

# Macro Weekly

Group Economics

9 August 2019

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## China and the US are fighting, Europe is hurting

- **Expect tit-for-tat trade war to continue**
- **Eurozone industrial sector remains under pressure**
- **Asian trade stabilising before most recent escalation trade conflict**
- **We have lowered our growth forecasts by a few tenths in a number of countries**

The most recent escalation of the US-China trade conflict has taken at least me by surprise. I thought president Trump would keep his voice down for the time being in order not to create more uncertainty for the global economy at a time when the manufacturing sector is in recession in so many countries. Perhaps this cannot be said of US manufacturing, but at a growth rate of 0.4% yoy in June -0.5% year-to-date, it can hardly be argued the sector is buoyant. I was wrong (not for the first time about the trade conflict) and Trump has increased pressure on the Chinese. The Chinese response suggests they are not going to give in to president Trump as they allowed the currency to break 7 yuan to the dollar and they announced that they would import less, not more agricultural produce from the US. The American response was immediate and they labelled China a currency manipulator even though China does not seem to meet the criteria the US sets for such a label.

### US: Markit PMI composite

Index, 50=neutral



Source: Thomson Reuters Datastream

It is hard to see either side making any meaningful concession any time soon as neither side can do so without losing face. The Chinese feel totally justified in what they are doing as they see their retaliation as a response to unfair measures taken by the US since early

2018. The Americans feel justified taking on the Chinese for their unfair practices during the last couple of decades.

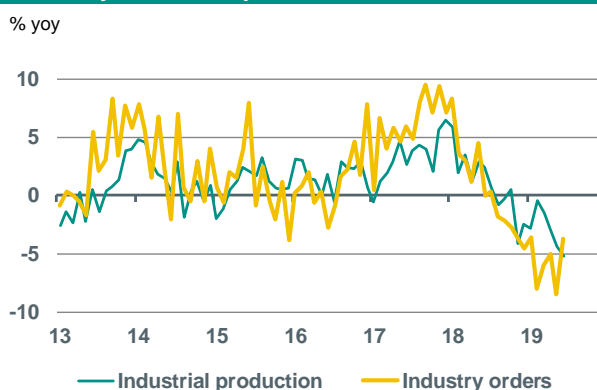
The biggest damage the trade conflict has on the global economy is through the uncertainty it creates and the effect that has on business sentiment. Should both sides hold their fire, I think businesses would get used to the situation, decide that life goes on and that they needed to re-activate investment plans. But every new round of measures scares the hell out of businesses and keeps them in their wait-and-see attitude.

As we now expect more skirmishes, we have further lowered our already below-consensus growth forecasts for the US and the eurozone in 2020.

### Europe is hurting

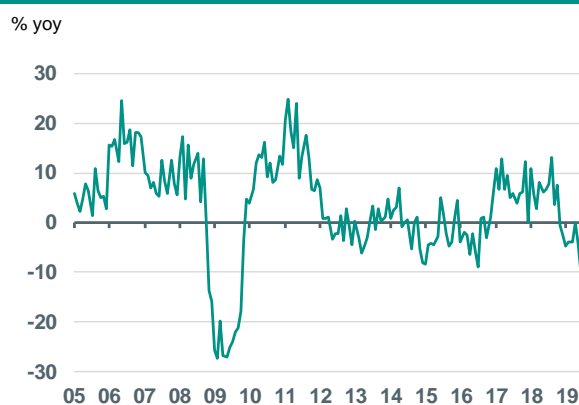
The industrial sector in the eurozone is in a bad way, particularly in Germany. The dominance of the car and machinery industry has meant that the German industrial sector is sensitive of the global slowdown of investment spending and car purchases, on top of specific problems for the car industry related to Dieselgate. German industrial production fell 1.5% mom in June and was down 5.2% yoy, after -3.7% in May. That was the worst reading since 2009 and, thus, worse than the Eurozone second-dip recession around 2012. German factory orders did better as they rose 2.5% mom in June. The yoy rate improved from an appalling -8.4% to -3.7%. It must be said, however, that the improvement in orders was not broadly based, but seems to have been helped by a small number of lumpy items.

Germany: Industrial production and - orders



Source: Bloomberg

Netherlands: Industrial sales



Source: Bloomberg

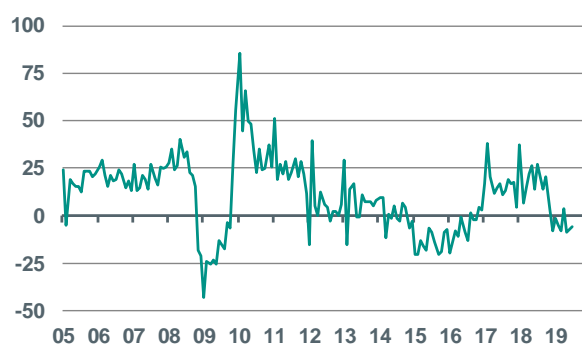
French industrial production is less sensitive to the woes of world trade. However, in France, too, June industrial production data disappointed. Manufacturing production was down 2.2% mom and down 0.6% yoy, much worse than May's +3.3% yoy. The Dutch industrial sector is strongly linked to Germany. Dutch June manufacturing output contracted by 0.8% mom and was down 2.2% yoy. The Dutch statisticians also publish a series 'industrial sales'. The June reading was grim: -10.2% yoy against -4.2% yoy in May. The June reading was the poorest monthly yoy reading since 2009.

### Asian trade stabilising

Chinese imports (in USD) were down 5.6% yoy in July after -7.4% yoy in June. The July reading was met with relief as economists had expected a greater yoy fall. Bear in mind, this data can be volatile. The July reading was not great, but at least the data is suggesting things aren't getting an awful lot worse either. The caveat here is that this data is about the period before the latest escalation of the trade war. Chinese imports from the US remain under huge pressure. The value of American products imported by China was down 19.1% yoy (in USD). If you think that sounds bad, remember that the average for the year is actually -28%, so the July number may perhaps be called promising... Imports from other countries were obviously better on average, but imports from many other trade partners were also down, suggesting that it is not only import tariffs that is limiting Chinese imports. Imports from the EU were down 3.3% yoy, those from Korea were down 20.1%, from Japan 13.0% and from Taiwan 6.8%. Of the large trade partners, only imports from ASEAN countries were up mom: 0.4% in July.

#### China imports

% yoy



Source: Bloomberg

#### Taiwan exports

% yoy



Source: Bloomberg

Taiwan's trade statistics also allow for an analysis of what is going on with world trade. In this case, I tend to look more at exports than at imports. Taiwan's exports were down 0.5% yoy in July, slightly better than the average for the year so far: -3.1%. Interestingly, Taiwan's exports to the US are up 21.7 yoy in July and 18.7% ytd. This means that either US firms are shifting from Chinese suppliers to Taiwanese ones or that Chinese exporters are finding a way to avoid US tariffs by going through Taiwan.

As mentioned above, a big caveat beside these trade numbers is that they all relate to before the latest escalation of the trade conflict. We will have to wait and see what happens after. We, for one, are not waiting for the data to adjust our global growth forecast and have taken a few tenths off forecasts. However, we continue to think that recessions with a material contraction in output and a material rise in unemployment in key economies is unlikely before the end of our forecast period out to the end of 2020.

Main economic/financial forecasts										
GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	01/08/2019	08/08/2019	+3M	2019e	2020e
United States	2.4	2.9	2.2 ↓	1.3	United States	2.29	2.18 ↓	2.00 ↓	1.43 ↓	1.55
Eurozone	2.6	1.9 ↑	0.8 ↓	0.6	Eurozone	-0.38	-0.39 ↓	-0.45 ↓	-0.55 ↓	-0.55
Japan	1.9	0.8	0.7	0.3	Japan	0.07	0.07	-0.10	-0.10	-0.10
United Kingdom	1.8	1.4	1.2	1.2	United Kingdom	0.77	0.77	0.80	0.80	0.80
China	6.9	6.6	6.2	5.8						
World	3.8	3.5	2.9	3.0						
Inflation (%)	2017	2018	2019e	2020e	10Y interest rate	01/08/2019	08/08/2019	+3M	2019e	2020e
United States	2.1	2.4	1.8	2.0	US Treasury	1.89	1.72 ↓	1.6 ↓	1.50 ↓	1.50
Eurozone	1.5	1.7	1.1	1.0	German Bund	-0.45	-0.56 ↓	-0.8 ↓	-0.80 ↓	-0.80
Japan	0.5	0.9	1.1	1.6	Euro swap rate	-0.02	-0.14	0.3	0.20	0.35
United Kingdom	2.7	2.5 ↑	1.9	1.8	Japanese gov. bonds	-0.13	-0.19	-0.1	-0.10	0.00
China	1.6	2.1	2.5	2.5	UK gilts	0.59	0.52 ↓	0.3 ↓	0.30 ↓	0.30
World	3.0	3.4	3.9	3.4						
Key policy rate	30/08/2019	+3M	2019e	2020e	Currencies	01/08/2019	08/08/2019	+3M	2019e	2020e
Federal Reserve	2.25 ↓	2.00 ↓	1.50 ↓	1.50	EUR/USD	1.11	1.12	1.12	1.12 ↓	1.15
European Central Bank	-0.40	-0.50 ↓	-0.60	-0.60	USD/JPY	107.3	106.1 ↑	105 ↑	104 ↑	100
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.21	1.21	1.24	1.24 ↓	1.30
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.91	0.92	0.90	0.90 ↑	0.88
People's Bank of China	4.35	4.10	4.10	3.85	USD/CNY	6.90	7.05 ↑	7.10 ↑	7.20 ↑	7.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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