-o-y; c: 1.0%; p: 1.0%) – remaining below the ECB's 2% target. The EZ composite PMI – an aggregate measure of manufacturing and services – fell to the lowest level in six years (Markit PMI Composite Sep., a: 50.1; c: 50.4; p: 50.4).

In Japan, IP contracted more-than-expected (IP Aug., a: -4.7% y-o-y; c: -1.8%; p: 0.7%).

In Turkey, inflation decelerated below-consensus into single-digits (CPI Sep., a: 9.3% y-o-y; c: 15.5%; p: 15.0%), despite a stronger-than-expected monetary easing. CBs continue to ease.

In Australia, the RBA cut as expected its key policy rate by 25bps to 0.75% (p: 1.00%), and signaled more easing ahead.

In India, RBI cut its interest rate by 25bps (a: 5.15%; c: 5.15; p: 5.40).

Financial Markets: Jitteriness And Risk-Off Sentiment Hampered Stocks And Supported Bonds

Market drivers: Rising recession odds, US-EU trade tensions after the WTO ruling and a string of disappointing US data increased market jitteriness.

Stocks: w-o-w, global equity indices fell (MSCI ACWI, -0.9% to 515) driven by both DMs (S&P500, -0.3% to 2,952) and EMs (MSCI EMs, -0.5% to 997). Volatility fell (VIX S&P 500, -0.2 points to 17.0, 52w avg.: 17.3; 10y avg.: 17.0).

Bonds: w-o-w, global indices rose (BAML Global bond index, +0.4%).

FX: w-o-w, the USD weakened against a basket of currencies (DXY, -0.3% to 98.808), the EUR (EUR/USD, +0.3 to 1.098) and the GBP (GBP/USD, +0.4% to 1.233); EM FX rose (MSCI EMs, +0.3% at 1,615), while the Turkish lira remained stable (USD/TRY, -0.4% to 5.695).

Commodities: Oil prices fell below USD 60 (Brent, -5.7% to 58.4 USD/b) as Saudi Arabia restored production. Gold prices rose.



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The picture in the front page comes from [this website](https://www.gettyimages.com/detail/photo/young-woman-looking-outside-her-window-royalty-free-image)

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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