



*R&R Weekly Column*  
By Brunello Rosa



### **A Crucial, But Not Yet Critical, Week For Brexit And The UK**

This will be one of the most crucial weeks yet in the entire Brexit process: On Tuesday March 12<sup>th</sup> there will be a second “meaningful” vote on Theresa May’s deal. The aim of the government is to present a revised version of the deal, on which the UK and EU have worked over the weekend. The UK is seeking legally binding reassurances that the backstop solution for Northern Ireland will be temporary. The EU has made it clear that it cannot re-open negotiations for the withdrawal treaty, yet seems willing to compromise. If the vote is in favour of May’s deal, the UK will leave the EU on March 29<sup>th</sup> as planned, but an “implementation” period lasting until December 2020 will ensure a smooth transition and allow the UK to reach a final arrangement with the EU. Theresa May is [pledging resources](#) for the constituencies in which current Labour MPs might be willing to vote in favour of her deal. As discussed [in our recent update](#), if Labour decides to allow some defectors within its own party to vote in favour of May’s deal, this strategy could pay off.

If the result of this vote goes against the deal like the previous vote did, yet another vote will take place on Wednesday March 13, as the UK parliament will have to decide whether or not it is in favour of exiting the EU with no deal whatsoever. We expect the UK parliament to reject the possibility of the no-deal Brexit that the hardline Brexiteers want. There does not seem to be a majority in favour of it. On the same day, the UK Chancellor of the Exchequer will make its [Spring Statement](#) (i.e. a budget update), where revised growth and inflation forecasts will determine whether the UK’s fiscal trajectory is still in line with the October budget. Chancellor Philip Hammond will reiterate that the UK has plenty of fiscal resources to counter a potential no-deal scenario and cushion the economy against a possible crash. If for any reason the UK were to crash out of the EU without a deal, the figures of the Spring Statement update would quickly be thrown out of the window and a fresh, emergency budget would need to be passed.

On Thursday March 14<sup>th</sup>, the UK parliament will vote to authorise a possible extension of Article 50, which would be the logical course of action in the event that its elected officials vote to reject May’s deal on Tuesday and then vote against a no-deal Brexit on Wednesday. The EU is ready to provide a short (2 or 3 month) extension, but wants to be sure that the UK parliament will spend that time trying to converge towards a definite solution, so this cannot be taken for granted at this stage. The UK might also be blackmailed by all other European countries into conceding their vote in favour of the extension (which needs to be voted unanimously for by the remaining 27 EU countries). So, even if parliament authorised the government to ask the EU for an extension, such a request would be unlikely to be sent to Brussels until the very last minute, in order for the UK not to end up in such an uncomfortable position.

What this suggests is that this week might not be the truly definitive week in which to decide the fate of Brexit, crucial though these votes may be. As discussed in [our recent Europe Update](#), it is still uncertain whether or not May will manage to pass her revised deal through parliament, but even if we were to assume that her deal is rejected, and that parliament then votes against a “no deal” Brexit and in favour of seeking to extend Article 50, it would still be quite possible that the final word on this issue will only come at the very last minute, before the real deadline on March 28-29. This sort of final-hour decision has happened in a number of EU negotiations during the past few years (as it was [the case for Grexit](#)).

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Looking Ahead

The Week Ahead: Policy Uncertainty Remains High

**In the US**, February CPI figures are likely to remain unchanged at 1.6% y-o-y.

**In the UK**, on March 12th, the parliament will vote on the current Brexit agreement. If PM May is unable to gather enough support to pass the proposed deal, MPs will vote: i) on March 13, on whether the UK should leave the EU without a deal (i.e.: hard-Brexit on March 29); and, if the result is “no”, ii) on March 14, on whether the UK should seek an extension of Article 50.

**In Japan**, the BoJ is expected to keep policy rates at -0.1%.

The Quarter Ahead: Growth Will Continue To Decelerate

**The OECD revised down 2019 growth forecasts** for most countries: US (from 2.7% to 2.6%), EZ (from 1.8% to 1.0%) and UK (from 1.4% to 0.8%).

**In the US**, concerns about a slowdown are supported by a strong deceleration in hiring—nonfarm payrolls Feb., a: -20k; c: 180k; p: 311k. Other labour indicators (average hourly earnings Feb., a: 3.4% y-o-y; c: 3.3%; p: 3.1%; and the unemployment rate Feb., a: 3.8%; c: 3.9%; p: 4.0%) were in line with expectations. The probability of: i) no Fed hikes in 2019 rose to 100% (p: 96%); and ii) a rate cut rose to 20% (p: 0%).

**In the EZ**, the ECB also revised down growth forecasts for 2019 (a: 1.1%; p: 1.7%). PMI data showed stronger-than-expected manufacturing activity in February (Markit PMI Composite Feb., a: 51.9; c: 51.4, p: 51.0), but Germany’s factory orders fell in January (a: -2.6% m-o-m; c: 0.5%; p: 0.9%). The ECB lowered its 2019 EZ inflation forecast to 1.2% (p: 1.6%) and announced that: i) policy rates “will be on hold until at least the end of the year”; and ii) a new program—starting in June—of TLTRO funding for banks, tied to the main refinancing operations rate—currently at 0%.

**In China**, the government: a) revised down growth expectations from “about 6.5% to a range of 6 to 6.5%”; and b) will implement a tax cut of USD298bn.

Last Week’s Review

Real Economy: Global Growth Forecasts Cut, Signs Of Monetary Policy Reversal

At the global level, **the US** —as its trade deficit widened to a 10-y high of USD621bn—continues to challenge the current global trade framework: last week, India and Turkey lost their preferential status with the US, as they “no longer meet the required conditions”. Yet, trade tensions between US and China are declining as negotiations are, reportedly, making substantive progress.

**In China**, in February, exports suffered its largest decline in three years (a: -20.7% y-o-y; c: -4.8%; p: 9.1%), while PMI beat consensus (Manuf. PMI Feb., a: 49.9; c: 48.5; p: 48.3).

**In the EZ**, retail sales rebounded in January (a: 1.3% m-o-m; c: 1.3; p: -1.4). The ECB kept the policy interest rate unchanged at 0%.

**In Turkey**, consumer prices fell to 19.7% y-o-y (CPI Feb., c: 19.9% p: 20.4%) as the TRY stabilized, and short-term measures to rein in inflation have started to take effect. The CBRT also left the policy rate unchanged (p: 24.0%) reiterating that the tight stance on policy will be maintained “until there is a significant improvement in the inflation outlook”.

Financial Markets: Disappointing US Labour Data Impacted Global Markets

Markets fell after: i) the disappointing US jobs report; ii) growth downgrades by the OECD and the ECB; and iii) the launching of new lending programs in the EZ.

**Global stocks w-ow declined** (MSCI ACWI, -2.1%) driven by the US (S&P 500, -2.2%) and the EZ (Euro Stoxx 50, -0.9%). EM indices also fell (MSCI EMs, -2.0%). Volatility rose (VIX S&P 500, 2.5 points to 16.1, 52w avg.: 16.7; 10y avg.: 17.9).

**Fixed-income indices:** global bonds rose w-o-w, (BAML Global index, 0.7%).

Last week, **Qatar** received USD 50bn in bids for the issuance of USD12bn of 5, 10 and 20y bonds.

**Currencies:** w-o-w the USD rose (DXY, +0.8%), while the EUR and GBP fell (EUR/USD, -1.2% to 1.124; GBP/USD, -1.4% to 1.302).

**Commodities:** oil prices rose (Brent, +1.0% to 65.7 USD/b) due to OPEC-led supply cuts and falling Venezuelan exports.

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**Abbreviations, Acronyms and Definitions**

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan	pps	Percentage points
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets 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 Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia		

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