

# WHAT TO EXPECT NEXT WEEK

October 28 – November 3, 2019

**Philippe Waechter**  
Chief Economist

Twitter: @phil\_waechter

Blog: [philippewaechter.en.ostrum.com](http://philippewaechter.en.ostrum.com)

Soundcloud: phil\_waechter

Instagram: economic\_dynamics

<https://www.facebook.com/philwaechter/>



An affiliate of:



## HIGHLIGHTS

- The Fed's meeting with a press conference and a press release on Wednesday. Two questions: are disagreements between FOMC members remain as high as in September ? Will the Fed cut its target rate ? The dots graph suggests a third cut this year.
- Christine Lagarde will replace Mario Draghi as president of the ECB next Friday. The balance between politics and economics will be different than in the current mandate. The main task for Christine Lagarde will be to maintain the cohesion of the ECB members at a moment where the monetary policy is already very accommodative and the impact of a change will be questioned and lower than in the past.
- On the Brexit side, a vote is expected today on the possibility of general elections on December the 12<sup>th</sup> Boris Johnson will probably not have the qualified majority for it. The EU, in a draft, has proposed an extension of the Brexit until the end of next January.
- GDP figures will be released this week in the US and in France (30) and in the Euro Area, Italy and Spain (31). Expectations are on lower figures than in the second quarter. This would be consistent with the business surveys seen during this third quarter.
- ISM index for the manufacturing sector (November 1) will be key to anticipate the business cycle profile in the US. The index was below the 50 threshold in August and September.
- The Chinese official PMI index (31) and the Markit index for the manufacturing sector (1<sup>st</sup> )
- The Markit indices for the manufacturing sector will be released on November the 1<sup>st</sup> except on Continental Europe.
- Inflation flash estimates will be released in Europe this week. (Euro Area 31). As the oil price is on average lower than in September (53.7 € in October vs 56.7€ in September ) and has to be compared with a high level in October 2018 (70.3€). The energy contribution will be strongly negative and the inflation rate will be probably below the 0.8% seen in September.

## NEXT WEEK'S MAIN DATA AND EVENTS

- **It will be a central banks' week. The Fed will hold a meeting on Tuesday and Wednesday (press conference and press release on October the 30<sup>th</sup>) and Christine Lagarde will replace Mario Draghi on November the 1<sup>st</sup>.**
  - **The Fed will meet this week** and the consensus expects a lower fed fund target rate (1.5 – 1.75%). Two points to keep in mind. During the last meeting in September (18) the press release has shown disagreements with the decision of lowering the target. Bullard (Fed St Louis) wanted a 50bp drop, Esther George (Kansas) didn't want a change as she was persuaded that the current level was still appropriate. Nevertheless she said she would support a drop if economic conditions worsen. Eric Rosengren (Boston) thought that the current level was appropriate and accommodative enough. Since this meeting the situation has changed notably on the manufacturing side with a deep slowdown seen in the ISM manufacturing index (47.8 in September). On this question, the GDP will be released earlier the same day and may highlight the decision.  
The other point to keep in mind is that in the dots graph, the probability of a third drop this year was high. Before the meeting five FOMC members said they were against a drop, they were the five who, in the graph, maintain the Fed's target at the pre meeting level this year. Two of the five were able to vote, it was George and Rosengren. This means that the majority of the voting members supported a third drop this year.
  - **Next Friday**, Christine Lagarde will replace Mario Draghi as president of the ECB. A new era will start with her. She is not a monetary policy expert as Draghi is but she has a deeper political view of the world. This is a major change at a moment where "the benefits and costs of additional policies are much less obvious" as Olivier Blanchard said this week-end in the Financial Times.
- **Brexit under pressure**

A vote is expected this Monday on the possibility of general elections. Boris Johnson expects they will take place on December the 12<sup>th</sup>. But for that he needs a qualified majority (2/3) at the House of Commons. The DUP said it will not support BoJo. Therefore, if the prime minister has just a simple majority then he will have to resign and the Queen will ask for a new majority and a new prime minister.  
A draft proposed by the EU suggests an extension of the Brexit until the end of next January. It has to be confirmed by Brussels.
- **GDP figures for the third quarter: US and France (30), Euro Area, Italy and Spain (31)**

The main gauge for the economic activity will be released this week. During this summer, the growth momentum has weakened everywhere if we follow corporate surveys. The ISM global index was on average over the quarter 2 points below the second quarter average and the September index was at 51.8 which is consistent with a GDP growth at 1.5% (annualized) after 2% in Q2. In the Euro Area, the Q3 average for the synthetic global Markit index was one point lower than in Q2 and the index was at 50.1 in September. The 0.8% (annualized) figure seen in the second quarter may be a little optimistic.
- **Business surveys for the manufacturing sector in the US (ISM the 1<sup>st</sup>) and Markit indices except in Continental Europe (1<sup>st</sup>. For Continental Europe it will be the 4<sup>th</sup>). The Chinese official PMI will be released on October the 31<sup>st</sup>**

The important figure will be the ISM index as it was below the 50 threshold during the last two months. The Chinese index will probably show a contraction in the manufacturing sector. It was at 49.8 in September.  
The CFNAI, my favorite gauge for the US economy will be released on October the 28<sup>th</sup> for September. In August the three months average was close to equilibrium. The US economy momentum was close to its historical level.
- **The US employment report for October will be released on November the 1<sup>st</sup>.**

The momentum in jobs creation is now lower even if the unemployment rate is at 3.5%. On Tuesday (30) the Conference Board survey on consumer confidence will be out and it will be interesting to look at the question on the labor market. It shows a change in trend, on the downside, since the beginning of the year and this change is consistent with the JOLTS survey.
- **CPI figures for October in the Euro Area. EA, France and Italy (31) Germany, Spain (30). Employment in Germany for October (30) and the Fed inflation gauge for September (PCE index on October the 31<sup>st</sup>)**

# ADDITIONAL NOTES

Ostrum Asset Management  
Registered Office: 43, avenue Pierre Mendès-France – 75013 Paris – Tel. +33 1 78 40 80 00  
Limited Liability Company, Share Capital €50,434,604.76  
Regulated by AMF under n°GP 90-009  
Company Trade Registration (RCS) Number 329 450 738 Paris

This document is intended for professional clients in accordance with MIFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Ostrum Asset Management. None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information.

This document consists of a presentation created and prepared by Ostrum Asset Management based on sources it considers to be reliable. Ostrum Asset Management reserves the right to modify the information presented in this document at any time without notice, and in particular anything relating to the description of the investment process, which under no circumstances constitutes a commitment from Ostrum Asset Management.

Ostrum Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information.

Figures mentioned refer to previous years. Past performance does not guarantee future results. Any reference to a ranking, a rating or an award provides no guarantee for future performance and is not constant over time. Reference to a ranking and/or an award does not indicate the future performance of the UCITS/AIF or the fund manager.

Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.



[www.ostrum.com](http://www.ostrum.com)

Ostrum Asset Management

Registered Office: 43, avenue Pierre Mendès-France – 75013 Paris – Tel. +33 1 78 40 80 00

Limited Liability Company, Share Capital €50,434,604.76

Regulated by AMF under n°GP 90-009

Company Trade Registration (RCS) Number 329 450 738 Paris

**Ostrum**<sup>®</sup>  
ASSET MANAGEMENT

An affiliate of:

 **NATIXIS**  
INVESTMENT MANAGERS