

The Week Ahead

Active is: Keeping an eye on capital markets



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Breaking the impasse?

The preliminary **trade agreement** reached by the US and China last Friday will probably prevent a further escalation of the tensions for now and might even be the first step towards **breaking the impasse**. Observers were also surprised by news of some progress in the negotiations between the **UK** and the **European Union**, which had been stalled for months. Encouraged by the partial tariff agreement and developments in the **Brexit** negotiations, prices on the international capital markets rose to just below their all-time highs in some cases (S&P, Nasdaq) or at least a level near their year-to-date highs (Stoxx 600, EuroStoxx 50, DAX, Nikkei).

Still, investors should remain cautious. **1)** Even though the **US** and **China** have agreed on the outline of an agreement, which might be signed at the **APEC** meeting in China in mid-November, the major structural issues behind the trade conflict remain unresolved. Moreover, it is unclear whether the planned additional punitive tariffs of 15% on consumer goods worth about USD (US dollars) 160 bn will enter into force by mid-December. **2)** There is still some controversy about how to prevent a hard border between Northern Ireland and the Republic of Ireland (the “backstop”). While new proposals have been made, it is unclear whether the Northern Irish DUP and the hardliners among the Tories will vote for a solution in parliament. What is already clear is that both Brexit and the trade conflict have a negative impact on global growth. This became visible in China’s external trade statistics during the past week, even though there are both *external* and *internal* reasons for China’s weak exports. On the US side, the weak ISM purchasing managers’ index has underlined that the US economy is not immune to a **global slowdown in growth**. In the euro area, an industrial recession seems around the corner. All in all, Kristalina Georgieva, the new Managing Director of the International Monetary Fund (IMF), expects almost 90% of the world to experience lower growth in 2019.

Publications



Is the ECB using a misguided inflation measure?

Inflation can significantly erode purchasing power, but the ECB may be underestimating the true increase in consumer prices by relying on a narrow measurement. Investors may want to ready their portfolios for a higher rate of real-world inflation in the euro zone, perhaps by employing an actively managed mix of equities, real estate and commodities, writes Martin Hochstein.



Active is: Combating wealth erosion

Watch out for “helicopter money” as part of your defense plan
“Helicopter money” – the concept as such seems to be nothing but new, and with a rising debate on whether Central Banks are running out of ammunition, it seems to gain momentum. There is a growing public discussion surrounding the “monetisation of government debt” (or “helicopter money”) which, to put it in a less academic way, means central banks printing money with the direct purpose of financing public sector budgets.



Artificial Intelligence – Part of everyday life, driving our future

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.

Against this background, the central banks will probably keep their interest rates low for longer; in fact, the **international central banks** have cut their key rates by a total of more than 40 times since the beginning of the year. For the first time in three years, the central bank of Singapore has done so, too.

The Week Ahead

Now that the **IMF** and the **World Bank** have revised their global growth forecasts down once again, attention in the **US** will focus on the Markit purchasing managers' index for the manufacturing sector, which is due on Thursday. In contrast to the ISM index, the Markit index will reflect the current situation of the *domestic* economy. Consumer durables order intake, which is a leading indicator for industrial demand, might provide more insight on Thursday, too. At the same time, the **US reporting season for Q3** will pick up during the coming week.

In the **euro area**, the preliminary PMIs and the rate decision by the **European Central Bank** will be in the limelight on Thursday. After European Central Bank President Draghi pushed through a comprehensive easing package in September, no additional measures are expected at the upcoming meeting. However, it will be the last one chaired by Draghi, whose presidency will probably be remembered for three words: "whatever it takes". In **Germany**, attention will focus on the Ifo business sentiment index on Friday. And in the **UK**, the **Brexit** negotiations will continue even after the EU summit on 17 and 18 October if the talks between the EU and the UK do not result in an agreement. If, however, a surprise compromise is reached, the British parliament might already vote on it on Saturday (19 October). Just in case, however, a new EU summit on 29 and 30 October is being tentatively planned. At that summit, the UK might ask for a new extension of the deadline according to Art. 50 before potentially crashing out of the EU on 31 October.

Looking at the **emerging markets**, rate decisions will be taken in Hungary (Tuesday), Chile (Wednesday), Indonesia, Turkey (both on Thursday) and Russia (Friday), with rate cuts likely in the countries mentioned last. Meanwhile, attention in **Asia** will focus on **Japan**, which will release its export figures for September on Monday. The slight depreciation of the yen versus the US dollar in August might have propped up the export statistics and stabilised the PMI for manufacturing (which is due on Thursday).

Active is:

Short-term positioning indicators suggest that investors are taking a wait-and-see stance. According to the American Association of Individual Investors (AAII) survey, the proportion

of bears rose from 28% to 44% during the past four weeks and the proportion of bulls dropped to its lowest level since May 2016. At the same time, the put-call ratios temporarily reached their highest level since April 2010. Fittingly, data provider EPFR claims that global bond and money market funds have registered total net inflows of more than USD 860 bn (of which almost USD 22 bn during the past week) since the beginning of the year, even though the aggregate volume of outstanding bonds with a negative yield amounts to more than USD 14 trn. If political tensions about Brexit and the trade conflict really abate, the political uncertainty premium might decline during the coming weeks and lead to support for the global equity markets, particularly as monetary policy becomes more expansionary around the world (see also our *Chart of the Week*).

Wishing you a good journey

Stefan Scheurer

Upcoming Political Events 2019

Oct 18-20: Annual World Bank/IMF meetings

Oct 21: Canadian federal election

Oct 24: ECB Governing Council meeting

[Overview political events 2019 \(click here\)](#)

[Overview Central Banks Calendar \(click here\)](#)

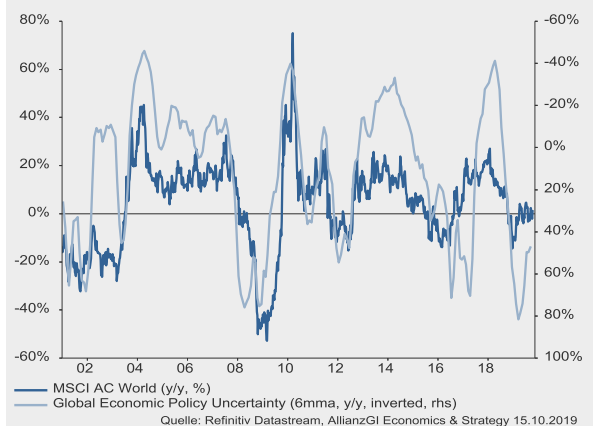
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Chart of the Week

If political tensions really abate, the political uncertainty premium might decline and lead to support for the global equity markets.



Calendar Week 43:

Monday			Consensus	Previous
GE	PPI YoY	Sep	--	0.3%
JN	Trade Balance	Sep	--	-¥136.3b
JN	Exports YoY	Sep	--	-8.2%
JN	Imports YoY	Sep	--	-12.0%
JN	All Industry Activity Index MoM	Aug	--	0.2%
UK	Rightmove House Prices YoY	Oct	--	0.2%
Tuesday				
UK	PSNB ex Banking Groups	Sep	--	6.4b
US	Richmond Fed Index	Oct	--	-9
US	Existing Home Sales MoM	Sep	-0.7%	1.30%
Wednesday				
EC	Consumer Confidence	Oct A	--	-6.5
FR	Business Confidence	Oct	--	106
US	FHFA House Price Index MoM	Aug	--	0.4%
Thursday				
EC	Markit Manufacturing PMI	Oct P	--	45.7
EC	Markit Services PMI	Oct P	--	51.6
EC	Markit Composite PMI	Oct P	--	50.1
EC	ECB Main Refinancing Rate	Oct 24	--	0.00%
EC	ECB Deposit Facility Rate	Oct 24	--	-0.50%
FR	Markit Manufacturing PMI	Oct P	--	50.1
FR	Markit Services PMI	Oct P	--	51.1
FR	Markit Composite PMI	Oct P	--	50.8
GE	Markit Manufacturing PMI	Oct P	--	41.7
GE	Markit Services PMI	Oct P	--	51.4
GE	Markit Composite PMI	Oct P	--	48.5
JN	Jibun Bank Japan PMI Mfg	Oct P	--	48.9
JN	Jibun Bank Japan PMI Services	Oct P	--	52.8
JN	Jibun Bank Japan PMI Composite	Oct P	--	51.5
US	Durable Goods Orders MoM	Sep P	--	0.2%
US	Durables Ex Transportation MoM	Sep P	--	0.5%
US	Initial Jobless Claims	Oct 19	--	--
US	Continuing Claims	Oct 12	--	--
US	Markit Manufacturing PMI	Oct P	--	51.1
US	Markit Services PMI	Oct P	--	50.9
US	Markit Composite PMI	Oct P	--	51
US	New Home Sales MoM	Sep	--	7.1%
US	Kansas City Fed Manf. Activity	Oct	--	-2
Friday				
FR	PPI YoY	Sep	--	-0.7%
GE	GfK Consumer Confidence	Nov	--	9.9
GE	Ifo Business Climate	Oct	--	94.6
GE	ifo Expectations	Oct	--	90.8
GE	ifo Current Assessment	Oct	--	98.5

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