



*R&R Weekly Column  
By Brunello Rosa*



## Central Banks Remain Cautious as Clouds Gather on Global Expansion

At the IMF/World Bank Spring Meetings just concluded in Washington DC, the mood was still relatively upbeat, as the synchronised global expansion continues. At the same time, IMF MD Christine Lagarde, on the eve of the meetings said it quite openly: [dark clouds are starting to gather on the horizon](#), especially as a lingering trade war [threatens the global economy](#).

In our recent reports, we looked at this and other threats: in our [scenario analysis on the US-led airstrikes on Syria](#), we discussed the geopolitical risks building up in the Middle East. In [our report on the ECB and Eurozone](#), we discussed the macroeconomic risks deriving from the plateauing of growth in the Eurozone, which is becoming evident in some hard data (e.g. industrial production, exports) and leading indicators (e.g. composite PMIs). [Our trip report from Japan](#) highlighted the macroeconomic (persistently low inflation), geopolitical (developments in the US-North Korea relationship) and political (Abe's shaky position) risks prevailing in the country. Finally, our [trip report from the UK](#) looked at the consequences on fiscal and monetary policy deriving from Brexit developments. In the upcoming Italy trip report we will discuss the rising political risks that could eventually pose a threat to the European integration process.

To summarise: the world economy is doing fine, but risks exist, and their materialisation could turn the global expansion into a global slowdown in coming quarters, and eventually into a contraction, in some selected countries and regions.

So, how are policy authorities reacting to this changed environment? The sentiment prevailing among central bankers could be summarised with one word: prudence. The BOE, on the back of inflation falling more than expected, is now [putting into question the rate hike](#) the market was expecting to occur in May. The ECB will eventually finish its net asset purchases, but at the [IMF meetings Mario Draghi made it clear](#) that "an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up." The BOJ, on the back of the macro, political and geopolitical risks mentioned above, appears to be willing to keep its policy and communication unchanged for at least another year. The Fed is, for the time being, the only central bank of the big four, that seems ready to continue with its policy normalisation program: but three hikes in 2018 seem more reasonable than the four that some market participants expect.

But once again: central banks cannot be the [only policy game in town](#). Other policy areas need to do their part to make the world a better and safer place – fiscal authorities, regulators and governments at large. Diffusing dark clouds on the horizon is a collective exercise, which cannot succeed unless there is broad domestic and international policy coordination.

### Our Recent Publications

 [BOE Mulling Rate Hike Amid Brexit Uncertainties](#)  
by Brunello Rosa and Nouriel Roubini, 20 April 2018

 [BoJ Unlikely to Change Policy or Communication Until 2019, Amid Economic, Political and Geo-Political Uncertainties](#)  
By Nouriel Roubini, 18 April 2018

 [ECB to Gradually Exit QE by Year-end](#)  
By Brunello Rosa and Nouriel Roubini, 17 April 2018

 [US-Led Airstrikes On Syria Likely to Have Limited Economic and Financial Impacts](#), by Quintana and Gallego, 16 April 18

The Week Ahead

**US - 200 of the S&P500 firms are reporting earnings next week.** The S&P500 firms are expected to report an increase on earnings (i.e. aggregated earnings per share) of 17.3% in Q1 2018. The US ann. q-o-q GDP growth will be announced (c: 2.0% y-o-y; p: 2.9).

**DMs - The ECB and the BoJ will announce their policy rates decisions.** No policy changes are expected, neither [in the EZ](#) (c: 0.00%; p: 0.00%) nor [in Japan](#) (c: -0.10%; p: -0.10%).

**UK - GDP growth for Q1 2018 will be published,** with no changes expected (c: 1.4% y-o-y; p: 1.4%).

**Turkey - The CBT will announce its policy rate decision.** The weighted-average funding rate is expected to increase to 13.25% (p: 12.75%).

The Quarter Ahead

**North Korea - Tensions will continue to subside.** On April 27<sup>th</sup>, the North and South Korea leaders will meet for the first time since 2007. North Korean leader Kim Jong-Un and US President Trump are expected to meet in June.

**US – Unlikely to start a full-fledged trade war with China.** So far, China is adopting retaliatory measures, while avoiding full confrontation. This week: a) it imposed a 179% tariff on its USD 800mn a year imports of US sorghum; while b) it lifted foreign investment restrictions in the transportation sector.

**The economic impact of US sanctions on Russia may fade.** Last week, the US did not announce the additional sanctions expected by financial markets. As a result: a) the RUB appreciated by 1.2% w-o-w against the USD (to USD/RUB 61.38); and b) Russian stocks registered a 2.0% w-o-w rise.

**Middle East - A new ban on Iranian oil exports by the US and the EU seems unlikely.** However, France, Germany, and the UK proposed additional sanctions in a bid to dissuade President Trump from pulling out of the 2015 nuclear deal. Trump has set a May 12 deadline to either improve or scrap the accord.

**Turkey, Lebanon and Iraq will hold elections.** In Turkey, President Erdogan called for early presidential and parliamentary elections on June 24. He is likely to be re-elected, with AKP— his party—taking the majority in the parliament in coalition with MHP. In Iraq, the nine political blocs—five Shia, two Sunni and two Kurdish—that have shared power since 2003 are expected to dominate in the May 12 parliamentary election. On May 6, Lebanon will hold its first parliamentary election since 2009.

**EM - Bond issuance will remain strong.** Turkey borrowed USD 2.0bn this week, through the issue of 10y USD-denominated bonds at 6.2%, bringing its total borrowing from international markets to USD 4.0bn y-t-d (vs. a year-end target of USD 6.5bn). Bond issuance will continue to be strong in the MENA region: 2018 y-t-d bond supply from MENA stands at USD 46.9bn, compared to USD 86.4bn for the whole of 2017.

**Oil prices are likely to remain above 70 USD/bbl in the near term.** Oil prices increased by 2.0% w-o-w to 74.1 USD/bbl supported by firm demand growth, lower inventories, Opec output restrictions, and Venezuelan supply disruptions.

Last Week's Review

**US and Syria - The risk of further airstrikes declined.** Since the [April 14<sup>th</sup> airstrikes on Syria](#), US and European leaders have shown no intention of bringing the attacks further. US President Trump claimed “mission accomplished” and European leaders toned down the previous week’s aggressive rhetoric. In the US, **the largest six banks have already released their Q1 2018 earnings**, beating expectations. **US markets reacted with gains:** The S&P500 rose by 0.5% w-o-w, and volatility decreased to 16.9 (-0.5 points w-o-w), well below its long-term average of 22 points. The 10-y UST yield rose 13bps w-o-w to 2.96%. The USD strengthened against a basket of currencies (DXY rose by 0.6% w-o-w).

**Europe - Germany's ZEW economic sentiment deteriorated more than expected** in April at -8.2 (c: -1.0; p: 5.1), the lowest since November 2012. The EUR/USD fell by 0.3% w-o-w to 1.229.

**China -Q1 2018 GDP growth came out slightly above expectations** at 6.8% y-o-y (c: 6.7%; p: 6.8%), as a private investment rebound compensated the decline in exports.

**Pablo Gallego Cuervo and Renata Bossini** contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



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**Abbreviations, Acronyms and Definitions**

a	Actual	LN	Northern League
AKP	Justice and Development Party	MSS	Five Star Movement
ann.	annualized	m-o-m	Month-on-month
bn	Billion	mb	Million barrels
BCB	Central Bank of Brazil	mb/d	Million barrels per day
BoC	Bank of Canada	MENA	Middle East and North Africa
BoE	Bank of England	MHP	Nationalist Movement Party
BoJ	Bank of Japan	mn	Million
bpd	Barrels per day	MPM	Monetary Policy Meeting
bps	Basis points	NAFTA	North-American Free Trade Agreement
c	Consensus	OECD	The Organization for Economic Cooperation and Development
C/A	Current account	Opec	Organization of Petroleum Exporting Countries
CB	Central bank	p	Previous
CBK	Central Bank of Kuwait	pw	Previous week
CBO	US Congressional Budget Office	PCE	Personal Consumption Expenditures
CBT	Central Bank of the Republic of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union of Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CBT	Central Bank of the Republic of Turkey	pps	Percentage points
CPI	Consumer Price Index	QCB	Qatar Central Bank
DJIA	Dow Jones Industrial Average Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Council	RBA	Reserve Bank of Australia
ECB	European Central Bank	REER	Real Effective Exchange Rate
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SHCOMP	Shanghai Stock Exchange Composite Index
EP	European Parliament	tb/d	Thousand barrels per day
EU	European Union	tn	Trillion
EUR	Euro	TPP	Trans Pacific Partnership
EZ	Eurozone	TRY	Turkish Lira
Fed	US Federal Reserve	UAE	United Arab Emirates
FOMC	US Federal Open Market Committee	UK	United Kingdom
FRB	US Federal Reserve Board	US	United States
FX	Foreign exchange	USD	United States Dollar
FY	Fiscal Year	USD/bbl.	USD per barrel
GCC	Gulf Cooperation Council	UST	US Treasury bills/bonds
GBP	British pound	VAT	Value added tax
GDP	Gross domestic product	VIX	Chicago Board Options Exchange Volatility Index
GOP	Grand Old Party (US Republican Party)	WTI	West Texas Intermediate
IMF	International Monetary Fund	w-o-w	Week-on-week
IPO	Initial public offering	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KRG	Kurdistan Regional Government	10-y	10 year
KSA	Kingdom of Saudi Arabia	ZEW	Centre for European Economic Research