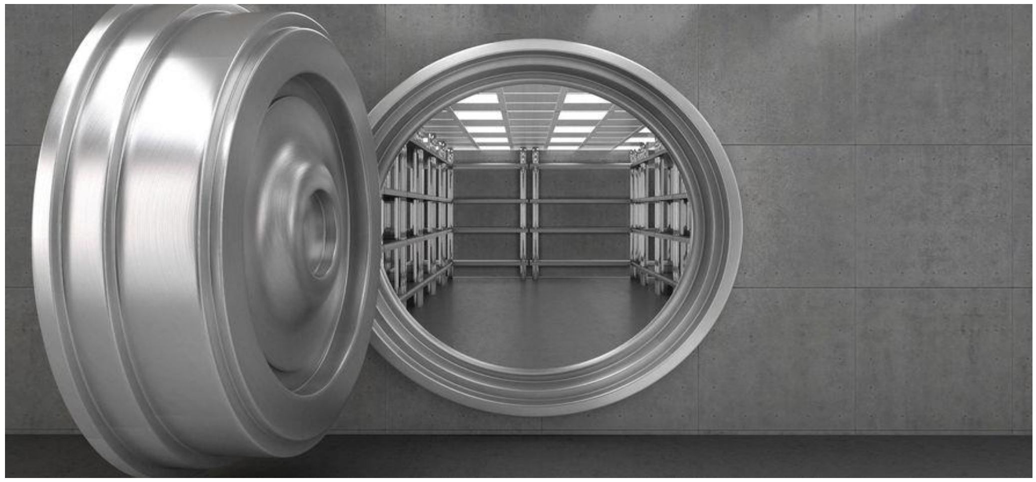
Rosa & Roubini
ASSOCIATES

MAKING SENSE OF *THIS* WORLD

8 April 2019

R&R Weekly Column
By Brunello Rosa



G10 Central Banks Have All Turned Dovish Since The Fed's U-Turn – Except Norges Bank

Since the Fed's sudden U-turn at the January 2019 FOMC meeting, when the institution led by Jay Powell delivered a surprisingly dovish statement suggesting that it could enter a prolonged pause in its tightening cycle, all of the G10 central banks have followed the Fed's lead, modifying their policy stances and becoming more dovish. The only exception to this has been Norway's Norges Bank.

Within the G4, the Bank of England, in coincidence the release of its February Inflation Report, mimicked the Fed by indicating its own shallower tightening cycle, with potentially longer intervals likely to take place between successive rate hikes. In any case, the BOE will have to wait for the result of Brexit negotiations before doing anything. The ECB even overtook the Fed in terms of dovishness, in a sense. Instead of simply indicating that there will be a longer period before it can start increasing rates, it decided to add policy stimulus by modifying its forward guidance and announcing a new round of TLTROs. This week the ECB will hold the April meeting of its Governing Council, which could shed more light on the details of its current policy stance. The decision to provide more policy stimulus moved the ECB closer to what the BOJ's policy stance has been. The BOJ remains extremely accommodative – and there is as yet no end in sight to such a stance, so long as core-core inflation remains this low.

Moving now to the smaller central banks in Europe, the Swiss National Bank (SNB) is the one that is most closely following the ECB. It might have a hard time if more monetary stimulus is needed to counter a new downturn. The Danish National Bank shadows the ECB via the currency peg, and so far has not changed its policy stance. The Scandinavian central banks have been among the most hawkish recently. The Riksbank slotted in a rate hike in December (somehow unexpectedly), a hike which seemed to be ill-timed and is probably now regretted by the Executive Board. The SEK has remained weaker than it would have been in the past, but the renewed ECB accommodation might result in lower EUR/SEK, with an impact on inflation. The Riksbank has suggested that a new hike could come in H2 this year, but we see an increasing chance that this might not happen. As mentioned above, Norges Bank is the most hawkish among G10 central banks and is the only one that has not changed its stance towards a more dovish position. It recently delivered a rate hike and, in line with our view, indicated that more tightening is coming in H2.

Moving to Oceania, in February (following the Fed) the RBA altered its policy stance and moved from a tightening bias to a neutral position, joining the RBNZ which had instead decided to stay put on that occasion. In March, the RBNZ altered its position in line with the Fed and indicated that its next move is likely to be a rate cut. In our view, this move put pressure on the RBA to also shift the balance of risks of its neutral stance to the downside. Indeed this is what happened in April, when central bank governor Philip Lowe changed a few words of the policy statement accompanying the decision to keep rate unchanged, to suggest that the RBA could be considering rate cuts much more closely than it has done so far.

The Fed's move has also had an impact on EM central banks. As we discussed in our recent Strategic Asset Allocation update, the more dovish stance taken by the Fed opens up policy space for shallower tightening cycles or even rate cuts by central banks that are less concerned about their currencies weakening relative to the USD. The recent decision by the Reserve Bank of India to cut its policy rate from 6.25% to 6% (the second cut in three months) is an example of this already beginning to take place.

Our Recent Publications

Spain: Steady Economic Growth Threatened By Political Uncertainty, by Lapo Fioretti and Brunello Rosa
3 April 2019

EU-US Auto Trade Dispute: Negotiations Before A War
by Alex Waters, Brunello Rosa, and Nouriel Roubini
2 April 2019

Looking Ahead

The Week Ahead: Global Growth To Be Revised Down, Lower Trade Tensions

With 70% of the world's economy decelerating, ***the IMF is likely to downgrade global growth***—currently forecasted at 3.5% in 2019 and 3.6 in 2020—in its April release of the "World Economic Outlook".

In the US, CPI is expected to remain subdued (c: 0.3% m-o-m; p: 0.2%; c: 1.8% y-o-y; p: 1.5%).

At this week's ***ECB meeting*** no policy changes are likely.

The Quarter Ahead: Decline In Trade Tensions

In the US, the administration will keep pressuring the Fed towards a more accommodative monetary policy stance. The market-probability of a) no Fed hikes in 2019 remains at 100%; and b) a rate cut has come down to 53% (p: 65%).

According to US and China officials *"the trade deal is progressing";* President Trump branded the upcoming agreement as *"very monumental",* but it might take a few weeks to crystallize.

In the EZ, following dovish comments by ECB officials, the markets are expecting the overall cost of the new round of TLTROs to settle below the main refinancing rate (median estimate: -20bps, including the "premium" granted for increased lending). The ECB will provide long-term TLTRO funds to credit institutions, to: *i)* stimulate bank lending to the real economy; and *ii)* provide banks with a reliable source to refinance around EUR 800bn of maturing liabilities.

In the UK, PM May will ask the EU for "*an extension to the Brexit deadline, to break the logjam*" in Parliament. If no agreement is reached, the UK could exit on April 12.

In Algeria, while President Bouteflika resigned after 20 years as president, protests are expected to continue as citizens demand a removal of "*all elements of the previous regime*".

Last Week's Review

Real Economy: Growth And Inflation Remain Weak, Lower Geopolitical Uncertainties

In the US. weaker-than-expected consumption expenditures (retail sales Feb., a: -0.2% m-o-m; c: 0.3%; p: 0.7%) and manufacturing activity (in March, the Markit manufacturing PMI reached its lowest level since June 2016; a: 52.4; c: 52.5; p: 53.0) reinforced the Fed's view that the economy is decelerating. In the labour market, nonfarm payrolls rebounded, helped by improved weather conditions (nonfarm payroll Mar., a: 196k; c: 190k; p: 33k), but remain below the 2018 average (220k).

In the EZ, inflation dropped below expectations, to the lowest level in two years (CPI Mar., a: 1.4% y-o-y; c: 1.5%; p: 1.5).

In Turkey, the AKP-led alliance won the local elections with more than 50% of the votes (but 2% less than in the previous election); the opposition claimed victory in several large cities, such as Ankara and Istanbul. With no further elections until 2023, President Erdogan committed to focus on growth by "addressing the country's economic challenges".

In EMs, the Fed's dovish stance allows for monetary easing. For example, ***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. ***In Turkey***, TRY volatility rose, as investors reacted to declining CBT reserves and lower TRY liquidity.

Financial Markets: Stock Prices Lifted By US Labour Data, Progress On US-China Deal

Better-than-expected US jobs data and progress on the US-China negotiations provided investors reassurance about an upcoming "Goldilocks era" of non-inflationary growth. Stocks posted their second consecutive weekly rise.

Global stocks w-o-w rose (MSCI ACWI, +2.1%) driven by the US (S&P 500, +2.1%) and the EZ (Euro Stoxx 50, +2.9%). Volatility fell (VIX S&P 500, -0.9 points to 12.8, 52w avg.: 16.3; 10y avg.: 17.7).

Fixed-income indices: w-o-w, the 10y UST yields rose (+9bps to 2.50%) as a result of an increased risk appetite. Most bond indices registered losses (BAML Global bond index, -0.3%), led by DMs (S&P Global DMs, -0.5%). Y-t-d, bonds issuance in MENA has reached USD33.2bn, 75% above its 2018 level (USD18.9bn, same period).

Currencies: the USD was flat w-o-w (DXY, 0.1%), with the EUR and GBP (EUR/USD, 0% at 1.121; GBP/USD, 0% to 1.304). EM currencies rose (MSCI EM currency index, +0.4%) on account of better-than-expected global liquidity conditions.

Commodities: crude prices rose to a 5-month high, driven by Opec supply cuts and rising tensions in Libya (Brent, +2.9% to 70.3 USD/b).

Farah Aladsani *contributed to this Viewsletter.*

The picture in the front page comes from this website

Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*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*		