The Week Ahead

Active is: Keeping an eye on capital markets

Ann-Katrin Petersen

Vice President,
Global Economics &
Strategy

@AllianzGI_VIEW

"Pre-Christmas mood on the capital markets"

On the weekend, Frankfurt might well see the first snowflakes ringing in the advent season. The pre-Christmas festive mood is also predominant on the global equity markets.

This remains less a result of the fundamental environment on the capital markets – even if the spectre of a global recession seems to have evaporated – than of the "monetary policy treats" provided by central banks and geopolitical risks that are perceived as having lost their mystique.

- At the beginning of the week, the slight improvement in the ifo business climate index reinforced market players' hopes that the German **economy** will bottom out and that an end is in sight for downward revisions to forecasts. For the euro area, on the other hand, purchasing managers' indices had indicated an upward trend for manufacturing, but this was more than offset by a disappointing decline in services.
- As far as **monetary policy** is concerned, the US Federal Reserve previously waved its "interest rate wand" in December 2018 and, since then, has lowered its key interest rate by a total of 75 basis points to a target range of 1.50-1.75 %. In the euro area, where the European Central Bank launched its second Asset Purchase Programme – QE – in November, central bank liquidity is once again dribbling steadily.
- The Chinese and US negotiators have continued their talks on a partial deal on a trade agreement ("Phase 1 deal"). Despite gradual progress, however, the major structural issues in the **trade dispute** (above all the protection of copyrights and the reduction of state subsidies) remain unresolved.

The week ahead

The forthcoming trading week should generate new impulses for the markets, especially with regard to the first aspect, namely the future prospects for the economy.

Momentum in the **Chinese economy** has appreciably slowed, with one reason being the trade conflict with the US. In order to cushion the domestic economy (consumption, investments), the government in Beijing lowered taxes by around 2 % of gross domestic product (GDP) at the beginning of the year. The Caixin Purchasing Managers' Index for the private sector in November (Mon, Tue) could point to a further rise in sentiment. But as it represents only

Publications

"Our 2020 vision: sustainable strategies may offer a path through volatile markets"

In 2020, we expect markets to pivot between embracing and avoiding risk as they process muted economic growth, low rates and heightened political uncertainty. Consider managing risk actively rather than accepting volatile index returns, and think beyond the benchmark…

"#FinanceForFuture: Investing in a Better World"

"Disruption" seems to describe our present and future more aptly than any other term. Disruption is the power (not always purely creative) to destroy the old and to create something new - economic disruption ("digitalization"), disruption of the population pyramid ("demography"), environmental and

"Active is: Combating wealth erosion"

It's been a long time since my savings account passbook had any significance to me, but at least it's a useful place for stashing the kids' pocket money, even if it hasn't paid any interest for a long time. But this time, as I stood at the bank counter emptying my kids' piggy bank, it occurred to me that I was about to harm the bank – albeit unintentionally – through my deposits. Indeed, as long as banks are not charging negative interest and instead are tolerating money at a zero interest rate, every deposit means a loss to the bank.

one third of Chinese industry, its significance for the economy as a whole is limited. In the medium term, the question is not whether but how China's growth will slow down. The goal of the Chinese leadership is to foster more structurally sustainable growth (more skewed to consumption, less dependent on investment and exports and with limits on corporate debt).

Global headwinds have had surprisingly little impact on the **US economy** to date. Underpinned by consumer spending, GDP grew at a current annual rate of 2.1 % in the third quarter, in line with average growth in the present economic cycle. Fears of a significant slowdown on the **labour market** are unlikely to materialise in November either (Fri) and consumer confidence (Fri) is expected to remain buoyant. In contrast to the consumer confidence survey conducted by the Conference Board, the University of Michigan Consumer Sentiment Index had improved for the third month in a row and is well above its long-term average. In view of this, there is currently no need for further action by the Fed.

In the **euro area**, there appears to be no way out of the economic doldrums for the time being. In Germany, the economic powerhouse of the monetary union, new industrial orders (Thu) and industrial production data for October (Fri) are likely to substantiate the continuing downturn in this export-oriented sector. The question remains as to how long the robust domestic economy – supported by a solid labour market, moderate wage growth and attractive financing conditions – as well as the service sector, which is strongly dependent on domestic demand, will be able to mitigate a broad-based downturn. A moderate increase in euro area retail sales (Thu) – an important indicator of private consumption – would come as little surprise.

On the whole, macroeconomic data are **unlikely to point to a noticeable reversal in the economic trend**.

The **(geo)political environment**, on the other hand, will continue to pose a challenge in the months to come and could put a damper on the festive stock market mood. Among other things, the focus will be on the UK's general election on 12 December, which will be pivotal in determining the future prospects for Brexit, as well as on US tariffs, set to be levied on imports from China from 15 December and affecting a volume of goods worth around 160 billion US dollars. There are still doubts as to whether a Phase 1 deal will be concluded if the threatened tariffs become a reality.

On the bond markets, persistent uncertainties are exerting downward pressure on **bond yields**. However, as long as there is no renewed speculation about further monetary easing, the potential for additional declines remains limited. In this vein, the recent surge in yields can also be interpreted as a reaction to previously exaggerated expectations of interest rate cuts.

Although additional "(central bank) monetary gifts" are not expected during the advent season, recent weeks have seen **hopes for a generously filled stocking of fiscal policy gifts** being raised. However, as we have always known since we were children, all of our wishes seldom come true at Christmas.

- In the **United States**, Republican President Trump and the Democrats have agreed to significantly raise the ceiling on discretionary spending. For the current budget year, which began in October, this will lead to additional spending of around 150 billion US dollars, which corresponds to 0.7 % of GDP.
- In the **United Kingdom**, fiscal stimulus can be expected regardless of the outcome of the general election. In case the Conservatives win a majority in the House of Commons, the deficit could climb to 3.0 % of GDP in the next few years (compared to 1.9 % last year). Should Labour get into power, additional investment spending and an even higher budget deficit are the likely outcomes.
- In the **euro area**, most member states will loosen their fiscal policies next year – with Germany, the Netherlands, Luxembourg and Greece leading the way. Overall, the structural primary balance is expected to deteriorate by around 0.4 % of GDP according to draft budgets, which will result in a growth stimulus of around ¼ %. In addition, Brussels could turn a blind eye to deviations from the original budget proposals, e.g. in France and Italy. While this slightly expansionary fiscal policy will offset the economic slowdown, it should not be confused with a meaningful "fiscal bazooka", especially at a coordinated European level.

In a capital market environment in which there are a number of political imponderables lurking and in which high expectations of monetary and fiscal policy gifts could be disappointed, the capabilities of active fund managers are definitely called for.

Yours,

Ann-Katrin Petersen

Upcoming Political Events 2019

Dec 11: FOMC meeting and projections

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

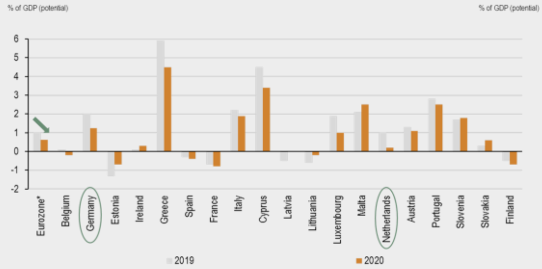
Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

to our publications (click here)

to our twitter feed (click here)

Chart of the Week

Eurozone: Some fiscal easing in 2020, but no meaningful "fiscal bazooka" yet



Government structural primary balances (based on draft budgets), % of potential GDP. *) Estimate based on information submitted by the individual member countries. Past performance is not a reliable indicator of future results. Sources: EU Commission, HSBC, National Governments, AllianzGI Global Economics & Strategy. Data as of 15 October 2019.

Calendar Week 49:

Monday			Consensus	Previous
CH	Caixin Manufacturing PMI	Nov	51.1	51.7
IT	Markit Italy Manufacturing PMI	Nov	--	47.7
JN	Vehicle Sales YoY	Nov	--	-26.4%
US	ISM Manufacturing	Nov	49.8	48.3
US	Construction Spending MoM	Oct	0.5%	0.5%
Tuesday				
EC	PPI YoY	Oct	--	-1.2%
JN	Monetary Base YoY	Nov	--	3.1%
UK	Markit Construction PMI	Nov	--	44.2
UK	Unit Labor Costs YoY	2Q	--	2.1%
Wednesday				
CH	Caixin Composite PMI	Nov	--	52.0
CH	Caixin Services PMI	Nov	51.6	51.1
IT	Markit Italy Services PMI	Nov	--	52.2
IT	Markit Italy Composite PMI	Nov	--	50.8
US	ADP Employment Change	Nov	--	125k
US	ISM Non-Manufacturing Index	Nov	54.5	54.7
Thursday				
EC	Retail Sales YoY	Oct	--	3.1%
GE	Factory Orders YoY	Oct	--	-5.4%
GE	Markit Construction PMI	Nov	--	51.5
US	Initial Jobless Claims	Nov 30	--	--
US	Continuing Claims	Nov 23	--	--
US	Trade Balance	Oct	-$53.5b	-$52.5b
US	Factory Orders MoM	Oct	--	-0.6%
US	Factory Orders ex. Transport MoM	Oct	--	-0.1%
Friday				
FR	Trade Balance	Oct	--	-5551m
FR	Current Account Balance	Oct	--	-2.7b
GE	Industrial Production YoY	Oct	--	-4.3%
IT	Retail Sales YoY	Oct	--	0.9%
JN	Labor Cash Earnings YoY	Oct	--	0.8%
US	Change in Nonfarm Payrolls	Nov	195k	128k
US	Unemployment Rate	Nov	3.6%	3.6%
US	Average Hourly Earnings YoY	Nov	3.1%	3.0%
US	U. of Mich. Sentiment	Dec P	--	96.8
US	Consumer Credit	Oct	--	$9.513b
Saturday				
CH	Foreign Reserves	Nov	--	$3105.16b
Sunday				
CH	Imports YoY	Nov	--	-6.4%
CH	Trade Balance	Nov	--	$42.81b
CH	Exports YoY	Nov	--	-0.9%