

9 June 2017

Han de Jong
Chief Economist
Tel: +31 20 628 4201
han.de.jong@nl.abnamro.com

Amazing stuff

- **Brexit uncertainty rises**
- **US data continues to undershoot expectations**
- **Chinese trade data encouraging**

I am amazed

My colleagues Nick Kounis, Aline Schuiling and Georgette Boele have already commented on the UK election result. There isn't much more to say about it at this stage. Since my colleagues' earlier note PM Theresa May has visited the Queen after securing DUP support for a minority Tory government.

I am not an expert on UK politics, but the whole thing is starting to look like a farce. My astonishment started when it became clear that Theresa May was going to take the UK out of the EU the 'hard' way. It seemed to me that was completely ignoring the 48.1% of voters who voted to remain in the EU. Then I was amazed when May called an early election. That was a totally unnecessary gamble, risking to be punished by the electorate for arrogance. The Tories had a working majority. Then I was amazed by the campaign and in particular that May refused to participate in debates with other party leaders. I was also amazed that the campaign did not focus entirely on which Brexit deal the UK wants. The whole purpose of the elections was to provide May with a stronger, and I suppose, clearer mandate. Then surely that is what the campaign should have focussed on.

And today I am amazed that May wants to stay on as PM despite the elections resulting in a hung parliament. Unbelievable. So let me recap the reasons for my amazement: First May aims for a hard Brexit without it being clear that is what the UK people want, then she calls a completely unnecessary election, then she fights a poor campaign in which she refuses to engage with other leaders and which seems to completely lack the right focus, then the election result is a disaster for May, but despite all this, she wants to stay on as PM. I am flabbergasted. I think that UK politics will be unstable at best in the period ahead and that the uncertainties surrounding the Brexit negotiations have increased. Ironically, the chances of a softer-than-hard Brexit (whatever that is) have probably increased. So perhaps something good can still come out of this mess.

Encouraging Chinese data

The most important set of economic indicators of recent days came from China in my view. Having successfully engineered an acceleration of economic growth that has

shown up since the second half of 2016, Chinese policymakers have more recently, been trying to address risks of financial instability. In doing so, they are effectively reversing earlier stimulus. It looks to us as though the Chinese economy reached a growth peak in Q1 of this year. The big question is how fast growth will slow. Recent trade data is encouraging. The dollar value of imports was up 14.8% yoy in May, against 11.9% in March. Export growth accelerated more modestly: 8.7% versus 8.0%. This is very relevant because China's imports are other countries' exports and the stronger growth of these imports has been a key stimulus to global trade in recent quarters. This most recent set of data suggests that any slowdown in the Chinese economy is not (yet) affecting world trade.

China Imports and exports



Source: Bloomberg

Another important economic indicator in China is foreign-exchange reserves. They dropped sharply between mid 2014 to early 2017, by USD 1 trn in total. Since January this year, reserves have inched higher, by some USD 50 bn in total, half of which was achieved in May. The improvement shows either that policymakers have a better grip on capital flows or that confidence is improving. Either way, it is probably a positive sign.

China FX reserves



Source: Bloomberg

US data continues to disappoint, but jobs market looking good

US economic data has disappointed in recent months. That does not mean the data has been bad, just that they have failed to match expectations. So far, this is not something to worry about particularly. I would say it is noise, at least for now. Some parts of the economy remain solid. Initial jobless claims continue to be very low and the so called JOLTS report showed that the number of job openings in April was the highest on record (I can find the series going back to 2001).

Ex-FBI boss James Comey's testimony to Congress was perhaps more exciting than the economic data. It is unclear, at least to me, how damning his testimony was for president Trump and whether or not the Russia links can lead to an impeachment and to Trump being forced to step down. In case it comes to that, it does not look likely that it will happen in a hurry.

German output growth

There was not a lot of European data to comment on in recent days. Perhaps most relevant were German orders and industrial production data. Orders were weak in April falling 2.1% mom after +1.1% in March, though they were up 3.5% yoy, versus +2.5% in March. Industrial production was up 0.8% mom (after -0.1%) and + 2.9% yoy, the highest since early 2014. German exports and imports were also solid in April. This is all testimony to the fact that the German economy is doing well, though not growing spectacularly.

Eurostat raised the growth numbers for Q4 2016 and Q1 2017. This has lifted overall growth numbers for this year and last and we have, indeed, adjusted our forecast for this year and next.

The ECB decided to change its guidance, but only modestly. They dropped the remark that they may cut interest rates further should they deem than necessary. A little to our surprise the ECB maintained the phrase that asset purchases could still be stepped up should that be considered necessary. The ECB maintained its commitment that interest rate increases will only get onto the agenda after 'an extended period of time and well past the horizon of the net asset purchases'. It is clear that normalisation of monetary policy is going to be a very slow process. The ECB prefers to err on the side of being behind the curve, compared to ahead of the curve. I think that makes sense as a principle.

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2017 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")

Main economic/financial forecasts

GDP growth (%)		2015	2016e	2017e	2018e	3M interbank rate		01/06/2017	08/06/2017	+3M	2017e	+12M	2018e
United States		2.6	1.6	2.3	2.5	United States		1.22	1.23	1.70	1.70	2.20	2.40
Eurozone		1.9	1.7	2.1	1.8	Eurozone		-0.33	-0.33	-0.35	-0.35	-0.30	-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		0.29	0.29	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		01/06/2017	08/06/2017	+3M	2017e	+12M	2018e
United States		0.1	1.3	2.3	2.5	US Treasury		2.22	2.19	2.7	2.90	3.20	2.80
Eurozone		0.0	0.2	1.6	1.5	German Bund		0.30	0.26	0.8	1.00	1.30	1.40
Japan		0.8	-0.1	0.7	1.0	Euro sw ap rate		0.79	0.76	1.2	1.30	1.50	1.60
United Kingdom		0.0	0.7	2.7	2.5	Japanese gov. bonds		0.04	0.06	0.1	0.00	0.00	0.00
China		1.4	2.0	2.0	2.5	UK gilts		1.08	1.03	1.5	1.70	1.90	1.90
World		2.9	2.9	3.4	3.3								
Key policy rate		08/06/2017	+3M	2017e	2018e	Currencies		01/06/2017	08/06/2017	+3M	2017e	+12M	2018e
Federal Reserve		1.00	1.50	1.50	2.25	EUR/USD		1.12	1.12	1.15	1.15	1.17	1.20
European Central Bank		-0.40	-0.40	-0.40	-0.30	USD/JPY		111.4	110.0	110	110	108	105
Bank of Japan		-0.10	-0.10	-0.10	-0.10	GBP/USD		1.29	1.29	1.30	1.30	1.33	1.35
Bank of England		0.25	0.25	0.25	0.25	EUR/GBP		0.87	0.87	0.88	0.88	0.88	0.89
People's Bank of China		4.35	4.35	4.35	4.35	USD/CNY		6.81	6.80	7.00	7.00	7.05	7.10

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

Key macro events 12 – 16 June 2017

Day	Date	Time	Country	Market indicator	Period	Latest outcome	Expectation consensus	ABN AMRO
Monday	12/06/2017	01:50:00	JP	Machinery orders private sector - % mom	Apr	1.4	-0.1	
Monday	12/06/2017	14:00:00	IN	Inflation (CPI) - % yoy	May	3.0	2.5	
Tuesday	13/06/2017	09:30:00	SE	CPI - % yoy	May	1.9		
Tuesday	13/06/2017	09:30:00	SE	CPI F - % yoy	May	2.0		
Tuesday	13/06/2017	10:30:00	GB	CPI - % yoy	May	2.7	2.8	
Tuesday	13/06/2017	11:00:00	DE	ZEW index (expectation economic growth)	Jun	21	21.0	26.0
Tuesday	13/06/2017	12:00:00	US	NFIB small business optimism index	May	105	105	
Tuesday	13/06/2017	14:30:00	US	Prod. prices index excl food and energy - % mom	May	0.4	0.1	
Tuesday	13/06/2017	14:30:00	US	Prod. prices index - % mom	May	0.5	0.0	
Wednesday	14/06/2017	04:00:00	CN	Retail sales - % yoy	May	10.7	10.7	
Wednesday	14/06/2017	04:00:00	CN	Industrial production	May	6.5	6.4	
Wednesday	14/06/2017	04:00:00	CN	Fixed investments - % yoy	May	8.9	8.8	
Wednesday	14/06/2017	06:30:00	JP	Industrial production - % mom	Apr F	4.0		
Wednesday	14/06/2017	08:00:00	DE	CPI - % yoy	May F	1.5	1.5	
Wednesday	14/06/2017	11:00:00	EC	Industrial production - % mom	Apr	-0.1	0.4	0.7
Wednesday	14/06/2017	14:30:00	US	Retail sales - % mom	May	0.4	0.1	0.2
Wednesday	14/06/2017	14:30:00	US	Inflation excl food and energy - % mom	May	0.1	0.2	0.2
Wednesday	14/06/2017	14:30:00	US	Inflation excl food and energy - % yoy	May	1.9	1.9	1.9
Wednesday	14/06/2017	14:30:00	US	Inflation (CPI) - % mom	May	0.2	0.0	0.1
Wednesday	14/06/2017	14:30:00	US	Inflation (CPI) - % yoy	May	2.2	2.0	2.0
Wednesday	14/06/2017	16:00:00	US	Business inventories - % mom	Apr	0.2	0.0	
Wednesday	14/06/2017	20:00:00	US	Federal Funds Target Rate - Upper bound	Jun 14	1.0	1.23	1.25
Wednesday	14/06/2017	20:00:00	US	Federal Funds Target Rate - Lower bound	Jun 14	0.8	1.0	1.0
Wednesday	14/06/2017	20:30:00	US	Fed chairman Yellen holds news conference	Jun-14			
Thursday	15/06/2017		ID	Policy rate - %	Jun-15	4.75	4.75	4.75
Thursday	15/06/2017	06:30:00	NL	Unemployment rate	May	5.1		5.1
Thursday	15/06/2017	09:30:00	CH	SNB 3-month ibor upper target	Jun 15	-0.25		-0.25
Thursday	15/06/2017	09:30:00	CH	SNB 3-month ibor lower target	Jun 15	-1.25		-1.25
Thursday	15/06/2017	09:30:00	CH	SNB Sight Deposit Interest rate	Jun 15	-0.75		-0.75
Thursday	15/06/2017	10:30:00	GB	Retail sales - % mom	May	2.3	-0.8	
Thursday	15/06/2017	13:00:00	TR	Repo rate - %	Jun 15	8.0		
Thursday	15/06/2017	13:00:00	GB	Policy rate - %	Jun 15	0.25	0.25	0.3
Thursday	15/06/2017	13:00:00	GB	BoE size of asset purchase programme - GBP bn	Jun	435	435	435
Thursday	15/06/2017	14:30:00	US	Philadelphia Fed - business confidence - index	Jun	38.8	24.7	24.0
Thursday	15/06/2017	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Jun	-1.0	3.6	3.5
Thursday	15/06/2017	15:15:00	US	Industrial production - % mom	May	1.0	0.0	
Thursday	15/06/2017	16:00:00	US	NAHB home builders' confidence index	Jun	70	70	69.0
Friday	16/06/2017	11:00:00	EC	Core inflation - % yoy	May F	0.9	0.9	0.9
Friday	16/06/2017	12:30:00	RU	Keyrate %	Jun 16	9.3	8.9	
Friday	16/06/2017	14:30:00	US	Housing starts - % mom	May	-2.6	3.9	3.9
Friday	16/06/2017	16:00:00	US	Univ. of Michigan cons. confidence - index	Jun P	97	97	96.0
Friday	16/06/2017		RU	GDP - % yoy	1Q P	0.5	0.5	
Friday	16/06/2017	18:45:00	US	Fed's Kaplan speaks				

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