



## Macro views



### World

- Consistent with our expectations, markets and data have rebounded over the last several weeks. The concerns from earlier this year have faded, but not all of them have disappeared. For now, conditions in global economy have balanced out nicely as growth continues to chug along in most major economies
- With US and China data rebounding, our concerns remain centred on Europe. German manufacturing remains in recession and the floor has not yet been found. Conditions can quite possibly get worse before they get better. China might yet bail Europe out though as Chinese stimulus is feeding through the economy and will provide a spark to the global manufacturing supply chain. US data suggests that growth is strong but inflation is stable for now, an ideal combination for risk assets to rally and financial conditions to provide support



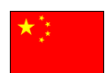
### United States

- The US economy continues to look healthy and we expect slower but above potential growth - GDP growth of 2.5% in 2019 and 2.1% in 2020. ISM manufacturing survey is at level consistent with GDP growth of just under 3%. The labour market continues to strengthen and bodes well for consumer spending and domestic demand. Tax cuts and fiscal spending acts as tailwinds and are expected to remain supportive.
- The housing market has stabilized after softening last year -likely an inadvertent side-effect of tax reform
- The notable downside risks includes – (i) escalation of trade war; (ii) sharp tightening in financial conditions and (iii) slowing China/Euro area growth dragging US growth lower too



### Eurozone

- Eurozone growth momentum has been slowing. Recent macro data highlighted continued slowdown in manufacturing (March PMI at 47.5 vs 49.3 in Feb) as German industry goes in deepest downturn outside Great recession. Weak external demand is a key drag
- However, domestic resilience hypothesis continues to hold as implied from the improvement in Eurozone service PMI which grew for 2<sup>nd</sup> consecutive month. Consumer confidence and retail sales are also improving
- Our SIREN-Momentum indicator points to 0.2% qoq GDP growth in Q1 – some upside to our 0.1% forecast
- Risks are mainly on the downside –“No deal” Brexit, trade war escalation (auto tariffs by US) could tip euro area economy into recession



### China

- Chinese government recently signaled several domestic stimulus measures, raising expectations of a bounce back in economic activity. And indeed recent China macro data came very strong, providing welcome relief for growth concerns. March Manufacturing PMI improved to 50.5 from 49.2 in February (highest in the last 6 months & biggest increase since 2012). Indicators of forward looking momentum, new orders (51.6) and new export orders (47.1) both rose to the highest levels in six months
- The rebound can also be partly attributed to the seasonal effect of the Chinese New year in Feb. Albeit, it will be premature to call this the beginning of an upward economic cycle and thus we await further activity data (land and property sales etc)
- We think the burden of policy easing will fall on the monetary side; and if the economy slows further, the government may have to loosen controls on the property market. On monetary policy front, we expect two cuts in 1y lending rate, of 25 bps each in Q2 and Q3
- Overall, we expect 6.1% GDP growth in Q1 and slowdown to 5.9% in Q2



### Emerging Markets

- EM growth remains tentative amidst front loaded political calendar and idiosyncratic uncertainties
- Nevertheless, we expect benign resolutions and keep constructive outlook on EM in medium term (expect EM growth at 4.5% in 2019). Absent significant inflation and external shocks, expect EM CBs policy response to be manageable to secure a soft-landing
- In Asia, China remains the key. In CEEMEA – EU slowdown a drag for CEE while idiosyncratic risks weigh on Turkey, S. Africa and Russia. In LatAm, political jitters are surging -especially in Argentina (election) and Brazil (reforms approval)

### Monetary Policy

- **Fed:** On hold through end-2020; would like to see inflation expectations rise
- **ECB:** No policy rate tightening until the end 2020; expect ‘credit easing’ package, including tiering
- **BoJ:** Discussion in next 2-3 years on changing policy goal from inflation to growth or price level
- **BoE:** One hike penciled in for August 2019
- **PBoC:** Two cuts in benchmark lending rate, 25bps each in Q2 and Q3 of 2019

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- Key downside risks**
- **Recession: Medium** - Prolonged weakness in Chinese and European growth, associated contagion and recession /correction in financial markets
  - **Trade war: Medium** - Significant escalation of trade conflict & an extension to Europe (auto tariff) will also hit growth hard. Recall the US recently upped the ante by threatening tariffs on a range of EU products as retaliation for EU subsidies to Airbus
  - **Crash Brexit: Low** - Although not our base case, a no-deal is still possible and would result in cumulative GDP loss of ~4% (UK) and 1% (Euro area) over 2019-2020
  - **Italy debt, EM political risks, and EM idiosyncrasies** also pose risks in 2019

- Key themes**
- **Global growth:** US remain the spearhead of global growth while EU and China seek stabilization
  - **Brexit:** Following the extension of A50 until the 31st October, the focus now shifts back to cross-party talks or further indicative votes to be able to secure an agreement over WA. Our baseline view remains a deal ratified before EP elections, followed by early general elections in the UK (40% indicative probability)
  - **Trade policy:** No breakthrough yet in the US-China trade talks. Uncertainty remains elevated with potential risks of tariff escalations with EU. Expect resolutions over the next several weeks and months
  - **EU elections:** Growing divide between pro- and anti-EU parties ahead of the European parliamentary election could potentially undermine effective economic policymaking

#### Market views

- Market sentiment**
- **Fundamentals are still strong**, though risks remain, mostly from geopolitics: trade, Brexit, election

- Equities**
- **Bullish US equities.** Earnings are likely to trough this quarter before rising steadily through the rest of 2019
  - Still scope for systemic and volatility-targeting funds to increase equity allocations

- Rates**
- The market's pricing of the Fed rate path is disconnected from our expectations
  - In Europe, the market is overpricing the risk of a deeper macro slowdown
  - Across both major economies, inflation breakevens have scope to rise further

- FX**
- **Dollar pressured longer term:** We expect the dollar to depreciate this year due to an unfavourable flow backdrop, Fed hold and an increasing political risk premium
  - **Bullish euro:** We still expect flows to stabilize, the current account surplus to stay high, and rates to shift in favour of Europe relative to the US
  - **Bullish Yuan:** The probability of a trade deal is rising, favourable flow dynamics, and stabilising growth

- Credit**
- **Expect positive bias to continue in Q2**, followed by widening in H2. EUR credit to outperform USD in H1

- EM**
- EM growth outlook remains tentative as idiosyncrasies rule
  - We continue to favour fixed income – both local and hard currency vs FX. However, valuations have turned unappealing across most markets. We expect less trend and more idiosyncratic moves in prices

- Oil**
- We expect a 6-month extension of OPEC supply discipline at the June meeting will sustain the bullish narrative for crude oil markets. We raise our forecast to peak for the year at Brent USD72/bbl in Q3-19

#### Key macro and markets forecasts

	GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2018	2019F	2020F		Current	Q2-19F	Q4-19F		Current	Q2-19F	Q4-19F
Global	3.8	3.4	3.5	US	2.375	2.375	2.375	US 10Y yield (%)	2.50	2.45	2.40
US	2.9	2.5	2.1	Eurozone	0.00	0.00	0.00	EUR 10Y yield (%)	-0.01	0.20	0.40
Eurozone	1.8	0.9	1.3	Japan	-0.10	-0.10	-0.10	EUR/USD	1.13	1.16	1.20
Germany	1.4	0.5	1.4	UK	0.75	0.75	1.00	USD/JPY	112	110	105
Japan	0.8	0.3	0.2	China	1.50	1.50	1.50	S&P 500	2891	3075	3250
UK	1.4	1.5	1.3					Stoxx 600	387	350	345
China	6.6	6.1	6.0					Gold (USD/oz)	1296	1300	1350
								Oil WTI (USD/bbl)	63.8	58.0	60.0
								Oil Brent (USD/bbl)	71.3	66.0	68.0

Current prices as of Apr 11, 2019

- Recent publications**
- [The House View – Balancing out](#), 9 April 2019
  - [The House View – Spring in sight?](#), 12 March 2019
  - [The House View – At the crossroads](#), 7 February 2019
  - [The House View – 2019 Outlook: Growth to plateau, but not collapse](#), 19December-2018