



R&R Weekly Column
By Brunello Rosa



While They Wait For Fiscal Stimulus, Central Banks Are Back At Centre Stage Again

The world's major central banks are taking to centre stage again. As we discussed [in our review](#), last week the ECB kicked off the process by announcing a new stimulus plan, consisting of a cut to the deposit rate (accompanied by the introduction of tiered reserves to protect bank profitability), easier conditions for the new TLTRO long-term loans, a promise to keep interest rates at current or lower levels until inflation is closer to target, and new asset purchases that will last until shortly before rates start to be increased. While market participants expected a larger package in some ways, the ECB surprised to the upside by announcing an open-ended version of this easing program: the stimulus will continue until inflation stabilises at a level closer to target.

This coming week, two other major central banks will hold their policy meetings: the Federal Reserve and the Bank of Japan (BoJ). The Federal Reserve is widely expected to cut its Fed funds target rate further, as part of the insurance cuts it started in July. The real question is what the Fed will say about future rate cuts. The market expects these insurance cuts to be just the beginning of a prolonged easing cycle. President Trump is putting as much pressure as possible on Fed Chair Jay Powell to make sure this is indeed the case. However, the Fed is trying to resist any political interference, including the pressure to cut rates to respond to the increases in tariffs unilaterally decided upon by the White House. The clash between the two is intensifying; the former [President of the New York Fed William Dudley openly advised](#) the Fed not to fall into this political game, which only serves the purpose of ensuring Trump's re-election in November 2020.

On Thursday, it will be the BoJ's turn: analysts are split as to what the BoJ could do in September, just a couple of weeks before Japan's planned sales tax increase from 8% to 10%. The BoJ might want to keep some of its ammunition for rainy days, but on the other hand it will not want to fall excessively behind the Fed and ECB in their easing cycles. In Europe, the [Swiss National Bank](#) and [Norges Bank](#) will also hold their policy meetings this week. Their policy decisions too will be greatly influenced by what the ECB and the Fed have done. The Bank of England's MPC, also meeting on Thursday, is also widely expected to remain on hold, waiting for Brexit developments.

In spite of all of the best efforts to reduce their relevance over time, the contribution of central banks remains absolutely crucial to countries' policymaking. There is a lot of talk about the possibility of greater monetary-fiscal cooperation, if not explicit coordination. Some are even suggesting that the next step should be "helicopter money", whereby central banks provide monetary instruments directly to the general public, thus circumventing the banking system. (Recently, key contributions in this direction have been given by [Stanley Fisher](#), [Philip Hildebrand](#), and others). Draghi himself, during [his press conference last week](#), said that "government with fiscal space should act in an effective and timely manner." But the reality on the ground, so far, is that fiscal policy is constrained, and monetary policy still remains, by and large, [the only game in town](#) when it comes to supporting economic activity during the ongoing slowdown.

Our Recent Publications

 [Flash Preview: SNB Getting Ready To Follow The ECB With Lower Rates](#), by Brunello Rosa and Francesca Panelli, 13 September 2019

 [ECB REVIEW: ECB Delivers A Low-Intensity, Open-Ended Easing Program](#), by Brunello Rosa, 12 September 2019

 [Flash Preview: Norges Bank To Weigh Its Options In September](#), by Brunello Rosa and Francesca Panelli, 13 September 2019

 [GEOPOLITICAL CORNER: Argentina Hurtles Toward The Abyss](#), by John C. Hulsman, 28 August 2019

Looking Ahead

The Week Ahead: CBs Stimuli Ahead in US And China

In the US, IP is expected to pick up (Aug., c: 0.2% y-o-y; p: -0.2). The Fed is expected to cut Fed funds target range by 25bps to 1.75% - 2.00% (p: 2.00 - 2.25). The market probability of 'one rate cut' stands at 79.6 (p: 90.0%).

In China, the economy is likely to show signs of growth (Retail sales Aug., c: 7.9% y-o-y; p: 7.6; IP Aug., c: 5.2% y-o-y; p: 4.8%). Further CB easing.

In Japan and the UK, CBs are expected to leave interest rates unchanged at -0.1% and 0.75%, respectively.

The Quarter Ahead: Geopolitical Risks (US-China, Brexit) Show Signs Of Easing

Ahead of planned **US-China negotiations**: *i*) President Trump delayed a 5% additional increase in tariffs on Chinese goods, originally set for October 1, to October 15; *ii*) China excluded US farm products - i.e.: soybeans and pork - from additional tariffs; and *iii*) the Trump administration discussed "offering a limited trade agreement that would delay US tariffs in exchange for Chinese commitments on agricultural purchases and intellectual property".

In the EZ, the ECB lowered its 2019 forecasts for: *i*) growth to 1.1% (p: 1.2); and *ii*) inflation to 1.2% (p: 1.3). ECB President Draghi emphasized the need for fiscal policy—i.e. increased government spending and tax cuts—to avoid economic stagnation, as the EZ is 'facing more weakness than previously thought', due to a global trade slowdown.

In the UK, PM Johnson will meet EC President Juncker to discuss a 'Brexit deal' in preparation of the Brussels Summit of October 17-18, ahead of the October 31 deadline. If the deal fails to pass through parliament, the government will be forced to: *i*) seek an Article 50 extension; and *ii*) avert a no-deal Brexit.

In Turkey, the MPC signaled less scope for further steep moves, given the current monetary policy stance is 'consistent with the projected disinflation path'.

Last Week's Review

Real Economy: Stronger-Than Expected Data, Lower Risks And CBs Reduce Recession Fears

In the US, consumption data were stronger-than-expected, as: *i*) retail sales advanced by more than forecasted (Aug., a: 0.4% m-o-m; c: 0.2; p: 0.8); and *ii*) consumer sentiment rebounded from a three-year low (Sep., a: 92.0; c: 90.0; p: 89.9). Core consumer inflation hit a one-year high (CPI core Aug., a: 2.4% y-o-y; c: 2.3; p: 2.2) while the headline reading declined (a: 1.7% y-o-y; c: 1.8; p: 1.8), as increased medical care costs were offset by lower energy prices.

In the EZ, the industrial sector continues to show signs of weakness (IP Aug., a: -2.0% y-o-y; c: -1.3%; p: -2.6). In Germany, the trade surplus jumped to a fourth-month high (Trade balance Jul., a: 20.2bn; c: 17.5, p: 18.1), following an unexpected increase in exports (Exports, a: 0.7% m-o-m; c: -0.5; p: -0.1). The ECB: *i*) cut the deposit rate by 10bps to -0.5% (c: -0.5%; p: -0.4); and *ii*) announced a QE restart: starting next November, it will buy EUR20bn of bonds every month "until inflation expectations come sufficiently close to, but below 2%".

In Japan, Q2 growth was revised downwards, to 1.3% y-o-y (p: 1.8) as worsening trade conditions hit business spending.

In the UK, economic growth was stronger-than-expected (a: 0.3% m-o-m; c: 0.1; p: 0.0) on the back of a strong services output (a: 0.3% m-o-m; p: 0.0), which accounts for 80% of the economy.

In China, trade tensions hurt Chinese exports (Aug., a: -0.1% y-o-y; c: 2.0; p: 3.3) causing a decline in the trade surplus (a: USD 34.8bn; c: 43.0; p: 45.1).

In Turkey, the CBT cut its key lending rate by 325 bps to 16.50% (c: 17.25; p: 19.75).

Financial Markets: Risk-On Sentiment Prevails Driven By Stronger-Than-Expected Data, Lower Trade-Related Fears And CB Easing

Market drivers: Riskier assets rose, following eased geopolitical tensions and CB stimuli.

Stocks: w-o-w, global equity indices rose (MSCI ACWI, +1.1% to 527) driven by both DMs (S&P500, 1.0% to 3,007; Eurostoxx, +1.6% to 3,550) and EMs (MSCI EMs, +1.4% to 1,022). Volatility declined (VIX S&P 500, -1.3 points to 13.7, 52w avg.: 17.0; 10y avg.: 17.1).

Bonds: w-o-w, global indices fell (BAML Global bond index, -1.4%). The 10y UST bond yield rose by 35bps, to 1.90%.

FX: w-o-w, the USD weakened (DXY, -0.1% to 98.257) against a basket of currencies and the EUR rose (EUR, +0.4 to 1.107). The GBP rose to a two-month high (GBP/USD, +1.3% to 1.250), on diminished "no-deal Brexit" worries. EM FX strengthened (MSCI EMs, +0.8% at 1,621). Following the CBRT rate cut, the TRY strengthened against the USD to 5.685 (w-o-w, +0.5%).

Commodities: Oil prices fell (Brent, -2.0% to 60.2 USD/b). Due to lower recession fears, gold fell (Comex, -1.2% to 1,488 USD/Oz).



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

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