

# Macro Weekly

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## Lagarde, Johnson, Trump

- ▶ **Lagarde comfortable, hints at stabilisation**
- ▶ **Johnson wins a significant majority, Brexit is coming**
- ▶ **US-China phase 1 deal agreed**
- ▶ **Cyclical indicators improving, suggesting a better 2020**
- ▶ **Goodbye**

ECB president Christine Lagarde was comfortable in her new role. Nobody had expected a change in the ECB's monetary policy, but everybody was interested to see how she would handle the press conference following her first meeting in charge of the Governing Council. She did well, very well. The ECB will start a review process of its monetary policy. The outcome of that process could be a year away. But that is OK.

A remarkable phrase of her's was that risks to growth are 'somewhat less pronounced'. That is a different tone from her predecessor. Lagarde also said that ECB watchers should not pour over her every word. She warned against overinterpreting what she might say. So I need to be careful here. Perhaps Lagarde made a beginner's mistake by sounding fractionally more upbeat than her predecessor on the economic outlook, just by accident. Perhaps she did not intend to say that at all. I remember Ben Bernanke making an ill-advised, throw-away comment to a journalist at a dinner soon after he had taken charge of the Fed. That remark made the headlines and led to volatility in financial markets. At the risk of overinterpreting Lagarde's words, I say she is right. Of course, the eurozone economy has weakened and a spectacular strengthening of growth momentum is unlikely, certainly in the short term. However, various cyclical indicators, not just in the eurozone, are turning up. This development is still fresh and therefore vulnerable, but it is happening along a sufficiently wide range of countries and indicators to believe things will improve in the course of 2020. In addition, it is not difficult to build a powerful narrative why things should improve in the global economy and therefore also in Europe. I explained all that two weeks ago. ([Weekly 22 November – More good news than bad news](#))

## Brexit is coming

The Conservative Party won a significant overall majority in the UK's general elections. For those who had hoped for a second referendum and for the UK eventually staying in the EU the outcome is a disappointment. At least it creates clarity: Brexit means Brexit. Boris Johnson will take the UK out of the EU. Presumably, the UK will officially leave at the end of January, or possibly sooner. The actual date will not matter very much as there will be a transition period in which nothing will change from a practical point of view. The transition period ends at the end of 2020 according to the Withdrawal Agreement, but can be extended. During the transition period the details of the new economic relationship of the UK with the EU will be negotiated. A one year period for a comprehensive agreement looks tight. As it is in nobody's interest to let the UK crash out without a new deal, we must assume that the transition period will be extended if needed.

An interesting aspect of the election result is that the Prime Minister has such a large majority he does not rely on the hardest Brexiteers. There is, thus, a chance, that the new arrangement will actually constitute a relatively soft Brexit. It is time for the PM to listen to the business community. The big unknown here is that there are many new Tory MPs and they are an unknown quantity.

### Phase 1 deal in US-China conflict

The US and China have, allegedly, reached a so called 'Phase 1' deal. The agreement still has to be written into law so we are not there yet, but still. Under the terms of the deal China will significantly increase its purchases of agricultural produce. Let's see how that goes. The swine flu has sharply reduced the pig population, so I would think China needs a lot less pig food, but we will see. In addition, the Chinese will step up their actions to prevent intellectual-property theft of American companies. The Americans will not introduce new levies that were planned for 15 December and there is talk of the possibility that tariffs already imposed will be reduced. However, there is criticism now both from Republican ranks as well as from Democrats that president Trump will give away a strong leverage if tariffs are reduced. The fact that a deal has been reached is good news as it reduces uncertainty. A reduction of already imposed tariffs would be a bonus to the world economy in my opinion. Many commentators argue that the uncertainty is more important than the tariffs themselves. That may be the case, but it doesn't mean that the tariffs themselves aren't damaging.

### Data painting a positive picture

Recently released data confirms the view that the global economy is weak but is set to gain momentum in the course of 2020. Eurozone industrial production shrank 0.5% mom in October, after a fall of 0.1% in September. On a yoy basis production was down 2.2%, worse than September's -1.8%. This data was not a surprise as we had already seen several national data and particularly the weak German data. The -2.2% yoy for October was also not out of line with the data seen in recent months.

#### Eurozone: industrial production

% yoy



Source: Bloomberg

#### Germany: ZEW index

Index



Source: Bloomberg

On a more positive note, the ZEW index (a measure of confidence among analysts) for the eurozone improved from -1.0 in November to +11.2 in December, continuing the upward trajectory that started in September. This gauge is now at its highest level since early 2018. The expectations component of the ZEW index for Germany made a similar jump: 10.7, versus -2.1. The 'current conditions' component also improved, but much less impressively: -19.9 versus -24.7. The difference between the two components underscores that the actual economic situation is still precarious, but that the future is brightening up.

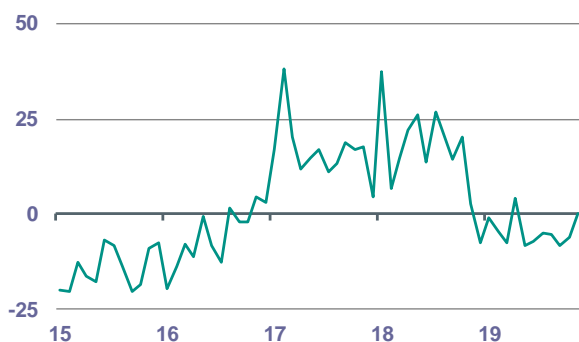
Another important positive in Germany was the data on international trade for October. The value of exports was up 1.2% mom, following September's 1.5% mom rise. Import values were unchanged on the month. October exports were up 2.0% yoy, the strongest in quite a while. In real terms, exports were up 1.3% mom in October and September, while imports grew at a rate of 0.2% mom in October and 0.5% mom in September. This is all good news. The German economy is relatively open and German industry is very dependent on exports. The gap between the growth rates of exports and imports is also relevant for GDP growth. As exports grow faster than imports (and from a higher base) this will provide support to overall GDP growth. As domestic demand growth may weaken in the period ahead, this may not lead to strong overall growth data, but at least it is a move in a more favourable direction. The international trade sector actually provided a small negative contribution (-0.1%) to German GDP growth in Q3. Overall German GDP growth in Q3 was confirmed at +0.2% qoq. The surprise in the data was the strong 0.3% contribution from private consumption. There may be 'pay back' for this in Q4, but better net exports may provide some compensation.

### Asian trade data also encouraging

Chinese trade data is also improving, albeit from depressed levels. I concentrate on Chinese imports as the growth rate of Chinese imports shows the opportunities for other countries. Imports (in USD) were up 0.3% yoy in November. That does not sound like a lot, but they have been down yoy for a year, apart from a now funny looking spike in April. The November reading was significantly better than October's -6.4%. There is a lot of volatility in this data, so one must be cautious interpreting the data. In addition, China is a strategic buyer of commodities and they appear to have been building up oil inventories lately, which may have boosted imports. So it could be that the November data is overly flattering. But a geographical breakdown suggests that imports are strengthening across almost all countries. Import growth was particularly strong from Taiwan and ASEAN countries. One month of data does not constitute a trend, but the data is encouraging nonetheless and it fits the narrative.

#### China: imports

% yoy



Source: Bloomberg

#### Taiwan: exports

% yoy



Source: Bloomberg

On the flip side, Taiwan's export data was strong for November. Exports were up 3.3% yoy, after October 1.5% yoy drop. Exports to China matter very much to Taiwan. These account for 30% of all Taiwanese exports, and including Hong Kong it is even 42%. According to Taiwanese statisticians, exports to China & Hong Kong were up 8.0% yoy, the strongest in a long time. This may be partly due to a base effect, but still...

### Goodbye

This is the last weekly comment I will write as Chief Economist of ABN AMRO. I have produced weekly macro commentaries for over 15 years, but I am leaving the bank at the end of the year. I have worked for ABN AMRO for some 31 years in total, interrupted by a four year stint as Chief Economist at Goodbody Stockbrokers in Dublin. It has been a

fantastic time for me and I have enjoyed writing this commentary. I would like to thank the readers and I hope it has been useful for you. I owe special thanks to readers who have responded, asked questions, provided their own commentary or outright disagreed. Special thanks also to Wilma Schelvis who has always assisted me and who have done more work for me than I could have expected.

Sandra Philippen is my successor (she has actually already taken over since 1 December). She will continue the tradition of a weekly commentary. I am not retiring, but will continue doing analysis and writing commentary as an independent economist. I hope to start that in January and those interested can look it up on [www.CrystalClearEconomics.nl](http://www.CrystalClearEconomics.nl). My new site is currently under construction.

Also on behalf of all staff in Group Economics I wish all readers happy holidays and a healthy and prosperous 2020!

| Main economic/financial forecasts |            |       |       |       |                     |            |            |       |       |       |
|-----------------------------------|------------|-------|-------|-------|---------------------|------------|------------|-------|-------|-------|
| GDP growth (%)                    | 2018       | 2019e | 2020e | 2021e | 3M interbank rate   | 05/12/2019 | 12/12/2019 | +3M   | 2020e | 2021e |
| United States                     | 2.9        | 2.2   | 1.3   | 2.0   | United States       | 1.89       | 1.89       | 1.70  | 1.43  | 1.43  |
| Eurozone                          | 1.9        | 1.0   | 0.8   | 1.3   | Eurozone            | -0.39      | -0.39      | -0.42 | -0.55 | -0.50 |
| Japan                             | 0.3        | 1.0   | 0.4   | 1.0   | Japan               | 0.07       | 0.07       | -0.10 | -0.10 | -0.10 |
| United Kingdom                    | 1.4        | 1.2   | 1.2   | 2.0   | United Kingdom      | 0.79       | 0.78       | 0.80  | 0.80  | 0.80  |
| China                             | 6.6        | 6.2   | 5.8   | 5.6   |                     |            |            |       |       |       |
| Inflation (%)                     | 2018       | 2019e | 2020e | 2021e | 10Y interest rate   | 05/12/2019 | 12/12/2019 | +3M   | 2020e | 2021e |
| United States                     | 2.4        | 1.8   | 1.9   | 1.9   | US Treasury         | 1.80       | 1.90       | 1.7   | 1.90  | 1.90  |
| Eurozone                          | 1.7        | 1.0   | 0.8   | 1.0   | German Bund         | -0.29      | -0.27      | -0.4  | -0.40 | -0.40 |
| Japan                             | 0.9        | 1.1   | 1.6   | 1.0   | Japanese gov. bonds | -0.04      | -0.02      | -0.1  | 0.00  | 0.00  |
| United Kingdom                    | 2.5        | 1.8   | 1.7   | 2.0   | UK gilts            | 0.78       | 0.82       | 0.3   | 0.30  | 0.70  |
| China                             | 2.1        | 2.8   | 2.5   | 2.0   |                     |            |            |       |       |       |
| Key policy rate                   | 12/12/2019 | +3M   | 2020e | 2021e | Currencies          | 05/12/2019 | 12/12/2019 | +3M   | 2020e | 2021e |
| Federal Reserve                   | 1.75       | 1.75  | 1.50  | 1.50  | EUR/USD             | 1.11       | 1.11       | 1.12  | 1.16  | 1.20  |
| European Central Bank             | -0.50      | -0.50 | -0.60 | -0.60 | USD/JPY             | 108.8      | 109.3      | 104   | 112   | 116   |
| Bank of Japan                     | -0.10      | -0.10 | -0.10 | -0.10 | GBP/USD             | 1.32       | 1.31       | 1.24  | 1.35  | 1.42  |
| Bank of England                   | 0.75       | 0.75  | 0.75  | 0.75  | EUR/GBP             | 0.84       | 0.85       | 0.90  | 0.86  | 0.85  |
| People's Bank of China            | 4.15       | 4.10  | 3.85  | 3.60  | USD/CNY             | 7.05       | 7.03       | 7.10  | 7.20  | 7.20  |

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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