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R&R Weekly Column
By Brunello Rosa

G10 Central Banks Are Trying To "Manage The Pause"

After a few weeks during which G10 central banks did not make any major decisions, in December nearly all ten of them will hold their policy meetings. Last week, the boards of both the Bank of Canada (BoC) and the Reserve Bank of Australia (RBA) met to decide the course of their respective monetary policies for the coming months. The BoC left its policy rate unchanged at 1.75%, as had been expected it would. It is the highest such rate among the G10 countries. The BoC's position is, broadly speaking, "neutral": the Bank's statement did not express any particular bias towards either raising rates further or cutting them in the near term. The Bank can enjoy Canada's inflation being on target and growth being not too distant from its potential level, and so can afford to wait longer before deciding what to do. Clearly, the most relevant factor will be the outcome of the trade negotiations between China and US, given that the Canadian economy is highly dependent on both those economies. It will also depend on oil prices, which tend to move in tandem with global growth. If the US and China manage to agree to at least the Phase-1 deal (as we expect they will), the Bank of Canada will be able to stay on hold for longer, hoping that a pickup in global growth does not eventually lead to cutting its policy rates.

On the other side of the world, in Australia, the RBA also kept its rate unchanged at 0.75%, but in this case after having already cut rates three times this year, for a cumulative amount of 75bps. Like Canada, the Australian economy is highly dependent on the US, China, global growth and the commodity cycle, which is why the RBA has already also started to explore which unconventional measures it might use if and when its policy rate reaches the effective lower bound of 0.25%. Governor Lowe said that the RBA would be ready to start a QE program of purchases of sovereign bonds in case extra easing is needed, also thanks the additional supply of bonds deriving from the expected fiscal stimulus. So, while the BoC's position was effectively neutral, in the case of the RBA we can see there exists a clear easing bias.

In the week ahead, the two largest central banks will meet: the Fed and the ECB. As we will discuss in our forthcoming preview, the Fed, which has officially declared itself to be "on pause", will have to calibrate this message in order not to be pushed around further by President Trump during the coming election year, Trump wanting rates to be cut even more. The ECB's job is equally challenging. Its policy stance is currently on some sort of auto pilot: open-ended QE, full reinvestment of proceeds, easing bias on rates, and reserve tiering for core-EZ banks and TLTROIII for periphery-EZ banks. But the arrival of a new president at the helm of the institution – namely, Lagarde replacing Draghi – marks the beginning of a transition period that could last a few months. The announced review of policy strategy is a double-edged sword. On the one hand, Lagarde my end up taking ownership of the current policy stance; on the other hand, the review could be the beginning of a reversal of some policy tools. Also this week, the central bank of Switzerland (the SNB) will meet, but as we will discuss in our forthcoming preview we do not expect major changes in its policy stance to be made.

The following week, on Thursday, there will be a number of important central bank meetings: the BoJ, the BoE, Norway's Norges Bank and Sweden's Riksbank. The BoE will do nothing on the day of the general election: it remains to be seen whether the dissenters within the Monetary Policy Commitee will keep or change their vote to "no change". Norges Bank has already reached "pause" levels, and we do not expect them to do anything at this meeting. More interesting will be to see what the BoJ will do, since the government has finally launched a supplementary budget (which includes a larger-than-expected USD 121bn stimulus package), as the Bank had been clearly demanding it do. Finally, and perhaps surprisingly, the Riksbank is likely to increase its policy rate, as we mentioned in our latest review. It may take its repo rate from -0.25 percent to zero, before entering what will likely be a long period of pause.

Our Recent Publications

- ECB PREVIEW: All Attention Will Be On Lagarde's First Press Conference, *by B. Rosa and Nouriel Roubini, 6 December 2019*
- *The US-China Phase-1 Trade Deal Is Likely To Be Completed Soon, But the Strategic Rivalry Is Also Likely To Increase Over Time,* *by Nouriel Roubini, 6 December 2019*
- Tunisia: New Social Unrest Sparked By Recent Increases In Fuel Prices Made, *by Alessandro Magnoli Bocchi, Fawaz Sulaiman Al Mughrabi and Farah Aladsani, 4 December 2019*
- Flash Review: Bank of Canada Remains On Hold, With No Particular Bias, *by Brunello Rosa, 4 December 2019*
- Winter Is Coming For Europe's Wobbly Coalitions, *by Grégoire Roos and Brunello Rosa, 5 December 2019*
- *Flash Review: RBA Remains on Hold, With A Clear Easing Bias,* *by Brunello Rosa, 3 December 2019*
- **GEOPOLITICAL CORNER:** Amidst Economic Chaos, The Red Tide Recedes In South America, *by John Hulsman, 3 December 2019*

Looking Ahead

The Week Ahead: Fed and ECB To Leave Policy Stance Unchanged, Tory Party Ahead In UK Polls

In the US, the Fed is expected to leave its policy target range unchanged at 1.50 - 1.75%, while it keeps monitoring economic developments, particularly on the inflation front. CPI inflation is expected to rise to 2.0% y-o-y in November (p: 1.8%).

In the EZ, the ECB is expected to keep the 'main refinancing rate' and the 'deposit rate' unchanged at 0.0% and -0.50%, respectively. October IP is expected to contract (c: -2.3% y-o-y; p: -1.7%), as business sentiment deteriorates.

In the UK, polls for the December 12 general election show the Conservative party at 43%, and the Labour party at 33%. A Conservative party majority win will provide PM Johnson enough backing to break the Parliament deadlock and get the 'Brexit agreement' passed by the January 31, 2020 deadline.

In Switzerland, the SNB is expected to keep its policy rate unchanged, in-line with the ECB (-0.75%).

In Japan, Q3 GDP growth is expected to remain unchanged at 0.2% y-o-y (p: 0.2%).

The Quarter Ahead: Global Economic Activity Remains Stagnant, But With No Signs Of Credit Crunch

Leading indicators (global shipping, consumer and business confidence, PMIs, financial conditions and credit spreads) show resilience.

According to US President Trump, US and China's 'Phase-1' deal could be delayed until after the US presidential election of November 2020. Policy uncertainty is undermining investment and risks remain high, e.g.: an escalation of trade conflicts, geopolitical tensions, China's slowdown and climate change. Trade tensions are likely to continue until late next year. After President Trump stated that "US-China trade tensions could persist until the end of next year", the market expectations of a Fed rate cut in 2020 rose to 69% (p: 63%). The NY Fed added USD 70.1bn in temporary liquidity to the financial markets, via: i) overnight repurchase agreements worth of USD 54.9 bn; and ii) mortgage securities worth USD 15.2bn.

In the US, a Democratic-controlled House committee approved a report accusing President Trump of: 1) "soliciting foreign interference"; and 2) placing "his own political interests above the national interest" by pressuring Ukraine to investigate Trump's 2020 political rival, Mr. Joe Biden. The proceedings are unlikely to pass in the Republican-controlled Senate. At the 70th-anniversary NATO summit, President Trump spurred diplomatic feuds within the alliance (i.e.: French President Macron and Canadian PM Trudeau) over: i) defence budgets; and ii) unfair treatment of US companies via the proposed digital tax.

In the EZ, as the banking sector outlook turned negative, banks cut 60,000 jobs. Going forward, the upcoming digitisation and industry consolidation are likely to lead to more "rightsizing".

Last Week's Review

Real Economy: Geopolitical Tensions Still Remain High, Hampering Economic Activity

In the US, November's labor market data remained robust (Nonfarm Payrolls Nov., a: 266K; c: 180K; p: 128K; Avg. Hourly Earnings, a: 3.1% y-o-y; c: 3.0%; p: 3.2; Unemployment rate; a: 3.5%; c: 3.6%, p: 3.6).

In the EZ: 1) Q3 GDP stalled at 1.2% y-o-y, in-line with expectations (c: 1.2%; p: 1.2%); 2) October retail sales fell below-consensus, to 1.4% y-o-y (c: 2.2%; p: 2.7%); while 3) November manufacturing PMI rose to 46.9 (c: 46.6; p: 46.6), still in contractionary territory.

In Japan, the government launched a stimulus worth USD 121bn (1.9% of GDP), the first DM country to embark in fiscal expansion.

In Turkey, after 3 consecutive quarters of contraction due to the 2018 crisis, in Q3 the economy returned to growth (Q3 GDP, a: 0.9% y-o-y; c: 1%; p: -1.5).

In Australia and Canada, CBs left their key policy rates unchanged at 0.75% and 1.75%, respectively.

Financial Markets: Strong US Job Growth Offset Trade-Related Uncertainties, Lifting Sentiment

Market drivers: after an above-consensus jobs report signaled strength in the US economy, US stocks and government-bond yields rose, offsetting trade-related jitters.

Stocks: w-o-w, global equity indices rose (MSCI ACWI, +0.3% to 548), led by DMs (MSCI World, +0.2% to 2,296; S&P 500, +0.2% to 3,146); EM stocks also rose (MSCI EMs, +0.9% to 1,049).

Bonds: Returns fell w-o-w (BAML Global, -0.4% to 284.6).

FX: w-o-w, the USD weakened against other currencies (DXY, -0.6% to 97.700), while the EUR and GBP appreciated (EUR/USD, +0.4% to 1.106; GBP/USD, +1.6% to 1.314). EM currencies recovered w-o-w, on the back a weak USD (MSCI EM, +0.2% to 1,635); despite US tariffs on Brazilian steel, the BRL rose (USD/BRL, +2.3% to 4.141).

Commodities: Oil prices rose, driven by deeper-than-expected output-cuts, agreed during the OPEC+ meeting (Brent, +3.1% to 64.4 USD/b).

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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*
MPC	*Monetary Policy Committee*
NAFTA	*North-American Free Trade Agreement*
NATO	*North Atlantic Treaty Organization*
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*