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ECB monetary policy meeting– Coming this week (Jan 20-26) and What to keep in mind from last week (Jan 13 – Jan 19)

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HIGHLIGHTS

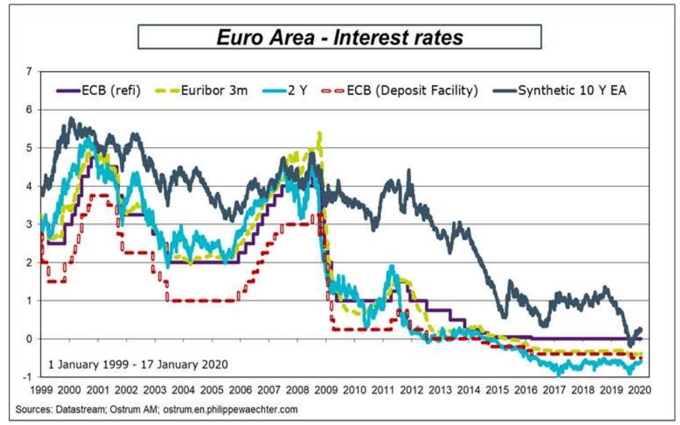
- **ECB meeting on monetary policy (Jan.23) BoJ meeting on monetary policy (Jan.21)**
  The relative stabilization in the economic activity will not create incentives for the ECB to adopt a more accommodative monetary policy. The strategic review that was announced by Christine Lagarde in December will be discussed as will be the negative impact of the negative rates on consumers' behavior.
  Nothing expected in Tokyo for the BoJ meeting. .
- **The Markit survey for January in the Euro Area, Japan, UK and the US (Jan.24)**
  The flash estimate for January will probably continue to show the manufacturing recession in most countries. In the US there is a strong divergence between the Markit index and the ISM. The last one shows a deep recession in the manufacturing sector.
  The main support for the economic activity is the services sector.
- **ZEW survey for January (Jan.21)**
  The ZEW index, measured as the average of the current situation and of the expectations indices, recovered strongly but remains in the negative territory at the end of 2019. Its level is still too low to be consistent with a reversal in the economic activity.
- **French Climat des Affaires for January (jan.22)**
  The French business cycle index is robust. The impact of the strike mainly on transportation will be limited and transitory.
- **ECB Bank survey for the first quarter of 2020 (jan.21)**
  The survey will be interesting on companies' side. We will be focused on their demand for credit and the reasons mentioned for it. At the end of 2019, the main reasons were fixed investment and mergers. At the same time, the demand to expand the current business cycle was weak
- **Employment in the UK (Jan.21)**
  The lower momentum in the UK economy will conclude, sometime in the future, by a lower dynamics on the labor markets.
- **Other statistics**: The Chicago Fed National Activity Index (CFNAI) for December (Jan.22), the trade balance in Japan(23), the EA consumer confidence index (23), the CPI in Japan (24) and the CBI survey on the business cycle in the UK (22)
- **Last week** : The US industrial production, the US Chinese trade agreement and the Chine GDP

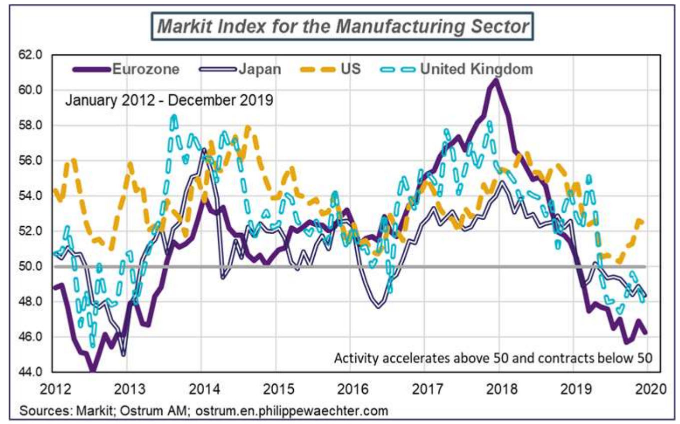
NEXT WEEK'S MAIN DATA AND EVENTS PAGE 1

- **ECB meeting on monetary policy (Jan.23) BoJ meeting on monetary policy (Jan.21)**
  The relative stabilization of the economic activity doesn't create incentives for the ECB to accommodate further. We don't expect a rapid change in the economic outlook for the Euro Area. This means that we expect the ECB to maintain the current economic policy throughout 2020 (and 2021).
  A change may arrive if we have a negative shock at the global level (recession in the US or oil shock), if the German economy remains as weak as in 2019 implying a strong risk of recession or if the risk of deflation increases. The probability of each of these shocks is not null.
  From this meeting and Christine Lagarde press conference, we expect more details on the strategic review. The ECB president announced it after the last ECB meeting on monetary policy. This review will probably end at the end of 2020 and may add a climate dimension in the ECB monetary policy. The other point that was mentioned in the minutes of the last ECB meeting is to really know how the ECB members are attentive to the side effects of the negative rates associated with its monetary policy. How consumers' behavior are negatively affected by these rates ?
  Meeting of the Bank of Japan, nothing is expected.

- **The Markit survey for January in the Euro Area, Japan, UK and the US (Jan.24)**
  This will the first flash estimate for 2020. At the end of 2019, the outlook was weak in the Euro Area, in Japan and in the UK when looking at the manufacturing sector. The US was stronger but this positive perception was counterbalanced by a bleak ISM survey for the manufacturing sector.
  We do not expect a rapid improvement in these data and probably the US level is overestimate.
  The improvement is only linked with the service sector. But this appears to be a kind of lagging indicator that doesn't create impulse on growth.

- **ZEW survey for January (Jan.21)**
  The recent improvement in the synthetic index is not strong enough to expect a U Turn on the German economic activity.



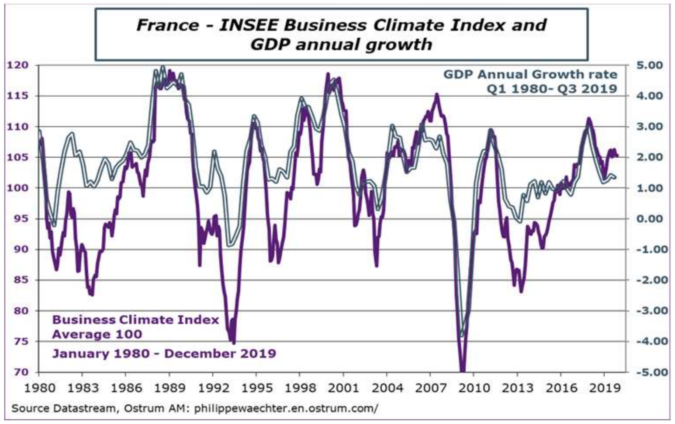


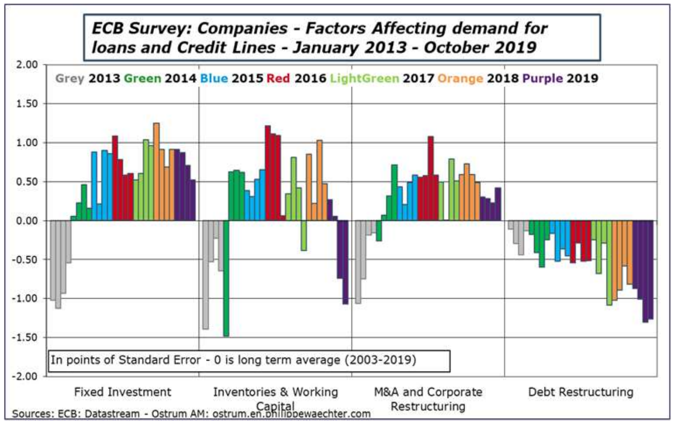
- **French Climat des Affaires for January (jan.22)**
  This survey and others, like the Markit's, show that the French economic activity remains robust at the end of 2019. As the graph shows, the INSEE index on the Climat des Affaires is still way above its historical average at 100. This suggests that the growth outlook will marginally above 1% at the beginning of 2020. The question remains on the impact of the strike seen mainly on transportation (railways for France and metro in Paris) The Banque de France has an impact estimate of this strike at -0.1%. To have a comparison, the INSEE measured the impact estimate for the 1995 strike at -0.2% but the perception of the strike was more important than the current one. Moreover the situation has changed as many people in Paris are now able to work from home. The technology didn't allowed that in 1995. The other remark associated with the strike is that its impact is not persistent. The strike may have end this day (January 20). We may have a kind of catch up effect in February.

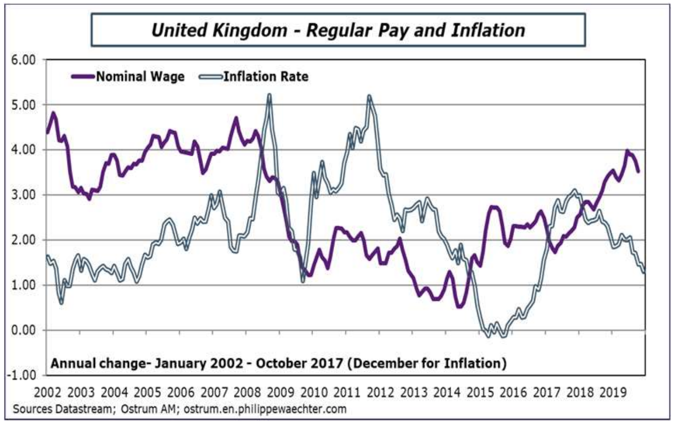
- **ECB Bank survey for the first quarter of 2020 (jan.21)**
  The survey that will be released on Tuesday reflects the bank's behavior on credit supply and how the demand for credit from companies (large and small) and households. My preferred graph reflects the question on companies' demand for credit. The demand can come from investment, from the business cycle needs, from mergers and acquisitions or from debt restructuring. At the end of 2019, there is no debt restructuring and needs to fund the business cycle is contracting. There are needs for investment and for mergers and acquisitions.

- **Employment in the UK (Jan.21)**
  The business cycle is weaker in the UK and this may, at the end, have a negative impact on the labor market. The main question will be on regular pay. We see on the graph that in 2019 there was a real improvement in purchasing power reflecting higher wages and a lower inflation pattern. This may change after the effective Brexit.

- **Other statistics**: The Chicago Fed National Activity Index (CFNAI) for December (Jan.22), the trade balance in Japan(23), the EA consumer confidence index (23), the CPI in Japan (24) and the CBI survey on the business cycle in the UK (22)





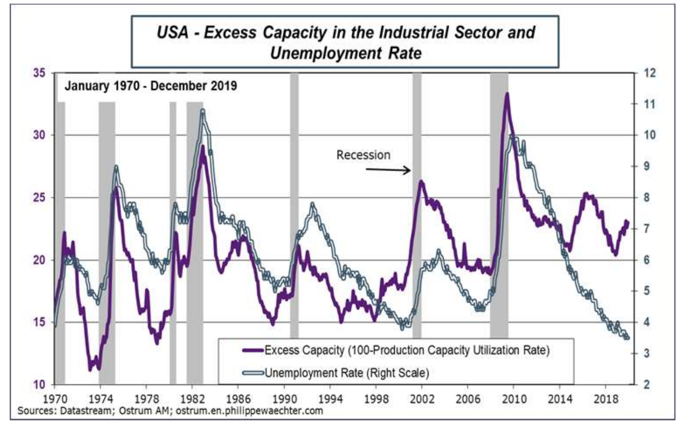


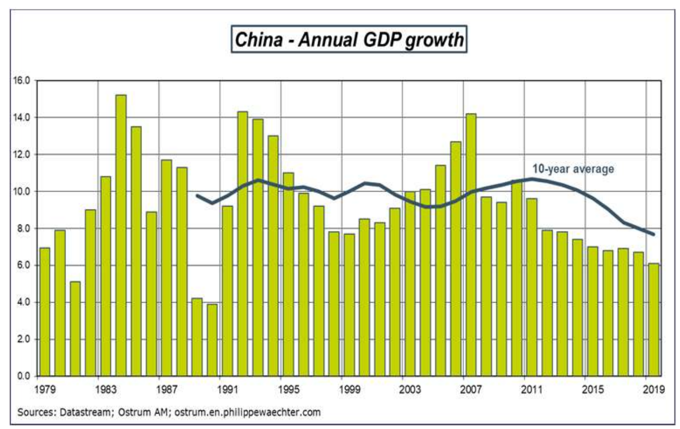
WHAT TO KEEP IN MIND FROM LAST WEEK (JANUARY 13– JANUARY 19)

- **Industrial Production in the US**
  The index was down in December (-0.3%) while the manufacturing index was up by 0.16%. On a YoY comparison the industrial production is 0.9% lower than a year ago and the manufacturing sector was down by -1.2%.
  The interesting point on the US economy is the strong divergence between the excess capacity index and the unemployment rate. Since 2015, there is a divergence between the two. Before, they each represented the US business cycle with a reversal of the cycle that was first seen in the excess capacity. Now a change in the excess capacity is no longer linked with a change in the unemployment rate. The question may be on the importance of the manufacturing sector in the US business cycle or may be on the change on the US labor market that makes it less sensitive to the business cycle ?

- **The US – China trade agreement**
  The US trade policy has had an important impact on the Chinese exports' profile as it is shown on the graph. The Chinese exports to the US are almost at their lowest level.
  The trade agreement is mainly based on the 200 bnUSD that China will purchase to the US during 2020 and 2021 (the reference to measure these 200 bn is 2017). It will be mainly agriculture products, commodities (oil) and industrial products. Three remarks
  1 – As it is a bilateral framework, the Chinese purchases will be done at the expense of other countries (Brazil on soybean). It reflects the US idea that a multilateral world is costly for the US. This is not necessarily WTO compatible.
  2 – The impulse effect on the world economy will be close to 0. It will lower uncertainty and this may be a boost for growth.
  2 – There are no prices associated with these purchases. How things will work ?
  3 – It's an incentive for China to develop its business outside the US
  4 – This doesn't end the trade conflict between the two countries. The technological leadership which is the heart of the trade dispute was not directly discussed.

- **The Chinese growth was at 6.1% in 2019 after 6.7% in 2018.**
  The Chinese growth will continue to slow in coming years as the services sector is more and more important providing less and less productivity gains.





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ADDITIONAL NOTES

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