Rosa & Roubini
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MAKING SENSE OF *THIS* WORLD — *15 April 2019*

R&R Weekly Column
By Brunello Rosa

The IMF-World Bank Meetings: Mixed Feelings About The Global Economy

The IMF has just published its April edition of the World Economic Outlook (WEO) entitled "Growth Slowdown, Precarious Recovery". The WEO notes that after a synchronised expansion in 2017 and the first half of 2018, the world has entered a synchronised slowdown, with all three of the world's major markets are now facing economic headwinds. In the US, the effects of the fiscal stimulus that was approved at the end of 2017 are fading, and the fist fight between Democrats and President Trump over the budget, which led to the longest government shutdown on record earlier this year, are having a negative impact on the economy. So too are trade tensions and the tightening financial conditions deriving from the Fed's policy normalisation. China meanwhile has been affected by its trade tensions with the US, as well as by what the IMF calls "regulatory tightening to rein in shadow banking." And the Eurozone has lost momentum as two of the largest economies, Germany and Italy, have significantly slowed down. Germany's economy, which narrowly avoided a recession in Q4, has slowed because of the impact of new emission standards on car manufacturing. Italy's , which did in fact enter a technical recession in Q4, has slowed because of the higher sovereign spread's impact on business investment and consumer confidence, and the impact of Germany's slowdown. Elsewhere in the world, Japan's economy too has been affected by global trade tensions, as well as by natural disasters, and emerging markets have been affected by capital outflows deriving from Fed tightening and USD strength.

The current narrative from the IMF and the World Bank is that these headwinds will be transitory, and that the economic outlook will improve in H2 2019. This improvement is also expected to occur because of the important contribution of central banks, almost all of which have turned dovish since the Fed's U-Turn in January, and because of the use of some of the fiscal space that is available in certain countries. The mood prevailing among market participants and policy makers attending the IMF and World Bank Spring Meetings also seems to be aligned with this narrative. Nevertheless, some of the risks we have identified in our recent research are still present, putting the recovery in danger and making it "precarious". First is the US trade dispute with China: while it seems that a deal is at hand, it has not been reached yet. Press reports suggest that China might be waiting to see if the US will launch another offensive on Europe over trade in the auto sector before signing anything. China knows that Trump cannot afford to open multiple fronts on trade, and so might be strategically delaying any deal to make it harder for Trump to lunch another offensive against it. Second, even the new USMCA trade deal has not been ratified yet, and the threat of the US unilaterally withdrawing from NAFTA still exists. Third, the Chinese economy is stabilising thanks to policy stimulus, but new episodes of slowing activity are always possible if this stimulus proves insufficient. In Europe, Germany's recovery is not fully secured yet, and Italy seems on the verge of starting a new fight with Europe over the introduction of further measures of fiscal easing (such as the introduction of the flat tax) it cannot afford. In the UK, Brexit has been postponed, but lingering uncertainty continues to weigh on business investment and consumer spending.

Thus far central banks have come to the rescue, making markets happy. There might be further room for this rally in risky asset prices to continue if the headwinds cited above dissipate over time. However investors should be aware that, if any of the risks mentioned above were to materialise, new risk-off episodes would be likely to occur in the months ahead.

Our Recent Publications

- *Japan - Monetary and Fiscal Easing Space Is Available In A Downside Scenario, by Nouriel Roubini, 10 April 2019*
- *ECB Review: Assessing The Policy Stance, Ahead Of Further Possible Action, by Brunello Rosa, 10 April 2019*
- *ECB Is Mulling Reserve Tiering, But It Has Not Made Up Its Mind Yet, by Brunello Rosa, 8 April 2019*
- *Working Paper - Post Ambrosetti Forum Bullet Points on Europe, by B. Rosa and N. Roubini, 8 April 2019*
- *ECB Preview: Policy On Hold. No Tiering Yet And TLTRO Details To Be Decided Over Time, by B. Rosa and N. Roubini, 8 April 2019*

Looking Ahead

The Week Ahead: The IMF Expects Further Growth Deceleration

In the US, the trade deficit is expected to widen (c: USD -53.7bn; p: USD-51.1bn).

In China, growth is likely to soften further (China GDP Q1, c: 6.3% y-o-y; p: 6.4).

In the EZ, inflation is expected to remain subdued (CPI Mar., c: 1.4%; p: 1.4).

The Quarter Ahead: Global Economy Will Continue To Decelerate, Trade Tensions To Remain High, While Geopolitical Tensions Rise

The IMF cut its 2019 global growth forecast from 3.5 to 3.3%—the weakest since 2009—driven by downwards revision in the US (a: 2.3%; p: 2.5%), EZ (a: 1.3%; p: 1.6%), and MENA (a: 1.3%; p: 2.2%). Globally, fiscal policy is unlikely to support growth: the IMF warned most governments about the "need to reduce debt, to create fiscal space to tackle the next downturn".

While US-China officials signaled progress on an enforcement mechanism for the deal, trade tensions will continue to weigh on growth, as President Trump threatens to impose tariffs on USD 11bn of EU imports, as retaliation over the Airbus-Boeing dispute.

In the US, the Fed stated that policy rates "could shift in either direction, depending on the growth outlook". The market-probability of a rate cut has decreased to 39% (p: 53%).

In the UK, the EU has extended the Brexit's deadline until October 31. PM May's position will likely come under further pressure as members of her party see the risk of "no Brexit" increasing.

In China, PBoC's monetary policy will remain supportive despite the recent CPI rise, due to higher pork prices (March CPI inflation: a: 2.3%; c: 2.4%; p: 1.5%).

Last Week's Review

Real Economy: Slower Growth Ahead, Declining Inflation, And Political Uncertainty.

In the US, core inflation declined (Core CPI Mar., a: 2.0% y-o-y; c: 2.1; p: 2.1) while headline inflation rose driven by rising oil prices (CPI Mar., a: 1.9% y-o-y; c: 1.8 p: 1.5).

In Germany, inflation remained below target (CPI Mar., a: 1.4% y-o-y; c: 1.4; p: 1.4).

The ECB left interest rates unchanged (p: 0%) and reiterated its commitment to keep monetary stimulus in place as long as risks remain tilted to the downside.

In China, the PBoC injected liquidity into the system, to support economic activity: in March, credit growth and money supply beat expectations (aggregate financing Mar., a: CNY2.86tn; c: 1.85tn; p: 0.7tn; M2 money supply Mar., a: 8.6%; c: 8.2; p: 8.0).

In Turkey, AKP—President Erdogan's party—requested a new vote in Istanbul after a partial ballots recount confirmed CHP's victory. If the request is approved, new elections will take place on June 2nd.

In Algeria, the appointment of A. Bensaleh as interim president fueled unrest, as protestors oppose a transition headed by insiders.

In India, the RBI cut its policy rate—by 25bps to 6%—for the second time in three months as a response to decelerating domestic and global activity.

Financial Markets: Stock Supported By US Bank Earnings And China's Credit Data

Investor sentiment is being affected by macro risks, arising from: *i)* deteriorating growth; *ii)* difficult-to-read monetary policies; and *iii)* geopolitical uncertainties. DM stocks rose thanks to better-than-expected earnings in US banks and China's credit growth.

Global stocks w-o-w rose (MSCI ACWI, +0.4%) led by the US (S&P 500, +0.5). Volatility fell (VIX S&P 500, -0.8 points to 12.0, 52w avg.: 16.2; 10y avg.: 17.6). ***In the US***, after positive initial readings, Q1-2019 earnings are expected to decline for the first time since 2016, due to: a) base effect from the 2018 tax cuts; and b) a slowdown in activity.

Fixed-income indices: w-o-w, globally, indices registered moderate declines (BAML Global bond index, -0.1%), mostly in EMs (BAML EMs index, -0.8%). In one of the most oversubscribed debt offerings in history, Aramco issued USD12bn of bonds, with a bid-to-cover ratio above eight (~USD100bn in orders).

Currencies: the USD depreciated w-o-w (DXY, -0.4%) against DM (EUR/USD, +0.8% at 1.130; GBP/USD, +0.3% to 1.308) and EM currencies (MSCI EM currency index, +0.2%).

Commodities: Crude prices rose to a 5-month high, as supply is threatened by: i) outage risks in Libya; ii) OPEC production discipline; iii) lower US shale production growth; and iv) stronger demand prospects (Brent, +1.7% to 71.6 USD/b).

__Farah Aladsani__ contributed to this Viewsletter.

The picture in the front page comes from this website

Abbreviations, Acronyms and Definitions

a	*Actual*
AKP	*Justice and Development Party, Turkey*
ann.	*annualized*
ARS	*Argentinian Peso*
avg.	*Average*
bn	*Billion*
BoC	*Bank of Canada*
BoE	*Bank of England*
BoJ	*Bank of Japan*
bpd	*Barrels per day*
bps	*Basis points*
BS	*Balance sheet*
c	*Consensus*
C/A	*Current account*
CB	*Central bank*
CBB	*Central Bank of Bahrain*
CBK	*Central Bank of Kuwait*
CBT	*Central Bank of Turkey*
CDU	*Christian Democratic Union, Germany*
CNY	*Chinese Yuan*
CPI	*Consumer Price Index*
DJIA	*Dow Jones Industrial Average Index*
DJEM	*Dow Jones Emerging Markets Index*
d-o-d	*Day-on-day*
DXY	*US Dollar Index*
EC	*European Commission*
ECB	*European Central Bank*
ECJ	*European Court of Justice*
EIA	*US Energy Information Agency*
EM	*Emerging Markets*
EP	*European Parliament*
EPS	*Earnings per share*
EU	*European Union*
EUR	*Euro*
EZ	*Eurozone*
Fed	*US Federal Reserve*
FOMC	*US Federal Open Market Committee*
FRB	*US Federal Reserve Board*
FX	*Foreign exchange*
FY	*Fiscal Year*
GCC	*Gulf Cooperation Council*
GBP	*British pound*
GDP	*Gross domestic product*
IMF	*International Monetary Fund*
INR	*Indian Rupee*
IPO	*Initial public offering*
IRR	*Iranian Rial*
JPY	*Japanese yen*
k	thousand
KSA	*Kingdom of Saudi Arabia*
LN	*Northern League, Italy*
M5S	*Five Star Movement, Italy*
m-o-m	*Month-on-month*
mb	*Million barrels*
mb/d	*Million barrels per day*
MENA	*Middle East and North Africa*
MHP	*Nationalist Movement Party, Turkey*
mn	*Million*
NAFTA	*North-American Free Trade Agr.*
NATO	*North Atlantic Treaty Organizat.*
OECD	*Organization for Economic Cooperation and Development*
Opec	*Organization of Petroleum Exporting Countries*
p	*Previous*
P2P	*Peer-to-peer*
PBoC	*People's Bank of China*
PCE	*Personal Consumption Expenditures*
PE	*Price to earnings ratio*
PM	*Prime minister*
PMI	*Purchasing managers' index*
pps	*Percentage points*
pw	*Previous week*
QCB	*Qatar Central Bank*
QAR	*Qatari Riyal*
QE	*Quantitative easing*
q-o-q	*Quarter-on-quarter*
RE	*Real estate*
RBA	*Reserve Bank of Australia*
RRR	*Reserve Requirement Ratio*
RUB	*Russian Rouble*
SWF	*Sovereign Wealth Fund*
tn	*Trillion*
TRY	*Turkish Lira*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States*
USD	*United States Dollar*
USD/b	*USD per barrel*
UST	*US Treasury bills/bonds*
VAT	*Value added tax*
VIX	*Chicago Board Options Exchange Volatility Index*
WTI	*West Texas Intermediate*
WTO	*World Trade Organisation*
w	*Week*
w-o-w	*Week-on-week*
y	*Year*
y-o-y	*Year-on-year*
y-t-d	*Year-to-date*
ZAR	*South African Rand*
2y; 10y	*2-year; 10-year*