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Euro inflation below 2% again

Euro Macro: Inflation to drop below 2% again - Inflation data for Germany, Spain and Belgium suggest that eurozone inflation dropped back to levels well below 2% in March. HICP inflation in Germany declined to 1.5%, down from 2.2% in February, while in Spain it dropped to 2.1% from 3.0% and Belgium recorded a decline to 2.3% from 3.0%. Spain's statistical office mentioned that the drop in inflation was largely due to lower gasoline and electricity price inflation. Meanwhile, the detailed data from Germany's main states show that the decline was largely due to drops in the inflation rates of food (yoy rate down by around two percentage points in most states) and energy, while package holidays also had a downward impact. Part of the decline in inflation in March probably will be reversed in April due to the timing of Easter (last year in March and this year in April). Still, the decline energy price inflation is expected to continue in the coming months. Today's nationwide data suggest that eurozone HICP inflation (to be published on 31 March) dropped to levels well below the ECB's 2% target in March. We think that headline inflation probably fell to 1.6% from 2.0%, but the risks to this forecast are tilted to the downside. Looking forward, we expect headline inflation to settle at levels around 1.5% in the coming months, largely due to base effect in energy price inflation. Moreover, we think that core inflation will probably remain subdued, given that there is still slack in the labour market and wage growth is sluggish. (Aline Schuiling)

US Macro: Tax cuts in the making - After last week's decision to pull the Republican bill to repeal Obamacare, investors have become more sceptical about the means to push through the tax reform. On the one hand, the Trump Administration's ability to find the necessary support for passing future plans has been put in doubt. On top of this, not having passed the healthcare bill means that there will be USD 1 trillion less to support tax cuts over the next 10 years, which means less spending in order to maintain a neutral budget. There is also already a delay in the budget resolution process for 2018. Government authorities have acknowledged the possibility that the budget discussion will be extended to the autumn. As the discussion now stands a possibility is to use the budget reconciliation process, which would allow the bill to pass with only a simple majority in both the House and the Senate. This process allows passing budget rules that are temporary in nature as they would expire after 10 years. How deep the reform will be is likely to depend on the acceptance of Congressional Republicans to soften their insistence that tax reform needs to be revenue neutral and the timing of the process. We think that despite the delay and the uncertainty regarding the size of the tax cut, the economy is resilient enough to deal with the muddle through. We continue to expect above trend growth in 2017, mainly as a result of the strong labour market, a steady contribution from fixed investment (mainly related to energy activities) and improvement in the global economy. (Maritza Cabezas)

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