WEEKLY ECONOMIC MONITOR

Macro Research Division

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ECONOMIC GROWTH

Retail sales in the United States have grown at a solid 0.6% month-to-month in March in line with expectations. There was a strong rebound in vehicle sales, but poor performance by gasoline stations have tanked the numbers[1]. Since consumer spending accounts for around 2/3 of the gross domestic product, retail sales are a major indicator of how the economy is doing. More specifically, strong retail sales translate into strong corporate profits, thereby creating bullish sentiment for equities in general. On the other hand, data about retail sales should be synthesised with inflation data to reach a conclusion on how it may affect bond prices.

After a disappointing result in February, both housing starts and building permits are beating estimates in March at almost 1,320 million and 1,354 million respectively. US building permits posted strongest gains in Midwest at 9%, West at 3% and South at 2.1%. Defined as the starting construction point of residential property, these projects are started if the investor is fairly certain of the demand. Good housing starts mean increase in home sales, new job openings, increased sales of furniture and home appliances and leads to a ripple effect in the economy. Good housing starts are bullish for the stock market and bearish for bonds.

In Europe, German investors' confidence has dropped to the lowest level since November 2012, according to the latest data of ZEW Index which is decrease to -8.2, from 5.1, in April, against an expected -0.8[2]. In the same month, the consumer confidence grows in the Eurozone respect the previous one: EU Commission index is increased of +0.3 pts, reaching +0.4.

Italy Q1 GDP has recorded a marginal slow down regard to the 2017 4Q, and that is the main reason why Upb said that in 1Q GDP is grown of 0.26%, after +0.32% marked between October and December. This settlement should proceed even in 2Q, according to Upd forecast GDP growth should be 0.21%. In February, factory orders have revealed a drop of 0.6%, following the January one, but the three-month index shows a growth of 2.4% respect to the previous period.

Italy shares this GDP trend with the major Eurozone countries. In the UK, Retail sails has recorded a fall of 1.2%, against the consensus evaluation of -0.5%.

On Tuesday the IMF labelled the emerging Asia “"the most important engine of global growth" despite concerns over trade and debt. Given the global growth forecasts of 3.9%, economies of China, India and Southeast Asian countries will perform well above the average. China reported a 6.8% growth in the 2018 first quarter, while India is expected to reach a growth pace of 7.4% this year and 7.8% in 2019. The new Asian Development Outlook (ADO) 2018 stated the economic growth in Asia and the Pacific will reach 6% in 2018 and 5.9% in 2019. Solid growth supported by high domestic demand and expanding demand for exports is confirmed by Yasuyuki Sawada, ADB's Chief Economist, whose attitude towards possible external shocks from trade tensions and capital outflows is surprisingly positive. The risk of an acceleration in capital outflows is mitigated by abundant levels of liquidity throughout the region. Financial authorities can opt in the nearest future for a strengthened regional financial system if private debt accumulation will rise but not result into investments.

The MSCI Emerging Markets Latin America Index closed at 3069.0[5] USD, translating an overall loss of 0.77% this week. The increasing concerns around the political future around the Latin America economies, mainly Mexico and Brazil impact the equity markets, and it is expected that this uncertainty and volatility increase in next weeks[3]. Taking a detailed view across the major Latin America economies, Brazil's main index Bovespa closed at 85 824.26, after touching a valuation of 86 059.44, whereas Mexico's main index IPC closed at 48 745.28, following a tough week for its economy.

TRADE

Energy Information Administration published its weekly report on petroleum and natural gas inventories that showed declines in 1.1M barrels and 36 billion of cubic feet, respectively. During periods of growth, demand for either rises, therefore low inventories could increase prices of natural gas, oil and its derivative solutions. Furthermore, US President Trump recently accused OPEC members of keeping oil prices artificially high in a tweet earlier this week. This came after a Reuters report on Saudi Arabia's vision of oil in the $80-100 range, in order to facilitate possible Saudi Aramco IPO. Oil and petroleum derivatives traded slightly lower for the day.
On Wednesday, the EU has requested to be permanently (rather than temporarily) excluded by the US from its tariffs on steel and aluminum, as a precondition to begin trade talks. EU officials have also stated that they are willing to offer the US lower trade barriers and collaboration to identify unfair Chinese trade policies in exchange for the access to the US government procurement.
It is very important to keep in mind that if an agreement is not reached, the EU will be subject to the US tariffs in just two weeks. As the EU will retaliate, a trade war might become likely. As of now, we confirm that global trade poses one of the most important risks for the European economy.
This week Japanese Finance Ministry reported a trade surplus of ¥2.46 trillion ($23 billion) for fiscal year 2017. This second-highest level was supported by a strong overseas demand, but it was lower than the previous year by 38.2% due to energy imports regarding crude oil, liquefied natural gas and coal. The weak growth in exports, if we consider the last few months, suggests some concerns on a potential trade war between China and United States.

UNEMPLOYMENT AND INFLATION

Jobless claims were slightly above the expected range, coming in at 232,000 and getting the 4-week moving average around the same level[4]. Jobless claims are measured on a weekly basis as number of people filing for unemployment insurance for the first time. The fewer the number of people claiming insurance, the stronger the demand for labor, the higher the number of people receiving income. If the number is too low, this leads to inflation, so CPI and NAIRU data should be monitored for a broader picture.
In the quarter ended in March, the number of employees in the UK is raised of 55000 units, in line with the prevision, and he unemployment rate has been settled at 4.2%, less than the expected 4.3%. In 2017 the EU employment rate of people between 20 and 64 was 72.2% and in the 2016 71.1%, the target to achieve within 2020 is 75%, with some differences country-to-country.

The final estimate for Eurozone inflation in March 2018 was released this week: price grew 1.3% year-on-year (down 0.1% from the previous estimate). While this signals an increase from February (inflation was 1.1%), it is still lower than a year ago (1.5%). The target of 2% remains far: these last readings should not change the ECB monetary policy.
In the UK, inflation fell 0.2% in March, recording a level of 2.5% year-on-year. It was expected to remain stable at 2.7%.
If Asian consumers and commodity price rises, there will be higher inflation in the region. Consumer price inflation is projected to increase to 2.9% in 2018 and 2019, from the 2.3% reported in 2017. Nevertheless, projections for the next years are far below the 10-year regional average of 3.7%. Being more specific, in Malaysia official data showed on Wednesday that consumer price inflation eased in March to its lowest level (1.3%) of the year since cheaper fuel prices cushioned impact from costlier food. Economists on the whole agree Malaysian inflation will rebound slightly and remain modest in the next months, although they are divided over the central bank's policy rate action. For example, Australia and New Zealand Banking Group expects Malaysia's central bank will raise the benchmark overnight policy rate to 3.50% next September. Core inflation, which excludes most volatile items like fresh food and energy prices, rose to 1.7% in March when compared with the same month in 2017. The index fell 0.3% from February. Nomura Securities tries to predict that interest rates will remain unchanged this year with core inflation broadly stable at around 1.8% in April and May before rising slightly in June.

CREDIT RISK

Foreign financial investment in long-term US securities has been around $49 billion in February, down from $62.1 billion prior. Bonds and exchange rates are affected by the capital inflows more than equities. Strong foreign demand means stronger US dollar, relaxing the need for higher interest rates. Since foreign ownership of US equities is limited, the data isn't as important for the stock markets. The yield of the 10 years t-bond is currently about 2.8%, with an increase on the previous week values[5]. Considering the medium run, over the past six months the return of the bond has constantly increased from about 2.3%. A similar pattern is observed also for treasury bonds with shorter maturities. Talking about the corporate bond market, the scenario has been pretty steady throughout the week. In general, however, we can say the bond market should be closely monitored over the next months, considering the expected hikes in the interest rate by the FED. Moreover, the credit situation seems to be stable, as confirmed also by credit rating agencies. Just a few weeks ago Fitch has confirmed an AAA rating for the USA, with stable outlook. The expectations are similar also according to the other agencies. However, Fitch warns that increasing deficit and debt could potentially threaten the ability to pay back the debt if new reforms will not be made.
In the last months, different rating agencies have increased Spain's credit rating; this is a sign of a recovering economy in one of the European countries which was hit the hardest by the financial crisis. Lastly, S&P updated the rating to A- from BBB+ with a positive outlook. On the whole, the European Union has a strong Aaa Stable rating (Moody's), thanks to the creditworthiness of some of its members (such as Luxembourg and Germany).

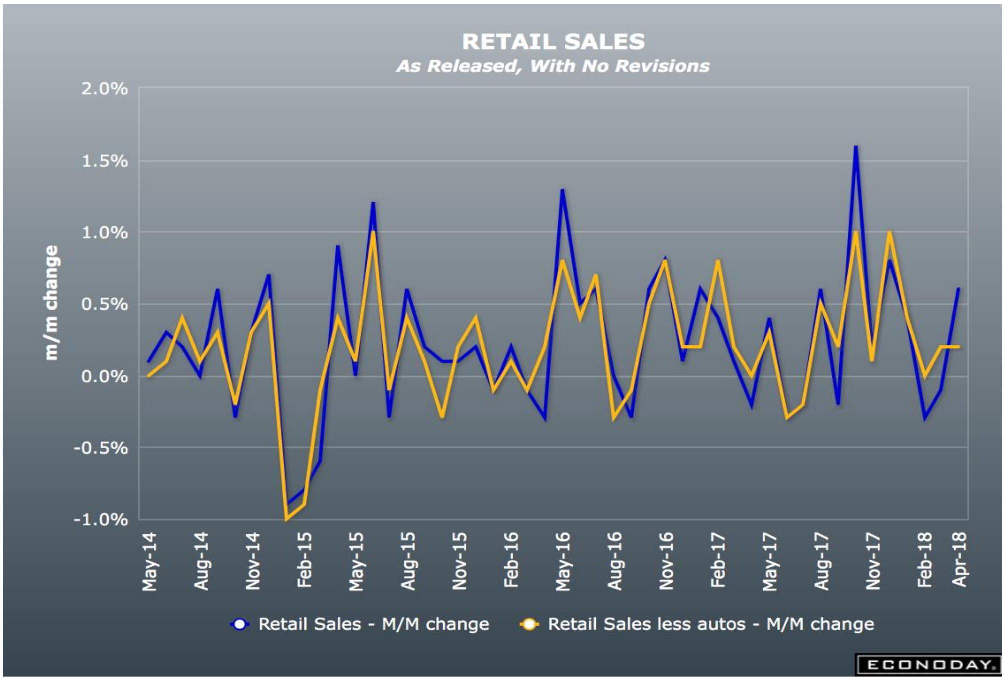
According to a survey promoted by Reuters, Chinese growth is expected to cool to 6.3% next year. Economists agree monetary policy would remain unchanged this year, while analysts think China will keep the benchmark lending rate unvaried at 4.35% until the beginning of 2020.
However, it results to be much more probable a rising cut in the amount of reserves, particularly in the reserve requirement ratio (RRR) by 50 bps for all banks in the 2018 4Q.

CURRENCY

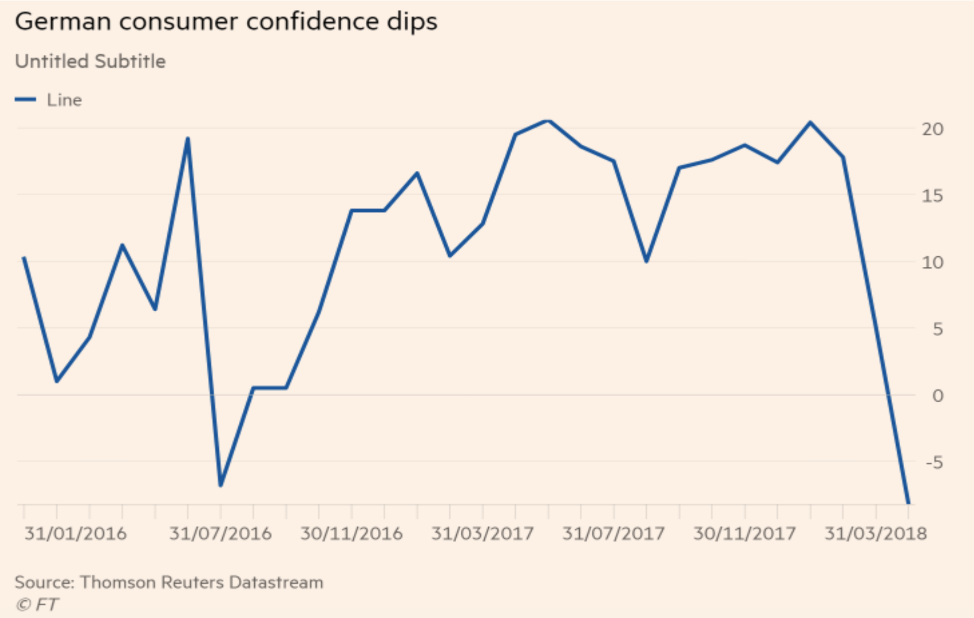
The situation on the currency market has been quite stable over the week. The current Euro/Dollar exchange rate is about 1.23, substantially unchanged from last week. Here, we would like to highlight some comments about the Dollar. Firstly, during the week John Williams, the incoming head of the Federal Reserve, stated that “Bitcoin isn’t a currency and cannot replace the Dollar”. Secondly, it might be interesting to notice that some countries in the Arab world (Iran the most recent) have decided to switch from Dollar to Euro for official reporting currency, probably considering the latter will be more solid in the future.
The EUR/USD did not have any significative movement and closed the week pretty much unchanged, as strong US data and rising yields helped the dollar recover what it lost at the beginning of the week amid economic health worries.
The EUR/GBP, on the other hand, has seen an upward movement, due to the weak UK inflation data (2.5%). As the Bank of England projected an inflation rate of 2.8% in March, the market has begun to question whether plans to hike rates in May will take place.
Something interesting this week happened with the Swiss franc. For the first time since 2015, when the Swiss National Bank eliminated a with the euro, the EUR/CHF traded under the level of 1.20. This might suggest that the CHF is losing its status as a “safe” currency[6].
China weakened the yuan in the past, but Central Bank authorities know that a devaluation would only increase trade tensions with the United States. While a depreciation of a currency is set by the exchange market, a devaluation is performed by official financial authorities of a central bank.
Despite the Xi Jinping’s last conciliatory speech, President Trump’s tweet on Monday tried to inflate tensions. Two different paths can be pursued by Beijing: the first is the pure devaluation by lowering the daily fixing of yuan against the US dollar; the second signal could be the sale of yuan and the purchase of dollar and Treasuries by national and China affiliated banks. Alternatively, China could introduce again a counter-cyclical factor in models like the one that helped in 2016 and 2017. This factor could be used to help investors follow more carefully economic fundamentals and not be driven by irrational expectations. The main consequence could be a relax of retail and corporate capital outflows rules. A devaluation would produce two main potential problems: first, it would be an opportunity for the United States to label China as a “currency manipulator” so that trade sanctions would be “justified”; then Chinese market confidence could be hurt, and capital outflows would be destabilized.
This week, the Latin American currencies ended up falling against the major currencies, mainly against the dollar, even though they started performing well on the beginning of the week,

especially the peso and the Brazilian real[7]. In fact, after significant gains against the dollar, both currencies dropped considerably, with Mexico recording the worst drop in the last 11 months[8]. These last events could be justified by the massive uncertainty around the upcoming elections in the Latin American economies – the increasing strength of Andres Manuel Obrador, in Mexico and the recent imprisonment of Lula da Silva due to corrupt behavior, in Brazil – is already worrying investors and it is noticed in the currency and equity markets.

APPENDIX:



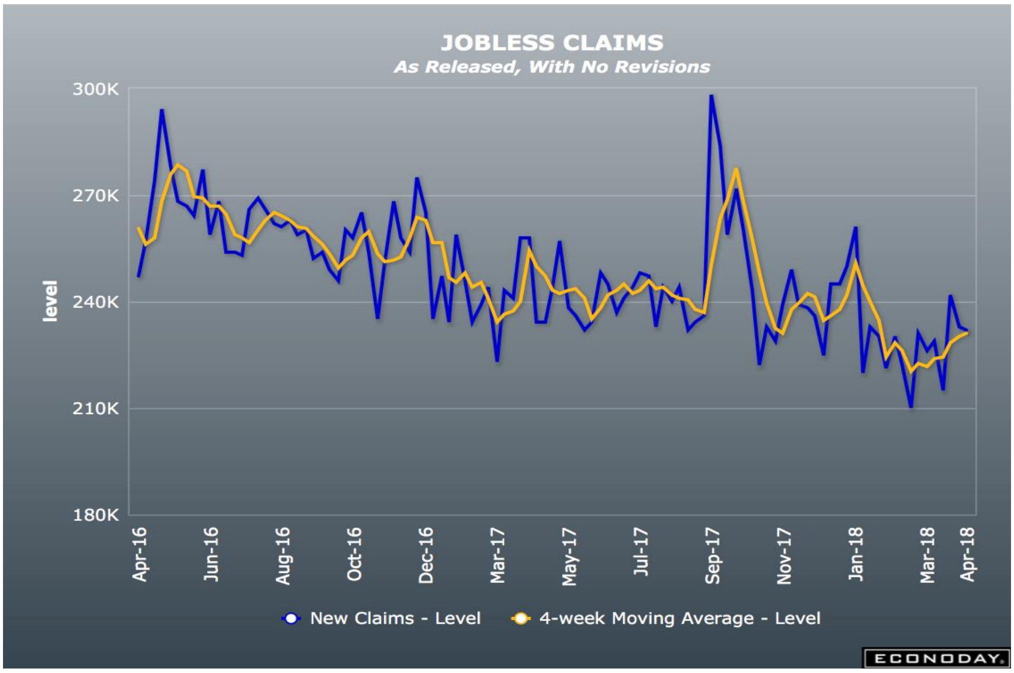
1



2

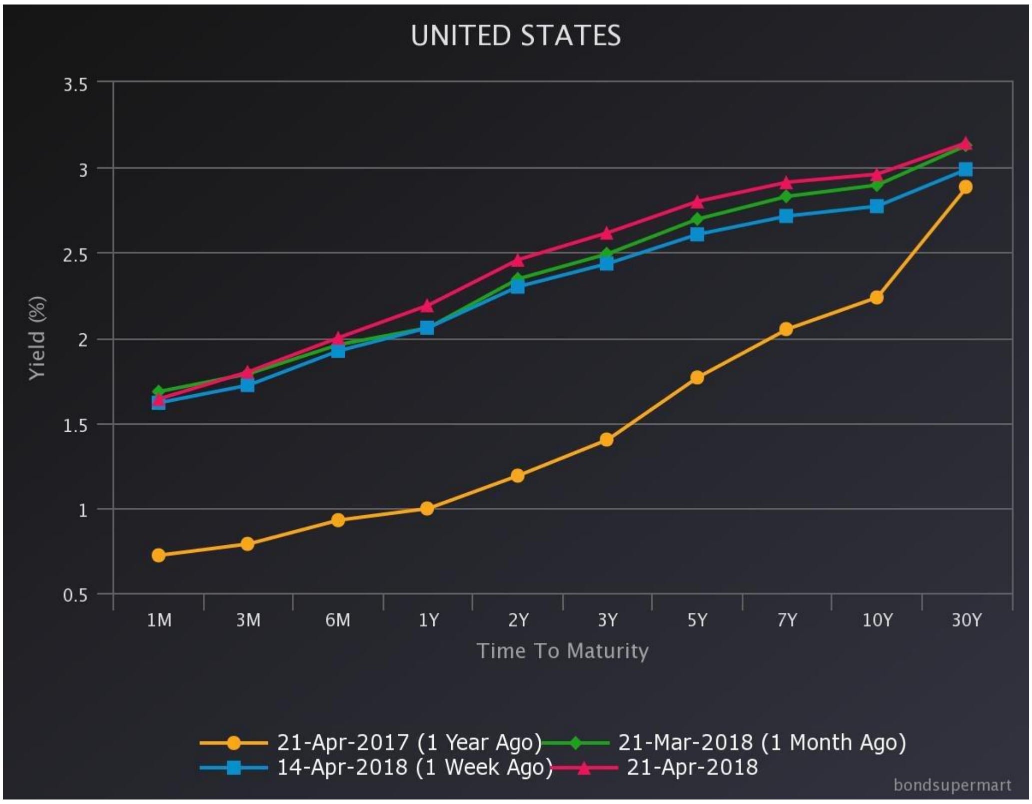
3

Source: Bloomberg



JOBLESS CLAIMS
As Released, With No Revisions
level
300K
270K
240K
210K
180K
Apr-16
Jun-16
Aug-16
Oct-16
Dec-16
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Jan-18
Mar-18
Apr-18
New Claims - Level
4-week Moving Average - Level
ECONODAY.

4



UNITED STATES
Yield (%)
3.5
3
2.5
2
1.5
1
0.5
1M
3M
6M
1Y
2Y
3Y
5Y
7Y
10Y
30Y
Time To Maturity
21-Apr-2017 (1 Year Ago)
21-Mar-2018 (1 Month Ago)
14-Apr-2018 (1 Week Ago)
21-Apr-2018
bondsupermart

5

6

Source: Yahoo Finance

CURRENCY	VALUE	CHANGE	NET CHANGE	TIME (EDT)	2 DAY
USD-MXN	18.4500	0.0029	+0.02%	5:58 AM	
USD-BRL	3.3849	0.0047	+0.14%	4/19/2018	
USD-CLP	595.4600	0.7800	+0.13%	4/19/2018	
USD-COP	2,731.6900	21.2700	+0.78%	4/19/2018	
USD-PEN	3.2193	0.0015	+0.05%	4/19/2018	
USD-VEF	59,425.6250	0.0000	0.00%	4/19/2018	
USD-CRC	564.7600	0.0000	0.00%	4/19/2018	
USD-ARS	20.1654	0.0337	+0.17%	4/19/2018	

7

Source: Bloomberg

8

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