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Adjusting our GDP growth forecasts

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- We are lowering our 2016 GDP growth forecast for the US...
- ...and eurozone
- Oil prices temporarily dropped below USD 28/bbl

Adjusting our US GDP growth forecast

Data released in the past few days suggests that the US economy has lost traction in the last quarter of 2015. We are revising our GDP growth forecast for the fourth quarter of 2015 to 0.9% from 1.3% as a result of weaker retail sales and inventories. We have also adjusted our GDP growth forecast for 2016 to 2% from 2.5%.

US consumers curtail spending at the end of the year

December's retail sales were much weaker than expected. They declined 0.1% mom, the weakest outcome since the first quarter of 2015 when harsh winter weather kept consumers home. At the same time, November's retail sales were upwardly revised to 0.4% from a previous 0.2%. Meanwhile, core retail sales, which are more closely related to the consumer spending component of GDP, unexpectedly contracted by 0.3% after growing by 0.5% the previous month. Although special factors, like warm weather, likely curtailed spending on winter apparel, core sales were in general soft. We had expected private consumption to show strong growth rates in the fourth quarter as a result of the labour market recovery and low energy prices. Improving consumer confidence was also pointing in the direction of stronger consumption growth.

US industrial sector weakening at a faster pace than expected

Meanwhile, the industrial sector was also weaker than expected in the last quarter. Industrial production contracted by 0.4%, after a downwardly revised -0.9% the previous month (was -0.6%). Weakness in industrial production is not new, but latest manufacturing surveys continue to look soft. Manufacturing has been affected by the fall in commodity prices and strong US dollar, but on top of this warm weather has been pushing down output in mining and utilities. Separate data also showed that business restocked inventories at a slower pace in November. This suggests that business placed fewer new orders for manufacturers to replace these inventories.

We remain optimistic on the US economy

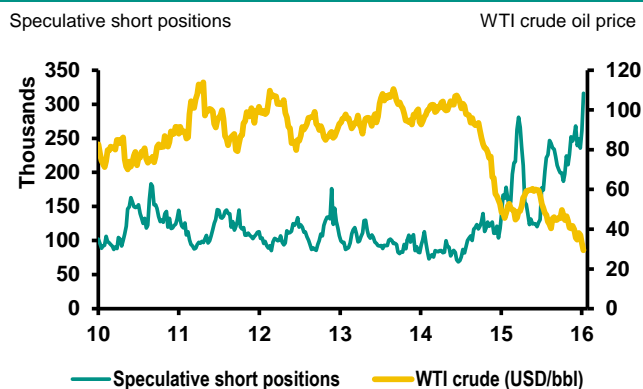
The strong US labour market suggests that the US economy is in a soft patch. We see labour market data as important in gauging the state of the business cycle. We expect

modest GDP growth in the first quarter after the slowdown at the end of 2015, but thereafter economic growth should slowly pick up to around trend rates. Private consumption growth remains the main driver, largely offsetting the mining recession, which should dissipate in the second half of the year. We continue to expect three rate hikes this year, with the next hike in June. There are however, downside risks to our GDP growth forecasts and these are related to the pace of appreciation of the US dollar and a further decline in oil prices.

Eurozone economy loses momentum, growth outlook revised lower

We have lowered our growth outlook for the eurozone as well. The incoming economic data for Q4 have disappointed and were in sharp contrast to surveys. Whereas both the composite PMI and the European Commission's economic sentiment indicator rose in every single month of Q4, industrial production and retail sales disappointed. The 3months-over-3months growth rate in production stood at zero in November and that of retail sales to -0.1%. This implies that even if the data were to rebound in December, it would still be in line with a slowdown in GDP growth in Q4, from the 0.3% qoq that was registered in Q2. Still, the domestic fundamentals in the eurozone remain consistent with the recovery regaining traction during the course of this year. However, overall growth will likely be more moderate than previously expected, mainly because the exchange rate of the trade weighted euro will depreciate much more moderately than we thought before and global trade is somewhat weaker than expected. We have revised our eurozone GDP forecast down to 1.6% this year (from 1.9% previously) and 1.9% next year (from 2.2%). Despite this revision, growth is expected to remain well above the trend growth rate of around 1-1.25%.

Speculative short positions are excessive



Source: Thomson Reuters Datastream

Oil prices temporarily dropped below USD 28/bbl

On Monday, oil prices dropped temporarily below USD 28/bbl. The main reason for this further fall was the lift of European and US sanctions against Iran. The International Atomic Energy Agency confirmed on Saturday that Iran had put into place all necessary measures as agreed in the nuclear deal with a coalition of western countries. As a result, European and most US sanctions were lifted. Iran announced that it will try to bring oil exports back to pre-sanction levels as soon as possible. This means that in the coming months, Iran may increase its oil production with another 500-600 kb/d in an attempt to regain somewhat of its lost market share of oil exports towards (mainly) Europe. The first

market reaction was negative for oil prices as the announcement pushed oil prices lower, even despite the fact that the market already anticipated such an announcement. It seems that, in current negative sentiment – in which speculative short positions were pushed to record highs (see graph above) – any reason to push oil prices lower is taken into account.

However, it remains uncertain how fast Iran can actually manage to increase its oil production. Exports can increase rapidly, but this will be mainly covered by the large crude oil storages Iran has built in recent years. If we translate this recent development into our longer-term outlook for oil, the impact remains limited. Last year, we saw a global overcapacity of approximately 1.6 mb/d. This is roughly similar to the annual rise of global demand. So, if global production would stabilise (not even decline), the situation of oversupply could diminish in roughly one-year time. If Iran increases its crude oil production, it could delay a 'normalisation' of the supply-demand balance with a couple of months. Nevertheless, we still believe that oil prices have been pushed too low and should recover in the coming weeks. See for more details regarding our oil price outlook our latest [Energy Monitor](#).

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Monday	18/01/2016	05:30:00	JP	Industrial production - % mom	Nov F	-1.0		
Tuesday	19/01/2016	03:00:00	CN	Fixed investments - % yoy	Dec	10.2	10.2	
Tuesday	19/01/2016	03:00:00	CN	Retail sales - % yoy	Dec	11.2	11.3	
Tuesday	19/01/2016	03:00:00	CN	Industrial production - % yoy	Dec	6.2	6.0	
Tuesday	19/01/2016	03:00:00	CN	GDP - % yoy	4Q	6.9	6.9	6.9
Tuesday	19/01/2016	08:00:00	DE	CPI - % yoy	Dec F	0.3	0.3	
Tuesday	19/01/2016	10:30:00	GB	CPI - % yoy	Dec	0.1		
Tuesday	19/01/2016	11:00:00	DE	ZEW index (expectation economic growth)	Jan	16.1	8	3
Tuesday	19/01/2016	13:00:00	TR	Repo rate - %	Jan 19	7.5	7.5	7.5
Tuesday	19/01/2016	16:00:00	US	NAHB home builders' confidence index	Jan	61.0	61.0	61
Wednesday	20/01/2016	10:30:00	GB	Claimant count unemployment rate - %	Dec	2.3		
Wednesday	20/01/2016	10:30:00	GB	Change in claimant count - thousands	Dec	3.9	3.3	
Wednesday	20/01/2016	14:30:00	US	Inflation excl food and energy - % mom	Dec	0.2	0.2	0.1
Wednesday	20/01/2016	14:30:00	US	Inflation excl food and energy - % yoy	Dec	2.0	2.1	2.1
Wednesday	20/01/2016		US	Inflation (CPI) - % mom	Dec	0.0	0.0	0.0
Wednesday	20/01/2016	14:30:00	US	Inflation (CPI) - % yoy	Dec	0.5	0.8	0.8
Wednesday	20/01/2016	14:30:00	US	Housing starts - % mom	Dec	10.5	2.7	3.5
Wednesday	20/01/2016	16:00:00	CA	Policy rate - %	Jan 20	0.5	0.4	
Wednesday	20/01/2016		BR	Policy rate - %	Jan 20	14.3	14.8	
Thursday	21/01/2016	06:30:00	NL	Consumer confidence - index	Jan	6		7
Thursday	21/01/2016	07:30:00	NL	Unemployment rate - %	Dec	6.8		6.8
Thursday	21/01/2016	08:45:00	FR	Business confidence manuf. - index	Jan	103		
Thursday	21/01/2016	11:00:00	EC	Core inflation - % yoy	Dec F	0.9	0.9	0.9
Thursday	21/01/2016	13:45:00	EC	Refi rate - %	Jan	0.05	0.05	0.05
Thursday	21/01/2016	13:45:00	EC	ECB Deposit rate - %	Jan	-0.30	-0.30	-0.30
Thursday	21/01/2017	14:30:00	EC	ECB QE (EUR bn per month)	Jan	60.00	60.00	60.00
Thursday	21/01/2018	14:30:00	EC	ECB Press Conference	Jan			
Thursday	21/01/2016	14:30:00	US	Philadelphia Fed - business confidence - index	Jan	-5.90	-1.14	
Friday	22/01/2016	10:00:00	EC	PMI manufacturing - index	Jan P	53.20	53.00	52.50
Friday	22/01/2016	10:00:00	EC	PMI services - index	Jan P	54.20	54.20	53.80
Friday	22/01/2016	10:00:00	EC	Composite PMI output	Jan P	54.30	54.20	53.80
Friday	22/01/2016	10:30:00	GB	Retail sales - % mom	Dec	1.70		
Friday	22/01/2016	15:45:00	US	Markit - Flash PMI	Jan P	51.20		
Friday	22/01/2016	16:00:00	US	Existing home sales - % mom	Dec	-10.53	7.96	8.00

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

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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