

Macro Weekly

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Avery mixed picture

- ▶ **German industry remains in the doldrums**
- ▶ **Eurozone PPI showing further disinflationary forces**
- ▶ **US ISM noticeably weaker than Markit PMI**
- ▶ **EM PMIs improving across a broad front**

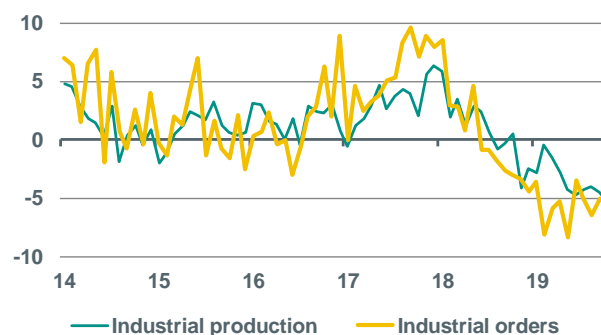
We published a global 2020 Outlook last week instead of a weekly. I argued that the global economy will remain weak- ish in the short term, but show improvement in the course of 2020. If my assessment is right we should reach a turning point, or if you prefer, an inflection point before too long. Economic data becomes erratic around such points in the business cycle with some indicators turning positive before others. The problem is that economic indicators are a little erratic at the best of times so it is always hard to say whether mixed data is just noise or signalling an approaching inflection point.

German industry still in the doldrums

One thing is sure, the German industrial sector has not reached an inflection point yet.

Germany: industrial orders and production

% yoy



Source: Bloomberg

Germany: car production

Thousands, 12 months moving average



Source: Bloomberg

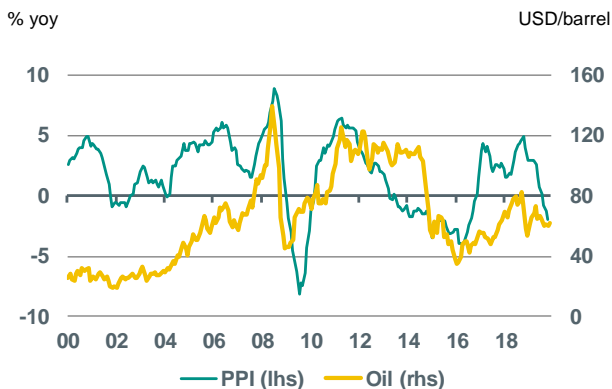
Industrial orders fell 0.4% mom in October, which was a disappointment after September's 1.5% mom rise. The yoy change fell to -5.7% as the fall in domestic orders (-7.7% yoy) was more intense than the drop of foreign orders (-4.3% yoy). Industrial production in Germany fell a staggering 1.7% mom in October, much worse than expected, pushing the yoy rate down to -5.3%, the worst reading since November 2009. This is all bad news. If one had to find some silver

lining in these numbers, it would be that it is hard to imagine that demand for German industrial products is equally weak and even if it is that it would stay this weak. It still looks to me as though an inventory drawdown is making a meaningful negative contribution. Inventory drawdowns have to come to an end and are then followed by a rebuilding of inventories, pushing production growth above demand growth. I don't see why that would not start in the course of 2020.

Eurozone PPI suggesting disinflation on the rise

Meanwhile, eurozone inflation pressures appear to be abating further. Eurozone PPI was up 0.1% mom in October. The yoy rate fell to -1.9%. That drop is partly energy-driven. Excluding energy, the PPI was up 0.3% yoy. Over the last six months the PPI has fallen marginally. The 0.3% yoy rate of increase of the PPI ex-energy is down from 1.5% 12 months earlier and down from 2.2% 24 months earlier. The PPI is more volatile than the CPI and PPI is not a very accurate leading indicator for CPI, but the weak producer prices numbers can't be good news for a central bank aiming to get inflation back up to below but close to 2.0%.

Eurozone PPI and oil



Source: Bloomberg

US business confidence indicators diverging

I was able to report on the US Markit PMI last week. The series for the manufacturing sector has now risen in three consecutive months and the rise has been more than marginal: 52.6 in November, up from 50.3 in August. The November number was also revised up 0.4-index points from the preliminary reading. The rival ISM manufacturing series did not follow suit. It came in below expectations: 48.1 in November, down from 48.3 in October.

US Manufacturing business confidence

Index, 50=neutral



Source: Thomson Reuters Datastream

The ISM has existed much longer than the Markit PMI and is considered an excellent coincident indicator for the business cycle. Nevertheless, the divergence between the PMI and the ISM is intriguing. An optimist would hope that the Markit measure is slightly leading. And if it is, we should expect the ISM to start strengthening before too long. However, it is hard to prove that the Markit measure is more forward looking and most of the other US data is more in line with the ISM than with Markit.

It is not clear if and to what extent the GM strike has impacted activity and confidence. The strike started mid-September, lasted until the last couple of days of October and involved some 50,000 workers.

EM PMIs improving across a wide range of countries

Business confidence measures in a range of emerging economies is starting to improve. South Korea's PMI, for example, rose for a second consecutive month in November: 49.4, up from 48.0. November was the highest reading since April, although this series is volatile and one cannot argue that an upward trend is visible.

Chinese PMIs improved in November. The manufacturing series of the NBS jumped from 49.3 in October to 50.2 in November. The rival Caixin series is better still at 51.8. The services series also improved. Commentators have argued that the November data may be creating a better picture than is justified and that this data is strongly affected by the twists and turns in the US-China trade conflict. Time will tell.

The Turkish economy has been hit by weakness in recent years. At least it now seems to be strengthening. Its PMI rose to 49.5 in November, up from 49.0 in October and a low of 42.7 in September 2018. Turkish GDP was up 0.9% yoy in Q3, the first positive reading following three consecutive negative ones.

Turkey: manufacturing PMI

Index, 50=neutral



Source: Thomson Reuters Datastream

Singapore: electronics PMI

Index, 50=neutral



Source: Thomson Reuters Datastream

Brazil's GDP rose 0.6% qoq in Q3, pushing the yoy rate up a notch. The country's PMI also improved in November: 52.9 versus 52.2 in October.

In the Outlook piece published last week I raised the issue of the tech cycle, claiming that the roll out of 5G may provide a boost to the electronics sector world wide and that given its prominence, this could have a positive impact on the global economy at large. Against this background, it is interesting to see that Singapore's PMI for the electronics sector rose to 49.7 in November, the second highest reading in a year's time. Fingers crossed.

Main economic/financial forecasts										
GDP growth (%)	2018	2019e	2020e	2021e	3M interbank rate	28/11/2019	05/12/2019	+3M	2020e	2021e
United States	2.9	2.2	1.3	2.0	United States	1.91	1.89	1.70	1.43	1.43
Eurozone	1.9	1.0	0.8	1.3	Eurozone	-0.40	-0.39	-0.42	-0.55	-0.50
Japan	0.8	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	0.79	0.80	0.80	0.80
China	6.6	6.2	5.8	5.6						
Inflation (%)	2018	2019e	2020e	2021e	10Y interest rate	28/11/2019	05/12/2019	+3M	2020e	2021e
United States	2.4	1.8	1.9	1.9	US Treasury	1.77	1.80	1.7	1.90	1.90
Eurozone	1.7	1.0	0.8	1.0	German Bund	-0.36	-0.29	-0.4	-0.40	-0.40
Japan	0.9	1.1	1.6	1.0	Japanese gov. bonds	-0.09	-0.04	-0.1	0.00	0.00
United Kingdom	2.5	1.8	1.7	2.0	UK gilts	0.68	0.78	0.3	0.30	0.70
China	2.1	2.8	2.5	2.0						
Key policy rate	05/12/2019	+3M	2020e	2021e	Currencies	28/11/2019	05/12/2019	+3M	2020e	2021e
Federal Reserve	1.75	1.75	1.50	1.50	EUR/USD	1.10	1.11	1.12	1.16	1.20
European Central Bank	-0.50	-0.50	-0.60	-0.60	USD/JPY	109.5	108.8	104	112	116
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.29	1.32	1.24	1.35	1.42
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.85	0.84	0.90	0.86	0.85
People's Bank of China	4.15	4.10	3.85	3.60	USD/CNY	7.04	7.03	7.10	7.20	7.20

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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