



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 may 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 Committee](#) 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
- [Flash Review: Bank of Canada Remains On Hold, With No Particular Bias](#), by Brunello Rosa, 4 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
- [Winter Is Coming For Europe’s Wobbly Coalitions](#), by Grégoire Roos and Brunello Rosa, 5 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: 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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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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