ANDBANK
Private Bankers

Flash Note:
23/09/2019

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

Economic data in the Euro area deteriorates more. Outlook.

- **Eurozone flash composite PMI hits 75-month low**: The IHS Markit flash Eurozone PMI for September hit a 75-month low of 50.4 versus consensus 51.9 and prior 51.9.
  - Manufacturing PMI deteriorated to 45.6 versus 47.3 forecast and prior 47.0. // Services came in at 52.0 versus consensus 53.3 and prior 53.5.
  - The weak headline number came amid weakness in the German and French readings.
    - The German manufacturing activity is shrinking at the fastest pace since 2009 after it fell to 41.4 versus consensus 44.0 prior 43.4.
    - German's GDP possibly in contraction in 3Q19GDP: according to the Bundesbank latest monthly report, which pointed out that Q3 GDP may be negative but in Germany such a decline can currently be seen as part of an economic normalization. It highlighted that the German economy is coming out of a phase of economic overload and as things currently stand, experts do not believe that it represents a cause for concern just yet. However, it noted risks caused by the global environment could hamper economic activity across multiple sectors.
  - The French update showed that the slowdown in manufacturing is also undermining resilience in the services sector.

- **What's behind the downtrend? Global Trade War and Brexit as the main reasons**
  - An ECB research report analyzed the fall in Eurozone industrial production growth over the last year, which blamed both an intensification in global trade tensions and domestic developments. It said that between July 2018 and June 2019 factors associated with China, UK and the US explained 37% of the fall in production growth and

63% were linked to domestic factors, which may in part reflect temporary factors linked to the car industry in the second half of 2018.
    - Europe's carmakers warn on no-deal Brexit: A statement released by groups groups including the European Automobile Manufacturers' Association and the European Association of Automotive Suppliers warned of the impact of "no-deal" on the industry. It said the UK's departure from the EU without a deal would trigger a seismic shift in trading conditions It highlighted that if the two sides revert to WTO trading rules, the likely consequence of a disorderly Brexit, the groups warned that the necessary tariffs will add €5.7B to the EU-Britain car trade bill

- **Whats going on in the main source of risk? (Global trade war).**
    - Trump has just said that "he doesn't need a trade deal with China before the 2020 election" and "not interested in a partial deal"
    - Meanwhile, Beijing has just canceller Chinese trade delegation's trip to American farm states (heartland)
    - Despite tough talk, US-China negotiations continue (according to NYT and Xinhua)

- **What is the going to be the ECB path?**
    - Der Telegraaf interviewed ECB's member Knot (from Dutch Central Bank), who reiterated his recent criticism of the ECB's policy measures and highlighted that they were disproportionate to economic conditions. He said he is also worried about side effects, such as a sharp rise in house prices. He eventully added that the ECB decision has shown that low rates are becoming quasi-permanent.
    - ECB's Vasle, also the Slovenia central bank governor, said in an interview on Sunday that global economic conditions are very complicated, and "the ECB will likely have to take more action in the coming months, quarters and years". However, he rejected the possibility of a "helicopter money" policy. The actions of the central bank have eased the conditions on the financial markets, increased demand and price growth. So for now we are keeping our present strategy."

Well. "Quasi permanent low rates" and "keeping the present strategy", are statements that help us to strengthen our (long held) vision for the future monetary conditions in the Eurozone.

Best