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Messy politics in a messy economy

- **Democrats start impeachment against Trump**
- **Suspension of UK parliament deemed unlawful**
- **US economy OK, rest of the world struggling**

US House speaker Nancy Pelosi announced the start of an inquiry into impeachment against president Trump over a phone call he made with the Ukraine president. The point of no return has undoubtedly been passed, making it inevitable that the process will dominate the news for the foreseeable future.

Chances that Trump will be removed from office as a result of this process are almost zero in my view. The House of Representatives will vote on impeachment and a simple majority is enough to impeach Trump. That may well happen as the Democrats have a comfortable majority (235 of the 435 seats). The president will only be removed from office if a two-thirds majority of the Senate find the president guilty of the allegations of the impeachment procedure. Only two presidents have even been impeached. Andrew Johnson was impeached in 1868 and Bill Clinton in 1998 on perjury and obstruction of justice. But in both cases the Senate acquitted the president. In the Clinton case, the Republicans held a majority in the Senate, but not a two-thirds majority. As all Democratic senators supported their president a two-thirds majority to remove Clinton from office could not be reached. In the event, even several Republican senators found Clinton not guilty. Currently, the Republicans hold 53 seats of the 100-seat Senate. It would require at least 20 Republican senators to drop Trump to remove him from office. That looks extremely unlikely. And I really wonder whether the Democrats have made a wise decision starting this procedure. Trump is a master at turning an attack on him into a counter attack.

Boris Johnson's suspension of parliament unlawful

The UK Supreme Court has found Boris Johnson's suspension of parliament unlawful. The Brexit saga continues. It is hard to say what will happen next. It looks to me like the prime minister will be forced to request a delay for the UK's departure from the EU. Assuming another three month delay is granted, parliament will then vote Johnson out of office and new elections will be held. The outcome of the elections are highly uncertain. A Boris Johnson win would open the way to a hard Brexit if a deal cannot be reached. A win for the other side opens the way to a new referendum and possibly a decision to stay in the EU. While there may be an overall majority against a hard Brexit, Johnson could still win the elections on a hard-Brexit platform as many moderate conservative voters will rather support Johnson than have a Corbyn government. But it is not impossible that Johnson will pull a rabbit out of his hat in the coming weeks.

Eurozone and Asian data pretty grim

Recently published economic indicators for the eurozone offer little hope that cyclical conditions will materially improve soon. Although perhaps there is one exception. Eurozone monetary statistics have started to turn up. M1 growth amounted to 8.7% yoy in August, up from 7.6% in July and a low of 6.2% in January. M1 is often seen as a relatively reliable leading indicator for cyclical developments. M3 growth accelerated to 5.7% yoy, up from a low of 3.5% in August last year. The August M3 reading was the highest since 2009. People who are trying to be optimistic on the 2020 growth outlook will certainly put these numbers on their list of arguments.

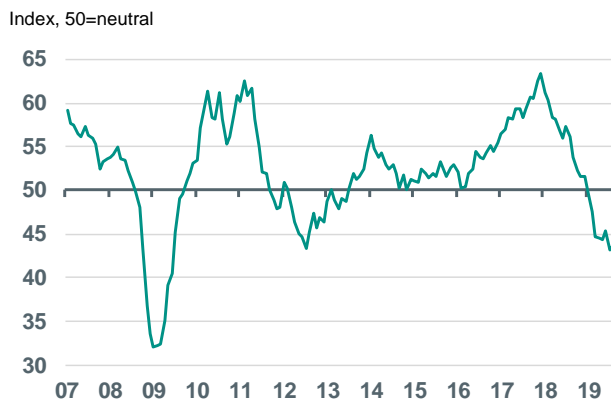
Eurozone M1 and M3



Source: Bloomberg

Unfortunately, the list of positives and negatives is still dominated by the latter. Eurozone September PMIs fell in manufacturing and in services. The composite PMI fell from 51.9 in August to 50.4 in September. German readings were particularly poor. The German manufacturing PMI fell from 43.5 to 41.4, clearly in recession territory, the German services PMI came in at 52.5, versus 54.8 in August. The Ifo numbers for Germany were slightly better at first sight. The overall index of German business confidence on the Ifo gauge improved marginally in September: 94.6, versus 94.3 in August. The rise, however, was entirely due to the assessment of 'current conditions'. The 'expectations' component, which is considered the more informative part of the survey, dropped from 91.3 in August to 90.8, the lowest level since 2009.

Germany: PMI manufacturing



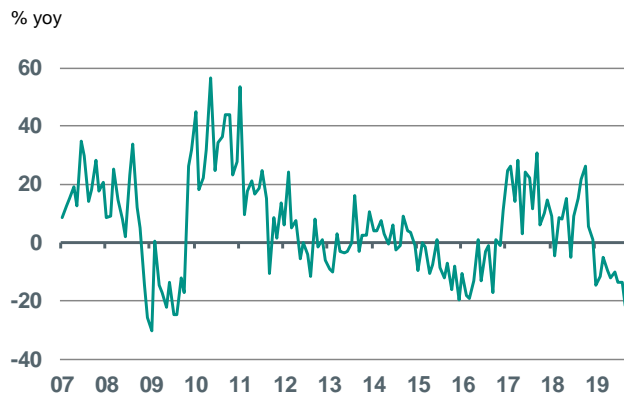
Source: Thomson Reuters Datastream

The European Commission's index of Economic Sentiment for the eurozone also fell in September, reaching its lowest level since 2015.

Not many important economic data was released in Asia in recent days. But what was published gave little reason for optimism. Japans manufacturing PMI declined as did the services PMI. The manufacturing PMI dropped to 48.9, down from 49.3 in August. As in many countries, services appear to be holding up better, but increasingly also starting to get under some pressure.

Korean trade stats were poor. The Korean statisticians publish data on international trade for the first 20 days of the month and the 21st day of the month. (Don't ask me how they do it or how reliable this data is, it seems pretty OK). Korean exports were down 21.8% yoy during this period, down from -13.3% in August. The September data was the worst since 2009. This data can be volatile so we must be careful not to read too much into one month's data, but this was a terrible number. It appears to be a reflection of weak industrial activity in Asia and troubled world trade. In line with this data Singapore's industrial production was down 8.0% yoy in August. Admitted, Singapore is a small economy and its data can be volatile, but still...

Korea exports first 20 days



Source: Bloomberg

US data a little better

The US economy is holding up better than Europe and Asia. According to the PMI data business confidence actually strengthened in September both in manufacturing and in services. The manufacturing PMI rose from 50.3 in August to 51.0 in September. The graph suggests that confidence is turning up, but we need some further evidence to that effect before we believe it. This may still be noise.

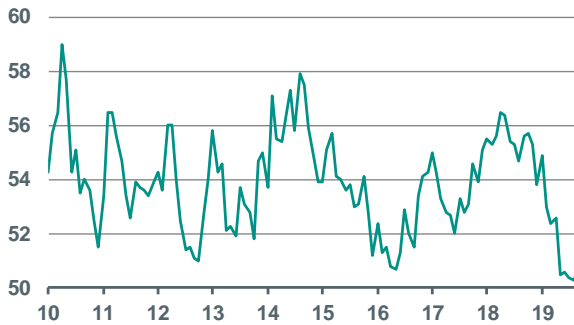
New home sales were also stronger in August, rising 7.1% mom, although this came after a drop of more than 8% in the previous month. Still, looking at the headline number in terms of units this was the third strongest month since 2007. Lower mortgage rates must surely be a driver here.

US consumer confidence fell sharply on the index of the Conference Board: 125.1 in September, down from 134.2 in the preceding month. This actually sounds worse that it

probably is. The Conference Board's measure for consumer confidence had recently moved higher than other indices. And the September data actually fits in the recent range of movement.

US: PMI manufacturing

Index, 50=neutral



Source: Thomson Reuters Datastream

US: Consumer confidence

Index, University of Michigan



Source: Bloomberg

Overall then...

The cyclical outlook for the global economy in the next couple of quarters is not looking great. European and Asian data looks weak and it is hard to see what will lead to a material improvement any time soon. On the other hand, we are not expecting a significant downturn with sharply rising unemployment and bankruptcies.

The US is doing considerably better but there, too, cyclical conditions are set to weaken. The process is led by corporate investment spending and the resulting drop in the number of new job or at least a drop in the pace of job gains. As the US consumer is still in a good mood and not particularly financially vulnerable, a recession in the US (which is undoubtedly coming at some stage) is unlikely to start during the next couple of quarters.

In the end, much will depend on the US-China trade conflict. President Trump has recently expressed optimism that a deal will be done shortly. We have heard that before. Believe it when you see it. For financial markets, what happens in the US is more important than what happens elsewhere. A deal or a truce between the US and China could therefore give a meaningful boost to sentiment regardless of the poor European and Asian economic data.

Main economic/financial forecasts										
GDP growth (%)	2017	2018	2019e	2020e	3M interbank rate	19/09/2019	26/09/2019	+3M	2019e	2020e
United States	2.4	2.9	2.2	1.3	United States	2.16	2.10	1.43	1.43	1.55
Eurozone	2.7	1.9	0.8	0.6	Eurozone	-0.40	-0.41	-0.55	-0.55	-0.55
Japan	1.9	0.8	1.0	0.3	Japan	0.07	0.07	-0.10	-0.10	-0.10
United Kingdom	1.8	1.4	1.2	1.2	United Kingdom	0.78	0.77	0.80	0.80	0.80
China	6.9	6.6	6.2	5.8						
World	3.8	3.5	2.9	2.9						
Inflation (%)	2017	2018	2019e	2020e	10Y interest rate	19/09/2019	26/09/2019	+3M	2019e	2020e
United States	2.1	2.4	1.8	2.0	US Treasury	1.77	1.69	1.5	1.50	1.50
Eurozone	1.5	1.7	1.1	0.9	German Bund	-0.51	-0.58	-0.8	-0.80	-0.80
Japan	0.5	0.9	1.1	1.6	Euro swap rate	-0.10	-0.16	0.2	0.20	0.35
United Kingdom	2.7	2.5	1.9	1.8	Japanese gov. bonds	-0.22	-0.25	-0.1	-0.10	0.00
China	1.6	2.1	2.5	2.5	UK gilts	0.64	0.52	0.3	0.30	0.30
World	3.0	3.4	3.6	3.3						
Key policy rate	26/09/2019	+3M	2019e	2020e	Currencies	19/09/2019	26/09/2019	+3M	2019e	2020e
Federal Reserve	2.00	1.50	1.50	1.50	EUR/USD	1.11	1.09	1.12	1.12	1.15
European Central Bank	-0.50	-0.60	-0.60	-0.60	USD/JPY	108.0	107.8	104	104	100
Bank of Japan	-0.10	-0.10	-0.10	-0.10	GBP/USD	1.25	1.23	1.24	1.24	1.30
Bank of England	0.75	0.75	0.75	0.75	EUR/GBP	0.89	0.89	0.90	0.90	0.88
People's Bank of China	4.35	4.10	4.10	3.85	USD/CNY	7.10	7.13	7.20	7.20	7.50

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

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