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Cruising altitude

- **Main economies steady as they go**
- **Asian trade data suggests no further deterioration of world trade**
- **President Trump under more pressure, but removal from office unlikely**

PMIs suggest solid growth

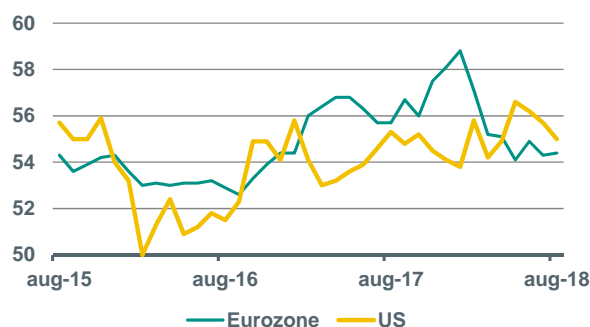
Preliminary PMIs suggest the main economies are continuing to grow nicely. The eurozone economy has lost some altitude earlier this year but seems to be settling around 'cruising altitude'. The US is growing steadily and there is little to suggest that this benign picture is going to change any time soon.

The eurozone's composite PMI inched higher: 54.4 in August, from 54.3 in July. Business confidence in the manufacturing sector eased a little, while it picked up in services. The data for the two countries released on the same day, Germany and France, was actually better than for the eurozone as whole.

The details of the German Q2 GDP data confirm what was reported earlier. Overall GDP growth amounted to 0.5% qoq, more or less the same as previous quarters. Domestic demand grew at a 0.9% qoq pace, more than double the Q1 pace and the fastest since the last quarter of 2016. Foreign trade was a drag on growth.

Eurozone & US PMI

composite



Source: Bloomberg

The PMI data for the US weakened modestly in August, but at 55.0 versus 55.7 in July the composite PMI is still pointing at solid growth. Initial jobless claims came in at 210.000 in the latest week, confirming that the labour market remains robust. The housing market

appears to be stabilising at a high level. Existing and new home sales are moving sideways.

Asian trade data suggests world trade growth not decelerating further

World trade growth has weakened this year. In order to assess whether or not the deceleration continues, I like to look at the various trade statistics in Asia. They are timely and the economies tend to be early-cyclical. Data released in the last couple of days is encouraging. The value of Korean exports during the first 20 days of August was up 14.9% yoy, against 9.3% in July. The graph shows that export growth is lower than it was last year, but it appears to be stabilising (apart from the monthly volatility) at a decent clip.

Taiwanese export orders were up 8.0% yoy in July, better than the 0.1% yoy drop seen in June. Industrial production in Taiwan was up 4.4% yoy in July. This data, too, is suggesting growth is stabilising at a decent enough pace.

Korea: Exports

first 20 days, % yoy



Source: Bloomberg

Taiwan export orders

% yoy



Source: Bloomberg

Heat on the president

With his former campaign manager, Paul Manafort, going to jail and his long-time lawyer and fixer, Michael Cohen, pleading guilty to accusations of helping Trump silence a porn star and a Playboy playmate, the pressure on president Trump is increasing. People have started to talk about impeachment and the president has said that it would be strange to get rid of someone who has done a good job. That must be typical Trumpian logic. My guess is that all people do good things, that is not the issue. If a good person (however defined) commits a crime, that person must be brought to justice, regardless of how good that person is in other aspects of life. Anyway, it is not my call, obviously.

I have written about this before, but it is perhaps good to remind ourselves that it is difficult to force a US president out of office. It is a Congressional procedure. And that makes it political. Most members of Congress will support a president of their own party, unless the facts and the evidence are so bad that they simply can't support their own president. Removal of a US president starts with an impeachment by the House. A simple majority of the House can impeach a president by finding the president guilty of "treason, bribery or other crimes and misdemeanors". The Republicans currently have a majority in the House, but all seats are going to be contested in the November elections. An impeachment by the House does not force the President out of office. Only if a two-thirds majority of the Senate

finds the president guilty is he/she forced out of the White House. Republicans currently hold 51 Senate seats, the Democrats 47 and there are two independents. 33 of the 100 Senate seats will be contested in November, but 24 of those are currently held by Democrats. It will therefore be completely impossible for the Democrats to get a two-thirds majority in the Senate. President Trump can thus only be forced out if a relatively large number of Republican senators vote against him. At this stage, this looks extremely unlikely. When Bill Clinton was impeached by the House in 1998, all Democratic senators supported him. Even though the Republicans then had a majority in the Senate, their majority was not big enough and Clinton was acquitted.

Looking at the alleged facts of the collusion case against Trump, my guess is that an impeachment procedure is possible and probably likely if the Democrats win a House majority. But I still think that removal of the president is unlikely. This will have an impact on financial markets as the impeachment process will create uncertainty and probably also unexpected developments, not to mention aggressive and stinging tweets from the president.

Main economic/financial forecasts											
GDP growth (%)	2016	2017	2018e	2019e	3M interbank rate	16-8-2018	23-8-2018	+3M	2018e	+12M	2019e
United States	1,6	2,2	3,0	2,7	United States	2,32	2,31	2,70	2,60	2,90	3,00
Eurozone	1,8	2,5	2,2	2,1	Eurozone	-0,32	-0,32	-0,33	-0,33	-0,33	-0,20
Japan	1,0	1,7	1,1	0,9	Japan	0,07	0,07	-0,10	-0,02	-0,10	-0,10
United Kingdom	1,8	1,7	1,4	1,7	United Kingdom	0,80	0,81	0,70	0,75	1,00	1,20
China	6,7	6,9	6,5	6,0							
World	3,4	3,8	3,8	3,6							
Inflation (%)	2016	2017	2018e	2019e	10Y interest rate	16-8-2018	23-8-2018	+3M	2018e	+12M	2019e
United States	1,3	2,1	2,4	2,2	US Treasury	2,87	2,82	3,1	3,10	3,00	2,80
Eurozone	0,2	1,5	1,7	1,4	German Bund	0,32	0,34	0,2	0,40	0,60	0,80
Japan	-0,1	0,5	1,0	0,8	Euro swap rate	0,88	0,89	0,9	1,10	1,20	1,25
United Kingdom	0,7	2,7	2,3	1,9	Japanese gov. bonds	0,10	0,10	0,0	0,00	0,00	0,20
China	2,0	1,6	2,0	2,5	UK gilts	1,24	1,27	1,4	1,50	1,70	1,80
World	3,0	3,0	3,4	3,3							
Key policy rate	23-8-2018	+3M	2018e	2019e	Currencies	16-8-2018	23-8-2018	+3M	2018e	+12M	2019e
Federal Reserve	2,00	2,25	2,50	3,00	EUR/USD	1,14	1,16	1,10	1,15	1,20	1,25
European Central Bank	-0,40	-0,40	-0,40	-0,30	USD/JPY	110,9	111,3	110	110	106	100
Bank of Japan	-0,10	-0,10	-0,10	-0,10	GBP/USD	1,27	1,28	1,30	1,34	1,38	1,42
Bank of England	0,75	0,75	0,75	1,00	EUR/GBP	0,90	0,90	0,85	0,86	0,87	0,88
People's Bank of China	4,35	4,35	4,35	4,35	USD/CNY	6,90	6,88	6,50	6,70	6,60	6,70

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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