

The Week Ahead

Active is: Keeping an eye on capital markets



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“Trade anxiety takes centre court”

The football world cup, whose finals are approaching, certainly harboured several surprises. And US President Donald Trump provided another surprise of his own during the past calendar week: the US presented a new list of Chinese export goods worth USD 200 bn on which they plan to levy additional import tariffs of 10%. The trade dispute between the world's two largest economies, the US and China, is obviously continuing and intensifying. Only last Friday had the White House introduced 25% tariffs on Chinese goods imports worth USD 34 billion, and China had responded by comparable countertariffs (see our *Chart of the Week*).

With China calling the conflict the “biggest trade war in history” and expressing concerns about the trade relations between the two countries, the recent announcement not only affected the Asian equity markets (even though they recovered again), but also weighed on the **renminbi (RMB)**. Still, China does not seem to plan a devaluation in response to the trade tensions with the US, particularly since such a step might lead to capital flight, loss of trust among investors and damage to the financial market stability. Nevertheless, the RMB exchange rate will probably be more volatile in the near future.

While global **economic data** have deteriorated during the second quarter, led by Europe, Japan and some emerging markets such as Brazil or Turkey, the correction has been relatively subdued so far thanks to more robust growth in the US and China. However, the potential negative effects of the US-initiated trade conflict have not (yet) fed through to the economic data as a whole. Nevertheless, analysts reduced their ambitious **growth forecasts** for some countries due to the more fragile outlook, but raised their US forecast further at the same time. Inflation figures recovered, not least owing to the oil price increase. While **economic momentum** has probably passed its peak for this cycle, global growth looks set to slightly exceed potential

Publications



“How to repair economic inequality”

Wealth and income inequality are pressing global issues, affecting the quality of life for countless people, suppressing economic growth, stretching governments' capabilities and destabilising social systems, writes our Global Strategist, Neil Dwane.



“From TPP to USA: 7 stages of economic integration”

Trade is a growing concern for financial markets, with Brexit and a new US-induced trade war triggering a debate about how closely nations must be integrated to trade well together. Yet the reality is nuanced, so it helps to understand the seven types of economic integration and how they benefit the nations involved.



“AI – Artificial Intelligence”

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The “creative power of destruction” is unstoppable. On the contrary. And it's only just beginning.

again during the second half of 2018. However, the downside risks for this scenario have recently increased considerably.

The smouldering trade conflict might be reflected in some **company reports** for the second quarter of 2018. Ahead of the reporting season, earnings forecasts for some companies, most of them from the emerging markets, were already revised downwards. It might be interesting to see whether and to what extent the flattening of the yield curve affects the figures of the (US) banks. The consensus forecasts earnings growth of c. 20% for the US (S&P 500) and of c. 8% for Europe (Stoxx600).

The Week Ahead

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

- While the Empire State Index is likely to point to a minor slowdown in activity (albeit from a high level) in the area around New York on Monday, the overall index of leading indicators and the Philly Fed index (due on Thursday) should reflect the current strength of the US manufacturing sector.
- This should also affect industrial output and capacity utilisation figures (due on Tuesday).
- Subdued wage growth, as per the US labour market report, might result in somewhat lower retail sales (Monday).
- In addition, several real-estate data will be released on Tuesday and Wednesday.

In **Europe**, the trade balance figures might be at the centre of attention on Monday, as trade tensions rise. However, the focus is likely to shift to activity indicators for the **UK** during the remainder of the week. Beyond labour market figures on Tuesday and real-estate market data on Monday and Wednesday, retail sales (due on Thursday) and (core) consumer price inflation (Wednesday) might be important, particularly with a view to the Bank of England's monetary policy course. Following statements by some MPC members, a rate hike in August seems to be almost fully priced in.

In **Asia**, Chinese activity data will claim investors' attention during the first half of the week. Have tighter monetary policies and the trade conflict already had an impact on growth? What is the effect of the deleveraging process on industrial output? Our tracker of **Chinese** growth points to another slowdown in the second quarter of 2018, in contrast to the consensus expectations.

During the second half of the week attention will focus on **Japan**. Consumer prices in particular will be interesting (due on Friday). They might confirm the assumption that the Bank of Japan is likely to revise its inflation forecast downwards once again in its quarterly outlook, which is due at the end of the month.

Active is:

The conflict between the US and China is far from over. In fact, it might even intensify – at least that is what last week's announcement of new tariffs suggests. The technical indicators do not give clear signs. This is supported by the low trading volumes in the market. (Political) uncertainties and related risk premiums are likely to rise.

Wishing you stability,
Stefan Scheurer

Upcoming Political Events 2018

Jul: IMF World Economic Outlook Update
26 Jul: ECB Council meeting

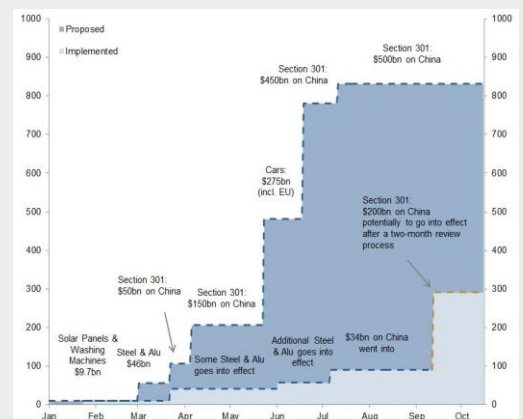
Overview political events 2018 ([click here](#))

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Chart of the Week

US government is considering new tariffs on Chinese goods



Source: Allianz Global Investors, Global Capital Markets & Thematic Research, Data as of 11 July 2018.

Calendar Week 29:

Monday			Consensus	Previous
CH	Foreign Direct Investment YoY CNY	Jun	--	7.60%
CH	GDP SA QoQ	2Q	1.60%	1.40%
CH	Retail Sales YoY	Jun	8.90%	8.50%
CH	Industrial Production YoY	Jun	6.50%	6.80%
CH	Fixed Assets Ex Rural YTD YoY	Jun	6.00%	6.10%
EC	Trade Balance SA	May	--	18.1b
IT	Trade Balance	May	--	2938m
UK	Rightmove House Prices YoY	Jul	--	1.70%
US	Retail Sales MoM	Jun	0.60%	0.80%
US	Empire Manufacturing	Jul	20	25
US	Retail Sales Ex Auto and Gas YoY	Jun	0.40%	0.80%
US	Business Inventories MoM	May	0.40%	0.30%
Tuesday				
EC	EU27 New Car Registrations	Jun	--	0.80%
IT	Industrial Sales WDA YoY	May	--	4.00%
IT	Industrial Orders NSA YoY	May	--	6.40%
UK	Jobless Claims Change	Jun	--	-7.7k
UK	Average Weekly Earnings 3M/YoY	May	--	2.50%
UK	ILO Unemployment Rate 3Mths	May	--	4.20%
US	Industrial Production MoM	Jun	0.60%	-0.10%
US	Capacity Utilization	Jun	78.30%	77.90%
US	NAHB Housing Market Index	Jul	69	68
Wednesday				
EC	Construction Output YoY	May	--	1.80%
UK	CPI YoY	Jun	--	2.40%
UK	CPI Core YoY	Jun	--	2.10%
UK	PPI Input NSA YoY	Jun	--	9.20%
UK	PPI Output NSA YoY	Jun	--	2.90%
UK	House Price Index YoY	May	--	3.90%
US	Housing Starts MoM	Jun	-1.60%	5.00%
US	Building Permits MoM	Jun	1.70%	-4.60%
Thursday				
JN	Trade Balance	Jun	--	¥578.3b
JN	Exports YoY	Jun	--	8.10%
JN	Imports YoY	Jun	--	14.00%
UK	Retail Sales Ex Auto Fuel YoY	Jun	--	4.40%
UK	Retail Sales Inc Auto Fuel YoY	Jun	--	3.90%
US	Initial Jobless Claims	Jul 14	--	--
US	Continuing Claims	Jul 07	--	--
US	Philadelphia Fed Business Outlook	Jul	20.5	19.9
US	Leading Index	Jun	0.50%	0.20%
Friday				
EC	ECB Current Account SA	May	--	28.4b
GE	PPI YoY	Jun	--	2.70%
IT	Current Account Balance	May	--	3009m
JN	CPI YoY	Jun	--	0.70%
JN	CPI Core YoY	Jun	--	0.70%
JN	All Industry Activity Index MoM	May	--	1.00%
UK	PSNB ex Banking Groups	Jun	--	5.0b

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