

Macro Weekly

Group Economics

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Trade conflict or something else?

- Eurozone economic sentiment improves
- Industrial production in Japan and Korea improves
- But China manufacturing PMI drops back again

When I read economic commentary and listen to what colleagues and clients are saying it strikes me that people are getting more pessimistic on the global economic outlook. I have held the view that things should improve somewhat as significant headwinds that plagued the global economy in 2018 are abating. The notable exception since early May is the US-Sino (trade) conflict.

Eurozone economic sentiment



Source: Bloomberg

I am inclined to maintain that some improvement is visible in a range of indicators. Take the eurozone. The European Commission's index of Economic Sentiment improved in May: 105.1, versus 103.9 in April. It was the first monthly increase after 10 consecutive months of decline. Sentiment improved in the industrial sector and the services sector as did consumer confidence. Of course, this is just one month's data point. We must be careful, particularly as the European Commission's Business Climate Index continued its slide.

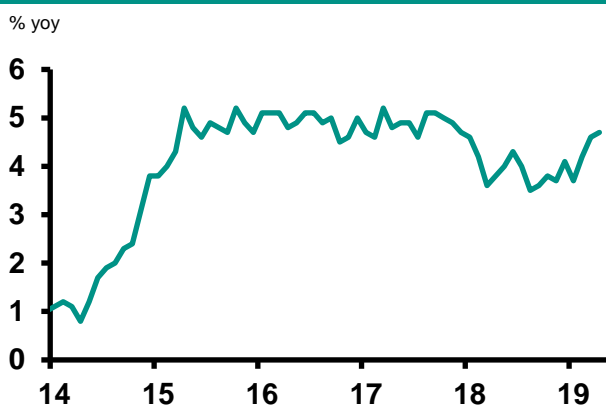
Eurozone consumer confidence



Source: Bloomberg

Monetary trends in the eurozone have recently also been supportive of a cautiously optimistic view. The eurozone April data confirms the improving trend. M3 growth accelerated: 4.7% yoy, up from 4.6%. The April reading was the highest since early 2018. M1 growth eased a touch to 7.4% yoy, but it also has broken the declining trend.

Eurozone M3



Source: Bloomberg

Data from several Asian countries on industrial activity also shows an improvement. Industrial production in Japan was down 1.1% yoy in April. That does not sound great and it isn't. However, it was an improvement from the -4.3% recorded in March. This series is volatile and you cannot say that the downward trend has been broken yet. There was a range of other indicators in Japan showing further weakness. Consumer confidence, for example, fell in May (39.4, down from 40.4 in April). Japanese consumer confidence has now fallen in a straight line for well over a year and the May reading was the lowest since early 2015.

Korean April industrial production data was also better: -0.1% yoy against -2.3% in March and a low of some -4% a little earlier. Korean business confidence in the manufacturing sector for (oddly) June eased a little, but the most recent three months show a sustained higher level than the November-February period.

Korea business confidence manufacturing



Source: Bloomberg

Taiwan monitoring indicators



Source: Bloomberg

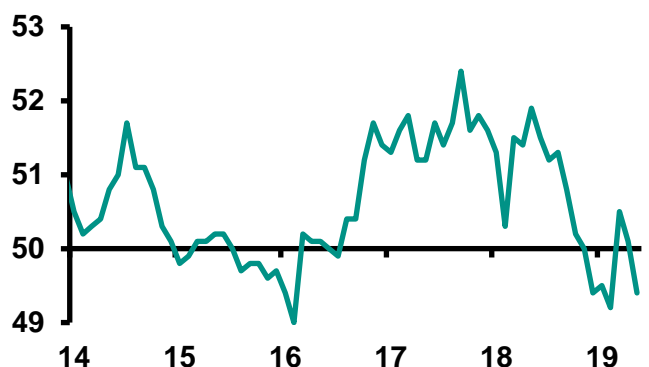
The so called Monitoring Indicator in Taiwan improved a touch in April. This is a sort of basket of a range of other cyclical indicators. It shows that the negative trend that started in 2018 has been broken and in the process of being reversed, though it is early days yet as far as reversing is concerned.

Then the trade conflict re-appeared

To me, all this data suggests that the global economy is showing a sign of life, in line with what I have been expecting. But most of this data predates the sudden re-appearance of the (trade) conflict between the US and China. It is hard to assess what impact that may have. Last week I reported on a sharp drop of various components of the German Ifo-index of business confidence. That looked a little odd and might be related to the US-Sino conflict. The first indication from China has just been released. And it was not encouraging. The national index of business confidence, the PMI, for the industrial sector fell from 50.1 in April to 49.4 in May. This index does not show that much variation, but this drop brings the index back to the depressed levels of late last year, early this year after a promising improvement in between. Confidence in services was unchanged in May at 54.3. It is impossible to say whether, or to what extent the drop in the manufacturing PMI is caused by US-Sino conflict and to what extent it will be reflective of underlying weakening of activity. Wait and see is all we can do. And hope for the best. The G20 at the end of June may provide an opportunity for both side to express a more constructive attitude.

China manufacturing PMI

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Source: Bloomberg

Trump and Mexico

At least for now, it doesn't look as though president Trump is in the mood to tone down. In fact, he is sounding more assertive towards Mexico, threatening to impose and increase tariffs if the Mexicans don't do more to block the flow of people from Latin America to the US. The conflict between the US and China is also increasingly about global leadership in politics, the military, the economy and technology. That is a worry for the near-term outlook for the global economy.

Main economic/financial forecasts

GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	23/05/2019	30/05/2019	+3M	2019e	2020e
United States	2.2	2.9	2.3	1.9	United States	2.52	2.52	2.60	2.60	2.50
Eurozone	2.5	1.8	0.8	1.3	Eurozone	-0.31	-0.32	-0.30	-0.30	-0.20
Japan	1.9	0.8	0.9	0.7	Japan	0.07	0.07	-0.10	-0.10	-0.10
United Kingdom	1.8	1.4	0.8	1.7	United Kingdom	0.80	0.79	1.00	1.00	1.25
China	6.9	6.6	6.3	6.0						
World	3.7	3.6	3.2	3.3						
Inflation (%)	2017	2018	2019e	2020e	10Y interest rate	23/05/2019	30/05/2019	+3M	2019e	2020e
United States	2.1	2.4	1.6	2.0	US Treasury	2.30	2.23	2.6	2.60	2.50
Eurozone	1.5	1.7	1.2	1.2	German Bund	-0.12	-0.17	0.1	0.20	0.50
Japan	0.5	0.9	1.1	1.6	Euro swap rate	0.40	0.37	0.7	0.80	1.10
United Kingdom	2.7	2.5	1.4	1.8	Japanese gov. bonds	-0.06	-0.08	0.1	0.10	0.30
China	1.6	2.1	2.5	2.5	UK gilts	0.95	0.90	1.7	1.50	1.80
World	3.0	3.5	3.7	3.2						
Key policy rate	30/05/2019	+3M	2019e	2020e	Currencies	23/05/2019	30/05/2019	+3M	2019e	2020e
Federal Reserve	2.50	2.50	2.50	2.50	EUR/USD	1.12	1.11	1.13	1.16	1.25
European Central Bank	-0.40	-0.40	-0.40	-0.30	USD/JPY	109.6	109.6	110	108	105
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.27	1.26	1.33	1.35	1.45
Bank of England	0.75	0.75	0.75	1.00	EUR/GBP	0.88	0.88	0.85	0.86	0.86
People's Bank of China	4.35	4.35	4.35	4.35	USD/CNY	6.91	6.90	6.60	6.60	6.60

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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