

The Week Ahead

Active is: Keeping an eye on capital markets



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„(Un-)Controlled Offensive“

There is one truth which holds both in football and in the investment business: You need to find the optimal balance between offensive and defensive moves. The German team's first game in the world cup was a good illustration of this insight. And some important players on the political and economic stage are also currently doing better in this respect than others.

The major **central banks** have done well. Their steps to normalise monetary policy have not triggered major disruptions on the capital markets. The **Federal Reserve** might increase the pace of its rate hikes moderately during the remainder of this year and in 2019. The **European Central Bank** has announced that, provided that everything goes well, it plans to stop its bond purchasing programme by the end of this year. Worried observers can take comfort from the fact that rates will stay at their current level until summer 2019 at least. This is certainly a "controlled offensive". The ECB intends to keep interest rates in the euro area at or below zero for more than a year to come.

At the same time, players on the global stage have gone on an uncontrolled offensive: The **trade conflict** between the US and China has entered its next stage. After having announced tariffs on high-tech products, steel and aluminium, US President Donald Trump is raising the stakes. He has asked his trade representative to draw up a list of Chinese goods worth USD 200 billion on which he plans to levy import tariffs of 10%. Since a trade war will lead to losses all around, drive up inflation and weigh on growth, the stock markets have responded very nervously – and not just in the US and China, but also in export-oriented economies such as the euro area and Japan. The second uncontrolled political offensive of these days, namely the conflict within the **German government**, plays only a minor role in this environment. There is a ray of hope; after all, Germany and France have agreed on EU-wide projects in areas such as defence and an EU

Publications



"Could the US dollar lose its reserve-currency status?"

What would happen if the world stopped depending on the US dollar? There is growing evidence that after years of dominance, the dollar could be losing its status as the world's reserve currency. Yet while a passing of the mantle could be painful for the United States, a more balanced reserve system – one that relies more on the euro, renminbi or yen – would likely help the global economy in the end



"As global momentum stalls, the US remains a beacon of stability"

While the global economy may be stuttering, there's still room for confidence says our US Investment Strategist Mona Mahajan. The second half of 2018 could get a steadying boost from the US – and the consumer. Read more from Mona in her latest commentary as she also explores ways investors and advisors can make the most out of the current market environment.



"Active Management"

The debate about the advantages and disadvantages of active and passive management has for years been one of the liveliest in the investment industry. Just what is the best approach to investment? "Active" or "passive"?

budget. We will know more about that after the EU summit at the end of June.

Active is: watch out for the consequences

The trade conflict concerns are alleviated by the **USD appreciation**, of all things. The dollar, in turn, is an important **oil price driver**. Our Chart of the Week shows that demand has been the main driver behind oil prices in the last few years. Recent developments suggest, however, that supply-side factors, such as OPEC production cuts, are starting to play a more important role. Within **OPEC**, the individual countries' interests are diverging more and more. We will learn more early next week.

The Week Ahead

The **EU summit** on Thursday and Friday will be a political highlight. Investors will focus above all on the **Brexit** and on a potential "European Monetary Fund". Still, discussions about an EU budget and about migration policies will be watched closely as well.

Euro-area sentiment data will be the most important pieces of news from the economy, with the ifo index due on Monday and the EC indices due on Thursday. The key question is: What impact will the political uncertainty surrounding Italy and the emerging trade conflict have on growth? In the US, income figures for May and the income deflator will be particularly important. In **Japan**, industrial output figures for May will be released (all on Friday).

In view of rising uncertainties investors should **strengthen their defensive**, at least in the short term. Overall, however, strong growth in the US and the relatively stable situation in China point to comfortable late-cycle global growth. Such an environment has been quite favourable for equities in the past. Stick to a controlled offensive!

Yours,

Stefan Rondorf

Upcoming Political Events 2018

28-29 Jun: European Council Meeting

Jul: IMFWorld Economic Outlook Update

Overview political events 2018
([click here](#))

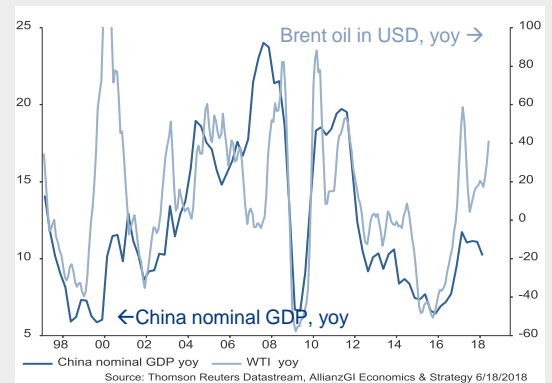
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Chart of the Week

China nominal GDP vs. Brent oil price, yoy, since 1998



Calendar Week 26:

Monday		Consensus		Previous
GE	Import Price Index YoY	May	2.00%	0.60%
GE	Ifo Business Climate	Jun	--	102.2
GE	ifo Expectations	Jun	--	98.5
GE	ifo Current Assessment	Jun	--	106
US	Chicago National Activity Index	May	--	0.34
US	New Home Sales MoM	May	1.20%	-1.50%
US	Dallas Fed Manf. Activity	Jun	24	26.8
Tuesday				
US	Richmond Fed Index	Jun	15	16
US	Conf. Board Consumer Confidence	Jun	127.2	128
Wednesday				
EC	M3 Money Supply YoY	May	--	3.90%
FR	Consumer Confidence	Jun	--	100
GE	Retail Sales YoY	May	--	1.20%
IT	Consumer Confidence Index	Jun	--	113.7
IT	Economic Sentiment	Jun	--	104.7
IT	PPI YoY	May	--	1.40%
US	Wholesale Inventories MoM	May P	--	0.10%
US	Durable Goods Orders MoM	May P	-0.20%	-1.60%
US	Durables Ex Transportation MoM	May P	0.50%	0.90%
US	Pending Home Sales NSA YoY	May	--	0.40%
Thursday				
EC	Economic Confidence	Jun	--	112.5
EC	Business Climate Indicator	Jun	--	1.45
EC	Industrial Confidence	Jun	--	6.8
EC	Services Confidence	Jun	--	14.3
GE	GfK Consumer Confidence	Jul	--	10.7
GE	CPI YoY	Jun P	--	2.20%
IT	CPI YoY	Jun P	--	1.00%
JN	Retail Sales MoM	May P	--	1.40%
UK	Nationwide House Prices YoY	Jun	--	2.40%
US	GDP Annualized QoQ	1Q T	2.20%	2.20%
US	Personal Consumption QoQ	1Q T	--	1.00%
US	Initial Jobless Claims	Jun 23	--	--
US	Continuing Claims	Jun 16	--	--
US	Kansas City Fed Manf. Activity	Jun	--	29
Friday				
EC	CPI Core YoY	Jun A	--	1.10%
EC	CPI Estimate YoY	Jun	--	1.90%
FR	PPI YoY	May	--	2.30%
FR	Consumer Spending YoY	May	--	0.20%
FR	CPI YoY	Jun P	--	2.30%
GE	Unemployment Change	Jun	--	-11k
GE	Unemployment Rate	Jun	--	5.20%
JN	Jobless Rate	May	--	2.50%
JN	Tokyo CPI YoY	Jun	--	0.40%
JN	Tokyo CPI Core YoY	Jun	--	0.50%
JN	Industrial Production YoY	May P	--	2.60%
JN	Vehicle Production YoY	Apr	--	0.20%
JN	Construction Orders YoY	May	--	4.00%
JN	Consumer Confidence Index	Jun	--	43.8
UK	GfK Consumer Confidence	Jun	--	-7
UK	Mortgage Approvals	May	--	62.5k
UK	M4 Money Supply YoY	May	--	1.10%
UK	Current Account Balance	1Q	--	-18.4b
US	PCE Core YoY	May	--	1.80%
US	Personal Income MoM	May	0.40%	0.30%
US	Personal Spending MoM	May	0.40%	0.60%
US	PCE Deflator YoY	May	--	2.00%
US	Chicago Purchasing Manager	Jun	60.8	62.7
CH	NBS Non-manufacturing PMI	Jun	--	54.9
CH	NBS Manufacturing PMI	Jun	--	51.9

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