

# The Week Ahead

March 30<sup>th</sup> 2018

## Breathe deeply and relax

At the end of the past calendar week the US administration walked the talk and put punitive tariffs of USD 60 bn on more than a hundred imported goods from China. In addition, it announced stricter rules on acquisitions and technology transfers. The affected products make up only a small share (3%) of China's total exports and are equivalent to only 11% of China's total US exports, which means that the overall economic impact should be minor. Nevertheless, international equity prices slid because the measures caused concern that the trade conflict might be taken to a new level. **Corporate bond** risk premiums widened both in the investment grade and the high yield segment, and gold and the Japanese yen benefited from a flight to safe havens.

Still, the risk of a global trade war appears relatively small at the moment, not only because China's reaction was comparatively moderate – the country put punitive tariffs of USD 3 bn on US goods – but also because the US will probably make some concessions. However, the future development will depend on the parties' willingness to return to the negotiating table. While comments from China sounded more hawkish, probably for tactical reasons, the country's leaders showed themselves open for negotiations. In return, US Treasury Secretary Steven Mnuchin emphasised that he was hoping for the US and China to come to an agreement before the import tariffs entered into force, seeing that an escalation of the dispute would probably not be in the best interests of either. In fact, it would probably be detrimental; a protectionist stance in the US will probably affect global growth, and a further escalation would almost certainly have a negative impact.

This aspect should be taken seriously because the economic data suggest that global growth has passed its peak anyway. Cyclical momentum is slowing, and the global economy is approaching the next stage of the current cycle. During this **late-cycle deflation phase** we expect global growth to remain above potential, but not to accelerate further. This is confirmed by the recent global PMI readings. The international central banks will stick to their normalisation course. This applies not only to the Federal Reserve, but also to the **European Central Bank**. According to Bundesbank president Jens Weidmann, there is no reason not to terminate the bond purchases this year, provided that the economic upswing continues and prices rise further.

## Publications



### New white paper on Multi Asset: "The Ulysses Investment Strategy (Part 2)"

In the first part of this study, we explained how multi asset investment funds can help avoid "home bias", and offer a whole range of other features that enable the "Ulysses Investment Strategy", helping investors to gain self-discipline and avoid common pitfalls. The second part of this study will explore investor behaviour in more depth, looking at net fund flows, and then consider the importance of multi asset products.



### "What's Fueling the Growing Appetite for Asian Bonds?"

To move past the financial crisis of the 1990s, Asian economies made a host of important structural changes – and Asian fixed income is positioned to benefit. Not only is there growing demand for Asian bonds from Asian investors, but outside investors are looking to the asset class particularly sovereign debt – for its potential to enhance returns and reduce risk.

## Chart of the Week: Escalation of the dispute would probably not be in the best interest of either



Source: Allianz Global Investors Global Capital Markets & Thematic Research, Datastream.  
Data as of 27 March 2018.

Past performance and forecasts are not a reliable indicator of future results.

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Global Investors

Understand. Act.

## The Week Ahead

In the **US**, the following data from the real economy will take centre stage during the **coming calendar week**:

- As described above, the consensus expects the **ISM index** (which is due on Monday) to weaken slightly. This suggests that the US cycle has reached a mature stage, even though an end of the upswing is not yet in sight.
- The US labour market data (Wednesday) and non-farm payrolls (Friday) should point to a further labour market improvement and thus lower unemployment in the US (Friday).
- Moreover, hourly wages (Friday) might give us further hints about the probable inflation and rate development in the US.

In **Europe** the focus will be on (core) consumer price inflation (due on Wednesday). Following a small setback in the previous month, inflation might once again accelerate slightly. Retail sales in **Germany** (Tuesday) and the euro area as a whole (Thursday) should get some attention as well, as they give insight into private consumption behaviour and, in turn, people's purchasing power. The **British** PMIs (to be released on Tuesday) will probably point to a minor slowdown in growth, too.

In **Asia** the focus will be on **China**. The economic data for January and February were of limited informative content due to the Chinese new year. Now, market participants will be interested in the official NBS manufacturing PMI (due on Monday), the PMIs calculated by analyst firms Caixin and Markit (Wednesday) and, of course, the FX reserves at the end of the calendar week (Friday). The latter might gain importance against the background of the trade conflict and in view of the upcoming US Treasury report on China's FX policies, which is due in April.

## Act

Even though the bulls have recently lost ground due to uncertainties about tariffs, interest rates and US technology companies and put options have prevailed, international equity markets remained above important technical support thresholds. Moreover, the relative strength indices (RSIs) point to neutral (in the US and Japan) or even slightly oversold market sentiment (in Europe).

Still, one thing is clear: increased US protectionism and its impact on global growth will keep uncertainty on the financial markets high in the coming weeks and affect prices. Nevertheless, we recommend

that you breathe deeply and relax – things have a way of turning out better than expected.

Have a Happy Easter! Yours



*Stefan Scheurer*

Stefan Scheurer

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## Upcoming Political Events 2018

### April:

Apr	IMF World Economic Outlook
Apr	ASEAN Summit Singapore
8 Apr	Hungarian Parliamentary elections
26 Apr	ECB Council meeting
26–27 Apr	BoJ meeting

[→ Overview political events 2018](#)

## Other publications:



### "The Case for Alternatives"

After a 30-year bull market in bonds and a strong, multi-year recovery in equities, investors wonder what lies ahead for financial markets. The current low-interest-rate environment and the search for market-neutral solutions is increasingly prompting investors to rethink their allocation decisions with regard to alternative investment strategies.

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

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## Calendar Week 14:

		Event		Survey	Prior			Event		Survey	Prior
<b>Mon</b>	<b>JN</b>	Vehicle Sales YoY	Mar	--	-4.9%	<b>Thu</b>	<b>EC</b>	PPI YoY	Feb	--	1.5%
	<b>JN</b>	BoJ Tankan Survey with Diffusion Index of Business Confidence	1Q				<b>EC</b>	Retail Sales YoY	Feb	--	2.3%
	<b>US</b>	Construction Spending MoM	Feb	0.4%	0.0%		<b>GE</b>	Factory Orders WDA YoY	Feb	--	8.2%
	<b>US</b>	ISM Manufacturing	Mar	60.0	60.8		<b>IT</b>	Markit Services PMI	Mar	54.2	55.0
	<b>CH</b>	Caixin PMI Mfg	Mar	51.7	51.6		<b>IT</b>	Markit Composite PMI	Mar	--	56.0
<b>Tue</b>	<b>GE</b>	Retail Sales YoY	Feb	2.5%	2.3%		<b>UK</b>	Markit Services PMI	Mar	54.2	54.5
	<b>IT</b>	Markit Manufacturing PMI	Mar	55.8	56.8		<b>UK</b>	Markit Composite PMI	Mar	--	54.5
	<b>JN</b>	Monetary Base YoY	Mar	--	9.4%		<b>US</b>	Initial Jobless Claims	Mar 31	--	--
	<b>UK</b>	Markit Manufacturing PMI	Mar	54.8	55.2		<b>US</b>	Continuing Claims	Mar 24	--	--
<b>Wed</b>	<b>EC</b>	Unemployment Rate	Feb	8.5%	8.6%	<b>Fri</b>	<b>EC</b>	Markit Eurozone Retail PMI	Mar	--	52.3
	<b>EC</b>	CPI Core YoY	Mar A	1.1%	1.0%		<b>FR</b>	Trade Balance	Feb	--	-5560m
	<b>EC</b>	CPI Estimate YoY	Mar	1.4%	1.2%		<b>FR</b>	Markit France Retail PMI	Mar	--	51.8
	<b>IT</b>	Unemployment Rate	Feb P	11.0%	11.1%		<b>GE</b>	Industrial Production YoY	Feb	--	5.5%
	<b>JN</b>	Nikkei PMI Services	Mar	--	51.7		<b>GE</b>	Markit Construction PMI	Mar	--	52.7
	<b>JN</b>	Nikkei PMI Composite	Mar	--	52.2		<b>GE</b>	Markit Retail PMI	Mar	--	53.8
	<b>UK</b>	Markit Construcion PMI	Mar	51.0	51.4		<b>IT</b>	Markit Retail PMI	Mar	--	50.4
	<b>US</b>	ISM Non-Manf. Composite	Mar	59.0	59.5		<b>JN</b>	Labor Cash Earnings YoY	Feb	--	0.7%
	<b>US</b>	Factory Orders	Feb	1.7%	-1.4%		<b>JN</b>	Leading Index CI	Feb P	--	105.6
	<b>US</b>	Employment Change	Mar	205k	235k		<b>JN</b>	Coincident Index	Feb P	--	114.9
	<b>CH</b>	Caixin PMI Composite	Mar	--	53.3		<b>US</b>	Change in Nonfarm Payrolls	Mar	185k	313k
	<b>CH</b>	Caixin PMI Services	Mar	54.6	54.2		<b>US</b>	Unemployment Rate	Mar	4.0%	4.1%
							<b>US</b>	Average Hourly Earnings YoY	Mar	2.7%	2.6%
							<b>CH</b>	Foreign Reserves	Mar	--	\$3134.48b

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