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## Politics or economics?

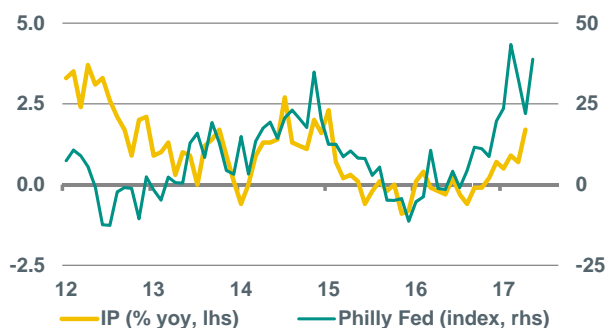
- **The appointment of Robert Mueller as investigator into the Russia links of the Trump entourage can bring some calm in the political turmoil**
- **The US (and global) economy is strong enough to withstand political uncertainty, but an impeachment (procedure) will be negative for sentiment and for the economy**
- **Europe and Japan doing well, growth in China has peaked**

Political developments in the US have had a sharply negative effect on sentiment in key equity markets in recent days. The appointment of former FBI boss Robert Mueller as special counsel to investigate the possible links of president Trump and his entourage with Russia can perhaps bring some calm. However, the situation around President Trump has become more volatile and commentators are saying that impeachment may be possible. To impeach a US president requires a two-thirds majority in the Senate where the Republicans hold a majority of 52 of the 100 seats. Mueller's investigation will, undoubtedly, take time and an impeachment does not look likely any time soon. All this is undoubtedly going to affect policymaking. When Trump was elected president, hopes were that he would engage in policies that would help the economy, such as stimulus and tax reform. Getting such and other policy initiatives through Congress has proved more difficult than anticipated and the most recent political complications will only make things more difficult for the Trump policy agenda.

### **The economy does not need much stimulus**

The question is how important that really is. Sentiment can be affected. But the economy itself is doing reasonably well. Apart from the weak GDP numbers for Q1, other indicators are suggesting that growth is continuing at a reasonable pace. The labour market continues to strengthen and the housing market is doing well. Recently published business confidence surveys are somewhat mixed. The Empire state index, measuring business confidence in the New York Fed's district disappointed in May, falling from 5.2 in April to -1.0, but the Philly Fed index surprised positively, rising from 20.0 in April to 38.8 in May. More important perhaps is the strong rise of industrial production in April. This is the sort of 'hard data' that has been weaker than the various confidence measures have been suggesting for some time. But production grew 1.0% mom in April, following a gain of 0.4% in March. This is encouraging.

## US: Industrial production and Philly Fed



Source: Bloomberg

Given that the US economy is doing reasonably well, the outlook does not depend on policy initiatives. Stimulus measures would boost activity, but you cannot say that the economy is in need of a significant push. Therefore, I think that the economy can withstand current political turmoil. The picture changes, however, if the turmoil gets even worse. An impeachment procedure would certainly be negative for sentiment and could also affect the economy negatively.

### China's growth has peaked, Japan and Europe maintaining momentum

Elsewhere, recent trading days have not seen a lot of important new data. Japan's economic growth exceeded expectations in Q1, growing by 2.2% qoq annualised and it could well maintain decent growth momentum in the period ahead. China's recent data has confirmed recent trends: growth is moderating somewhat after a strong first quarter. Retail sales growth eased marginally in April: 10.7% yoy, versus 10.9% in March, while growth of industrial production slowed to 6.5% yoy, from 7.6% in March.

The ZEW index for the eurozone, which measures confidence of analysts, rose from 26.3 in April to 35.1 in May. The ZEW index for Germany was also strong. The current-conditions component rose from 80.1 to 83.9, while the expectations series inched up from 19.5 to 20.6. While this is not a particularly important indicator, it is suggesting that growth momentum is being maintained.

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Main economic/financial forecasts													
GDP growth (%)		2015	2016e	2017e	2018e	3M interbank rate		11/05/2017	18/05/2017	+3M	2017e	+12M	2018e
United States		2.6	1.6	2.3	2.5	United States		1.18	1.18	1.40	1.70	1.95	2.40
Eurozone		1.9	1.7	1.8	1.6	Eurozone		-0.33	-0.33	-0.35	-0.35	-0.35	-0.20
Japan		1.1	1.0	1.0	0.8	Japan		0.06	0.06	0.00	-0.10	-0.10	-0.10
United Kingdom		2.2	1.8	1.7	1.6	United Kingdom		0.31	0.31	0.40	0.40	0.40	0.40
China		6.9	6.7	6.5	6.0								
World		3.5	3.2	3.5	3.6								
Inflation (%)		2015	2016e	2017e	2018e	10Y interest rate		11/05/2017	18/05/2017	+3M	2017e	+12M	2018e
United States		0.1	1.3	2.3	2.5	US Treasury		2.40	2.23	2.5	2.90	3.00	2.80
Eurozone		0.0	0.2	1.6	1.5	German Bund		0.43	0.35	0.5	1.00	1.10	1.40
Japan		0.8	-0.1	0.7	1.0	Euro swap rate		0.84	0.78	1.0	1.30	1.40	1.60
United Kingdom		0.0	0.7	2.7	2.5	Japanese gov. bonds		0.05	0.05	0.1	0.00	0.00	0.00
China		1.4	2.0	2.0	2.5	UK gilts		1.16	1.06	1.2	1.70	1.80	1.90
World		2.9	2.9	3.4	3.3								
Key policy rate		18/05/2017	+3M	2017e	2018e	Currencies		11/05/2017	18/05/2017	+3M	2017e	+12M	2018e
Federal Reserve		1.00	1.25	1.50	2.25	EUR/USD		1.09	1.11	1.12	1.15	1.15	1.20
European Central Bank		-0.40	-0.40	-0.40	-0.30	USD/JPY		113.9	111.5	110	110	110	105
Bank of Japan		-0.10	-0.10	-0.10	-0.10	GBP/USD		1.29	1.30	1.30	1.30	1.32	1.35
Bank of England		0.25	0.25	0.25	0.25	EUR/GBP		0.84	0.86	0.86	0.88	0.87	0.89
People's Bank of China		4.35	4.35	4.35	4.35	USD/CNY		6.91	6.89	6.95	7.00	7.05	7.10

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

Key macro events 22 – 25 May 2017									
Day	Date	Time	Country	Market indicator	Period	Latest outcome	Expectation consensus	ABN AMRO	
Monday	22/05/2017	01:50:00	JP	Merchandise trade exports - % yoy	Apr	12.0	8.0		
Monday	22/05/2017	16:00:00	US	Fed's Harker speaks in Philadelphia					
Monday	22/05/2017	16:30:00	US	Fed's Kashkari speaks at Minneapolis Fed Conference					
Tuesday	23/05/2017	03:10:00	US	Fed's Evans speaks in Shanghai					
Tuesday	23/05/2017	08:00:00	DE	GDP - % qoq - Q1 final estimate and details	1Q F	0.6	0.6		
Tuesday	23/05/2017	10:00:00	EC	PMI manufacturing - index	May P	56.7			56.5
Tuesday	23/05/2017	10:00:00	EC	Composite PMI output	May P	56.8			56.7
Tuesday	23/05/2017	10:00:00	EC	PMI services - index	May P	56.4			56.4
Tuesday	23/05/2017	10:00:00	DE	Ifo - business climate - index	May	112.9			112.8
Tuesday	23/05/2017	14:00:00	HU	Base rate - %	May 23	0.9	0.9		
Tuesday	23/05/2017	16:00:00	US	New homes sold - % mom	Apr	5.8	-1.1		-1.5
Tuesday	23/05/2017	21:15:00	US	Fed's Kashkari speaks in Minneapolis					
Tuesday	23/05/2017	23:00:00	US	Fed's Harker speaks in New York					
Wednesday	24/05/2017	10:30:00	EC	ECB executive board member Praet speaks in Sofia					
Wednesday	24/05/2017	14:45:00	EC	ECB president Draghi speaks in Madrid					
Wednesday	24/05/2017	15:00:00	US	FHFA house price index - % mom	Mar	0.8			
Wednesday	24/05/2017	15:45:00	US	Markit - Flash PMI	May P	52.8			
Wednesday	24/05/2017	16:00:00	CA	Policy rate - %	May 24	0.5	0.5		
Wednesday	24/05/2017	16:00:00	US	Existing home sales - % mom	Apr	4.4	-1.1		-0.8
Wednesday	24/05/2017	20:00:00	US	FOMC Minutes	May 3				
Thursday	25/05/2017	00:00:00	US	Fed's Kaplan speaks in Toronto					
Thursday	25/05/2017		KR	Policy rate - %	May 25	1.25	1.25		1.25
Thursday	25/05/2017	00:30:00	US	Fed's Kashkari speaks in Minneapolis					
Thursday	25/05/2017	10:30:00	GB	GDP - % qoq	1Q P	0.3			
Friday	26/05/2017	01:30:00	JP	CPI - % yoy	Apr	0.2	0.4		
Friday	26/05/2017	14:30:00	US	GDP - % qoq annualised	1Q S	0.7	0.9		
Friday	26/05/2017	14:30:00	US	New durable goods orders - % mom	Apr P	0.9	-1.4		-1.0
Friday	26/05/2017	16:00:00	US	Univ. of Michigan cons. confidence - index	May F	98	97.3		95.0

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)